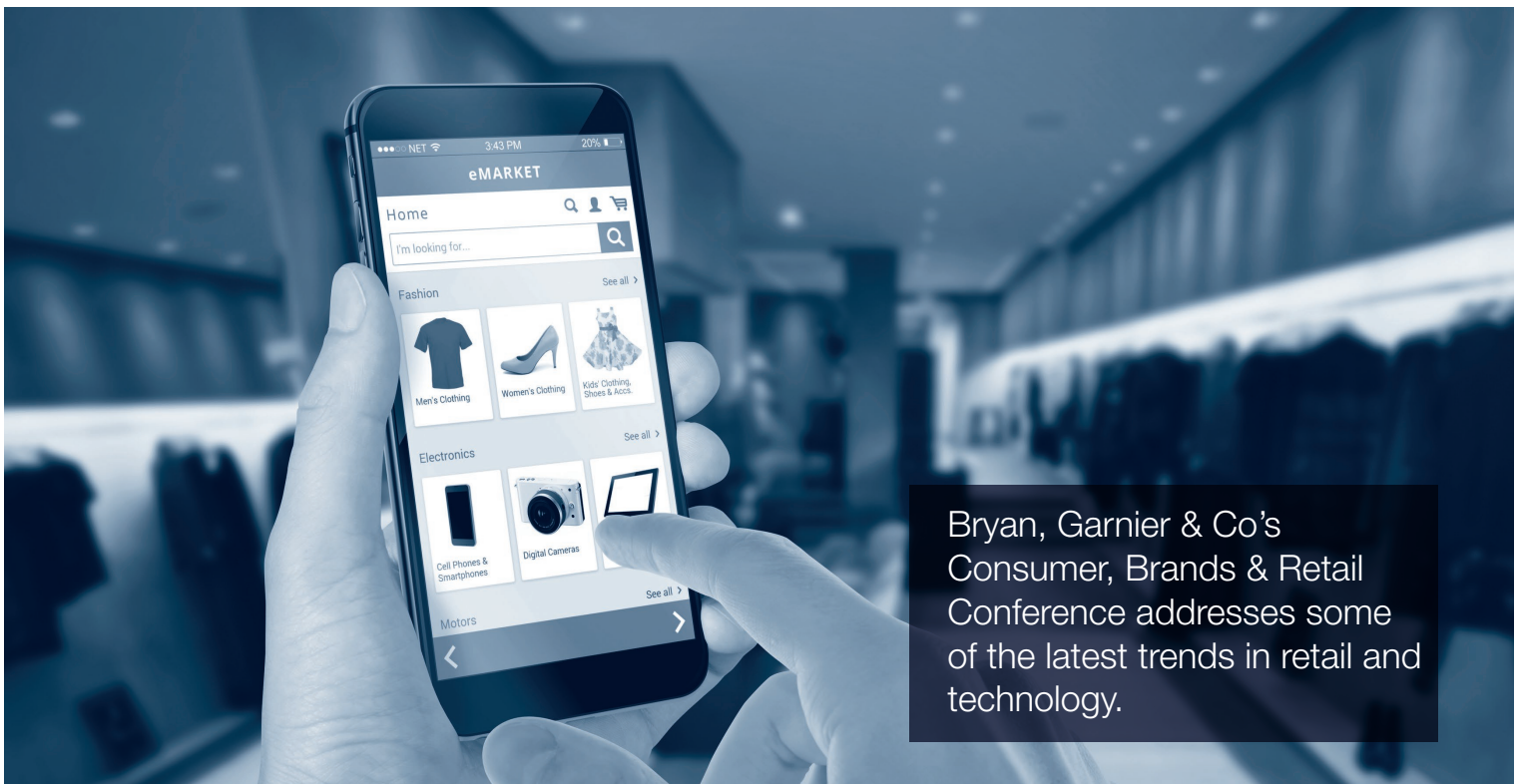




BRYAN, GARNIER & CO

2018 in Retail: Engaging with the Connected Consumer



Bryan, Garnier & Co's Consumer, Brands & Retail Conference addresses some of the latest trends in retail and technology.

At our fourth Consumer, Brands & Retail Conference on 24-25 September 2018, Bryan, Garnier & Co analysts were joined by many companies active in the sector. Three thematic roundtables covered some of the sector's most pressing issues: the future of the point of sale, millennials activation and the impact of artificial intelligence.

1. Point of Sale, Attendance, Rent and Customer Service

FOOTFALL IS FALLING

Store attendance is declining. One roundtable

participant cited a 5% drop over the last five years. Delegates confirmed this trend and that it was accelerating in 2018, in part due to the exceptionally hot weather during the summer and in September. Many see 2018 as a pivotal year for store visits.

INVESTING IN CONSUMER EXPERIENCE

To offset a decrease in traffic, retailers are working on improving consumer experience, which is an expensive process. Some of the consultants present – and representatives from Fnac Darty – also noted that “everyone is negotiating rents downwards”. Most commercial real estate owners have to review them to contain vacancies rates.



Forget the idea that physical stores will be killed off by ecommerce

HOWEVER, THE STORE IS DEFINITELY NOT DEAD!

Another consistent theme during our conference was discussion around the size and number of stores. First, forget the idea that physical stores will be killed off by ecommerce. Amazon Go has announced the opening of 3,000 stores by 2021: these outlets will extend the online offer, providing a place to pick up orders; a space that can be shared with other brands; and a lifestyle venue offering other services. Think the “live cooking” offered by Alibaba’s Hema Fresh, Franprix salad bars and Monoprix’s concierge services.

BIGGER STORES, SMALLER STORES, DIFFERENT STORES

These “upgrades” in response to new consumer demands are expensive. And they come at a time when retailers are seeing price deflation and weaker margins. So, it’s interesting to note that players such as Etam are talking about having fewer, larger stores while others, notably Fnac Darty and food retailers, want more stores, but with smaller units. Everyone agrees, however, that capex should be stable, and on the need to reduce the cost of sales conversion to compensate for

lower traffic. Maisons du Monde highlighted the great success of its Paris showroom, which offers an architect consultation for EUR 99 but sells no products that customers can take away. It anticipates a conversion rate of 80%.

THE DOWNSIDE OF DIGITALIZATION

The new consumer experience also means salespeople are increasingly connected, for example via phones and tablets, and therefore have more to do. This has a detrimental effect on human contact with the customer, which is the basis of all good service. This worries Etam, who note: “Customers are so digitalized that they have become transparent.”

GOODBYE TO CHECKOUTS

The days of the checkout are numbered, though. Many retailers highlight that this is the most unpleasant step in the buying process. Casino has announced a new checkout-free store concept in central Paris, unique for the company in Europe, which will be a showcase for its latest innovations aimed at digitalization the point of sale. Amazon’s 3,000 GO stores will have no checkouts.

2. Millennials, Store Lifecycles, Pricing, Local Brands

DEMANDING GENERATION

Born between 1980 and 2000, millennials account for 30% of the world's population. These consumers like to buy, and they are demanding too, particularly when it comes to service quality. They are accelerating the "premiumization" phenomenon: SEB pointed out that there's now an EUR 200 rice cooker sold in Asia, something that would have been unthinkable a few years ago. Millennials are wary of traditional media but trust social networks, which compels retailers to adjust their marketing plans. However, social media is a fast-moving space: figures unveiled in early August

Millennials like to buy, and they are demanding too, particularly when it comes to service quality



showed a decline in active users on Facebook and Twitter and a corresponding increase on Instagram. Social media in China is, of course, a separate ecosystem with WeChat, QQ (900m subscribers) or Qzone (650m).

MILLENNIALS RISING TO POWER IN ASIA

One consultant also pointed out that this generation is about more than just consumption. In Asia and emerging economies, millennials are now in positions of power in large companies. This isn't yet the case in Europe, which has an impact on strategies and pace of development.

SHORTER LIFECYCLES FOR STORES

New consumer needs and the desire of brands to renew in-store experiences means store layouts now have shorter lifespans. Previously designed to last for five to seven years, they now have a maximum life of three years. The Adidas flagship building on the Champs Élysées is a good example: it's closed again for three months for a complete renovation, just two years after its last major overhaul. It had taken over the Banana Republic location and there was a clear need to rethink the space as a whole: after all, the brand's credibility was at stake. Kingfisher confirmed this point and noted that getting payback in such a short time is a real challenge for a CFO. One solution, suggested by Franprix, is to create low-cost, modular "lifestyle" spaces to increase traffic. Other premium brands choose a location specifically designed to attract a particular type of customer – for example the LV store on Place Vendôme, which is intended for American customers.

FAST HOME DELIVERY IS NOW EXPECTED

One-hour home delivery was a major topic: it's become a prerequisite now and something that will be difficult to in urban areas. Hema Fresh even offers 30-minute 'ship from store' deliveries from city centre shops. Carrefour points out that unlike drive, home delivery needs major investments in partnerships and a solid balance sheet: agility alone is not enough. Casino already has relationships with Amazon and Ocado.

SERVICE MORE IMPORTANT THAN PRICE

On the topic of price, Franprix says that price sensitivity is an issue but for the first time comes second to service quality. The company has an interesting capability: using digital price labelling, it can adjust its prices depending on factors like the time of day, the season or the weather. This however needs excellent logistics and a very responsive IT platform.

THE RISE OF LOCAL BRANDS

Product authenticity and an apparent decrease in interest in global brands was also regularly mentioned, supporting local brands rapid gain in market share. However, the limited resources that local brands' have available to keep up with the pace

of innovation and develop digital often restricts their growth potential, making them attractive M&A targets for global players.

MEET GENERATION Y

Finally, a question was raised concerning Generation Y and its spending habits. This generation spends less on travel, but that doesn't mean it travels less. It wastes less, feels less need to own things but favours "use", for example with cars, and it focuses on products either at the top or bottom (low cost) ends of the market. This bipolarization is found in all consumer segments including fashion, small household appliances and retail.

Using digital labels, Franprix can adjust its prices depending on factors like the time of day, the season or the weather



3. Artificial Intelligence, Data, The Need for Talent



In just a few years, the game has changed from opening stores and negotiating with suppliers to the need to digitalize stores and customers

AI IS MOVING FAST

Data volumes are doubling in size every 12-18 months. Advances in software and hardware and the commoditization of computing power are also combining to accelerate digitization.

AI has three main applications:

- Online interaction with the customer (chatbots, suggestions, etc.);
- Automation of low value-added tasks (accounting, HR and legal);
- Decision support. On this last point it was noted that while promotions represent around 20% of a retailer's sales, they account for around half of its time and effort.

TRADITIONAL RETAILERS WILL STRUGGLE WITH AI

In the discussion around AI, a parallel was drawn between "GAFA like" companies and traditional players such as major distributors and chains about their use of data. This latter group has huge volumes of data but it is very poorly organised; and the salaries and working conditions - location, career plans, atmosphere, image - offered to young digital specialists cannot compete with the advantages offered by GAFAs or start-ups. Finally, their IT and logistics systems have been designed and developed in a way that does not meet current needs, which explains why transformation takes time.

QUALITY AND CUSTOMER FOCUS WILL HELP RETAILERS RESPOND TO THE CHALLENGE

In just a few years, the game has changed from opening stores and negotiating with suppliers to the need to digitalize stores and customers. It's a cultural as well as a technological transformation. Moreover, it requires long-term investments and time horizons that are out of step with shareholders' short-term demands. Nevertheless, consultants seem optimistic about the ability of these traditional players to meet the challenge (they note in particular that Amazon's market share is much lower in France than in other countries such as the US, because of the quality and innovation of French retailers (for example inventing "the drive"). They always talk about their customers and their mission is to help them achieve their goals.

To finish, the conference suggested an idea for a new type of business: an academy to train data processing specialists for companies that have great difficulty recruiting. People like this are hard to find and typically more attracted to GAFAs.

2018 Consumer, Brands & Retail – Roundtable Speakers

POINT OF SALES

Frédéric de Castro | CFO | Groupe Etam
Jérémy Herscovic | CEO | Socloz
Michelle Lau | Senior Business Development Manager | Alibaba

CONVINCING MILLENNIALS

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Eric Bosmans | Group Finance Director for Digital & Transformation | Kingfisher
Jean-Paul Mochet | CEO | Franprix
Yeal Ifrah Girot | Senior Advisor | Malherbe Paris

ARTIFICIAL INTELLIGENCE

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