Beyond the Core

How UK retailers are looking beyond core offerings to drive new revenue streams

BRC webloyalty

A report by Webloyalty
in partnership with the British Retail Consortium

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Many retailers are using secondary revenue to diversify and de-risk revenue streams resulting from a changing and challenging retail environment. These measures are similar to the methods airlines implemented in the early 2000’s, when their sector was in a similar predicament. As *Beyond the Core* highlights, secondary revenue is now common practice among UK retailers and can clearly have an impact on the performance and stability of a business for those that get their strategy right.

Webloyalty have partnered with the BRC - an organisation at the forefront of the retail agenda - to understand how UK retailers are approaching secondary revenue, and the role it plays in their organisations. In our report - the first of its kind - we aim to open up discussions on these practices, providing a foundation to look deeper into the opportunities and suggest best practice, based on the retailers that are already substantially boosting revenue in a tough commercial environment.

Guy Chiswick
Managing Director
Webloyalty Northern Europe

The UK retail industry is facing a period of exceptional change. The dramatic rise of Internet shopping has ushered in an era of both great opportunity and challenge for retailers, creating more choice and competition than ever before which is good for consumers, but has meant an increasing squeeze on margins. Retailers who are surviving and thriving in this environment are those who are innovating; using technology and the increasing amount of data available to them in order to understand their customers and optimise their experience.

Progress and innovation come from understanding and the sharing of knowledge. Studies such as the *Beyond the core: How UK retailers are looking beyond core offering to drive new revenue streams* provide an important contribution to the evidence base on innovation in retail. The survey gives insight into the application of secondary revenue generation amongst UK retailers, a practice widely implemented in the airline industry when faced with a similar situation to that faced by UK retail today - low and falling margins on core products. This report should provide food for thought for retailers of all sizes and types.

Rachel Lund
Head of Insight & Analytics
at the BRC

Key findings

More than two thirds of retailers generate at least 1% of their revenue from secondary sources with around 18% generating at least a fifth of their revenue this way and a few generating close to half

Retailers can significantly increase and diversify their income streams by using their websites to generate secondary revenue - revenue that does not come directly from main product lines of a company.

When the trading environment is difficult and margins are low, as in the UK retail industry now, secondary sources can offer an additional source of income, with low associated costs. The rapid development of online retail platforms also opens up opportunities to both generate secondary revenue as well as enhance the consumer experience.

Although not necessarily viewed as a core part of a retail business model, the *Beyond the core* shows it is already common practice among UK retailers. More than two thirds of retailers generate at least 1% of their revenue from secondary sources with around 18% generating at least a fifth of their revenue this way and a few generating close to half.

However, secondary revenue generation is generally not high on the agenda of senior management; just 13% of retailers polled said driving secondary revenue was very or extremely important to their business whilst only 26% of those polled were aware of their business having a secondary revenue strategy in place.

As a result, only 50% of retailers are clear that their efforts are working. Those businesses which have a strategy in place, that give secondary revenue increased priority and who work with third parties are experiencing a greater level of success. Also, those retailers who have been successful generally use a mix of secondary methods rather than just one.

Secondary revenue generation is not for everyone, but with the right strategy and attention within the business it can represent a low cost means of substantially boosting revenue in a tough commercial environment, whilst at the same time keeping with a retailers' ethos and values.

1. What is secondary revenue?

Secondary revenue refers to revenue generated from goods or services which differ from the main product or service lines of a company. It may also be referred to as ancilliary or non-core revenue or as monetisation. Typically, secondary revenue generation will use existing assets, in order to keep costs low. In today's world the focus of secondary revenue generation is usually a company's website and associated platforms, but does not have to be.

> *Ancillary revenue earnt by the world's top ten airlines rose from $8.4bn in 2008 to $25.9bn in 2015*

Despite its name, secondary revenue can play a major role in a firm's strategy. Where margins on principal products are being squeezed, secondary sources can provide a much needed boost to revenue; where that squeeze is due to structural changes in an industry, secondary revenue can become a core source of income.

Nowhere is this more evident than in the airline industry - often considered the pioneer of widespread deployment of secondary revenue generation. What was initially the preserve of low cost carriers who started selling hotel bookings and car hire on their websites in the early 2000s, plummeting margins in the wake of high fuel prices combined with the financial crisis inspired other airlines to follow suit.

Secondary revenue generation has now become a familiar feature of consumer air-travel: seat-upgrades, advertisements, in-flight product promotion. The numbers speak for themselves – figures published by IdeaWorksCompany and CarTrawler show that the ancillary revenue earnt by the world's top ten airlines rose from $8.4bn in 2008 to $25.9bn in 2015[1]. In the same period, Ryanair's income from Ancillary revenue rose from 19.4% of total revenue to 24.%, whilst Jet2.com's rose from 14.8% to 29.4%[2], with Jet2.com collecting on average $50.84 per passenger in 2015, up from $19.04 in 2008[3].

1. The CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany, 2016, p4.
2. Ibid., p5.
3. Ibid., p7.
4. BRC-Nielsen Shop Price Index February 2017.

The retail industry today shares some of the underlying conditions which drove airlines to adopt widespread use of secondary revenue generation: fierce competition amongst retailers has led to nearly four years of declining shop prices[(4)] as well as slowing growth in retail sales. In the 12 months to February 2017 UK retail sales grew 0.9%, compared to 2.7% in the 12 months to February 2014 (Figure 1).

At the same time cost pressures have grown far faster than consumer demand, leading to increasingly squeezed margins. With growth in real wages set to grind to a near halt this year as a result of the inflation caused by the post-referendum fall in the pound, the squeeze is only going to increase. Finding innovative ways to generate revenue whist keeping prices low for consumers is an absolute priority.

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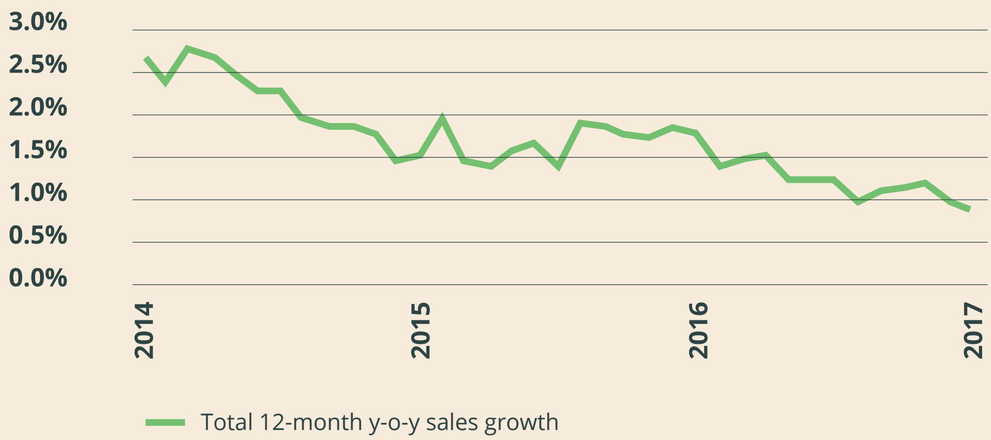
At the same time, retailers' websites are attracting increasing attention due to the undeniable fact that retail is increasingly shifting online - sales of non-food now account for more than 20% of all sales, with UK retailers experiencing 38bn visits a year to their websites.

Figure 1: 12-month average year-on-year total sales growth



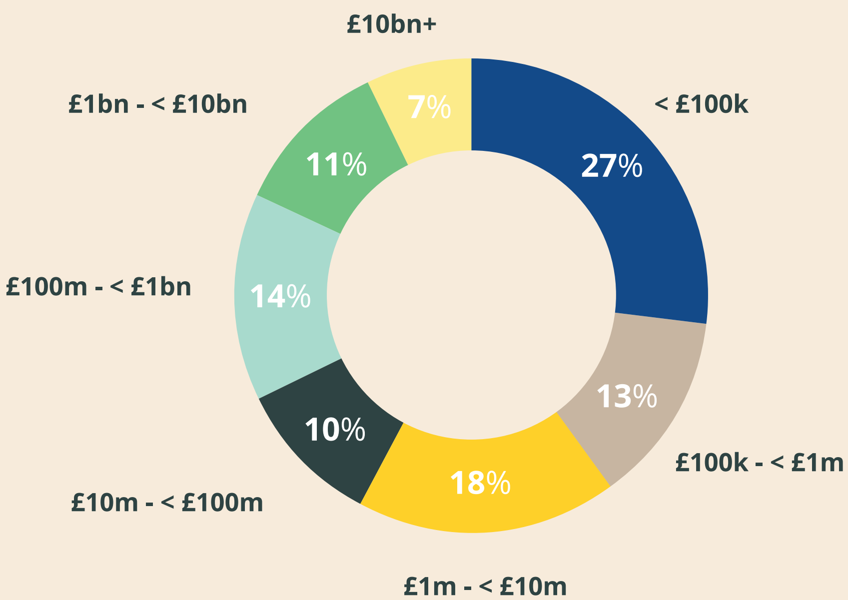
Source: BRC-KPMG Retail Sales Monitor UK

2. About the survey

Secondary revenue is not a totally new concept in retail, however it has been studied far less than in the airline industry. In order to develop an evidence base on secondary revenue generation in the retail industry, Webloyalty in partnership with the BRC undertook a survey of UK retailers.

The 2017 survey posed a series of questions to 100 retailers, varying in size from those with less than £100k turnover, to those with more than £10bn (Figure 2), including both multi-channel and pure-play retailers. This report presents the key findings from that survey.

Figure 2: Webloyalty survey sample, by turnover size of respondent

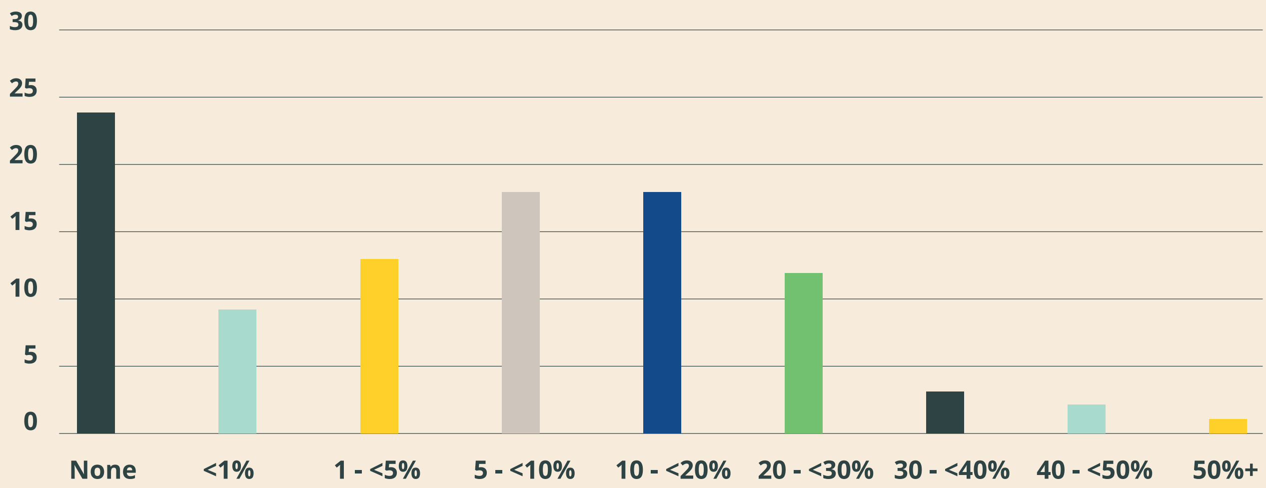


Source: Webloyalty (2017)

3. Generating secondary revenue in retail

67% of retailers derive at least 1% of revenue from their secondary sources, with 18% deriving more than 20% and a number deriving more than 40%

Figure 3: % of revenue from secondary sources



Note: Survey of 100 retail businesses in the UK
Source: Webloyalty (2017)

Secondary revenue generation is widely used by retailers. The Webloyalty survey of UK retailers showed that, 67% of retailers derive at least 1% of revenue from their secondary sources, with 18% deriving more than 20% and a number deriving more than 40%.

Retail businesses of all sizes from those with turnover of less than £100k to those greater than £10bn generate revenue from secondary sources (Figure 3).

Larger businesses are more likely to earn a greater share of their revenue from secondary sources. Amongst businesses with turnover of less than £1m, only 8% are generating more than 20% of their revenue from secondary sources, compared to 22% of those businesses with a turnover greater than £1m. Although, it should be noted that there are businesses with less than £100k turnover earning a high proportion of their income from secondary sources.

Key methods of secondary revenue generation for retailers include:

1. SELLING ADVERTISING SPACE

Revenue generated through the sale of advertising space on a retailers website. This could be to other retailers for non-core products, or to suppliers who are promoting products for sale on the sites.

2. INTERNAL LOYALTY AND REWARD PROGRAMMES

Rewarding consumer purchases with points that can be redeemed against the value of another product through vouchers, discounts and advance product releases. Air mile programmes and store loyalty card discounts are common examples.

3. EXTERNAL LOYALTY AND REWARD PROGRAMMES

The use of an external partner for the implementation of a purchase-based reward programme. This method is typically used post transaction such as with multiple-retail discount schemes.

4. AFFILIATE MARKETING

The practice of rewarding external affiliate partners for the referral of web traffic. Rewards are structured through commission, typically when a sale is made. Large affiliate networks partner with mainstream media publishers and review sites such as Buzzfeed, Hypebeast, SneakerFreak to provide retailers with large numbers of traffic referrals.

5. CROSS-SELL INTERNALLY

Selling additional products and services. These products generally belong to different product categories but will be complementary in nature. This is commonly implemented through product bundling on ecommerce platforms.

6. CROSS-SELL EXTERNALLY

The referral of a user to a product or service belonging to a third party. These products and services are complementary to the product the user has just purchased with revenue being generated by commission for the referral.

Internal loyalty schemes and advertising are the most commonly used method of secondary revenue generation, although other methods are in widespread use (Figure 4). Businesses seeing 20% or more contribution of secondary revenue to total revenue are using at least three secondary revenue sources. Other methods reported include putting leaflets into parcels and offering credit.

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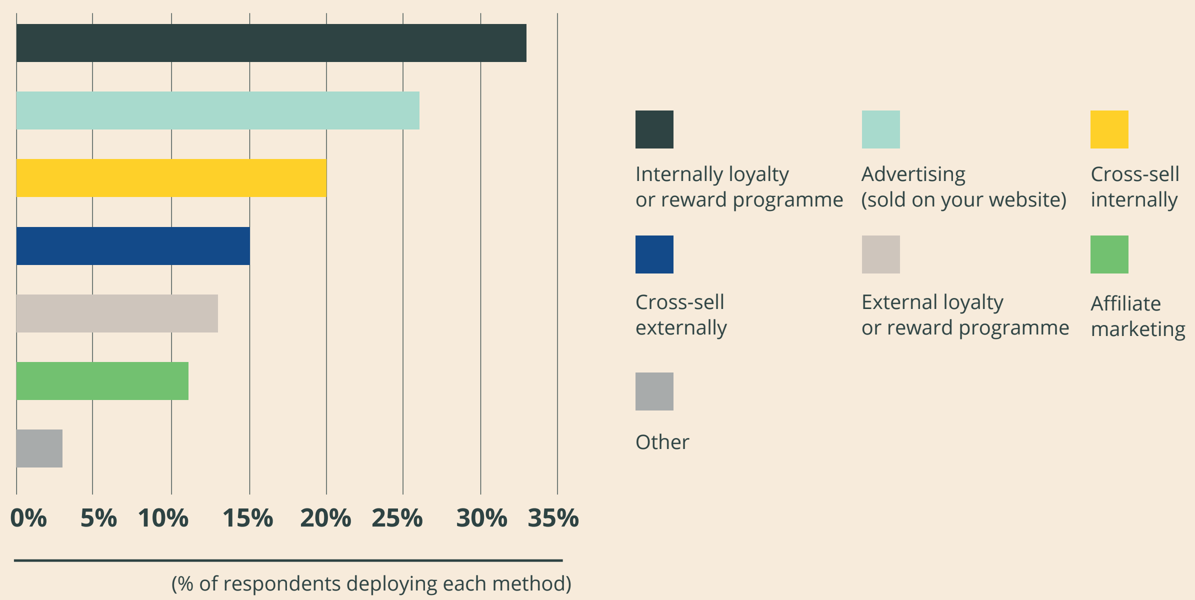
Figure 4: Have you adopted any of the following methods to increase your secondary or non-core revenue on your ecommerce site in the last two years?



Note: A third of participants did not list any of the options offered, including "other" (a small number do not generate secondary revenue, but most who reported none of the above were not inclined to answer the question)

Source: Webloyalty (2017)

Retailers of all sizes are using a mix of methods to generate secondary revenue, although larger retailers are using a greater number of methods (Figure 5). This may reflect the fact that, in general, smaller retailers have fewer resources to invest in developing an approach to secondary revenue generation. It may also result from the fact that smaller retailers are less constrained by the maturity of the retail market; there is more opportunity for them to grow market share in their core products by gaining market share, even if the overall volume of the market is growing slowly.

That does not mean that secondary revenue generation isn't for smaller retailers and a number are earning greater than 20% this way. However, smaller retailers may need to focus their efforts on fewer methods and there will be some approaches which are less appropriate, particularly affiliate marketing, as this requires rewarding other firms.

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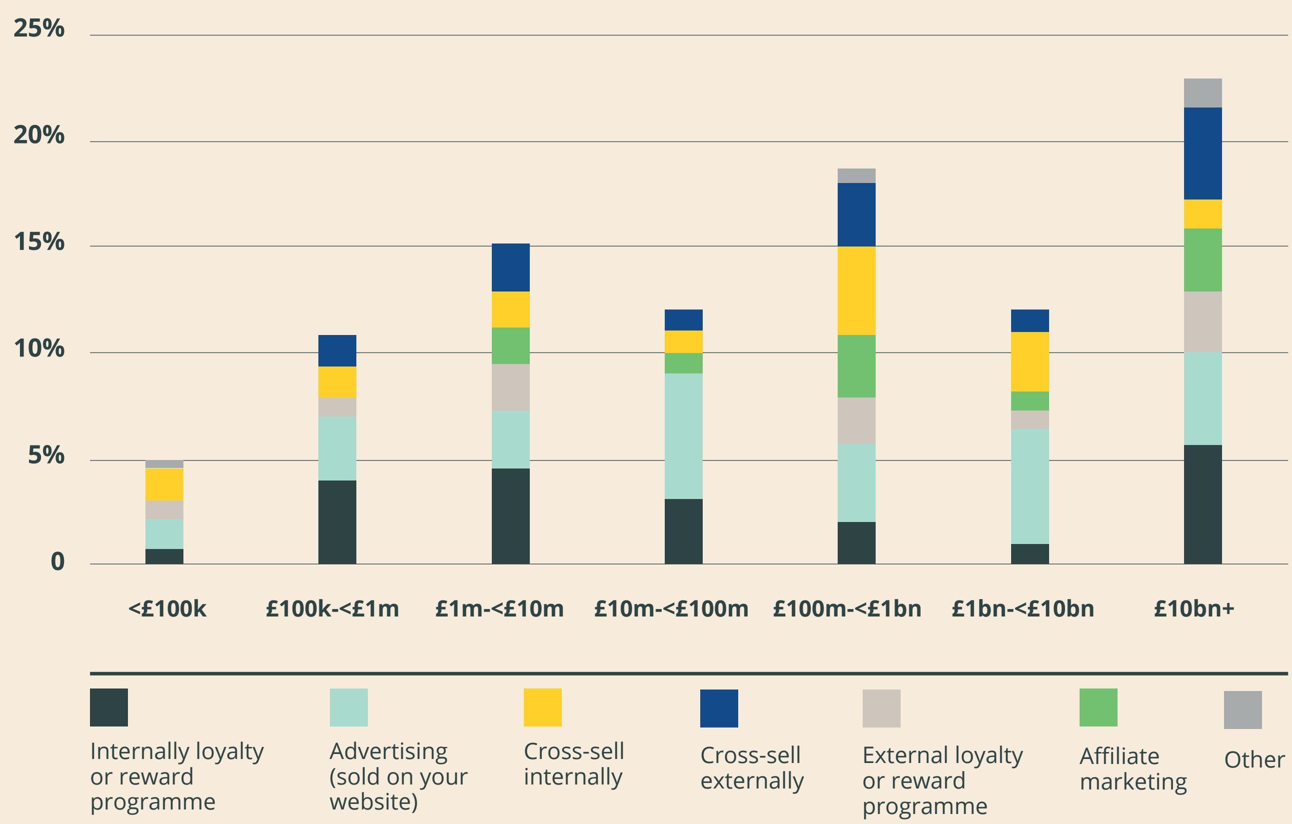
Figure 5: Use of secondary revenue generation methods by firm size



(% in each size category reporting use of each method)

4. Best practice in secondary revenue generation

The survey also provided insight into retailers' attitudes to secondary revenue generation and how they are delivering it.

Strategy

Despite the fact that most retailers are deriving revenue from secondary sources, only 26% of retailers surveyed were aware of their business having a secondary revenue strategy in place.

Those that did, unsurprisingly, were more likely to report that their efforts to generate secondary revenue were working. 73% of those who had a strategy reported that their efforts were working compared to 50% among those who knew they did not have a strategy; 17% of the remaining, who didn't know if they had a strategy, reported efforts were working (however, if the respondents are unclear about whether there is a strategy in place they are less likely to have visibility of the results).

The majority (58%) of those with a strategy have not changed it in the past year, although a substantial minority (38%) have switched or diversified their secondary revenue sources, with just a few reducing their activity.

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Working with third parties

Whilst a minority (23%) of retailers are working with third parties to drive extra revenue, of that minority, 74% reported that their efforts were successful. This is compared to just 43% of those not working with third parties. There is no clear trend towards using third parties in pre or post transaction, with a roughly even split between retailers of pre and post transaction assistance.

Ownership

Where an activity is located in a business can impact its delivery, however, there isn't a clear link between success in delivering secondary revenue and which function is responsible for it. For 50% of retailers, sales or commercial teams are responsible for secondary revenue generation, with the other half shared evenly between marketing and e-commerce functions.

However, amongst retailers who reported that their approach to secondary revenue generation is working the spread was more even, with e-commerce and marketing taking responsibility in 30% of cases each. Interestingly, retailers with a strategy for secondary revenue in place were more likely to locate responsibility in a sales or commercial team.

Attitudes of senior management

Business attitudes to secondary revenue generation were strongly linked to results. Those businesses that see secondary revenue generation as very or extremely important are substantially more likely both to see their efforts as successful and to be earning more than 10% of their revenues in this way.

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5. Developing a secondary revenue strategy

Secondary revenue may not be high on the agenda of some businesses, but there are reasons to pay attention, particularly in the current operating environment. Low margins and an uncertain outlook mean that now might be the right time to be exploring growth in secondary revenue generation. With some businesses achieving upwards of 40% of revenues is this way, there is clearly unexplored potential for businesses who earn much less this way.

However, any development of secondary revenue activity has to be done right and in keeping with the values and principles of a business.

WEBLOYALTY HAVE A NUMBER OF KEY PRINCIPLES FOR IMPLEMENTING SECONDARY REVENUE STRATEGIES WITHIN A BUSINESS.

1. ENSURE THE PROGRAMME ALIGNS WITH YOUR BRAND VALUES AND OFFERS CUSTOMER BENEFITS

2. INTRODUCE RELEVANT OFFERS AT THE RIGHT STAGE OF THE CUSTOMER JOURNEY

3. ENSURE ALL REVENUE STREAMS WORK TOGETHER HOLISTICALLY

4. SECONDARY REVENUE PROGRAMMES SHOULD HAVE A LOW-COST OF IMPLEMENTATION (OR IDEALLY NO COST ATTACHED)

5. CONSIDER AN ECOSYSTEM OF THIRD PARTIES AND INTERNAL REFERRAL

Methodology

Webloyalty and the British Retail Consortium (BRC) conducted an online survey of 100 managers, executives and board-level executives across the UK retail industry in January 2017.

Online survey experts ResearchNow were used to deliver the survey which was sent out via email to BRC members and a bespoke panel of managers, executives and board level executives across the retail in the UK.

Respondents completed 19 multiple-choice questions hosted on ResearchNow's online survey platform and results were completely anonymous.

ABOUT WEBLOYALTY

Webloyalty is a leading online savings programme provider. We work with over 200 retail and travel businesses internationally to help them build stronger, more profitable relationships with their customers. Through our membership programmes, we help our online retail partners' customers make significant savings each year while providing the partner with an additional revenue stream. As well as incentivising customers to make repeat purchases at the partner's site, they can also earn cashback and get great deals on everything from fashion to electronics to travel at top online stores.

Webloyalty started operating in the UK in 2007 and has since expanded into France, Spain, Ireland, Brazil, Mexico, the Netherlands and Turkey.

For more information, please visit
www.webloyalty.co.uk
or follow @WebloyaltyUK on Twitter.

ABOUT THE BRC

The British Retail Consortium (BRC) is the UK's leading retail trade association. It represents the full range of retailers, large and small, multiples and independents, food and non-food, online and store based.

Retail in an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing, and shaping. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture.

The BRC leads the industry and works with our members to tell the story of retail, shape debates and influence issues and opportunities which will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3 Cs.

Please visit **www.brc.org.uk** or follow @the_brc.