

# ASK THE EXPERTS WEBINAR

*HOW RETAIL INDUSTRY TRENDS AFFECT  
TODAY'S FINANCE & ACCOUNTING FUNCTIONS*

March 12, 2020

## PRESENTERS



### **Anand Raghuraman** *EXECUTIVE MANAGING DIRECTOR*

**Years of Experience:** 23

**Expert Areas:** Strategy and Performance Improvement

**Industries Served:** Retail and Consumer Products



### **Mark Cox** *MANAGING DIRECTOR*

**Years of Experience:** 11

**Expert Areas:** Technical Accounting, Capital Markets and Internal Controls

**Industries Served:** Manufacturing, Technology and Energy

## KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
  - ▶ Access to this webinar recording and deck
  - ▶ The ability to join our Webinars Mailing list to receive future invites
  - ▶ Presenter contact info



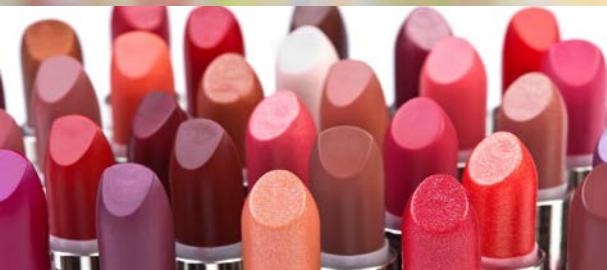
## LEARNING OBJECTIVES

- 1** Understand Key Trends Affecting The Retail Industry
- 2** Understand How Industry Trends Affect Technical Accounting Areas
- 3** Understand How Industry Trends Affect IT Systems, Business Processes and Internal Control Considerations

# THE STATE OF RETAIL



# Retailers



are facing the largest

disruption that we have

seen in generations

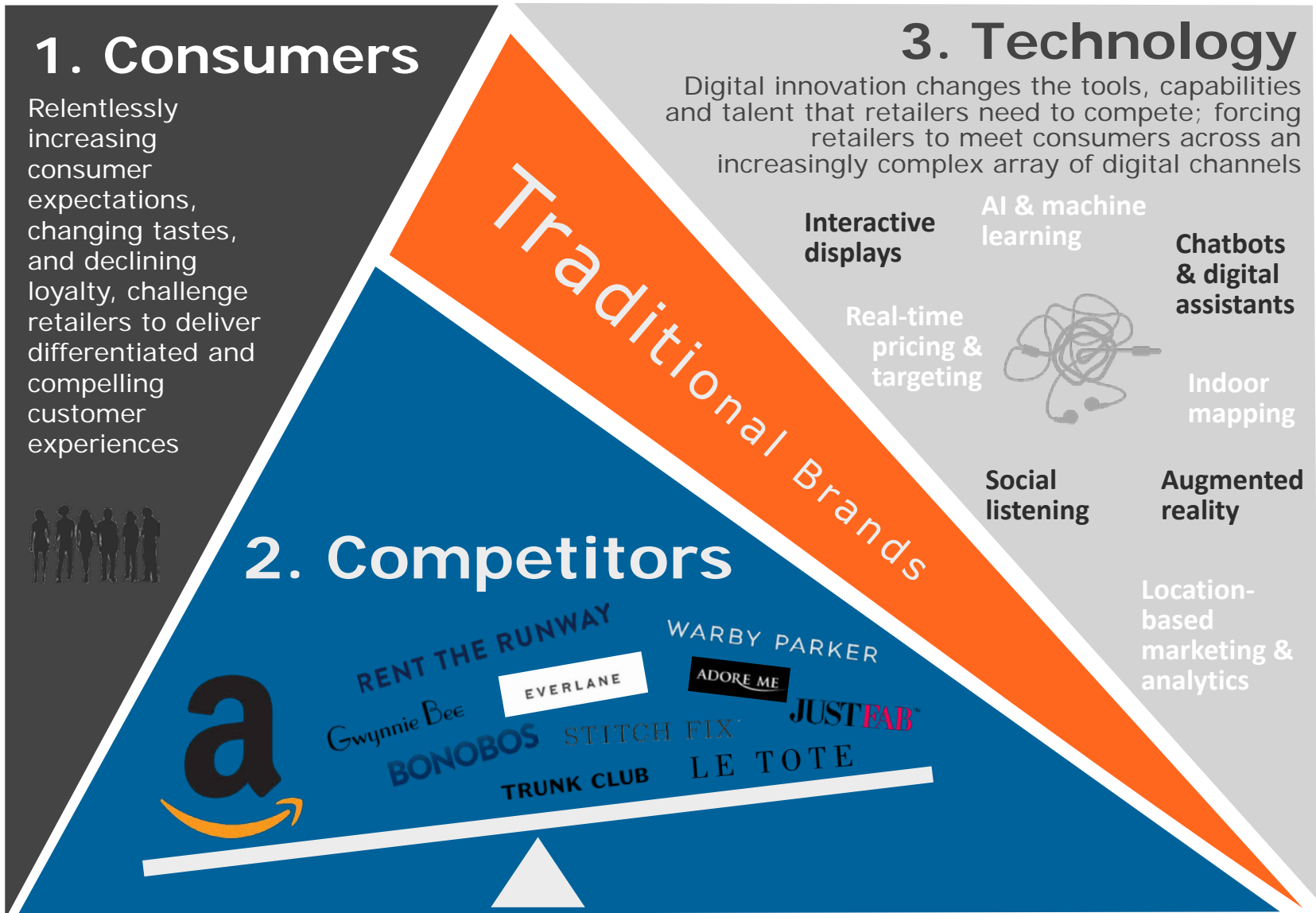




## SHOPPING HABITS ARE EVER EVOLVING

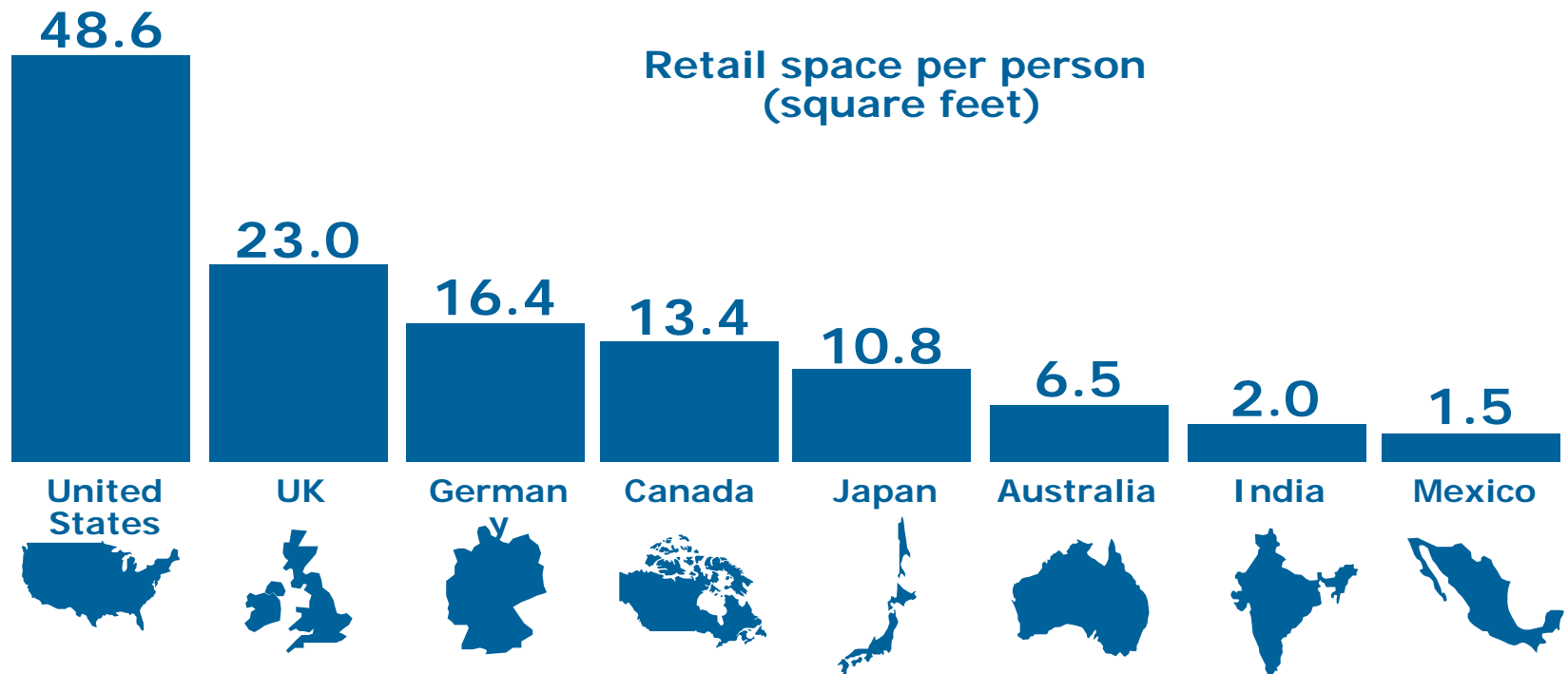


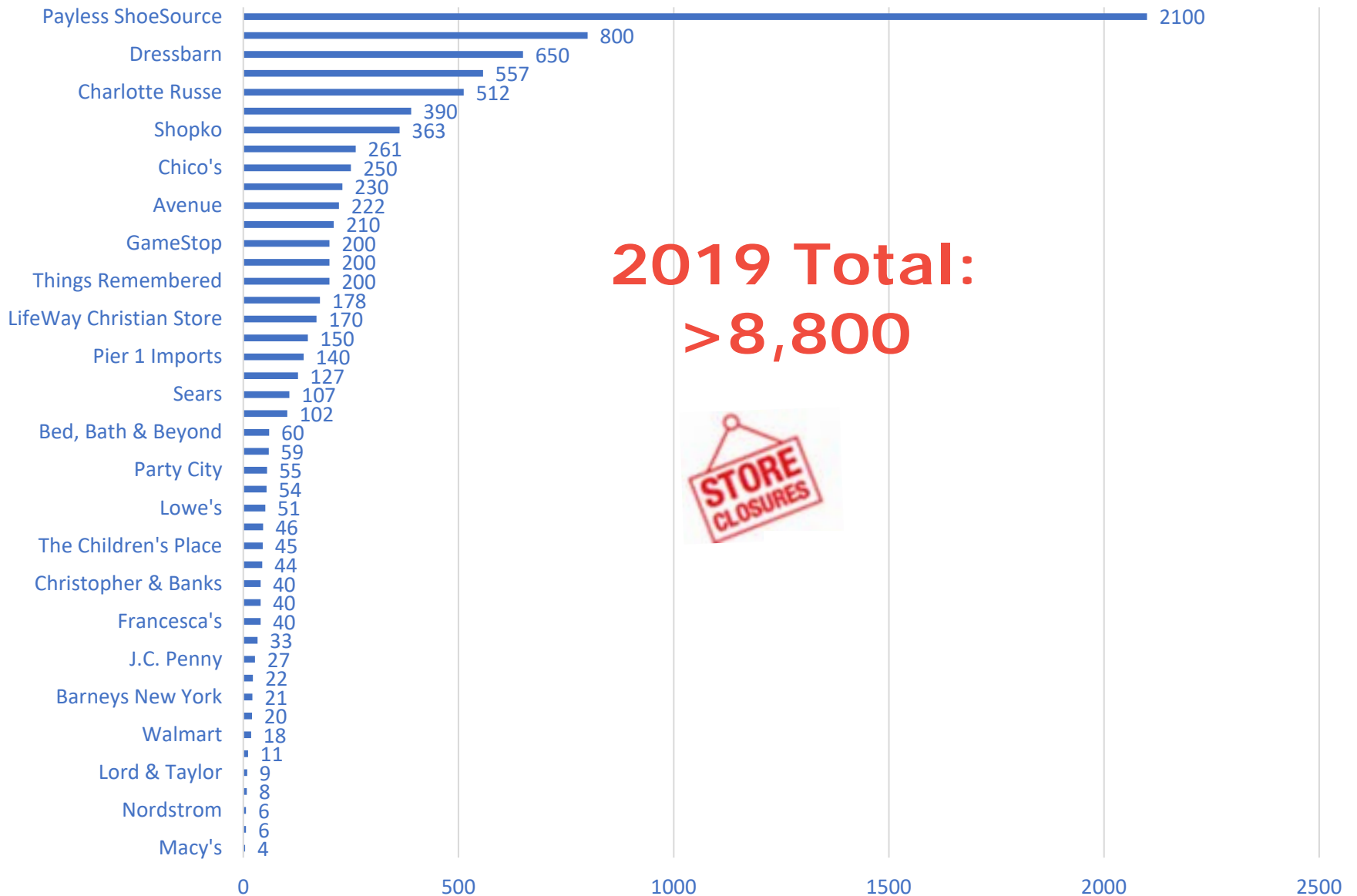
# WHAT DRIVES THIS 'DISRUPTION'?





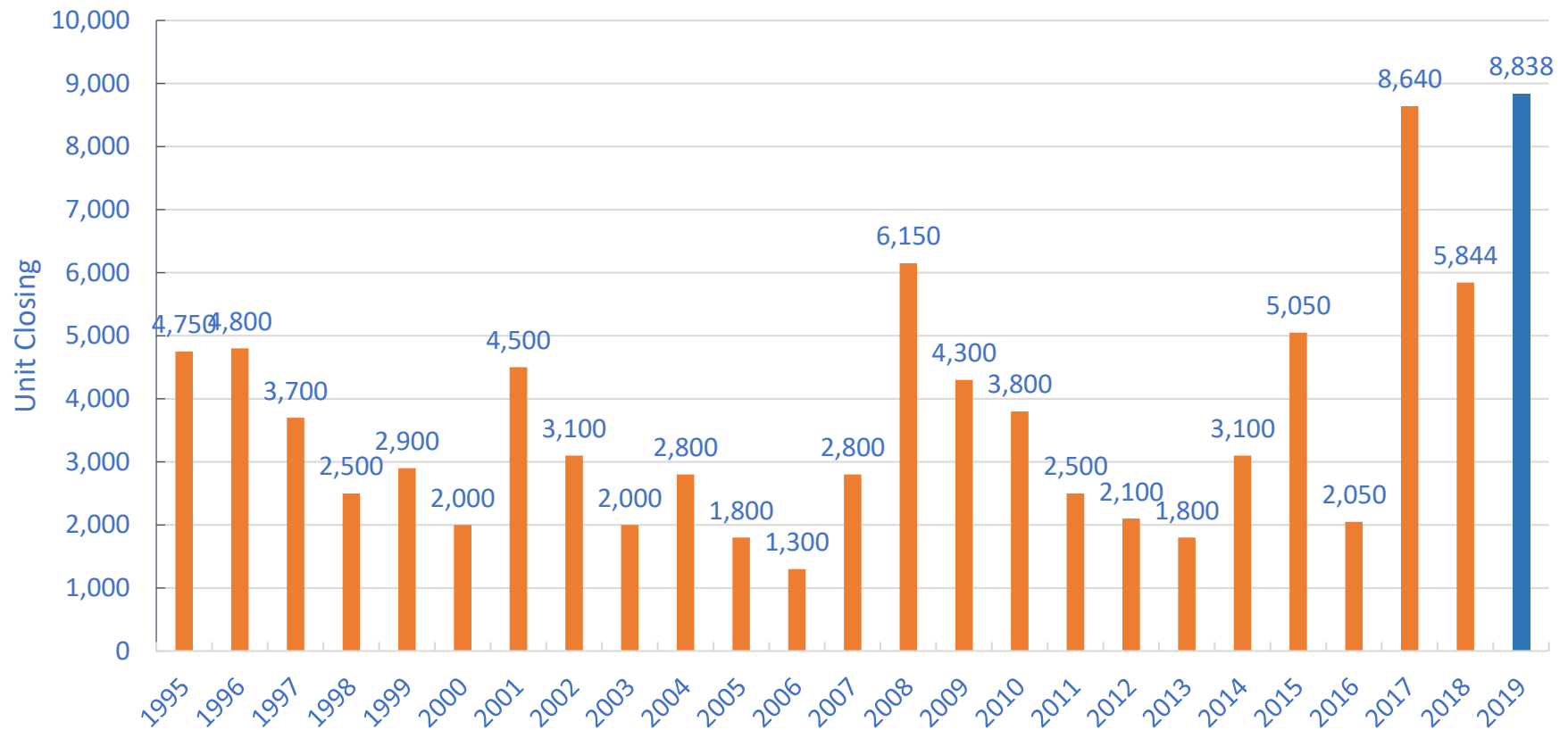
## THE US IS OVERSTORED



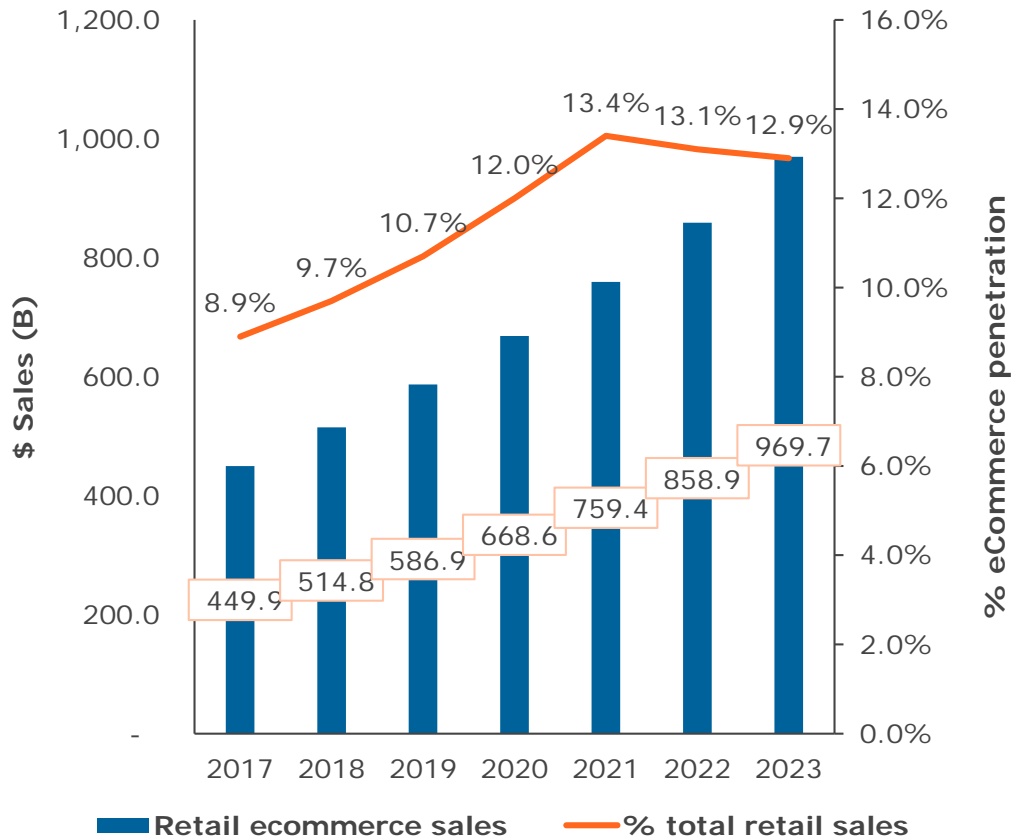


## ...WHICH IS A 20-PLUS YEAR HIGH

Retail Unit Closings, USA, 1995-2019

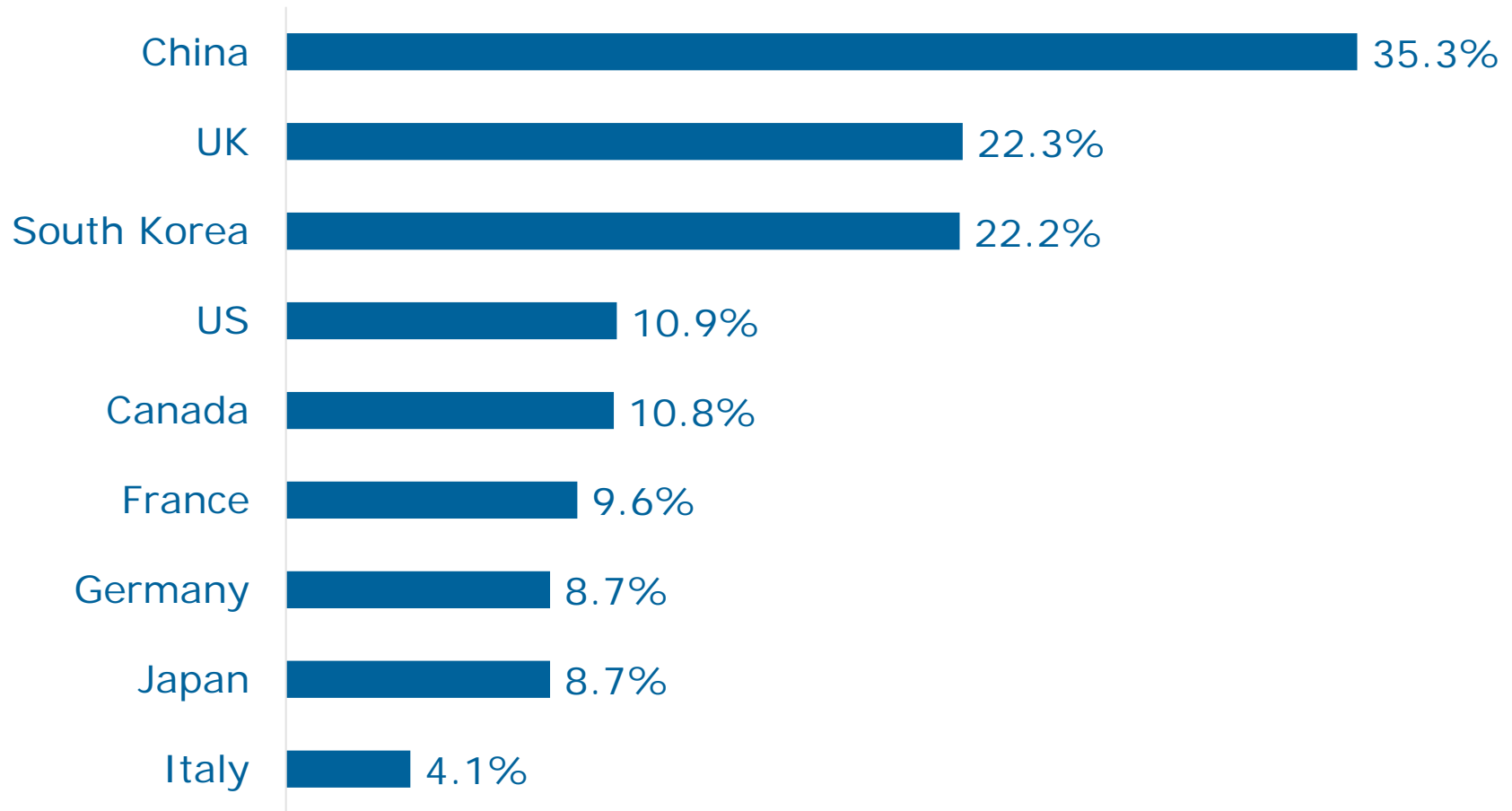


## ECOMMERCE CONTINUES TO GAIN SHARE FROM BRICKS & MORTAR...



- ▶ Overall retail expected to grow at ~2% CAGR from 2019-2023
- ▶ eCommerce expected to grow at a ~13% CAGR in same period

## ...WITH THE US LAGGING IN ECOMMERCE PENETRATION



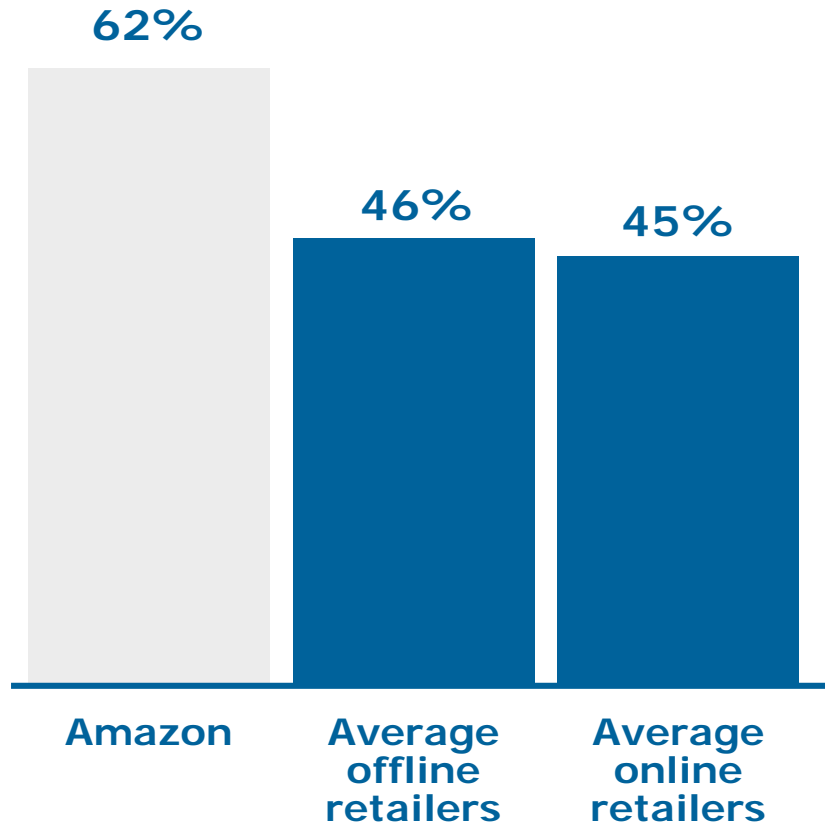
Source: eMarketer

AMAZON

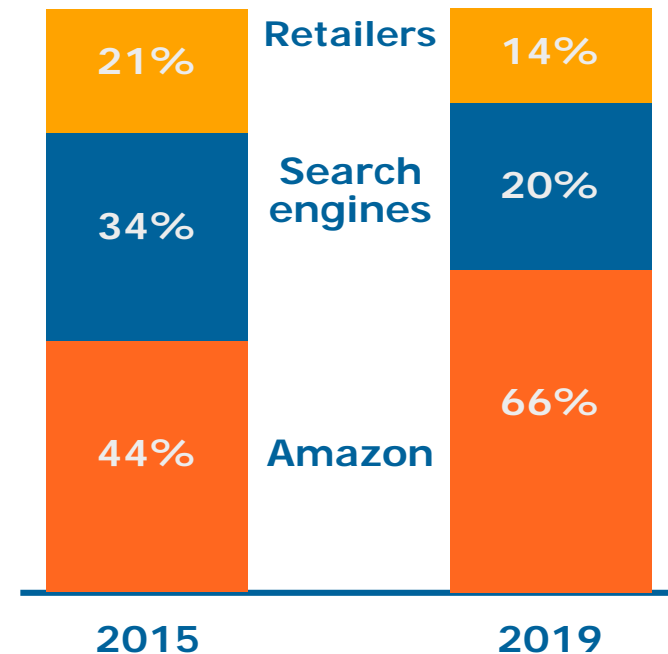


# AMAZON'S NPS MAKES IT THE FIRST CHANNEL USED TO DO SEARCH

## Market-leading Net Promoter Scores (NPS)

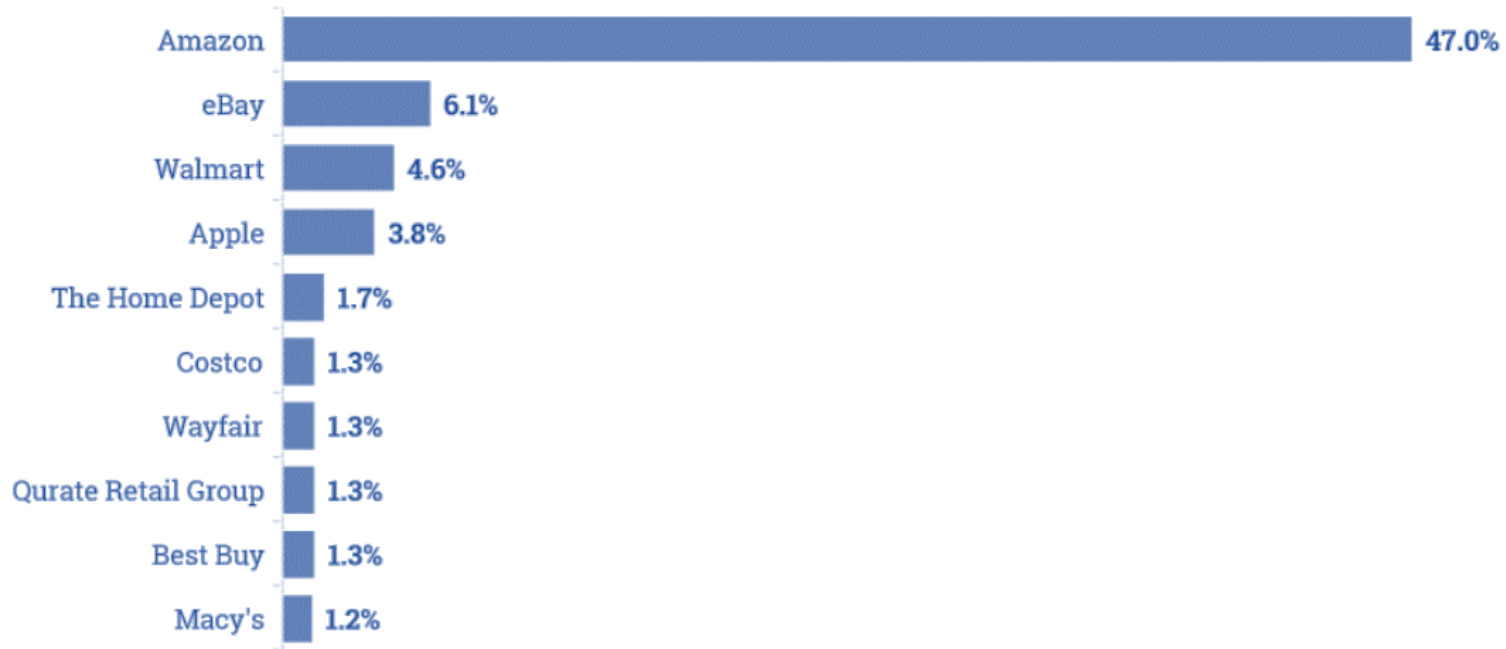


## First channel used by US internet users when researching products digitally 2015–2019



# AMAZON HAS DOMINANT SHARE IN ECOMMERCE...

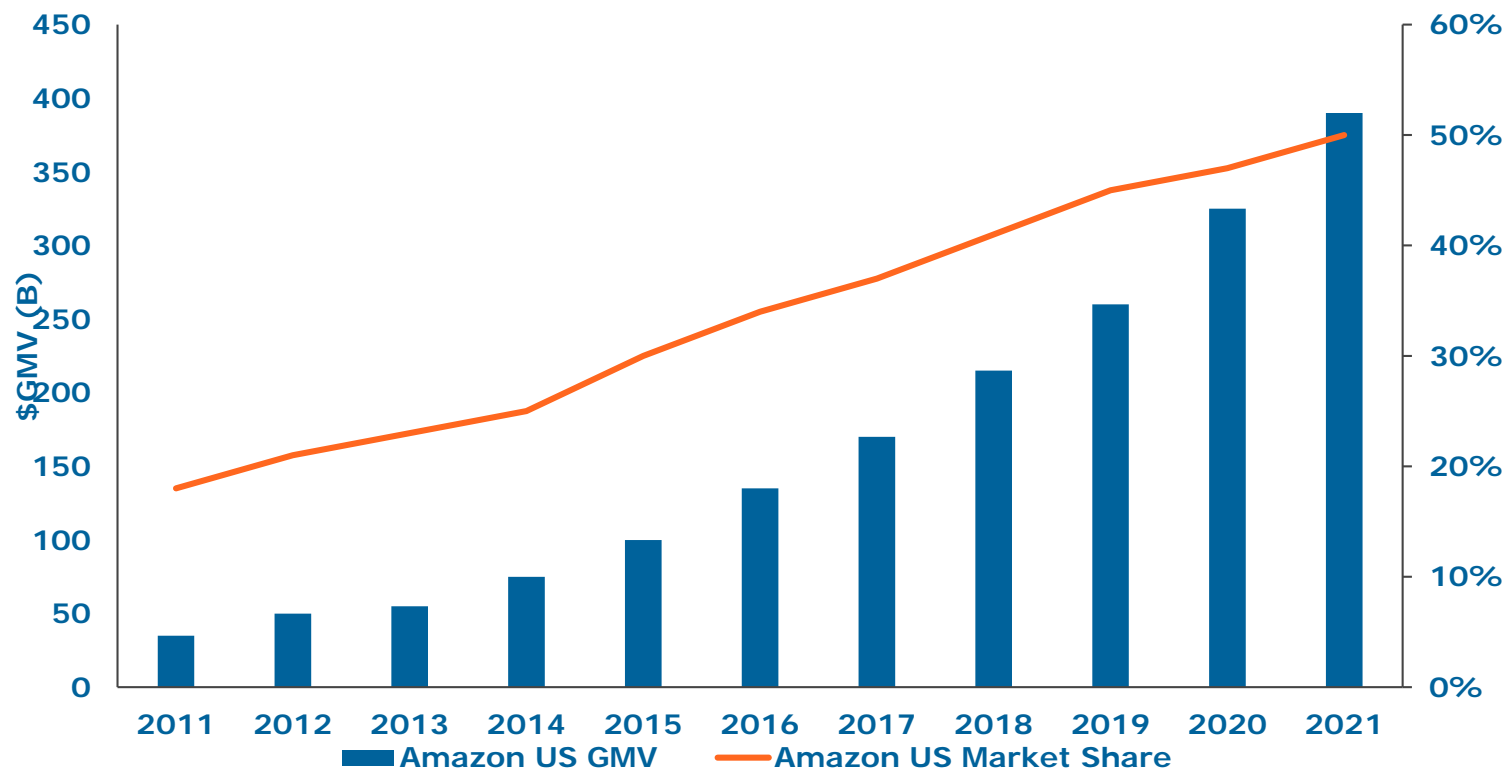
Top eCommerce retailers in the US 2019  
By % share of total eCommerce sales



Over double the share compared to next 9 combined

Sources: Marketingcharts, Yahoo News

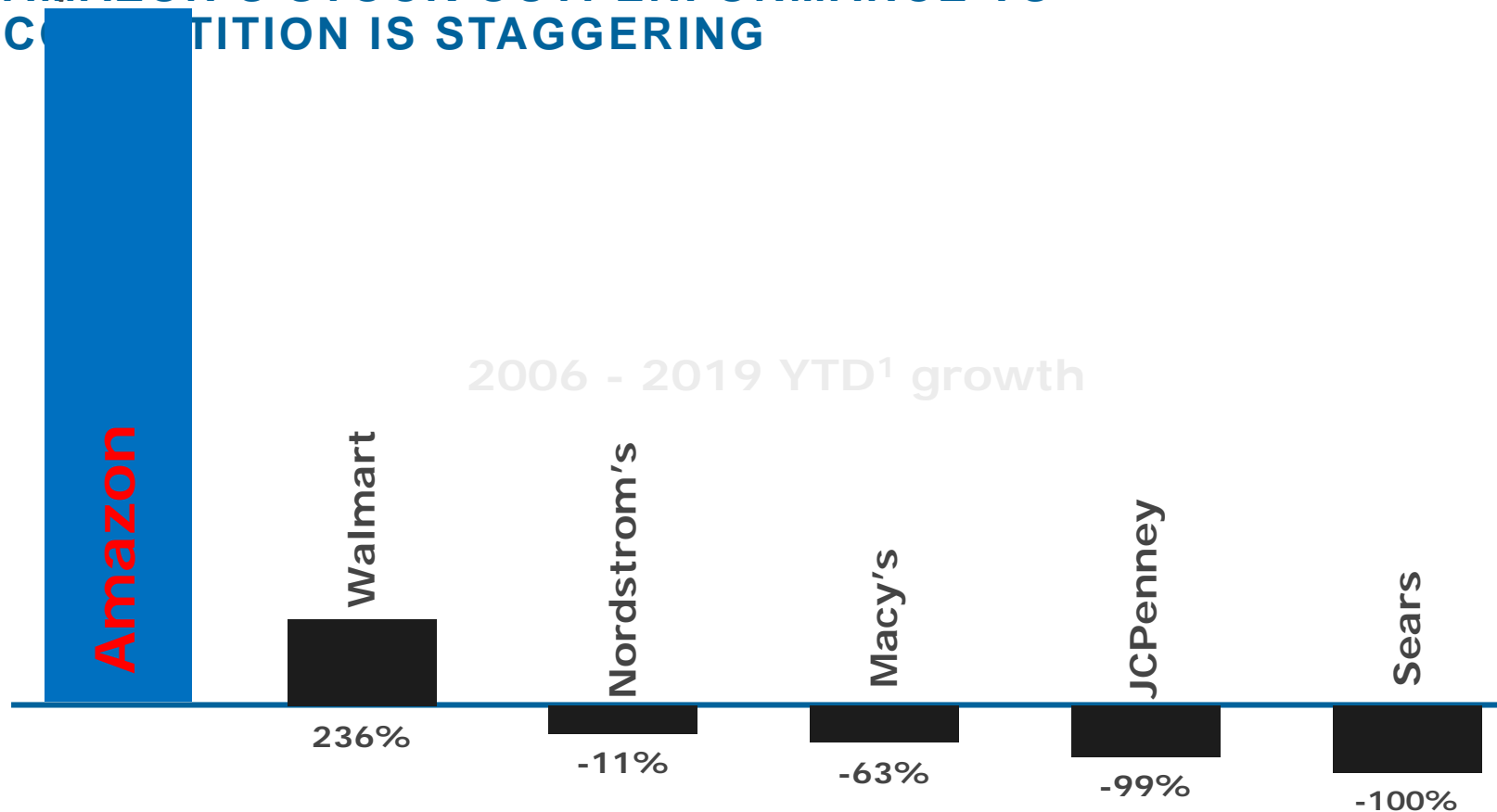
## ...AND ITS SHARE OF US MARKET KEEPS GROWING



Amazon represents two-thirds of total US eCommerce growth

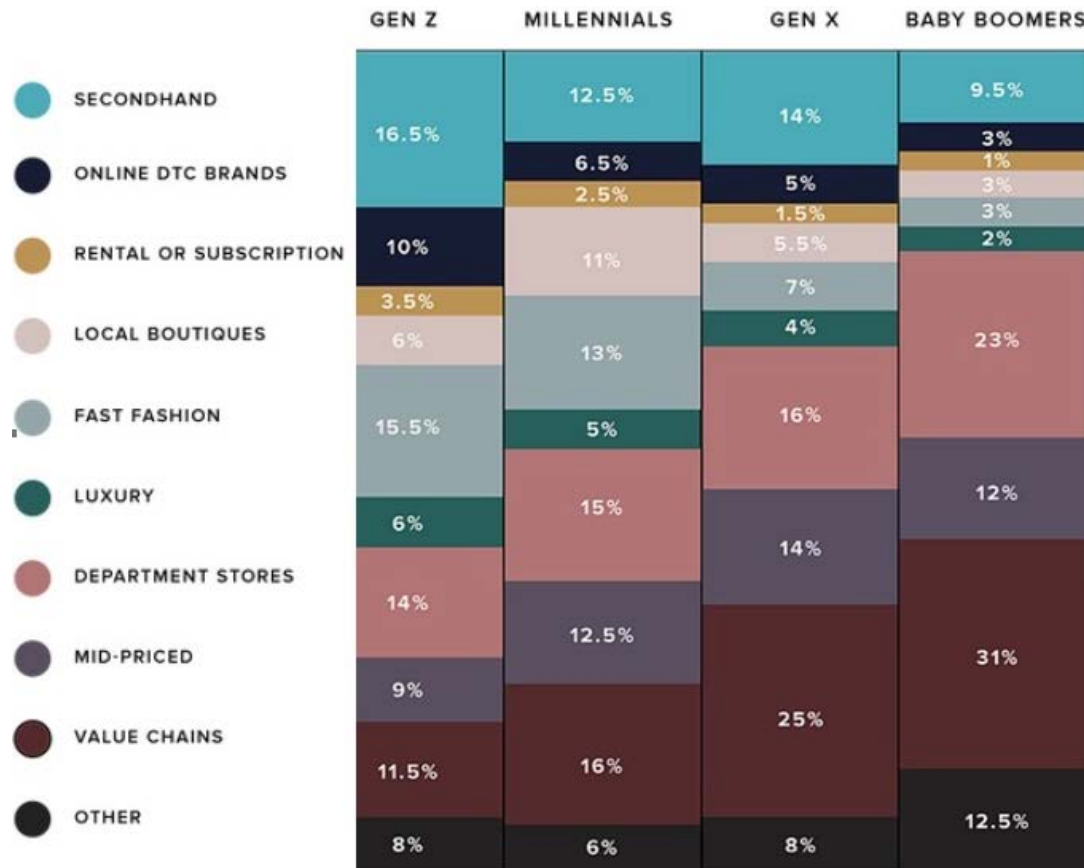
Sources: Company Reports, US Census Bureau, eMarketer, Needham & Company

## AMAZON'S STOCK OUTPERFORMANCE VS COMPETITION IS STAGGERING



Note: (1) As per 03-03-2020  
Sources: L2, Amazon, eMarketer

# YOUNGER GENERATIONS BUY FROM DIFFERENT CHANNELS...



Source: Poshmark

## ...AND GET TO DECISIONS DIFFERENTLY

57%	FRIENDS, FAMILY, AND WORD-OF-MOUTH
41%	INFLUENCERS
33%	SOCIAL MEDIA MARKETING
31%	BRICK-AND-MORTAR NETWORKS
29%	PERSONAL SOCIAL MEDIA NETWORKS
16%	ADVERTISING
16%	EMAIL CAMPAIGNS
8%	DIRECT MAIL
7%	BILLBOARDS

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### E-COMMERCE TRANSACTIONS AND INTERACTIONS GROWING EXPONENTIALLY AT THE PEER-TO-PEER LEVEL

58%

are comfortable purchasing items through a social media platform instead of directly from a company's website.



 POSHMARK

75%

are comfortable buying an item directly from a person online

Etsy

ebay



## THIS HAS AN IMPACT ON MINDSHARE OF SMALLER DNVBS

### US internet user familiarity with DNVBs

<i>% of respondents, March 2019</i>	<b>Purchased in the Past</b>	<b>Will Likely Try in the Future</b>
<b>Personal care &amp; beauty (e.g., Glossier, Harry's, Dollar Shave Club)</b>	52.1%	53.9%
<b>Clothing &amp; Apparel (e.g., Allbirds, Everlane, Bonobos)</b>	49.0%	57.1%
<b>Food &amp; Drink (e.g., HelloFresh, Blue Apron, Freshly)</b>	39.8%	45.4%
<b>Travel &amp; Transportation (e.g., Away, Uber, AirBnB)</b>	36.4%	38.4%
<b>Pet Care (e.g., Ollie, BarkBox, KitNipBox)</b>	29.1%	36.1%
<b>Home &amp; Furnishings (e.g., Casper, Brooklinen, Brandless)</b>	29.1%	35.6%
<b>Marketplace &amp; Rental Chains (e.g., OfferUp, Jet.com, LetGo)</b>	29.1%	30.5%
<b>Wealth Management &amp; Financial Services (e.g., Wealthfront, Acorns, Robinhood)</b>	11.8%	14.7%
<b>Other</b>	4.1%	1.9%

Source: Toluna Survey



Retailers need to rethink  
the role stores need to play

# The good news

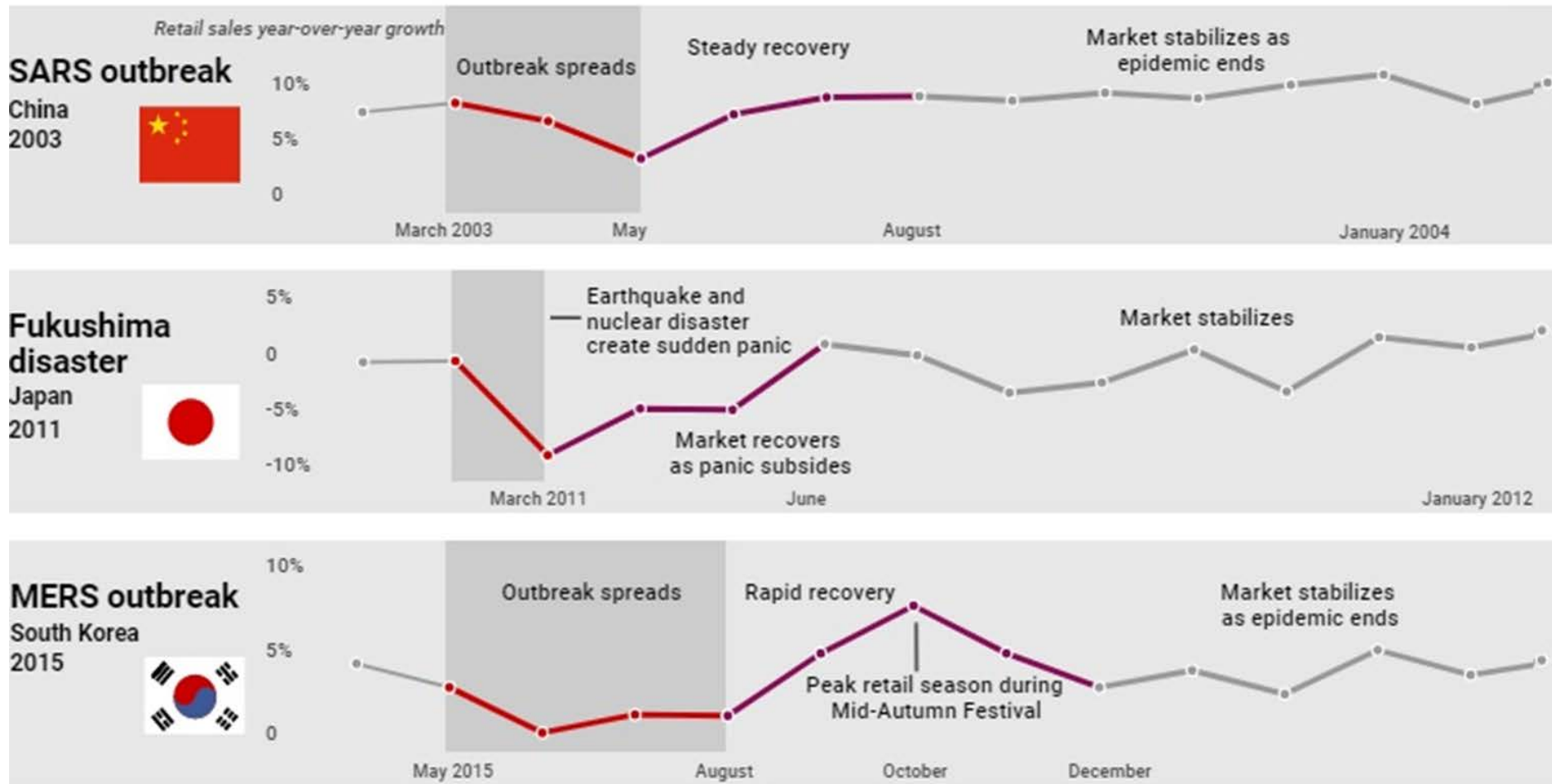
~ 90%

Source: U.S. Census Bureau



# LATE BREAKING NEWS: COVID-19 CORONA VIRUS

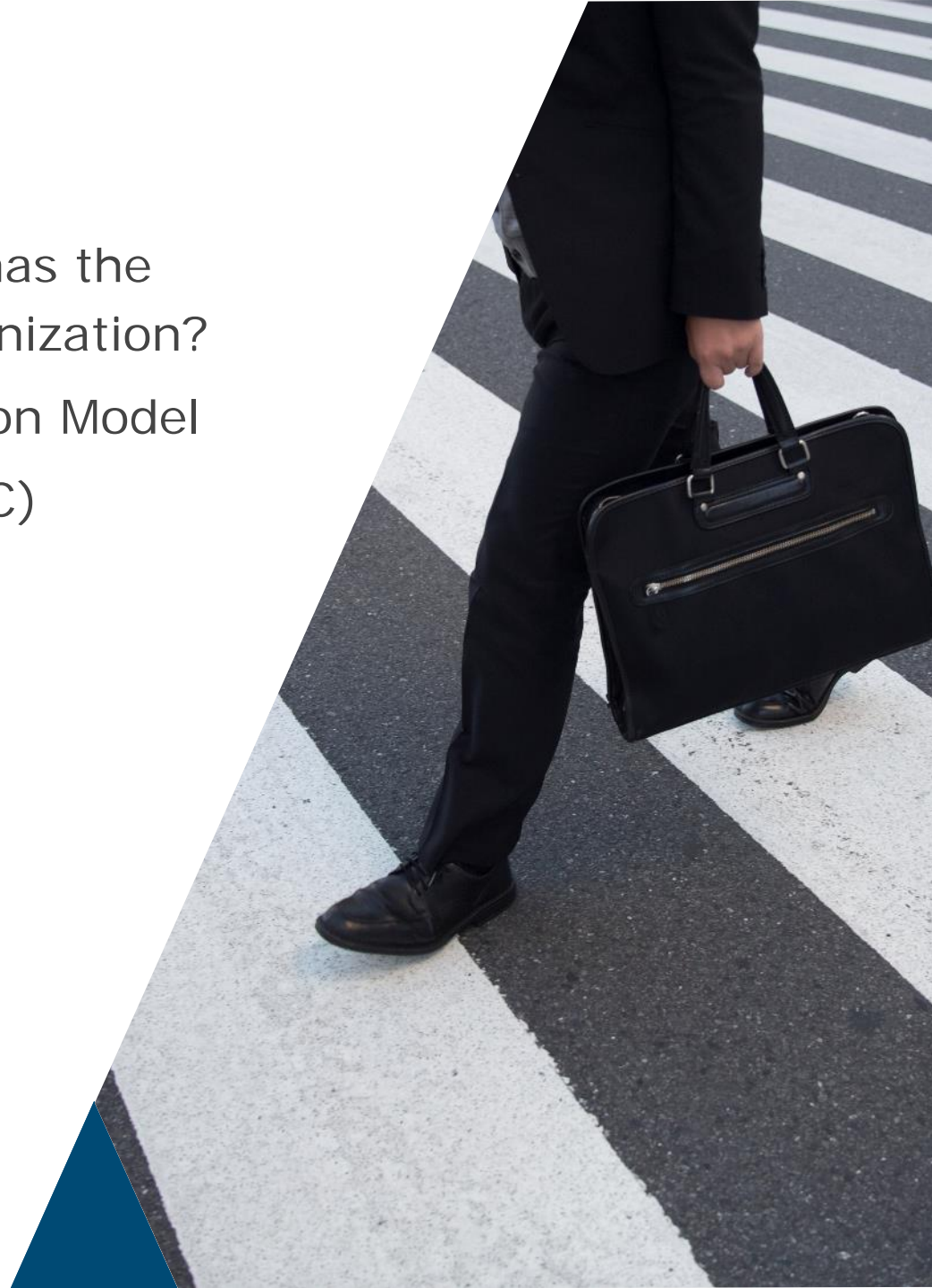
**Retail markets typically dip during a crisis, but eventually stabilize**



## POLLING QUESTION 1

Which retail industry trend has the biggest impact on your organization?

- A. Rental and/or Subscription Model
- B. Direct-to-Consumer (D2C)
- C. Bricks & Mortar
- D. Coronavirus
- E. Other/Not Applicable



# CORONAVIRUS (COVID-19) CONSIDERATIONS FOR YOUR RETAIL BUSINESS

- ▶ The impacts of Corona are predominantly negative for most retailers on both the supply and demand side
  - ▶ Retailers with sales in affected countries (international and domestic) will see sales decline
  - ▶ Retailers with supply chain and sourcing footprints in these countries will see disruption including reduced manufacturing capacity, issues with raw materials flow, impeded work-in-progress and finished goods shipping
  - ▶ Retailers in the Food and essentials categories will see short-term upticks with 'panic' buying
  - ▶ Off-price retail will see increased supply due to delayed deliveries for other retailers
  - ▶ As you saw, sales typically have reverted back to the mean in the past. The question is how long will that take
- ▶ Key considerations for the Finance & Accounting organization:
  - ▶ Impairment – Does the impact of the virus on your organization trigger any impairment indicators that need to be assessed further?
  - ▶ Financial reporting and disclosures – What do you need to disclose to investors and stakeholders regarding the affect on your business? The SEC has commented and provided some guidance for public filers as to how to disclose the impact on your organization such as risk factors, management discussion and analysis, etc.
  - ▶ Business continuity and disaster recovery planning – Does your company have a plan in place to address? If not, how can you adjust your plan to factor in similar events?
  - ▶ Forecasting – If you are reporting to investors on a periodic basis, how will the disruption caused by the virus affect your forecast?
  - ▶ Supply chain flexibility – No company can plan for everything, but how can you make your supply chain more resilient in the future?



# RENTAL AND SUBSCRIPTION MODELS

- ▶ These are two separate but related models
  - ▶ The rental model is one that satisfies consumers' need for newness while simultaneously allowing consumers to 'trade up'
  - ▶ The subscription model is a replenishment-type model
- ▶ Example companies:
  - ▶ Rent the Runway, StitchFix, Panera coffee subscription
- ▶ Key considerations for the finance and accounting organization:
  - ▶ Revenue Recognition – ASC 606
  - ▶ Inventory accounting
    - ▶ Tracking of inventory
    - ▶ Accounting for damages of returned items
    - ▶ Impairment and obsolescence
  - ▶ Disclosures
  - ▶ Supply chain
  - ▶ Customer acquisition costs (CAC)

## POLLING QUESTION 2

What is an area of accounting or financial reporting that will require a reassessment upon beginning a subscription or rental model?

- A. Revenue recognition
- B. Inventory accounting
- C. Disclosures
- D. All of the above



## DIRECT-TO-CONSUMER (D2C)

- ▶ Direct-to-consumer are brands that typically were founded as digital-only companies
- ▶ Example companies:
  - ▶ Away, Warby Parker, Everlane, Casper
- ▶ Key considerations for the finance and accounting organization:
  - ▶ Revenue Recognition - ASC 606
  - ▶ Leasing - ASC 842
  - ▶ Inventory accounting
  - ▶ Supply chain
  - ▶ Customer acquisition costs (CAC)

### POLLING QUESTION 3

What is a name commonly used for companies that started as online/direct-to-consumer brands but may have shifted to different models (such as brick and mortar)?

- A. Online Only brands
- B. Digitally Native Vertical Brands
- C. Non-Bricks & Mortar Retail



# THE POWER OF DATA

- ▶ Data Analytics is very important in retail due to the abundance of data that retailers have
  - ▶ Data should be used to make better decisions across all functions
  - ▶ Data drives better personalization and customization of products
- ▶ Key considerations for the finance and accounting organization:
  - ▶ Cost of data
  - ▶ Tracking and accumulating data
  - ▶ Data governance
  - ▶ Internal audit and internal controls
  - ▶ Cybersecurity
  - ▶ Leveraging systems and tools
  - ▶ Disclosures
  - ▶ Financial Planning and Analysis implications

## POLLING QUESTION 4

What is an area discussed today where retail brands are using the power of data within the accounting and finance function?

- A. Financial Reporting
- B. General Ledger Accounting
- C. Financial Planning and Analysis
- D. All of the above





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**Q&A**