

It's Not Innovate or Die; It's Innovate or Buy

LINCOLN PERSPECTIVE

There is significant opportunity in the retail industry for companies and investors willing to look with fresh eyes. E-commerce and consumer demands are changing every facet of the industry. But transformation is no easy task, and the faster path to innovation for many retailers and brands is throughout acquisition.

Nimble and high-growth e-commerce companies have the digital-first mindset built into their business models, while traditional retailers are still playing catch up and evolving old models, systems and infrastructure. At the same time, growing players like Warby Parker and Allbirds are aggressively incorporating brick and mortar retail into their growth strategies. The result? We expect more strategic acquisitions and partnerships that pair up established players with niche e-commerce brands who can help bridge the gaps with talent, technology and brick-and-mortar assets. Innovative partnerships are likely to outperform.

Private equity investors have ample opportunity as well. According to a recent Lincoln survey of more than 100 private equity and corporate investors, 30% indicated that they believe retail is better off or more innovative than it was were in 2018. Investors are now embracing earlier stage e-commerce companies, where it is easier and faster to scale the business. Other areas garnering the interest of PE firms are experiential and leisure retail formats that are on trend with consumer behaviors. Lastly, funds can also help distressed retailers re-invent their model and identify the assets and capabilities they need for a turnaround.

With the right deals between the right companies at the right time in the market, M&A will continue to drive value in the retail industry for companies and customers.



The retail industry isn't dying, it's changing.

While store closures and bankruptcy headlines are still prevalent, consumer sentiment in September 2018 reached the second-highest level since 2004, according to the University of Michigan. If retailers are underperforming, it's not for want of opportunity, it's for lack of movement and innovation in response to evolving consumer needs and preferences.

Retailers and brands across all sectors have a choice: innovate your model from the ground up, or acquire the infrastructure, technology and talent you need to meet new consumer expectations.

TRANSFORMING THE EXPERIENCE

Retail is not just about selling products anymore. It's about how, where and when you can build a relationship with your shoppers. Increasingly, this means transforming shopping into an experience, engaging your consumer across multiple channels, and meeting demands for speed and convenience. A Bain study found that three-in-four consumers want more technology in stores and are more likely to visit stores that use technology effectively. From smart mirrors, to mobile or cashier-less check-outs, to pop-ups with social media integration, shopping is going high-tech.

Moreover, the Amazon effect on retail has fundamentally changed the equation. Not only do retailers have a larger online competitor than ever before, but Prime has created what the Wall Street Journal calls the "gold standard" for all e-commerce providers in free, two-day shipping. Prime has 100 million members across the world and is forcing large and small players alike to rethink their fulfillment practices. Target and Walmart now offer free two-day delivery, and even Etsy prioritizes promoting sellers who can fulfill orders more quickly. Indeed, the need for fulfillment centers close to consumers all over the country has revitalized a historically problematic retail asset: real estate. According to Target, over 90% of its online orders that arrive within two days are shipped from its stores. Amazon's acquisition of Whole Foods further emphasizes and embraces the value of brick-and-mortar in delivering a 'holistic' solution to the consumer.

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