EUROPE'S TOP500: STRATEGY & INNOVATION

One of six Performance Dimension Reports within the Internet Retailing Europe Top500 ranking

An Executive Summary in partnership with our Dimension Sponsor

IN THE 2017-18 IREU TOP500 SERIES	
Brand Engagement	Published November 2017 – download at [etail.li/eubranddownload]
Mobile & Cross-channel	Published January 2018 – download at [etail.li/eumobiledownload]
The Customer	Published April 2018 – download at [etail.li/eucustomerdownload]
Strategy & Innovation	This report – available online at [etail.li/eustrategydownload]
Operations & Logistics	Published July 2018 – download at [etail.li/euoperationsdownload]
Merchandising	Published July 2018 – download at [etail.li/eumerchandisingdownload]

From the editor-in-chief

Welcome to the latest Executive Summary in our IREU Top500 Performance Dimension Report series, in which we look at leading European retailers through six 'lenses', from Brand Engagement to Operations & Logistics. This time around, the focus is on Strategy & Innovation. Over the following pages we look at the major challenges facing European retailers, issues that should be occupying time in the boardroom as businesses adapt to – and more importantly stay ahead of – evolving customer behaviour.

You can catch up with our views on other Performance Dimensions at internetretailing.net/ireu/. Meantime, we are preparing for the release of the 2018 ranking. Are the current leaders in Strategy & Innovation going to repeat their success? All will be revealed soon. To ensure you get your copy of the new report, sign up at internetretailing.net/membership/

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A REMINDER: THE ELITE SIX IN THE IREU TOP500

Apple	Elite	IKEA	Elite
Boots	Elite	Nike	Elite
H&M	Elite	ZARA	Elite

STRATEGY & INNOVATION: THE BEST 50, LISTED ALPHABETICALLY

Adidas, Amazon, Apple, Argos, Asda, Asos, B&Q, Bershka, BonPrix, Boots, Chain Reaction Cycles, Currys PC World, Debenhams, Decathlon, Dunelm, Esprit, H&M, Halfords, House of Fraser, Ikea, Intersport, Jack & Jones, John Lewis, La Redoute, Littlewoods, Marks & Spencer, Missguided, Morrisons, Mothercare, Next, Nike, Ocado, Office, The Perfume Shop, Pull & Bear, RS Components, Sainsbury's, Schuh, Screwfix, Simply Be, SportsDirect.com, Superdrug, Thomas Sabo, Very, Wickes, Wiggle, Yours Clothing, Zalando

Further reading

⊙ The IREU Top500 internetretailing.net/ireu/

⊙ The IRUK Top500 internetretailing.net/iruk/

⊙ The Brand Index internetretailing.net/irbx/

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Partner's insights

INSIGHTS AND ACTION

"An effective cross-channel merchandising strategy can only be built on a strong foundation of customer insights"

Grant Coleman, VP & Market Director – UK, SC, MEA at emarsys

- Retailers need rich customer data to enable personalisation across any channel or device
- Great product selection is hugely important, but retailers need to make sure an item is as appealing as possible – and then invest time, energy and money to maximise its sales potential
- Marketing and merchandising teams need to work together more collaboratively, more efficiently and with better commercial alignment
- Leading retailers are deploying automation, AI, machine learning and data science to stay ahead

In detail online

Emarsys, insights and action: etail.li/f9457

Further reading

Emarsys: www.emarsys.com

STRATEGIC OVERVIEW

The context

The challenges facing European retailers:

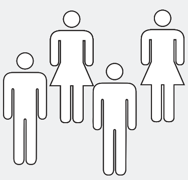
- Brexit is on the to-do list of retailers across Europe. The statistics show clearly why. Cross-border purchases are becoming more commonplace. A survey by International Post Corporation showed that, of EU shoppers making cross-border purchases, 15-18% were ordering from the UK. A lower pound in the wake of Brexit has made shopping in the UK more attractive. In the other direction, 10% of UK cross-border purchases are made from Germany.
- Currently all these EU-to-or-from-the-UK purchases are within the single market. But after Brexit if, as expected, the UK is outside the customs union, then imported goods from non-EU countries on sale in the UK will no longer be subject to the EU's common external tariff (CET), potentially making them up to 15% less expensive than elsewhere in Europe. Nevertheless, EU shoppers taking advantage of any potential savings may face VAT bills. How will this change customer behaviour?
- Beyond Brexit, there are also practical problems facing European retailers in terms of logistics, for example, a shortage of lorry drivers. Last year Ocado blamed a slowdown in its expansion plans and sales growth (down from 13.1% to 11.6%) on the driver shortage.
- The future is mobile and this is changing customer behaviour profoundly.

OUR RESEARCH TERRITORY

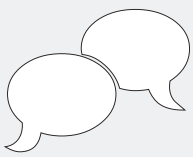
IREU RESEARCH COVERS THE EEA (PLUS SWITZERLAND), 32 COUNTRIES THAT FORM A TRADE BLOC, ESTABLISHED IN 1994. THE EEA COMPRISES THE 28 EU COUNTRIES, AS WELL AS ICELAND, NORWAY AND LIECHTENSTEIN.

THE EEA (PLUS SWITZERLAND) SPANS

32 COUNTRIES



500M CUSTOMERS



26 OFFICIAL LANGUAGES

IN DETAIL ONLINE

⊙ Challenging times ahead: etail.li/edcd2

The solution

Once retailers have worked through the issues here, they need to implement strategic solutions that reflect business priorities

- When it comes to Brexit, we are already seeing an impact in the way companies think about distribution networks. Asos, which made around 29% of its sales to EU shoppers in 2017, has opened a second EU-based distribution centre with its Eurohub 2 in Berlin. Once any non-EU sourced products are delivered to the centre – having paid the necessary CET – they are within the single market and can be sent to EU shoppers with no additional charges due.
- The Spanish Inditex Group, which has brands such as Zara, Pull&Bear, Bershka, Stradivarius in the IREU Top100, sells in 96 markets. International expansion has long been a priority. As well as 7,475 stores in these 96 countries, it last year added national websites in Thailand, Malaysia, Singapore and Vietnam with Japan and South Korea among newcomers this year. Ultimately there will be national websites for all its operating markets. The approach here is perhaps best described as localisation at scale. Why focus just on Europe?
- As we have seen, the apparently simple problem of driver shortages has knock-on effects, not least on costs. As well as revising its recruitment methods, Ocado has raised wages, while other companies are paying bonuses of £100 a shift to attract and keep drivers.
- Other retailers are adopting different strategies to deal with changing customer behaviour. Amazon Key, which is now live in around 40 cities in the US, allows delivery drivers to leave packages inside the house rather than on the doorstep. It involves fitting a smart door lock and Amazon Cloud Cam so that when a courier arrives, householders are informed via a mobile app and can authorise the door to open.

The Amazon example above illustrates just how quickly retail is changing because such an initiative would have unthinkable even 10 years ago. It not only highlights what a mobile-first world looks like, but offers clues as to what an Internet of Things-enabled world may look like.

More prosaically, it underlines how all strategies designed to meet changing customer behaviour need to be underpinned by robust yet imaginative fulfilment offerings.

Further reading

⦿etail.li/amazonkey

Approaches that work

TO STAY AHEAD IN A COMPETITIVE EUROPEAN MARKET, RETAILERS NEED BOTH TO REFINE WHAT THEY ALREADY DO AND BE READY TO EMBRACE THE NEW

- **Imagine the store:** the in-store customer experience is more important than ever, and stores need to be more than just places to transact. The Spanish fast-fashion retailer Zara's recent use of augmented reality (AR) on its app to enable in-store shoppers to see the clothes they are examining 'come to life' is one example, as is its piloting of dedicated click-and-collect spaces, and its use of technology to help recommend items to customers with information screens embedded into mirrors triggered by RFID.

- **Embrace mobile and the app:** apps are starting to dominate retail sales in the mobile space, and retailers need to understand the power of this trend. Retailers that have both mobile sites and apps are seeing, on average, two thirds of their online sales coming from mobile devices, according to recent research. Conversion rates on mobile apps are much higher, as well – roughly three times greater than on the mobile web.

- **Sell your vision on social:** social media is entering a new phase. Earlier this year Instagram cemented itself as a direct-to-consumer ecommerce brand with the launch of Instagram Shopping in the UK – an update on the platform that lets consumers seamlessly purchase products directly from businesses. M&S is one of the first three businesses to take part in the UK test phase of the Shopping function, with M&S head of digital marketing Erin Roy heralding how: "[Instagram Shopping] offers us the opportunity to realise the huge potential of our 760,000 followers."

- **Let's talk about voice search:** voice is coming up fast as an alternative form of product search. Buying through voice is now possible in some contexts, with conversational AI tools like Amazon's Alexa and Google's Home, which open up a whole new presentational layer around buying.

- **Nurture innovation:** retail tech innovation doesn't have to take place in start-ups, as department John Lewis is showing by expanding its JLAB retail technology programme. Up till now the programme, which was started in 2014 and sees technology teams develop relevant software within the John Lewis environment, has run for 12 weeks at a time. Now the programme is ramping up: it is to run for a year, offering three chances for established businesses, as well as start-ups, to prove their technologies, with opportunities both at Waitrose and at John Lewis.

- **Be local for every customer:** for retailers selling across Europe and the world, delivering the right mix of country-speciific and language-specific sites is key. That means a site that intuitively takes the visitor to the right homepage, and in the most likely language.

In detail online

⦿ 12 strategies to stay ahead: etail.li/1f60d

Further reading

⦿ JLAB: jlab.co.uk

Case study: wiggle and chain reaction cycles: iteration and growth

The challenge: Cycle-run-swim retailer Wiggle and its sister biking business, Chain Reaction Cycles, generate more than half of sales from outside the UK. How can it continue to drive growth?

The analysis: targeting new markets abroad always poses challenges, but in 2016 the question of international expansion got even more complicated with Wiggle's merger with cycling-focused Chain Reaction Cycles. Why complicated? Because while there was huge symmetry between the companies, it doubled in an instant the number of opportunities in country markets that needed dedicated attention.

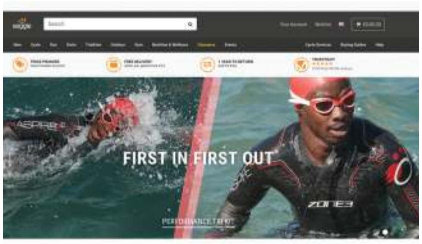
"Even as they came together, both businesses generated less than half of revenues in the UK and actively marketed in 20 countries – broadly the same 20, too," Geoff Bull, the group's head of digital marketing, noted at IRX 2018. "On one level, that's a great platform, but it still leaves a huge amount to think about. Wiggle has 14 versions of its website for different markets, while CRC has nine different skins for its site."

THE RESPONSE

- As an overarching approach, the merged company methodically approaches all the daily challenges that arise when selling into different markets.

- The company employs agile and lean start-up methods. "To guide us through the problem/solution process, we use a decision tree to explore potential solutions," Bull noted. "When you are faced with lots of opportunities and choices, you need these routes through decision-making." For example, the marketing team might ask itself what drives loyalty and purchase behaviours in a particular market, the relative importance of factors such as offering help and advice, speed of delivery, cost of delivery and customer service.

- Overall, trade-offs are key in international trading – what's doable technically set against commercial and practical realities, and the possible upside. Bull: "It's through testing around your trade-off decisions that you can start to build a picture of your optimisation priorities [in different territories]"



"When you are faced with lots of opportunities and choices, you need routes through decision-making to take action with confidence"

Geoff Bull, head of digital marketing, Wiggle & Chain Reaction Cycles

In detail online

Iteration and international growth: etail.li/94cc8

Case studies: Four examples

ocado

The pureplay grocer has been embracing technical innovations as part of its strategy for growth. It is the first UK grocer to enable voice-activated shopping for its customers, via Amazon's Alexa devices. Its new customer fulfilment centre will see picking robots buzzing around an automated warehouse. The robotic system can pick many of the 50,000 items available on Ocado.com, using a computer vision system designed by the Ocado Technology robotics team.

ZARA

The fast fashion retailer recently launched an augmented reality (AR) add-on to its app that allows shoppers to see the clothes they are perusing 'come to life'. Shoppers in store and online can hold the app over certain signs. They see models wearing the clothes appear and move about on the screen in front of them. The models can (and do) even talk about the clothes. All of the outfits can be purchased via a single tap of the app.

In detail online

⊙ Zara, augmenting its retail reality:etail.li/a0a7b

⊙ Ocado, welcome to robotic stock picking: etail.li/f5635

A	B	C	J	K	L
D	E	F	M	N	O
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Case studies: Four examples

Argos

The catalogue retailer offers customers a superior and seamless experience across various channels. Two-thirds of its sales are still made in-store, where a serious investment in tech – notably replacing its laminated catalogues and pens with tablet devices – has delivered an updated store experience. Rather than have customers write out an order slip, customers now buy items via a digital kiosk and then await collection.

halfords

The car parts, camping and cycles retailer has illustrated the importance of stores to its business in the past year. Online sales are growing fastest, but 85% of online orders are still picked up in the store. The retailer is developing a single view of its customer transactions, and said that during the most recently reported half year it matched 54% of retail transactions to the customer who made them. That's up from 3% two years ago.

In detail online

⦿ Argos, a joined-up approach that delivers: etail.li/ed5de

Further reading

⦿ Halfords, in-store services and integration: etail.li/f2061

‘Practice of the best’: what we measured

When we assess which retailers have performed most strongly in the Strategy & Innovation Performance Dimension, we find retailers that offer market-leading services at scale. Typically, these are retailers that excel in a variety of retail disciplines, ranging from logistics and customer services to localisation for international audiences.

Since we last published the IREU Top500 Index main report, we have continued to conduct extensive research in this area and we have expanded our analysis to include several new metrics. This updated combination of metrics reflects the way customer expectations of the kinds of services they can expect have risen.

Below, we summarise some of our key results:

Collection: Within the EEA (plus Switzerland), 65% of IREU Top500 retailers now offer click-and-collect services. Western Europe leads the way here, with 66% of Top500 retailers in the UK, and 58% in France and the Netherlands offering the service. Of those retailers that do offer click-and-collect services, 22% across the EEA offer same-day collection. The service is most common in the Czech Republic, offered by 30% of retailers with click-and-collect capability.

Delivery: While almost half (48%) of UK-localised retailers within the IREU Top500 offer next-day delivery, it's not widespread elsewhere, with the equivalent figure for the next-best performing countries, Finland and the Netherlands, being just 6%. Turning to same-day delivery, this is offered by just 4% of UK-localised retailers, while the same figure for Saturday delivery in the UK is 16%, which doesn't sound too impressive until you consider the overall EEA figure is 2%.

Returns: Currently, 36% of Top500 retailers enable customers to return an ecommerce order to a physical store, with Top500 retailers localised to Ireland (64%), Bulgaria (58%), Hungary (53%) performing most strongly. Turning to pick-up from the home, 10% of Top500 retailers offer this service across the EEA, which is most common in Romania (35%), Portugal (27%), Bulgaria (26%). When it comes to processing refunds, UK-localised retailers are quickest, typically processing refunds in 11 days against an average of 14 days across the EEA. Again, we would expect big returns in this area over the coming months and years.

Mobile website performance: Some Top500 websites still aren't mobile-optimised and the majority fail to follow at least some best practices. Across the EEA, the median mobile page size is 1.8MB. The smallest median localised websites can be found in Estonia (1.2MB), Luxembourg (1.2MB) and Croatia (1.3MB), while the largest are in the UK (2.1 MB), Poland (1.9 MB), Lithuania (1.9 MB). It's important to note all tests were performed using the same internet speed on the same browser, with the only variable being the website itself.

Mobile apps: Just 66% of retailers in the IREU Top500 have an Android app and 69% an iOS app. We have noted this before, but we are constantly surprised how few retailers offer advanced functionality via apps. Of those retailers with an iOS app, just 30% offer daily deals, 34% a barcode scanner and 24% a store stock checker. Moreover, 21% of apps have notable bugs.

In detail online

⊙ Inspiring loyalty with cross-channel service http://etail.li/971fb

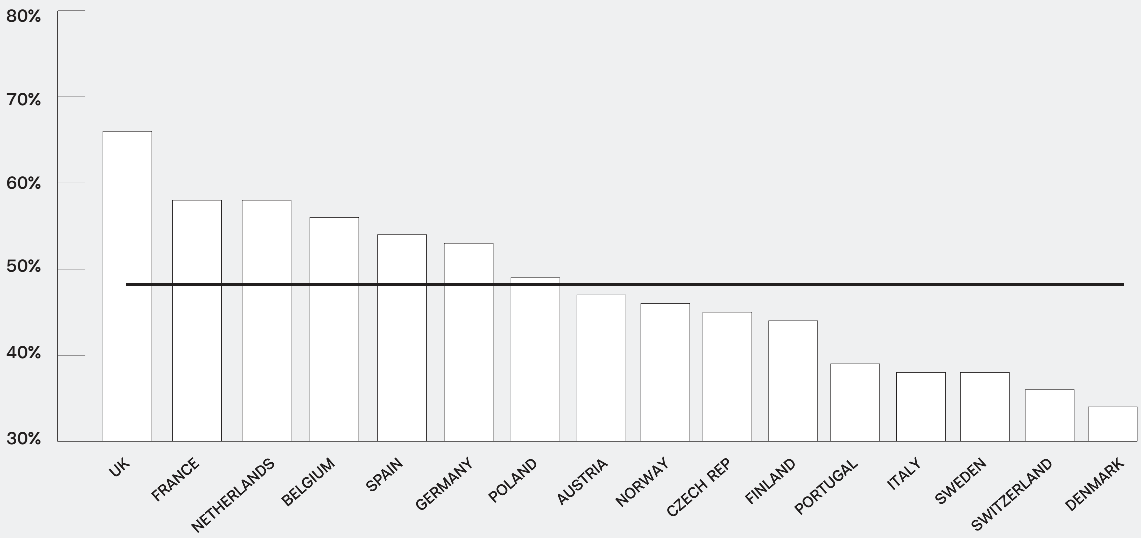
Desktop website performance: Across the EEA, IREU Top500 websites take an average of 8.4 seconds to become visually complete. The fastest localised websites are in Lithuania (where the equivalent figure is 5.3s), Latvia (5.5s), and Bulgaria (5.5s). The slowest are in France (8.4s), Luxembourg (8.6s and Germany (9s). Some of the lower times suggest plenty of scope for improvement.

Website merchandising: Online merchandising is an area where retailers can differentiate themselves from competitors – or at least keep up considering that 69% of IREU Top500 retailers now recommend similar products to customers who are browsing. Websites localised to Denmark (77%), Italy (75%) and Austria (75%) are most likely to offer such recommendations, which are least common in websites localised to Bulgaria (47%), Slovakia (54%) and Hungary (56%). Wishlist functionality is offered by 54% of Top500 retailers.

Overall, the picture here is one of sophisticated multichannel retailers across the metrics we measured. But while these Top500 include the best and the model retailers in Europe, the majority can make significant improvements. These retailers are in most cases legacy companies with historic store estates and established ways of doing business. Nine in 10 operate physical stores and web shops. For the most part their significance in the market was acquired over decades of carefully innovating and dutifully attending to their customers.

THE PROPORTION OF RETAILERS IN A COUNTRY THAT OFFER CLICK AND COLLECT

THE OPTION IS MOST WIDESPREAD IN THE UK, WHERE 66% OF THE RETAILERS (+18 P.P. AHEAD OF THE AVERAGE) OFFERING COLLECTIONS, FOLLOWED BY FRANCE AND THE NETHERLANDS, BOTH WITH 58% (+10 P.P.)



Methodology

The Strategy and Innovation Dimension covers the retailer's ability to perform well across the business in the areas that matter most to customers while also rewarding retailers that are leading their peers in the development and implementation of new capabilities and services. This broadly falls into two categories:

1. Use of innovative and uncommon solutions such as virtual reality, and
2. Adoption of known best-practice features selected from the other five Dimensions such as:

- Live chat customer service
- Fast responses to customer service
- Mobile websites that visually complete in just a few seconds
- Same day and next day fulfilment by delivery and click and collect
- Effectiveness of search, filtering and labels for desktop and mobile website navigation
- Cross-channel consistency and servicing with store finders on the website and click and collect available from the store

Further research

BEYOND THIS EXECUTIVE SUMMARY

THE FULL REPORT

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Read full versions of all the articles featured in this Executive Summary on the InternetRetailing website: **etail.li/eustrategydownload**

THE IRUK TOP500

The companion to the IREU Top500, this report is now in its fourth year and focuses upon the best-performing retailers, brands and ecommerce pureplays in the highly competitive UK market.**www.internetretailing.net/iruk**

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Speaking to design issues

VOICE COMMERCE IS HERE. WITH ITS ARRIVAL, WE NEED TO TALK NOT JUST ABOUT A NEW CHANNEL, BUT NEW RETAIL MODELS TOO, SAYS DANIEL HARRIS OF EXPERIENCE DESIGN CONSULTANCY CXPARTNERS

According to research by Walker Sand, a fifth of US shoppers made a purchase using a voice-controlled device in 2017. This figure rises to 43% for millennials. There have been eye-catching initiatives in this area. Walmart and Tesco are both working with Google on voice-commerce initiatives, while BMW plans to install Amazon's Alexa in new models.

Nevertheless, before retailers decide to jump in, it's worth considering how technology projects go awry within retail, and also to look at questions here from a usability and service design perspective.

A recurring theme with technological shifts within retail is what we might call got-to-have-one-of-those syndrome. InternetRetailing research, for example, reveals the large number of multichannel retailers that have apps without store-finder or stock-checker functionalities.

Voice commerce – and more widely the move to an Internet of Things (IoT)-driven world where more and more devices are connected – introduces even more complexity.

THE ROAD AHEAD

So what are retailers to do? One way to approach the issues here is to look at where retailers' strengths and weaknesses lie. As Daniel Harris of cxpartners points out, most retailers aren't like Amazon, which is as much a technology company as a retailer, but they're "traders" first and foremost.

"Trading is about marketing really hard, understanding customers, merchandising," says Harris. "Now merchandising is really interesting because how do you merchandise when it comes to voice? There's nothing for people to see or choose."

Not all retailers can afford to throw resources at the problem. Another approach is to remember that trust is central to building loyalty – and that customers tend to trust retailers that prove they understand them, can demonstrate expertise and which engage with customers in ways that are genuinely helpful.

This perspective, according to Harris, can form the basis for a new marketing approach that looks beyond voice as a novel channel towards an IoT-enabled world. "I think this new marketing strategy is as much about being present through APIs, being present on other networks, being present on Alexa as it is about campaigning," he says.

In detail online

⦿Is AI the smart choice? etail.li/e45d0

emarsys

REVOLUTIONISING THE MARKETER'S ROLE

AI Marketing

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AI Pioneers:

COSABELLA evolution slimming JAPAN CENTRE FREESTYLEXTREME

Keep calm and innovate

Another day, another report into changing customer behaviour, another economic shock, another retailer announces a new initiative, another retailer bites the dust. Sometimes, it can seem as if, for all the retail sector is constantly in flux, the news cycle surrounding it has become repetitive.

Here lies one reason why it's always so intriguing to look in detail at Strategy & Innovation. It offers a chance to look beyond the headlines to try to glean the deeper patterns within the sector. Currently, we suggest, these fall into two main categories: retailers trying to perfect the art of the possible and looking ahead, preparing for an Internet of Things-enabled world.

To begin with the art of the possible, here we are talking about the idea of implementing techniques and technologies that are already mainstream or close to mainstream, of trying to emulate and surpass the best of the best. We shouldn't underestimate the challenges here. Implementing an effective click-and-collect operation in one territory is tough enough. To get this right across multiple territories, as so many IREU Top500 retailers need to do, is even more difficult.

Then there's the shift to a mobile-first world, with all the accompanying problems for retailers around identifying customers as they move across channels and, to judge by our research, offering them apps that actually have some kind of advanced functionality. Further complicating matters are the economic headwinds of Brexit, the unpredictability of the Trump regime and uncertainty caused by, for example, the rise of populism in the Eurozone's third-largest economy, Italy.

It's enough to make retailers dive for cover, yet all this is happening at the same time as new IoT technologies, initially represented by voice-activated devices, are changing the retail landscape – perhaps ultimately even as profoundly as the advent of the world wide web at the turn of the millennium. Retailers need at the very least to be thinking about the issues here, looking ahead.

Balancing these sometimes conflicting demands is tough, but when wasn't retail a tough business? For those companies that can successfully negotiate the challenges and stay ahead of competitors, there are real upsides, such as the way customers are becoming not just happy to buy across borders, but comfortable with embracing the brand values of foreign-based retailers.

Think of the way, for example, that Swedish fast-fashion retailer H&M, an Elite retailer in the IREU Top500, has won over British consumers. To return to where we began, it's done this by working to perfect the art of the possible while also keeping a weather eye on what lies ahead.