

Competing in the New Normal

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High inflation environment

- Many companies and consumers have never managed a high inflation environment



Adverse differential inflation

- Costs will continue to rise faster than selling price inflation. This will dictate strategy



Consumer confidence

- Cost of living fears are a major concern which is already impacting behaviour



Geopolitical change and uncertainty

- The world has changed and there will be no going back to how it was



Growth of online

- Pandemic accelerated changes that were underway. These changes require step changes in strategy and thinking.



Digital is not the same as online

- Stores have been slow to embrace the opportunity of digital



Government policy

- There will be changes in governments' policies over time to reflect the new normal

The new normal is still emerging and will be shaped by companies and consumers. It is up to companies to develop strategies to reflect the new environment. Compete for the future, not the past

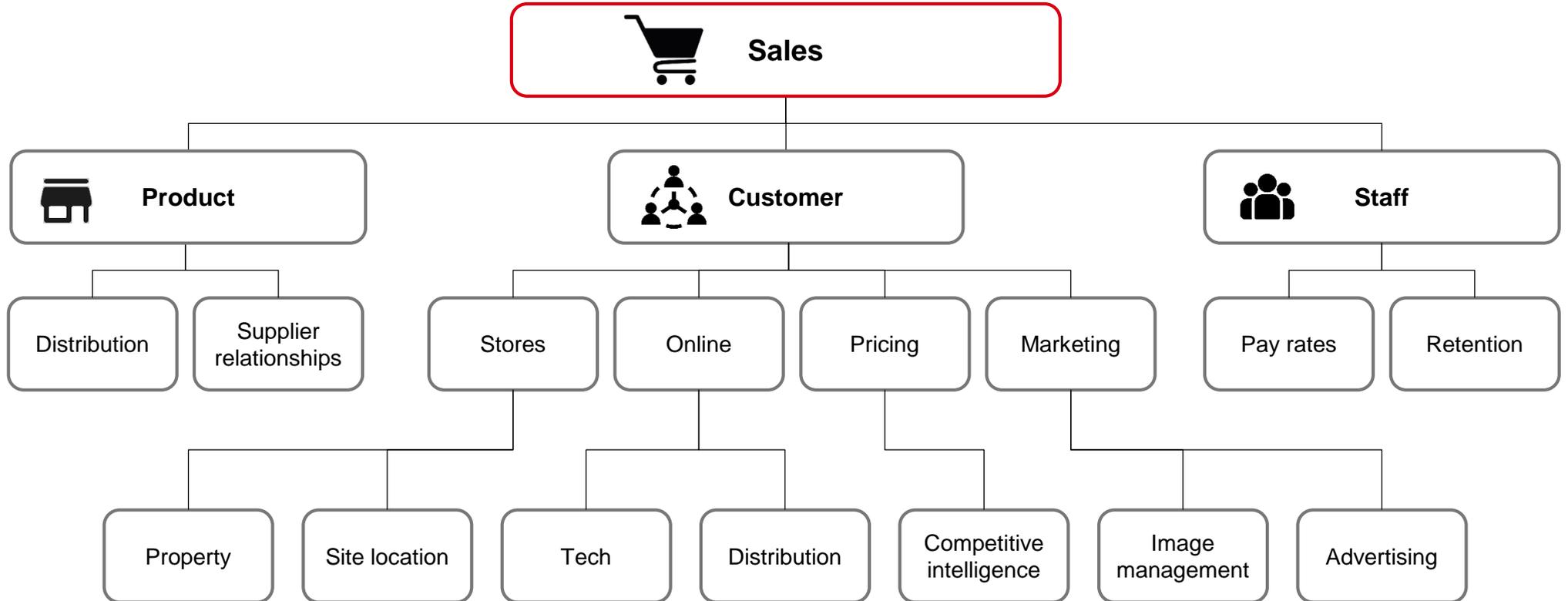
Challenges for the new normal include

-  **Managing in a high inflation environment – especially with ADI**
-  **Managing the margin mix – services, add-ons, core products**
-  **The product life cycle – industry requires ongoing innovation**
-  **Stores vs online – what does the consumer want and expect**
-  **The Consumer – what will the consumer pay for**
-  **Sustainability – consumers will expect it but will not pay for it**

**Not all this is new, but much will be new to new generations of management.
History tells us that difficult times create a great environment for innovation and transition.
Survivors will be those that become more relevant**

It's all about sales

The sales pyramid

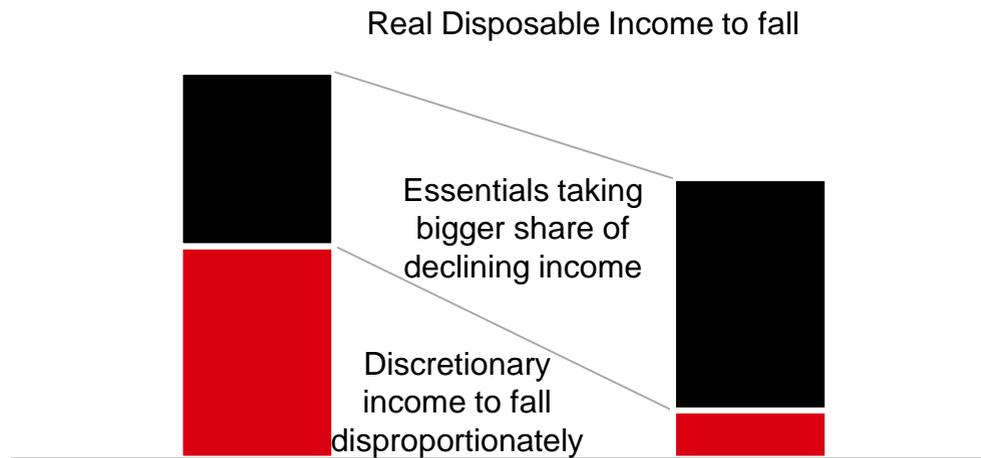


Strong sales line usually sorts out most problems- and tells us all is well in the engine room

Weak sales line means there are problems in the engine room

A double challenge

Consumer Challenge

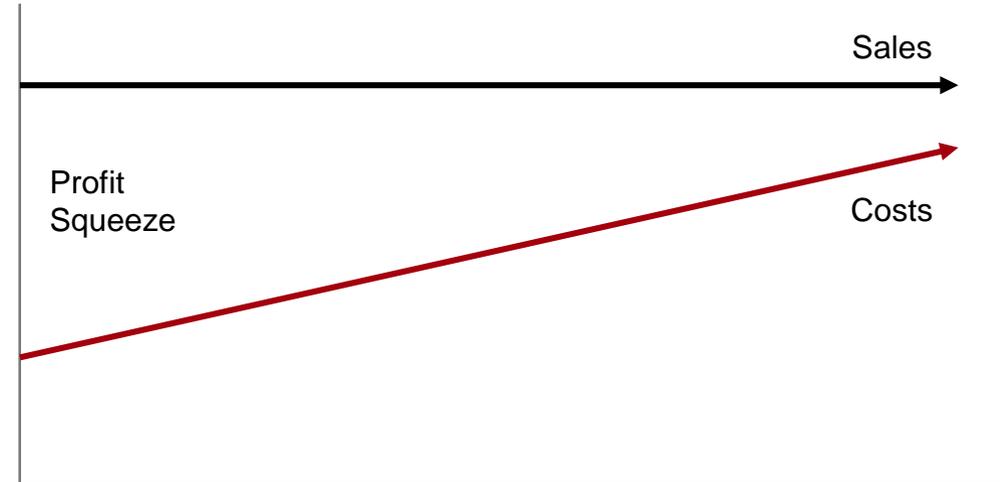


Discretionary income to be hit by

- Declining real disposable income
- High inflation in essentials
- Essentials taking bigger proportion of disposable income
- Increased interest rates



Business Challenge



Sales will be challenged while costs rise

- Declining discretionary income
- Product deflation
- Exogenous inflation factors



Combination of consumer & business challenges provides tough outlook

The power of operational gearing

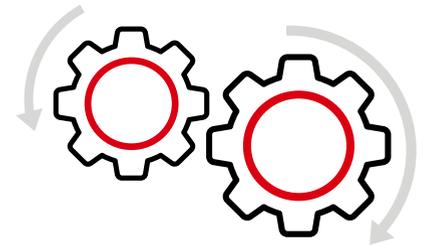
Operational gearing works both ways

Operational gearing

	Base	Marginal contribution
Gross margin %	20	20
Variable costs %	6	6
Fixed costs %	10	-
Contribution margin %	4	14
Operational gearing		3.5x

Relative operational gearing

	Retailer A	Retailer B	
Sales	100	100	1 in 200 switch
New sales	101	99	2% LFL variance
Profit index	100	100	
New profit index	103.5	96.5	7% profit variance
Relative operational gearing			14:1



**The Power of operational gearing is almost always under-estimated
Relative operational gearing is seldom considered**

Economies of scale and growth

Economies are a function of retail and supply side structure – not just retail

 **Buying benefits**

 **Share of mind/brand awareness**

 **Sourcing benefits (eg new products)**

 **Momentum**

 **Logistic benefits**

 **Choice**

 **Fixed cost ratios**

 **Accessibility / click and collect**

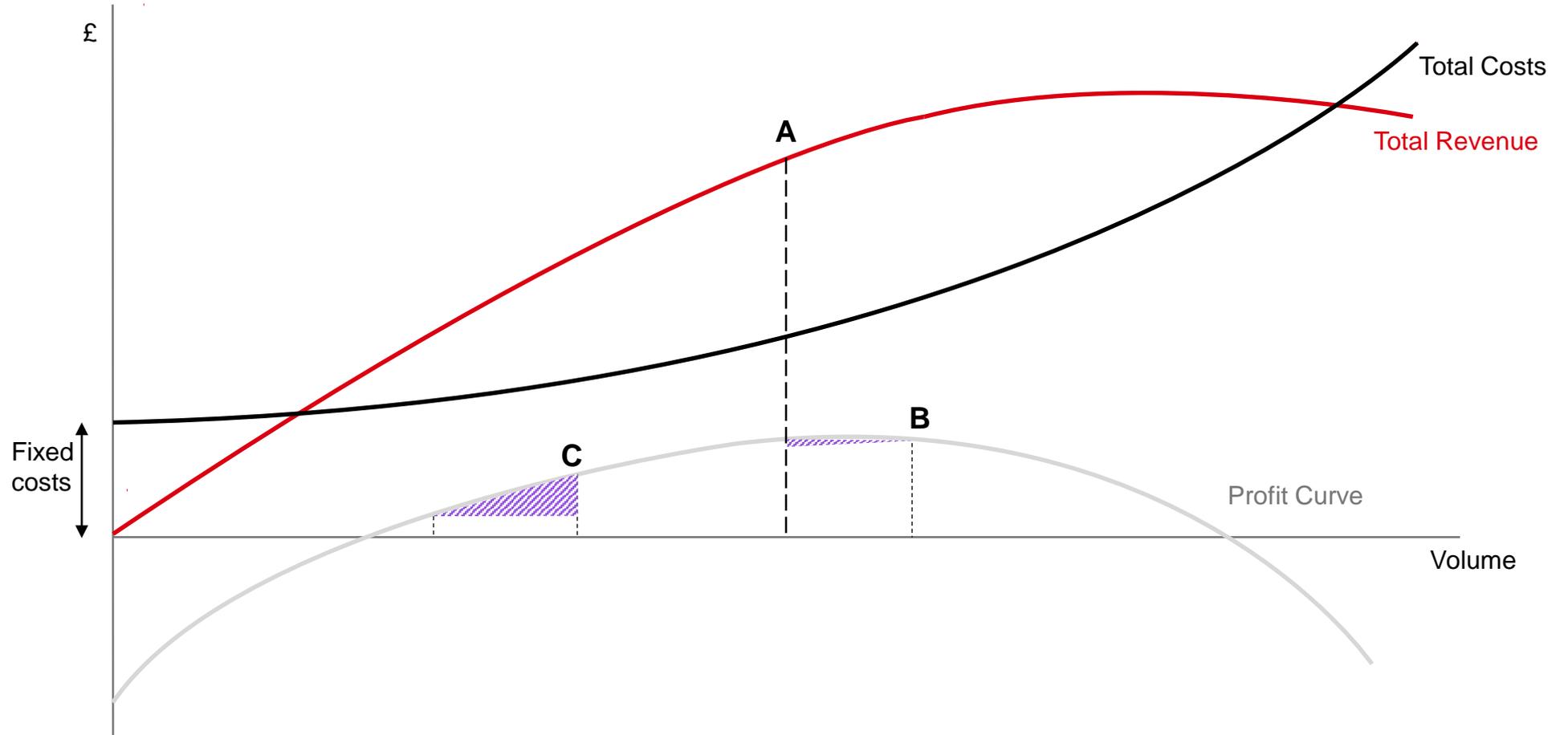
 **Innovation**

 **Greater flexibility**

But there are strategies to compete with scale

Sales maximisation Strategy

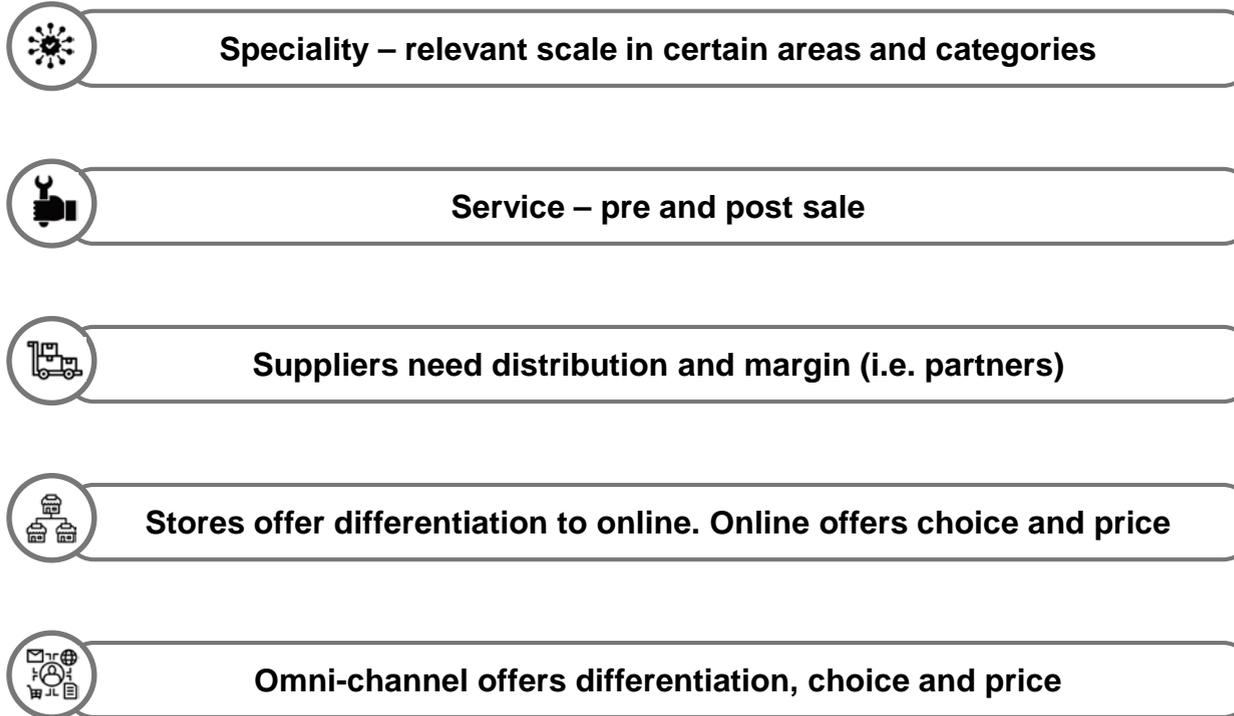
A category killer strategy



Strategy used by Walmart, Tesco and others

Strategy without scale

Lack of scale means stores can't beat pure players like Amazon on price. They need a differentiation strategy



Scale does not guarantee success, nor does lack of scale guarantee failure.

A differentiated customer proposition with relevance will succeed



Online meets many needs but not all consumer needs – stores have a future



Online has limitations – can these limitations be overcome



Stores very slow to adapt to digital – we are now seeing a new wave of digital for stores



Loyalty online can be a difficult concept – harder to harvest a lifetime loyalty



How does online offer personal service – customer relations are built easier with personal contact

Online & offline are both relevant and can be complementary rather than competitive. Each channel has strengths and weaknesses and each channel has products more suited for it.

Managing this raises new issues for managing in the new normal



Performance measurement – old KPIs no longer relevant



Operations and distribution – Where will stock be kept, where will it be distributed from



Taxation – long term changes look inevitable



Skilled staff availability – e.g. everyone builds warehouses in same area



Managing data – tech and analytical skills needed



Sustainability – customers want it but don't want to pay for it



Traditional retailers need to think like online players - CACvCLV

A holistic view of omni-channel will lead to the right decisions

- **Scale counts – huge benefits that go beyond buying benefits**
- **Lack of scale requires a well thought-out differentiated strategy – what makes you different**
- **Scale in niche markets is relevant – can you build relevant scale**
- **Omni-channel looks to be the long term winning strategy – stores have an important role to play in many areas**

Winners will be

- **Partnerships with retailers and suppliers working to common ends**
- **Those who evolve with customer needs and who help shape those demands**
- **Those who maximise customers life time value**

**Today is tough, tomorrow will be even harder, the day after that even harder still.
Set yourself up for the day after tomorrow and compete for the future now.**

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