RETAIL RE-ENGINEERED

Transforming retail to win in the digital economy

In association with

isobar

Sorted.

RWRC
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BY ASCENTIAL

AT A GLANCE

It would be wrong to say that retail finds itself standing on the precipice of great change. In many respects we've already gone over the edge. Winning in the new digital economy, and in a landscape dominated by global giants such as Amazon, Alibaba and Google, requires a radical re-engineering of traditional retail models. Retailers, some of which are already struggling to stay afloat, need to understand how the market might shift in one, two or even three years down the track.

When Retail Week launched this flagship campaign – in association with Isobar and Sorted – by interviewing some of retail's great leaders, George at Asda founder George Davies said: "What you need to win is to have a vision of what the consumer wants, not today, but in the future."

He is right. The online landscape has expanded. Where function and convenience were once the drivers of online shopping, people now use it to discover brands, interact with them and be inspired to buy products they love. In this context, stores have to offer more than the chance to physically see and touch a product; they have to be an integral part of the brand ecosystem, whether that's as community hubs, showrooms, collection points or mini distribution centres.

Businesses that don't provide the speed and convenience of Amazon, or inspire the love and devotion of the likes of cycling brand Rapha, will struggle to stay relevant.

The end of multichannel

Chinese retail giant Alibaba describes the future of retail not as one dominated by ecommerce, but as the complete digitisation of all commerce. The implication is that retailers can no longer afford to think in terms of discrete channels.

Re-engineering requires the removal of such barriers and a reimagining of the experience based on the way people actually want to shop.

Partnerships to become key

A new style of leadership and an openness to recruit people from outside traditional boundaries is required.

This calls for investment in digital technologies, but only if they enhance the customer experience by supporting, not compromising, profitability. It demands a rethinking of the supply chain so technology and physical infrastructure enable the shopping experience to be faster, more convenient and personalised. And it requires an openness to work in partnership with others to achieve the best results.

Using insights from a c-suite survey of 44 retail leaders on their re-engineering priorities and challenges, this report takes a deep dive into what the digital transformation journey looks like both in the medium and long term.

The report explores how social media giants are muscling in on retail space by bringing the experience closer to the transaction, and how the likes of Amazon and Alibaba have risen to positions of strength by embedding themselves in consumers' lives. It also showcases examples of stores being reinvented for the digital age.

We go on to analyse the new tech driving supply chain transformation as retailers seek to optimise systems that support profitable distribution, fulfilment and returns.

Finally, the report highlights how recruitment strategies are changing to attract the skills needed for businesses to thrive. It looks, too, at how organisational structures are reshaping to be more customer-centric.

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WHO DID WE SURVEY?

RETAIL WEEK SURVEYED 44 RETAILERS IN MARCH 2019. THIS INCLUDED:
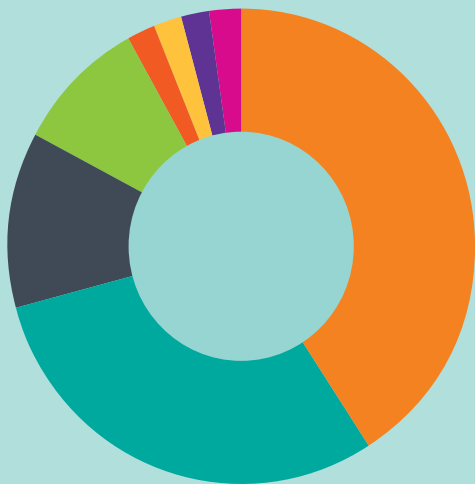
CURRENT POSITION IN THE ORGANISATION

- MD (MANAGING DIRECTOR)
- CEO (CHIEF EXECUTIVE OFFICER)
- FINANCE DIRECTOR/HEAD OF FINANCE
- CIO (CHIEF INFORMATION OFFICER)
- CTO (CHIEF TECHNOLOGY OFFICER)
- ECOMMERCE DIRECTOR
- CCO (CHIEF CUSTOMER OFFICER)
- CPO (CHIEF PROCUREMENT OFFICER)

RETAILERS SURVEYED BY SECTOR

Sector	%
GENERAL MERCHANDISE	32%
OTHER	23%
FASHION	16%
HEALTH & BEAUTY	14%
GROCERY	11%
ELECTRICALS	9%
ENTERTAINMENT	9%
DEPARTMENT STORES	7%
HOME & DIY	7%
SPORTS & LEISURE	5%

Some retailers sell across more than one category

ISOBAR
VIEWPOINT

ALEX HAMILTON
HEAD OF INNOVATION, ISOBAR

As the title of this report suggests, imagination and creative thinking are going to play an increasingly important role in determining the winners and losers in retail's future.

Using the world's newest technologies, brands and retailers will be challenged to design creative solutions to business problems in an effort to remain relevant with customers – all part of a sea change that began when the launch of the internet connected us all.

Ten years ago, retail executives were battling with how best to integrate ecommerce into their existing operating models, while pureplays took off without the anchor of legacy. This was followed by a period focused on becoming mobile-friendly and increasingly mobile-first. Now, a third wave of digital changes is upon us.

New interfaces – such as voice and visual – are becoming more popular with consumers, challenging user interface designers to think differently, while Google's Buy Button and Instagram Shopping (both currently in beta) are challenging the very purpose of the transactional website.

Despite these new horizons, the role of brands and retailers will continue to centre on bringing the points of inspiration and transaction closer together.

This is our focus at Isobar. Whether it's tackling site speed to improve conversion, investing in better user experiences or devising new types of business models – such as subscription – to compete with digital native brands, we understand how retail needs to be reimagined for the benefit of both businesses and the people who shop with them.

> "
> **In the third wave of digital, voice and visual are challenging user interface designers to think differently**
> "

ISOBAR

Isobar is a global digital marketing agency and leading ecommerce service provider. It creates digital experiences for the brand commerce world that engage customers, fuel growth and increase market share, and helps companies to design, build and manage engaging ecommerce websites.

Isobar is behind the ecommerce success of brands such as Adidas and Clarins, and helped Asda George increase online customer conversion by 31% and online revenue by approximately £10m annually.

Isobar offers free website performance UX audits for retailers. Request yours at HelloIsobarUK@isobar.com

isobar.com   020 7983 8795   alex.hamilton@isobar.com   @Isobar_UK

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SORTED
VIEWPOINT

ANDREW HILL
SALES DIRECTOR, SORTED

What an exciting but challenging time we find ourselves in within the retail industry. A crazy pace of evolution means that brands, and the individuals running them, simply can't stand still.

Customers expect the world, and there are some trailblazing retailers doing a good job at giving it to them. Many retailers, however, are just nodding along, unsure how their infrastructure, staffing, technology and partnerships can be flexible and agile enough.

As a retailer, at whatever seniority level and in whatever sector, you have an amazing opportunity for innovation, adaptation and growth – and not just for the biggest brands with the biggest budgets.

At Sorted, we don't think that change and competition are bad things. They should be embraced and harnessed, to show you the art of the possible.

Retail is a pioneering industry, at the forefront of some of the most interesting applications of new technology.

But there's always more change needed. And, with so much to do, where do we start?

This report reveals the secrets of what everyone is thinking inside the head office walls. It shows that many are trying to solve the same problems and it gives the intel on the brands leading the way. It shows that, with customers pulling transformation in many directions, retailers struggle to split their attention and investment across the areas that need focus. We find they're looking at everything from visual search and payment options to warehousing and returns.

Despite all the noise around deciding how and when to re-engineer retail, it narrows down to one common mission that we find in every brand we speak to and work with. There's a rapidly growing gap between what consumers expect and what retailers can offer, and it's at its widest when we look at the imbalance of demand versus experience when it comes to the supply chain.

Delivery is just one part of the retail journey puzzle, and everyone has a hand in putting the pieces together. Perfecting the customer experience is a business mission; it's not just something for one person, team or department to own.

> ❝ **Change and competition should be embraced and harnessed, to show you the art of the possible** ❞

SORTED

Sorted is refreshingly agile and data-driven delivery software – powering dynamic checkouts, delivery management and delivery tracking around the world.

Through partnerships with some of the biggest global carriers and customer-obsessed retailers, Sorted transforms the delivery experience into a delight for everyone who touches it. The Sorted software is now live in nine countries – with brands such as Asos, Missguided and Lush – and it prides itself on helping to close the gap between what customers expect and what retailers offer when it comes to delivery.

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@SortedOfficial   linkedin.com/company/sorted-official   facebook.com/SortedOfficial/

SURVEY SNAPSHOT

We asked retail leaders what their re-engineering priorities are

25% envisage their stores acting as community hubs for the brand, where customers come to learn and experience

48% expect to have fewer stores in 30 years' time

39% expect Facebook to deliver the most value for their business over the next five years

36% say mobile payments will be one of their top in-store investment priorities in the next five years

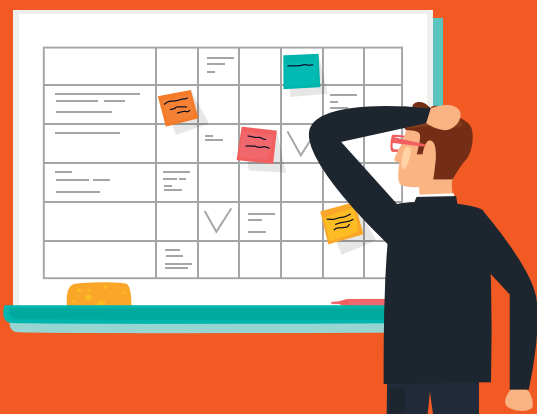**41%** see a new ecommerce platform, new payment options and a mobile website as their top ecommerce investment priorities

30% say it will be touch-screen mirrors in changing rooms, **23%** say augmented reality mirrors, and **21%** say in-store robotics to replenish shelves – showing innovative tech is rising up the agenda

BUY

54%
of retailers expect their workforce to be bigger in five years' time

46%
predict their staff numbers will be smaller in five years' time

36%
say a lack of internal digital skills is impacting their re-engineering efforts, while 27% mention a lack of buy-in or cultural adoption of transformation initiatives
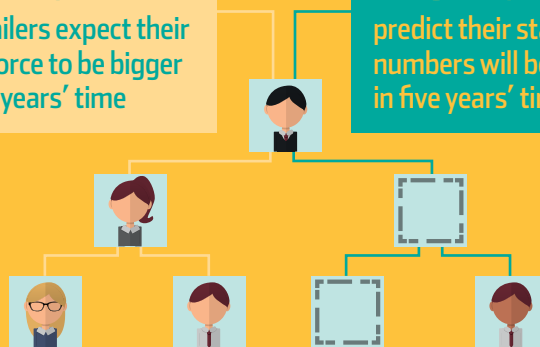
43%
want to work more collaboratively with supply chain partners to help re-engineer their businesses

41%
are investing between 11% and 20% more into their supply chain than they did three years ago

30%
of retailers expect to see the biggest staff increase within head-office ecommerce, while the same amount predict the greatest reduction will be in stores

REIMAGINING DIGITAL: ONLINE'S NEW ECOSYSTEM

>> Ecommerce is moving into a second phase with inspiration-led shopping

>> Brands need to focus on bringing the point of transaction closer to the point of inspiration

>> Next-gen tech is still centred on creating the best customer journey

I t's good to be reminded sometimes that, although digitisation has completely disrupted the sector, still fewer than 20% of retail sales currently take place online, according to Office for National Statistics data.

However, while future growth seems guaranteed – 95% of retailers surveyed expect growth in online channels over the next 12 months – raw statistics can never tell the full story of the seismic shift in shopping habits that the digital revolution has driven.

Retailers now find themselves operating within an entirely new brand ecosystem, where sales completed at a single point are dependent on brand interactions across multiple touchpoints, and experiences previously exclusive to a physical store environment are being replicated online.

"The end result doesn't change: the exchange of goods between a customer and a supplier. What changes is the context," explains Trouva co-founder Alex Loizou.

In many ways Trouva – which curates unique products from independent boutiques that reside in the offline space and makes them discoverable to the world via its platform – is the antidote to the likes of Amazon and eBay, the successes of which are built on servicing the consumer desire to buy commoditised products quickly, cheaply and conveniently.

Loizou says: "Inspiration and discovery-led retail is moving online quite quickly. While the first phase of online retail was around building the infrastructure and getting to the point where you could take orders online, we're moving into the second phase where it's very much around experiential and discovery, and how to find products that are actually relevant to you."

One thing almost all businesses that thrive online have in common is the ability to put their customers at the heart of everything they do. "Don't try to make the customer fit what suits you; you should fit to suit the customer," says Andrew Hill, sales director at supply chain technology company Sorted. "That's the re-engineering that successful bricks-and-mortar retailers are doing."

Nowhere is this more relevant than in customer service, where the use of artificial intelligence (AI) is delivering more personalised digital interfaces and greater speed and efficiency to the on-site journey.

"Today's digital consumers expect customer service to be delivered via their channel of choice and to get first-time resolution," says Sam Perkins, group retail director at Shop Direct, who notes that almost 30% of the retailer's customer contact now comes via digital channels, including its AI-powered Very Assistant chatbot, webchat and social media.

WHICH TECHNOLOGIES ARE YOU INVESTING IN TO IMPROVE YOUR ECOMMERCE OPERATION?
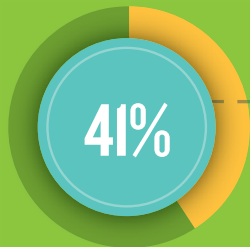
41% A NEW ECOMMERCE PLATFORM

41% PAYMENT OPTIONS
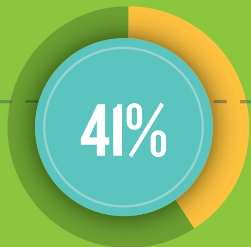
41% MOBILE WEBSITE

36% MOBILE APP

18% ARTIFICIAL INTELLIGENCE

21% VISUAL SEARCH TECHNOLOGY

21% CLICK-AND-COLLECT

25% DIGITAL SKILLS/PEOPLE

18% PERSONALISATION

18% INVESTMENT IN WAREHOUSING

16% PROGRESSIVE WEB APP
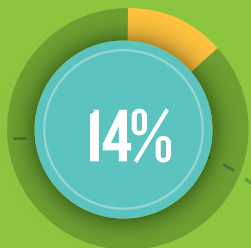
14% CUSTOMER SERVICE CHATBOTS

2% REPLACING LEGACY SYSTEMS

9% VOICE SEARCH/ASSISTANTS

9% PICK-UP-DROP-OFF (THIRD-PARTY RETAILER)
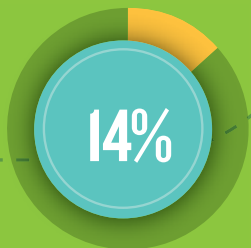
14% A RETURNS HUB

WHAT THIS TELLS YOU: Retail is being driven by customer experience, so it is little surprise to see such a focus on usability with the right platforms and payment options. However, with AI, visual search and data skills following fast behind, retailers are also preparing for the future.

Learning from the big five

At a broader strategic level, if you really want to understand the future direction in the retail sector, it's vital you look at the strategies of the world's 'big five' technology companies, according to Isobar head of innovation Alex Hamilton, who cites Amazon, Apple, Facebook, Google and Microsoft as the leading examples.

Amazon in particular has risen to an unparalleled position of strength in the UK and US retail markets.

Hamilton explains that a strategic priority is to bring the transaction closer to the experience. "Mark Zuckerberg has said his ambition is to roll Facebook, Instagram, WhatsApp and Messenger into one application. He wants to create the WeChat of the Western world. That's really interesting because WeChat is true social commerce. We don't really have it in this country.

"So, when you combine all those things and bring the point of inspiration closer to the point of transaction, that becomes extremely powerful, and that's how you're going to win through social commerce."

The evidence from this research suggests that retailers grasp the centrality of social platforms to their brand ecosystem.

For nearly 40% of respondents, Facebook is the social platform expected to drive the most value over the next five years, more than double that of the second most cited, Instagram and YouTube (both 18%).

The big five are also reshaping the future of search. Visual and voice-enabled technology are making the process of online search easier and more intuitive.

By 2021, it is estimated that there will be 1.8 billion people using AI voice assistants, such as Amazon's Alexa and Apple's Siri, to search for information online.

And the technology is developing apace; last year, Chinese etail giant Alibaba launched the latest iteration of its AI-powered speaker with visual capabilities that allow the device to read and understand written text.

The newest version of its smart speaker, named AliGenie 2.0, is able to perform tasks ranging from reading a bedtime story to recognising different medications.

This supports Hamilton's belief that, beyond brand discoverability, a key application of voice technology will be as a problem-solving tool.

As an example, he describes some work Isobar carried out with Yves Saint Laurent to develop a voice-activated make-up tutorial.

"The challenge with the video tutorial was that people would pick up their make-up to watch and then put it down again to pause, fast-forward and rewind. What we've delivered is voice-enabled videos, so rather than putting the make-up down, you simply say stop, start or pause.

"When we talk about voice we're not just talking about Alexa in your home. Our take on voice is to provide a better experience than finger-based interactions.

"With consumers increasingly using emerging interfaces such as voice, visual and augmented reality, coupled with brands like Instagram and Google launching functionality that allows users to transact within platforms, retailers need to ask themselves what purpose the website will serve in the future."
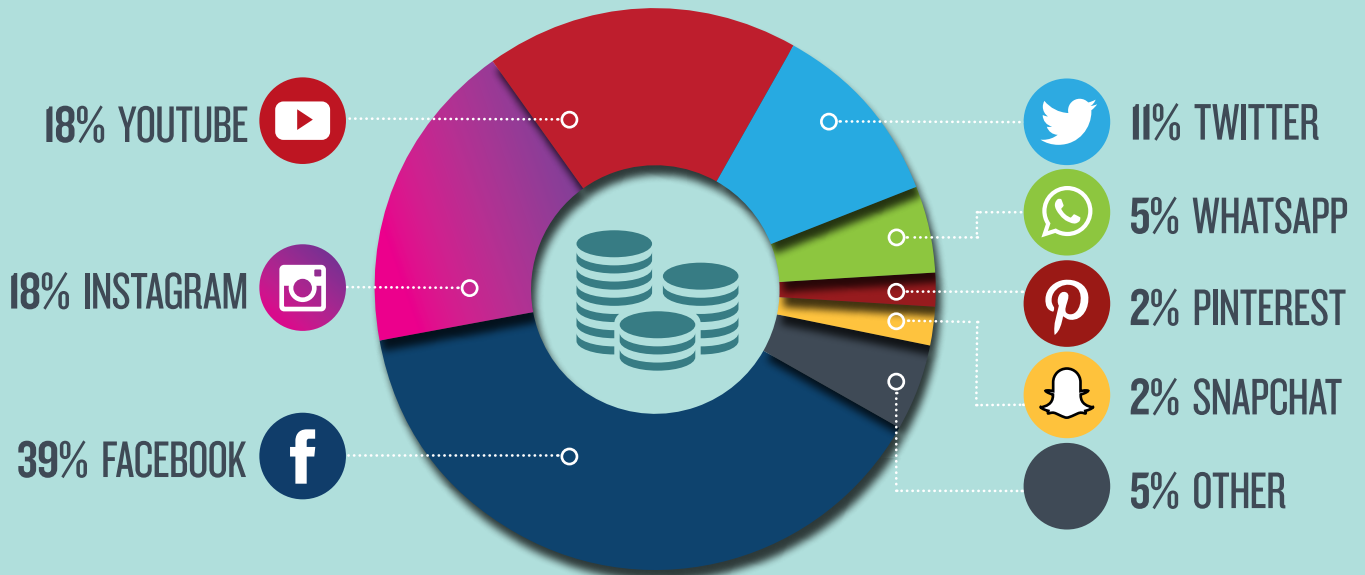
> "
> ## Today's digital consumers expect customer service to be delivered via their channel of choice and to get first-time resolution
> "

Sam Perkins, Shop Direct

WHICH SOCIAL PLATFORM DO YOU EXPECT TO DRIVE THE MOST VALUE FOR YOUR BUSINESS OVER THE NEXT FIVE YEARS?

18% YOUTUBE

18% INSTAGRAM

39% FACEBOOK

11% TWITTER

5% WHATSAPP

2% PINTEREST

2% SNAPCHAT

5% OTHER

WHAT THIS TELLS YOU: Retailers believe Facebook, far from losing importance, will continue to drive the most value over the next five years. With all of these platforms gaining more importance in consumers' lives, retailers will need to re-engineer their customer experience strategy to put social platforms at its heart.

HOW MUCH SALES GROWTH/DECLINE DO YOU EXPECT TO SEE IN THE FOLLOWING CHANNELS OVER THE NEXT 12 MONTHS?

EXPECTING GROWTH

95%	79%	57%
ONLINE	MOBILE	STORES

EXPECTING DECLINE

5%	21%	43%
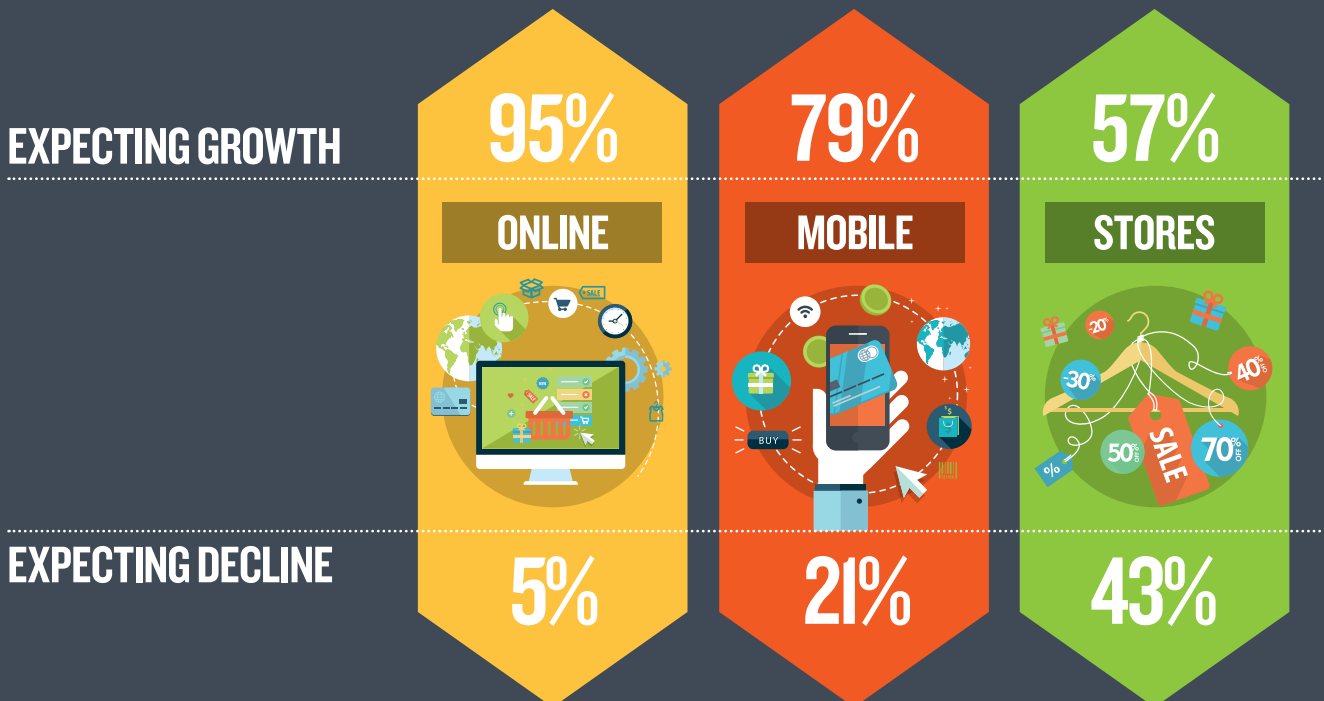
WHAT THIS TELLS YOU: Online is the clear winner here, followed closely by mobile (the decrease in stores is explored more closely in chapter 2). This means wider retail, including legacy store businesses, will have to refocus, invest and innovate if it wants to remain relevant in a digital world.

Options and optimisation

Amid the noise surrounding next-gen technologies, in the immediate future retailers' investment priorities remain rooted in getting the online basics right.

A new ecommerce platform, new payment options and a mobile website are cited by respondents as the preferred technologies to invest in, with mobile apps also high on the list of priorities.

Hamilton says retailers are right to maintain a focus on the fundamentals of speed and user experience, and notes that new tools are available to facilitate a better customer journey.

"We talk about things like progressive web apps (PWA), which bring all the benefits of a mobile app on to the web. You can have push notifications and shop-offline features; you can drop the website on to the user's home screen, but as an app. It's an app-like experience, but on the web."

Customer traffic on the Asda George website has jumped from 35% to 75% in less than a decade, John Nother, senior digital director of technology at Asda, told Hamilton during a session at retail event Futr earlier this year. So the business decided to focus on site speed to cope with the traffic and answer customer frustrations.

"Adaptive was the start of our journey around mobile speed with Isobar," he said. "Following the launch of our adaptive site, we realised that, even though the experience was better for our mobile customers, we still needed to go faster. Investing in building a PWA was the next logical step for us. By bringing all the great features and functionality of native apps to the web, we were confident that we could deliver an experience unrivalled in UK retail."

The business has seen a 31% increase in conversion and a 20% increase in page views per visit.

So the longer-term may be about re-engineering the front end of websites to mimic the user experience consumers are increasingly familiar with on their mobiles.

For a multichannel retailer with its origins on the high street, the re-engineering that relates to the growth in ecommerce is about optimising the mix of those different channels in a consistent way, which is attractive to the consumer while being cognisant of the need to deliver a profit.

"The cost structure of ecommerce is fundamentally different," says Sean McKee, director of ecommerce and customer experience at Schuh. "In stores you pay rent, you pay rates, you have staff costs, so you sink a lot of cost upfront, and then the selling activity is where the profit is driven, whereas with ecommerce the cost is attracted at the point you sell the product.

"It's important to really get under the bonnet of ecommerce and understand where does profit live, which things are least desirable and how do we take them out of the mix and promote the things that work?"

Ultimately, for traditional bricks-and-mortar retailers, any digital re-engineering strategy has to start with the consumer.

"You need to know which devices they are on, where is their locality, what are their preferences in terms of the speed of service they want, where do they want to collect or take delivery, and how do they want to pay?" says McKee. "These are all very practical things that can have an incremental benefit when customers are selecting us over one of our competitors."

1.8 billion people will use AI voice assistants by 2021
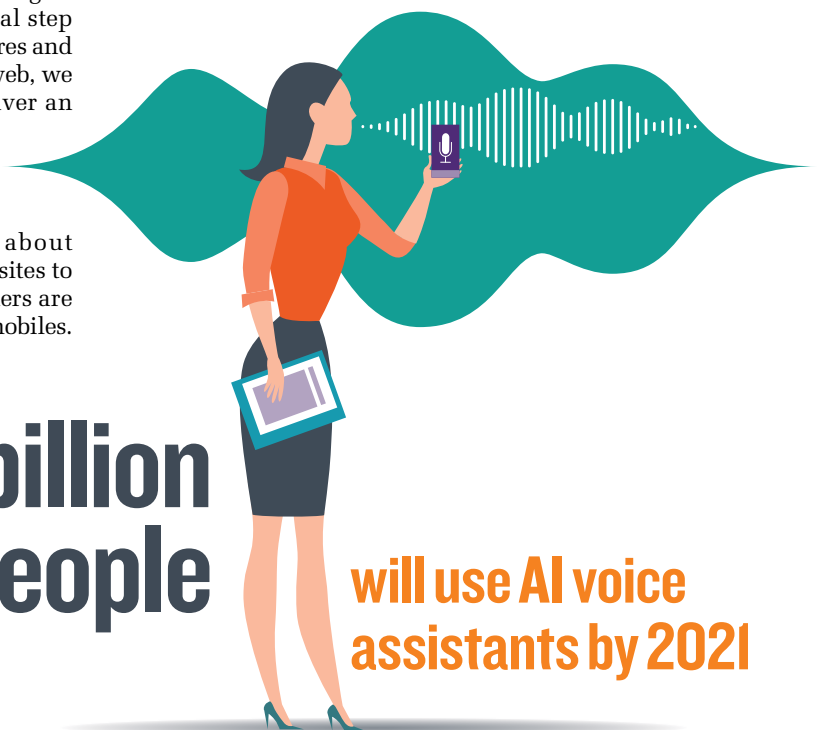
REDESIGNING THE IN-STORE EXPERIENCE

>> Stores remain important but must be reimagined

>> Stores will decrease after five years as retailers focus on more experiential formats

>> Fusion formats will deliver on heightened expectations

Confounded by the migration of sales to online, retailers with large legacy store estates are facing a crisis of identity.

In an era where 100 million customers globally are prepared to pay around $100 (£77) annually for the privilege of shopping with Amazon, which operates a mere handful of branded physical outlets, what is the role of the store?

There are no simple answers, but two things seem certain: bricks-and-mortar shops aren't going away any time soon, and the role they play in the brand ecosystem will continue to evolve.

"The store is still a manifestation of your proposition in a place where there is sufficient customer traffic to warrant having a physical presence," says Schuh's McKee.

"Philosophically, commercially and pragmatically, we're a business that believes we have the best proposition for customers if we have a combination of stores and an online business that co-ordinate extremely well with each other."

Rather than pin their hopes on the latest technology unicorn, retailers need to think strategically about what drives the customer emotionally. They need to ask what compels customers to visit a store and then invest in the in-store environment in a way that meets their expectations.

Although no single technology will be universally applicable, retailers are clustering around certain key innovations that appeal to consumers.

In particular, they are doing this to attract tech-literate Gen Z shoppers, who this year will make up a third of the global population and have never known or cannot remember a world without the internet, smartphones and social media.

IN THE FUTURE, HOW MANY STORES DO YOU ENVISAGE HAVING?

⬆ NUMBER OF STORES WILL INCREASE
⬇ NUMBER OF STORES WILL DECREASE

IN 20 YEARS

⬆ 50%   ⬇ 50%

IN 30 YEARS

⬆ 52%   ⬇ 48%

IN 5 YEARS

⬆ 66%   ⬇ 34%

IN 10 YEARS

⬆ 57%   ⬇ 43%
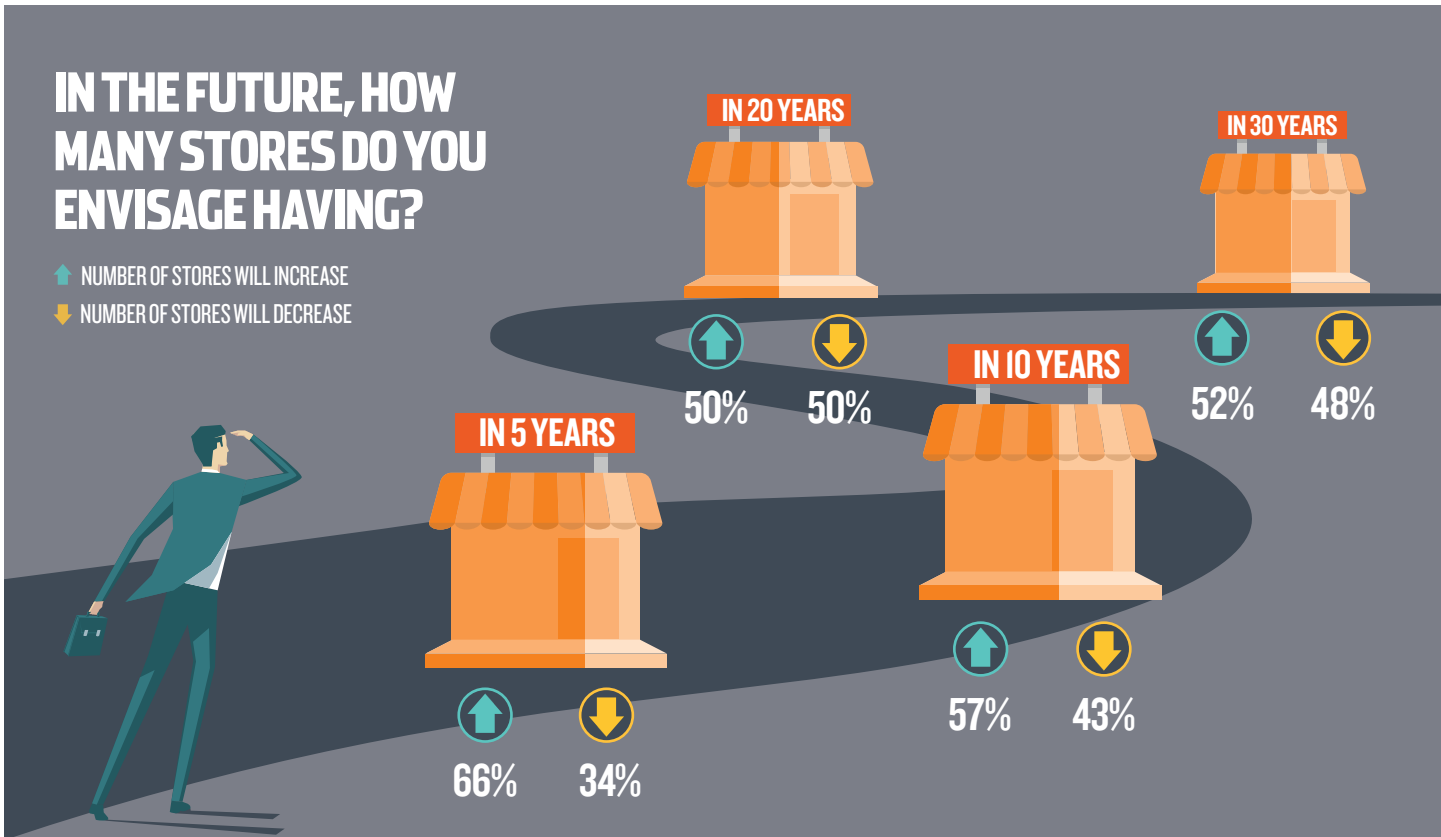
WHAT THIS TELLS YOU: A high number of retailers expect their store numbers to increase within the next five years, but this drops by nearly 10% for 10 years, which could reflect legacy leases coming to an end for many, before slowing. At the same time, nearly half of retailers (48%) believe they will have fewer stores in 30 years' time.

WHAT ROLE WILL STORES PLAY IN THE FUTURE?

25% OF RETAIL MANAGERS THINK THEY WILL ACT AS COMMUNITY HUBS FOR THEIR BRAND, WHERE CUSTOMERS COME TO LEARN AND EXPERIENCE

WHAT THIS TELLS YOU: While retailers believe their store numbers will go down – something more possible as long legacy leases expire – the concept of stores does not appear to be going anywhere, just changing. Retailers want them in higher-footfall places, with more relevant in-store experiences. The challenge will be re-engineering how those stores look and feel, and the service they offer.

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More than 40% of retailers surveyed say they want to invest in e-receipts in the near future, while mobile payments and transactions carried out using mobile PoS are also high on the list of priorities.

Fusion formats will win

At a more conceptual level, the most progressive retailers are totally reimagining the role of the store in a digital age.

Alibaba's Hema grocery concept is a highly experiential retail space that fuses live and digital grocery shopping with multiple in-store dining options and high-tech fulfilment solutions, such as home delivery trolleys.

Using the app, shoppers can scan shelf codes to find out more product information and inspiration, and, because every store doubles as a distribution centre, products can be delivered rather than carried home.

Facilities such as gyms, nail bars and community-based services increase footfall, dwell time and potentially customer spend. The concept is proving so popular in China that people are said to be moving house with the specific intention of living near a Hema store.

Hema's proposition is at the cutting edge of store re-engineering, but its approach has implications for all retailers that find themselves questioning what it is that gets customers through their doors.

When asked what role stores would play in the future, the most cited response was as community hubs for the brand, a place where customers go to learn and experience.

A good example of a business doing this already is cycling brand Rapha, which refers to its stores as clubhouses, where customers can experience the brand in person while drinking coffee, watching races and browsing products.

Other retailers believe stores will become product showrooms, click-and-collect destinations for an online offer with a limited product selection, or mini distribution hubs to fulfil orders for home delivery. And these responses are manifesting themselves in the real world.

Argos is using some of its larger stores as regional fulfilment centres to allow it to provide fast and efficient four-hour delivery slots to customers.

Multi-solution space

Zara's new flagship store in Westfield Stratford features the very latest in self-service technology. It incorporates two in-store automated mini warehouses able to handle 2,400 orders simultaneously, which are sorted and delivered by robotic arms.

McKee says Schuh is also using its stores to service online orders more efficiently.

"We have the ability to fulfil internet orders from the store, so we do that four times a day. It is a place where you can still interact and transact with a brand on the spot, but it is also a distribution centre and a place where, behind the scenes, the customer doesn't necessarily know what's going on."

These developments, and others like them, go some way to explaining why 66% of retailers expect to see an increase in the number of stores they operate over the next five years.

Those brands that have accepted an inevitable decline in their estates perhaps need to think a little harder about the value their physical spaces can bring to the shopping experience.

> ## We have the ability to fulfil internet orders from the store, so we do that four times a day
>
> **Sean McKee, Schuh**

WHEN IT COMES TO RE-ENGINEERING YOUR STORE ESTATE, WHAT IS YOUR BIGGEST CHALLENGE?

LACK OF FUNDS

34%

11%

11%

11%

KNOWING WHICH IN-STORE TECH TO INVEST IN THAT WILL DELIVER ROI

DIFFICULTY IN EXITING LONG/ LEGACY LEASES TO REDUCE THE STORE PORTFOLIO

ENSURING STORE STAFF HAVE BOUGHT IN TO DIGITAL TRANSFORMATION STRATEGY
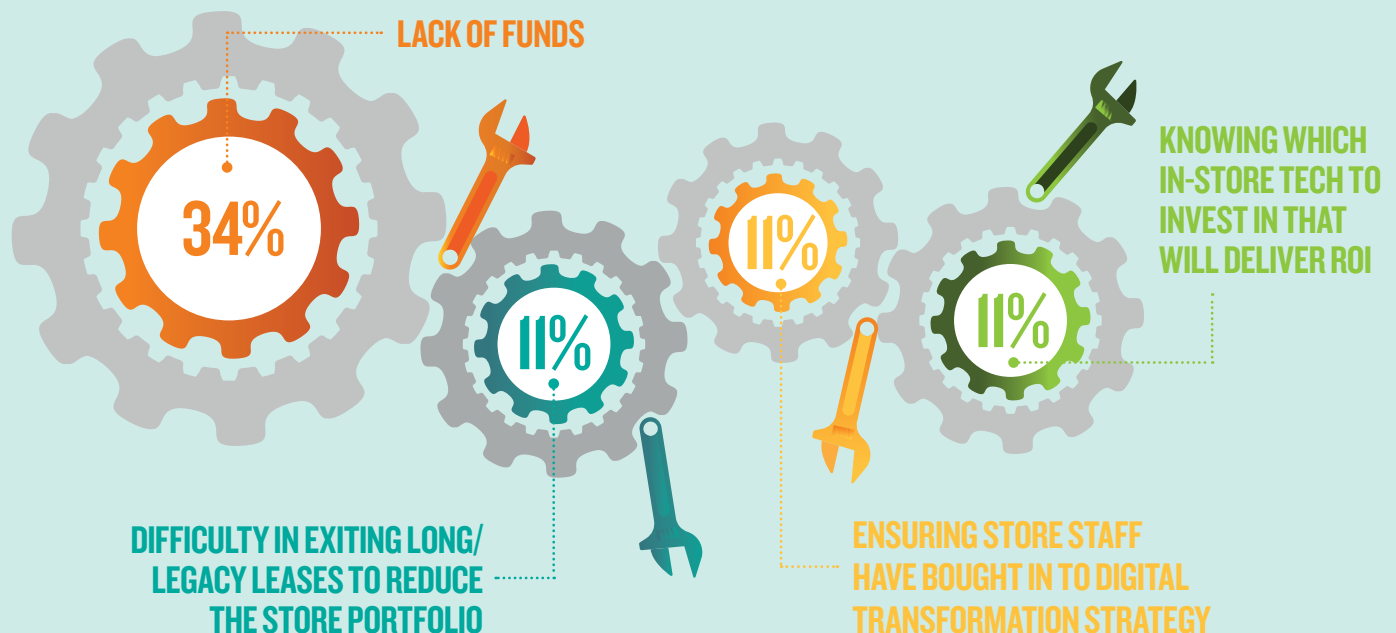
WHAT THIS TELLS YOU: Beyond the eternal problem of a lack of funds, the challenge presented by legacy leases sheds further light on preceding results. Meanwhile, questions around how to ensure staff buy in to transformation and which tech to invest in show that retailers are taking the long view on how to reimagine their businesses.

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WHICH IN-STORE TECHNOLOGIES DO YOU PLAN TO INVEST IN?

TOP FOUR IN THE NEXT 18 MONTHS:

TOUCH-SCREEN KIOSKS/TABLETS
To browse a retailer's online catalogue of products

E-RECEIPTS
Receipts emailed to customers

MOBILE TRANSACTIONS
Shopping assistants with mobile till points to make paying easier

MOBILE PAYMENTS
Shoppers can pay using their smartphones

NEXT FOUR IN THE FOLLOWING FIVE YEARS:

WI-FI

TOUCH-SCREEN MIRRORS IN CHANGING ROOMS
To browse the full catalogue of online products, request the shop assistant to bring new items to try or take photos of outfit choices to email or share on social media

QR CODES
Shoppers can scan with their mobile phone to find out information

SELF-SERVICE TILLS

WHAT THIS TELLS YOU: The message presented here is quite clear; with the exception of in-store kiosks and touch-screen mirrors in changing rooms, retailers will be focusing on mobile innovations, which in turn will prove invaluable for capturing customer data and then driving loyalty.

RESHAPING THE SUPPLY CHAIN

>> Investment in supply chain is increasing

>> Creating true visibility and gaining intelligent insights are key

>> Retailers are looking for true partnerships with suppliers

Perhaps more than any other function, the supply chain is the epicentre of technological innovation in the retail sector.

Whether it's Ocado's tech-driven fulfilment centres, where swarms of robots pick and pack orders, or Walmart's robots that scan shelves, sort crates and pallets to get items on to the shop floor and replenish stock, the most advanced retailers are exploiting new technologies such as AI to transform the efficiency and effectiveness of their logistics operations.

For the customer, who may never come face to face with a robot, supply chain technology is relevant in the way it makes the entire shopping experience faster, more convenient and personalised.

"Outstanding customer experience is allowing a customer to own the delivery options at checkout, choosing the best option to fit in with their lifestyle rather than being offered vanilla choices; keeping the customer immersed in a brand through the tracking and returns 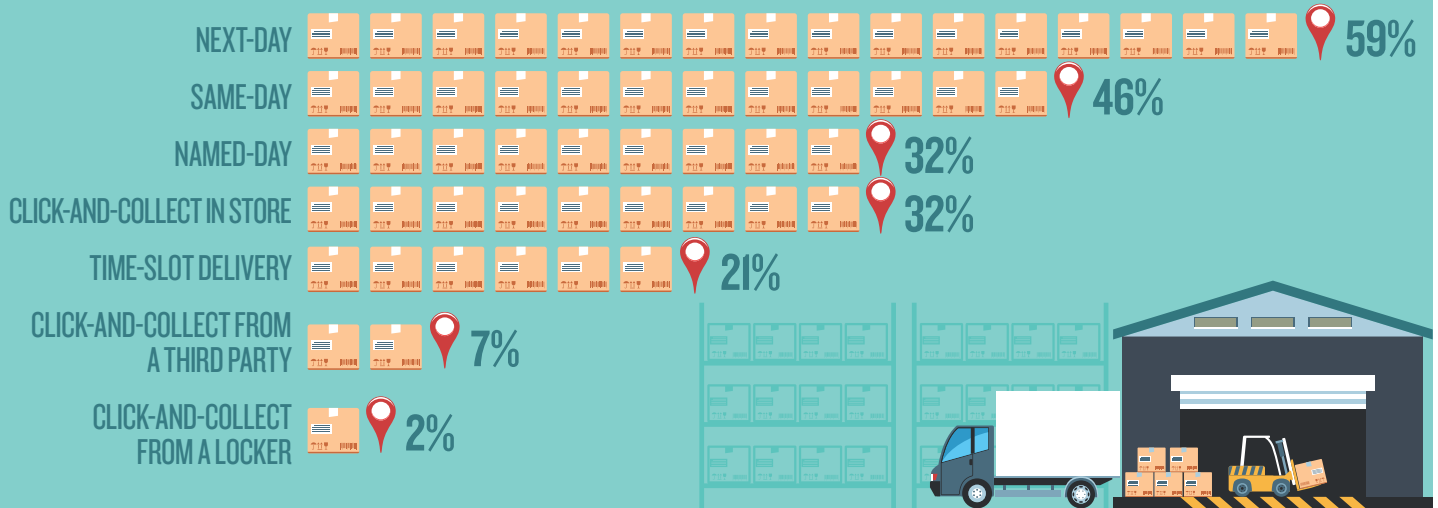process; sharing intelligent and informative data while a delivery is in flight; being accountable as a retailer for delivery problems and not handing off to a third party or just dealing with the good news," says Sorted's Andrew Hill.

He explains that a one-size-fits-all approach to after-sales service no longer works. "Retailers like Amazon do this really well and engage with customers at every step. But this isn't something only the retail behemoths can do. It's within the reach of all retailers, if they really harness that elusive, actionable data that sits between retailer, carrier and consumer."

Unsurprisingly, the supply chain is a key area of investment for retailers, with those surveyed most commonly investing 11% to 20% more than they did three years ago.

Whether that investment is correctly targeted is another matter. Although two-thirds of retailers say they have a profitable supply chain, 5% say theirs is unprofitable, while 29% say they don't have true visibility, making it difficult to know whether investment is generating a return.

WHICH DELIVERY METHODS DO YOU CURRENTLY OFFER?

Method	Percentage
NEXT-DAY	59%
SAME-DAY	46%
NAMED-DAY	32%
CLICK-AND-COLLECT IN STORE	32%
TIME-SLOT DELIVERY	21%
CLICK-AND-COLLECT FROM A THIRD PARTY	7%
CLICK-AND-COLLECT FROM A LOCKER	2%

IS YOUR CURRENT SUPPLY CHAIN MODEL PROFITABLE?

YES 66%

NO 5%

DON'T HAVE TRUE VISIBILITY 29%

WOULD YOU LIKE TO WORK MORE COLLABORATIVELY WITH THIRD-PARTY SUPPLIERS?

YES 43%

NO 30%

UNSURE 27%

WHAT THIS TELLS YOU: Customers want faster and more reliable delivery, so it comes as no surprise to see nearly as many retailers offering same-day as next-day, with named-day not far behind. The retailers in our survey remain upbeat about the profitability of their supply chain models, but the research makes it clear that, increasingly, they will look to the in-depth expertise of their supply chain partners to make it work long term.

Hill believes the key to driving the supply chain transformation that will realise these benefits lies in the retailer's smart use of data. "It is no longer about having lots of data, but more about having the tech to give you the right data.

"The key driver is understanding where your customers are and where your products are, paired with understanding customer demand and expectation."

He argues that investment in technology infrastructure to remain competitive is not a sunk cost to a retailer. "One of our clients told us that the little changes, when added together, bring increased efficiencies, too – saving time when it comes to 'hands-on-keyboard' processing or automated reporting, for example. Implemented correctly, unlocking an efficient supply chain will grow revenues and long-term customer value, as well as reduce costs."

Delivering on delivery

As in every area of retail, the Amazon way of doing business has had a transformative effect on the supply chain.

Nowhere is this more apparent than in delivery, where Amazon's Prime service rewrote the rules by offering same-day, and it continues to reset the bar for what consumers expect from online fulfilment with innovations such as free two-hour delivery on grocery items.

Where Amazon leads, other retailers are pressured to follow, with almost half (46%) of those surveyed saying they now offer same-day delivery and 59% offering next-day delivery.

Shop Direct is in the process of developing a state-of-the-art fulfilment and returns centre in the East Midlands, where best-in-class automation technology will enable the business to serve customers more efficiently.

"The central UK location will allow us to increase cut-off time for next-day delivery to midnight and explore same-day delivery in the future," says Perkins, who notes that the site is expected to deliver an estimated £25m in efficiency savings per year from 2021.

Challenges around maintaining supply-chain technology infrastructure to support innovations such as same-day delivery are leading more and more retailers to seek help from third-party experts.

"Building the right partnerships – from merchandise suppliers to software and technology partners – is vital for accessing the specific skills and knowledge needed to evolve at the same rapid pace as the retail sector generally," says Perkins.

"Technology partnerships in particular can deliver large-scale complex solutions quickly and effectively. This is particularly useful for areas of the business where the

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Technology partnerships in particular can deliver large-scale complex solutions quickly and effectively

Sam Perkins, Shop Direct

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time and cost investment of developing bespoke technology wouldn't necessarily create a key point of differentiation for a retailer, such as automated picking systems in warehouses."

Increasingly, collaborations are not just with businesses with the physical infrastructure such as warehouse space and distribution fleets to support multichannel retail, but with suppliers that are using leading technology to help retailers reduce operational costs while retaining a competitive edge.

Hill gives the example of blockchain technology, which is helping retailers uncover more efficiencies while gaining visibility of their supply chains and generating intelligent insights in areas such as demand forecasting, storage and packing.

Software-as-a-solution services

Trouva's Loizou makes the point that his business is solving the problem of connecting independent bricks-and-mortar retailers with a global audience without owning any physical infrastructure whatsoever.

"We don't own any inventory, we don't own any logistics, we don't own any payments, we don't own any warehouses, but we're extremely smart at connecting the dots, and that is how we've built our brand and that is the value we're creating for the end consumer."

Internationally, in a similar vein, one of Alibaba's subsidiaries, Ling Shou Tong, is helping small independent retailers transform the way they deal with payments and stock by providing them with the tools they need to digitise their operations. This includes a PoS system, analytics, digital ordering, supply chain, merchandising and mobile payment solutions.

Third parties such as London-based ZigZag Global, meanwhile, are taking the returns process out of retailers' hands by working with major carriers such as Doddle, Hermes and CollectPlus across 130 countries, using technology that plugs into a retailer's website via a shopping cart such as Shopify or Magento.

ZigZag's platform redirects returned products to places where they have the highest chance of selling based on a retailer's recent sales history. Retailers are notified when product is returned to a ZigZag warehouse so that they can send a replacement or refund a customer instantly, speeding up the returns process and improving the customer experience.

In the new retail paradigm, these kinds of software-as-a-solution services, and others like them, will become increasingly important in helping retailers address the issues of profitability that have historically plagued multichannel business models.

86% OF RETAILERS ARE INVESTING

...UP TO **30%** MORE IN THEIR SUPPLY CHAIN

...THAN THREE YEARS AGO

REDRAWING THE WORKFORCE

>> Equipping staff to be tech-savvy is a high priority for many

>> Ensuring cultural adoption remains a challenge

>> Innovation should really start in the recruitment process

H&M enlisted the services of Cambridge Analytica whistleblower Christopher Wylie earlier this year as a consultant to work on data analytics and artificial intelligence. This exemplifies how retailers are rethinking the skills needed to thrive in the new retail environment.

Re-engineering retail to be fit for a digital age has inevitable implications for the workforce. While some roles and skillsets will be in less demand or disappear entirely, a whole host of new roles will be required to help businesses deliver their digital transformation.

This is not about robots taking over from people. In fact, more than half of respondents expect their workforce to be bigger in five years.

Of more significance to retailers is the question of how they can recruit and develop people with the necessary skills.
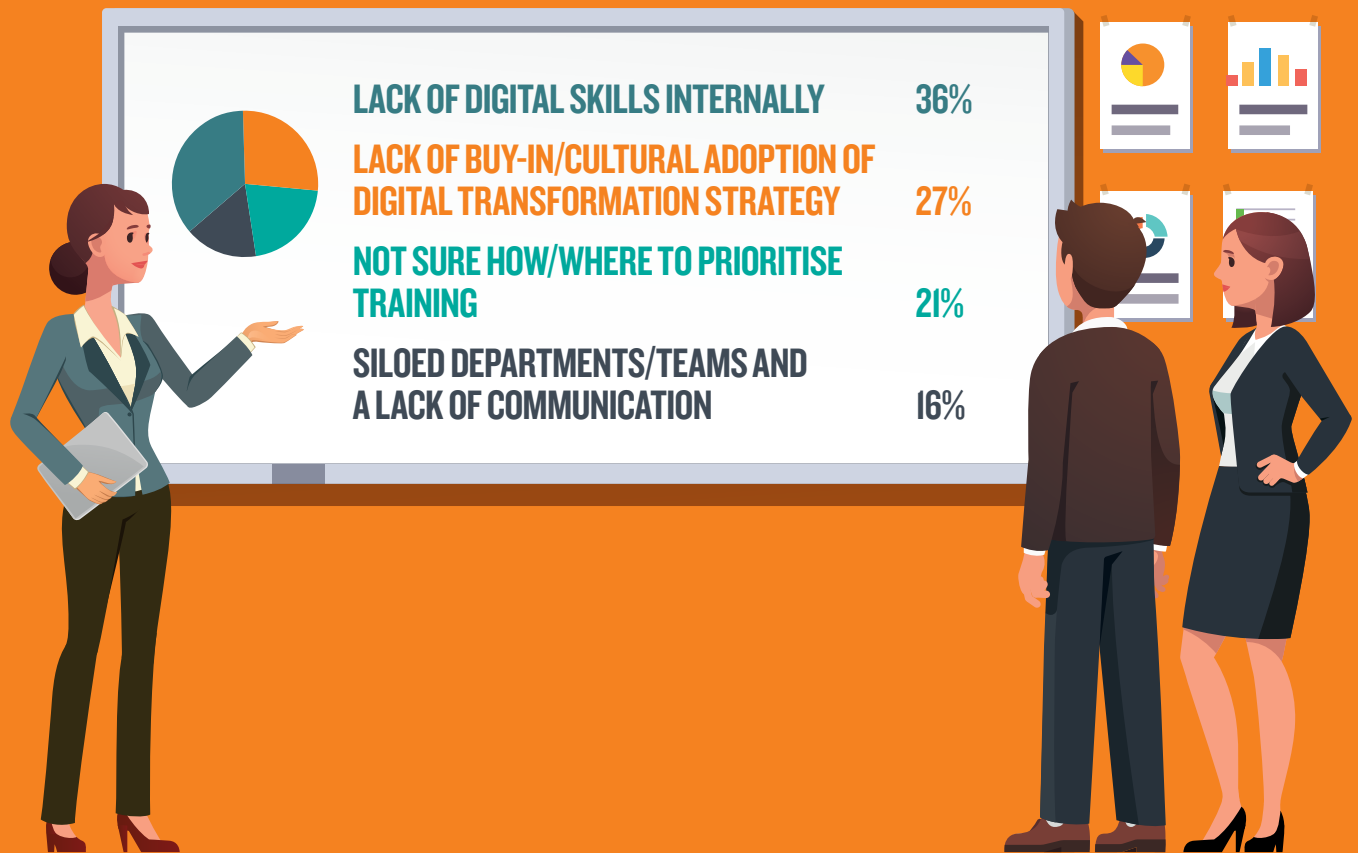
Among those surveyed, a lack of digital skills internally is cited as their biggest workforce challenge, followed by a lack of buy-in to a digital transformation strategy.

Retrain or recuit?

In order to acquire those skills, 50% say they plan to retrain existing staff, while 39% expect to recruit externally, but still from within the retail sector. Just 7% plan to engage staff from outside the retail sector.

Ecommerce departments are expected to witness the biggest increase in headcount by nearly 30% of retailers surveyed, a figure that rises to more than 50% when combined with IT personnel.

WHAT DO YOU SEE AS BEING YOUR BIGGEST CHALLENGE RELATING TO STAFF AND SKILLS IN YOUR DIGITAL TRANSFORMATION JOURNEY?

LACK OF DIGITAL SKILLS INTERNALLY	36%
LACK OF BUY-IN/CULTURAL ADOPTION OF DIGITAL TRANSFORMATION STRATEGY	27%
NOT SURE HOW/WHERE TO PRIORITISE TRAINING	21%
SILOED DEPARTMENTS/TEAMS AND A LACK OF COMMUNICATION	16%

WHAT THIS TELLS YOU: Ensuring cultural adoption of digital transformation strategy, deciding how to prioritise training and siloed departments present the biggest challenges. Retailers need to drive transformation from the top, but ensure transformation leaders or champions drive that process from top to bottom.

DO YOU EXPECT THE SIZE OF YOUR WORKFORCE TO BE BIGGER OR SMALLER IN FIVE YEARS' TIME?

54% BIGGER

46% SMALLER

WHAT THIS TELLS YOU: While it might be expected that the rise in AI and automation could lead to a decline in the retail workforce, our research shows the balance will swing the other way. This is backed up by numerous retailers on recruitment drives, including AO.com, as detailed in this chapter.

CASE STUDY: THE HUT GROUP

Workforce strategies are being shaped by the emergence of new technologies, which when exploited to their full potential are able to elevate the customer experience to new heights.

The Hut Group is renowned for developing its own bespoke technology solutions, and in 2015 it created a customer science function in an effort to deliver deeper insights from the billions of customer data points it collects. The intention is to ultimately determine future product design and deliver revenue growth.

The company, which last year took space in Salford's MediaCityUK to house its growing tech team, has also created a data science platform to personalise the customer journey through bandwidth detection, geolocation and customer clustering (the use of a mathematical model to discover groups of similar customers based on finding the smallest variations in each group).

The Hut Group has previously highlighted the challenge in recruiting technology experts and data scientists, especially in the North West where the company is based. As a result, it has introduced a number of innovative techniques, including starting a programming competition to optimise the company's data.

"You have to be the first to spot the talent," says chief executive Matthew Moulding. "So we go to the universities, talk to the professors and meet the parents. We'll often put people on the payroll a year before they even graduate."

Competition for tech talent

Even retailers that grew up in the internet age are looking to transform the digital capabilities of their workforce.

In February, AO.com pushed the button on recruiting more than 50 new IT roles across its Bolton and Manchester offices, representing its biggest ever IT recruitment drive since it was founded in 2000.

The online electricals store is looking to fill a range of roles – from software developers and UX designers to business and commercial IT analysts – and has opened a new, second office in Salford to accommodate its larger IT team.

The retailer says the new roles will support its approach of developing the majority of its technology systems in house, allowing it to quickly adapt to market opportunities and make online shopping as easy as possible for its customers with simple solutions.

Carl Phillips, AO's group IT director, says the business is prepared to look outside the retail sector for new recruits and even to those without a background in technology.

"We put passion and a willingness to learn before experience and expertise when looking for new candidates for the team," he says. "We're willing to give people a chance who haven't had a traditional education and background in tech, and to invest deeply in training and personal development to get the best out of our people."

With huge demand for tech and data skills (not just in retail but in all big businesses), attracting and retaining talent for roles in digital product, UX, data science, analytics, engineering and testing is particularly competitive, according to Shop Direct's Perkins.

But that doesn't mean retailers should accept defeat in the quest to secure the best talent.

"For tech people who like to build things, solve problems and make a difference, retail is a great sector," says Perkins. "Online retail is instant. If a member of our team makes a change to the website, the conversion effect is felt immediately.

"That's the kind of impact young tech specialists are looking for. Ultimately, we look for people who are commercially minded and customer-focused, irrespective of whether they're in marketing, trading, IT or finance."

Multiskilling for multichannel

Retailers that have spent most of their existence in an analogue age are also having to change the way they think about recruitment, as well as how they structure their organisation in order to drive maximum value across multiple channels.

In 2016, Walmart combined its store and ecommerce tech teams, and created an internal tech team, which looks after everything from HR to supplier payments.
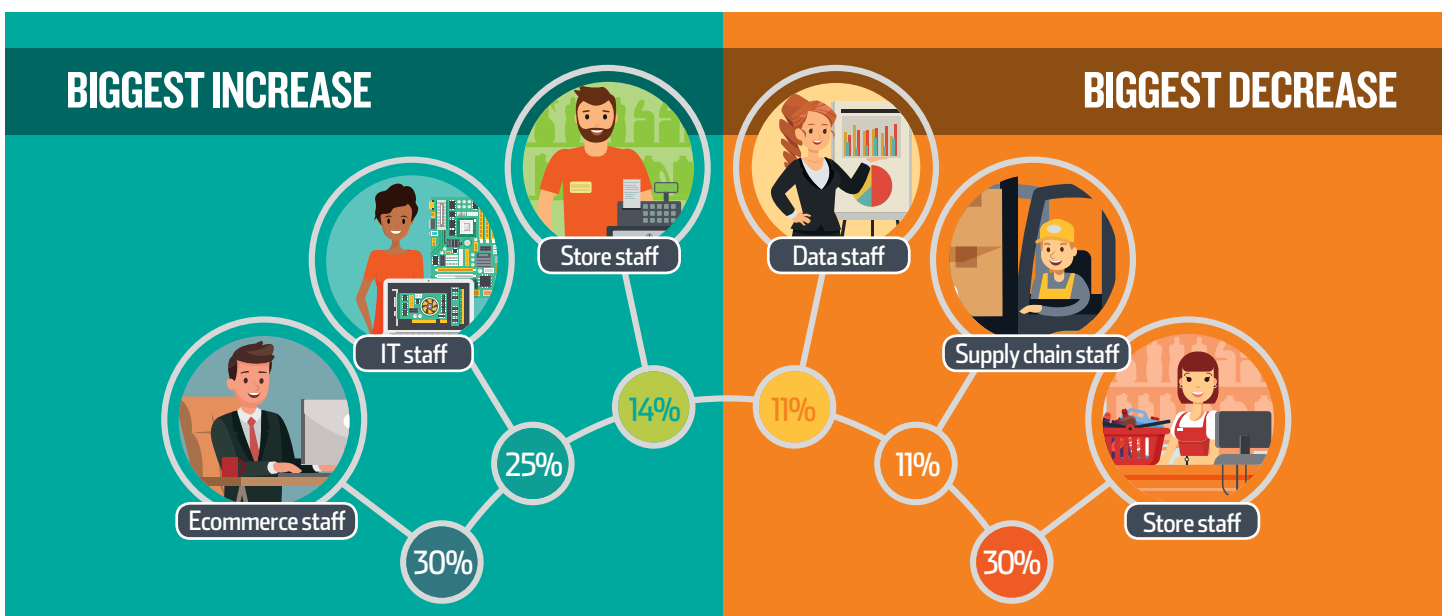
Explaining the decision at NRF in New York earlier this year, Walmart's chief technology officer Jeremy King said: "Customers don't see the difference between walmart.com and a Walmart store."

King added that the integration of its retail and online teams has dramatically changed how Walmart works for the better, because the experience delivered to customers is now more joined up.

The business now has 200 training academies across the US, which it uses to train both new and existing staff in new developments and technologies.

It also uses new technologies for internal employee engagement – a known driver of business productivity. Staff benefits are run via a chatbot, while Walmart worked with a Silicon Valley start-up to implement virtual reality training.

WHERE DO YOU EXPECT TO SEE THE BIGGEST INCREASE AND REDUCTION IN THE WORKFORCE?

BIGGEST INCREASE

Store staff
IT staff
14%
25%
Ecommerce staff
30%

BIGGEST DECREASE

Data staff
11%
Supply chain staff
11%
Store staff
30%

WHAT THIS TELLS YOU: With the requirement for new digital skills, it's unsurprising to see ecommerce and IT staff come out as the biggest increase areas. Store staff appearing as the biggest decrease area tallies with the research findings that store numbers will decrease, but the role also appearing as the third biggest increase suggests retailers are focusing on recruiting a new type of store associate. It may come as a surprise to see data and supply chain roles as an area set for reduction, but increased use of AI and automation means that certain positions will become obsolete.

CONCLUSION

What's clear from the survey responses and the insights captured in this report is that re-engineering retail is not about tinkering around the edges of existing business models.

Instead, it's about fundamentally rethinking the role your brand plays in the lives of consumers and putting a structure in place that allows you to serve them whenever, wherever and however they desire.

For some retailers, this will require nothing short of a complete re-engineering of their business. For those businesses in particular it will be vital to find the right partners to accompany them on their journey of transformation.

It's evident, too, that the re-engineering process will cut across online, stores, the supply chain and the workforce.

The challenge for retailers is to connect the dots in a way that delivers an outstanding customer experience in a profitable way. Looking to the future, two universally applicable insights stand out.

Firstly, the retail game is increasingly played on the field of data. The most successful companies will be those that collect and use that data in a strategic way and turn it into valuable insight.

Secondly, future brand strategies will need to adapt to changes in consumer habits and wider society. Trends are shorter-lived than in the past and retailers need the flexibility and agility to respond to a changing market quickly and effectively.

Brand strategies developed for the next 10 years will quickly become obsolete. The retailers that succeed in their digital transformation will be the ones that spot trends quickly and respond in kind, while having an eye on the technologies and trends that will be the disruptors of the future.

WHAT TO DO NEXT?

UNDERSTAND WHAT THE STRATEGIES OF THE 'BIG FIVE' ARE, BUT DON'T LOSE SIGHT OF THE ONLINE FUNDAMENTALS

THINK ABOUT THE ROLE YOUR STORE WILL PLAY IN THE FUTURE AND ITS PLACE WITHIN THE WIDER BRAND ECOSYSTEM

CONSIDER THE SKILLS YOU REQUIRE FOR DIGITAL TRANSFORMATION AND TAILOR YOUR RECRUITMENT STRATEGY ACCORDINGLY

ENSURE YOUR SUPPLY CHAIN IS SET UP TO SUPPORT SPEED, CONVENIENCE AND PROFITABILITY

FIND THE RIGHT PARTNERS TO SUPPORT YOU ON THE JOURNEY TOWARDS RE-ENGINEERING YOUR BUSINESS

RWRC
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BY ASCENTIAL