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PE firms boosting retail's omnichannel strategies

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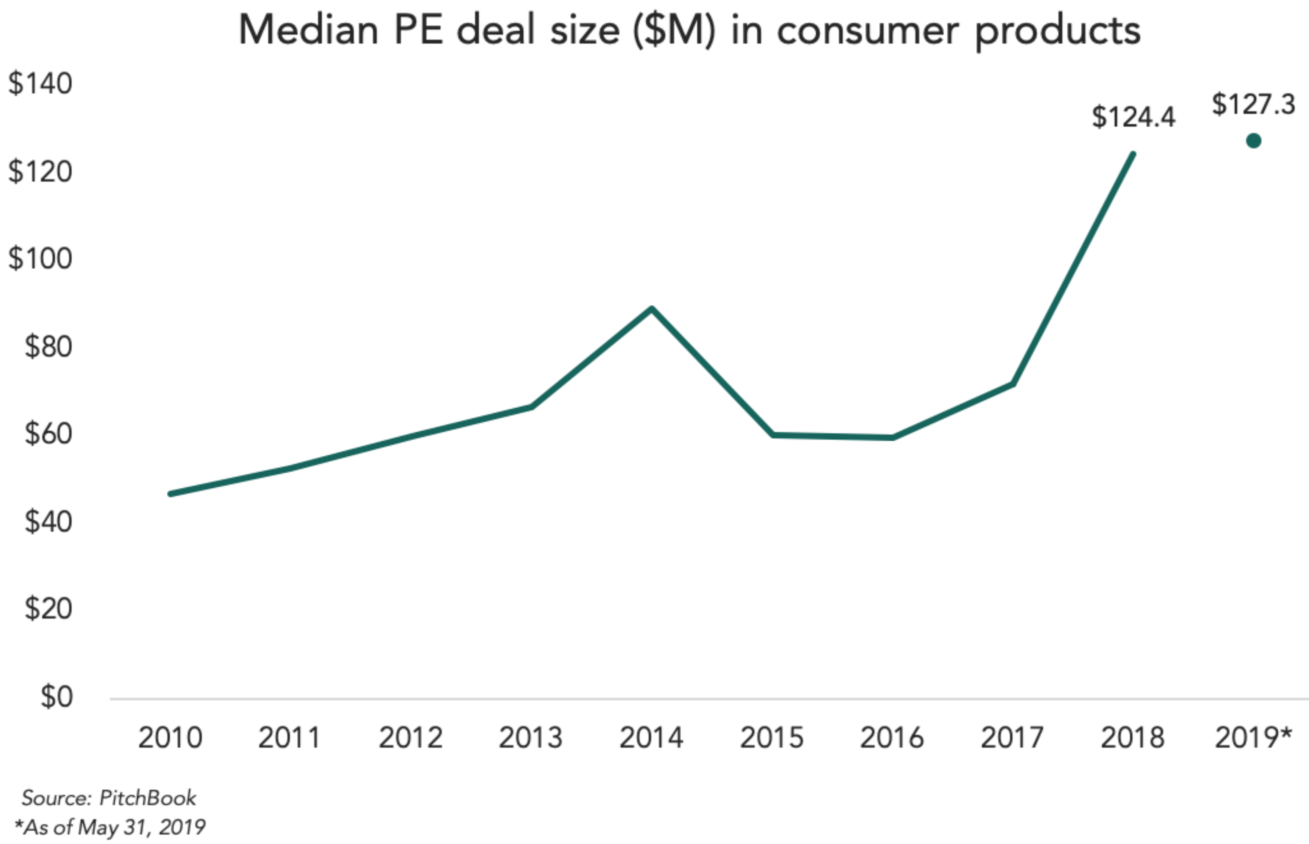

PE's track record in retail has come under some hefty scrutiny of late. And buyout shops are taking the hint. At just over 40 deals closed through H1, PE firms are set to complete the fewest retail transactions since at least 2013. Although the headlines are hard to ignore, it's important to point out that financial sponsors have also helped brick-and-mortar operations in the middle market with the adoption and expansion of digital strategies. This development has been a boon to retailers. Increased investment in digital technologies has made operations more efficient, boosting sales and blending the customer experience online and off. As a result, some PE firms are finding bright spots in the still-competitive US consumer market, with many omnichannel businesses not only maintaining margins in the face of secular stagnation, but also commanding higher valuations. This dynamic has contributed to the persistent strength of median values even as activity cools off.

Digital strategies can provide retailers valuable metrics on essential data points like customer acquisition costs to improve performance. Moreover, marketing campaigns waged across channels have given middle-market retailers an outsized opportunity to track consumers from engagement through purchase in a manner reminiscent of larger rivals. An essential element here has been the swift adoption of direct-to-consumer distribution models by those with a conventional retail presence. Case in point, cosmetics. And demographics are on their side. Meanwhile, the strongest brands in the middle market remain far more agile than the competition when it comes to addressing nearer-term trends. This nimble footing suits the shorter holding periods of PE firms.