Technology as an enabler for strategic business development in the retail sector

– a view from SCC
Foreword

The aim of this document is to provoke thought and discussion around the future of technology in the retail market. It does not seek to promote any specific technology, organisation or solution. It is recommended for use as part of strategic evaluations and planning by retailers and as a precursor to further in-depth discussions about how different technologies might be used within retail businesses.
The UK retail market today
– the threat and the opportunity presented by new technology

The UK’s retailers are facing up to many stern challenges. As the recent demise of BHS has shown, those that fail to move with the times will soon be left behind.

This was a company that failed to keep up with the shift to online sales and that was undoubtedly one of the factors that led to its decline. But there were many others – the high cost of renting, maintaining and staffing retail space, a lack of clear focus on any particular demographic group, and competition that has simply moved faster.

BHS is not the first and it will undoubtedly not be the last to disappear from the High Street and the out-of-town shopping centres. The unstoppable movement towards online shopping is making the traditional models completely unworkable.

Some retail organisations are meeting the challenges in a realistic and pragmatic way. But they, worryingly, are few and far between. Most of the UK’s retailers are doing at best too little and at worst nothing at all about the issues that the new, third wave of technologies is throwing at them. If they do not start to act soon, it may be too late.

In this respect, the British retail industry can be seen as a crisis waiting to happen. But paradoxically, the sweep of technology that threatens to overwhelm retailers could also be the key to their future success.
Changing consumer habits
– how the Internet changed everything

The Internet, as we all know by now, has changed everything in the retail market.

In September 2015, Verdict Research (www.verdictretail.com), forecasted that online retail expenditure in the UK will grow by 44.9 percent to reach £62.7bn in 2020 (http://bit.ly/1KT0ssa) and by that time it will constitute 17.1 percent of total retail sales, up from 13.8 percent in 2015.

Interestingly, Verdict said the ratio spent online in clothing and footwear was higher, at 20 percent in 2015. This means that, already, £1 in every £5 spent on clothes is being spent online. (By 2020 online will be up to nearly £1 in every £3 spent.)

What this shows very clearly, is that there is more of a need for urgency in some sectors of the retail industry. But make no mistake, online buying will continue to have more of an impact and influence on all areas of the sector.

We think these estimates fall well below what will actually happen. Already, we are seeing more people choosing to buy almost everything online, from their groceries to brown goods. As young consumers who have grown up with online shopping start to acquire increased purchasing power and the number of older generation consumers – who have been less inclined to shop online – dwindles, we believe the shift will be even more dramatic than the researchers expect.

There are some pointers to this in the Verdict research. It says 52 percent of online shoppers used more than one device to make online purchases in 2015. Smartphones being used much more and people are getting used to making purchases while they are on the move.

An impressive 68 percent of online buyers had used ‘click and collect’ services, so this is also a habit that consumers are starting to form with regularity. The potential implications for supermarkets are enormous here.
It’s not all about online shopping
– technology is changing shops too

Technology is very rapidly changing the expectations of shoppers and what it is possible to deliver in terms of the retail experience for consumers. Yet very few retailers are taking advantage of the technology that is available to them.

For example, despite the low cost and ubiquity of tablet devices, we have not seen many technology-enabled floor staff and personal shoppers, who can help the customers find what they are looking for, if it is not there on the shelf, place an online order, for home delivery or local collection, on the spot. This is perhaps not seen as something that will make a real difference or deliver a sufficient return on investment. It might however, have a significant impact on customer perceptions of the business.

We are now starting to see many more self-service point-of-sale tills and the use of contactless and smartphone payments. In some retail outlets, mobile payment systems can be used to scan the barcode on the spot, allowing the consumer to pay for small items and leave the store without visiting the point of sale terminal at all.

While use of payment technologies is growing – driven strongly by customer demand, we are seeing very little use of in-store technologies such digital shelf-edge displays, where retailers can alter prices of displayed products instantly. Having such a capability would make a tremendous difference to supermarkets, who could respond to market price fluctuations or the competition almost immediately. They could be totally consistent and accurate with pricing and even adjust prices to take advantage of peaks in buying of certain products throughout the daily and weekly cycle. They would also save millions by reducing the amount of time staff have to spend on changing prices all over the store.

This technology is already being used very effectively by some petrol retailers on garage forecourts to adjust prices as and when they need to through the day, so it is perhaps surprising that it is not being more widely used. (The reasons for this are explored later in this document). Some supermarkets are running proof-of-concept tests, but are some distance from rolling it out nationally.

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The pressure to adopt
- how consumers are shaping what happens in-store and online

As it becomes possible to do more with technology, consumer expectations rise. Retailers have to respond to these changes in expectations or face the probability that they will lose significant business volume.

The simplest example here is online sales. Not every major clothing retailer is yet offering online sales, particularly those in the lower end of the market, such as Primark, where the business model is based on delivering the lowest possible price to the customer.

However, it is only a matter of time before all clothing retailers are online – as the Verdict predictions illustrate, they can’t afford to ignore this trend. They must provide customers with the option to buy online because that is what they expect. To ignore this is to ignore a large and growing section of the available market – almost one third of it (30 percent) within four years according to Verdict, and we believe the ratio will probably be even higher.

There will be similar pressures in-store. Consumers already expect to be able to pay for small ticket items with contactless cards and the use of smart-pay systems on mobile phones is growing very quickly.

Soon, all High Street retailers that offer small, incidental purchases will need to provide this option for consumers. If they fail to respond, they will lose sales to other stores that offer faster, more convenient ways to pay.

Consumer expectations will not, of course, drive the uptake of other technologies, such as digital shelf-edge signage – at least not directly or immediately. These changes will be driven in the early stages by the desire to innovate and get ahead of the competition; as the technology becomes more commonplace, its adoption will become a competitive necessity. The only question for retailers need to ask themselves with regard to such technologies is whether they want to be leaders or followers.

The danger of course, is that they will fail to adopt key technologies soon enough and risk being left behind and possibly becoming the next BHS.
Innovator or guinea-pig

- when is the right time to invest?

There is a tendency in retail (as there is in many industries) not to want to go first with any new idea that has not been tried and tested.

No-one wants to invest millions and then fail. But there is a point at which you cannot hold back any longer. Retailers that do not yet provide consumers with the choice of buying online need to move swiftly or they will certainly lose out on potential sales. Depending on which sector they are in, they may have lost a lot of business already.

Increasingly, retailers will have to turn themselves from being slightly Luddite in their approach to adopting new technologies, to being innovators. This does not mean taking outrageous or unprotected risks, but it does mean seriously looking at the many different ways in which technology can be used to meet the customer’s expectations (and those changes need to be closely monitored) and improve their experiences.
The open circuit
- what stops retailers investing in new technologies?

In many retail organisations there is no connection or communication between central IT functions and the stores and individuals who work on the front line.

This is a major issue when it comes to the introduction of new technology. IT has been seen as a largely operational, back-office function that keeps the lights on, rather than a strategic enabler. In-store staff are seen as being there to fulfil the necessary day-to-day duties of opening the shop, filling the shelves, taking payments and closing up again at the end of the day.

Management sits in between and makes all the decisions, only occasionally or rarely looking at what new possibilities technology might open up, or consulting front-line personnel on what is working or not working in the stores, and what could be changed to improve the customer experience and make the business more efficient.

There is no feedback loop. It is an open circuit in which no current flows between the different component elements. As a result, change only happens when it is forced upon the organisation by competition or customer demand. Both of these influences are moving much faster now and the concern for retail organisations is that they will not be able to react fast enough to a critical market development or changes in attitudes or behaviours.

Closing that circuit and enabling a meaningful flow of information through the organisation is part of the remedy, of course, but retail businesses also need to take ownership of innovation. They need to have a much more open and positive approach to technology. They need to be looking constantly at what can be done but more pertinently, what should be done.

There has been a tendency to run projects that deliver only marginal benefits. For example, an upgrade to POS terminals in all stores for no other reason than new devices are available that have some additional functionality. In real terms though, such projects achieve little or no productivity gains and ROI. Fundamentally, they change nothing and don’t advance the business in any significant way.

In practical terms closing the circuit probably means appointing a Chief Digital Information Officer (CDIO) or someone of a similar standing, who is responsible for keeping her or his fingers firmly on the pulse of retail technology developments. They would need to work closely with the business and marketing teams, and also stay very much in touch with what’s happening in stores and outlets.
We’d also strongly recommend that retailers work with technology expert partners who understand the challenges they face and the dynamics of their industry, and can help them to interpret trends and understand the relevance and practical potential of new technologies. Retail businesses should however, be cautious of using external agencies to ‘pass the buck’ and place the focus on operational issues such as licensing conformity and compliance. There is a danger that this will tend to stymie, rather than encourage, blue-sky thinking and innovation.

The CDIO – or whoever is given this responsibility – should not be afraid to thinking ‘out of the box’; quite the opposite in fact. The views and expertise of external IT advisors should help to encourage and add to the development of new concepts and ideas.

Importantly, the CDIO or equivalent needs to have a seat on the board or at least access to the highest-level decision makers. There is a need to transform attitudes and decision-making, so that the organisation can adopt new technologies sensibly and swiftly, and with real conviction and clear objectives, when it makes sense. Retailers also need the ability to continually look beyond the immediate horizon at future developments and possibilities for the organisation.
Disruptive influences

- why you don’t need bricks to build a brand anymore?

There are multiple disruptive influences and technologies that the retail market can’t afford to ignore right now.

These include the growth of multi-faceted online retailers like Amazon and ASOS and new payment methods such as PayPal and ApplePay. The success of these organisations – and many others – shows that you do not need bricks to build a brand anymore.

Many of the new online players are already well established and there are many more companies making use of web-based systems and new technologies. This makes it very easy for the modern consumer to buy almost anything online and take delivery at home or pick up goods at a local store or delivery point. A lot of these businesses do not have any stores at all. The idea that you needed the bricks to generate the clicks just does not stand up to scrutiny anymore.

Consumer habits have changed and they are shifting even further towards the new way of buying. The word ‘convenience’ used to mean, ‘just down the road’; today it means available and accessible online, with the same experience on any device at any time of the day.

In many sectors, online retailers are removing the need for the consumer to visit the store at all. Someone may need to get their eyes tested, for example, but once they have their prescription, they can get more choice and better value if they buy their glasses online. Clothes shoppers may want to look at an item or even try it for size in the store, but prefer to order it online and have it delivered to the door of their house or flat. Many people are now doing their weekly grocery shop online and only visiting more local artisan shops to buy meat, fresh vegetables and bread. As consumer confidence grows and technology improves, more shopping is going to be done online.

The perception that you have to see a product before you buy it is disappearing fast. The vastly improved resolution of displays on tablets and smartphones and the ability to zoom in and take a 360-degree view on websites means that the impression the online shopper gets of a product is of a very high quality. It will get even better when 3D images and virtual reality headsets become commonplace, as they undoubtedly will within the current decade.

In every part of the retail sector there are examples of disruptive technologies and new players who are investing and making innovative use of technology to elevate the experience and meet the heightened expectations of customers.

Retailers must react and emulate these businesses – or face a similar fate to that of BHS and other organisations that failed to accept that they must change. Other than continually culling prices (and there is a limit to how far this can be sustained of course), or withdrawing into a very particular niche of the market, there is no other option but to face up to the challenge. Retailers will need to transform their whole business model and the way they interact with and sell to customers.
Putting IT at the heart of business strategy
- technology as an enabler for retail transformation

There are many possibilities for retailers, many things they could do with technology. The question is, should they do it?

The question is, should they do it? Every new project, process, or system has an associated cost and must be seen to deliver on the investment. But perhaps that is not the only way that it should be considered? Rather than a solution that fixes a problem, IT can be seen as an enabler for driving efficiency and better customer experiences.

Technology can enable retail businesses to transform themselves both in the back-office and in terms of all their interactions with customers. Some of this is already happening. Most organisations have, for example, already embraced virtualisation in their data centres and started to look at how they can make use of cloud-based services and construct a hybrid infrastructure that enables rapid scaling and full mobility. Those that have not are already behind the curve in terms of purely operational IT.

As we have already mentioned, there are very few major retailers who are yet to offer their products on the web. Those businesses that are yet to go live with online sales will, undoubtedly, have already lost ground to competitors due to their inertia.

These are simple examples of things that not only should, but must be done to ensure survival and pave the way for the future. There are many more technology-driven initiatives that could be adopted, but whether they should or not is another matter. The deployment of self-service tills in the smaller in-town ‘convenience’ outlets that some of the major supermarket chains now have in place could either drive efficiency and convenience for customers; on the other hand, if it results in more queues building up or customers find the self-service POS too difficult to use, it could have a negative impact on footfall and sales.

Put simply, you should not do something just because you can; technology investments must at least either drive efficiency, productivity and cost-reduction, or enhance the customer experience. But they can also go well beyond these simple ambitions, and provide a platform for real and radical change.

There is also the question of prioritisation. Should investment be made in improving the back-office systems and processes and saving money, or in enabling and driving online sales, for example? Or should it be directed to more innovative, transformational projects instead?

It may not be advisable for retailers, even dedicated CDIOs, to answer these questions in isolation. In trying to decide which technologies to adopt and in what order, retailers would be well-advised to seek out the expertise of trusted partners who understand their business and challenges, and also what is happening with technology and how it can be effectively employed in the retail environment business to achieve meaningful results.
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The primary task must be to fix the existing IT infrastructure. It must be able to support both the immediate and future needs of the business. This means it needs to be efficient, resilient and able to scale dynamically to deliver higher performance, storage and connectivity requirements. Most important of all, it needs to be a platform that will support the rapid delivery of new applications and systems. Speed to market is already a critical factor and it will become more important in the future.

If new apps need to run in the cloud, for instance, the infrastructure must be ready to accommodate them, with everything that implies with respect to management and security.

The core applications and systems also need to be efficient, effective and fully integrated. ERP solutions, for example, will ideally provide full visibility of the supply chain, from order management through to warehousing and distribution, right down to branch level.

This does not necessarily mean that you need to discard all your legacy systems. But you should challenge whether they are right for current and future needs or not. The fact that these systems and processes have been in place for many years or even decades, and continue to work as they always have, is no justification for not asking the question, should we be doing it this way?

In fact, with the current radical changes taking place in retail, it could be argued that this is the very best reason to challenge their raison d’être. If the IT was being set up from scratch again, would you build the same systems as you have today? If the answer is ‘no’, then current systems needs to change.

The next priority should be to fix any the cultural issues that lead to the ‘open circuit’ style of approach to IT, where there is no connection between management, customer-facing staff and IT. That linkage needs to be firmly established and exercised. It is also important that forward-thinking is encouraged in IT and external advisors that understand the business and have real visibility and practical intelligence on relevant developments are brought into the feedback loop. Forward-thinking and innovation needs to be encouraged at all times and at all levels.

This is really about creating a progressive and supportive culture that is capable of seeing the potential of new technologies and ideas and embracing them swiftly and decisively. The cloud is a perfect example of a technology concept and set of services that, if brought in simply to replace an on-premises function, will achieve little in the way of real benefits aside perhaps from a tangible cost-saving. IT investment can and needs to go much further for retailers.

The different areas of the operation need to learn each other’s languages and what they are trying to or need to achieve. IT needs to be turned from a back-office operation whose job it is to keeps the lights on in the organisation, into the hub of a wheel that encourages and enables innovation and thus drives the progression of the business.
The primary task must be to fix the existing IT infrastructure.

One important point to note is that change is in itself disruptive and organisations and individuals don’t always respond positively when they are imposed without their prior involvement and consultation. It is much better to involve everyone in the process and to introduce change at a sensible and manageable pace.

At the same time, retail organisations must be keenly aware of the pace of change and the standards that their competitors are setting. This means always looking ahead, imagining what might happen next and envisioning what you can do to get ahead and stay in front of the curve.

Once the infrastructure has been remodelled and a more progressive approach to IT and innovation adopted, what the organisation should do in terms of bringing new technologies on board should become apparent. As we stated earlier, technologies should not be brought in just because they exist; there must be a clear gain in terms of efficiency, customer service or competitiveness.

At the same time, new technologies cannot and should not be ignored. Cloud services are, for example, something that must be explored as an option for every new service or application now. Virtual reality solutions, when they start to become available in a form that is adaptable to retail scenarios, will also merit serious attention and consideration in many areas of the sector.
What’s the next step?

We would encourage you, as a starting point, to sit down and map out what you see as your aims and objectives as a business and to think about how IT can help you achieve those goals. In terms of strategic plans, retailers need to be looking at the next five years on a rolling basis. The competitive environment and how it is changing, how customer habits and expectations are evolving, and what new innovations are on the horizon in your sector all need to be considered.

The current state of IT infrastructure needs to be examined in some depth and the way in which IT and the rest of the organisation interact must be reviewed. This is vitally important. Innovation needs to be firmly on the agenda and those responsible for driving it need to be fully-connected and engaged in formulation of strategy.

SCC’s own experts will be happy to discuss any of these ideas and our thinking on how retailers can deploy technology to meet the challenges they face and pave the way for future development and success.
SCC and Box Technologies

SCC has partnered with Box Technologies to deliver revolutionary customer engagement in the retail sector.

Box Technologies works with leading retailers, banks and post offices to provide the technology solutions for them to communicate with their customers in-store, on mobile and via the web.

Box’s commercial mantra is to make the high street store somewhere a customer wants to visit. A happy and engaged customer will spend longer in a store making purchases. Its retail technology solutions are increasingly critical in attracting a visitor to the store, and keeping them inside while sales assistants show and demonstrate the widest possible catalogue of products and solutions.