

M&A East Roundtable
The Changing Retail Industry and the Impact of Amazon
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In today's evolving and competitive retail environment, retailers and financial investors need to change with the market. ACG Philadelphia's M&A East roundtable session, "The Changing Retail Industry and the Impact of Amazon" discussed the dramatic changes impacting the retail market due to online retailers like Amazon and how retailers are responding.

FEATURED SPEAKERS:

- **Michael Kollender**, Managing Director and Head of Consumer & Retail, Stifel (Moderator)
- **Matt Katz**, Managing Partners, SSA & Company
- **Rick Perkal**, CEO, Firelight Capital
- **Colin Watts**, Former CEO, Vitamin Shoppe

Is the traditional bricks and mortar retail store dead?

Today's traditional brick and mortar retailers are facing extensive change and like many other industries are seeing market share taken by online outlets. According to **Colin Watts**, while the traditional retailers are under a lot of duress now, physical retail outlets are necessary for consumers to see and feel the products in certain sectors of the market. To survive, a retailer must become more specialized and showcase products that cannot be found elsewhere.

In this competitive and changing environment, **Rick Perkal** sees online retailers like Amazon and Chewy bringing the convenience needed by consumers to meet everyone's busy schedules. To overcome this roadblock, local community retailers like pet stores need to develop their own brand and offer services beyond pet products. However, one mitigant in the pet food space is that it is hard to make money selling bags of 40 pound dog food. According to **Matt Katz**, access to the hot brands early on is essential for the larger retailers, especially in women's apparel, to succeed.

The traditional shopping mall as we have known it is no longer with exception to the "A" malls. Shopping venues are morphing into entertainment destinations with additional experience factors like movie theatres and indoor ski slopes with the goal to draw in the consumer. Stores within are taking diverse forms with flagship stores to showcase the retail brand and product and popups are becoming prevalent for the versatility and flexibility.

Importance of data in today's retail market

Like many other industries, the future is data. Who are my customers today and who are my future customers? According to **Colin Watts**, there is a premium on understanding today's shopper and tailoring an experience at flagship stores and other creative outlets. Do they want to touch and see the product? Or do they want a tool to envision their look with the product like Eyebox's online tool to display glasses on a consumer's image? **Matt Katz** believes the keys to a successful retailer is having the speed and agility to change with the consumer as it is nearly impossible to guess what will be successful in the future, whether in the next few years or 30 years into the future.

Brick and mortar retailers have been gathering data in the form of store credit card applications but today there is a lot of more access to consumer data with Google and Facebook. Per **Rick Perkal**, Amazon has been the "easy way out" for brands to get their products in the hands of the consumer; however selling through Amazon limits a brand's access to the consumer data. This data is important, so a retailer needs to develop a strategy to obtain and execute on that data: identify repeat business and personalize marketing efforts to that consumer to increase sales. Many brands are utilizing a subscription model to lock in a customer with discounts to create continuity and potentially increase their overall spending.

Evolution of the board room for the retailer of today

Boards need to shift from the past almost as much as the industry has. According to **Rick Perkal**, the "old guard" may not be staying current with the fast-changing digital market; hence consider building your board with different disciplines bringing in leaders with marketing, digital, and merchant capabilities. **Matt Katz** sees a strong correlation between the board construct to the success of the retailer with a share of those seats being younger and female representatives. Alignment across the board is key and more of a premium is put on the CEO and Chairman to ensure common alignment across the board members.

Brand recognition drives revenue

To ensure the consumer builds loyalty at a retailer, it is crucial that retailers focus on building their brand overall as well as integrate a broader offering of exclusive products or services. Amazon and other online retailers usually focus on price and convenience as their primary value proposition, however, today's consumer still is eager to discover new products and services that meet their personalized needs and deliver true innovation. A great example of this type of innovation at the Vitamin Shoppe, per **Colin Watts**, is the addition of Kombucha-on-tap services in their stores. This unique offering was a dramatic departure as it was a "fresh fill" with opportunities for sampling every day. Since introduction, the stores featuring Kombucha-on-tap saw a dramatic increase in shopper frequency versus the previous average customer visits of four per year.

Investing in today's retail market

There is value in the retail industry but investor's need to recognize the pitfalls and opportunities. **Matt Katz** recommends evaluating the demographics in the sector, growth levers, what margin opportunities exist against the costs to build the business and legacy costs to address. Inventory and people are the leading cost pitfalls. **Rick Perkal** looks at the strength of the brand and how to exploit through its potential in product diversification, and geographic expansion. Spend a bit of diligence to understand the importance of that brand to the consumer and unearthing the data on what customers are spending on in what category.

What you need to know

Recognize the retail industry is not the same as the era of the big shopping malls and dive deeper into the brands and the ever-changing consumer demands. Brands will drive traffic to stores and having an online strategy will help the brand identify its customer and deliver products to that consumer. Retailers need to get versatile and create to succeed.