



Reclaiming The Profit Pool

How Retailers Are Fighting Back On Profit Pressure

January 2025



OC&C
Strategy consultants

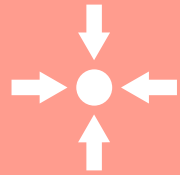
uncommon sense™



**While many
predicted
recovery, 2024
was tough for
many retailers**

- **Inflation stabilized**, from 10-year highs in 2023 ...
- ... **but this exposed underlying volume pressure** as the pace of disposable income recovery was more sluggish than expected
- **This was accentuated by consumer caution.** While confidence has improved uncertainty has kept the hand-break on retail spending
- **The everyday costs of operation inflated** faster than sales
- ... and ‘intervention’ from policymakers layered **new pressures** on retail economics

The Structural Dynamics



Structural pressure on volumes is here to stay with total retail volumes forecast to return to only get back to 2021 levels by 2028



Customers have found their channel balance, and all market growth is coming from multichannel journeys



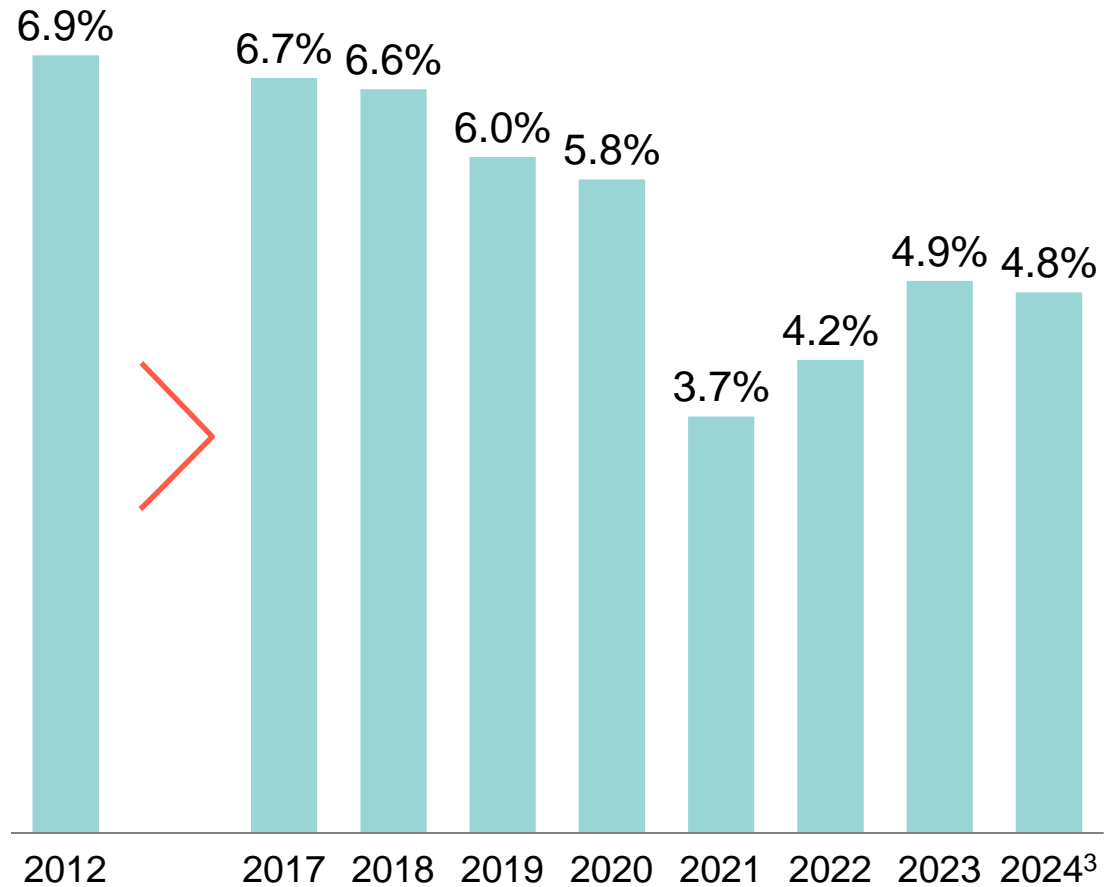
The capabilities required for retailers to survive and thrive are rapidly evolving, and for many retailers, not longstanding strengths

Through the mists, we see structural trends emerge that will shape the coming years

While there has been recovery since the 'darkest days' of COVID; retail models have structurally lost profitability

Operating Margins Of UK Retail

Based on 125 reported statements for retailers of £100m+ turnover



1. Weighted revenue growth across retailers by sector; Criteria: (1) >£100m revenue in FY22; (2) entities incorporated in the UK; (3) public companies or private companies with financial data available

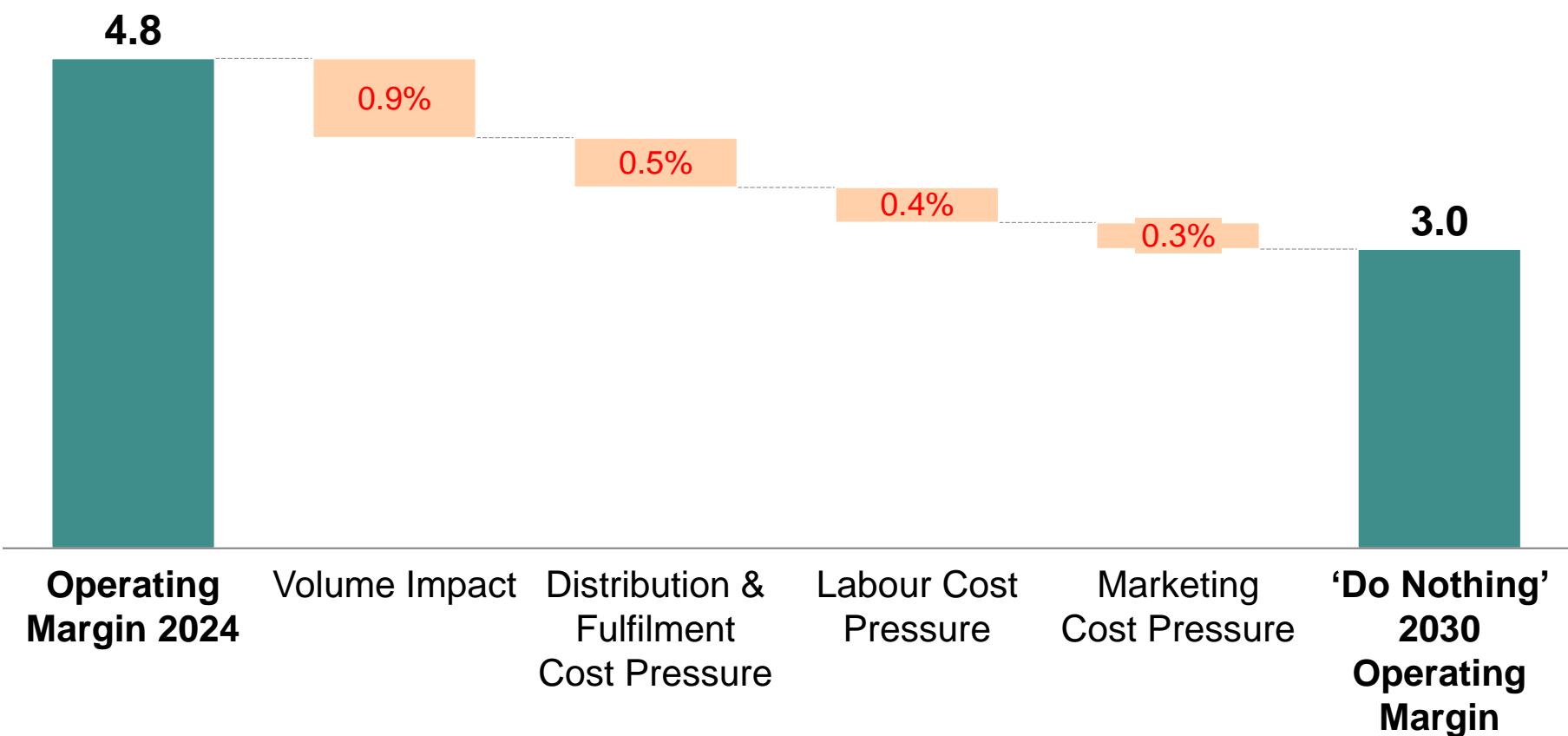
2. CapitalIQ primary industry classifications used

3. Based on 68 reported statements for retailers of £100m+ turnover

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The ‘cost of inaction’ is unpalatable; absent intervention the retail profit pool shrinks by 40% by 2030

Illustrative Evolution of Apparel Operating Margin (%), 2023-28



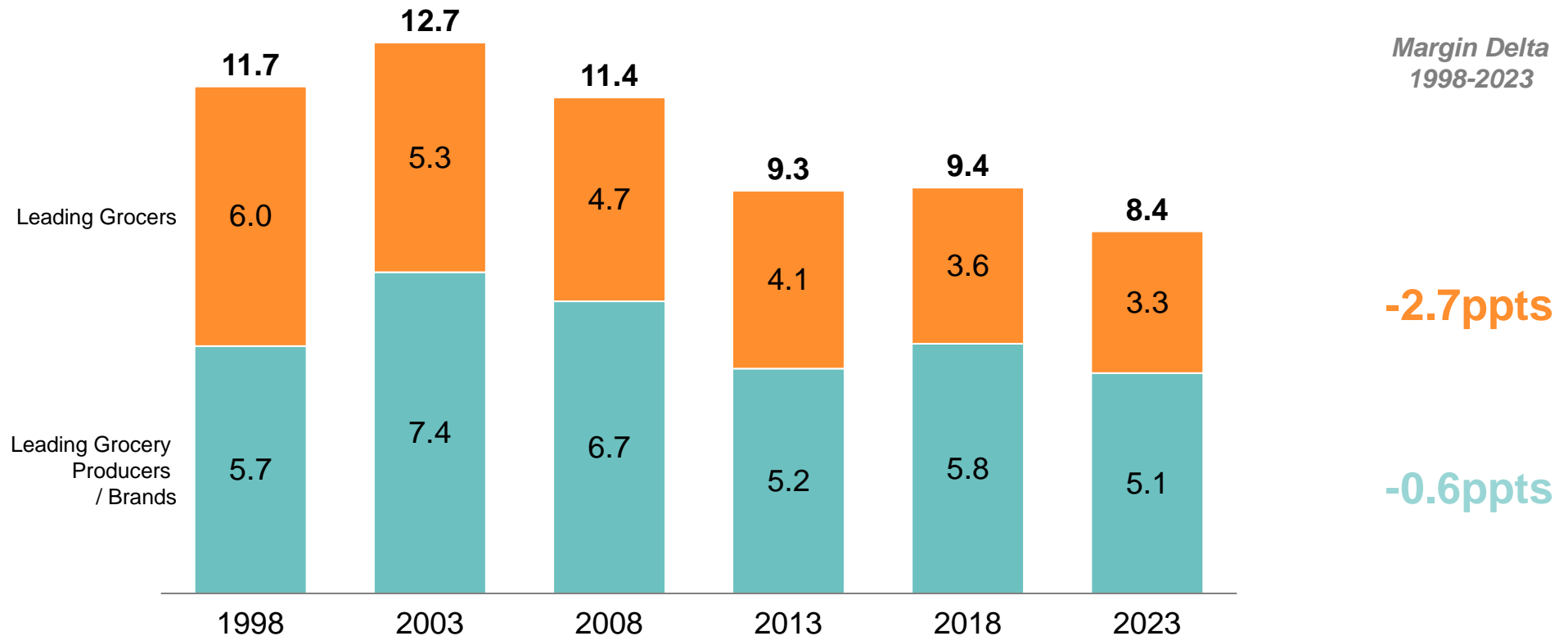
Source: CapIQ, Desk Research, OC&C analysis

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In many retail sectors, we've seen most acute value chain pressure felt by retailers

Grocery Brands¹ vs Top Traditional Grocers² Operating Margins, 1998-2023
% Retail Sales Value In Operating Profit



1. Profit margin calculations were changed in 2006 to include reorganisation costs and accounting regulation changes, prior years have been rebased using 2004-06 changes as basis; Profit margin calculations prior to 2008 adjusted to remove effect of Cadbury Schweppes demerger; Since 2005 ABF has reported results segmentally – results post 2004 exclude Primark operating margin

2. Tesco UK, ASDA, Sainsbury's, Morrisons / Safeway. For Tesco UK 1997-2007 is operating margin, rest of the data is for trading margin. Asda 2019 results are unreleased and so not included in 2019 figure





Source: OC&C Grocer 150 & Analysis

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This unfairly reflects the value retailers present to both shoppers & brands

Retailers still offer something unique to brands, playing a critical role in their success

	Scale	Provide access to broad market via established networks & customer base
	Convenience	Greater ease in logistics of distribution
	Experience	Depth of consumer knowledge and market expertise
	Consumer Insights	Unprecedented insight into consumer behaviour with new digital tools

Brands rely on retailers; D2C strategies complement rather than replace them



After a period of focus on D2C, Nike has begun rebuilding wholesale ties with retailers since 2023

*“Our strategic **wholesale partners are vital**; consumers want to try the products – we’ve invested in strengthening those relationships*
CEO, Nike¹

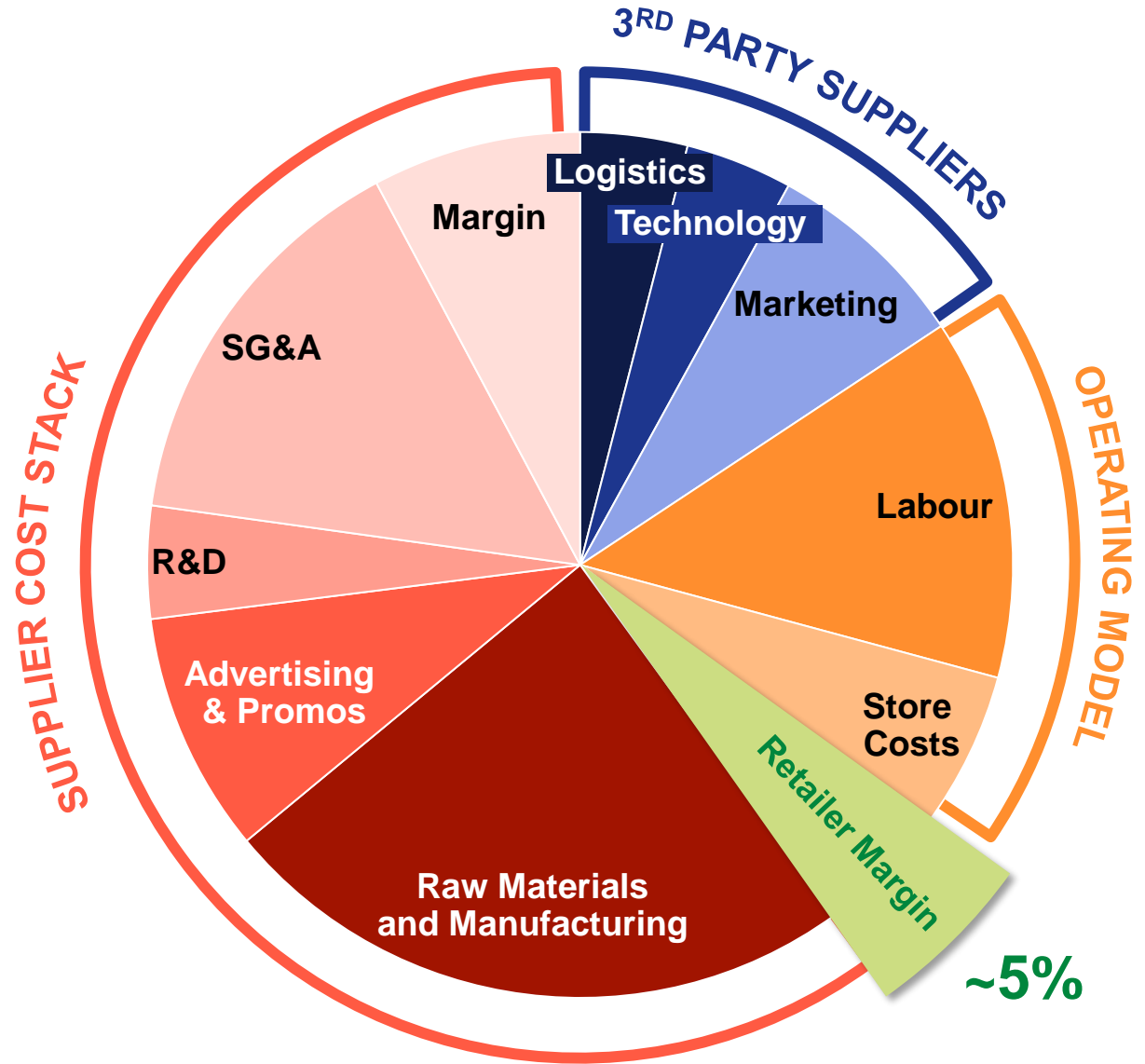


Glossier moved from an exclusively D2C model towards an omnichannel approach, integrating traditional retail avenues

*“Our Sephora partnership and first UK wholesale retail relationship is the **perfect progression for us**, helping us reach a **wider consumer base**”*
CEO, Glossier

This sets the industry a quest to reclaim profitability and a number of places where value can be recaptured

Typical Retailer P&L Breakdown



We've started seeing retailers develop strategies to unlock new profit sources around 4 broad themes



**Rethink
Commercials of
Brand
Partnerships**



**Automate and
Streamline**



**Broaden
reach in the
value chain**



**Monetise
data smarter**

Rethinking Commercials of Brand Partnerships



Raw Materials and Sourcing

Better understanding of category economics helps unlock margin



Explore Joint-Buying with synergistic players e.g. Grocery and QSR



Understanding and Harnessing Seasonality

Manufacturing

Closer relationships can unlock efficiencies in manufacturing



E-commerce Optimised Formats minimising delivery/handling costs



Integrated Long-term Demand Planning and volume management

Research and Development

Retailers hold the key to a significant amount of customer and trend data



Product Testing and Accreditation utilising customer access and trust



Exclusives, Co-branding or Co-developed new products and ranges

Advertising & Brand Support

Retailers have increasingly moved into Advertising Agency space utilising access to 1st party customer data and synergies in market trend analysis



> Roundel™
Media designed by





You could imagine a world where retailers totally rethink their commercial role, for example being paid by their brands instead of consumers

Case Study – Showfields “Immersive Retail Experience”

- **Multi-brand retailer** combining popup shops with exhibitions, shows & events
- Business model requires **brands to pay a monthly membership fee** for dedicated in-store space
 - Ranging from **\$3-60k per month**, with increasing footprint & customisation options
 - **100% of sales** went to brands
- Consumers purchase a **free entry ticket** to the House of Showfields Exhibit, with option to buy products at the end of the experience

10k Monthly Tickets

700+ Brands



** Showfields may have been ahead of its time. Filing for Bankruptcy in 2023, largely driven by high pre-covid rental costs*



In marketing, there has been a recent trend of retailers establishing full-service advertising agencies



Roundel Media (by Target)

- Target's in-house retail media network **launched in 2016**
- Offers insights and creation of co-marketed campaigns (eg in-store experiences, online ads, influencer collaborations)
- **Works with >2000 vendors** to deliver advertising unique to Target
- **Fastest growing area** of the broader Target enterprise, **growing by >60% over the last 2 years**
- Delivered \$1bn value for the past 3 years, **and on track to deliver \$2bn alone this year (c.2% of total Target revenue)**



Boots Media Group (by Boots UK)

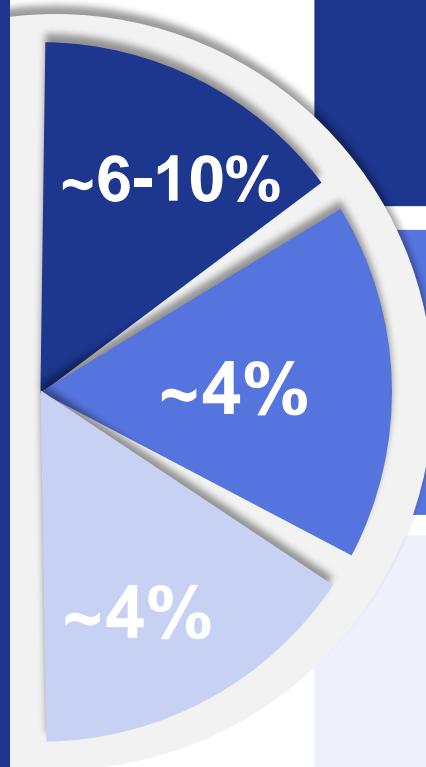
- **Launched in end 2021** as a partnership with Threefold Agency (part of the SMG brands)
- A **full-service advertising agency for Boots supplier brands**, with a focus on **building connected co-marketing campaigns** tailored to the Boots customer
- **Offers first party data on customers shopping habits and ROI reporting**
- **Example clients include Dyson**



Broaden reach in the value chain

Today up to ~15% of retailer margin is across marketing, logistics and tech, as space dominated by 3rd parties

Est P&L Spend.



Digital Marketing & Agency

Global ad spend grew at 7% in 2024, however individual retailers are feeling the squeeze on marketing budgets as customer acquisition costs soar and returns on investment flatten

Topics to Investigate

- Loyalty and CLTV
- Marketing Funnel Balance (brand vs paid)
- Website metrics/ quality e.g. Conversion, Bounce rate

Logistics and Supply Chain

Similar cost pressures exist in logistics and supply chain, with new models emerging, as the demand and channel patterns shift

- New distribution models e.g. Direct off container / Factory direct
- Monetisation of spare logistics capacity

Technology Providers

Over the last few years industry disruption has happened more significantly away from the frontline as technology and innovation have reshaped commercial and operating models.

- Consolidation of technology suppliers and de-duplication
- White labelling of in-house solutions e.g. CRM



Broaden reach in the value chain



Walmart Launches Fulfilment Services Division Sept. 2024



- **Distribution services for U.S marketplace 3P sellers** for orders placed on **any e-commerce site**
- **Cross-border fulfilment services** for merchants from ports of origin Asia



Sephora Beauty Insider Loyalty Program



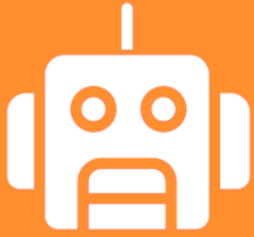
80% of Transactions via Loyalty Program



34m Active Members

- **Tier-based 'gold-standard' loyalty programme**, offering discounts and exclusive events to members
- **Spend-based personalised rewards** successfully attract a **dedicated consumer base**

Automate and Streamline

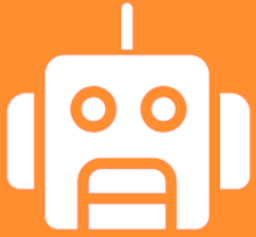


While not a new concept – automation and streamlining is likely one of the fastest and most effective ways to grow retailer margin – the question is where to focus first?

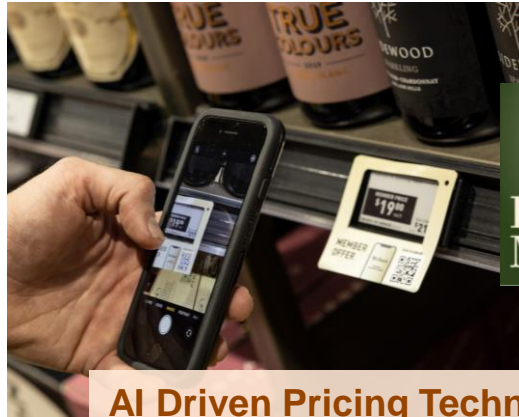
Potential Impact of Automation Across Retail Operations



Automate and Streamline



There are good examples of consumer facing businesses delivering material returns from implementation of automation and indeed AI across topics



AI Driven Pricing Technology to monitor competitor pricing in real-time, ensuring competitive edge. This is supported by Electronic Shelf Labels for instant price updates

+30%

Sales
Conversion

\$0.5m

Printing costs
saved

12 Hours

Per Week per
store



Automated Labour scheduling in the “My Schedule” MCD Platform, aligns capacity with peak hours and limits, and optimise assignments based on employee availability, skills, and labour laws

4 Hours

Per Week
reduction in
manager time

12%

Increase in hourly
sales projection
efficiency

~1%

increase in store
profitability



Monetise Data Smarter

We're seeing a broad swathe of ways that retailers are building capabilities to monetise their data

Retailer Data Monetization

Potential Methods of Data Monetization



Market Trends
Insights &
Reports



Consumer
Behaviour Data
Packages



Competitive
Benchmarking
Analysis



Predictive
Analytics
Dashboards

Several major retailers have already started strategically monetizing their data...

Walmart Data Ventures

Subscription based **data-driven insights platforms**, providing suppliers with consumer behaviour and channel performance analytics

zalando**PARTNER**

Tailored **consultancy** and **performance dashboards** using consumer purchase and feedback data to support marketing or product strategies

Tesco Media and Insight Platform.

Beyond Retail Media, Tesco offers **store level planogram data** and **customer insights solutions**, supporting brands in making data-led decisions

currys **connected media**

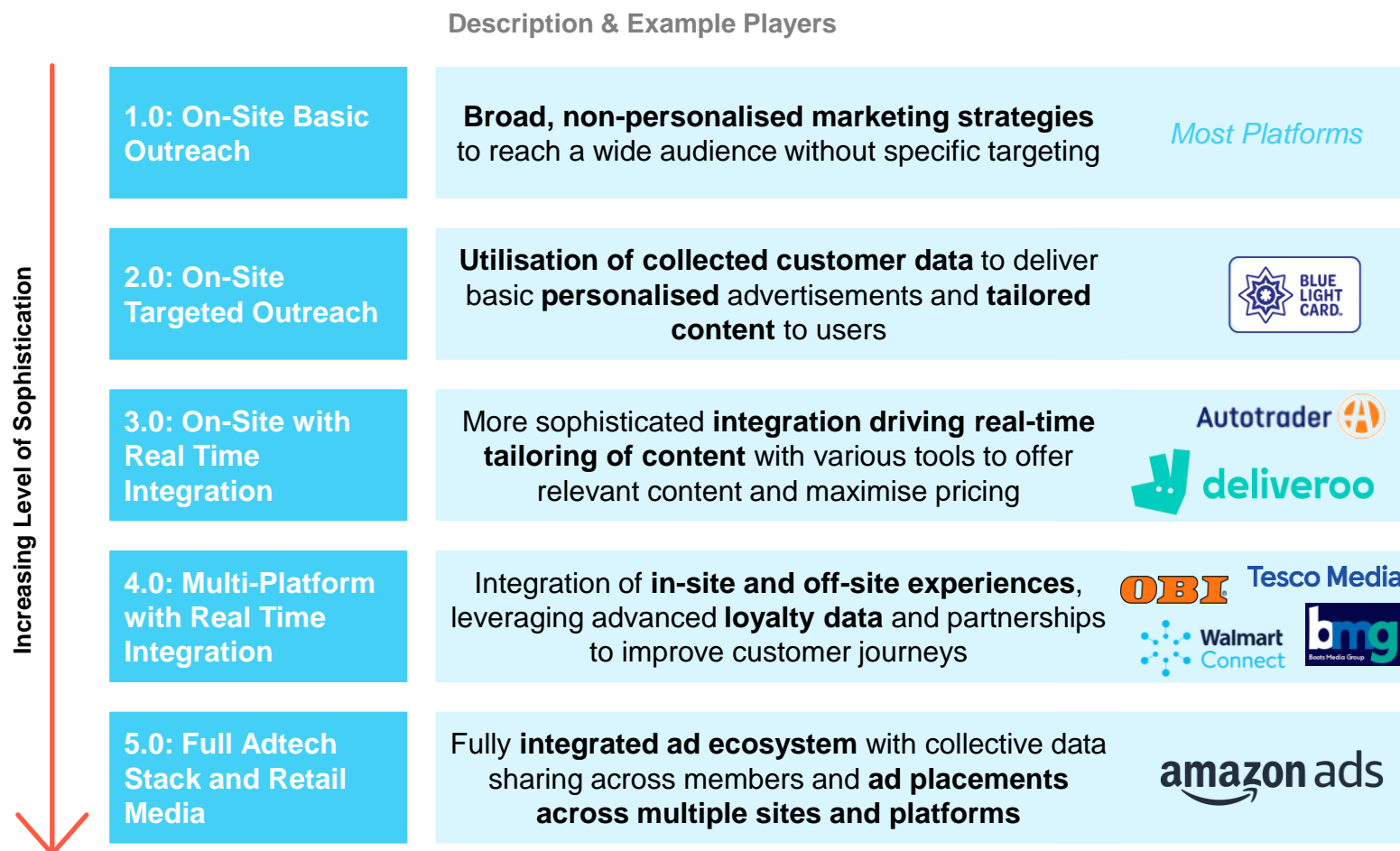
Tech Insights team provides **actionable insights** for partners, who can access **consultancy services** for topics including pricing and customer habits



Monetise Data Smarter

As it stands, this is most intense around supporting customer reach

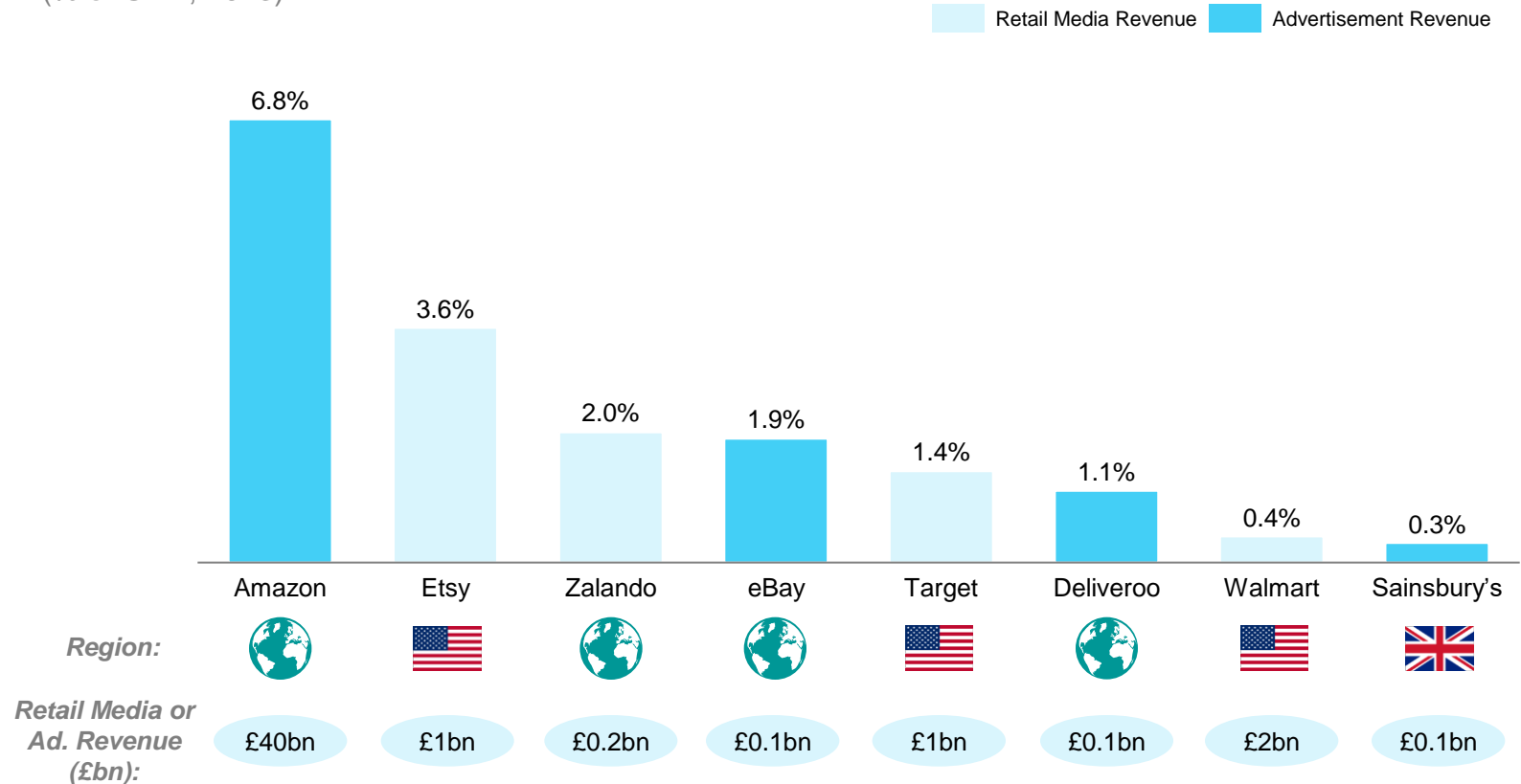
Retail Media, Levels of Sophistication





We've seen evidence of mainstream retail models capturing 1-2% of GMV in retail media revenue

Retail Media Revenue (or Total Advertisement Revenue) by Company
(% of GMV, 2023)



Retail media **share of GMV increases** as a function of **platform sophistication / retail media capabilities** – as well as **dependency of brands on the platform**

The Path to Reclaiming Value

1

Rethink Commercials of Brand Partnerships

Unlock the “win, win” benefits from working more closely and strategically with suppliers. This is best done from a firm grounding in the category economics



2

Broaden reach in the value chain

More recently industry disruption has moved from frontline, to technology and innovation. This has opened the door to a host of new profit pools, where retailers should gain their fair share



3

Automate and Streamline

There remains significant opportunity in automation and streamlining of processes, the question is where to start, and where will have the most impact with limited business disruptions

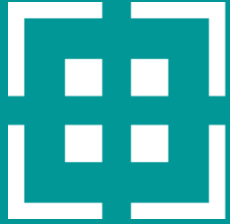


4

Monetise data smarter

Retailers sit on a treasure trove of data and customer access, monetising and packaging this up sensibly in an increasing competitive landscape will be the key to success





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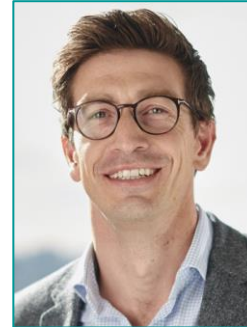
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