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The Brands Lecture

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Never mind the quality, feel the personalisation. The future of retailing

British Brands Group

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Alan has extensive retail sector experience, having been Chairman of Fat Face from September 2006 until July 2013. Earlier in his career he formed HMV Group as Chief Executive in 1998 as a leveraged buy-out and led the Group through its London Stock Exchange IPO in 2002 before retiring from the Group in September 2006 to develop a portfolio of non-executive and teaching roles.

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The Brands Lecture
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This lecture examines the structural challenges facing retailers, considers their principal strategic responses and then concludes by setting out some of the things we will see in the future.

It's been a very sobering year for British retail, with some remarkably high profile issues such as scrutiny from parliamentary committees and where, more broadly, retailers can be forgiven for feeling that, rightly or wrongly, they are blamed for society's ills. But in truth most retailers are much more focused on the structural changes facing the sector.

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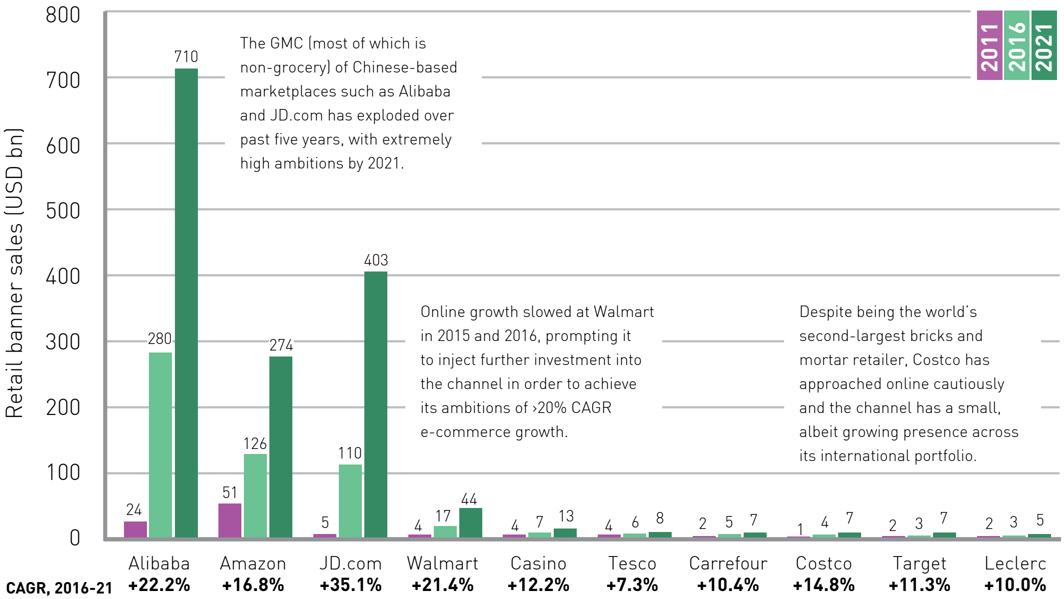
The first is the relentless rise of limited assortment discounters. We've been here before, of course, with the first wave of attack from Aldi, Lidl and Netto in the twentieth century not amounting to much. But the aftermath of the 2008 financial crisis prompted many consumers to try these ultra-low cost formats. In the last two years alone, the big four supermarkets have lost nearly 3 percentage points of market share, primarily to Aldi and Lidl, and this pattern of established mainstream retailers losing ground to discounters can be seen in most product sectors and most geographies.

But the discounters aren't standing still. Poundland has moved away from its single price format at the new Poundland & More store in Slough, which is allowing it to move into new categories like frozen foods. Across Europe, Aldi and Lidl are moving to larger store formats, wider ranges and better presentation. These moves to broaden ranges are a huge opportunity for FMCG brands, but will they blur the basis of differentiation of the discounters? The German and Scandinavian case studies, where their share of the food market is between 30% and 43%, suggest that this structural shift has by no means run its course.

The second structural change is e-commerce: globally up 20% this year, with more mature regions still showing double digit growth. 7% of all retail sales globally are online. As a result the value of sales through stores in the UK is at best flat, with the consequent squeeze on profitability.

China is now the largest e-commerce market in the world, but online has greater penetration in the UK than any market; in 2013 it was 14% and today it's closer to 20%. There are many reasons for this leadership, including UK retailers' early adoption of digital technology, greater penetration of credit cards and a push factor from crowded British high streets and shopping centres. In my view pureplay online channels are good news for brands with high awareness and the "elastic shelves" of such retailers allows good opportunities for small brands to get listed. However, the problem is how do consumers discover such brands?

Largest online grocery retailers



Source: Planet Retail, 2016

Globally we will continue to see rapid growth in this channel. The chart above shows all B2C sales, not just grocery, but nevertheless illustrates who the big players are. FMCG brands will need to develop strategies to seize the growth opportunities in these ten organisations.

Technology is driving change on three fronts. For centuries retailers have been early adopters of new technology and the accelerating pace of change has heralded huge efficiency benefits across supply chain, store operations and of course customer insight. Secondly technology has facilitated disruptive new entrants in all sectors, for example Arden Reed, a New York custom suit retailer that goes to Manhattan office locations in a van equipped with a 3D body scanner to take their orders. Just to put a figure on the scale of disruptive competition, McKinsey estimates that in earlier decades the growth of Walmart prompted other retailers to remove 33% from their cost base and that now the subsequent growth of Amazon is forcing a further 15-20% reduction. Last, but not least, online access has not only eliminated the issue of geographical distance from limiting consumers' options but has given them unrivalled price transparency and bargaining power.

The smartphone is the ultimate informed, always available, shopping friend [...] So consumers are in a powerful position, as retailers set out to provide reassurance about their price credentials.

About half of UK online sales are now made on mobile devices, of which sales made by smartphone are growing much faster with conversion doubling to about 2%. In store, consumers are using smartphones to compare prices, look for reviews and product information and seek advice from friends. The smartphone is the ultimate informed, always-available shopping friend. This not only increases price transparency but also raises expectations of the knowledge of store staff. So consumers are in a powerful position, as retailers set out to provide reassurance about their price credentials. In 2014 Walmart introduced its "Savings Catcher" program which allows shoppers to scan in their receipts and have Walmart determine if the customer could have paid less elsewhere. If so, the difference is returned via a gift card. But digitally-enabled consumers can do their own competitor comparisons, not needing to rely on the retailer to do that for them, and in most markets there are powerful online tools to fully or partially automate those comparisons or, as in the case of CamelCamelCamel, to allow you to track price movements over a period of time.

Bricks and mortar retailers are also having to contend with the focus, agility and sheer investment of pureplay competitors, most notably Amazon, where capital markets continue to support Amazon's relentless drive for growth, clearly still believing, 22 years on, the Jeff Bezos napkin sketch of his twin flywheel business model.

Amazon is at the forefront of innovation, spending 10% of its revenues on R&D, creating products like the Echo hands-free speaker you control with your voice to connect to the Alexa Voice Service to play music, provide information, news, sports and of course shop with Amazon. Traditional retailers are severely lagging the investment drive of the large pureplay competitors.

Amazon is relentlessly attacking new market sectors: not just grocery through Amazon Fresh, but also fashion where they screened their first TV ad last month. Amazon will roll out its Handmade offer, which will feature 30,000 products from over 1,000 artisan sellers, across Germany, France, Italy and the UK. The platform will sell products including jewellery, furniture and home décor, a third of which will be available for personalisation, rivalling artisan etailers like Etsy and Notonthehighstreet.com. In the US, Amazon recently linked up with Wells Fargo to offer student loans, an opportunity to recruit at an early stage what will ultimately be an attractive young professional customer, and has launched a new platform to help customers research and compare cars. Also in the US you can use Amazon Home Services to clean your home, install air conditioning, unblock your loo or move home, and there is a low-key move into private label, with Happy Belly coffee and Mama Bear organic baby food, the latter one of the toughest categories for private label. Outside of FMCG, Amazon has a more well-developed and global private-label strategy, including "Pinzon" linens and towels and Amazon Basics in computer and mobile phone accessories.

Amazon Dash enables customers to hit a button to automatically replenish household consumables. Brands pay Amazon $15 for each button sold and 15% of each Dash product sale, on top the normal commission which typically ranges from 8% to 15%. There is also some suspicion that prices to end consumers are higher too.

Amazon's bookstores opening in Seattle, Portland and San Diego have prompted rumours of 400 stores, which looks wide of the mark. But it is clear that Amazon is experimenting with business models that help them drive up membership of Prime, sell digital devices and services (such as Echo and Kindle), help reduce the cost of physical delivery such as the campus pick-up points or, most significantly of all, for the Amazon Fresh service. A convenience store which combines a pick-up point for Amazon Fresh grocery orders with an opportunity to sell short-life and impulse grocery items is under construction in Seattle. It appears that there will be a trial of 20 of these stores, half largely restricted to click and collect, and half fuller range convenience stores.

Amazon Prime Now is a two-hour US delivery service which some estimate will account for some 20% of the Amazon Prime total. The strategic implication is the further erosion of one of bricks and mortar's remaining sources of competitive advantage - immediate onsite availability. If I was a brand owner I would worry about reduced frequency of visits to physical stores adversely impacting impulse sales. Recruiting self-employed delivery drivers through the Amazon Flex programme is just one of a number of supply chain innovations Amazon is using to both provide this higher level of service and to reduce cost. Amazon has just started a programme to lease 40 cargo jets to speed deliveries and reduce its reliance on UPS and Fedex.

Despite these experiments you could conclude that pureplay retailers have an advantage in not having to own real estate, but that is only partly true. Last year Amazon opened well over 5 million square feet of warehousing space. 44% of the US population live within 20 miles of an Amazon fulfilment centre. Indeed at smaller local centres they can use data analysis to ship items there in anticipation of future local demand.

All this is very costly. The majority of Amazon.com's operating profit now comes from revenue streams other than retailing and it fails to recoup its shipping costs through shipping revenues, despite the benefit of Prime subscriptions. However Prime is a very potent tool for locking consumers in; some 60% of US and 36% of UK households are current subscribers, with their average annual spend increasing by a factor of 2.5 to £2,400 upon becoming members. Furthermore consumers in the US no longer use search engines as their starting point for researching products; 55% use Amazon, up from 44% in 2015. Prime is tough to compete against: Shoprunner is a US multi-party competitor, offering deliveries from 150 retailers and earning a valuation of $500 million after attracting investment from Alibaba. But it currently has just one seventh of Prime's membership level at 2.4 million members.

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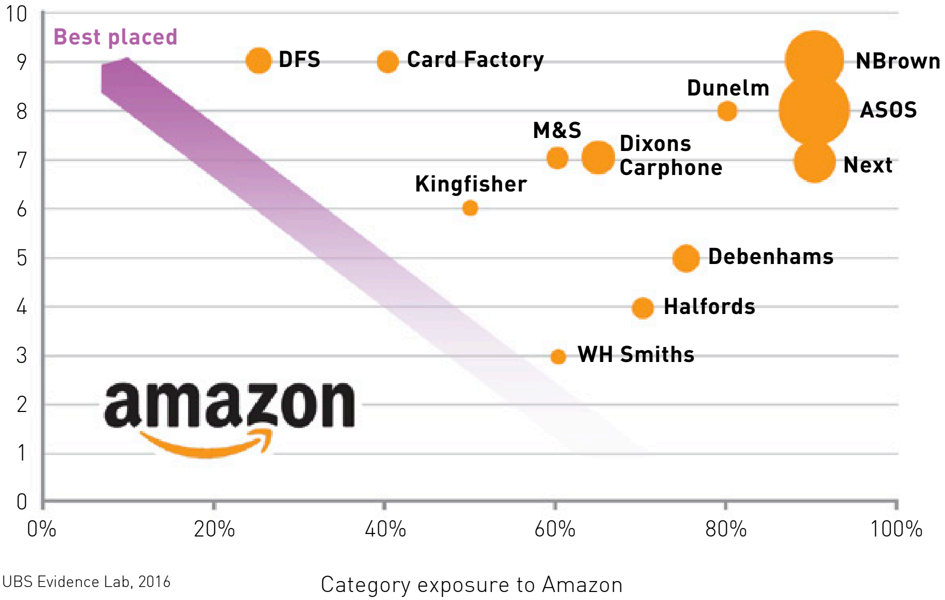
Non-food retail exposure to Amazon



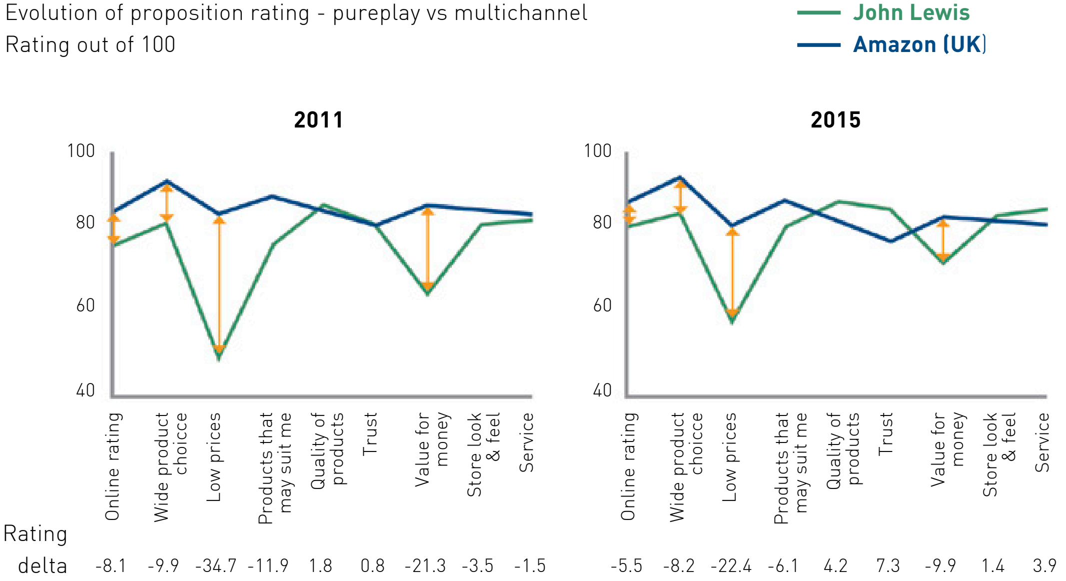
Source: UBS Evidence Lab, 2016

UBS estimate that Amazon took 25% of UK non-food growth on a gross merchandise volume basis and now represents around 20% of UK general merchandise sales. The chart above conceptualises the exposure each listed retailer has to Amazon. The size of each bubble reflects the current proportion of that retailer's sales currently made online. The X-axis reflects the degree of range overlap with Amazon (including Marketplace) and the Y-axis the degree to which that retailer's range is differentiated. Those most exposed are to the bottom right.

So with such far-reaching threats, what are retailers' principal strategic responses? Well, the obvious response to the double-digit growth in e-commerce is for bricks and mortar retailers to develop a multichannel proposition. Despite some commentators continuing to over-simplify and describe sales as either being made in store or online, we know that the reality is much more complex than that, particularly for large ticket items, with about three quarters of major purchases using both channels.

Successful multichannel competitors are narrowing the gap on pureplay competitors

Evolution of proposition rating - pureplay vs multichannel
Rating out of 100



Source: OC&C, 2015

Despite the focus and agility of pureplay retailers, traditional multichannel retailers have been closing the performance gap. The chart above shows the relative performance of John Lewis against Amazon across a number of dimensions. You can see that there is still a gap in relation to prices and width of range, but that gap has narrowed over four years and John Lewis's leadership in its traditional strengths of quality, service and brand trust has widened.

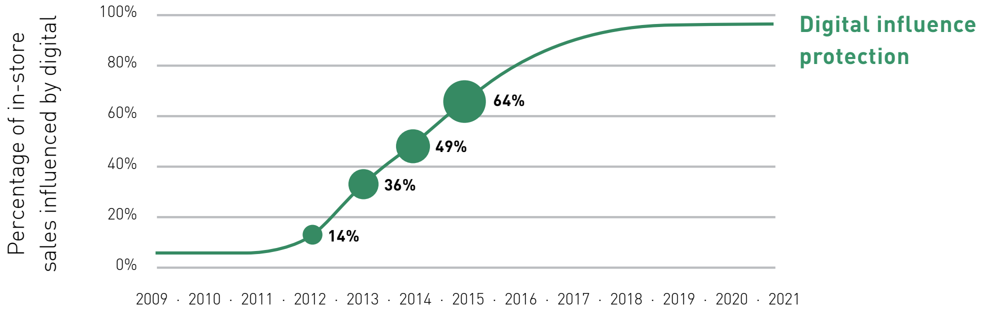
But multichannel is costly, particularly in finding a viable way of getting the delivery to the customer in a way which makes economic sense. Unsurprisingly retailers have tried to encourage us to pick up the deliveries from click and collect stores or collection lockers, but this isn't cost free either, hence the introduction of surcharges by John Lewis and Tesco which others will surely follow. Other solutions include Volvo's app which gives the retailer a one-time key to open the customer's boot and sends them a text to say the parcel has been delivered. Similarly Swedish grocer ICA has collaborated with a start-up called Glue which offers electronic access to your home. So-called ground drones are about to be trialled in Greenwich; it travels at 4mph and can operate within a three mile radius of a store.

Meanwhile Mercedes has unveiled its electric-powered Vision Van that contains an automated package system that tells the van when to stop, for a drone then to scan the back of the van, select the correct package and then fly out of the roof to deliver the package.

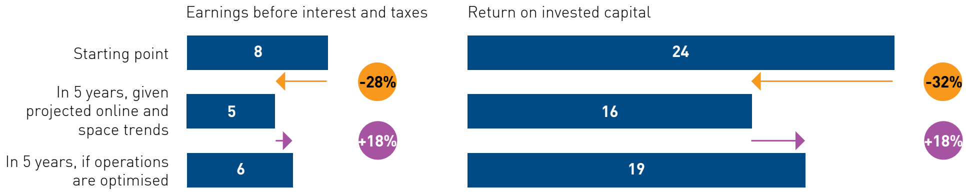
What is clear however is the economic impact that the move to multichannel is having on physical stores. The chart below shows Deloitte's projection that the proportion of US retail sales influenced by digital will rise from 64% today to some 95% in five years, which will lead to the inevitable squeeze on store economics shown by the McKinsey analysis in the chart underneath.

That means most established retailers have not only too many stores but too many large stores. Sainsbury's have reconfigured their 61,000 square feet store in Nine Elms which first opened thirty years ago; not only is there an enhanced fresh food offer but much more space has been allocated to the Tu clothing ranges and substantial amounts of floorspace have been given to the recently-acquired Argos business, together with its Habitat brand and eBay collection point. For brand owners there are opportunities arising from the falling sales densities in non-food versus food.

The economic squeeze on stores



Estimates for US retail company, assuming a 5% decline in sales per square foot over 5 years (% of sales)



Source: Deloitte, 2015; McKinsey, 2014

Another response to sluggish domestic performance is to seek international growth.

Primark, which has hardly put a foot wrong internationally, now has 45% of its space in stores in eight countries outside the UK and Ireland. But for most retailers it's not all been plain sailing; just last week M&S announced the closure of 53 stores in ten international markets. Multibrand retailers such as grocers and home improvement stores have had as many failures as successes when internationalising and in particular the hypermarket hasn't proved to be the killer format in emerging markets that many had hoped.

The most infamous internationalisation failure of all though was Tesco in the US. Tesco lost more than £1m on its disastrous Fresh & Easy venture. Despite investing in ethnographic research, Tesco got a lot of the execution wrong, perhaps imposing ideas that they saw as being superior about the typical UK shopping experience. But American consumers preferred what they already knew: so they didn't like automated checkouts, pre-packed fruit and vegetables, too much private label (50% vs the US norm of 20%), not enough large pack sizes, too many ready meals and portion sizes which were too small.

Another response is to sell services rather than goods. In their latest results Pets at Home reported LFL sales growth of 2.2% for merchandise and 7.5% for services. I also suspect margins are much higher on veterinary services and pet grooming than on selling petfood, not least because of less price transparency. Arguably this margin-driven move to services coalesces with a changing consumer sentiment towards outright ownership of goods and the throw away culture which pervaded the last decade. Environmentally conscious outdoor clothing brand Patagonia takes this trend to a natural conclusion, encouraging you to repair your own garment and doing it for you if you cannot repair it yourself.

And a further trend is to personalise propositions to better meet the needs of individual consumers, leveraging technologies which recognise you, perhaps through your mobile phone. Many retailers like Target are now using data analysis to provide personalised offers. Shop Direct's data scientists used the etailer's wealth of customer data, including knowledge of where you are, to develop an in-house algorithm to predict consumer behaviour. The algorithm produces 200 million promotion affinity scores which rank the relevance of offers for each customer, generating 1.2 million individual versions of the site's home page.

Many retailers like Target are now using data analysis to provide personalised offers. Shop Direct's data scientists used the etailer's wealth of customer data – and knowledge of where you are - to develop an in-house algorithm to predict consumer behaviour.

Tesco have announced a tie-up with start-up If This Then That which, if given permission, pulls together information from the various apps on your smartphone to offer personalised recommendations. This potentially leverages latent demand for brands. Hoxton Analytics is helping retailers better understand shopper behaviour in their stores with technology that analyses customers' footwear to make assumptions about their gender, demography and social class, avoiding the privacy concerns surrounding facial recognition.

Retailers are also innovating across a number of fronts. The focus of grocery openings has been convenience formats, driven by changing

Perhaps noting the relative success of multichannel retailers, some pure plays are experimenting with physical stores.

consumer habits: smaller household sizes, multiple job holders per household and, until recently, rising fuel prices. This is now spreading to other sectors. Among recent openings is Whiskers 'n' Paws by Pets at Home in Dorking which at 2,500 sq ft has a groom room but no live animals, Topps Tiles in Wimbledon and Carpetright in Clapham. In August Ikea opened its third order and collection point in Birmingham. It doesn't carry the full range and acts primarily as a studio to plan purchases such as kitchens, wardrobes and sofas. It has a number of room sets and a bistro where, of course, Ikea's famous meatballs are available. Dutch supermarket Jumbo has opened a pop-up bus-stop virtual shop, temporarily transforming a bus shelter in Utrecht. Customers can quickly scan the images and add the grocery items to a virtual shopping cart using a smartphone app. Perhaps noting the relative success of multichannel retailers, some pureplays are experimenting with physical stores. The most noteworthy is Amazon's bookstore mentioned earlier, but in this country Made.com and Missguided are also improving their understanding through adding physical stores.

Retailers continue to use new technologies to innovate. Self-scan checkout machines have sped-up the consumer experience at many supermarkets and reduced retailers' costs. But now Kaufland has introduced an app for consumers to scan their own purchases and companies like QueueHop are going even further and eliminating the checkout line altogether, using a combination of RFID chip-enabled shopping bags and smartphone apps.

Lowe's has introduced customer service robots into 11 stores in California. By making physical stores function more like a website search box, Lowe's hopes to encourage more consumers to pay them a visit. Tesco is currently experimenting with Radio Frequency Identification (RFID) robots to keep shelves stocked with its clothing range F&F. Darty has drafted a humanoid robot called NAO into its sales team as it experiments with the next generation of customer service. However human sales assistants do not need to fear for their livelihoods just yet, because Darty admits that the current iteration of the robot needs three staff to operate it.

Virtual reality is now being used by Ikea to try out new kitchens before you buy. The current trial allows the user to change the colour of kitchen cabinets, walk around the area and even shrink themselves down to the size of a child to assess safety implications. Musical instrument retailer Gear4Music equips its sales staff with internet-enabled glasses so they can show and talk you through products in the store while you are in your own home. Similarly Westfield has designed an augmented reality mirror which enables a customer to buy items from a personal stylist while in a completely different location, the Sanderson Hotel in London, where luxury products are available for guests to buy and to be delivered to their hotel room within 90 minutes.

Woolworth Australia has linked up with Samsung who markets a fridge with a door-mounted camera which is a logical progression to 'Programmatic Commerce' where smart devices will be able to make automatic purchases on behalf of consumers according to pre-set parameters.

By enabling the delegation of routine purchases, Programmatic Commerce can bring new levels of convenience and cost-saving into everyday life but might change the dynamics of brand choice as decisions are no longer actively made by consumers. Cisco estimates that there are more than five billion devices connected to the internet and that by 2020 there will be 26 billion connected devices across the globe.

Unsurprisingly retailers are looking at how private label might be used to combat some of the structural challenges they face. Private-label market share grew in 13 out of the 20 European countries tracked by Nielsen last year and a particularly notorious example was Tesco's "farm" range; seven new entry-level brands designed to be price-competitive with Aldi and Lidl and suggest, misleadingly, British rural origins. Despite widespread criticism, Tesco's 'Farm brands' have been included in over a quarter of shopping baskets since launch and Tesco is set to make major changes to the appearance of stores in "Project Reset" by placing more prominence on private label products which will increase in space allocation as much as 14%. That is going to raise the stakes for continuing brand presence on their shelves but could present opportunities for powerful brands as secondary and tertiary brands are delisted.

Carrefour France is to introduce a new milk brand in conjunction with 95 Normandy-based milk producers called 'Who is the owner?', where the price will be set by consumers and a premium paid to the producers. Texas grocer H-E-B is rolling out a new private label line that excludes more than 200 synthetic ingredients such as high fructose corn syrup and artificial flavours and I think we will see more retailers attempt to demonstrate leadership over nutritional and ethical concerns through private label ranges. Can they do this more quickly and effectively than established brands?

Non-food retailers are also focusing on product innovation. 50 people work in Kingfisher's £30m innovation centre in Lille, developing products such as a lamp made of silicon that can be moved into different shapes and folds flat, a hammer with a magnetised groove on top to hold the nail – no more bruised thumbs, pre-assembled shed panels that allow it to be assembled in 60 minutes and a power tool with a built-in torch. They have also developed a barbecue with ceramic grilles which can be removed and washed in the dishwasher.

But some FMCG brands are taking on retail on their own terms. Magnum saw an opportunity for customers to engage more meaningfully with their brand; personalisation and experimentation sit at the heart of its Pleasure Store, resulting in customers sharing snaps of chocolate-laden creations. In New York Kellogg's is reinforcing its 'indulgence' brand positioning with $10 cereal servings that include not just fancy toppings but bring back the beloved cereal box toy we all remember as children in the grown-up form of concert tickets or Uber gift cards. Meanwhile in Denmark the local equivalent of the British Brands Group, DLF, has launched Shobr, an e-commerce platform for brands which has the support of more than 70 FMCG companies. I must confess to being sceptical about these initiatives as they seem peripheral to the mainstream commercial opportunity. When I have seen this

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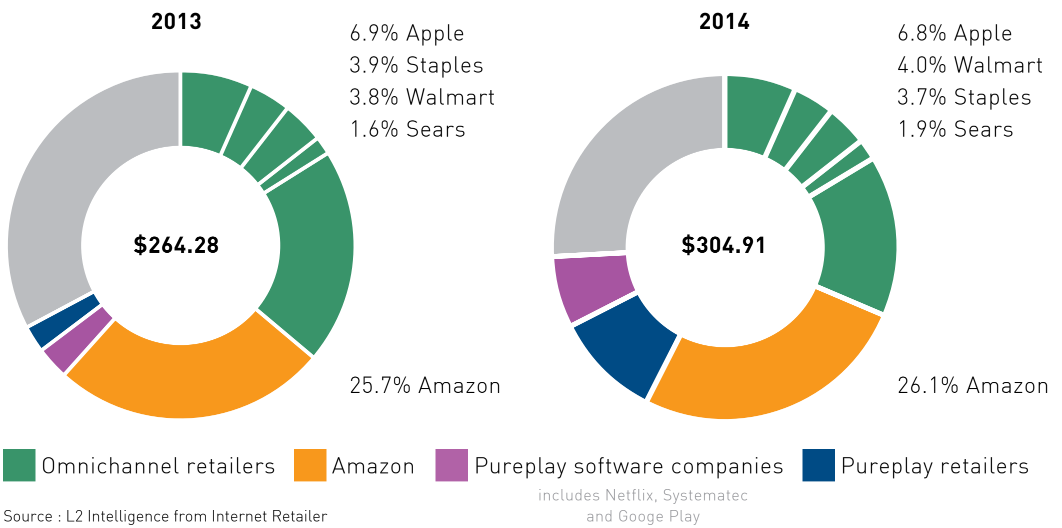
at first hand, when publishers have opened their own bookshops, they seem as hopeless at moving downstream as booksellers have been at trying to commission and publish books.

The final area of innovation I want to cover is promotions. Perhaps the most noteworthy example in the UK in the last twelve months has been Waitrose giving you the option to choose ten items from a list of about a thousand to receive a 20% discount. But loyalty schemes can provoke concerns, not just about privacy but about two-tiered pricing where the prices in store are simply inflated to fund discounts for those who have a loyalty card. Even more controversial are multi-tiered programs such as at Dorothy Lane Market. This upscale grocery chain in Ohio has implemented Customer Specific Pricing through its DLM club, where different prices are charged to a number of distinct groups of customers. Now, the majority of all discounts available in this store only go to the identified top 30% of Dorothy Lane shoppers. In California, Safeway are using a similar mechanism for their loyalty card customers.

Most physical retailers stick to uniform pricing regardless of the identity of the customer. Electronic shelf-edge labels have only achieved significant penetration in France but in theory could interact with your mobile phone to identify you and offer you a personalised price. As a veteran retailer, that sounds like the Holy Grail of retail marketing but regulators might worry about the plight of a relatively unwanted, disadvantaged group of customers.

Pureplay retail: does the winner take all?



Source : L2 Intelligence from Internet Retailer and US Commerce Department, 2015

So what might the future hold? Firstly there is a tendency for many digital markets to exhibit extreme levels of concentration. The chart on the previous page shows the concentration among the top 50 US e-commerce retailers. So, ultimately, is this a winner takes all game? Four companies, Amazon, Apple, Walmart and Staples, account for 40% of all US e-commerce and 50 firms account for three quarters of the market, which is trending towards further concentration.

Scale continues to be critical in e-commerce. Even such a high profile new entrant as Jet.com said it needed 15 million paying customers and $20 billion in revenues to break even, which it hoped to do by 2020. Crucially, even though it had already had $225 million of funding, it had to raise a further $550 million last autumn simply to keep going. No surprise therefore that they sold out to Walmart. It was never a viable business, with an outrageous rate of cash burn and an exit always the target. What persuaded Walmart to buy it? Well, Jet's key capability is their dynamic pricing algorithms which claim to optimise warehousing and shipping costs to maximise margins. Expect some of that new insight to reverberate back up the supply chain.

In the face of such dramatic industry change it wouldn't surprise me to see more consolidation along the lines of the Ahold Delhaize merger where there is a targeted €500 million in synergies by July 2019. Around 25 to 30 per cent is to be achieved through the optimisation of operating costs, especially at head office. But the lion's share must come from more efficient buying of brands and own label. Both parties employed consultants prior to the completion of the deal in order to create so-called "play books", listing the terms and conditions for each and every line in their assortments, aiming for no less than a harmonisation of buying terms. No surprise therefore that Ahold Delhaize stress "the increased distribution potential" that a merger combining 6,500 stores and nearly €2 billion in annual e-commerce sales would bring suppliers.

Short of full mergers, we may well see more buying alliances, despite the scrutiny of anti-trust regulators. During 2014 six of the top eight grocery retailers in France formed three buying alliances, leading to a substantial increase in buying power. This is now spreading to non-food; Conforama and Casino are to create a joint central purchasing agency which will aim to optimise purchasing in France from the main international suppliers of household appliances (both white and brown goods). Similarly Auchan is strengthening its French general merchandise offer through a buying partnership with Boulanger, a leading French consumer electronics retailer.

The role of social media in shopping is still unclear. These sites have huge numbers of customers but in many cases are still struggling to monetise their business model. It's not just the number of customers, it's the relative stickiness of their sites which might give them a route into shopping; WhatsApp users spend eight hours a month on the site, Facebook fourteen. But the case isn't yet proven; social media site owners are keen to monetise their huge customer base but reluctant to undermine the relaxed, non-commercial dynamic of their sites. Nevertheless Instagram is testing a new feature in the US

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Chinese market-places are now targeting the rural regions of the country - this population particularly focuses on branded goods, which carry considerable cachet versus domestically produced items.

where brands can tag products. Once a tag is selected a new more detailed view of the product will open which allows the consumer to access product information without having to leave the Instagram app. If they do want to buy, they can click a 'shop now' link that takes them directly to the product page on the retailer's website.
At Snapchat, a lot of the conversations are currently about shopping and again the site is about to roll out its own e-commerce platform in an attempt to monetise that trend.

US mobile shopping start-up Spring attempts to replicate the sort of conversation you might have with an informed, fashionable friend, using artificial intelligence to drive the conversation.
In April Facebook announced that it is opening up Messenger, its own messaging app, so that third parties can create chatbots to interact in this way. Messenger has 900 million users and Facebook has 15 million businesses with an official Facebook page. The key drivers here are the explosive growth of messaging services – 1.6 billion regular users worldwide, 22% of the global population. But the use of artificial intelligence chatbots will bring their owners head-to-head against Apple's Siri, Microsoft's Cortana and Amazon's Alexa, all of which are voice-controlled.

Amazon Marketplace grew by 53% and on a Gross Merchandise Value basis is already close to double the size of its direct-to-consumer business in the US. Like all marketplaces, there are issues with counterfeit brands. Amazon sellers must now pay $1,000 or more to get approval to sell branded items on the marketplace in an effort to force sellers to prove they are authorised to sell branded goods.

By 2018, more than 50% of e-commerce growth will be driven by marketplaces; in China Alibaba's T-mall and JD.com have 90% share of the e-commerce market. Around 65% of Chinese urban consumers have a smartphone (most of them 4G enabled) and 56% of e-commerce takes place on mobiles, people here having "skipped" desktops entirely. B2C e-commerce sales are nearly $1 billion and growing at 27% per annum. Chinese marketplaces are now targeting the rural regions of the country where the population particularly focuses on branded goods which carry considerable cachet versus domestically produced items. To a large extent this is the result of a recent history of food safety scandals but it also speaks to behaviours observed before in societies emerging from long periods of tight state control where goods from free market countries are perceived as being better for having years of development and quality control behind them. It comes in tandem with the fast roll-out of Free Trade Zones, designed to facilitate easier access to the market.

More than 100 Sainsbury's branded products are now available on Tmall and Costco achieved $3.5 million of sales in 24 hours when it held a super brand day back in 2014.

JD.com may be the number 2 in China but it is still gigantic; with net revenues of $10 billion it is expected to gain further ground by investing in logistics and its growing consumer base. JD.com's partnership with Tencent has also given it access to the 1 billion people on the WeChat and QQ mobile apps. JD has the biggest logistics coverage of any Chinese pureplayer: 234 warehouses and a total of 6,756 delivery and pick-up stations across China. In June Walmart increased its stake in JD.com from 5.9% to 10.8% and is on track to open 115 stores in China. Walmart can now reach 90% of Chinese consumers. Using JD.com's nationwide logistics network, Walmart can now import goods from across its global operations directly into China without needing to use coastal Free Trade Zones for warehousing. This has huge implications for the size and depth of assortment it can offer Chinese shoppers via its online platforms. Walmart has also made a $50 million strategic investment in New Dada, China's largest local on-demand logistics and grocery e-commerce platform. As part of this deal, Walmart will begin two-hour grocery delivery from an initial 20 hypermarkets.

So, to conclude, do I believe there is a future for the physical store? Well yes, but the role will focus on convenience (including click and collect) which presents more opportunities for impulse brands, providing information as illustrated by Apple stores, community involvement as at Lululemon Athletica and pure theatre like Eataly. Brands have a role to play in helping retailers create this experience. Is retailing still a good business to be in? OC&C has argued that the most lucrative part of the value chain will move again, just as it did in the last forty years from branded manufacturing to retailing. In the future the greatest rewards will go to those with upstream IP and innovation or those who offer impartial, pan-retailer advice.

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This is the sixteenth in the Brands Lecture series.
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Hybrids, the heavenly bed and purple ketchup
David Aaker, Prophet

Brands beyond business
Simon Anholt, Earthspeak

The Lovemarks effect
Kevin Roberts, Saatchi & Saatchi

They think it's all over…
Martin Glenn, Birds Eye Iglo Group Limited

In brands we trust
Lord Bilimoria CBE DL, Cobra Beer

Can brands save the world? Let's hope so.
Richard Reed, Innocent Drinks

Brand new: Innovation in a challenging world
Fiona Dawson, Mars Chocolate

Accountability is not enough…
Rory Sutherland, Ogilvy Group UK

Sports marketing – unleashing the passion
Austin Lally, Braun and Appliances and The Procter & Gamble Company

Brands, capital and crises
Rita Clifton CBE, BrandCap

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Peter Vicary-Smith, Which?

Brands & CEOs
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