



# CUSTOMER ACQUISITION AND CONNECTION

## in the Evolving Retail Environment

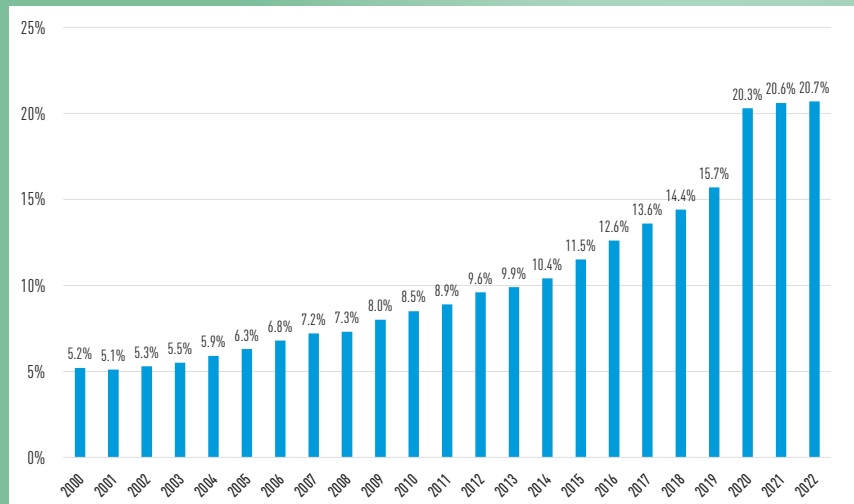
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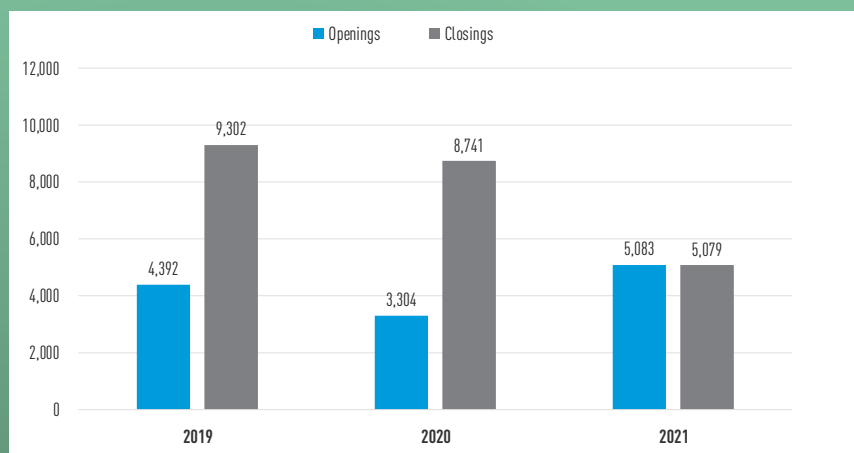


Figure 1: E-Commerce Retail as % of Total Retail



Source: U.S. Census Bureau

Figure 2: Retail Store Openings and Closings



Jamie Grill-Goodman, "Store Closings: 2019 Retail Total Tops 9,300", RIS News, January 6, 2020  
 Phil Wahba, "A record 12,200 U.S. stores closed in 2020 as e-commerce, pandemic changed retail forever", Fortune, Jan 7, 2021  
 Leticia Miranda, "2021 was a turning point for retailers, with store openings outpacing store closures", NBC News, December 29, 2021

According to the U.S. Census Bureau, e-commerce sales (internet shopping and mail order) made up roughly 5.4% of retail sales in October 2000, excluding autos and gas stations.<sup>1</sup> That figure has risen steadily and is now close to 21% (Figure 1). Since the dot-com bubble burst in 2000 and retailers hurried to get ready for Y2K, the retail industry has gone through major instability and change.

The dynamic and evolving retail environment continues to present retailers with challenging and potentially profitable e-commerce opportunities. In 2023, retailers' omnichannel

strategies must focus on efforts to acquire and connect with consumers who increasingly view shopping as a blended experience of online and in-store activity. Retailers must look for ways to connect and measure success as customers transition from brick-and-mortar stores to an all-embracing omnichannel experience.

**Stores Reemerge as Strategic**

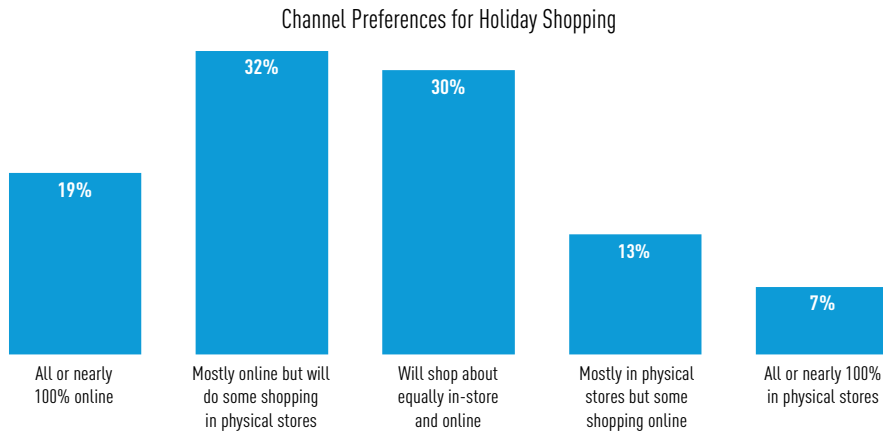
An extended "retail apocalypse" appears to have bottomed out in 2020. Net store closures in 2019 exceeded 4,900,<sup>1</sup> and more than 5,400 net store closings occurred in 2020,<sup>2</sup> as COVID wreaked havoc on retail sales (Figure 2).

In the aftermath of COVID, store traffic rebounded, and stores reemerged as important strategic assets that retailers must actively manage. With the easing of social distancing measures and other COVID precautions in 2021, retailers announced 5,083 store openings compared to 5,079 store closures.<sup>3</sup>

The fluctuation of store closures over the last few years—and the business landscape moving forward—illustrates the strategic importance of active portfolio management and a strategic

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Figure 3: When you shop for holiday gifts this year, will you shop...



Ankura 2022 Consumer Holiday Survey, U.S. sample of 1,042 respondents aged eighteen and above (October 3, 2022)

Retail is witnessing a continued shift to more online shopping, driven by younger generations of consumers.



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plan for integration of online and store-based shopping.

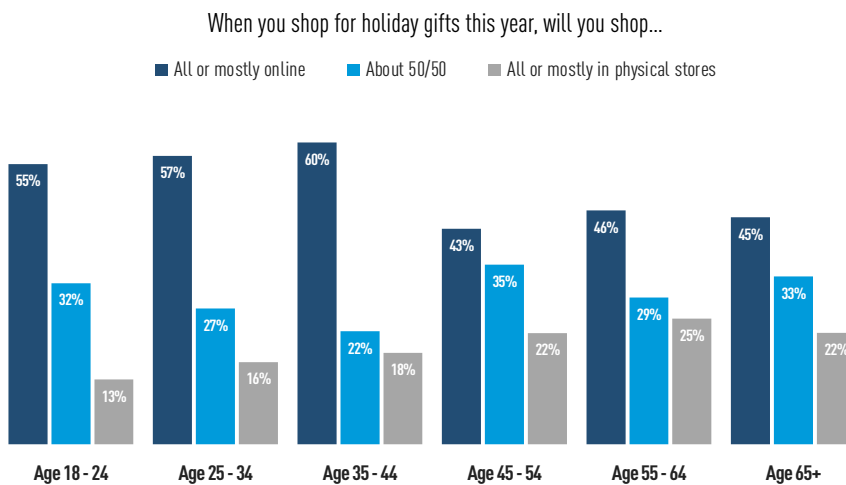
Looking forward, UBS projects that 40,000 to 50,000 retail stores will close in the U.S. over the next five years.<sup>4</sup> That amounts to 4.5% to 5.7% of the 880,000 retail stores tracked by UBS, which sees closures concentrated among clothing, consumer electronics, and home furnishings retailers.

Further, UBS predicts shopping malls will be at higher risk than strip centers, as consumers continue to “favor quick trips to stores closer to where they live and the convenience that large malls simply cannot deliver.”<sup>5</sup>

To be clear, physical stores will not disappear, but their strategic role will transform as shoppers continue to evolve and sort out personal preferences on blending the online and in-store shopping experience. Shoppers’ stated preference in a recent survey to shop both online and in-store for the 2022 holiday season is a case in point.<sup>6</sup>

While online shopping was the preferred option, physical stores were very much part of the shopper consideration set (Figure 3). Approximately 75% of survey respondents indicated that they would shop both in-store and online for holiday gifts—30% planned to shop equally online and in-store, 20% indicated they would shop mostly or all in-store, and 50% planned to do most or all of their holiday shopping online.

Figure 4: Channel Preferences for Holiday Shopping



Ankura 2022 Consumer Holiday Survey, U.S. sample of 1,042 respondents aged 18 and above (October 3, 2022)

Retail is witnessing a continued shift to more online shopping, driven by younger generations of consumers. Breaking down shopping channel preferences across age groups, it is apparent that younger shoppers are more apt to browse and purchase online (Figure 4). That said, all shoppers prefer the online option, but none would exclude shopping in physical stores altogether.

Store closures and store traffic have been volatile over the last three to four years. COVID was a milestone event that hopefully remains in the rearview mirror, but as reduced store counts and shopper traffic settle into post-COVID patterns, it is apparent that retailers must understand how stores fit in the omnichannel model. Baby boomers are aging, and

retailers will need to adjust to the demands of millennials and Gen Z.

According to RetailNext,<sup>7</sup> in late 2021, in-store traffic jumped as shoppers returned post-COVID (**Figure 5**). However, recent monthly shopper traffic has decreased, due in part to current U.S. economic conditions, but certainly driven as well by shopping preferences of younger consumers.

The online growth trend will continue into 2023 and beyond and with it, continued changes in store traffic patterns. As today's young shoppers age, their preferences will continue to drive change in retail, and younger generations behind them will further strengthen and change the face of retail. So, while stores will not disappear, their strategic role will transform. Retailers need to get ahead of that wave now.

### Turmoil in the Digital Space

As part of the overall assessment of physical stores' strategic value, turmoil and competition in the digital space will be key factors. The heightened privacy protection associated with Apple's iOS 14 requires users to opt in to tracking. With the global iOS opt-in consent rate only at 26% as of May 2022,<sup>8</sup> the lack of tracking ability and increased competition for digital ads exacerbated by the pandemic have put significant pressure on the effectiveness and efficiency of digital advertising (**Figure 6**).

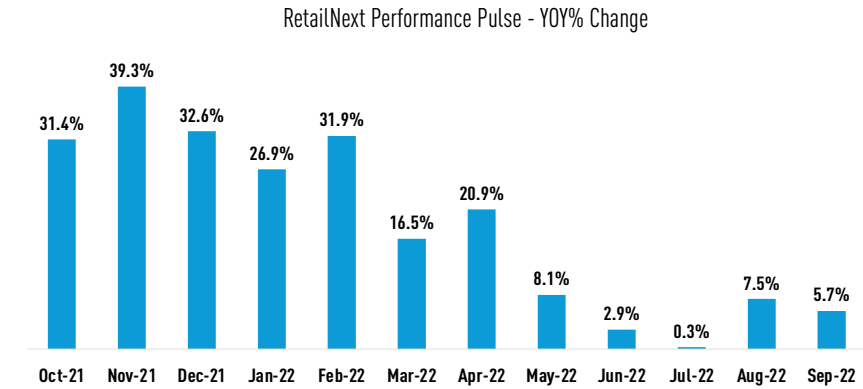
In fact, based on a December 2021/January 2022 survey of digital marketers at top retailers, a majority (57%) of the 118 retailers surveyed said that rising customer acquisition costs are a threat to their 2022 sales goals.<sup>9</sup>

Apple's iOS 16 release added another layer of complexity (and cost) to the customer acquisition efforts of retailers. In iOS 16, it is much easier to report junk SMS and prevent spammers from reaching a user's inbox. Opt-out rates on SMS are expected to rise even further.<sup>10</sup>

### Maximizing Store Value

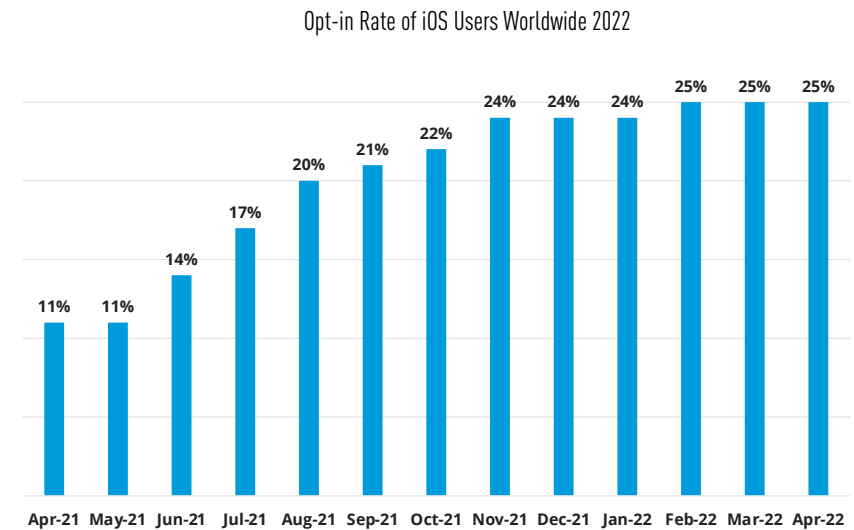
Pre-2000, optimizing the store portfolio was relatively straightforward. Executives and consultants tasked with optimizing the store portfolio looked at standard financial metrics, such as four-wall profitability, lease costs, potential rent cost reductions, occupancy costs, and sales trends. Stores were viewed as single entities with little analysis done at a market level view.

**Figure 5: Monthly Shopper Traffic**



Retail Performance Pulse: September 2021 Store Results, page 2

**Figure 6: App Tracking Transparency**



Note(s): Worldwide; April 2021 to April 2022; 5.3 million mobile active users using iOS 14.5  
Source(s): Statista.com, Flurry

With the rapid growth of e-commerce, the portfolio optimization process has changed drastically. It is no longer about optimizing just physical stores—the effort must be undertaken with a full view of the omnichannel strategies of the retailer and how each store contributes. A full and effective portfolio assessment requires analysis of key performance drivers in-store and online, sophisticated store clustering that incorporates market level analysis and demographics, merchandising analysis, marketing strategies, and supply chain and logistics levers.

The following efforts are “table stakes” in driving successful blending of bricks and mortar and e-commerce.

### Optimizing Retail Store Footprint.

Retailers must clearly define a long-term strategy and vision for their

stores, supported by a defined set of key performance metrics to support the plan. In the new retail reality, KPIs for stores may include new customer acquisition, customer retention loyalty penetration, email capture, number of BOPIS (buy online, pick up in store) orders, and e-commerce shipment volume at store level.

It is vital to regularly assess and find ways to leverage the strategic value of the existing store base. For example, a store with low rent and low productivity could become a strategic asset if it can operate as a local distribution center (DC) to lower costs or improve speed of service to a geographic area set apart from the traditional DC network.

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When winding down unproductive stores, the focus should not just be on inventory ROI but also on building tools to transition and retain customers in a digital relationship and/or connecting them with another nearby store location. For example, e-mail capture should be a standard KPI for stores, but the targets and cost a retailer is willing to invest may be higher in a closing store.

**Building Omni Customer Strategies and Tools.**

Historically, retailers have planned and evaluated success at the store level. As a result, many retailers cannot accurately measure the KPIs noted earlier. The first step in the journey of transitioning customers from stores to an omni relationship may be building such capabilities. Options include:

• **Loyalty Program Development.**

A loyalty program can be key to tracking customer activity and identifying new, retained, and reactivated customers. Along with social media, loyalty programs connect shoppers to a store and can be influential in driving customer purchase decisions (Figure 7).

In the 2022 holiday survey noted earlier, 70% of respondents said such programs would exert at least some influence on where they purchased for the holiday. In the absence of a loyalty program, retailers may be able to establish unique customer IDs and perform credit card appends to build the intelligence internally.

• **Customer Activity Tracking.**

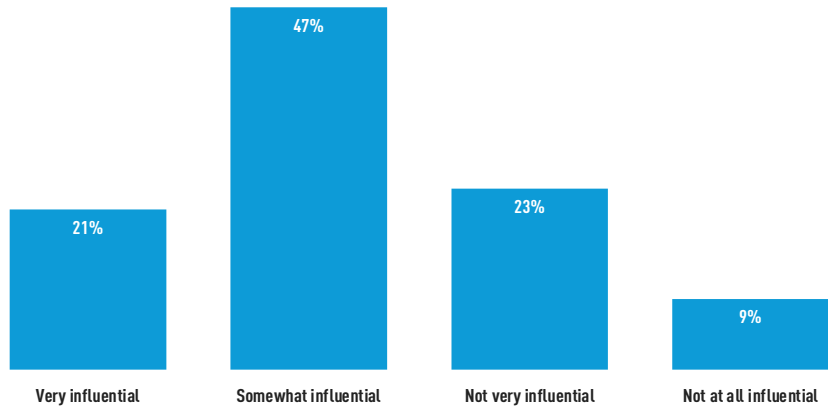
Customer tracking can be enabled by systems such as customer data platforms (CDPs) that facilitate the tracking of activity across store and online behavior to provide a full picture of customer interaction, even if the individual is not participating in a loyalty program.

• **Using Omni KPIs to Measure Success.**

Aligning KPIs is critical in establishing targets and key tracking metrics for stores and digital—physical stores and e-commerce teams must operate against shared customer targets and measurements. Examples include email capture, loyalty penetration, and customer match rate.

Figure 7: Loyalty Program Influence on Purchase Decisions

How influential are shopper loyalty / rewards programs to you when deciding where to purchase holiday gift items?



Ankura 2022 Consumer Holiday Survey, U.S. sample of 1,042 respondents aged eighteen and above (October 3, 2022)

• **Customer Transference Measures.**

Realistic expectations should be set for the transference from retail to properly quantify the impact of keeping a store open or closing it. Retailers need to understand how much of the volume they can anticipate retaining after a store closes. This will depend on the magnitude of the store closures, the existing omnichannel penetration, and frequency of purchase.

A prime example of the value of transference of an existing customer base is Dressbarn, which closed its last stores in December 2019. Before then, Dressbarn volume had been driven in brick-and-mortar stores, with internet sales accounting for less than 20% of total revenues. Later, the brand relaunched online, and sales took off, climbing to 80% of the sales revenue achieved by the chain prior to closing its physical stores.<sup>11</sup>

**Embracing Technology.** The value of physical stores must extend beyond the sales generated by foot traffic in-store. Stores and their associates must be partners in driving a positive and profitable omnichannel experience. Doing so requires the right technologies and training to enable successful execution of key activities that drive omnichannel success. These include:

- BOPIS: Buy online, pick up in-store; curbside pickup
- Extended Aisle: Search in-store products online
- Loyalty Program: Loyalty points earned and redeemed across channels

- Easy Returns: Enable product returns across channels
- Shipping Options: Ship from store/ endless aisle
- Pricing: Consistent prices across all channels
- Payment Options: Provide for in-store mobile payments
- Clienteling Systems: Create tighter connections to customers and provide one-on-one interactions that used to occur only in physical stores
- Partnerships: e.g., return services

**Answering the Challenge**

In the post-COVID world, retailers face the challenge of evaluating the role of the stores in their specific environment and against a backdrop of volatile foot traffic and increasing pressure on digital alternatives for customer acquisition.

Retailers must recognize the importance of shopper/store associate interaction and build tools to measure and track it. Customers value the interaction and clearly indicate that it is a primary reason for choosing to shop in physical stores. Retailers must increase the value of store teams by understanding the interaction opportunities and how to maximize their value, simplifying and eliminating tasks to shift more labor to customer service.

Retailers and retail advisors must focus on building store productivity based on new definitions of store success. In the same way that the



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consumer packaged goods (CPG) industry approaches optimization of SKUs and product categories, retailers can build capabilities to assess store productivity and continuously optimize the store portfolio based on a new set of critical standards.

In other words, retailers and advisors must move beyond basic measures like sales per square foot or four-wall EBITDA to accurately assess the strategic role of the stores. They must quantify and track new customer acquisition and customer retention. They should measure the store's halo effect on e-commerce orders in the surrounding geography. They should also understand and take advantage of the impact stores play in local fulfillment by measuring the proximity to customer (speed), shipping savings, and workload diffusion away from DC.

Success in retail, particularly in driving successful omnichannel connections, continues to be a moving target, and since interactions are different, the measurements and tools need to evolve as well. Satisfying younger generations of shoppers is a significant

and growing determinant of retail success. Retail excellence in a digitally driven environment is the objective, and that happens when retailers unlock strategies that satisfy diverse groups of shoppers and meet their needs.

The link between online and in-store buying will get stronger (and perhaps more complex), and retailers that handle the organizational and technology requirements associated with that dynamic will succeed. If they don't, the predicted store closures might happen sooner than they would like. ■

<sup>1</sup> Jamie Grill-Goodman, "Store Closings: 2019 Retail Total Tops 9,300," RIS News, January 6, 2020.

<sup>2</sup> Phil Wahba, "A record 12,200 U.S. stores closed in 2020 as e-commerce, pandemic changed retail forever," Fortune, Jan 7, 2021.

<sup>3</sup> Leticia Miranda, "2021 was a turning point for retailers, with store openings outpacing store closures," NBC News, December 29, 2021.

<sup>4</sup> Lauren Thomas, "UBS expects 50,000 store closures in the U.S. over the next 5 years after pandemic pause," CNBC, April 13, 2022.

<sup>5</sup> *Ibid.*

<sup>6</sup> Ankura 2022 Consumer Holiday Survey, U.S. sample of 1,042 respondents aged 18 and above (October 3, 2022).

<sup>7</sup> Retail Performance Pulse: September 2021 Store Results, page 2.

<sup>8</sup> Statista.com Research Dept., September 16, 2022.

<sup>9</sup> Amelia Poling, "New CommX Research Report: 2022 Digital Trends and Investment Priorities," CommerceNext, March 21, 2022.

<sup>10</sup> Neal Goyal, "Tapping in: How iOS 16 will hurt your SMS marketing campaigns," tapcart, November 8, 2022.

<sup>11</sup> Walter Loeb, "Dressbarn Is Selling Well Online," Forbes, Sep 18, 2020. The article noted that Dressbarn provided "an example where a new management restarted a company without the aging infrastructure that hurt the old company. Important to note is the fact that there was brand loyalty already in place that has enabled the business to quickly regain acceptance. Their website screams value, which should attract many new customers as well."

