



# **5 TRENDS SHAPING THE FUTURE OF RETAIL STRATEGY & EXECUTION**



## INTRODUCTION

The retail industry is no stranger to disruption. At every turn, successful brands have learned to pivot and adopt the right strategies for the moment. Today is no different. Executives planning their 2023 strategies face numerous challenges, including:

- **The increased complexity of the commerce experience:** New channels and tools are creating commerce everywhere. **Roughly three-quarters** of U.S. consumers use a mix of online and in-person retail channels. But these channels are often disjointed, creating obstacles for getting comprehensive insights into consumer behaviors and expectations — and profitable growth.
- **Supply chains still have kinks:** Research shows that **more than half** of senior business decision-makers still think that supply chains need improvement. Empty shelves and out-of-stock notifications erode the customer experience (CX) and can cause reputational damage. Visibility into supply chains — and the ability to adapt a marketing strategy around it — can help brands gain an advantage.
- **Competition is growing — and it's everywhere:** Digital channels lower the barrier for new entrants, but it means the competition is fierce and cost-per-acquisition has reached new heights. Today, **retailers spend \$29** for every new customer, vs. \$9 a decade before. To ensure business success, brands must focus on profitable growth.
- **Inflation is shifting customer behaviors and demand patterns — again:** Holiday sales were **up 7.6% in 2022**, but retailers are bracing for a slowdown as consumers feel the effects of inflation. Loyalty has always been volatile in retail, but inflation and economic uncertainties are redefining what “value” really means to consumers.
- **Organizations are reevaluating their total technology spend:** As IT and marketing teams must do more with less, retailers are looking to maximize the technology they already have. Some are moving into composable commerce, which involves creating business applications from several best-of-breed solutions.

This whitepaper explores **five** trends shaping the future of retail strategy and execution, and offers actionable next steps that retail executives can use to meet these challenges head-on.



## 1

## Trend 1: Data Is Your Competitive Advantage

Data is the most valuable asset brands have. With the depreciation of third-party cookies, brands must shift toward a customer-first data mindset and leverage first- and zero-party data to drive personalized experiences across all channels.

To do this successfully, they must show customers the value they will get in exchange for sharing their data. Incrementally building out comprehensive customer profiles with data allows retailers to create more positive customer experiences.

Consider how **Beauty Pie**, the luxury beauty buyer's club, was able to take personalization to the next level by connecting its zero- and first-party data with business insights. Beauty Pie gets customers to share their skin type via an email reply or take part in a virtual beauty consultation. It then uses this data to recommend skin creams, foundations and mascaras. Adding recommended items to a customer's cart helps to drive conversion and lifetime value.

Yet that's not the experience across the entire retail industry. While **87% of companies** believe they provide excellent CX, **only 11% of consumers** agree that companies are creating the type of bespoke experiences that will drive loyalty. Getting CX right will bring brands numerous benefits. According to **Forrester Research**, customers who believe that businesses solve their problems are more likely to stay with that business, spend more and recommend it to others.

The key to nailing CX is a connected back- and front-office. Without it, you risk poor customer service, and ultimately customer dissatisfaction, that can negatively impact your brand's public perception. A lack of visibility into supply chain delays, for instance, could mean that marketing teams are pushing products that aren't available.

Can your technology stack provide the data agility you need to understand your customers and engage with them in a consistent, relevant way no matter where they have their next shopping interaction with your brand?

### Next Steps

Center your data program around connecting the front and back office in order to get a complete view of the customer. This will let you deliver frictionless shopping experiences with accurate product information on inventory, availability and fulfillment. Leverage these insights to drive promotions and recommendations. Also, brainstorm **ways to collect first-party data** creatively by offering high value to customers who share.



In the crowded retail space, rising above the noise requires a more thoughtful approach to customer experience, starting with the content and offers you provide your customers. From initiating brand discovery to helping customers complete a purchase, the best experiences are now seamless.

Cosmetics and skin care retailer **The Body Shop** is an excellent example. The company displays brand-appropriate images illustrating product, scale and usage, including instructional videos on its site. SEO-rich text addresses consumers' search queries around usage and ingredients. A high volume of ratings and reviews demonstrate authenticity and engagement. This is woven into a smart user experience (UX) that promotes bundling, subscriptions and installment pay options for a strong “commerce everywhere” strategy.

Additionally, as the number of channels explodes, brands must reassess which ones make it easier for their key audience segment to find and engage with them. Take search. **Google's** dominance of online search is waning, with **Instagram** and **TikTok** increasingly becoming search destinations.

Likewise, with inboxes growing more crowded, marketers must refine their approach to email and SMS with distinct strategies across other channels as a complement. However, what works best for email won't necessarily carry over to SMS, mobile push or ads for that matter. So, avoid bland blast-and-batch messages and instead look for considerate and intentional ways to use each channel individually.

**Pizza Hut** is another compelling example of a brand expertly weaving personalized content and offers throughout their journey to drive loyalty. Immediately in their welcome journey, Pizza Hut incentivizes customers with a discount for sharing first-party data such as preferences, dietary restrictions and party size. Customers who don't initially act on this email may then receive a SMS message to try and engage in a different channel. And this is just the start of their creative loyalty strategy. Through their rewards program, customers can see how close they are to their next reward with gentle proactive reminders. They can also choose their own personalized reward — from a favorite side dish to a whole pizza.

### Next Steps

If these touch points are at the core of the new customer journey, brands should optimize their content for various native search and discovery tactics for each platform to drive commercial relevance. Well-established marketing channels like email must work together with newer ones like SMS. An agile, innovative ecommerce platform can help you perform A/B testing at scale, personalize ads, and integrate user-generated content.



### 3

## Trend 3: Retention and Loyalty Creation Will Drive Marketing & CX Investments

Brands and retailers are thinking beyond the traditional funnel to the entire customer lifecycle. Their goal is to become “customer obsessed,” which means they put customers at the center of leadership, strategy and operations. August 2022 research from **Forrester Consulting, commissioned by SAP Emarsys**, shows why this mindset matters. For example, **54%** of customer-obsessed companies see better customer loyalty and improved retention from omnichannel efforts.

One way to embrace this shift is to take a more sophisticated approach to the post-purchase experience. Brands, for example, should get to know who a holiday shopper purchased a gift for, and then find ways to let the gift recipient opt into their loyalty program. Additionally, retailers must find ways to tailor all offers to where a shopper is in the customer lifecycle—first-time shopper, repeat purchaser, loyal customer, etc.

Intelligent data-driven personalization allows brands to have a 360-degree view of their customers and reveals new opportunities for value creation.

UK department store **Harrods** does this by leveraging its loyalty program to build data-rich profiles on customers, personalize their experience, increase customer retention and enhance lifetime value. The program uses a point system and displays loyalty benefits on listings and product pages, which creates a personalized experience based on members’ accumulated points. The loyalty program is also connected to clienteling solutions in-store, creating a cohesive customer experience across channels.

### Next Steps

Tailor content based on lifecycle stage, not just the latest purchase. Segment customers based on engagement — such as new contact, active and inactive — and personalize content to them. Create inroads for cross-sells, upsells and bundling with product- or service-focused content, product recommendations, back-in-stock messages and cart abandonment messages. Finally, employ automation when possible for A/B testing to find out if these strategies work.

## 4

## Trend 4: The Retail Product Lifecycle Will Increasingly Influence CX and Loyalty

It's not enough to have the right product at the right price. To stay loyal, consumers increasingly expect a seamless experience from discovery to purchase to shipping to receipt and beyond.

Using trending insights and customer data, brands can curate the right product recommendations in a timely way and ensure that they're meeting — and in some instances influencing — consumer demand. In a recent **Customer Loyalty Index 2022**, published by SAP Emarsys, incentivized loyalty (loyalty won through discounts and offers) actually fell, suggesting that consumers are motivated by other forces, creating opportunities to foster loyalty in other ways.

Take supply chain challenges. Brands risk tarnishing their reputations by promoting products with limited or no availability. Making promises — and keeping them — is what drives customer loyalty.

When fulfillment issues do arise, complete transparency on order status every step of the way is a must. Give customers the option to adjust their order or get a different item when problems arise. As retailers address these issues, they enhance customer experience and build trust.

One retailer with a unique take on fulfillment is **Reformation**, a Los Angeles-based sustainable fashion brand. When a short run sells out, Reformation uses a waitlist as a demand signal for future runs. This creates a powerful connection between front- and back-office decision making. The waitlist helps keep customers warm, while also allowing Reformation to be more efficient in how much stock to produce based on anticipated demand. Once the item is back in stock, it can win back those warm customers. On top of all that, Reformation gains an opt-in opportunity to the SMS marketing channel where it sends back-in-stock notifications.

Likewise, returns offer a powerful opportunity to build loyalty. Returns data provides insights that can guide marketing, content creation and even product development. It can offer visibility into why some items are returned more often than others, identify any product-related issues and help brands understand how they can be rectified.

**Savers**, a thrift store operator, uses purchase and return data to identify and understand their best customers. For example, its reseller customers are typically less profitable than die-hard bargain hunters. These customers overuse the return policy when the goods they purchase don't sell. As a result, Savers excludes them from deep discounts and special coupons, and instead drives those incentives to loyal customers who don't return as much.

### Next Steps

Retailers can gain full control and visibility on supply chain, returns and fulfillment status by connecting their front and back office. Savvy marketing teams should align with their colleagues in product and operations to fine-tune incentives and marketing messages. Data on customer profitability can drive retailers to build bespoke shopping journeys for profitable customers and suppress incentives for unprofitable ones. Connected data allows retailers to increase order value, decrease returns and improve lifetime value.



## 5

### Trend 5: Stores Will Be a Physical Representation of Shoppers' Digital Identities

As much as commerce has moved into digital channels, the brick-and-mortar store still plays a key role in brand experiences. But stores are being transformed into a model of personalization, too, with tailored merchandise displays that align with local tastes and styles.

Additionally, stores will increasingly become a manifestation of consumers' digital lives, extending the ecommerce shopping experience into a true seamless experience. Brands must seek integration with digital technology such as digital signage and in-store mobile activation.

**WoW Skin Science**, for example, lets customers populate their cart online or on the brand's mobile app, and then scan those carts in-store for purchase. This differs from buy online, pick up in-store (BOPIS) experiences in that customers can engage with the products they might be interested in and interact with associates in-store for additional educational and upsell opportunities. Store associates are empowered via data and digital technology because they already have shopping data to inform their interactions with customers. At the same time, modular experiences can be adapted based on in-store behaviors and customers' feedback, providing the potential for an even more robust in-person experience.

### Next Steps

Traffic is returning to physical stores, but consumers' comfort with ecommerce remains at an all-time high. Stores must support omnichannel engagement with digital signage, QR codes and kiosks, and integrated technology in store. Allow customers to move easily between channels to buy online, pick up in store, earn loyalty points and make returns. Give customers the option to take merchandise for a "test drive" by presenting them with their online cart in-store.



## CONCLUSION

### ACHIEVE RETAIL EXCELLENCE IN A CHALLENGING YEAR

As the complexity of the retail industry grows and inflationary pressures mount, it will be more important than ever for retail IT and marketing teams to optimize how they attract and retain customers. Brands that capitalize on the five trends outlined in this whitepaper will gain an advantage when building brand loyalty and driving lifetime value.

While growth is always a stated business goal, only profitable growth is sustainable. Retailers will need to refocus on those strategies that drive profitability. Efficiencies that help them develop an integrated and more efficient overall technology strategy will be the competitive differentiator that this new environment demands.

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