

THE NEXT STAGE OF RETAIL'S DIGITAL TRANSFORMATION:

OMNICHANNEL EXPERIENCES
AND MORE AGILE SUPPLY CHAINS



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INTRODUCTION

Retail as an industry has been dealing with digital disruptions of various sizes and kinds for decades, but only a few sectors (bookstore chains, for example) have experienced truly category-killing upheavals. COVID-19, however, turned up the pressure on the entire industry: regardless of where retailers were on their journey toward a digital future, nearly all had to hastily implement new technologies and solutions to meet the “100-year flood” conditions of the past **20 months**.

“**Digital disruption did not hit every industry at the same time**,” said Jason Goldberg, Chief Commerce Strategy Officer at **Publicis** in an interview with *Retail TouchPoints*. “If you were in the video rental business, you were disrupted by digital **20** years ago; if you were in the consumer electronics industry, you were disrupted **15** years ago; and if you were **Kroger**, you were disrupted last year. Where **Best Buy** is on their digital journey is very different than where **Albertsons** is.”

COVID’s biggest impacts were felt in the **grocery, restaurant** and **automobile** sectors — the **three** biggest categories of consumer spending. “I don’t know if that is correlation or causation, but **it seems like the biggest categories of consumers’ wallets were the last ones to get disrupted, and they all responded to the pandemic with chewing gum and paper clips**,” said Goldberg.

Now, retailers’ challenge is to integrate these often jerry-built solutions into their own digital roadmaps — a task that’s complicated by the fact that the roadmaps themselves are still undergoing change.

“It was super remarkable that [retailers] were able to respond, but they definitely didn’t do so in a scalable, hardened, preferred way,” noted Goldberg. “If you look at them today, they’re very much working on how to replace the paper clips and chewing gum with something more robust and scalable and ownable.

“**In 2020, retailers got a free trial visit to the future to see what consumer demand was, and now that they know there’s a demand there, they can build toward it much more confidently**,” he added.

As what were new patterns in 2020 become the norm in 2021 and beyond, and as new challenges arise, retailers at all stages of their digital journey will need to transform their operations by:

- **Reimagining the role of the store** so that it acts as a competitive advantage rather than an impediment to digital commerce;
- Employing **more agile fulfillment solutions**, such as ship-from-store and dropship, to future-proof their business;
- Creating a culture of speed and employing tools so they can **pivot more quickly**; and
- **Integrating their data** to inform operational changes and create more flexible systems.



MAKING OMNICHANNEL SOLUTIONS NOT JUST CUSTOMER-FRIENDLY BUT ALSO COST-EFFECTIVE

When the pandemic struck, even retailers such as Best Buy that were further along in their digital transformation had to hastily implement solutions like **curbside pickup** and **ship-from-store**. Now retailers are working to not only streamline these solutions but also to make them cost-effective.

“Re-skilling workers and hiring to meet demand was costly, as were the productivity hits companies took when they went from distribution center operations to store-based delivery and curbside pickup,” said Matthew Katz, Managing Partner at **SSA & Company** in an interview with *Retail TouchPoints*. “We have been working with retailers to ‘lean out’ these new capabilities, to get cost structures back in line and drive customer experience improvements.”

In the recent *Retail TouchPoints Store Operations Benchmark survey*, **60%** of the retailers surveyed reported that they had **increased labor hours** devoted to store-based fulfillment, including BOPIS, curbside pickup and ship-from-store. And retailers report that adjusting to what has become permanent shifts in the way they manage their operations are among the biggest challenges they face today, including:



Now that the initial storm has passed, retailers are taking the time to create more holistic omnichannel solutions. Grocers and restaurants that outsourced their ecommerce operations to third parties like Instacart or DoorDash during the pandemic are now **looking for ways to get customers back on their own platforms**, building out in-house delivery and fulfillment solutions that can be a long-term asset to their business.

And as many consumer goods retailers are doing, Best Buy is **systematically transforming** its workforce, store fleet and sales strategy to account for shoppers' new omnichannel expectations. The retailer is laying off **thousands** and re-skilling others; contemplating a decrease in its store count; and testing a new store format with a **smaller sales floor and more space for fulfilling online orders**.



FINDING A PROFITABLE PATH FORWARD

Making these kinds of changes often requires new ways of thinking about everything from SKU-level profitability to customer analytics. “The pivot to digital changes the unit economics, so a lot of retailers are panicking about profitability,” said Goldberg. “Bananas, for example, were a very low-margin business before. Now, when the customer wants us to pick the banana and drive it to your house and they don’t want to pay for [those services], that creates some significant stress. **Really though, there’s not an at-home customer for bananas or an in-store customer for bananas, there’s a customer that enjoys bananas.** We need to start thinking [about] the unit economics of transactions and touch points, and about what the lifetime value of that customer is. Maybe we sell the bananas at a loss if it means that we get **25%** of [that customer’s] food wallet every month.”

The kinds of shifts retailers like Target and Best Buy are making to reimagine the role of the store are crucial to **making the shift to ecommerce work financially.**

“When you create a new path of purchase, you create new systems and processes that need to be supported,” noted Brendan Witcher, VP and Principal Analyst, Digital Business Strategy, **Forrester Research** in an interview with *Retail TouchPoints*. “**We do not have the infrastructure from a logistic standpoint to support that volume of ecommerce.** God forbid we ever get to 100% ecommerce, we simply will not have the infrastructure to support it.”

Luckily there are a number of things retailers can do to both improve the economics of ecommerce right now and build out infrastructure for the future. Witcher offered three practical actions:

1.

Use in-store fulfillment both for online orders and to meet demand across the fleet.

Many forward-thinking retailers have already begun to reassess their stores as not just points of sale but also as fulfillment centers. This change will do more than create a more economical ecommerce fulfillment solution; the inevitable **inventory networking** that has to happen to make this work can also create efficiencies for in-store sales as well. Having in-depth knowledge of inventory and sales at the store level, and being able to easily shift products as needed, will help more customers get the products they want and also help retailers achieve more accurate inventory planning.

“In the old days of retail, you walked into a **Nordstrom**, and if you were looking for a size two dress and they only had the size four, the manager called a manager at another store and she moved a dress to your store for you,” said Goldberg. “There’s the ecommerce equivalent of that now. **We’ve got to be reallocating inventory across stores, for store fulfillment of home orders, last mile, all of those things.**”



2. *Set up a robust dropship program.*

While dropship had been used primarily for long-tail items that a retailer didn't want to keep in stock, Witcher said retailers are increasingly using it for more common products because it **reduces risk in both the warehousing and shipping stages of the supply chain**. "Shipping directly from the manufacturer is a way of avoiding some of the logistical problems," Witcher said. "Any time you remove process from the supply chain, you reduce risk."

In fact, Witcher said **dropship is now in the top third of programs that retailers are currently investing in**, because it also offers **scalability**, another crucial need as consumer demand changes occur more quickly. "The hard part is getting suppliers set up in your dropship program," said Witcher. "But if you do that and just carry a few SKUs from them, then if you start to need more you can add items easily. **My advice is to set up as many vendors or suppliers as possible in your dropship programs, even if you don't use them for the full assortment yet**. Then if you have to pull the trigger, the setup is there."

3. *Encourage customers to shop across every channel.*

"Consumers will return to stores, but they will do so on their terms and with new expectations," predicted Katz of SSA & Co. "They will continue to use stores as showcases and then order online; they will order online and pick up; they may want added services and/or products; they may want delivery to where they are right now, not where they live."

This proliferation of consumer access points can actually be a good thing. **Making it easy for customers to shop with you in whatever way they prefer in the moment spreads out demand, so that one part of the system doesn't get overstrained**, said Witcher. In addition to offering a variety of ways to shop, Witcher also advised retailers to avoid channel-specific promotions (e.g. "10% online only"), which can funnel too many consumers toward a single channel.





WANT TO UNDERSTAND CUSTOMERS BETTER? CDPs HELP RETAILERS PROVIDE PERSONALIZED CX THAT SELLS

By Nick Antoniadou, Retail Industry Principal, Treasure Data

Consumers increasingly demand seamless **personalized experiences** across any channel of interaction. This entails understanding every customer on traditional channels like websites, physical stores and call centers, as well as on newer channels such as social media, connected devices and digital marketplaces. To get there, though, is a “heavy lift.” It means that **retailers need to change from integrating and optimizing channels to having a strategy anchored by customer experiences**. This requires retailers to collect vast amounts of data across various platforms, integrate it in real time to create a **single customer view**, and utilize insights from that unified customer data foundation to create consistent and personalized experiences.

In addition, with the elimination of third-party cookies in the near future, retailers will have to expand their efforts on first-party data. Several retailers — and many DTC companies — have already invested heavily in areas such as **gamification, partnerships, loyalty programs, communities** and **user-generated content platforms**. Typically, these efforts increase the complexity of data capture and integration, and require a more flexible approach to **identity resolution**.

So what should you do to meet these challenges? One solution that’s becoming increasingly popular across industries is the **Customer Data Platform (CDP)**. It’s a data management technology that analyzes customer data coming from many different data sources. The best CDPs easily ingest huge amounts of data, piece together a 360-degree view of the customer and help you automate tailored experiences to appeal to each one.

Other CDP features that are critical for retail include prepackaged machine-learning models such as **channel preference, receptivity by time of day, expected lifetime value and product or category preference**. In addition, retailers need the ability to create their own models within the CDP in order to deliver truly differentiated experiences.

For example, Japanese retailer **PARCO** has used its CDP to “gamify” walks through its malls and more than **3,000** stores. “Data-based customer segmentation and personalization of app notifications are generating great effects,” said Naotaka Hayashi, Executive Officer for the Group ICT Strategy Office of PARCO. **Shiseido** has also used a CDP to leverage its extensive loyalty data to anticipate changing cosmetics needs over the course of each customer’s lifetime.

A CDP that provides a **single customer view** and enhances it with machine-learning models and propensity-to-purchase scores can empower retailers to deliver relevant, personalized experiences in real time. Retailers that achieve this level of interaction with their customers — and who can measure, analyze and optimize customer journeys — will be the winners of this digital transformation we are all experiencing.



MODERNIZING THE SUPPLY CHAIN TO ACCOUNT FOR UNCERTAINTY

“Who would have thought that supply chain was the thing that would bring retail to its knees?” said Witcher. “We all thought in this global economy, ‘We’ve got this all figured out,’ but it broke. If you’re listening to earnings calls these days, companies are talking a lot about how they’re going to alleviate those problems to keep things on the shelves, and how they’re beefing up the supply chain.”

The solutions retailers are coming up with range from the practical to the far-out. Some larger retailers, including **Costco**, **Walmart** and **Home Depot**, have taken the extreme measure of **chartering their own container ships**. “A retailer doing that is almost unheard of, that’s insane,” said Witcher. “But that just shows you how extreme companies are thinking.”

But chartering a container ship isn’t something most retailers can do, and in fact such measures might not be the best long-term plan anyway. “The pandemic will end, and some of these challenges will subside,” said Abhinav Chandra, Managing Director at the **Alvarez & Marsal** Consumer and Retail Group in an interview with *Retail TouchPoints*. “**Don’t build inflexible solutions to solve current problems that, when the pandemic is over, increase your cost structure and decrease your ability to compete.**”

Instead, Chandra suggested that companies build a **culture of speed** and **high-quality execution** to be able to respond to future uncertainty, whatever that might be, and also **increase automation capabilities** that will allow retailers to pivot quickly. “Innovate — these moments present opportunity. When most companies are panicking, it is an opportunity for the bold,” he said.

In fact, many retailers that had gone through the arduous process of unifying their customer data for marketing and CX purposes are now finding this central source of intelligence to be a critical asset in optimizing inventory and fulfillment operations. The Vietnam-based lifestyle brand **Stripe** began using its unified data to **synch supply chain systems** and **hyper-localize store inventory** by using predictive analytics models and AI to anticipate customer demand. As a **result**, the company saw decreases in opportunity loss, an increase in sales (revenue attainment was at **160%** of goal within **three** months), as well as improvements in staff efficiency.



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DEVELOPING A UNIFIED RESPONSE TO UNIFIED DATA

Data unification is central to most of the changes retailers need to make today, but integrating siloed data can be difficult, especially as the number of consumer access points multiplies. The data unification ideal envisions an ecosystem where customer information from **POS, ecommerce websites, apps, call centers, self-reported preferences, OMS** and **loyalty programs** are all merged, de-duped and then analyzed to offer insights that can be acted on across all verticals of the business.

While many smaller and mid-sized retailers are still working toward this goal, a number of large retailers **have had this kind of 360-degree view of their consumers for years**, which is why they were able to respond more quickly and appropriately when COVID hit, said Goldberg. For SMBs, it's in part a resource problem, but Goldberg noted that smaller retailers are more likely to have parts of their system outsourced, "trapping" these critical data points with solution providers.

That's not to say that larger retail operations don't have work to do as well: **"For the big retailers the problem is less that their data is siloed, it's that the corporate culture of acting on that data is still siloed,"** said Goldberg. "Now we've got a 360-degree view of the customer, but we still have an org chart based on channel, and so the tactics we think about are like, 'Let's go get the data, we need to execute an in-store marketing campaign. Or let's go grab the data, we need to execute an email campaign for the website.'"

Creating a unified response to unified data is equally as critical as bringing all that information together in the first place, and will only become more so as the lines between digital and physical commerce continue to blur.

"Digital disruption is still in the first inning," said Goldberg. "Even in these really mature categories, it's still the first inning. We make the mistake of feeling like, 'Oh man, that was really hard, but it's behind us.' **The reality is you and I can't even imagine the way a consumer in 10 years will shop.**"



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— Jason Goldberg, Publicis

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Nicole covers the retail industry at large with a focus on ecommerce, looking at digital innovation and the evolution of modern retail.