



IMPLICATIONS OF CONTINUED E-COMMERCE GROWTH FOR OMNI- CHANNEL RETAILERS

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.™

ABHINAV CHANDRA

achandra@alvarezandmarsal.com

DAVID RITTER

dritter@alvarezandmarsal.com

RAJESH SWAMINATHAN

rswaminathan@alvarezandmarsal.com



***Abhinav and Dave are both
Managing Directors and
Rajesh is a Director in the
Consumer and Retail Group
at Alvarez and Marsal***

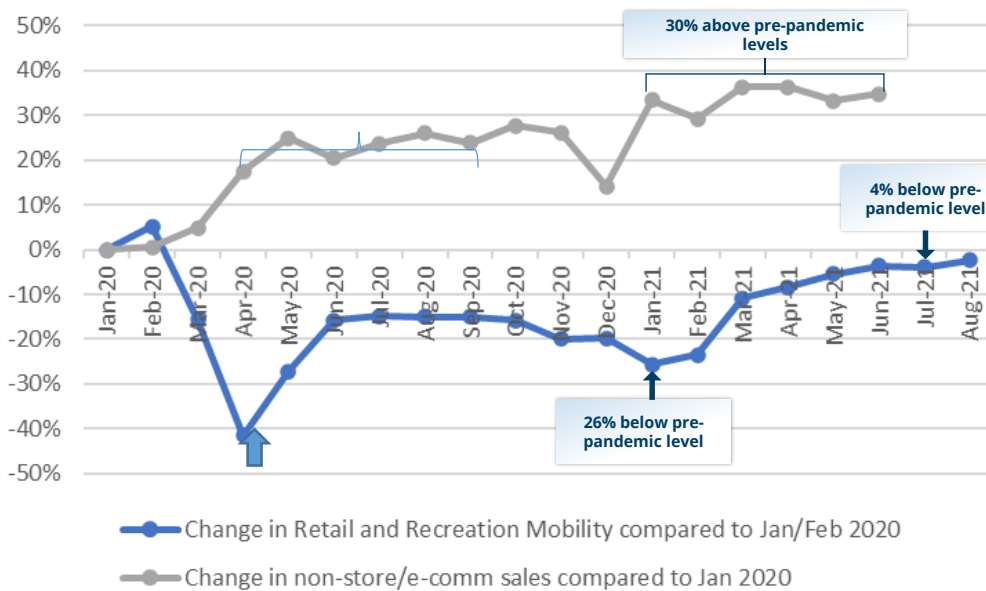
Since January 2021, the US economy has started opening and people have slowly but surely been making a move towards pre-pandemic activities including visits to retail stores. However, as retail store visits have increased, the gains that e-commerce made during the pandemic are still holding strong. The sustainability of increased e-commerce penetration has profound impact on the financial and operational performance of omni-channel retailers. In this article we present our analysis that showcases how e-commerce is holding onto its pandemic gains even as the economy opens and **highlight five financial and operational factors** omni-channel retailers should consider as they plan for a post pandemic future.



E-COMMERCE HOLDING ON TO ITS PANDEMIC GAINS

Even though the number of people visiting retail stores has consistently increased since January 2021, e-commerce sales have consistently stayed around 30% higher than pre-pandemic sales levels. Since January 2021, Google's Retail and Recreation Mobility Index, which measures people's movement for retail and recreation activities, has increased from 26% below pre-pandemic levels in January to 4% below pre-pandemic level in July (see blue line in Chart 1 below) while e-commerce sales have consistently stayed 30% above pre-pandemic levels. This shows that even with more store traffic, e-commerce's pandemic gains are not fading and are here to stay. Below we discuss five financial and operational implications of the sustained significant growth in e-commerce for omni-channel retailers

CHART 1:
Change in monthly mobility and e-commerce sales compared to pre-pandemic levels



FINANCIAL AND OPERATIONAL IMPLICATIONS OF SUSTAINABILITY AND CONTINUED GROWTH OF E-COMMERCE GAINS:



1

Prepare for extreme price transparency:

With ease of search and comparison of prices online for customers and with retailers implementing automated price matching mechanisms (e.g., Nordstrom, Amazon), e-commerce creates extreme price transparency. This online price transparency combined with e-commerce growth will continue to put downward pressure on prices. If the average sales price reduces by 1% and, assuming costs to be constant, profitability can decrease by more than 10%. This has major impact for brands and retailers and should be considered when deciding on things like product list prices, maintaining a clean wholesale channel, promotion and markdown cadence across retailers and channels and liquidation strategies.



2

Rethink the role of stores:

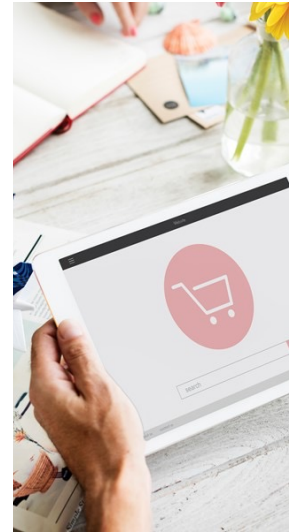
Multi-channel retailers have a distinct advantage over pure play e-commerce retailers – stores. As e-commerce delivery and returns experience continues to improve, there will be increased expectation from customers for same-day options. Over the next few years 40-60% of e-commerce sales will have a same-day promise. This move to same day is where the advantage of stores comes in – stores can help fulfill same day e-commerce orders with lower cost options creating competitive advantage. In fact, Target in Q2 2021 fulfilled 75%+ of its e-commerce orders from stores. Amazon sees the threat of stores to its business model and has proactively taken actions like buying Whole Foods, setting up its own stores and investing \$10B in its supply chain network in 2020 alone to continue to get products to customers faster and cheaper. Amazon is already offering same day delivery in 12 metro areas with plans to expand further. Amazon, with its deep pockets, might be able to compete with the “store advantage” of omni-channel retailers but other pure play e-commerce players might struggle to provide same day delivery profitably. Hence omni-channel retailers, if not already, should start thinking of stores as having dual function of a traditional store as well as a micro-fulfilment center. This shift to dual role of stores will require retailers to make thoughtful adjustments to in-store backroom layout, processes and staffing

3 Develop new ways to measure store performance:

With the growth of e-commerce two opposing forces will play a role on the current store profitability:

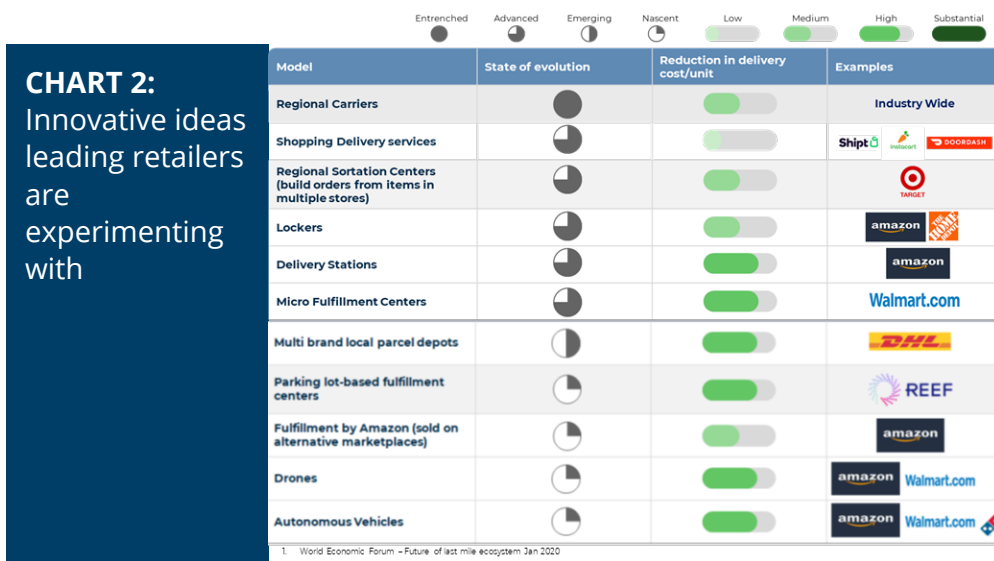
- Reduced profitability due to a smaller number of purchases being made in stores
- With the shift in role of stores as micro fulfilment centers for e-commerce orders, stores will contribute to the growth and profitability of e-commerce business

Simply using old metrics to measure store performance will only measure traditional store functions and significantly undervalue the performance of stores which can lead to incorrect decision making. New metrics like increased e-commerce conversion and reduced cost of delivery attributable to each store should be included to measure the full contribution of stores.



4 Innovate with new middle/last mile delivery models:

The push to get products faster at lower cost will continue. Even after retailers are shipping products from the store, last mile delivery costs remain high. Leading retailers are experimenting with new middle and last mile solutions to further reduce costs. The chart below lists some of the innovative ideas retailers are experimenting with. For example, Target is using regional sortation centers to avoid split shipments, Home Depot is using lockers in the front of store to make in-store pick-up more efficient, Walmart is using micro-fulfillment centers to place inventory closer to customers and Amazon is using Delivery Hubs to route deliveries most efficiently using gig drivers. Choosing the right model for a given retailer will require careful consideration and analysis of salient factors like demand density, order values, product types, subscription rates, order basket composition etc. to meet the same day/next day customer promise profitably.



5 Redesign and implement a new agile planning process:

Shifting to operate in a more agile fashion is the first step in embracing a new way of working in this uncertain environment. A more agile model of planning and performance management should aim to simplify and focus, remove friction to information access, and act in short cycles (agile sprints). This new approach should enable more rapid tracking, measurement, and follow up with streamlined communications



The retail recovery has been incredibly uncertain and challenging but executing a prioritized set of actions in conjunction with resilient leadership will yield strong financial results and positive business growth. Ultimately, as the retail consumer landscape continues to evolve, this will provide a chance for strategic, thoughtful leaders to further differentiate, reinvent, and serve as a springboard to market leadership.

Our advice – use this recovery to rebuild the future of omnichannel retail model. At A&M, we are prepared to assist and be a steady partner for you during these uncertain times. Reach out to our team today.



CONSUMER AND RETAIL GROUP

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

FOLLOW A&M ON:



To learn more, visit:
AlvarezandMarsal.com

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.SM