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# How can retailers and lessors adapt to the flexibility requirements brought about by digital transformation?

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Abstract

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In order to answer this question, we will study how digital technology has transformed consumer habits. Then, we will study how retailers have been able to adapt and make their shopping areas more flexible. To illustrate the argumentation, we will analyze financials of two companies totally opposed in term of digital transformation: Sephora and Marionnaud.

Keywords:

Retail industry,

Digital transformation,

Asset Management,

Corporate strategy

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# Introduction

The retail industry is undergoing one of the most profound transformations in its history. Rapid advances in technology and the growing influence of the millennial generation, among other trends, have created both new challenges and new opportunities for retailers. The topic of «online retail vs brick and mortar retail» raises several questions. First, it tends to oppose the digital channel to the physical retail channel, but should they really be opposed? The health crisis we are currently experiencing seems to give an obvious and spontaneous answer to the interdependence of these two channels for retailers in their sales strategies and for consumers in their purchasing process. But does the voluntary opposition between these two channels not reveal more profound differences in operation and implementation that make them difficult to reconcile? What are these differences? Different business models, strategies and consumers, but also major differences in terms of profitability.

Given the decline and fragility of physical commerce, it is easy to think that traditional retailers are questioning their model based solely on brick & mortar. Nevertheless, beyond the clatter of the changes caused by digital, the foundations are emerging from which the retail economy is being rebuilt new concepts, new services, new distribution methods, it is an entire economy that must be regenerated.

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In order to answer this question, we will study how digital technology has transformed consumer habits. Then, we will study how retailers have been able to adapt and make their shopping areas more flexible. Finally, to illustrate the argumentation we will analyze financials of two companies totally opposed in term of digital transformation:  Sephora and Marionnaud.

# I. State of the retail market: the digital revolution

## 1.1 Definitions, functions and history of retail and distribution

Retail refers to the activity of reselling products purchased from third parties as it is, without major processing. This activity may include some ancillary operations such as packaging but excludes all on-site manufacturing (e.g. bakery) and all services (e.g. coffee shops/hairdressers)[1]. Distribution refers to an activity whose purpose is to ensure the passage of finished products from their place of production to their place of acquisition or consumption[2]. Retail is the sale of goods in the state in which they were purchased and to a private clientele[3] according to E. Chadeau, it is the final contact with the final consumer and therefore the last link in the distribution chain. The topic «Brick and mortar retail vs digital retail» contrasts two distribution channels. «Brick and mortar» retail refers to marketing through physical outlets. This expression is in fact opposed to that of «pure player», which refers to companies operating solely online. However, we shall see that the term «brick and mortar» is not fixed and we now refer more to «click and mortar» as those brands which use these two channels in a complementary way.

First, we need to distinguish between the manifest functions of retail and its latent functions[4]. Among the manifest functions, we can identify the physical and logistical functions, i.e. the retail outlets allow the physical flow of products through supply, storage, handling and transport[5]. These are the primary functions that make the physical channel difficult to substitute and undoubtedly reveal the first limits of a purely digital channel. Beyond the direct utilitarian

[1] BENOUN & HELIES-HASSID
[2] Id.
[3] DANCETTE, RETHORE
[4] BADOT
[5] CHADEAU

function, we can identify functions latent in retail trade. These include the non-economic functions of retail outlets and their contribution to the satisfaction of consumer needs. The retail trade has a social political role through the animation of local life, urban signposting, or the integration of community life[6].

## 1.2 The evolution of distribution and distance selling

The abundance of articles on the end of physical retail and in particular the shopping center model, tends to make us believe that the rise of e-commerce or all forms of marketplace is a new threat to brick & mortar retail. The history of distribution is usually introduced in terms of successive «commercial revolutions», which began in the 19th century7. In France, it strated with the emergence of cooperatives and department stores. Department stores had fixed prices, clearly indicated to customers, who were guaranteed the quality of the products on display as well as the services provided by the sales staff. On the other side of the Atlantic, retail evolved even faster with the introduction of the "money back" service in 1870s and the appearance of the new sales channel: the catalogue. As early as 1872, the limits of mail order sales were highlighted by the cost of the last mile, by the Montgomery Ward (1872) and Sears (1886) chains leading to the apparition of relay points and Click and Collect. The history of European retailing must take into account the American influence. The 1930s saw the development of distribution franchises and fast food outlets. It is from the end of the 1940s and in the 1950s and 1960s that the actors of contemporary mass retailing appear: Leclerc (1949), Carrefour (1959), Auchan (1961), Promodès (1961) and Intermarché (1970). The years 1945s are characterized by the era of discount commerce. The hard discount was born in Germany with the creation of Aldi by the Albrecht brothers (1947). The «Trente Glorieuses» marked the 1950s

[6] LEMOINE, OCHS, BADOT
[7] CHATRIOT & CHESSEL

with the advent of the consumer society and mass consumption. The 1960s were characterized by hyper-choice, with the appearance of the furniture company Ikea, which embodied variety and cut the transmission of furniture between generations. It was in 1975 that we saw the global acceleration of the distribution sector, with new brands, new formulas appearing (appearance and development of the first regional shopping centers), and international expansion: brands sought to capture market shares abroad, and some brands specialized.

## 1.3 New channels of distribution

E-commerce is a structural trend. According to the key figures for e-commerce 2020 published by FEVAD[8], product sales on the Internet will represent on average just under 10% of all retail trade in France in 2019. E-commerce is gaining around 0.7 points of market share per year, thanks to the development of online sales by retail chains and the development of new services. This growth is also due to the progressive use of the smartphone as a purchasing terminal. However, despite the development of this channel, distribution through a shop network remains in the majority in France, Europe and worldwide. Sales on the Internet (including products and services) will exceed 100 billion euros in 2019. Over the last four years, e-commerce has grown by an average of 13% per year. In addition to the continued development of the online offer, e-commerce is also benefiting from a further increase in the number of buyers and their growing use of mobile phones. Among the leading sites, mobile orders have increased by 4 points over one year and now account for almost 40% of total sales. E-commerce has recently been able to take advantage of the economic situation. Because it responds to greater flexibility, it has gradually become a common consumer practice.

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[8] FEVAD “Evolutions du commerce et de la distribution

year 2020 was marked by the Covid-19 health crisis, itself following the strikes linked to the pension reform, as well as the yellow waistcoat crisis for the French market. These crises have jeopardized trading activity in the centers of major cities. Retailers initially closed on several Saturdays before being closed for entire periods of lockdown, losing a significant proportion of their turnover. Thus, we were able to observe the resilience of online sales and the vulnerability of in-store sales, which can be affected by various external events that the players themselves cannot control (strikes, protestations, health crises). A certain amount of mistrust has therefore been created on the investor's side. Cushman & Wakefield, in a survey carried out in April 2020 among 176 investors[9] , was keen to identify possible readjustments to post-Covid investment strategies. The survey revealed a desire to reduce their retail exposure within their portfolio.

Consumers, in search of instantaneousness, are increasingly attracted to mobile commerce: m-commerce. In 2019, in France, this segment grew by 23.7% (vs 2018). Now, 3 out of 10 internet users make their purchases from a mobile terminal, with 25-34-years old and women being among the top users. Mobile commerce is the fastest growing segment of the market thanks to the global reach of mobile devices (increasing demand) and growing investment in mobile retail applications (increasing supply). The traditional path to purchase has become increasingly complex, with the consumer being the driver, demanding to shop anywhere, anytime. Technology, as an enabler of digital commerce, is one of the main reasons why the power has shifted to the consumer (ISCS). One of the reasons m-commerce is so dynamic is that it is taking on formats other than the traditional retail website. Applications are becoming commercial and the consumer is solicited at every moment. In addition to targeted advertisements, reminding them of their latest desires, they have the possibility to make a purchase immediately.

[9] investment funds, real estate companies, insurers, SCPI/OPCI, sovereign wealth funds, and developers

As internet shopping becomes more democratic, large marketplaces such as Amazon, eBay, Rakuten and Taobao are growing rapidly and changing the retail landscape. They allow large brands as well as small sellers to develop and reach many potential customers at a lower cost. Nevertheless, marketplaces are growing at 50% or more per year and have become a sales force to be reckoned with. There is also a phenomenon operating on traditional brick&mortar retailers that have moved into online commerce and are developing their own marketplace. According to the Xerfi study published in 2021, "The impact of Covid-19 and the new challenges for BtoC marketplaces", in France, the weight of marketplaces in the overall business volume of merchant sites should reach 33% in 2021 (vs. 15% in 2013). However, these results must be qualified if we compare the place of marketplaces in France with that of other countries: the share of marketplaces in total online sales in France is lower than in Europe, which is at 40%, the global share is 50% and finally 80% in China.

Thus, retailers are becoming more and more agile and developing new distribution channels, making it difficult to draw a strict line between brick&mortar and digital. The two are complementary and this flexibility is made necessary by the evolution of consumer consumption patterns.

### 1.4 ... accelerate the changes in retail: digital does not kill traditional retail, it transforms it

A business model based solely on the physical channel is not sufficient and sustainable. Very few players rely solely on this channel: today, only Primark is successfully imposing itself in this single-channel category. The covid crisis has also confirmed this need to combine channels: during the closures linked to the lockdown, the only turnover relay remained online sales. Nevertheless, to what extent is the pure player business model established and profitable?

The e-commerce market is characterised by its high concentration. Indeed, according to a study published by Kantar in March 2020, the top 10 sites where the French spend the most represent 46% of online spending in France, while the top 20 account for 54%. A concentration of the market illustrated by one player capturing more than half of the annual growth: Amazon. The latter has in fact grown in absolute value by €1.14 billion (e-commerce growth in France +2.25 billion). It is also clear that no player has been able to emerge on a par with Amazon, which has a market share more than twice as large as the second player.[10] On the other hand, the business model of e-commerce sites offers very low profitability.[11] This low profitability is explained by high cost centers: the cost of acquiring customers, the cost of delivery, the cost of returns and the low margins achieved on products. These cost centers are more important as today delivery and return of purchases are considered more as pre-requisites than as services that can be valued by the consumer. According to a study by BarclayCard, 50% of millennials admit to ordering items with the intention of returning them. The difference in these costs with brick & mortar players is brutal, the conversion rate is 20 times higher in physical shops than on e-commerce sites.[12]

The symbolic function of retail is also diminished in a digital experience as opposed to in-store experiences that allow consumers to awaken their senses. Since Martineau's (1958) use of the concept of shop image in the development of the retailer's personality, several researchers have developed the idea that consumers keep shop images in their minds. For retailers, it is necessary to keep physical outlets, not only to increase the perceived value to the consumer but also to make the brand experience real. With e-commerce, the consumer ends up imposing his choices (his hours, his delivery methods, etc.). In a format controlled by the brands, they can orientate their purchase path as they wish, create a memorable experience and can also easily encourage additional purchases not anticipated during the initial visit. Engagement theory suggests that the consumer is already engaged when they visit the shop and the purchase is a

[10] Appendice 1
[11] Appendice 2
[12] Appendice 3

natural second engagement. Retail is now 100% connected: the offline is going online but the online is also going offline.

An hybrid form of commerce is emerging in which shoppers seamlessly move between the physical and digital worlds, searching for products while making purchases. As sales channels multiply and the boundaries between them blur, consumers still want a unified brand experience, no matter where or how they find it. The channels can easily complement each other with “showrooming”, the practice of searching for a product in the shop but buying it online. While this practice is intriguing, recent studies suggest that it is far less common than “webrooming”, which is the practice of searching for a product online and then buying it in a shop. In fact, 90% of all retail sales in the United States still take place “within the four walls of a physical shop”, according to a report by the consulting firm A.T. Kearney. Two other elements confirm this assumption of complementarity: the added value provided by shops through personalized services and the optimization of time. The time spent at the checkout should not be an obstacle to the physical shopping experience, above all with the aim of enabling a fun service experience.

Finally, it should not be forgotten that all of these point-of-sale enhancement technologies will only work if man and machine can merge. The technologies must provide a rapid service by responding to the need for instant information, but they will not replace salespeople, on the contrary. All this will put the salesman back in his role as advisor. Paradoxically, we can even go so far as to say that the more we digitalize a point of sale, the more we humanize it.

## 1.5 Conclusion

Since the beginning of retail, new channels have transformed the retail landscape, its players and consumer expectations. The progressive integration of digital into every aspect of our lives, mobility, health, work, has made it essential to take this channel into account. Beyond being a distribution channel, it is becoming a communication channel, a source of visibility and development for the brand. Consumers, faced with increasingly qualitative and immediate services, are becoming more demanding in terms of the quality and want to benefit from the advantages of each channel. Thus, the absolute questioning of physical points of sale is neither reasonable nor conceivable. This digital revolution, reinforced by the current health crisis, has accelerated the mutations of points of sale. In the second part, we will study how these points of sale are being transformed.

## II. The transformation of the point of sale: the challenges and strategies implemented by the retailers.

The transformation of the point of sale is taking place through different prisms that we will study: the progressive integration of channels, the transformation of the phygital experience, new formats and concepts as well as a geographical redistribution of points of sale. At the heart of companies' strategies are two main elements: progressive combination of the different channels and optimisation. Then in a second phase, redistribution of the geography of the points of sale.

### 2.1 The progressive interweaving of channels: from multichannel to omnichannel.

In the 2000s, the advent of the Internet and the fixed computer profoundly changed the landscape of distance selling: The Internet channel replaced the catalogues and the Pure Players appeared. If initially Pure Players were companies operating in a single sector of activity, with the arrival of e-commerce, this term designates, as we have seen previously, companies operating solely on the Internet channel. Thus, in 2002, Pure Players represented 82% of distance selling, with eBay and PriceMinister at the head of the most frequented sites[13]. The growth of e-commerce has also led Pure Players to open physical shops and conversely, shops tend to diversify through the virtual sphere. A form of hybridisation has then taken place and the classic brick and mortar stores have mainly evolved into Click & Mortar stores. More precisely, it is the physical retailers who first diversified their offer by marketing their products on the Internet, and it was with this multi-channel objective that Casino bought C-Discount in 2000. The second direction of hybridisation, from the virtual to the creation of a physical shop, came at a later stage. In both cases of hybridisation, multi-channel distribution appeared to be a solution that integrated the benefits of both channels but also compensated for their weak points. If the coexistence of the channels has become necessary, both financial and organisational problems have arisen. First, an additional channel is an additional cost and also requires new skills (know-how, logistics in particular). On one hand, there is a risk of cannibalisation between the two. On the other hand, the risk of cross-channelisation between the two channels must be taken into consideration: multi-channelisation presents a risk of migration of customers from the physical sphere to the digital sphere and vice versa. Also, a bad experience on one channel can have repercussions on the image of the brand in general. In order to avoid conflicts between channels, retailers have favoured management in silos: considering each channel independent of the other, which will be the major difference with the cross and omnichannel approaches. Thus, multi-channel management can be defined as offering the consumer various communication and distribution channels, each managed independently. It is in this context that several physical retailers have voluntarily developed a dichotomous vision with virtual merchant sites under a different brand name.

Consumer buying behavior has been marked by numerous trips from one channel to another. Without separating these virtual and physical experiences, consumers have

[13] BADOT, LEMOINE, OCHS

progressively integrated them within the same purchasing path. The cross-channel approach favors communication between channels for a seamless, smooth and continuous experience. This shift from multi to cross-channel has become even more necessary with the development of mobility and the multiplication of ubiquitous interfaces such as the smartphone (vs. fixed internet) favoring exchanges between channels through Web to Store or Store to Web.

The development of ubiquitous devices, known as ATAWAC (AnyTime AnyWhere AnyContent), allows consumers to connect anytime, anywhere and from any medium. Mobility favours simultaneous navigation through several channels: consultation of the website or application is now possible even at the point of sale, making it possible, for example, to compare prices or products with those of competing brands or to buy the product on the Internet if it is not available in a physical location, which is not without economic problems for physical brands. The experience of anticipation, the experience of purchase, the experience of consumption are merged in their aspects but also in their spatial framework. This increasing interweaving and accessibility explain the use of the prefix «omni» to designate this shopping journey. Interactions between prospective customers and retailers are multiplying and becoming more flexible, taking on new forms and manifestations in these ubiquitous environments. Thus, the omnichannel strategy is defined as the simultaneous management of several channels and contact points with consumers in order to benefit from synergies and optimise the customer experience and channel performance[14]. These touch points now have a dual role: distribution and communication. The most successful omnichannel strategies are the so-called phygital strategies. This term was first used by an Australian marketing agency (Momentum) in 2013 as a contraction of the terms physical and digital.

[14] VERHOEF

## 2.2 Shops remain at the heart of the phygital strategy

First of all, one of the great competitive advantages of e-commerce lies in the knowledge of its customers. When a consumer arrives in a shop, he is an anonymous customer. He shops, compares, takes items and puts them down according to certain criteria that are more or less important to him (material, quality, size, place of production). Afterwards, he can pay in cash so that this customer is completely unknown to the brand. However, this consumer's experience could be exploited to help the retailer improve the shopping experience, build customer loyalty and, ultimately, increase profits. For online retailers, the situation is different. Every visitor leaves a digital trail: every click generates information. When registering or making a purchase, their names, addresses and often more information is revealed. E-retailers can use big data and algorithms to reveal consumer wants and needs, predict buying behavior, recommend products and optimize stocks to minimize storage costs and delivery times.

It was initially with the aim of optimizing the time of the experience that in-store technologies were introduced with self-service checkouts and later, touch-screen terminals. These innovations made it possible to respond to a double demand: to reduce the consumer's waiting time but also to increase the distributor's profitability. Phygital strategies have also enabled better control of in-store space. For example, touch-sensitive terminals in shopping centers make it possible to geo-locate the consumer and direct him or her to the store or stores he or she is looking for. Finally, phygital strategies make the shopping experience more fluid. The NFC (Near Field Communication) technology introduced in loyalty cards makes it possible to memorize the shopping basket when visiting a shop. The consumer can then accumulate points and be offered discounts and other promotional offers on products on their wish list. On the retail side, this technology generates traffic to the shop: the merchant site represents a gateway and encourages a visit to the shop for economic gain by benefiting from bonus points when purchasing in the shop.

Digital technologies can also have a more hedonic aim in terms of shopping and thus contribute to the staging of products and the dramatization of the point of sale, in order to make the experience fun. Initially, phygital allows the brand image to be reinforced. As we have seen, the deployment of screens in shops can have an interactive vocation. But it can also be used as a decor to contribute to the projective and evasive nature of the experience. Furthermore, although the financial benefits linked solely to brand image are difficult to measure, these technologies rarely have a purely aesthetic dimension: thanks to its interactive and non-interactive screens, Undiz responds to sales area constraints by highlighting references placed in the basement of the shop in order to encourage visits in less frequented areas. Phygital strategies also contribute to retailtainment and make the shopping experience more fun. Technologies whose objective is pure entertainment make it possible to enhance the creativity of customers in a logic of co-creation between them and the retailer. For example, some retailers are equipping their connected mirrors with filters to make taking photos and sharing selfies on social networks more fun. The use of gamification enriches the in-store experience by setting up a quest, collecting points or challenging friends. It is a powerful lever that exploits consumers' motivations and desires: success, feedback, or reward.

### 2.3 The new geography of commerce guided by flow

Modern commerce, born more than half a century ago, developed in response to post-war lifestyles in a context of strong economic growth and consumerism, taking advantage of new modes of transport. Mass consumption and the rise of the private car raised the destination retailer as the dominant model until the 2010s, characterized by the shopping center, the hypermarket or the outlying shopping areas. However, socio-demographic changes, increased mobility, new consumer aspirations and consumption patterns (including omnichannel) have profoundly changed the criteria for retailers to choose the location of their outlets. Faced with these developments and in a market where the level of retail equipment remains very high, retail chains are increasingly adapting their new locations according to a logic guided as much by flow and proximity as by destination and catchment area criteria. The end of mass consumption in favor of a chosen consumption also favors the development of new networks, supported by new concepts allowing a more segmented approach to customer flows.

A new paradigm has replaced the old one: it is no longer the consumer who moves towards the shop (destination shop), it is the shop which moves towards the consumer. This is obviously the case for e-commerce, but it is also true for physical commerce. Retailers are multiplying their formats in order to conquer urban centers (without abandoning their original peripheries), but also places that were not initially conceived as commercial spaces, such as railway stations or airports and even motorway stations. These spaces all have one thing in common: they are flow centers.

### 2.4 New city formats: small & nearby

On the other hand, there is the development of traditional destination stores in town centers in order to promote local trade. And whether it is out of necessity or out of solidarity, the health crisis has strengthened the need for local shops. More generally, the reflections to rethink proximity within the city are increasingly central: many retailers have already anticipated this movement back towards the centers, by reinventing the formats, size and locations of their sales outlets in order to move towards more segmentation and compactness. Whether it be DIY stores such as Leroy Merlin, food retailers such as Carrefour or Auchan, home furnishings stores such as Ikea, or sports stores such as Decathlon, retailers that historically relied on large out-of-town locations have developed their urban concepts. In addition to a central address, these retailers are reinforcing their attractiveness thanks to a range of innovative services: Leroy Merlin Madeleine has launched partnerships with start-ups offering a neighborhood concierge service (Lulu dans ma rue), home repairs (Bob Dépannage), DIY help (Frizbiz) and, of course, delivery (Steedy and Trusk). This return to the city thus favors the development of high street retailers, and this is the gamble taken by F&A Asset Management, which in March 2017 launched the High Street Retail fund, an investment fund (professional OPCI) dedicated to city center retail units.

But this development of urban formats, obviously small formats, is made possible by the strong development of logistics. It is now essential for retailers to accompany their urban development of shops with the development of logistics on the urban outskirts capable of supporting stocks. IKEA is a perfect example: the company relies on its historical warehouse shops and then develops smaller urban formats to diversify and complete its offer. In the same vein, the company has also set up a drive-through service during confinement and has launched its first virtual shop in China on Tmall (Alibaba)

This search for proximity has so far resulted in a revival of trade in town centers. But we can add a nuance, because the development of teleworking will probably reshuffle the cards of commerciality, helping the emergence of new polarities: our consumption will follow the movement of our places of work towards our places of life. This phenomenon can thus help to recreate lively town centers. It also raises the issue of modernizing and renewing the offer of existing peri-urban commercial centers.

## 2.5 Conclusion

While sales channels are multiplying and the boundaries between them are blurring, consumers still expect a unified brand experience, no matter where or how they find it, they want more flexibility. The digital revolution has initially affected the way many businesses operate and has led to massive changes in place of purchase strategies. Retailers must adapt to omnichannel environments and physical retail outlets in order to better understand their strengths, weaknesses, areas for improvement and, most importantly, their customers in order to better satisfy them. Thanks to a better knowledge and a larger digital space, retailers are more flexible and can easily respond to the evolving needs of consumers.

# III. Sephora vs Marionnaud: comparison of strategies and financial results of companies using a different approach

## 1. Sephora[15], the perfect example of a profitable company in perpetual evolution.

Sephora is often cited as one of the pioneers of physical and Beauty Tech. By applying its ATAWAD (At Any Time, Any Where on Any Device) strategy, the LVMH group's company has been able to constantly reinvent itself in order to be equipped with the latest innovations.

The company has developed its physical points of sale so that they remain attractive by offering ever more services. For example, the cosmetics brand has launched an Eyebrow Bar, a free 10-minute treatment diagnosis, a make-up session (45 minutes for a fee or 15 minutes free), a Gift Hub (choose a gift package and personalize it for free with stickers) and a Seasonly Face Glow Bar (15-minute facial massage). In addition to the service offer, Sephora has perfectly digitalized its physical sales areas by including Service Sephora Plus: connected terminals installed in the sales outlets. Assisted by an advisor, the customer can browse through the brand's entire product catalogue, with the major advantage of having access to all the products because "Sephora's very wide range of products was not available in each of our shops, particularly because of the size of the space". If a product is not available on the shelves or is

[15] Apendice 6 : SWOT Sephora

out of stock, the customer orders the reference in the shop from the terminal before being delivered to her home free of charge and within 48 hours. This is the perfect illustration of the combination of phygital and omnichannel.

The Beauty Hub has revolutionized the customer experience: This mini beauty center in the heart of the shop combines the physical and the digital:

- Virtual lookbook to give ideas on new make-up trends to bring these inspirations to life, tuto-make up are also proposed on these iPads. Possibility to make a tailor-made beauty program and receive the details by email.

- Virtual Artist allows you to virtually test make-up. Some shops even have a giant connected mirror.

- Color Profil, a small device that flashes the face allows to know the shade adapted to the color of the complexion of each customer among more than a hundred references of shades available in the shop: "find the perfect complexion agreement". This device was developed in partnership with Pantone.

Finally, it is essential to know one's customers and their expectations. Therefore, the cosmetics company has democratized the sales advisers' touch-screen tablets. They allow a precise knowledge of the customers and the possibility of giving personalized advices (according to the products bought previously...), recommendations (according to skin type etc) as well as to make benefit from promotional offers.

As far as digital is concerned, Sephora is ahead of its competitors thanks to its permanent innovation. First, the cosmetics brand excels in digital communication, an essential means of attracting more customers and therefore increasing its turnover. The creation of Sephora TV allows the brand to broadcast live or replay content in which beauty influencers intervene in order to carry out beauty tutorials, skincare routines, product tests or special events. This communication directly aimed at young connected people is enhanced by the Youtube channel followed by 155K people on which the brand can advertise for free.

In addition to an optimized website, the brand has been able to push the personalization of the customer journey to the maximum. A good example is the Sephora Perfume Diagnostic. Indeed, all the user has to do is enter his preferences (a brand, a similar perfume or ingredients) and the algorithm will recommend the perfumes adapted to the customers' tastes. In order to offer even more flexibility, the company wanted to connect the saleswomen on site with the customers who are at home with Sephora Live Shopping and Live Chat Hero. This service allows customers to shop online while chatting with an in-store beauty consultant. No need to go to the store, the advisor scours the shelves in the customers' place, answers questions about products and even sends photos and videos to help customers. The exchange can be done by chat or by video call to better see the colors, the size of the product or the contents of a box. The advisor will be able to recommend products according to the skin's appearance and complexion.

The cosmetics retailer has managed to stand out from its competitors and be innovative in the implementation of the mobile application. Indeed, the brand launched MySephora in 2012, well before it became the norm. Although it has evolved since its deployment, the app allows users to log in using their customer account or loyalty card. The user then has access to a catalogue on the app, with the scan function allowing the product to be found on the catalogue simply by scanning the product's barcode with the smartphone's camera. With data at the heart of the digital experience, personalised recommendations are extremely effective. By combining these preferences with beauty tips, tricks, written and video tutorials, articles, the latest trends, and product selections according to themes, Sephora has considerably increased the diversity of its offer. In line with the phygital strategy, Sephora uses its application to attract a maximum number of consumers to its physical points of sale. Thanks to an interactive map showing the physical shops and the services offered in these shops, the digital user is transformed into a physical customer. In addition, the company provide an high-end Click & Collect to provide an even higher quality of service to its customers, namely to be delivered to the shop nearest to her home, and in only two hours. The customer presents herself at the entrance of the shop and picks up her order at the Click & Collect terminal (so no need to queue at the cash desk).

## 2. Marionnaud[16], how the delay in digital transformation has impacted financial performance.

Marionnaud is a French chain of perfume shops created in 1984 and employing nearly 3000 people. Unlike Sephora, this company has not been able to adapt quickly and is now suffering the consequences.

Firstly, Marionnaud shops only offer the classic services present in all the industry's brands (free skin diagnosis, free flash make-up, wifi, eyebrow bar, varnish application).

In terms of internet services, Marionnaud is lagging behind its competitors. Whether in terms of referencing or navigation, the site offers a lesser quality service. However, the brand is starting to adapt and offer content such as webzines with tutorials, tips and beauty advice. Marionnaud also launched its mobile application in 2016, which is well behind major competitors. Based on a model similar to that of Sephora, the application makes it easier for customers to make a purchase. It is possible to book a time slot for a treatment in advance, to buy and order remotely, and to carry out a skin diagnosis. The cosmetics brand is trying to democratize its brand among young people by offering content such as live or replay lives, some influencers and tutorials on the latest products. Finally, Marionnaud has become quite agile by implementing click&collect, free in-store pick-up 1 hour after ordering or delivery by appointment.

[16] Appendice 7 : SWOT Marionnaud

Despite these latest efforts, the brand is suffering more and more and is seeing its turnover fall. Comparing to Sephora, the rate of expansion and new shop openings is far behind.

### 3. Comparison of the evolution of the strategy and financial performance of Sephora and Marionnaud between 2009 and 2019

Firstly, the turnover, we notice on the graph[17] that the evolution of the turnovers is quite different between the two brands. In 2009, Sephora had a turnover of €941m compared to €618m for Marionnaud. Ten years later in 2019, Sephora's turnover has increased by 80% to reach €1,690m, while Marionnaud's turnover has stagnated throughout the decade, ending up down -6% at €579m.

The analysis of turnover does not give us a realistic idea of the company's performance, but it does allow us to measure its commercial capacity. It therefore sheds light on the company's market share and can be an indicator for comparison with competitors.

While we have seen that Sephora was gaining market share, Marionnaud was losing it. In order to make a profit, it is necessary that the company is profitable. For this we can analyze their net profitability. We can see that the two cosmetic brands are very different. In 2009 Sephora was making profits (72 M€ or 7.7% of turnover) whereas Marionnaud was making heavy losses of 64 M€ representing more than 10% of turnover. In just 10 years we can see a clear improvement in profitability for both companies. Sephora generated €204 million in profits in 2019, i.e. 12% of its turnover.

Over the last 10 years, which have been pivotal years in terms of the number of innovations in the retail sector, we can see that the more agile companies such as Sephora have outperformed the slower innovators. Marionnaud was able to reduce its losses but is still not profitable with -

[17] Appendice 4

4% of net profitability representing a loss of €23 million. In appendice 5[18] you can see the evolution of the net profitability of both companies. The latter has increased by 57% for Sephora and 61% for Marionnaud in 10 years.

This agility allows for maximum optimisation of stock rotation, customer lead times and supplier lead times. With an efficient logistics service, Sephora has a very fast stock rotation of 97 days compared to 147 days for Marionnaud. The optimisation of the knowledge of its customers makes it possible to make targeted advertising on unsold products, and thus to sell off the stock more easily. As far as customer credit is concerned, Sephora is once again ahead, with a customer credit period of 26 days compared to 13 days for Marionnaud. This demonstrates the efficiency of cash management. Concerning supplier credit, Sephora pays less for its raw materials because the LVMH brand pays its suppliers within 54 days vs 80 days for Marionnaud.

[18] Appendice 5

## Conclusion

Through this study we have described the evolution of consumption changes observed in the retail sector. Favoured by a strong technological upheaval, the consumer is now characterized by his desire to make a quick purchase while living an experience. Given the changing relationship with time, consumption patterns have been marked by the rapid growth of e-commerce, which has been able to respond effectively to consumer expectations.

The rapid development of this new distribution channel has jeopardised traditional commerce, which has suffered numerous shop closures. Retailers have had to reinvent themselves in depth by adopting omnichannel strategies. This digital revolution, reinforced by the current health crisis, has accelerated the mutations of points of sale. Thanks to a better knowledge of consumers and a larger digital space, retailers are more flexible and can respond to the changing needs of consumers. These changing needs are also expressed in terms of geography. Responding to a need for immediacy and proximity, shopping locations are evolving and contracting towards smaller, more urban, more flexible formats.

Changes in the way retailers manage their outlets have also changed real estate needs, prompting operators to reconsider their real estate strategies. In turn, retailers are imposing their flexibility on lessors. Flexibility has become the watchword for lessors in order to maintain the attractiveness of their assets. Based on the model of commercial leases with a commitment of several years, landlords must be more flexible. They are thus adapting by making commercial leases and formats offered to retailers more flexible and are moving to a flow logic in order to capture all the value created in the shop. Finally, a lever for landlords to meet these flexibility needs is also the development of mixed-use spaces, no longer totally dedicated to retail but offering experiences and meeting more diverse needs (medical, teleworking, logistics).

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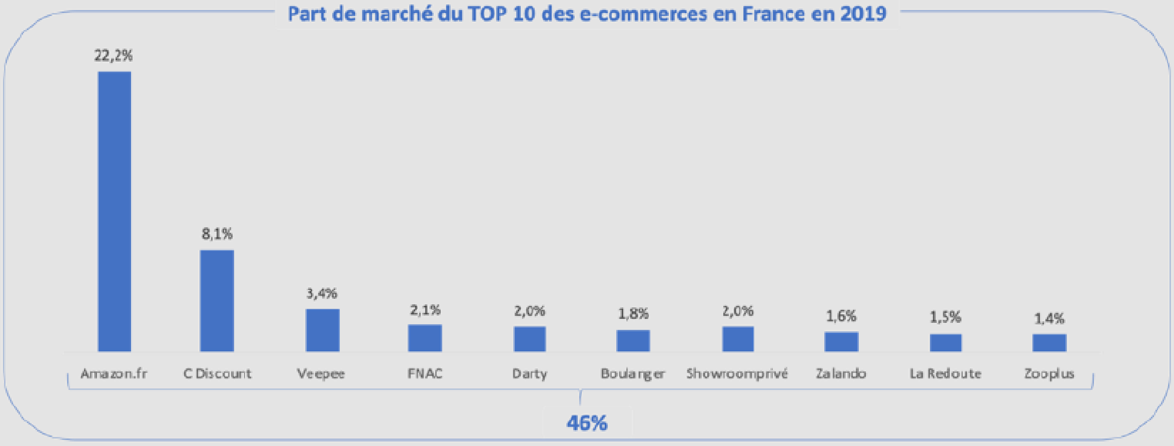
## Appendice 1:




*Source : KANTAR, mars 2020*

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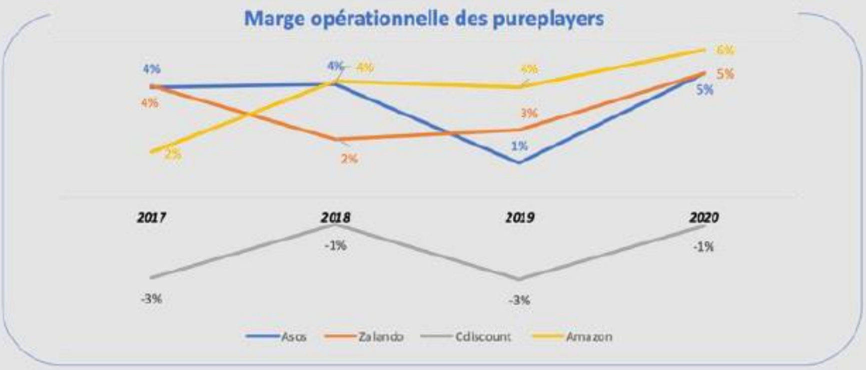


*Source : Rapports annuels*

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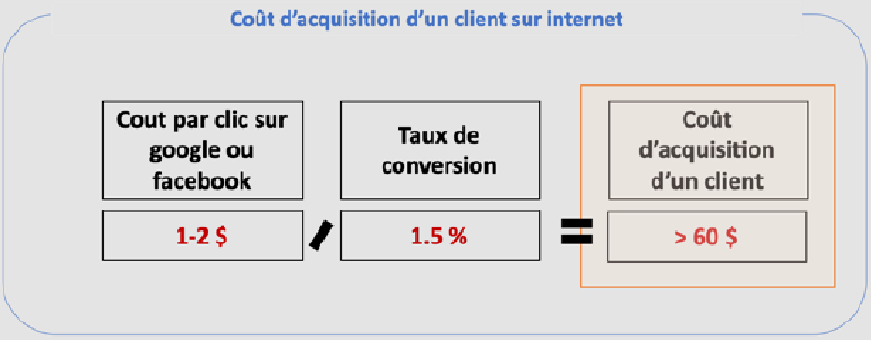


*Source : Unibail Rodamco Westfield, Investor Days (2019)*

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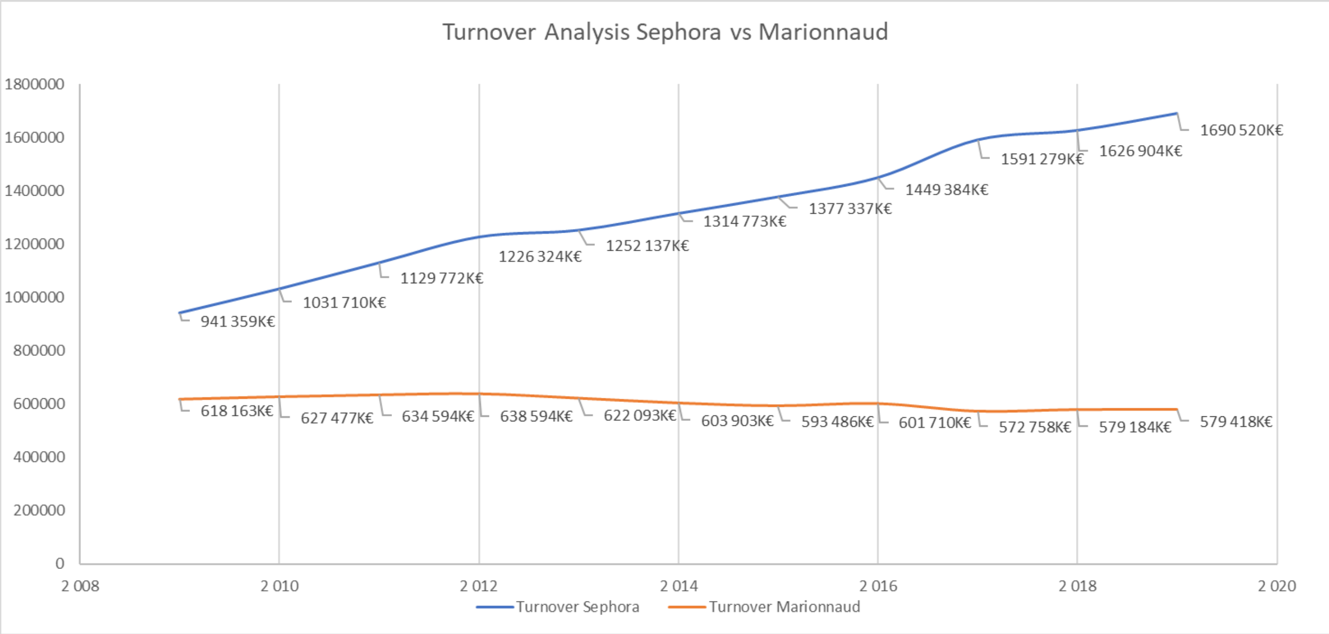


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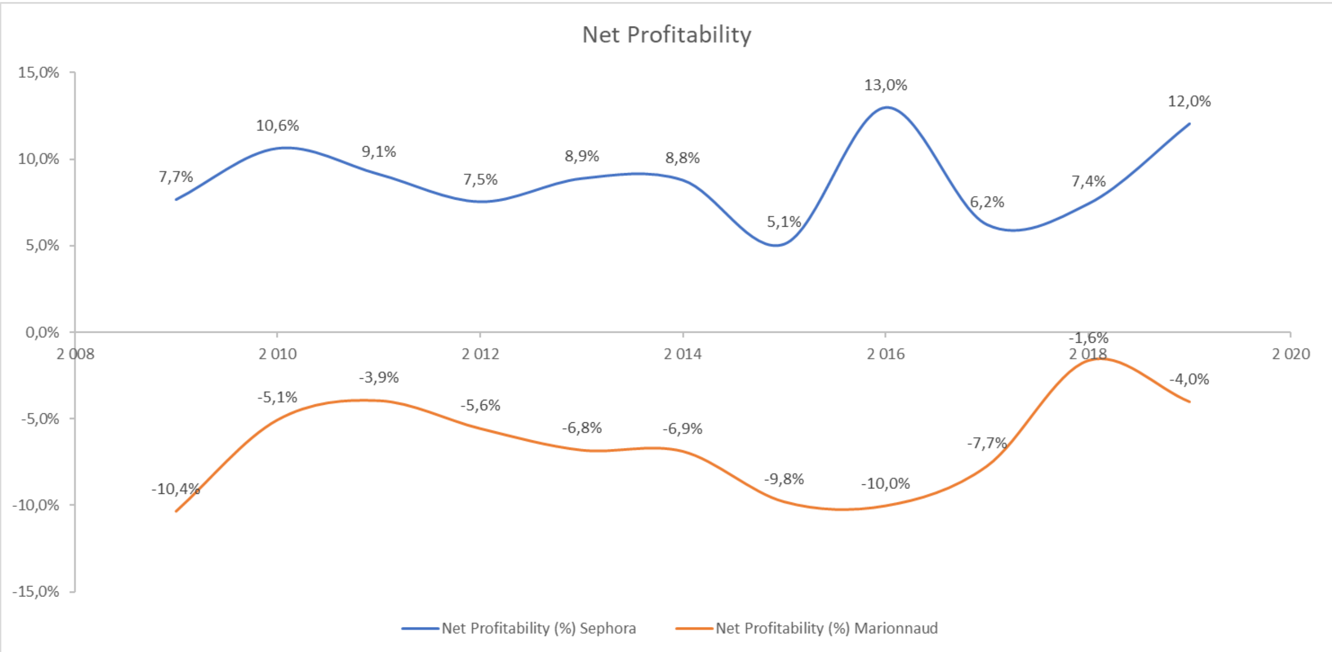


## Apendice 6:

### SWOT SEPHORA

| Stenghts | Weaknesses |
|---|---|
| - Sephora is a popular brand and chain of cosmetics stores founded in Paris<br>- Sephora chain includes more than 2000 stores in over 30 countries (320 stores in France) having over 3000 different brands.<br>- The company has a high value brand in cosmetics category in mind of its consumers<br>- Sephora has its own private labels as well which differentiates itself with other players<br>- Good branding and marketing exercises ensures high visibility<br>- Sephora has a very popular loyalty program<br>- The brand appeals to all generations and all budgets<br>- Sephora is a pioneer in beauty tech and offers a variety of services combining physical and digital, both online and in-store<br>- The brand has an app and a website which are highly developed and much visited<br>- Its own product line includes cosmetics, perfumes, skincare, nail polish etc.<br>- Sephora has the strong backing of its parent company LVMH | - Brand recall of Sephora is not much high as compared to other popular brands<br>- Yet to establish itself as a global player specially in emerging economy<br>- Cultural adaptation is complicated in each country |
| **Opportunities** | **Threats** |
| - Consumers are ready to pay high price for high value products so opportunity to penetrate in market<br>- opportunity to enter emerging markets by suiting with their environment can help boost the expansion of Sephora | - Many players exist in beauty category and differentiation is very much difficult<br>- Maintaining low cost is big concern due to high inflation raw material cost increases<br>- Customers are very selective in beauty category so attracting them requires high Brand quality and service<br>- There are Many barriers to market entry |

**Apendice 7 :**

**SWOT MARIONNAUD**

| **Stenghts** | **Weaknesses** |
|---|---|
| - Marionnaud chain includes more than 1200 stores (520 stores in France)<br>- Marionnaud offers many beauty brands, from all budgets (luxury to mid-price)<br>- Some stores are also beauty institutes.<br>- The brand is building customer loyalty<br>- Marionnaud is part of a huge company, AS Watson Group | - Brand recall of Sephora is not much high as compared to other popular brands<br>- Yet to establish itself as a global player specially in emerging economy<br>- Cultural adaptation is complicated in each country |
| **Opportunities** | **Threats** |
| - Wide scope for improvement in product animation, innovation and digitalization | - Marionnaud has many larger and more popular competitors, such as Sephora<br>- E-commerce growth is a major threat considering the actual digital devlopment of Marionnaud<br>- There are many barriers to market entry |