e-book

The Great Pivot:
5 Ways Retailers Can Adapt and Grow Their Businesses

Transformation Tips to Expand Revenue, Enhance Operations, and Maintain Compliance

VERTEX + KPMG + ORACLE + retail TouchPoints

Retailers experienced an era like no other when COVID-19 spread worldwide. Shopping switched from in-store to online nearly overnight. The supply chain experienced unprecedented upheaval in product availability and pricing, and purchasing patterns reshuffled product category priorities. Brands had to quickly shift their operations to serve customers and protect revenue in a time of deep uncertainty.

With regions cautiously reopening, the evolution toward the pandemic's recovery phase is underway, and it's time for retailers to assess their position and put approaches in place to succeed in the next age of retail. Changes in consumer behaviors, evolving financial pressures, new product preferences, redesigned shopping and delivery options — it's all on the table, and with a strong plan, brands can adapt, grow and flourish.

Read on to learn some of the core ways retailers can pivot to meet the new pandemic realities. The right reinvention approach will encompass many different factors, but this core set of elements provides a useful roadmap to success in the new retail era.

1. THE PRODUCT PIVOT

Aligning Product Assortments to Customer Preferences

Consumer shopping patterns fundamentally changed when the pandemic began, and some of those behavioral shifts will stick around. The traditional product category priorities underwent a seismic shift from heavy demand for hygiene and home cleaning products to increased interest in at-home entertainment options such as puzzles, family games, and backyard barbecues.

Many retailers quickly adapted to help serve their communities. Distilleries and breweries used their manufacturing capabilities to make hand sanitizer, selling it alongside their usual products. Clothing stores added racks of masks — standard surgical versions as well as decorative cloth — to help health-conscious shoppers comply with regional mandates.

1. THE PRODUCT PIVOT

Looking ahead, retailers may need to evaluate and evolve their product assortment to suit these new consumer preferences, some of which are likely here to stay. You may decide to trim product lines that no longer receive significant traffic or bring in new lines that better fit your target segment's needs and expectations. You may need to swap out products affected by raw material scarcity or supply chain disruptions with others that have long-term availability.

The right technology will help you assess and fine-tune your product catalog so you can keep pace with market changes and anticipate additional shifts. Modern assortment platforms are increasingly built with artificial intelligence and machine learning capabilities to monitor your product assortment through its lifecycle. Advanced technology tools can also capture demand signals and deliver predictive analytics around product catalog structures to suggest new items and categories.

These systems often require more computing power than what is available in typical on-premise environments. Strong connections with other legacy platforms may also be lacking. Cloud-based technologies can help you solve these infrastructure challenges, allowing you to pivot your product assortment without adding latency to your internal processes or friction for your in-store and online customers.

There also may be tax implications to consider when adjusting your product catalog. For example, if you added masks to your assortment during the pandemic, are you applying the correct calculations to them? Some jurisdictions define masks differently. They may be clothing accessories in one region but medical devices or supplies in another. Masks manufactured from T-shirt material may have a different tax rate than those made from surgical-grade fabric. A robust tax platform with the latest tables will enable you to maintain compliance with local rules and remit the appropriate funds as your product assortment continues to evolve.

Some cosmetics brands saw sales drop **25%** during the pandemic. Sales for some household cleaning products, by contrast, were up **120%**.

SOURCE:
JPMorgan, *"How COVID–19 Has Transformed Consumer Spending Habits,"* Nov 2020

2. MOVE YOUR FULFILLMENT FORWARD

Delight Customers with Enhanced Fulfillment Services

Long-standing fulfillment programs also underwent significant changes during the pandemic and that process of evolution continues for many reasons:

- Supply chain disruptions worldwide
- Shipping challenges and fluctuations in transportation availability
- Product shortages related to skyrocketing demand
- Limited production capabilities due to social distancing measures and worker illnesses
- Narrowed assortments as manufacturers focus on key items
- Customer expectations around how — and how quickly — items are delivered

Supply chain upheaval has been a primary pain point as COVID-19 magnified every existing gap in retailers' visibility around procurement and logistics management.

Looking ahead, retailers have an opportunity to enhance their fulfillment services and develop far more robust visibility into the status of their end-to-end supply chain. Reinvention begins with targeted technology to deliver actionable insight into your product position. Cloud-based technology can bring data in quickly and ingest it, identify where products are upstream (stuck in a distribution center, lagging within the last mile, etc.) in almost real time, and spot stockouts so they can be resolved.

A full perspective on the supply chain — including warehouse operations and transportation management (powered by leading-edge technology tools that apply strong data and state-of-the-art analytics) —is key to successfully reinventing your fulfillment methodology.

With shoppers less willing or able to browse and buy inside physical stores, curbside pickup and home delivery flourished during the pandemic. Decreased accessibility to brick-and-mortar stores increased shoppers' desire for same-day fulfillment. A flood of third-party delivery services became integral players in retailers' fulfillment approaches, as Instacart, DoorDash, and others joined traditional names such as UPS and FedEx. As you consider new ways to reinvigorate your presence, you have an array of new options to help delight customers and meet their fulfillment needs and expectations.

However, it's important to be aware of the downstream impacts of any change in your fulfillment approach. In some cases, third-party delivery partners are responsible for completing the transaction with your customer, and they must calculate the tax correctly. You may retain tax liability for sales facilitated by a third-party delivery partner, so your partners have the necessary information to appropriately apply tax around every transaction where they have a collection requirement.

The ability of your chosen third-party delivery providers to transmit the necessary data for all transactions that occur is also important. In the post-*Wayfair* world, your physical presence within a jurisdiction is no longer the single deciding factor on if, how and when you need to file and remit taxes in that location. The threshold count you'll use to determine your tax and filing liabilities in most jurisdictions may include transactions completed through a delivery service. Any compliance gap could be on your shoulders.

3. CAPITALIZE ON OMNICHANNEL OPPORTUNITIES

Expanding Your E-Commerce Operations to Tap New Selling Channels

Many retailers leaned more heavily on their online presence during COVID-19, but even those with strong digital sales now see e-commerce's potential for additional growth. Social selling and marketplaces are just a few of the new channels you may want to explore.

Solid technology capabilities are the heart of a sophisticated omnichannel shopping experience. You want to create an online environment that attracts and satisfies customers, yet maintains a consistent look and feel across channels. It should quickly and easily scale up and down in response to sales cycles and market pressures.

Backend functionalities must also be in place to serve operational needs around Customer Relationship Management (CRM) and loyalty programs, data privacy, analytics, predictive modeling, inventory visibility, and price management.

Your network will need to accommodate both shopper volumes and traffic behind the scenes. Be sure to account for an increase in dynamic calculations to support all the different tax codes that come into play in e-commerce. Communications across different marketplaces need to be supported. If you bring in logistics data from other systems — such as additional delivery options available to shoppers — that will impact your network traffic requirements.

A technology architecture that's reliable, highly available, and scalable, with a secure infrastructure and applications free from latency issues, provides the foundation for a successful evolution of your omnichannel approach.

As you adjust your omnichannel presence to drive better engagement with shoppers (and more sustainable revenue), you should prepare for the resulting impacts on your tax programs too. A more geographically dispersed customer base means a need to calculate tax in each of those jurisdictions accurately. Some state and local laws base their tax rates for retail purchases on the ship-to address — the structure with which most retailers are already accustomed — and the ship-from address. Consider:

- Are you opening a distribution center in a new region to better serve e-commerce customers?
- Have you started shipping online orders directly from stores to reduce transit times?
- Can customers pick up their web orders in person at a nearby locker or other physical location?

COVID-19 threw cities and states for a loop. Many now grapple with significantly diminished tax revenues alongside other financial shortfalls. There will likely be changes to local tax structures and rates in the coming months as jurisdictions seek to maintain their tax bases. Your tax department needs to be part of the omnichannel discussion so your operations remain compliant. You should frame forecasted cost efficiencies from new e-commerce activities in context with the rest of your brand's financial picture.

"A lot of retailers have lost headcount and had their budgets cut. You have to take a hard look at your processes and your technologies to confirm you've invested carefully to maximize efficiencies and streamline operations."

-Brian Campbell, Partner, Tax, KPMG LLP

4. ENHANCE YOUR EFFORTS WITH M&A

Strengthen Your Market Position Through Partnerships

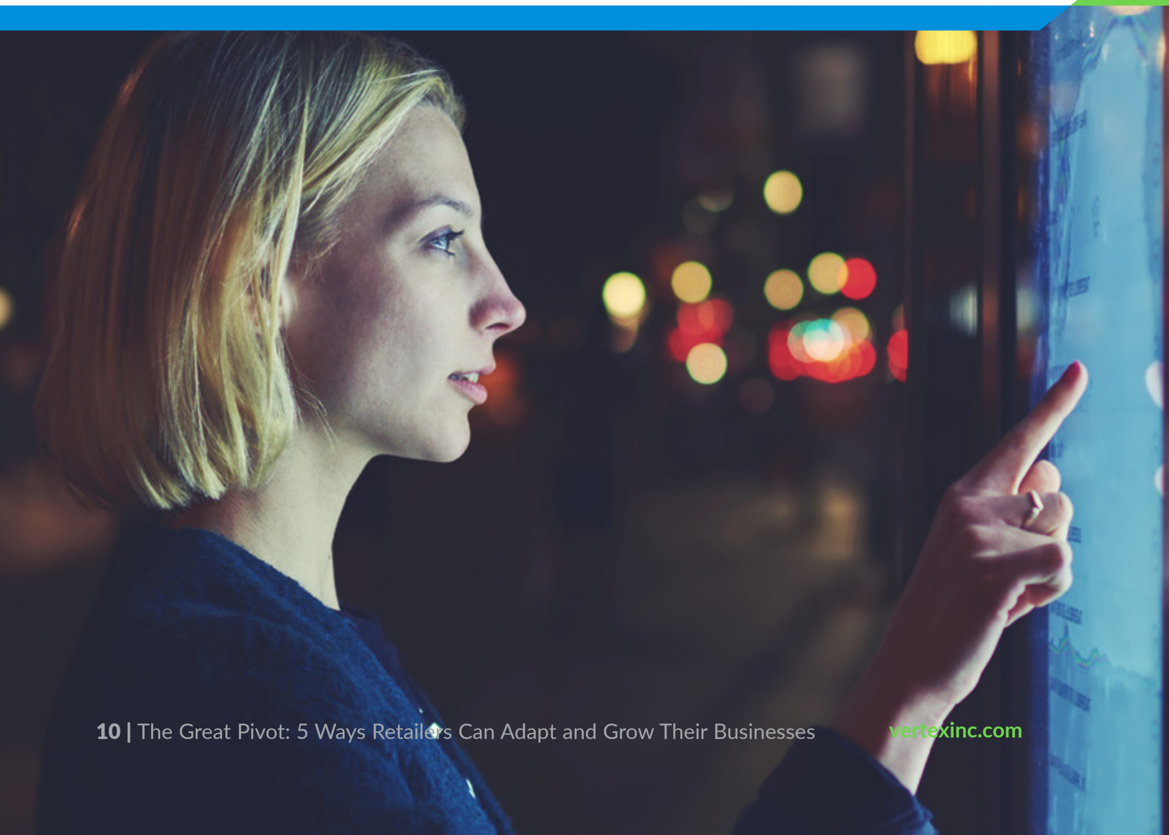
Some retailers may consider pursuing partnerships as part of their reinvention approach. This may include businesses with complementary capabilities, other retailers that hold market share in a sought-after sector, or competing brands. A merger or acquisition could give you valuable access to new customer segments. Partnerships such as colocation of pickup services or shared physical assets can also provide economies of scale and expand your brand's reach. As you explore your partnership options, there are a few factors to keep in mind.

Brands that are merging or acquiring another retailer should determine if the combination of companies could expand or establish a business presence within a state, resulting in a more complex tax landscape with tax filing and remittance obligations in additional jurisdictions. Treatment of product purchases and returns, particularly those that may be cross-brand or involving more than one jurisdiction, should be evaluated to determine the financial impacts. Revenue reporting may need to be managed differently or through more sophisticated tools to enhance compliance across all of the entities involved in the transaction.

Technology is a big part of this conversation because data integrity, availability, and unification are at the core of accurate tax and revenue reporting and filing. It takes many moving parts to bring together the necessary information across two or more organizations.

Infrastructure and IT stack considerations play heavily into your ability to support and blend multiple point-of-sale (POS) systems, e-commerce platforms and tax calculation tools that may need to come together as part of a merger and acquisition (M&A) arrangement. To develop a holistic view of your organization and gain sufficient control over its various operational entities, you must blend disparate technologies into a single consistent architecture.

In general, legacy systems, on-premise technologies and custom-coded applications are the most likely spots to harbor integration bottlenecks. If they aren't carefully structured to work together, they could bog down the entire M&A process and create lasting inefficiencies. In contrast, cloud-based technologies are more readily scalable, allowing you to create more services, streamline application and data consumption, and provide the necessary level of agility to link and integrate with a partner.



"Technology can help to remove points of friction from the purchasing process, accelerating retailers toward an omnichannel world and showing the pathway to maximize profits — all while providing a top-of-the-line customer experience."

-Mike Webster, Senior Vice President and General Manager, Oracle Retail

5. RAMP UP YOUR REACH

Expanding Your Customer Base in New Markets

The worldwide impacts of the pandemic have radically changed the retail landscape. Shoppers are now more willing to purchase goods from new stores in distant places and consciously patronize businesses supporting their local community. Retailers are also adopting new practices as they adapt to product shortages and fluctuating shipping costs and availability.

Retailers outside the U.S. were already making significant inroads domestically, primarily through marketplaces such as Amazon and eBay. That trend as well as the reverse — where U.S.-based brands increasingly stake more significant claims in overseas markets — have accelerated due to COVID-19. Regional retailers follow a similar path, using e-commerce and new delivery options to expand into new markets in other areas of the country. In areas where store closures created a shrinking physical presence, forward-looking brands took to the web to reach new customer bases.

Taxation becomes a central issue in any market expansion plans. The *Wayfair* ruling in the U.S. means retailers must keep up with a patchwork of tax codes and rates across each new region they enter. *Wayfair*-like legislation also exists in Europe. This gives retailers a new set of priorities to assess their growth options into international markets. The complexities of cross-border transactions include new tax calculations and the potential for customs forms, duties, and other related fees. You should carefully manage all these areas to enhance compliance.

Just as tax rules and rates have the potential to be hyper-local in nature, you must consider data privacy laws as part of any M&A plan.

- The EU's **General Data Protection Regulation (GDPR)** includes stringent requirements for collecting, using, and deleting consumers' personal information.
- The **Personal Information Protection and Electronic Documents Act (PIPEDA)** in Canada imposes similar data privacy obligations for businesses.
- The U.S. currently has a national consumer privacy law in place. Still, the **California Consumer Privacy Act (CCPA)** is the first of potentially many state-level regulations governing how business entities can — and must — manage customer information.

An expansion of your selling footprint, no matter if it's online, in-store or both, creates a much higher burden on your technology systems. Customer traffic flows will likely be heavier and more diverse as they come in from additional regional pathways. They may require further localization and other shopper-facing support. Payment types may be more varied and require new software to convert currencies and complete transactions accurately and securely.

Technology platforms must also be agile and powerful enough to keep pace with complex tax structures across multiple jurisdictions and maintain compliance with different consumer data privacy regulations. On-premise systems don't always have the flexibility to scale up as needed, and many lack sufficient interoperability with other platforms to support expansion.

"Even relatively simple cross-border transactions can be subject to numerous jurisdictional rules. As a retailer, if you choose to tackle managing and applying these rules yourself, you might miss a smaller jurisdiction's obscure rule for a particular type of product, or not keep up to date on the ever-changing rules and jurisdictional boundaries, and you don't want to be on the wrong side of compliance."

-Pete Olanday, Retail Practice Leader, Vertex Consulting

Are you Prepared to Pivot?

The pandemic upended the retail landscape, but a measured recovery has already begun that will require new approaches and greater agility than ever before. Brands with a strong reinvention approach — one that leverages the latest technology tools and seamlessly supports complex transactions and multi-layered compliance obligations — will successfully navigate the new paradigm and strengthen their market share.

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