

## DIMENSION REPORT

### STRATEGY & INNOVATION: DECEMBER 2018

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**"Today's shoppers expect speed and convenience in stores and online. They are intolerant of any failing"**

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#### INSIDE

- Learn from the best: Amazon, Schuh and Holland & Barrett
- How digital offerings are reshaping stores
- The Top100 European retailers in this Performance Dimension

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# whitepaper.



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## Introduction



Welcome to the second of our IREU Dimension Reports based on our most recent research. Our subject this time is Strategy & Innovation, a facet of RetailCraft

that can easily become highly theoretical, even divorced from day-to-day business concerns. For this reason among others, our focus in researching this area has consistently been on how companies are performing here and now in a variety of core areas. These include fulfilment, the overall customer experience and, keeping in mind the IREU Top500 is an index of European retailers, how well businesses tailor their offerings to different local markets.

The results are revealing. In particular, fulfilment is emerging as a key area for retailers to focus on. That's because the performance of leading retailers is strong here, which leads to other businesses needing to improve their offerings just to compete. This in turn increases customer expectations, which puts further pressure on retailers to improve their offering.

This is one of several themes we will return to later in 2019 when we publish a second IREU Strategy & Innovation Dimension Report that takes a closer look at some of the issues highlighted here. We will support both publications with online content and, where we judge a business issue needs addressing urgently, whitepapers, roundtables and webinars.

IAN JINDAL,  
EDITOR-IN-CHIEF  
IAN@INTERNETRETAILING.NET

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# The thriving European ecommerce sector

Online retail in Europe is maturing quickly. New technology is launching all the time and, for us at Klarna, the overarching trend is the rise of new and flexible payment solutions. With competition hotting up across Europe, ensuring that consumers are attracted to a retailer they want to stay loyal to is vital

## GETTING THE BASICS RIGHT

Despite retailers currently focusing more than ever on their online offering, and the high street facing challenging times, we continually hear from retailers that some of the basics of online are not where they should be. For example, many retailers are still not optimised for mobile, despite this having been a growing channel for years. The headlines around online retail often centre on future technologies such as delivery by drone. But sound advice for retailers is not to get distracted and forget the basics. Quality product, UX, stock management and a slick checkout experience are must-haves for success.

Customer experience and customer service are both key battlegrounds among online retailers – this is where the fight to stay on top of the high street and battle online behemoths like Amazon will be won. Retailers must resist implementing technology for the sake of it. We find that customers want frictionless tech – things like easy payments – that make their shopping smoother and more convenient. Consumers need technology that works seamlessly behind the scenes to make the buying process more enjoyable.

## FORTUNE FAVOURS THE BRAVE

When it comes to technology, it's true that fortune favours the brave. Innovation requires bravery – it means making the first move by recognising the need or future need for change. The advantage of implementing something first is huge, yet retailers need to make sure that they're focusing on areas that shoppers will value.

When it comes to doing something new, there is an inherent risk. Retail leaders must ensure that, at every level of the organisation, there is a focus on the areas that are important to the business, and an understanding that new things can take time to be established. Successful retail leaders inspire others within the company to get excited about innovation and are consistent with pushing boundaries for the benefit of the shopper.

## ADVICE FOR RETAILERS

Increasingly, shoppers are expecting to be able to pay however and whenever is most convenient for them. There is still an issue with consumers abandoning baskets in the checkout and being frustrated with online payments, which really chimes with what we hear from retailers. Improving the customer experience will be key in the future for retailers looking to improve their sales. Streamlining steps to purchase, enabling one-click purchases and providing multiple payment options, will all be vital to keep pace with the high expectations of consumers. For example, take the common issue of wanting to see, touch and try out goods before parting with your cash when shopping online. Klarna's Pay later solves this by giving consumers up to 30 days to pay for online purchases, meaning they only have to pay for what they love.

## THE FUTURE OF PAYMENTS

Now is an incredibly exciting time for the industry, with Europe a hotbed of new financial technology. This is partly due to a culture of fintech innovation but it's also down to customer demand. As retailers integrate this tech into their customer journey, we'll see a payments revolution. We predict we will see greater collaboration between the new wave of fintech, retailers and banks. Once this connection is made, we believe that the industry can reach its potential. The focus should always remain on how we can solve problems for consumers and for us, that's what our proposition is all about. ■



LUKE GRIFFITHS  
GM, KLARNA UK

## ABOUT KLARNA

It's all about smooth (yes, with three 'o's). Klarna is Europe's leading payments provider and a newly-licensed bank. It wants to revolutionise the payment experience for shoppers and merchants alike by giving online consumers the option to pay now, pay later or over time – offering a trusted, frictionless and smooth checkout experience. Klarna works with 89,000 merchants, including ASOS, Topshop and JD Sports in the UK, to offer payment solutions to users across Europe and North America. It is active in 14 countries.

# REACHING THE TIPPING POINT

With many retailers reporting that their online sales are growing 10 times faster than their store businesses, Penelope Ody looks at the key strategic changes that are suddenly high on the agenda

RETAILING HAS ALWAYS been a dynamic industry. For decades now, product developments, technical advances and changing customer preferences have been core drivers for new retail formats. It is no different these days, except that the 'formats' have transmogrified into 'channels', digital technologies are all-pervasive, and the way we all choose to shop is changing more rapidly than ever before. As the proportion of online business continues to grow, multichannel retailers are reassessing the role and profitability of their store estates.

Shoppers who use smartphones, tablets and digital assistants at home expect rather more from their retailing experiences than a traditional low-tech department store or supermarket. The results can already be seen across Europe. In the UK, problems at House of Fraser and Debenhams have hit the headlines. In Germany, Galeria Kaufhof is struggling while in France, Auchan, Casino and Carrefour have all failed to achieve any significant growth or improvement in profitability.

Today's shoppers expect the same speed and convenience in the high street as they find online and are intolerant of any failing. They don't expect out-of-stock warnings, while too long a queue for click-and-collect orders is a sure way to lose repeat business. To attract customers, real world stores need to add interest and excitement. Seasonal pop-up shops are one way to draw crowds and these have already joined the mainstream marketing repertoire. Zara opened one in London for collecting online orders as its innovative "store of tomorrow" was fitted out, while IKEA tried a pop-up café in Toronto selling its famous meatballs as well as showcasing its range of kitchen equipment.

A seamless and consistent customer experience in whichever channel shoppers choose to visit is also essential. It's an approach which some analysts dub "O2O" – online to offline – and can involve tracking shoppers and their orders as they flit from mobile to desktop, to store, to contact centre and back again. The latest development at Delhaize in Belgium, for example, is Fresh Atelier. Launched in October 2018, it's a small format convenience outlet that offers lunchtime snacks and sandwiches, while also acting as an ordering and collection point for the

“Burberry's flagship stores are regarded as physical versions of its website, with similar uses of video and interactive displays”

retailer's full grocery range. Delhaize plans to open 200 such outlets over the next three years with CEO Xavier Piesvaux declaring the format, "an example of 'instant retail', in which offline and online shopping and 'on-the-go' are combined for the first time in this way".

Many of the leading retailers in this Dimension have also put integration and in-store technology at the heart of their strategies. Burberry shoppers, for example, can use their smartphones in store to interact with RFID tags on products to access additional information – from production details to styling ideas for linked purchases. Its flagship stores are regarded as physical versions of its website, with similar use of video and interactive displays, and store staff use technology instantly to access a customer's previous purchases – in whichever channel – to advise on suitable items. There is even a link to Uber from its mobile app to ensure that shoppers can reach their nearest stores quickly and easily.

The days when store staff had to teach customers how to use an interactive in-store video kiosk are long gone. Attracting today's digitally savvy shoppers needs innovative formats that integrate online and offline channels for a seamless and convenient solution. Tomorrow's stores should be much more than just handy locations for collecting click-and-collect orders. Stores need to enhance the customer experience, build brand loyalty and, following Burberry's lead and because customers increasingly interact with retailers via digital channels, even offer a real-world version of the website. ■

## IREU 500 STRATEGY & INNOVATION DIMENSION

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The top retailers of the IREU Top500 2018 Strategy & Innovation Dimension, measured on dozens of metrics for innovative practice

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### STRATEGY & INNOVATION TOP50

Adidas	Debenhams	Nespresso
Amazon	Decathlon	New Look
Ao.com	Dunelm	Nike
Apple	Esprit	Nisbets
Argos	Euronics	OBI
Asda	Foot Locker	Otto
Asos	H&M	Pull & Bear
Auchan	Halfords	Sainsbury's
B&Q	Holland & Barrett	Samsung
Bershka	Ikea	Schuh
The Body Shop	Interflora	Screwfix
Bol.com	Intersport	SportsDirect.com
BonPrix	John Lewis	Toolstation
Boots	Leroy Merlin	Vanden Borre
C&A	Marks & Spencer	Wickes
Carrefour	Massimo Dutti	Zara
Darty	Media Markt	

### STRATEGY & INNOVATION TOP100

AliExpress	HP	Rewe
Burberry	Hunkemöller	Saturn
Cdiscount	Jack & Jones	Selfridges
Conforama	JD Sports	size?
Coop	L'Occitane	Spartoo
Currys PC World	La Redoute	Staples
DeBijenkorf	Lego	Stradivarius
Deichmann	Louis Vuitton	Swatch
eBay	Maisons du Monde	Thomann
Electro Depot	Mall.cz	Tommy Hilfiger
eMag	Mango	Topps Tiles
Eroski	Next	Verkkokauppa
Expert	Ocado	Wayfair
Fnac	Pandora	Wehkamp
Gall & Gall	The Perfume Shop	Yoox
Games Workshop	Pimkie	Zalando
Hornbach	Prenatal	



# THE FUTURE NOW

Those retailers that offer sophisticated services today are best placed to offer the kinds of innovative services that will be mainstream in the future. Jonathan Wright considers what the numbers tell us about how IREU Top500 retailers are doing here

STRATEGIC PLANNING IS not just about grand schemes for the future. Rather, for European retailers, it is about anticipating which developments may prove important and using this knowledge to set a course for the future while simultaneously delivering a joined-up, consistent and innovative offer – at scale and across many countries.

But how to measure which companies are performing best here? It is difficult to measure an intention to do better in the future or how successful a new initiative will be. Instead, our research focuses on companies' use of cutting-edge technologies, solutions and offerings over the span of core multichannel retail disciplines, including logistics, customer service and localisation.

Time will reveal whether such retailers ultimately succeed but we suspect there is a strong link between trialling and implementing new approaches, and competing over the longer term in an industry so prone to change. In addition, our research reveals patterns of development across Europe. This means we can trace how consumer expectations for innovative solutions vary from country to country, based on the penetration of those services among each region's dominant retailers.

### FULFILMENT SERVICES ACROSS EUROPE

One of the most competitive areas within European retail is fulfilment and it says much about how the overall market is developing. Customers increasingly expect choice in how they get hold of their purchases. They may want free delivery or, where an item is needed quickly, a choice of fast-delivery services. They may prefer to pick up an item from a local branch or a locker. If an item does not meet their expectations, they may be frustrated if asked to post it back rather than return it through a store. They may select a retailer that offers a more generous returns policy.

So how are European retailers doing here? The majority of the IREU Top500 are improving their fulfilment offerings from the customer's perspective. The number of delivery/fulfilment options has been increasing, as has the speed of fulfilment, while cost to the consumer has remained the same or decreased. This is an area that retailers are clearly prioritising. However, performance here is not

uniform across different countries. Western European retailers tend to have more sophisticated offerings, most likely a reflection of ecommerce at scale having a longer history in these territories.

In 2017, the gap was wide. However, this has narrowed over the past year with retailers in other territories, notably those in the former Eastern Bloc, far more likely to offer next-day delivery, same-day delivery, weekend delivery and click-and-collect services in 2018/19. In some countries, the number of IREU Top500 retailers offering these kinds of services has doubled.

### COLLECTION

Drilling down further into the figures for IREU Top500 retailers, the number of companies that offer collection is increasing. Already, around two-thirds of retailers – 65% – offer collection in at least one region. The service is most commonly offered in France, where the service is offered by 65% of retailers. The Netherlands, where the equivalent figure is 61%, and the UK, 57%, also perform strongly.

Conversely, Slovenia shows how some retailers in eastern Europe even now lag behind here, with collection service offered by just 16% of retailers. In Croatia, the equivalent figure is 24% and, in Bulgaria, 26%.

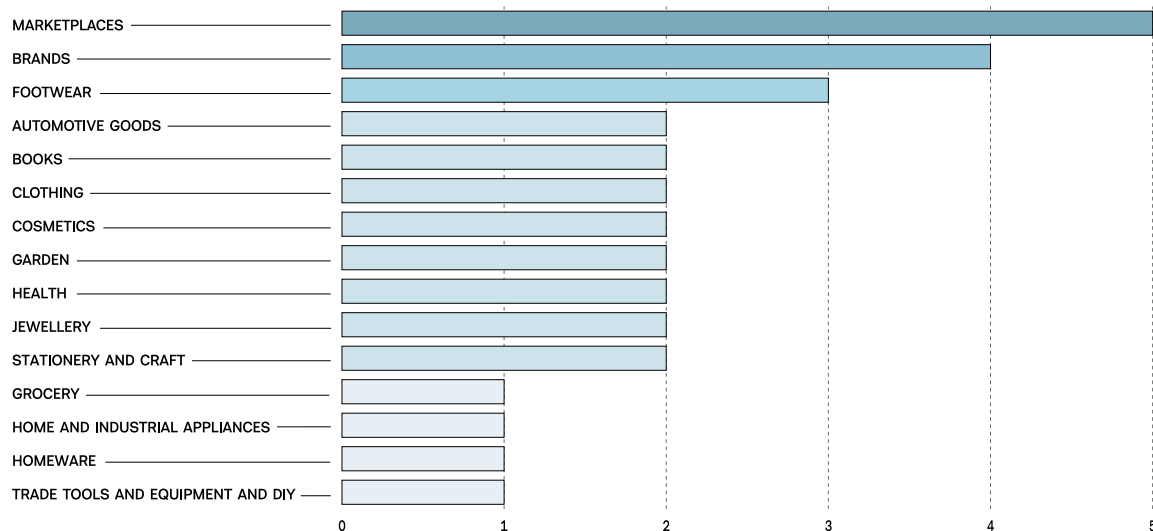
Turning to different sectors, there are significant differences too. Sports footwear (71%) and sports clothing (69%) retailers within the IREU Top500 are most likely to offer click and collect. Garden (68%) and homeware (66%) retailers also perform comparatively strongly, as do those in the fashion clothing (66%), footwear (66%) and accessories (65%) sectors.

### NEXT-DAY DELIVERY

Turning to deliveries, there are wide differences between different territories. Notably, next-day delivery is commonplace only in the UK, where it is offered by 40% of Top500 retailers. Even in the Benelux countries, the figure is nowhere close to this, with 19% of Top500 retailers in Luxembourg, 15% in the Netherlands and 13% in Belgium offering next-day delivery. The equivalent figure in France and Germany is, respectively, 15% and 14%. Conversely,



## MARKETPLACES AND BRANDS LOCALISE MORE



Each Top500 company localises to between one and 32 EEA member states. This chart shows the median number for a sector, revealing that marketplaces and direct-selling brands generally localise to more regions than other retailers – a measure that includes more than just a delivery offer and takes into account a website's language, currency, and country-specific offers and advice

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none of the retailers we surveyed operating in Cyprus offered next-day delivery, while the service is rare in Switzerland (5%), Norway (4%), and Romania (4%).

It may be that factors such as the typical layout of cities, the confidence with which consumers provide card details online, and other cultural and environmental factors drive some markets towards being competitive hotspots sooner. We do notice in the results that retailers within a country tend to move together. Once one fulfilment provider offers a relatively cheap, faster service, it is likely that many retailers will adopt it at the same time.

## OTHER EXPEDITED DELIVERY SERVICES

Curiously, same-day delivery is offered by 6% of Top500 retailers in Greece, a figure higher than the UK, France and Spain, where the equivalent figure is 5%. More generally, same-day delivery is always likely to be a service offered in urban areas where economies of scale make it economic.

The situation with weekend delivery corresponds more closely with next-day delivery, in that approximately one in four Top500 retailers operating in the UK offers Saturday delivery and one in 10 offers delivery on Sunday. In other countries, this figure ranges from 0%-5%.

## LOCALISATION

We also looked at the extent to which retailers adjust their digital presence for different markets. The median figure here for IREU Top500 retailers, based on analysis of the languages, currencies, and offers of website landing pages, is two regions, although there are significant outliers here, meaning the average is 3.9 territories.

Intriguingly, this is an area where brands perform strongly, with an equivalent median figure of four regions. Marketplaces perform better still, with a median figure of five regions. We suspect this may be partly rooted in the way both groups of businesses tend to plan expansions into new territories as part of an overall strategy rather than expanding piecemeal.

Looking at these figures by sector, of those retailers selling clothing and footwear, both fashion and sports localise to an average of five regions, although the median is two. In contrast, retailers selling groceries operate in the fewest regions, with a median of only one territory (average of 1.7). The situation is similar with home and industrial appliances, homeware, trade tools and equipment, and DIY, although again there are significant outliers in these regions. ■

# AMAZON: DOMINANT ONLINE BUT STILL SETTING TARGETS



Image credit: Amazon

### Watch-a-deal alerts help shoppers to track time-sensitive deals

IT'S EASY THESE days to take Amazon's leadership in ecommerce for granted, yet the global giant never stands still and is pushing into new retail opportunities while, at the same time, constantly adding to its online proposition.

In recent months, this drive to develop has been more in evidence than ever, with a series of striking innovations that have the potential to roll out dramatic change.

There's the prospect, for example, of Amazon launching its Amazon Go checkout-less convenience stores proposition in the UK, having trialled AG in Seattle since January 2018, where it currently has two stores operational in the city. It was reported recently that Amazon is now looking for UK sites of 4,000 sq ft and 5,000 sq ft for Amazon Go stores. The cashier-less shopping proposition works by customers installing an Amazon Go smartphone app then launching it for their store visit. Amazon's system of cameras and sensors then tracks the customer in-store through the aisles, charging a payment or credit card for any selected items on departure without the need for tills or queues.

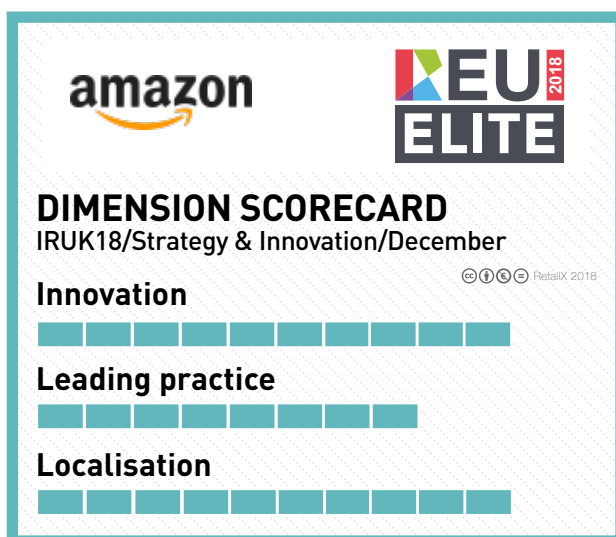
Before any mass launch of Amazon Go, the company's move into physical retail is already in evidence via a pop-up shop in Shoreditch, East London that coincided with its Black Monday promotion in late November.

Away from the real world, Amazon's virtual offer is also making progress. Customers can now use augmented reality to view certain big-ticket products in situ before they buy via Amazon's app. Mobile shoppers can also set

up 'watch-a-deal' alerts to stay on top of Black Friday discounts as well as finding products by pointing their phone's camera at a product or barcode.

Lastly, another way that Amazon is moving into new retail opportunities is in evidence through its work in fashion. It has rolled out a try-before-you-buy service for Amazon Fashion, thereby joining a growing throng of apparel retailers that have begun letting shoppers try before they pay.

How does it work? Prime Wardrobe is available to Amazon's annual-subscription-paying Prime members. It allows them to have fashion products delivered free of charge, to try them on at home, then only pay for those items they decide to keep. Members can select between three and eight items for free delivery and have seven days to decide what they like and then pay only for what they want to keep, returning the rest. Prime Wardrobe makes returning unwanted items straightforward with a resealable bag and prepaid label. ■



# HOLLAND & BARRETT: A HEALTHY DIGITAL APPETITE

THE CHALLENGE FOR many high street retailers, whether they want to or not, is reinvention for the digital age, yet health foods and wellness retailer Holland & Barrett has embraced this as an opportunity.

Wellbeing has become a mainstream interest these days in H&B's markets, which has definitely helped the retailer channel its ambitions as it works through a three-year digital transformation programme. One initiative that tells a story is its recently announced partnership with data-science company Starcount. The idea is for the two businesses to generate data-led insights and enhance H&B's offer and content personalisation through its 'Rewards for Life' membership programme.

Rewards for Life currently has more than seven million active members in the UK and is a key tool for Holland & Barrett's customer insight and engagement. The aim now is to deliver offers that are more targeted and useful for customers, more quickly.

Peter Aldis, CEO of Holland & Barrett, says the partnership came about because Starcount "highlighted significant incremental opportunities for the business from taking a more data- and customer-driven approach". The aim is to improve the customer experience both in-store and on digital channels.

Next to this, a big part of H&B's digital drive is around mobile, as you'd probably expect, since digital more generally is a huge play for the business. This year's results showed overall revenues up by 7.1% but surging digital growth of 32.2%.

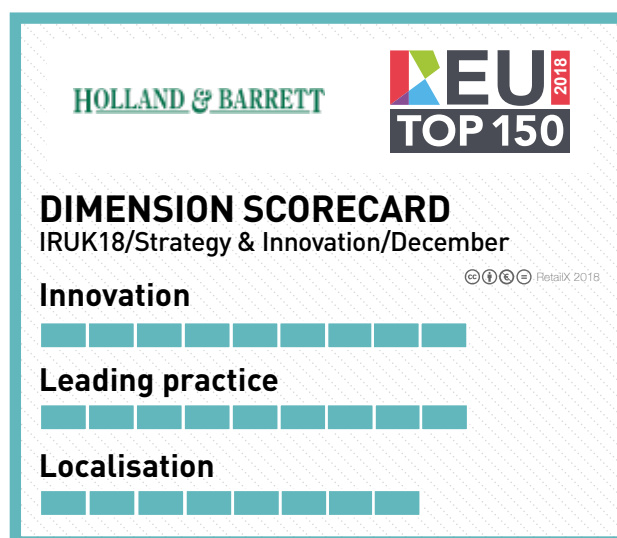
Part of this growth has been driven by developing an app that works for online and in-store experiences, as well as leveraging mobile social media interactivity through Twitter and Pinterest. Other highlights include digital innovations such as the retailer's launch of its Healthbox subscription service – an online, personalised monthly subscription service delivering targeted vitamins, minerals and supplements. What gets delivered is based in part on an individual customer survey covering health questions about dietary intake, general lifestyle habits and ailments that need addressing.

Above all else, Holland & Barrett's emphasis in 2018 was the customer, a priority that found its way into store-led initiatives, too, with the business training staff to take a more expert approach to advising shoppers on the high street. To this end, the company's in-house Holland & Barrett Natural Health Academy runs courses that last an average of a year, in order to help staff gain qualifications that equip them to advise customers in-store about products such as dietary supplements. The digital side of this same drive is the company's The Health Hub blog, populated with recipes, advice and explanations of different supplements and how eating foods from carrots to flaxseeds can help to improve health. ■



Image credit: Holland & Barrett

With wellbeing going mainstream, H&B is riding the trend



The screenshot shows the eSchuh website. The navigation bar includes links for 'Warenkorb', 'Mein eSchuh', 'Kontakt', 'eSchuh', 'Accessories', 'Branden', and 'Suche'. Below the navigation bar, there are links for 'Online-Kaufberatung', 'Bestellen für HK 2018', and 'Shop 24h-Tag-Online'. The main banner features the text 'STUDENTS GET 10% OFF\*' in large, yellow, bubbly letters. Surrounding the text are illustrations of a blue boot, a red heart, a hand making a peace sign, a yellow shoe, and a pink shoe. A button labeled 'Find Out More' and the text 'Sicher kaufen' are also visible.

If the direct customer matters, so do the stores, of course. Here, the objective is next-day delivery six days a week, and Schuh's automation improvements mean it can now pick and pack up to 12,000 items an hour while its analytics tracks KPIs for delivery, delivery accuracy and next-day sales arising from the nimble replenishment model that helps stores to stay stocked. Schuh also has a slick clearance operation, where fragmented lines and

One further strategic priority in its processes that's worth noting is in waste management. Schuh has been recycling cardboard, paper and plastics for many years and this year, reached its long-sought target of zero waste to landfill. As well as splitting out recyclables, it now compacts any non-recyclable waste, which is then used as biofuel. Apart from the environmental impact, the initiative has also cut down waste collections and reduced landfill taxes. Improvements in packaging are next in its sights. ■





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## Articulating the Themes

As we have already identified, expertise within Strategy & Innovation is central to RetailCraft. To see what's happening within this Dimension on a regular and ongoing basis, register to become a member at [InternetRetailing.net](http://InternetRetailing.net), which is **completely free to retailers**.

### The IREU Dimension Report series

Look out too for exclusive reports and online content detailing how the IREU Top500 are performing in our five other Performance Dimensions:

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Becoming a member will give you access to round-the-year content on the website:

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In addition, we will publish a second Strategy & Innovation Dimension Report in spring 2019, in which we will look at what's changed in key metrics over the winter, summarising the indices and trackers, and focusing on the most revealing aspects of our ongoing research.

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Our **next IREU Top500** main report, collating all this research, will be released in **July 2019**.

# Conclusion

THESE ARE NERVY times for European retailers. Where once it seemed that switching to a multichannel model that emphasised the role of stores as touchpoints for customers would likely bring success, this no longer seems such sage advice. The recent troubles of the department store sector, represented by House of Fraser in the UK going into administration despite investing heavily in its digital offerings, demonstrate how changing customer behaviour can have an impact on even the most forward-looking companies.

That's not to say the answer is to be a pureplay or that every retailer needs to be instituting a bricks-and-mortar store-closure programme. Rather, the example of the department store sector acts as a reminder that retailers need to stay close to their customers, to understand what kinds of services their customers want and value. But that's only a first step. Retailers also need to be looking ahead, and to be experimenting and innovating as they try to work out what kinds of services will appeal to customers in the future.

In 2019, this may be especially tough. There's evidence that macro-economic factors are making consumers nervous. The Trump administration's America-first policies have put the USA on a collision course with China over trade, many consumers are seeing little or no growth in their wages and, whether or not the United Kingdom does leave the EU in March, the Brexit psychodrama will rumble on for many years yet as the UK rethinks its place in the world.

A perfect storm of issues for retailers to deal with then? Perhaps, but if that is true then it is all the more reason for retailers to focus both on overall strategy and new initiatives. In this way, retailers can help ensure their underlying businesses are not just strong enough to survive whatever lies ahead, but to prosper. ■

**Editor:** Jonathan Wright  
**Editor-in-Chief:** Ian Jindal

.....  
**Design:** Lydia Cooke

.....  
**Managing Director:** Chris Cooke  
**Commercial Director:** Andy James  
andy.james@internetretailing.net  
**Creative Solutions Director:** Marvin  
Roberts marvin@internetretailing.net  
Tel: 020 7062 2525

.....  
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.....  
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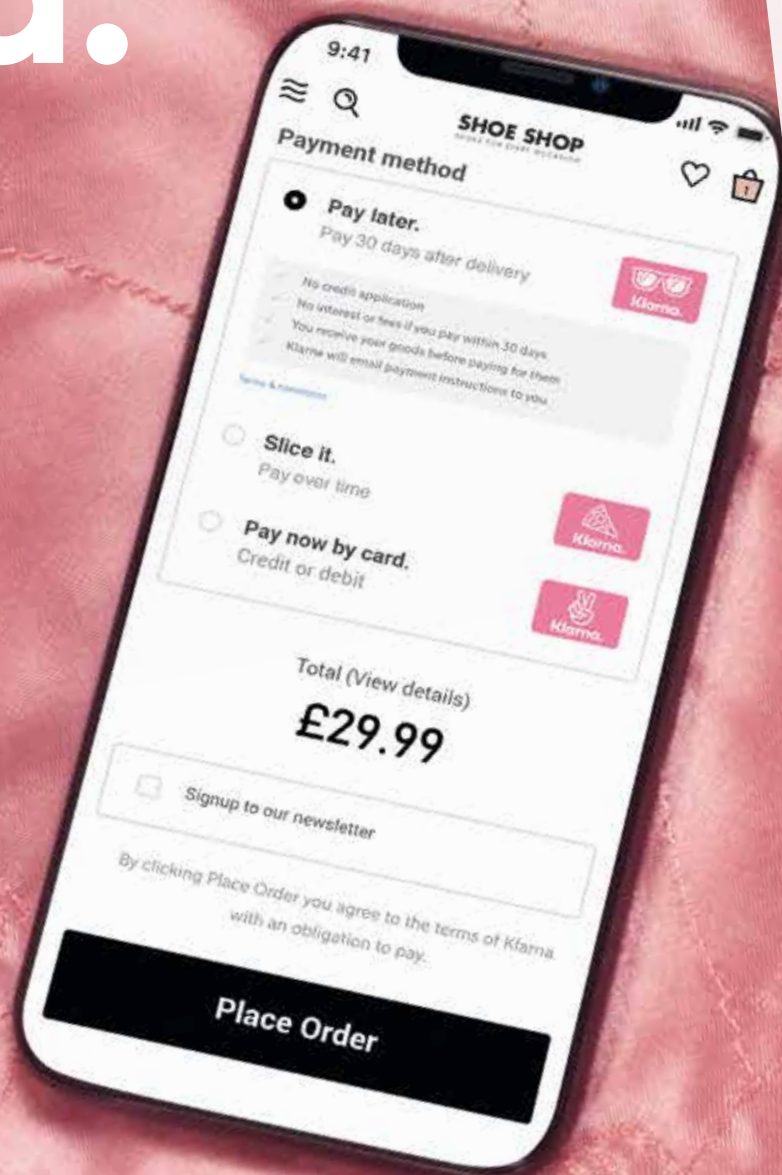


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