



# The Time Is Ripe For Smaller Retailers To Compete Against The Giants

## Executive Perspectives 2018

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## The Top Line

*We are living through an extremely hyper-competitive retailing era. In a world seemingly dominated by retail giants, it's easy to wonder how a smaller retailer can possibly survive and thrive. Still, there are real indications, both societally and practically that the opportunity is there.*

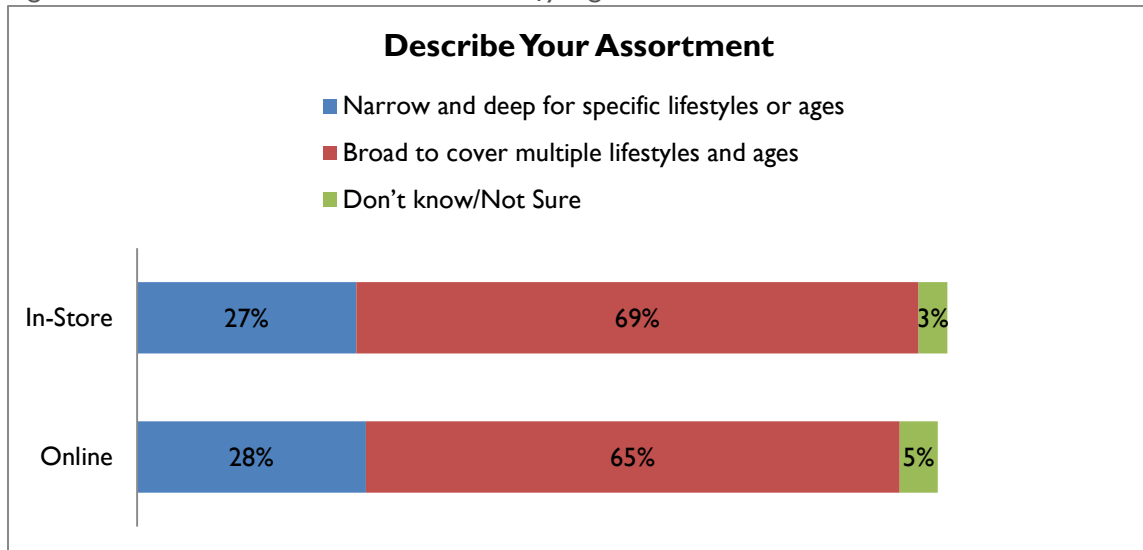
*Consumers crave curated assortments. Their time is important to them. Giant retailers tend to have broad assortments, which can be a turn-off to shoppers. Those retailers struggle but are thus far challenged to pivot their strategies. Consumers are also eager to support smaller businesses. There is a certain societal weariness of retail giants.*

*We know the market is there. We know the consumer needs are there. But are the profits also there? In today's world, speed and information are important currencies. In this piece, we'll talk about the opportunity to get faster to improve both top- and bottom-line results and find ways to do this without breaking the bank on costs.*

## Consumers Change, Giant Retailers Have Trouble Responding

Retailers have reported to RSR that their profit model primarily depends on a standardized assortment across their entire store and digital footprint. In fact, just this year, despite many reports (a link to just one is [here](#)) that today's consumers are craving edited, curated assortments tailored to their lifestyle, rather than the broad assortments that predominated in the 1990s and early 2000's, a majority of retailers reported their assortments remain "shallow and broad" rather than "narrow and deep" (Figure 1).

Figure 1: Selections Too Broad, Satisfying No One



Source: RSR Research, June 2018

This was the dominant theme of that era: One-stop shopping for time-starved consumers looking to feed and clothe their families in a single trip. The era was also marked by expansion of Tier 1 retailers to what we can only call "Channel Masters." These mammoth retailers recognize that times have changed, but are unable to "turn their ships around" fast enough to respond to consumer tastes.

On the surface, it appears to be a perfect time for the smaller, more nimble retailer.

## The Smaller Retailer's Competitive Dilemma

This should be a great time to be a smaller retailer. But data gleaned over the past year tell a different story. Let's take a look at some responses from retailers with annual revenue under \$1 billion:

- **We're Not Fast Enough:** 37% of retailers in this revenue band report a top-three business challenge is an inability to identify new ideas and innovate quickly. Thirty-nine percent report a top-three operational challenge is an inability to identify new ideas quickly and execute on them.
- **Our Existing Technology Infrastructure Gets In The Way:** Thirty-nine percent of retailers in this revenue bracket cite this as a top-three organizational inhibitor. This is a familiar refrain in the retail industry. After all, compared to other industries, retailers are chronic IT-spending laggards. If we assume an average annual spend of 3% of sales (slightly lower than we found in our IT spending survey, but excluding pure play on-line retailers), then that gives the half-billion dollar retailer \$15 million per year in total IT spend. That may sound like a lot, but when we consider that over 60% is spent on maintaining existing systems, and the Omnichannel pressures driving digital investments, that amount of money shrinks very quickly. Retailers need "pay as you go" solutions.
- **Our Existing Solutions Are Not Fast Enough.** Forty-one percent of respondents cite "improving speeds of solutions and computing systems, data feeds, and integration points" as a top-three organizational need.

These are not small problems. Of course, we need to understand their proposed solutions.

## Solving Their Internal Dilemmas

Despite these seemingly intractable internal challenges, retailers believe they can solve them:

- **Improve Communications Across The Enterprise.** It seems that even their smaller size doesn't make mid-market retailers immune to poor communication. Fifty-two percent report that improving communication and education across merchandising, marketing and channels is a top-three way to overcome the inhibitors cited above. This is a top priority for retailers, because they know that without cross-team communication and collaboration, it's difficult to reach consensus on how to address operational process and technology change
- **Improve Inventory Management Processes And Systems.** Fifty percent report better inventory management processes and systems for more accurate inventory is a key solution.

Communications are not expensive, they're just hard. Inventory management and systems can, indeed be a key enabler but can also be extremely costly. Wise retailers will look for point solutions that support better inventory management.

Accurate inventory is critical for reducing working capital requirements, streamlining fulfillment operations (especially Omnichannel operations), and overarching customer satisfaction.

## Can The Supply Chain Help?

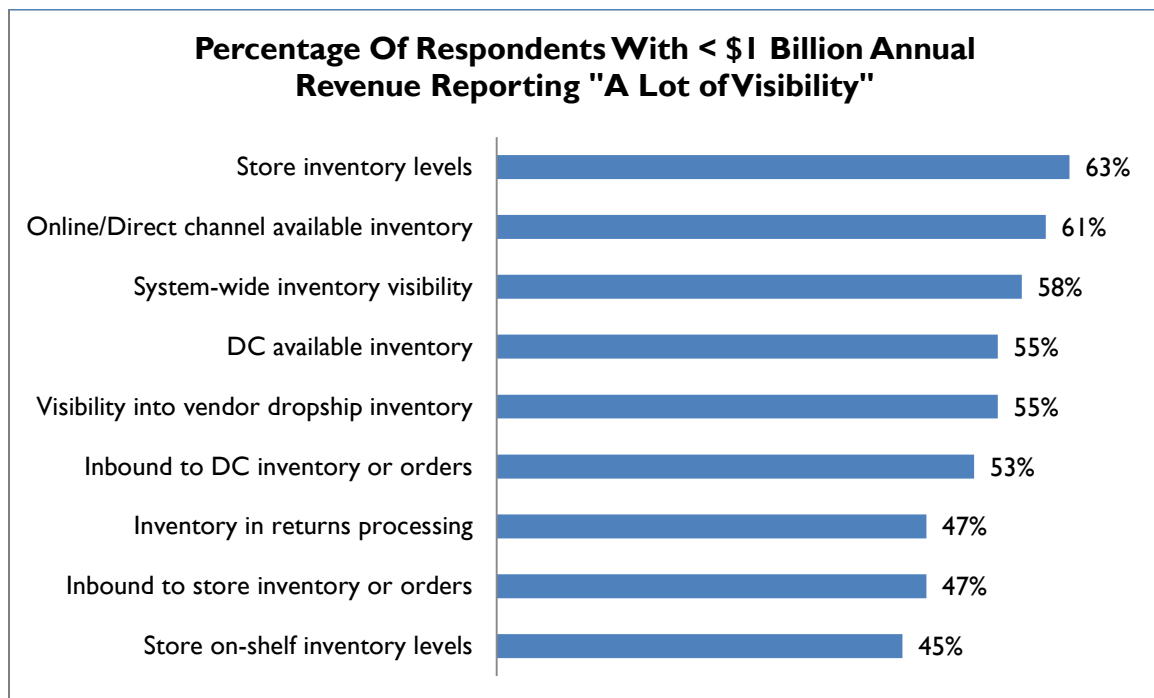
RSR partner Brian Kilcourse often says that in the retail enterprise, profits are gained and lost on the “buy side” of the business, rather than the sell-side. This implies several things:

1. Supply chain efficiencies
2. Merchandise cost management
3. Avoiding excess inventory which become markdowns or simply throw-aways

But retailers really can't manage what they can't see, and that's a critical problem in retailer supply chains today.

In this very fresh data obtained from RSR's most recent (and as of this writing, unpublished) Supply Chain benchmark survey, we can see that sub-billion dollar retailers are missing some key visibility elements in their supply chain, some of them seemingly basic (Figure 2).

Figure 2 Many Retailers Lack the Most Basic Visibility



Source: RSR Research, October 2018

It's inconceivable that just a few more than half of respondents believe they have a lot of visibility into the most basic: inbound to DC inventory or orders. **RSR believes that without knowledge of when purchase orders are going to arrive in either distributions or stores (where there is even less visibility into inbound orders) retailers are at an immediate disadvantage, and one that perpetuates over the life of inventory in stores and distribution centers.**

This has to change for these retailers to take advantage of the opportunities that are in front of them. If they disappoint their customers, either on websites or in stores, those customers will simply move on to other retailers, whether that be Amazon.com or other retail giants. The precision required for smaller retailers cannot be overstated.

### **The Bottom Line: Speed And Knowledge Matter, A Lot**

*We know that the consumer market is ready for the smaller retailer. There is a certain weariness with retail giant. We believe the top-line is there for those who can cater to ever-changing consumer tastes. We also know that these retailers have “champagne taste and beer budgets” and are challenged to spend the money on non-customer-facing items that might bring them the Return on Investment they need.*

*We encourage these retailers to look at technologies that help them become more efficient as they continue to hone their merchandise offerings. Data is the new coin of the retail realm. With data and visibility, investments can be more productive, and retailers more successful.*

*The time is now.*

## Appendix A: About The Sponsor



EcUtopia was founded in 2011 by EDI and retail experts. The company has grown with the supplement of highly experienced, customer focused professionals, who know how to do the job right. We build easy to use, easy to deploy, cloud-based supply chain management solutions with a laser focus on the problems of small to mid-market businesses, enabling them to remove obstacles and thrive in the market niche they've carved out for themselves.

We built "EDI's ERP" with the idea of being easy to business with and supporting the growth and benefit for all parties involved in the retail ecosystem.

Visit us at <https://home.ecutopia.com/>.

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## Appendix B: About RSR Research



Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

1. **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
2. **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
3. **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.

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