

## Paul Havinga



# Turnaround of Reinvent ?

TMA presentatie 12 september 2018 - Paul Havinga



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# RETAIL APOCALYPSE!





# The end of retail ... as we know it



The largest Dutch retailer filed for bankruptcy in 2016

In Belgium 30.000 of the 80.000 stores are expected to be closed in 5 years

Vacancy rate in the UK is 14%

American shopping mall traffic declined with 50%

Hong Kong's occupier sentiment is down at -24

**Bloomberg**

# **America's 'Retail Apocalypse' is Really Just Beginning**

*November 2017*





The background of the image is a dramatic landscape. The sky is filled with dark, heavy clouds, illuminated from within by a bright, golden-yellow light, possibly the sun setting or rising. A single, powerful lightning bolt strikes down from the upper right corner, its path jagged and glowing with intense yellow and white light. The ground in the foreground is a flat, open field, possibly a marsh or a dry lake bed, with a dark, silty appearance. The overall color palette is dominated by deep reds, oranges, and yellows, creating a sense of urgency and disruption.

# DISRUPTING RETAIL

*the digital and economic trends changing retail by 2020*

# 5 themes in the retailapocalypse

- I. **Changing shopper demand & behavior**
- II. **Online growth / Decline of physical retail** – With the shift to e-commerce, fewer and fewer customers are shopping at big-box physical retailers and malls. Additionally, many of these physical retailers have lost the cache they once had as new [direct-to-consumer brands with a hyper-focus on specific products](#) have taken off.
- III. **Disruptive technologies / Digital laggards** – Many big-box retailers either failed or were too late to establish an online presence. With the rise of Amazon and digitally native direct-to-consumer brands, retailers that don't adapt quickly enough inevitably fail to compete.
- IV. **Mounting debt** – Crippling debt, fueled by post-financial crisis leveraged buyouts by private equity firms, has forced many retailers to declare bankruptcy.
- V. **New competition**



# Internal

- Retail culture tends to be hierarchical, short-term focused
- Conservatism
- Retailers appetite for innovation is low
- Data analytics are not leveraged to the full extent possible
- Other:
  - groupthink theory ('can not fail')
  - curse of success theory ('market change underestimated')
  - threat rigidity effect ('fixed normative assumptions')
  - upper echelon theory ('history, values, family tradition')





# Other Retail issues.

- Retail's cost base is structurally difficult to adjust because of the industry's large real estate footprint.
- Once a retailer gets into trouble, it becomes more difficult for that retailer to recover than it is for most other businesses.
- 55% of retail bankruptcies have ended in liquidation since 2005.
- Department stores: too. many. !!

**→ Debt restructuring , risk protection and bankruptcy could be the biggest growth industry of 2018 and beyond**



**Retail is dood...?**  
**Lang leve retail !**

**Dankzij de Turnaround Managers ?!**



# What is a (succesfull) turnaround?

(...) A [corporate] turnaround may be defined as the recovery of a firm's economic performance following an existence-threatening decline. The decline may occur over several years although there are situations when extraordinary events occurring over a shorter period of time can place a firm in peril (...).

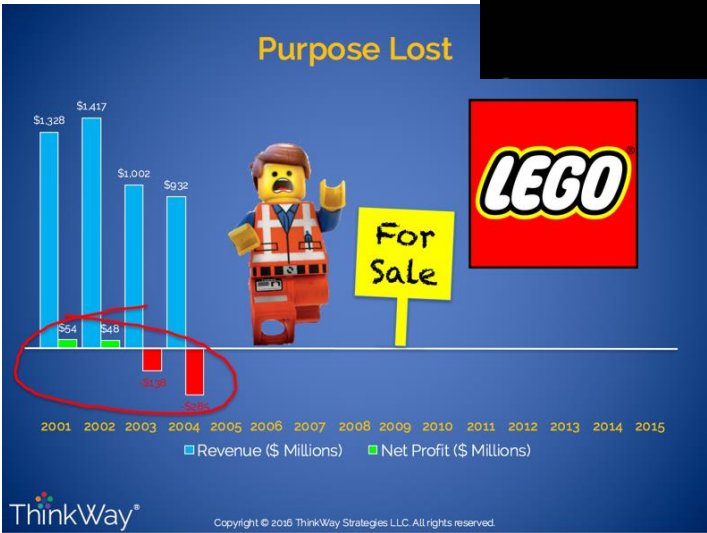
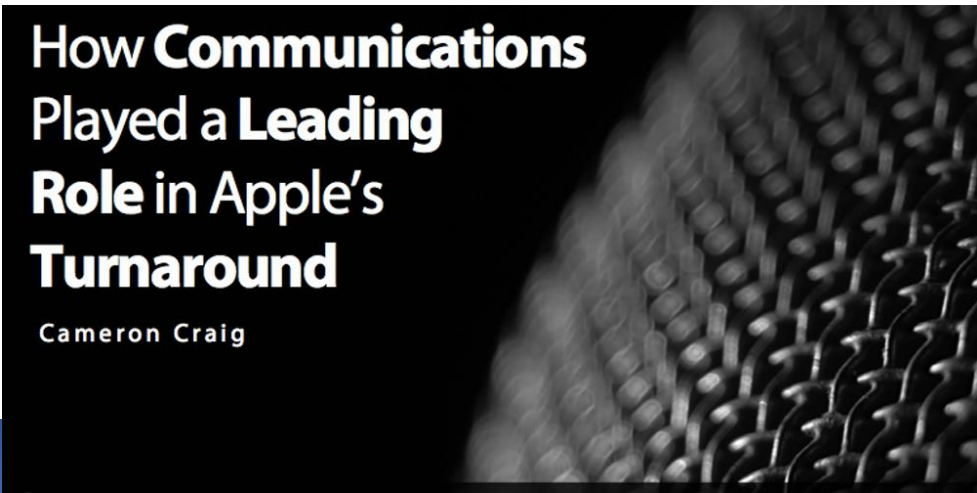
(...) A successful recovery, in its most subdued form, may involve mere survival with economic performance only just acceptable to the firm's various stakeholders.

On the other hand, in its most positive form, the recovery may lead to the firm achieving sustainable, superior competitive positions in its chosen areas of activity (...)"





# Sustainable, superior competitive positions...



# Retail = disruptive sector



## Change



## Analysis



## Turnaround



# Financial analysis vs. Strategic analysis

**Overall: focus on cost reduction and growth strategy [strategic reorientation]  
determines successful outcome of turnaround**

[o.a. Leiden University, 2016 /Technische Universität München, 2012]





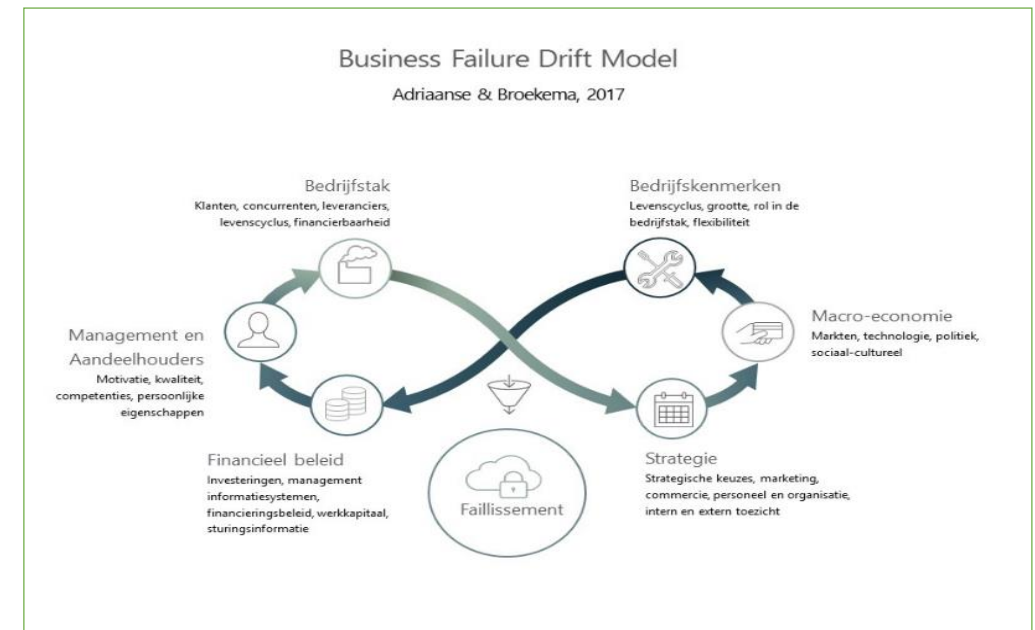
# Strategic analysis

Objective measurement of **internal and external factors** essential in root cause analysis

*Slater & Lovett based on scientific research*

## 6 areas to focus on

1. Strategy & policy.
2. Management and stakeholders
3. Market dynamics
4. Company characteristics
5. Macro-economic forces
6. Financial policy



# From Financial restructuring to strategic turnaround

[o.a. Leiden University, 2016 /Technische Universität München, 2012]

## Business restructuring

- Cutting costs/closing loss making business units/improving cost position
- Improving working capital
- Improving MIS
- Appointment of third parties/managerial restructuring/top executive replacement

## Financial restructuring

- Trying to workout agreements with debt-write off ('haircut')
- Deferment of repayments
- Take over attempts
- Increase of available credit and additional finance by banks

**However....: Financial restructuring no key contributor to successful turnarounds**

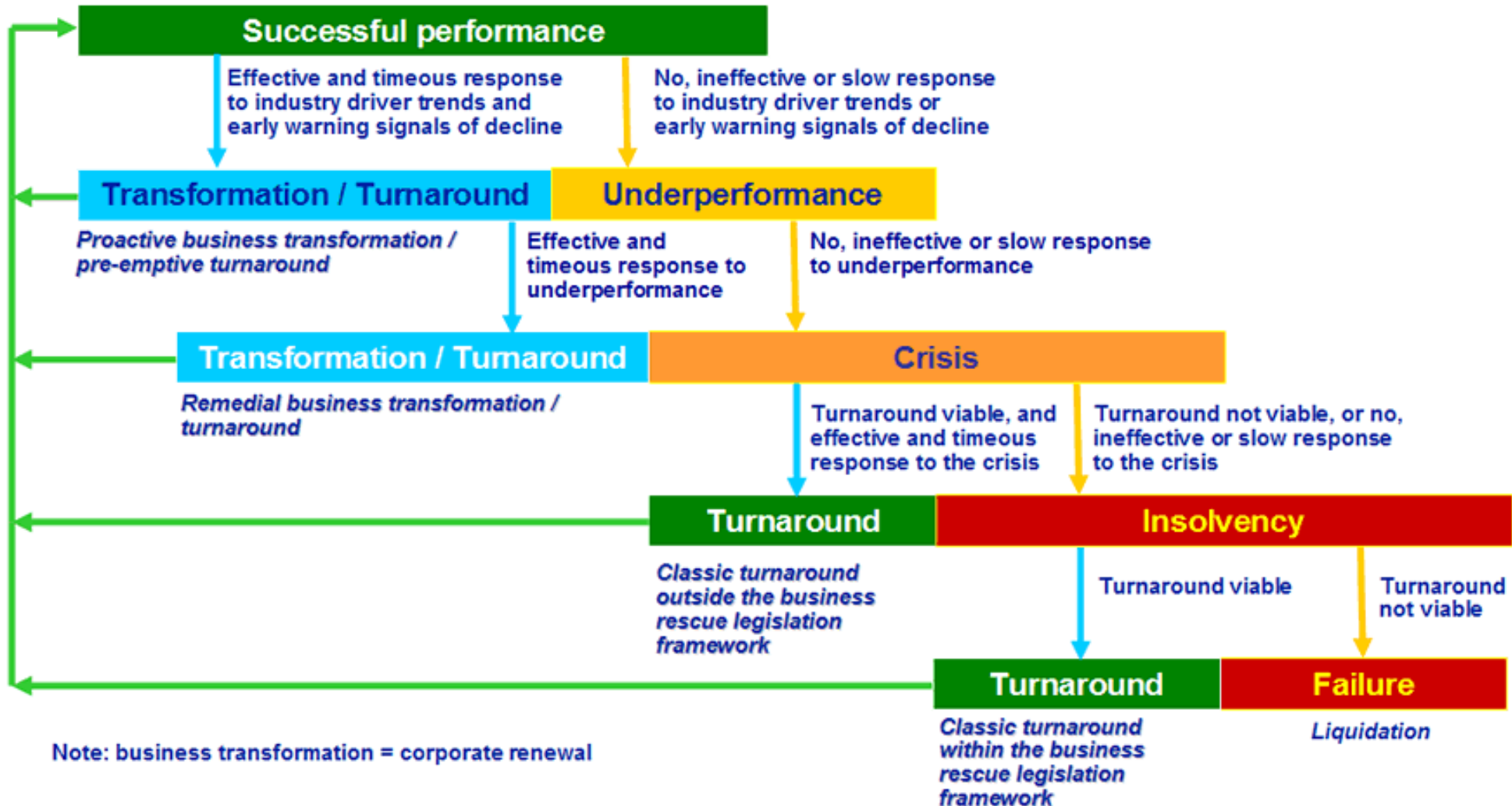
[Schmuck, München, 2012]

**Overall: focus on cost reduction and growth strategy [strategic reorientation] determines successful turnaround**

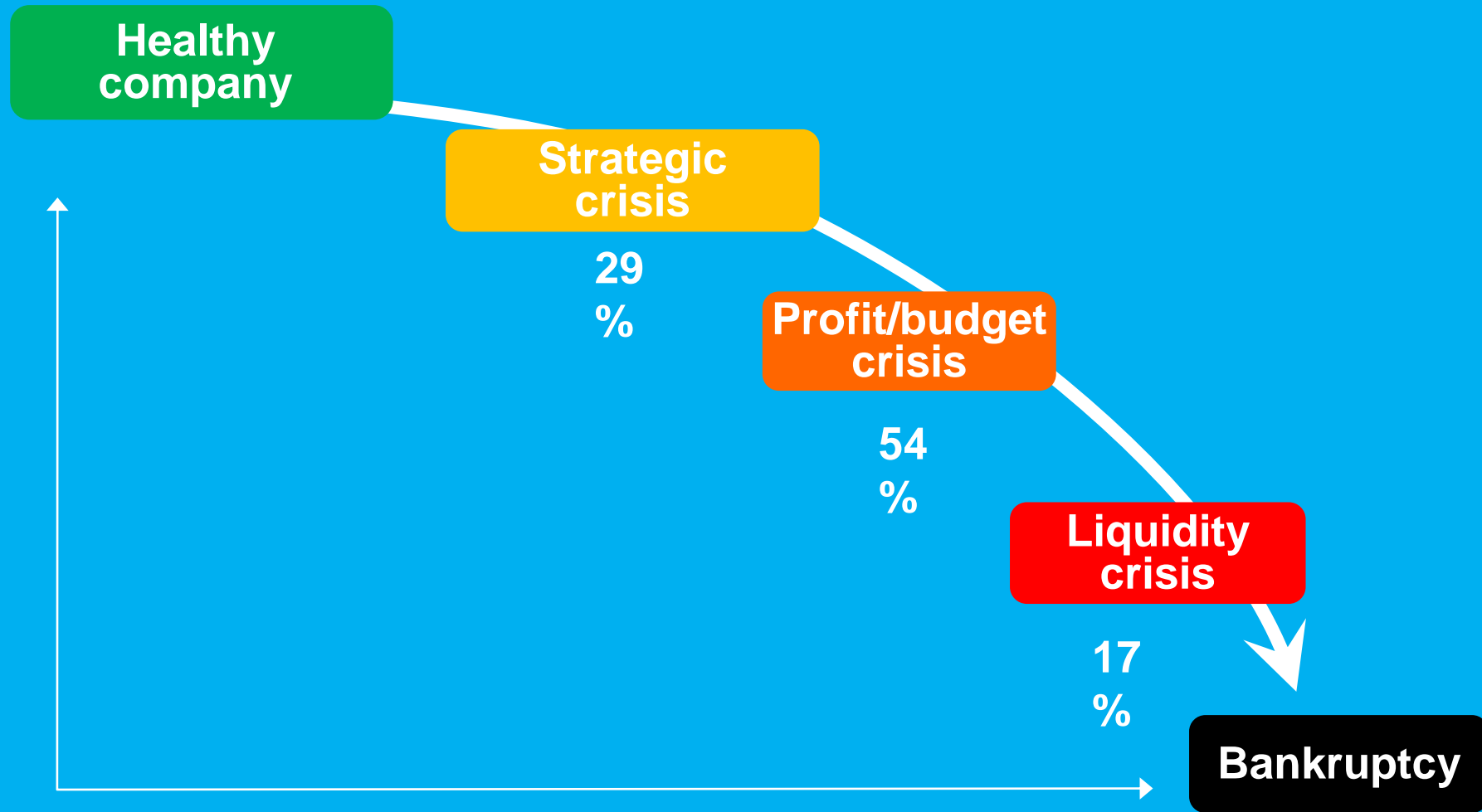


# Business transformation vs turnaround

*Restoring corporate value – from business transformation to turnaround*







# A summarized quick analysis.

unclear positioning / relevancy



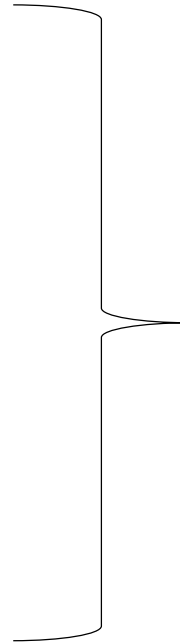
relative bad NPS



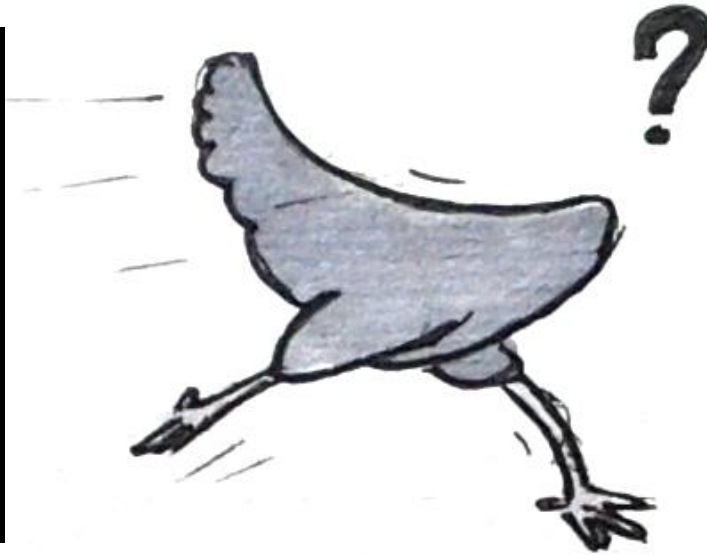
unclear vision & strategy



negative & declining financials



# How to know if the turnaround will deliver?





**Turnaround is dood...  
Lang leve Reinvention!**

**Reinvention Management**





**THE RETAIL  
APOCALYPSE IS NOT  
AMONG US ALL**



# Winning retailers: some examples



WARBY PARKER  
eyewear



ASOS  
discover fashion online



### AMAZON SALES GROWTH (2007-2018F, \$ Billions)

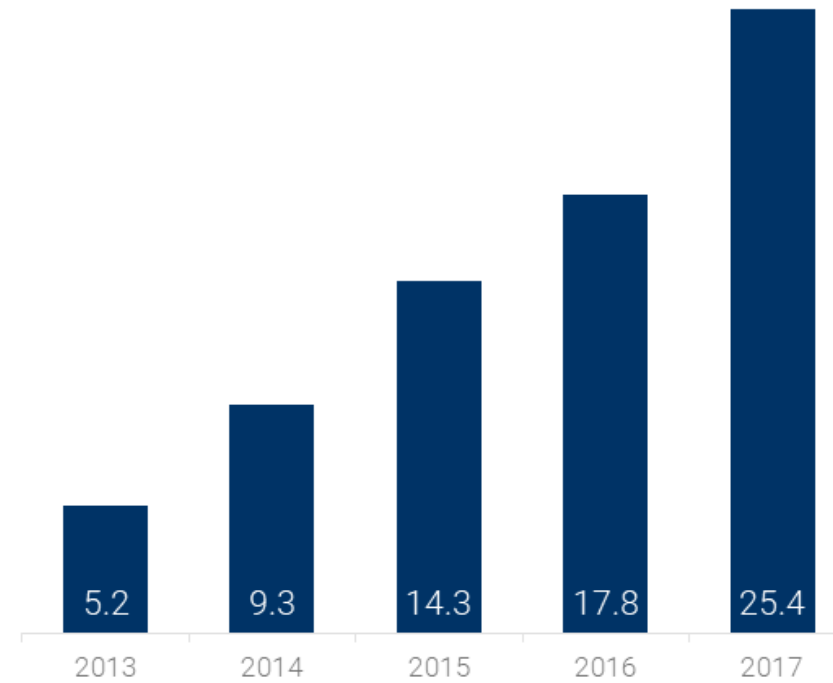


Source: Susquehanna Financial Group, Amazon financial reports and Kurt Salmon analysis



### Alibaba Singles' Day sales soar

Gross merchandise volume, \$B



Source: Alibaba

CBINSIGHTS



# Best Dutch growing companies: 6 retailers in top 10



- |                   |  |
|-------------------|--|
| 1. Takeaway.com : | Growth rate: 68%; New jobs created: 936  |
| 2. Rituals        | Growth rate: 44%; New jobs created: 2448 |
| 3. Coolblue       | Growth rate: 50%; New jobs created: 2040 |
| 4. Action         | Growth rate: 24%; New jobs created: 9000 |
| 5. Catawiki       | Growth rate: 82%; New jobs created: 500  |
| 9. Bol.com        | Growth rate: 20%; New jobs created: 533  |

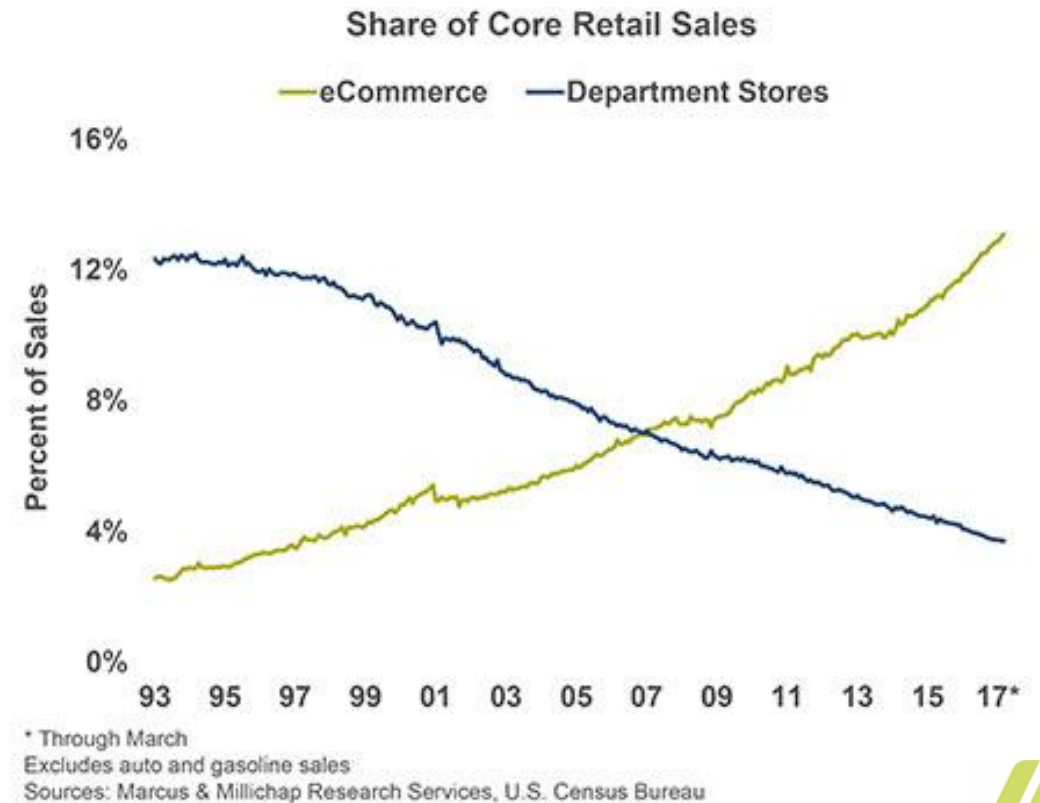
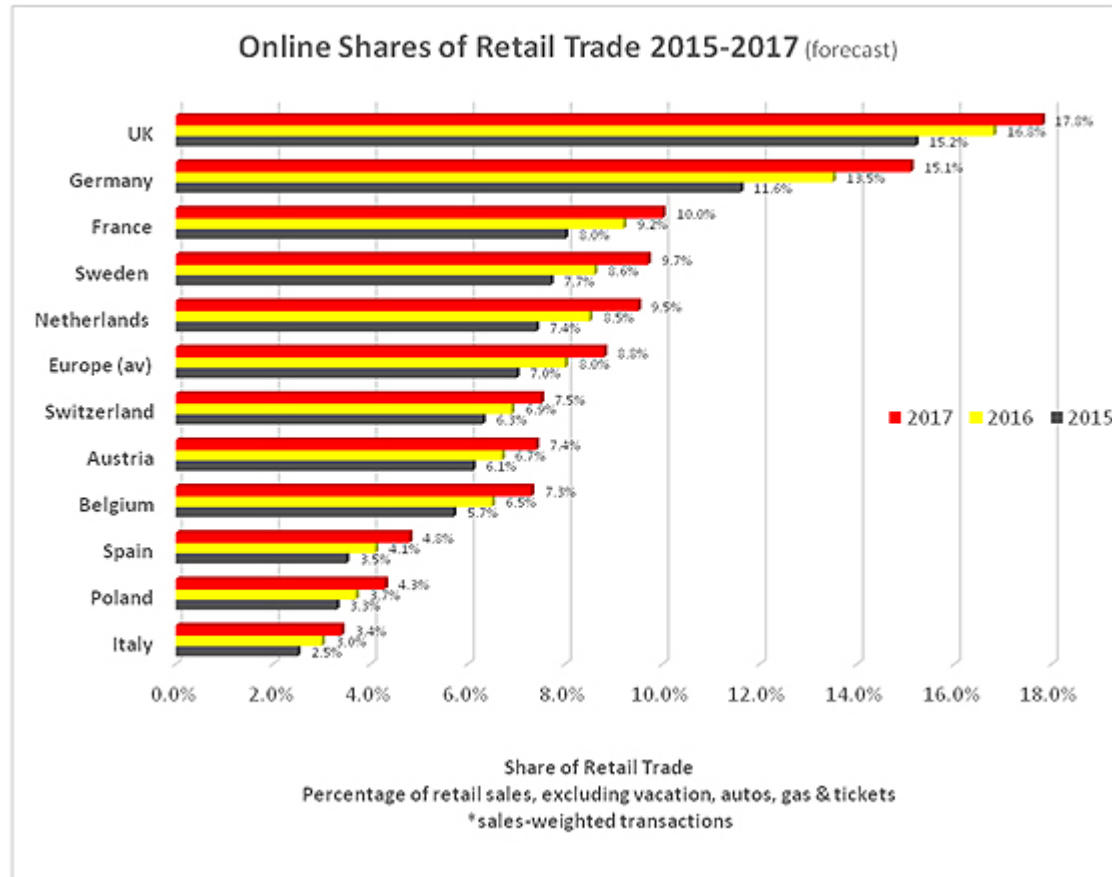




# Bricks...



Figure 2



# Winning retailers: some similarities.

## **1. They Know Their “Why”**

Understanding your mission & you have a vision for why your retail business does what it does

## **2. They Care About Customers (and Show It)**

## **3. They Create Systems and Processes**

## **4. They Stand by Their Products**

## **5. They Hire Selectively**

## **6. They Adapt to New Ways of Increasing Sales**

## **7. They Rethink Good Habits**



# New competition

1. Technology companies
  2. Online players become omni-channel (opening brick-and-mortar stores)
  3. Fight for the 'share of wallet' : healthcare, education, food, housing, (digital) services
- 
- Now three of the top-five largest retailers in the world are internet retailers.
  - JD.com entered the top five in 2017: the third e-commerce player in the top five joining Amazon and Alibaba.
  - Mobile internet retailing expected to reach 50 % of total e-commerce sales in 2019.
  - Next wave of technology to create new ways for consumers to shop.



# 2018 RETAIL TECHNOLOGY TRENDS

In 2018, technology will reshape retail faster than ever, impacting manufacturers, retailers and shoppers.

## 01 BLOCK- CHAIN BLOWS UP

The basis for Bitcoin, blockchain's distributed ledger technology will soon help track products throughout the supply chain, tracing food origin and providing greater product transparency.



## 02 BIO- METRICS GOES BIG

Apple's new Face ID is the latest in an ongoing trend toward biometric-based security. For retailers, biometrics could mean faster checkout, more accurate shipping and better-fitting apparel.



## 03 MORE RETAIL MERGERS

Recently, Albertsons acquired Safeway, Walmart purchased Jet and Amazon bought Whole Foods. Consolidation will continue with ethnic and specialty markets.



## 04 MACHINE LEARNING GETS SMARTER

Neural networks and other forms of machine learning will be more prevalent, predicting what, when and where consumers will buy. Walmart already uses machine learning to enhance the shopping experience.




## 05 SELF- CHECK OUT IN FLUX

Self-checkout terminal orders increased in 2016, but buzz continues around instant checkout like Sam's Club's Scan & Go or Amazon Go. Shoppers will soon scan, and pay with an app, bypassing the kiosks.









**A retailers future is not to be predicted,  
... but to be Created.**



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