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All sectors adapting to tech-savvy customers

Balancing board perspectives

Rapidly evolving retail landscape

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Opinion Piece

The revolution will be digitized

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Abstract

This article draws on interviews with influencers in the retail industry to look at how the next stage in the digital revolution is reshaping the future for retail leadership.

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Introduction

To avoid looking narrowly at like-for-like examples within High Street retail, Green Park sought advice and input from leaders across a wide array of consumer-facing businesses, including media, technology, travel and financial services. All have had to adapt — some more quickly than others — to a more tech-savvy, more fickle and more demanding customer. And all share experiences in terms of how they interact with customers, regardless of channel.

Quick, bold and smart use of emerging technologies has played a very important part in some of the retail sector's biggest success stories. Green Park interviewed, in confidence, more than 100 chairs, non-executive directors, chief executive officers (CEOs) and C-suite leaders to garner their insights into the impact of these shifting sands as well as their own strategies and action plans — what they would regard as cross-sector success stories and where they look for inspiration. We investigated with them the extent to which retailers are concerned with 'finding a balance' of commercial perspectives at board level and also explored the level of comprehension — whether there is a true appreciation of the benefits and/or repercussions of a holistic digital strategy.

Retailers have always had to adapt. From the rise of shopping centres and out-of-town supermarkets to the emergence of pure-play retailers and mobile commerce, new formats, trends and technologies have constantly changed the shape of the retail landscape.

But the pace is unrelenting. Since 2000, dozens of new technologies, devices and channels — online commerce, the smartphone and tablet, ever-evolving forms of social media — have burst upon the scene. With new technologies being adopted by consumers at breakneck speed, retailers face big challenges in keeping up with the future customer and meeting their needs. One managing director of online for an FTSE 100 retailer added, 'customers' adoption of technology and new ways of working is advanced, particularly compared to businesses!

Planning to invest in omni-channel

We used to be on the front foot, but now the consumer is speeding past us’.

By 2016, Forrester predicts that more than half of the dollars spent by consumers in US retail will be influenced by the web.¹ This convergence of new technologies and multiple touchpoints along a single shopping journey is why omni-channel, according to year-end surveys, is where most retailers are going to be investing the most over the next 12 months.

Investing across the portfolio

There has been a great deal of emphasis on the continued rise of new technology channels. Online and mobile have dominated the sector headlines, along with cries of the ‘death of the High Street’ and a bleak future for traditional bricks-and-mortar retail. But a recurring theme during our discussions was that the High Street will remain an important part of the portfolio. This was further iterated during our research by an executive director for a global property consultancy, who said, ‘Future success lies in investing across the portfolio, rather than swinging the needle in one direction at the cost of another. Those making big investment decisions and putting their money where their mouth is are emerging as the real contenders’.

Tesco, John Lewis and Next have all been brave in their investment strategies, whether that be in multi-channel initiatives, new experiential stores, dark stores or more innovative collection strategies. They are to be congratulated for thinking laterally.

Five deepening omni-channel trends

Mobile commerce

The United Kingdom leads in buying by phone

‘With changing customer behaviours and people more likely to search on the go, we need to accommodate different technologies and market in a different way’, remarked a chief operating officer from a global pure-play physical retailer. The United Kingdom is the European capital of m-commerce, with almost a quarter of British consumers using their phones to make purchases, compared with just 4 per cent in France and 14 per cent in Germany.² Mobile is also the fastest-growing retail channel. According to the IBM Digital Analytics Benchmark, UK online sales from mobiles on Boxing Day 2013 increased 63 per cent on the previous year (https://www14.software.ibm.com/webapp/iwm/web/signup.do?source=swg-smartercommerce-emm&S_PKG=ov21372&S_TACT=102RA0LW). As widespread ownership of universal 4G devices brings a further surge, mobile is the next force to reinvent retail.

Mobile performance shortfall

With almost half of those consumers who use mobiles to make purchases expressing disappointment that the experience falls short of their expectations — and where data indicates that customer satisfaction with this channel can translate into a ten-fold rise in a retailer’s online revenues — there’s clearly an overall performance shortfall to make up on the mobile front.^{3,4}

Retailers trialling NFC

Investment in m-commerce is hotly debated — Argos is trialling near-field communication (NFC) technology in its UK stores and Spanish department store chain El Corte Inglés is rolling out a contactless payment

system that will mean shoppers can pay using contactless cards and NFC-enabled phones.

Wearable technology

With so much to play for, the gains will be big for those retailers who get right their location-based apps, mobile point-of-sale systems and payment platforms, quick response (QR) and scan codes, as well as the real-time information that leads to compelling and relevant personalized offers. And with multi-sensory developments — using touch and voice recognition, finger-printing and scanning, as well as more wearable technology — we are all moving in new and intriguing directions.

Personalization

Adaptive interactions

Success for retailers lies in engaging with each customer individually, however, wherever and whenever — online, through an app or as they shop in-store — and offering personalized service and promotions across all channels. Researchers at Forrester have speculated that the future consumer will increasingly want ‘adaptive’ interaction, with content delivered in a way that best suits them as individuals and their particular device.⁵

Big data enabling micro-segmentation

A CEO of one FTSE 100 retailer noted, ‘with regards to the single customer view, we’ve invested in the technology, but we need to change behaviours and learn how to use these new tools and work in a new way’. Big data is reaching new heights of sophistication. New systems can assimilate data gathered from everywhere — social media, geo-location, the physical till and now also from mobile swipe terminals in the hands of sales associates — to enable retailers to target ever more precise micro-segments of their customer base.

Amazon, Burberry, Target

Amazon has, of course, been leading the field, using collaborative filtering technology that allows it to develop automatic recommendations for customers based on their purchase history data. A pioneer of digital innovation in the luxury arena, Burberry is proving that it understands its customers and is communicating with them through the right channels with its ‘smart personalization’ technology and ‘made to order’ service and, in the United States, Target uses social sentiment data — insight gleaned from social networks — to monitor how shoppers respond to its designer collaborations.

Need to convince shoppers

Some consumers will also become more conscious of privacy, and legislative developments in the United States might inhibit some of the collection of data. Retailers should offer ‘do not track’ solutions and may need to convince shoppers that personal data leads to a relevant and tangibly improved experience.

Transformation of the store

Stores still at the centre of shopping

Despite the rise of online and mobile sales, retail stores remain at the heart of the customer relationship and have an irreplaceable role in the omni-channel world. As Kearney’s Future of Stores study in 2013 confirmed, shops still capture the majority of shopping time (61 per cent).⁶

The study also identified several emerging themes for the future use of stores, including:

- *Discovery* — to learn about and test products;

- *Entertainment* — the experiential and social element of stores;
- *Relationship* — a personalized service before, during and after the sale.

Instant digital recognition

Whether the call centre of the future, the digitally enhanced playground or the new showroom, the traditional bricks-and-mortar store is evolving beyond recognition. The digital director of an FTSE 250 retailer told us, ‘there are technologies that are definitely changing the way we shop in store as well as online. App technologies are so much better now. QR codes, fashion finder, blippr and shoptwist will all have an impact, for example in instant digital recognition’.

Google maps John Lewis

High-end fashion stores, like Burberry’s flagship on Regent Street and Tommy Hilfiger, have led the way, offering 3D hologram runway shows, screens that switch to mirrors, items chipped with identification technology that triggers multi-media content, and interactive window displays that capture and stylize customer profiles. We can expect this integration of technology into the store to become more widespread and more immersive. Walmart is testing ‘scan and go’ checkout systems that allow shoppers to skip checkout lines by using their mobile phones to scan items and pay at self-serve kiosks. John Lewis on London’s Oxford Street is the first department store in the world to be fully mapped using Google Street View.

Apple and Verizon

So while there’s a downsizing of shop space, there’s also more investment in the customer experience, part of which is the expertise of sales staff. Apple pioneered this with its Genius Bar, where customers can get expert service or sign up for free lessons and advice sessions. Verizon has recently opened a flagship store — a ‘technology playground’ — where customers can test and customize products as well as get advice.

Social media

Facebook key for young consumers

At the National Retail Federation BIG Show in New York in January 2014, Infosys released the results of an extensive survey of consumers that revealed that 89 per cent of shoppers said that interacting with a retailer via social media affected their final purchasing decision.⁷ While it sometimes comes under pressure to generate new streams of revenue, Facebook is still the main forum for consumers to interact with brands. Interestingly, the survey data shows that younger consumers engage most on Facebook, but women are more likely to be influenced by content on Pinterest and men by YouTube.

Topshop and Twitter

Social media is moving into new territories beyond peer-to-peer recommendation. Topshop is using Pinterest to develop products and decide how and where to display them and has recently run a popular hook-up with Instagram and Facebook to generate a buzz around styling in-store. Twitter is mulling a venture with US e-commerce site Fancy that could allow users to buy products directly from the site.

Globalization

The United Kingdom is one of the largest export economies for e-commerce in the world, with latest figures showing annual overseas online trade of £720m in 2013.⁸ According to the BRC-Google Online Retail Monitor for the fourth quarter of 2013, UK retailers have

Chinese and Russian shopping habits

experienced a surge in online searches from the Netherlands, France, Germany and the United States. Shoppers in Russia, Argentina and India also visited UK sites in droves, with particular interest in the home and garden, beauty and leisure sectors.⁹

The Chinese consumer, for example, has very high expectations of same-day delivery, and cash-on-delivery is the norm. Meanwhile in Russia, the courier waits outside while customers try on purchases, and Ozon, the Amazon of Russia, takes payment in cash for 80 per cent of its transactions from customers still uncomfortable about online transactions. Drive-through click-and-collect is growing in popularity in France, where it is offered by the majority of grocery hypermarket groups.

Digital is low risk

Speaking at the recent National Retail Federation conference in New York, Claire's Accessories CEO Jim Fielding asserted that e-commerce is a 'relatively low-risk way' of testing whether a retail brand will translate successfully abroad. According to a chief marketing officer of a mid-cap retailer, 'if the brand and product effort is compelling and differentiated, you can dip your toe in the market with a digital strategy. The ever-changing channel provides wonderful expansion opportunities and is relatively low-risk'.

Tmall

The globalized online retail market could also challenge the dominant players. The Chinese site Tmall is poised to become the world's largest e-commerce retailer in the next 2 years, with sales projected to hit US\$120bn (£79.1bn) by 2017, some \$20bn more than Amazon, according to analysts Euromonitor.¹⁰

Retailers playing catch-up**Conclusion**

The clear message from our research is that buying patterns of customers have changed irrevocably as a result of digital technology. The retail industry is, for the most part, still playing catch-up in developing its approach to creating omni-channel strategies that can offer an integrated approach to retaining and growing sales. Omni-channel is increasingly driving boards, non-executive directors and senior management teams to interrogate, question and challenge established ways of thinking and explore new operating models. Retailers must have the experience, insight and robust management information to be able to judge whether their company has the capability to meet the new market dynamics, with strong management teams that can work collaboratively and across traditional business silos.

Removing the comfort blanket

The prevailing question is: Who can we look to? Without the myriad of comparable success stories, we cannot consult the usual competitor analysis. Instead, we have to use advisers, consultancies and third parties that give us a wider market perspective and new benchmarks for excellence. We have to be brave and remove the comfort blanket of what we've done before and what we know.

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