The Retail Store 2018: From Apocalypse To Renaissance

Benchmark Report

Brian Kilcourse and Steve Rowen, Managing Partners

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Executive Summary

Retailers know that stores will be a hub of sales activity for many years to come. While eCommerce sales continue to rise, the store remains the primary contributor to retail enterprise sales. It also serves as the retailer's tangible face to the world.

That doesn't mean the store doesn't need to change: it does. The status quo won't work anymore. There are two considerations retailers (and their landlords) have to ponder: 1) how to create a return to *real* customer service and entertaining experiences and 2) the store's new place as an active node in the supply chain, rather than just an end point. ***Stores are now fulfillment centers and shipping and return locations along with their traditional role as selling channels***. This requires technology investments, not just once, like a Point of Sale refresh, but a continual honing of both the offer and the environment itself.

This begs some questions: how are retailers managing these changes? What do they see as their biggest challenges, and which technologies will help them achieve the renaissance they seek? These are the questions this report seeks to answer.

Key Findings

It's clear that retailers recognize the importance of the store, both now and in the future. Surprisingly few plan to reduce their store counts. Rather, they see opportunity on the horizon. While over-performers are more eager to move forward, even their more poorly performing counterparts recognize that a renaissance is afoot. Retailers believe they can leverage their digital assets to make the store more convenient, personal and inviting. And over-performers in particular recognize the importance of technology in creating this renaissance.

At a high level, ***retailers' biggest problem is money and time***. Modernizing stores is expensive. Every expense is subject to what we call the "store multiplier factor." Even seemingly small expenses grow large when multiplied by the number of stores in the chain. And the larger the store footprint, the more endpoints are required to support activities. This "store multiplier effect" creates a lot of pressure to demonstrate rapid Return on Investment for every initiative.

Adding to their challenges, consumer price sensitivity continues to place downward pressures on gross margin, leaving the pool of funds available for improvements somewhat limited.

But retailers' biggest opportunity comes from using technology to empower store employees with technology. And they know it, with 50% believing getting technology rolled out to stores as their greatest opportunity, even within current cost constraints. Bringing the best aspects of online into the store promises to make the in-store experience more entertaining, efficient and convenient.

The sheer volume of technologies required to modernize the store, whether Cloud-based or on the premises is a daunting task. So ***along with battling metrics that may not tell the whole story of technology's value in the store, retailers also have to grapple with Change Management***: they report stores already have too much to do, adding new technologies and processes on top of existing tasks is a gating factor.

Finally, legacy expectations for in-store technology spend rates still sit in the minds of Wall Street investors. ***It takes a brave management team to stand up to investors and say "We are going***

to over-invest in new technologies until we get up to speed". There are now genuine proof points that tell us this attitude bears fruit – even sooner than expected. We have the example of Walmart, whose CEO warned "the Street" of exactly that about eighteen months ago. Doug McMillon was clear in earnings calls that the company's short term technology investments were going to exert downward pressure on earnings. As of this writing, the company's most recent quarterly results demonstrate that those investments have already borne fruit. Comparable sales improvements of 5.5% for a company the size of Walmart are nothing short of astounding.

Looking at the details within the report itself, it contains ***18 charts of hard data and 23 pages of deep insights*** based on our findings: if you'd prefer a condensed version, we offer an eBook here.

There's a lot to read and understand, and we hope you'll enjoy the report. We really enjoyed writing it,

Brian Kilcourse and Steve Rowen, authors

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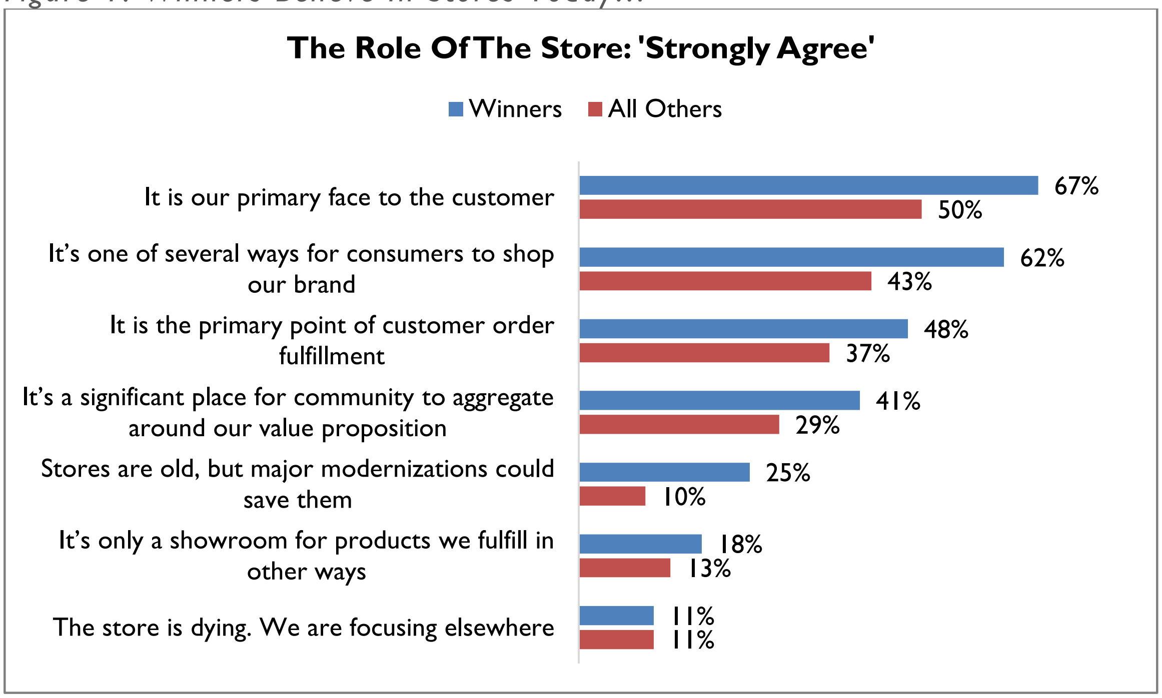
Research Overview

From Rags To (Potential) Riches

There has been so much frenzied musing about the future of the store in recent years that it's difficult to separate fact from fiction. Are "stores" as we know them dying? Are we in the midst of a retail apocalypse?

Not at all. Changing customer preferences have undoubtedly caught many retailers drowsy, if not fully asleep, on their watch. Those too groggy to stir indeed risk being thinned from the herd. But stores will always have a place in the world. To help show this is more than just our opinion, we let retailers speak for themselves (as they do in Figure 1, below).

Figure 1: Winners Believe In Stores Today…

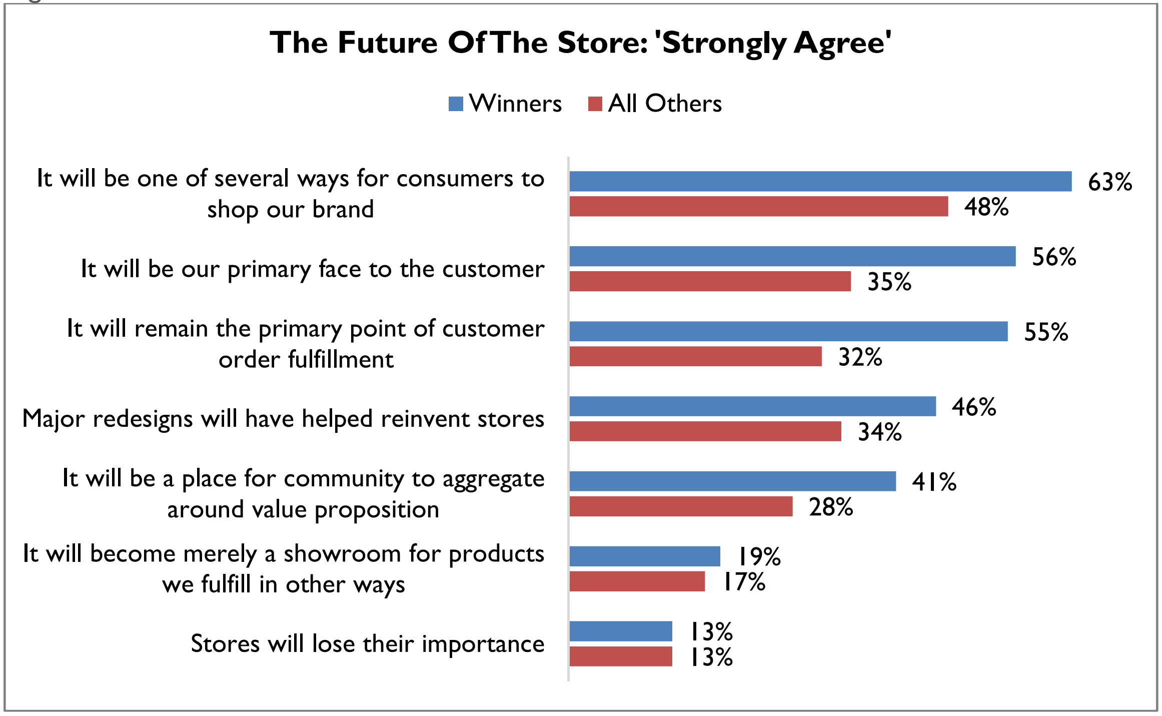


Source: RSR Research, August 2018

The best performing retailers (those RSR calls Retail Winners, defined in just a moment), are far more likely to view the store as a vital component of their overall brand experience. While they are in strong agreement that it is currently their primary face to the consumer, they also view the store as their primary point of order fulfillment. This is their viewpoint *right now*, despite the doom and gloom that fills so many headlines.

But what are retailers' outlooks for their stores in the future? As you can see in Figure 2, it's just as positive.

Figure 2: ...And Tomorrow



Source: RSR Research, August 2018

Overperformers understand that stores aren't going anywhere. Yes, stores may have a different footprint, a different layout – they may need very different ways of engaging with customers, processing returns, and fulfilling orders from myriad new demand sources. But they are still going to exist – they'll just be one of several ways for consumers to shop a retailer's brand.

To put a final nail in the concept of the retail apocalypse, only 13% of retailers (regardless of current performance) think stores will wane in importance.

The retail store is not experiencing an apocalypse: on the contrary, it is on the cusp of a renaissance.

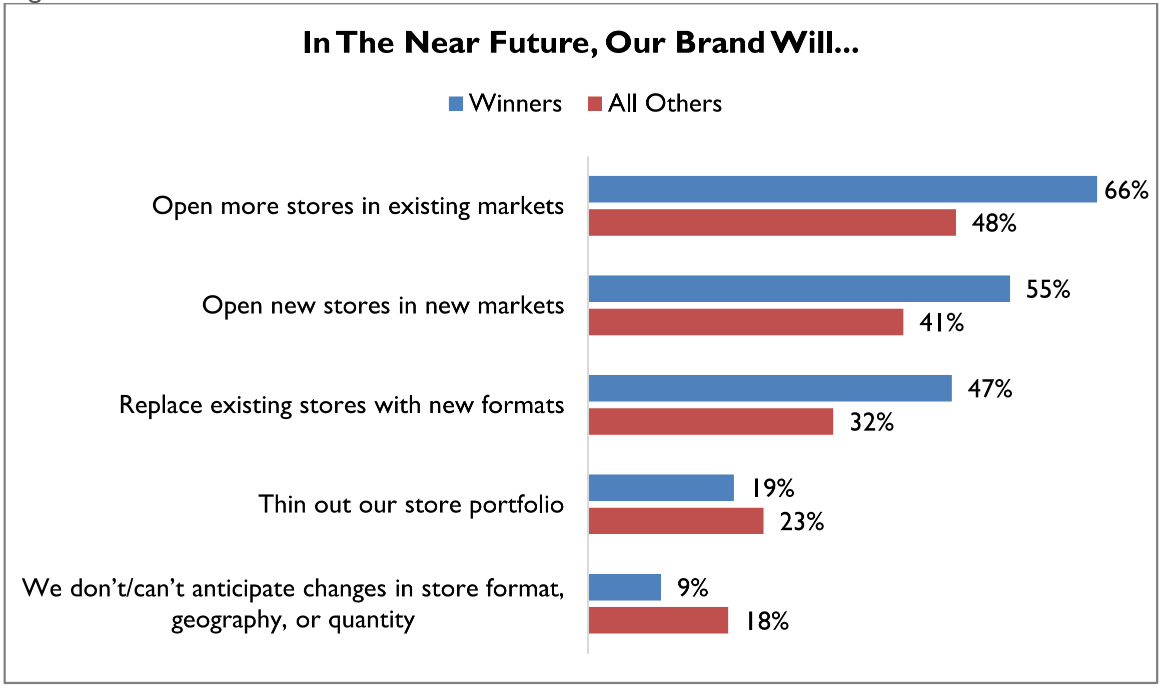
Retail Winners And Why They Win

We've already mentioned "Retail Winners" multiple times in this report. What are they, exactly? RSR's definition of Retail Winners is straightforward. Assuming industry average comparable store/channel sales growth of **4.5 percent**, we define those with sales above this hurdle as "*Winners*," those at this sales growth rate as "average," and those below this sales growth rate as "*laggards*" or "also-rans."

In our benchmark reports, RSR quite frequently cites differences between retailer over-performers and their competitors. We find that consistent sales performance is an outcome of a differentiating set of thought processes, strategies and tactics. Winning in retail is not an accident.

In this report, one trend that consistently emerges is how bullish Retail Winners are on stores' potential. As we've already noted, today's average store absolutely needs to catch up to new consumer shopping behaviors. Most look and feel only slightly more modern than they did 20 years ago. But this begs the question: what are the changes that retailers self-identify as being most important? Figure 3 provides a powerful glimpse into their current thought process.

Figure 3: The Future Is 'More'



Source: RSR Research, August 2018

When asked what role they see the store playing retailers respond with an emphatic "more of everything, everywhere!" More stores in markets where they already operate. More expansion into markets they have yet to touch. And for Winners, in particular, more stores that feel more relevant driven by exciting new formats. This is the most optimistic view we've ever seen in our research into the store, and heralds a changing in attitude – on a widescale level – about how bright the future of the store could (and frankly, needs to) be.

Methodology

RSR uses its own model, called The BOOT Methodology© to analyze Retail Industry issues. We build this model with our survey instruments. See Appendix A for a full explanation.

The BOOT helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision. Examining retailer perceptions based on their performance helps us understand exactly why Winners win.

Survey Respondent Characteristics

RSR conducted an online survey from May – July 2018 and received answers from 182 qualified retail respondents. Respondent demographics are as follows:

- **2017 Revenue (US$ Equivalent)**

Less than $50 million	7%
$51 million - $249 million	5%
$250 million - $499 million	10%
$500 million - $999 million	20%
$1Billion to $5 Billion	31%
Over $5 Billion	27%

- **Products sold:**

Fast moving consumer goods	17%
Fashion (Apparel, footwear and accessories)	27%
Hard goods	20%
General merchandise	23%
Hospitality, retail services, entertainment	8%
Boutique Retail	4%

- **Headquarters/Retail Presence:**

	HQ	Retail Presence
USA	53%	70%
Canada	0%	36%
Latin America	0%	19%
UK/Ireland	26%	49%
Europe	20%	49%
Middle East	0%	12%
Africa	0%	8%
China	1%	19%
Japan	0%	15%
Extended Asia/Pacific	0%	14%

- **Year-Over-Year Sales Growth Rates** (assume average growth of 4.5%):

Worse than average ("Laggards")	5%
Average	40%
Better than average ("Retail Winners")	55%

Business Challenges

For Now… The Focus Stays On Price

What's the biggest pressure pushing in on stores from the outside world? Retailers' continue to believe that it's all about price (Figure 4).

Figure 4: There's So Much More Than Price, But Retailers Remain Steadfast

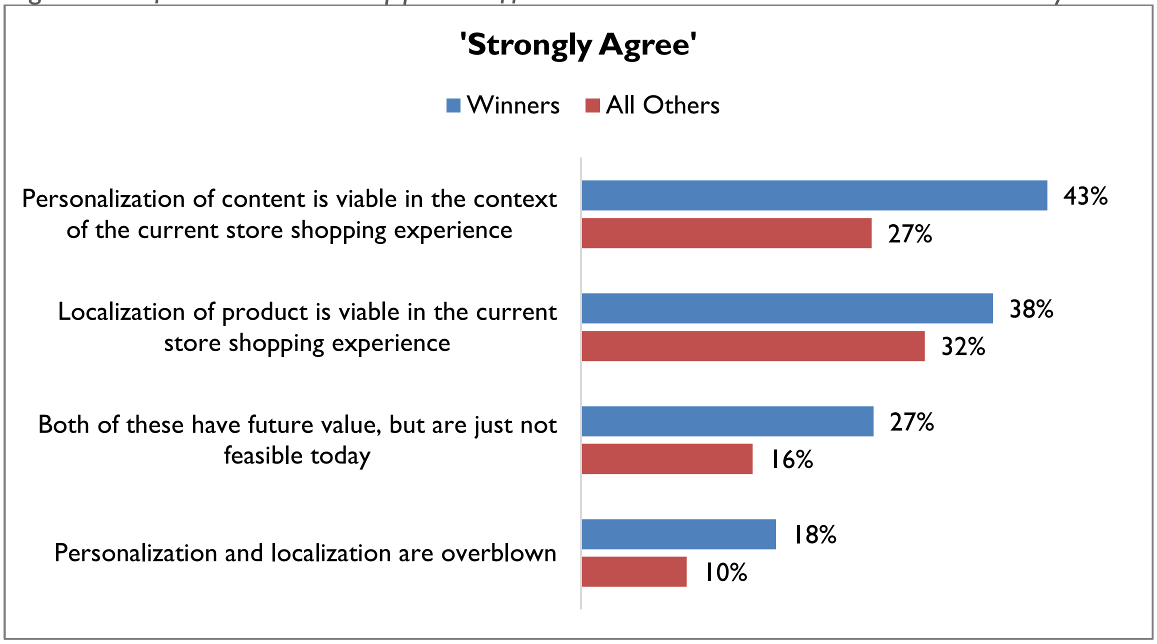
Source: RSR Research, August 2018

We've observed this phenomenon for several years now. Retailers continue to view the primary threat coming their way (most notably from Amazon, as well as Alibaba in emerging markets) as a pricing issue. And it is- but there's more to it than that. The giant online marketplaces have successfully reduced the number of variables that define "value" to consumers to be (1) price, and (2) availability. But Amazon and Alibaba have also added in more complex "value" attributes like *community feedback* (reviews), *content* (product information and product alternatives), and even *context* (relevant recommendations). Traditional retailers need to respond to consumer expectations created by those online offerings with strong digital offerings, but that's not enough. They also need to focus on *service* as the strategic differentiator. And that means that **retailers must re-envision the *store* experience, to be one that is relevant, enjoyable, and satisfying for the consumer**.

Winners Are On To Something

While all retailers remain too focused on price, Winners have a more nuanced view of what will help their stores compete in the years to come. They believe the answer is making in-store visits more relevant in a multitude of ways (Figure 5).

Figure 5: If You Want Shoppers Off The Couch… It's Gonna Take Money



Source: RSR Research, August 2018

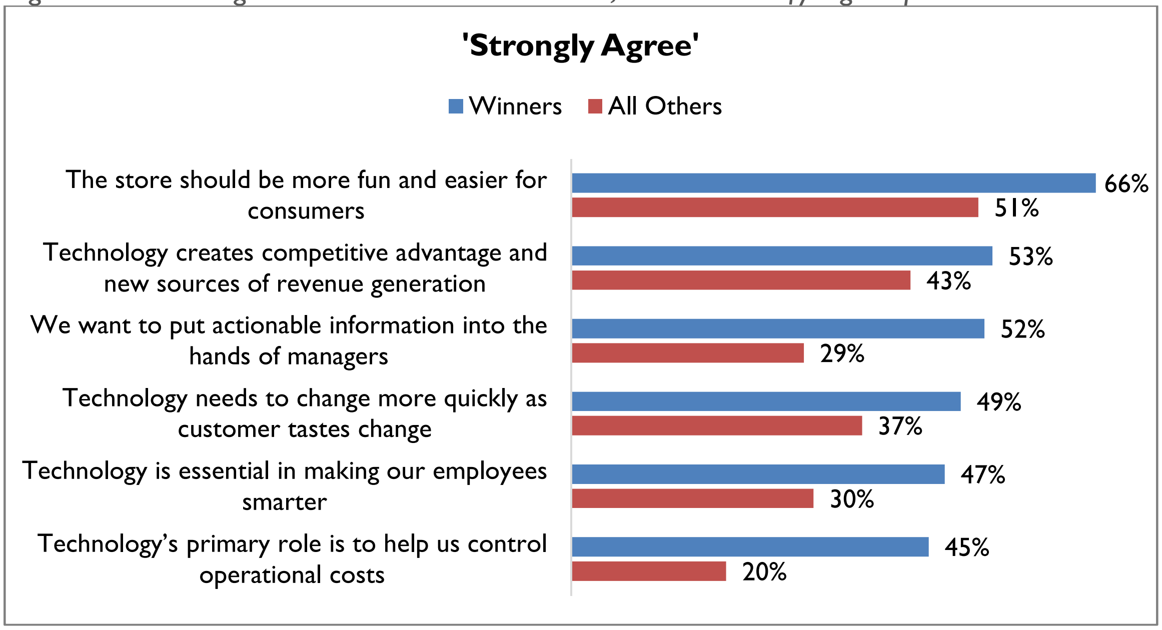
Regardless of how successful a retailer has been in the past, chances are that most of their stores currently look and feel the same regardless of the city a shopper may visit. These stores are also likely to sell exactly the same products. This is the "Walmart era" business model: achieving economies through consistency. While some shoppers may appreciate that consistency, there are fewer reasons to settle for boring experiences in the physical world when simple order fulfillment is always just a click away. As a result, the most forward-looking retailers strongly agree that more personalized content and more localized products are what will help set their current stores apart from not only their physical competitors, but their digital ones, as well.

As encouraging as this perceived value may be, however, more than 25% of Retail Winners say such offerings are just not feasible today. That's an understandable concern; after all, "personalization" and "localized" offering imply a level of understanding of consumers and their shopping behavioral patterns that really wasn't required in the past. Now, retailers need to be able to understand how consumers begin their shopping journeys (often, in the digital space), how to deliver relevant content about available products and services at just the right moment either in the store or in the digital domain, and how best to fulfill the resultant demand. These new requirements defy the processes and technologies of the old mass merchandising model. While those fundamental changes are being contemplated, what can be done in the meantime?

Re-Introducing The Concept Of 'Fun'

Why do people like to shop? Because when the stars align just so, shopping has the potential to be both entertaining and satisfying – in short, "fun". It's a concept that has been missing from most brands' in-store experience for quite some time – Figure 6 indicates the retailers are ready to turn the tide.

Figure 6: Making Stores 'Fun' – An Easier, More Satisfying Experience



Source: RSR Research, August 2018

A majority of retailers strongly agree that stores should be more fun – and easier – for consumers. That number jumps to 2 out of 3 for the best performers and when we combine those who 'agree' and 'strongly agree' (not pictured), the figures hit near-unanimity. But if virtually all retailers are in agreement, why does today's shopping experience so sorely lack fun? And in a world where everyone is interacting with their personal digital devices all the time, what does fun even look like?

In short, it means folding in a lot of the "wow" factor – using digital content to create entertainment within the four walls of the store - that consumers have so clearly embraced in so many other aspects of their lives.

RSR believes the lack of entertainment in stores currently is a result of how retailers have grown to date. They have grown in a standardized (or efficient) way, and it requires a genuine re-think of how each individual brand fits into consumers lives. Making stores fun again will not be easy, as the data in this report (particularly in the coming Organizational Inhibitors section) will support.

It is, however, important to keep in mind the optimistic nature of Figure 6, above as we progress through this data. Retailers want to make stores better places: full of technology that controls operational costs, makes employees smarter, puts actionable information into store managers' hands, creates competitive nature and ultimately makes stores more fun. But they've got a lot of ground to cover before they can get there.

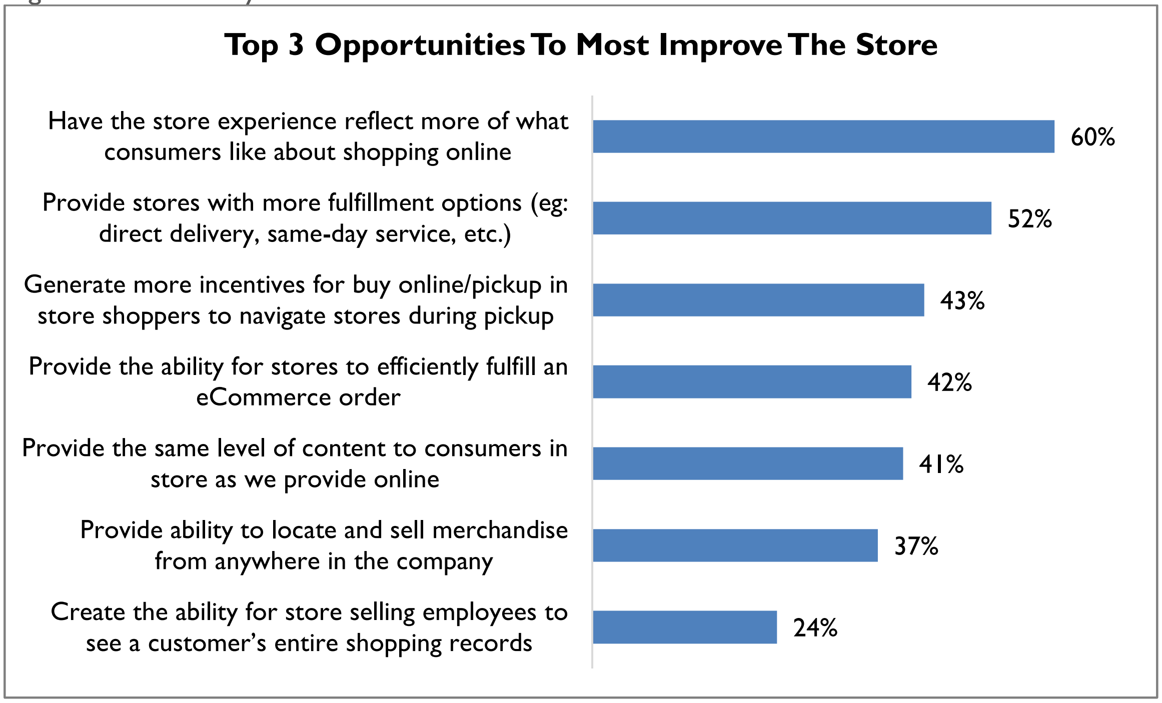
Let's take a look at how they think they can get where they want to go.

Opportunities

Looking To The Digital World To Improve The Physical One

What will most improve stores? According to retailers, the ability to fold in more of what consumers already like about shopping online (Figure 7).

Figure 7: The Key Is A Pastiche



Source: RSR Research, August 2018

In our most recent eCommerce study[1], Retail Winners told us one of the most important ways for online retailers to compete with Amazon is to operate stores. Here, in our store study, retailers tell us the best thing they can do for their in-store experience is for it to reflect more of what consumers like about shopping online.

The net: this is a tremendous learning moment as shopping melds into one large, converged experience. No one shops in "channels" anymore, and retailers understand that. As a result, they realize the best thing they can do is evaluate the more desirable aspects of each touchpoint and carry them through to an engaging – *and consistent* – shopping experience in both the physical and digital worlds. However, one look at the state of stores today and it becomes readily apparent that this will not be an easy task: today's average in-store experience features very little about what consumers enjoy online. Having said that, we also believe the in-store experience must remain differentiated: and the ability to engage with employees and touch and feel the merchandise is key to that differentiation.

[1] ***The State Of Online Commerce 2018: High Hopes***, July 2018, RSR Research

Many of today's traditional stores (pharmacy and hard goods stores, in particular) were designed at a time when thinking was at complete odds with "convenience". Location had to be convenient, of course, but once inside the four walls, the overarching concept for many was to make it difficult to leave, all the while guiding shoppers on a journey they may not have intended. By comparison, successful online retail today – regardless of what is being sold - represents just the opposite: retailers understand that consumers are only one bad click away from abandoning their carts, so retailers go to great lengths to make the experience as quick and convenient as possible. For one thing, think about recommendations: online, retailers have put tremendous effort into ensuring that any suggested recommendations presented to consumers are as relevant as science will allow, something that is challenging to attain in big box stores, especially when making suggestions across departments.

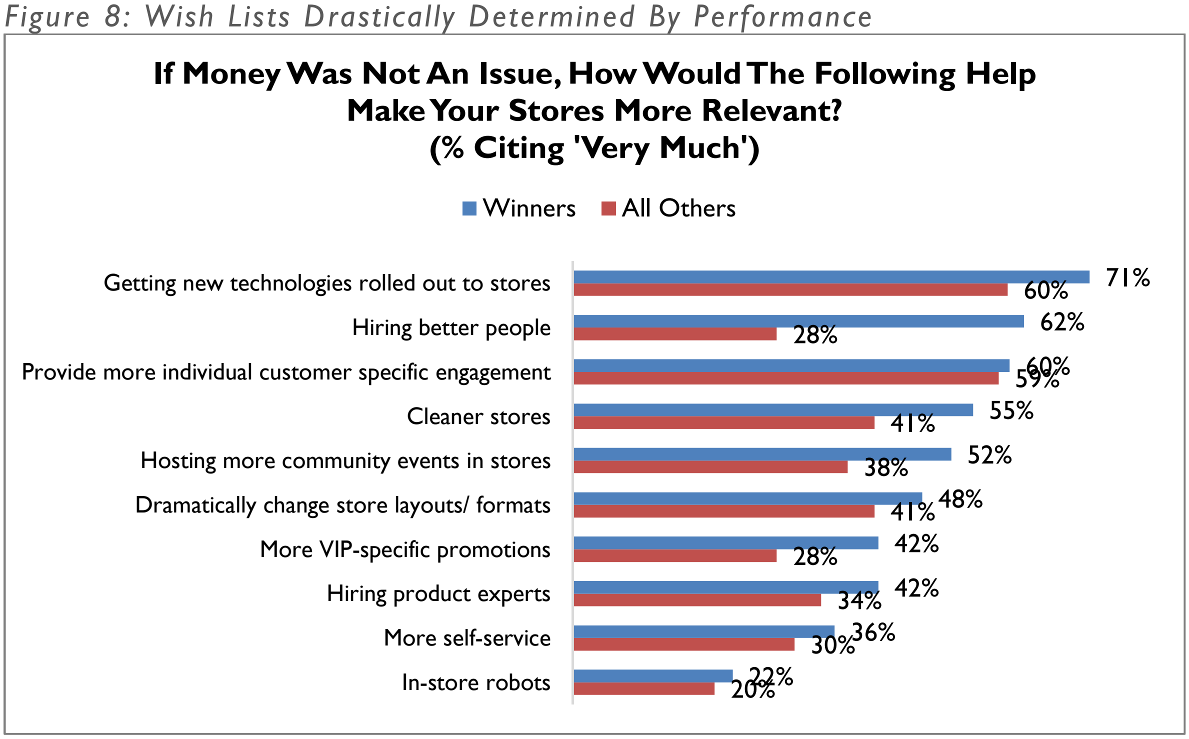
But Figure 7, above, isn't just about bringing popular online features into stores: retailers also see a whole host of ways they can make stores more relevant than they are today – none of which are easily accomplished. Using the store's inventory to fulfill online orders has enormous potential, but requires sophistication around inventory levels that many retailers do not yet possess. To complicate this, more than half want to be able to fulfill these orders on a same-day basis. This also costs money and cuts into already thinning profits. Still, sooner or later, retailers will figure out how to manage the problem and optimize profitability.

There is no shortage of opportunities for what the store could one day become.

In A Perfect World…

In keeping with the theme of the previous data, we asked retailers to prioritize their wishlist. For starters, what would they do if budget were no concern? The answer is resounding – new technology and better people to use it will save the store (Figure 8).

Figure 8: Wish Lists Drastically Determined By Performance



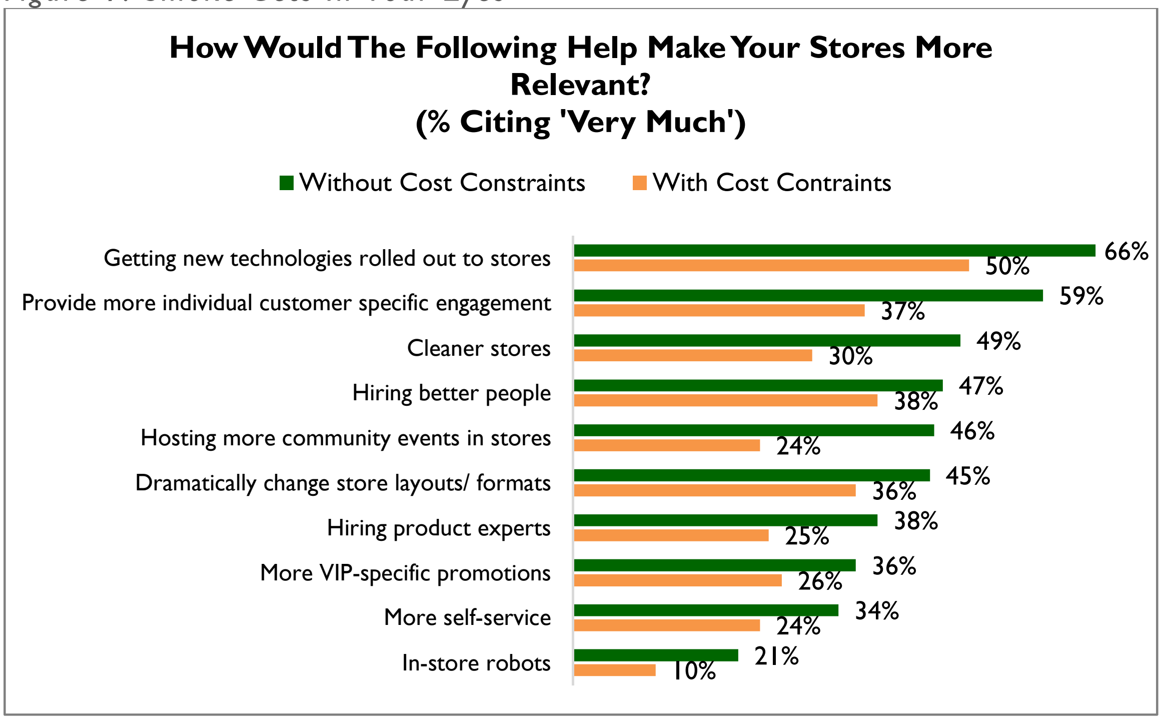
Source: RSR Research, August 2018

Nearly three out of four Retail Winners would start rolling out new technologies to stores if budget wasn't a concern. But perhaps just as tellingly, they are much more likely to hire better people (62%, compared to 28% of all other respondents). This data point alone exemplifies so much of their success: even when budget is not an issue, average and underperforming retailers aren't thinking about how vital the role of a knowledgeable in-store associate is. It's almost beyond comprehension.

…Meanwhile, In The Real World

However, when we examine the previous data through a more realistic lens, one where cost constraints *are* applied, it becomes clear that many of these opportunities are still a ways off (Figure 9).

Figure 9: Smoke Gets In Your Eyes



Source: RSR Research, August 2018

The 'New' Role Of The 'New' Employee

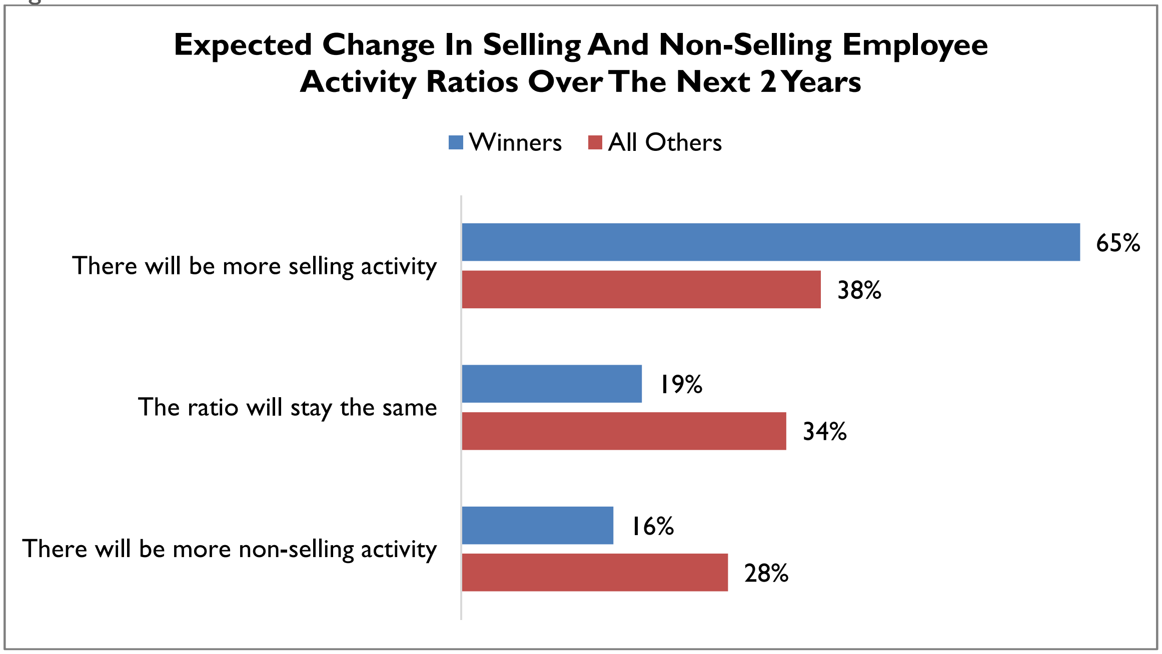
Some of the most encouraging data in this study is revealed in the following chart.

In the golden days of retail yesteryear, before retail chains became so massive, employees were viewed as a vital component: a face to the brand. Service was key and a well-trained, knowledgeable, and personable store associate could make all the difference between one brand and another – ***and at all levels of retail*** - not just for luxury items.

With the rise of discount, warehouse, and big box retail stores came the notion of a slightly less nuanced store associate, and as long as prices were falling, customers didn't seem to speak up. However, as retailers rapidly raced to the pricing "bottom", budget for store associates was often the first cost to be cut. These cuts may have improved earnings, but it came at a cost. The cost was not only in-store customer service – but to the retail industry in general.

All of that appears destined to change (Figure 10).

Figure 10: In-Store Retail: Due To Come 360?



Source: RSR Research, August 2018

Retail Winners, by far more likely to view the role of the store associate as a more proactive component to the key function of retail: selling did not arrive at this decision by their own volition.

Instead, the constant pressure coming at retailers from all angles – most notably from the Pacific Northwest – has forced them to reevaluate what they can do to not only stay in the game, but to carve out a section of the market for themselves that no one else can touch. The best performers have identified more engaged employees as the key to how they'll do that. Certainly Best Buy stands out as a retailer who has found success in re-engaging its associates in the selling process. Other retailers can do the same.

Retailers are being pushed to put money back into stores, to have a smarter, well-trained, and technology-enabled store associate that can help make or break a sale. This pressure doesn't come without some hard choices; after all, few retailers are unwilling to increase operating expenses based on the mere hope that it will result in increased revenue. RSR has pointed out in past studies the need for retailers to optimize non-selling functions in order to afford more focus on the selling functions, and in today's world, that means more investment in technology. For example, in our December 2017 study on state of workforce management in Retail, we learned that Retail Winners overwhelmingly favor task management solutions as a way to optimize instore processes (75% compared to only 29% of baver and under-performers).[2]

Optimizing non-selling functions is only one part of the modernization challenge facing the stores today. But before reviewing technology enablers, let's see what's most standing in the way of progress in the next section of this report, **Organizational Inhibitors**.

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[2] ***Retail Needs A Better Workforce: What Will It Take?***, December 2017, RSR Research

Organizational Inhibitors

Past Under-investment Haunts Retailers Now

Past RSR research on the state of store technology has consistently shown that retailers have been caught flat-footed by the seismic change triggered by consumer adoption of Internet-enabled mobile technologies. The problem now is, how can they possibly catch up? There's so much deferred investment for revitalizing store technology that a full-blown modernization program now could easily overwhelm retailers.

In RSR's February 2018 benchmark study, ***IT Spending in Retail 2018***, we noted:

> *"…Retailers identified the top inhibitors standing in the way of prioritizing IT spending to address the business challenges and opportunities they are grappling with… 'Some of our technology solutions reached zero book value years ago, making an ROI-driven business justification for replacement very difficult to achieve'. In other words,* ***retailers' biggest inhibitors to progress are the same ones that have kept IT in the back room for years*** *– it's viewed as a cost, not an opportunity, and technology investments are only made when it's a safe bet."*

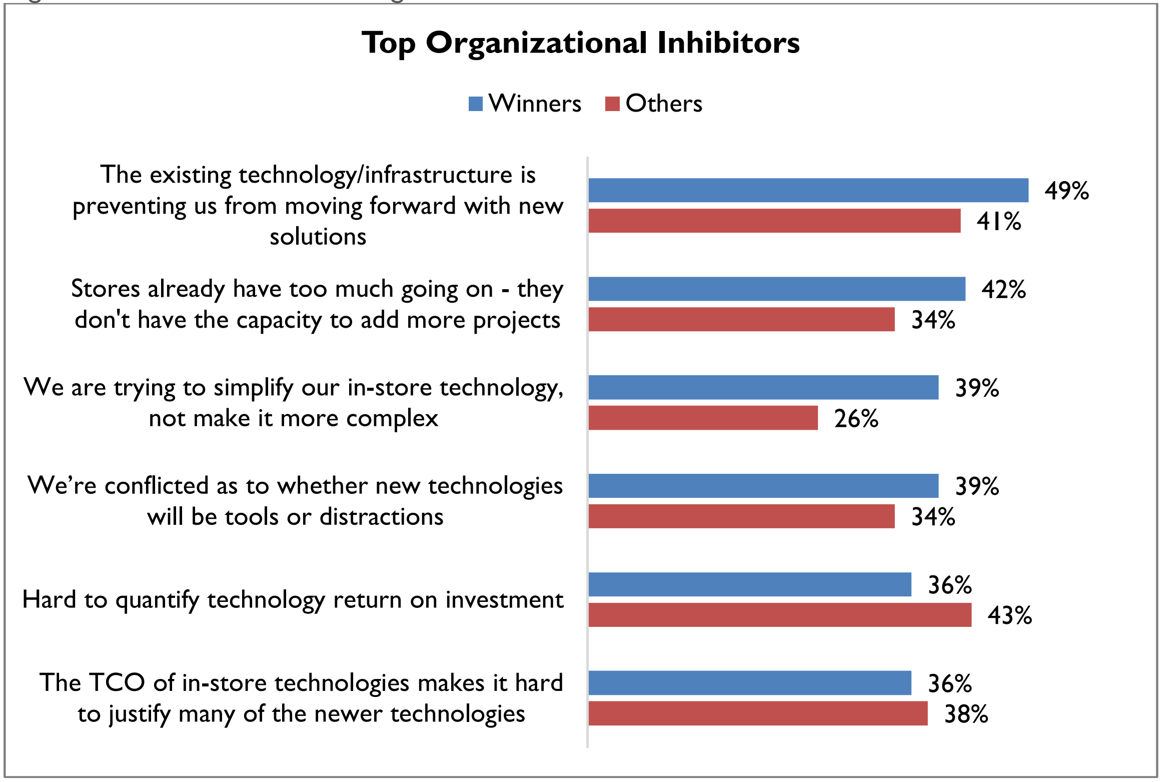
That statement is certainly true when it comes to store technology. The last round of big technology investment for the stores was probably related to the point-of-sale system and network connectivity. That was probably a long time ago for most retailers. As a prominent retail CIO once joked, "our POS system is old enough to legally drink alcohol!" The problem now is that aside from the capital that is required and the change management challenges that might be triggered (both significant issues in themselves), any new investment in store technology will have a material impact on the store profit & loss statement as well.

Nonetheless, we've already seen that retailers know that the future of the store is closely tied to how well they harmonize the digital selling world with the physical one. While average and under-performers are most inhibited by a "hard to quantify ROI" (Figure 11, below), Retail Winners are more focused on a technical concern, that the existing infrastructure is inadequate to support the modern solutions available to them now.

Given the age of many retailers' in-store technologies, both concerns are real. For many non-Winners, the concern is that *any* new investments will affect the profitability of the store, and so those investments must be solidly accretive, i.e. delivering demonstrable new value either in the way of improved top line sales, lowered cost of goods, or reductions in other expenses. That's a tall order, especially when at least from the point of view of the consumer, digital enablement is an expectation, not a differentiator.

For half of our Retail Winners, the challenge is more technical. Many of their legacy systems pre-date the technology standards used today to ease the cost of integration.

Figure 11: Too Much Change?



Source: RSR Research, August 2018

Winners' second most frequently cited worry is more interesting. Four in ten of those retailers worry that there's already so much going on in the stores that the organization is reaching its capacity to absorb change.

It is certainly true that changes to the entire retail organization brought on by new consumer shopping behaviors, *and* competition from companies like Amazon, are putting extraordinary pressure on all retailers. Winners' next most frequently cited concern is worries that they want to streamline the store operation, not make it more complex (with the underlying assumption that technology inevitably makes things more complex!), and that new techs might be more of a distraction than a help.

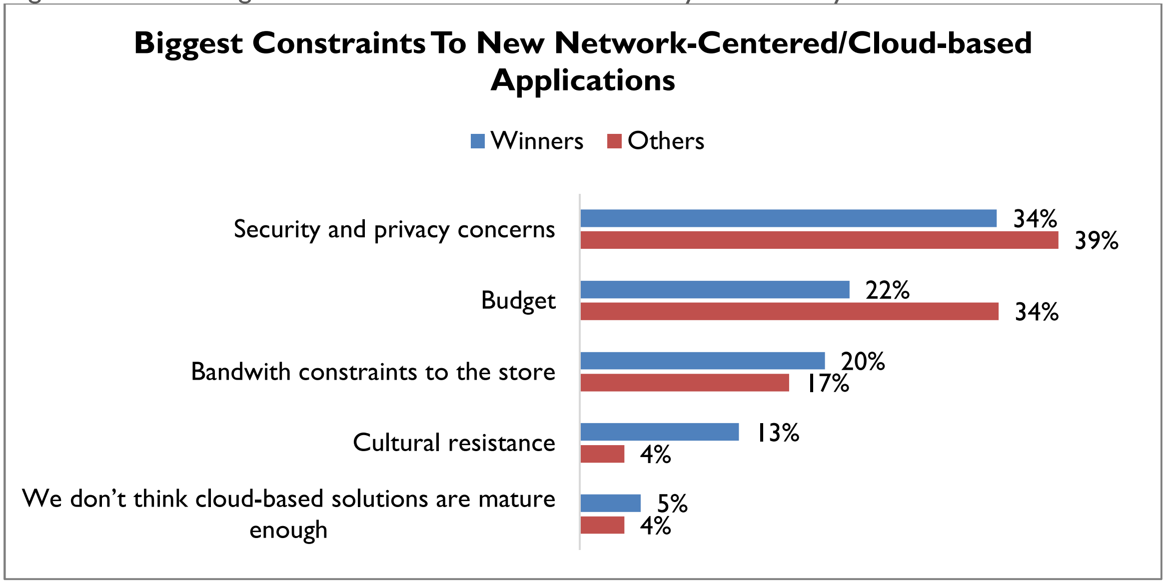
It is consoling that six in ten Retail Winners don't rank those as top concerns. Average and under-performers remain concerned with the ROI of new investments, and the cost of owning those investments once they are in place. This is understandable. They have less money to spend at the outset, by virtue of their poorer performance.

Is Cloud The Answer?

Given the top inhibitors retailers cite, it's perhaps understandable that all the promises of cloud-based solutions (lower initial capital investments, less physical equipment in the stores, easy integration) would look attractive. Whether those promises a real or not, it's clear that retailers are looking at new solutions delivered as services over a network as an antidote to the hurdles they would otherwise have to overcome.

Acceptance of the cloud-based solutions has come gradually (perhaps to the exasperation of solution providers), and so we wanted to test how far retailers have come in accepting the concept of solutions delivered over the network. What we learned surprised us (Figure12).

Figure 12: Strong Concerns About Data Security & Privacy



Source: RSR Research, August 2018

The most frequently cited constraint to considering cloud-based solutions for both Winners and others is “security and privacy concerns”. Frankly, we didn't expect this response, thinking that “cultural resistance” would override other concerns. Clearly, that assumption was incorrect. The top concern is undoubtedly driven by well-known data breaches hitting the marketplace on an almost weekly basis (Facebook, several health and governmental organizations, Experian, etc.). This is something that solutions providers must proactively address with potential customers if they expect Cloud adoption to continue.

Somewhat more in line with expectations, 1/3 of average and under-performers worry about “budget”. That concern is real, and all retailers should take heed. Cloud solutions may require less initial capital to implement and may also result in a substantial de-cluttering of stores' technology footprint (by virtue of the elimination of multiple servers, for example), but they're not cheap, and service charges directly affect retailers' SG&A (sales, general, and administrative) expenses. Retailers must also keep integration and organizational change management in mind as well. This is a case where we think that Winners are being a little “too” starry eyed.

One “traditional” objection to Cloud-based solutions has been that it creates a huge dependence on network reliability. Since the earliest days of Point Of Sale, retailers have lived with the reality that data networks were slow and unreliable, and (as the saying goes), they “never wanted any technology to get in the way of accepting a payment from a customer”. For that reason, it is not uncommon in retail stores to find “two of everything” and feature offline backup capabilities, if for example the POS system fails or a payment transaction cannot be processed, or the store can't send an order update to the warehouse. In fact, in past studies a large percentage of retailers have indicated that POS systems in particular would “always” be store (rather than network) centric.

So we decided to test the underlying concern, that retailers wanted a buffer against upstream technology failures. Again, retailers surprised us (Figure 13).

Figure 13: Change Of Heart

% Who Believe Stores Must Be Able To Operate Independently In "Disaster" Situations

FMCG & GM	Fashion & Boutique	Hardgoods
6%	2%	5%

Source: RSR Research, August 2018

When we asked retailers to rate the statement "we believe that stores must be able to operate independently in 'disaster' situations", we found almost no agreement regardless of performance, retail vertical, revenue size, or even global region. It appears that retailers have truly moved on from thinking that their technology topography must be highly distributed and independent "islands" of operation, and have much more confidence in today's data networks (and the functionality that is delivered on them).

With these learnings in mind, let's take a look at what retailers are actually doing when it comes to technology enablement of the store.

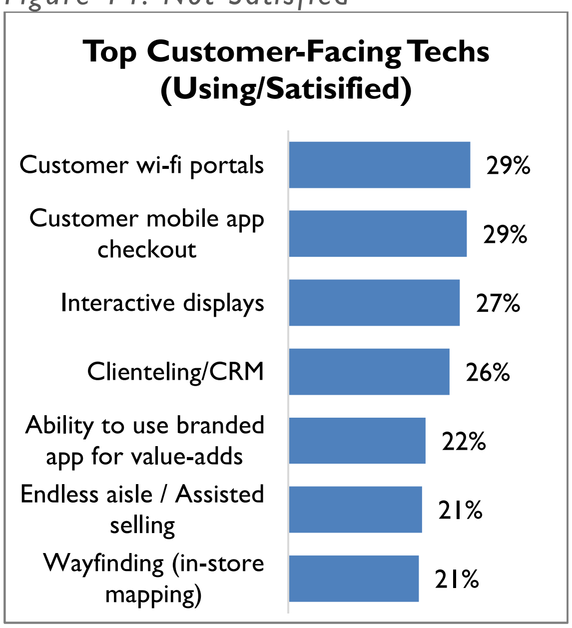
Technology Enablers

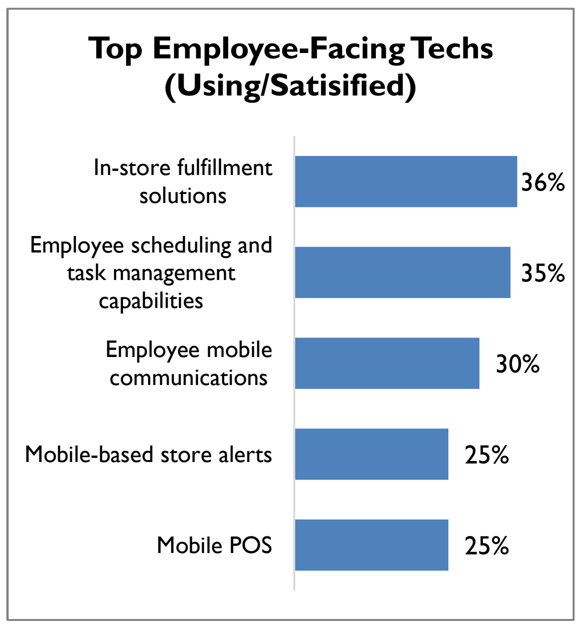
A Lot Of Upside

The story so far is that while retailers generally acknowledge that the store must be integrated with the digital selling environment, Retail Winners are actually encouraging consumers to initiate their shopping journeys in the digital space *especially* if ultimate fulfillment happens in the store. Retailers also believe that technology-enabled employees will be more engaged with consumers in the future, and non-selling functions will be highly optimized and technology enabled. Finally, retailers accept that "cloud" based solutions are the future, and that they will be able to achieve more functionality, better integration, and less physical complexity in the store, by adopting network-centric solutions. That's the good news.

The question is, where are retailers now? The answer is, not very far at all (Figure 14). When examining the status of both customer-facing and employee-facing applications, in the best case (in-store fulfillment solutions) only about 1/3 of retailers indicated that a solution has been implemented and that they are satisfied. In that case (interestingly), Winners are only marginally happier than average and under-performers (37% compared to 34%). And when it comes to customer-facing solutions, Winners' top implemented/satisfied solution is "customer mobile app checkout" (34% compare to only 22% for non-Winners).

Figure 14: Not Satisfied





Source: RSR Research, August 2018

Without question, there's a tremendous upside for implementing both customer and employee-facing solutions, and retailers need to push the "go faster" button. The question is: how to prioritize these solutions?

The Status Of New Technologies For Consumers

To uncover those priorities, we asked retailers to indicate the value they assign to various solutions. The chart below (Figure 15) show the highest score that Retail Winners and others give to various customer facing technologies. Interestingly, the majority of Winners assign a "high value" to several solutions that would directly affect the consumer experience (mobile app checkout, instant checkout à la Amazon Go!, interactive displays, location-aware marketing, and customer WiFi portals). But average and under-performers "damn" the list of solutions with faint phrase. In only one case do a majority of non-Winners assign a high-value to *any* solution (Customer mobile app checkout).

Non-Winners are clearly taking a wait-and-see attitude. And when we couple that with their concern about ROI (discussed in the **Organizational Inhibitors** section of this report), it's easy to conclude that average and under-performers are being pushed to change more by the competition than by a vision of a harmonized digital/physical selling environment.

Figure 15: Non-Winners - Curbing Their Enthusiasm

How Retailers Rate The Potential Value Of Customer Facing Techs (Highest Score)

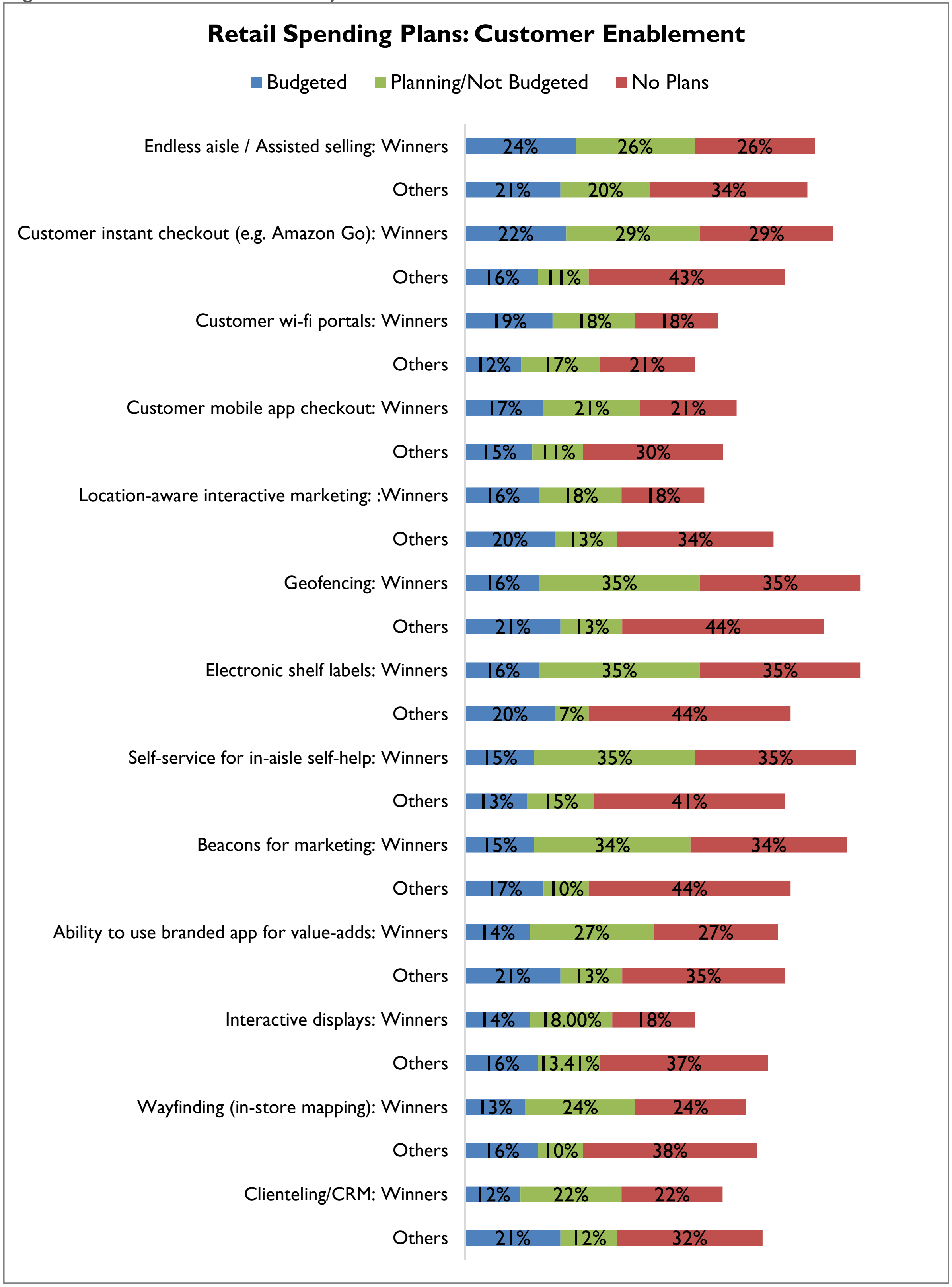
	Winners: High Value	Winners: Some Value	Others: High Value	Others: Some Value
Customer mobile app checkout	65%		50%	
Customer instant checkout (e.g. Amazon Go)	60%			45%
Interactive displays	55%			48%
Location-aware interactive marketing	52%			50%
Customer wi-fi portals	52%			50%
Endless aisle / Assisted selling	49%			51%
Ability to use branded app for value-adds	47%	47%		49%
Wayfinding (in-store mapping)	43%	43%		48%
Electronic shelf labels		47%		50%
Beacons for marketing		44%		46%
Geofencing		52%		55%
Clienteling/CRM		51%		48%
Self-service for in-aisle self-help		44%		49%

Source: RSR Research, August 2018

If we stopped here, one might conclude that in the future Winners would still be winners, and others would be consigned to the dustbin of history, i.e. the "retail apocalypse" would be real for them. But when we asked retailers to identify those projects that have "hard money" assigned to them, it's clear that *all* retailers are moving very cautiously (Figure 16, below).

Why? We might presume that retailers aren't altogether sure that consumers will continue to come to stores. But since that isn't what retailers told us at the beginning of this report (Figure 3), the answer has to be more mundane: money and time. Retailers are modernizing the store cautiously, even if they accept that consumers fully expect the selling environment to already be consistent and integrated. It is the retail industry's current greatest paradox.

Figure 16: Where The Money? Modest Plans For Customer Enablement



Source: RSR Research, August 201

The Status Of New Technologies For Employees

The story is a little more positive when we look at attitudes around employee enablement (Figure 17, below). Of the listed technologies, only four failed to be assigned "high value" by a majority of Winners (Employee mobile communications, in-store item micro-location, mobile-based weather and/ or local event alerts, and video tracking of customers).

Winners' top rated capability, "in-store fulfillment solutions", speaks to how important over-performers believe the store is in the context of a harmonized digital/physical selling environment. In fact, if all the Winners that assign "in-store fulfillment solutions" a "high-value" rating actually make it happen, 100% of Winners theoretically would have solved the challenge (34% of those retailers claim to have an "implemented/satisfied" status for that capability)!

Figure 17: Helping Employees To Better Serve Omni-Customers

How Retailers Rate The Potential Value Of Employee Facing Techs (Highest Score)

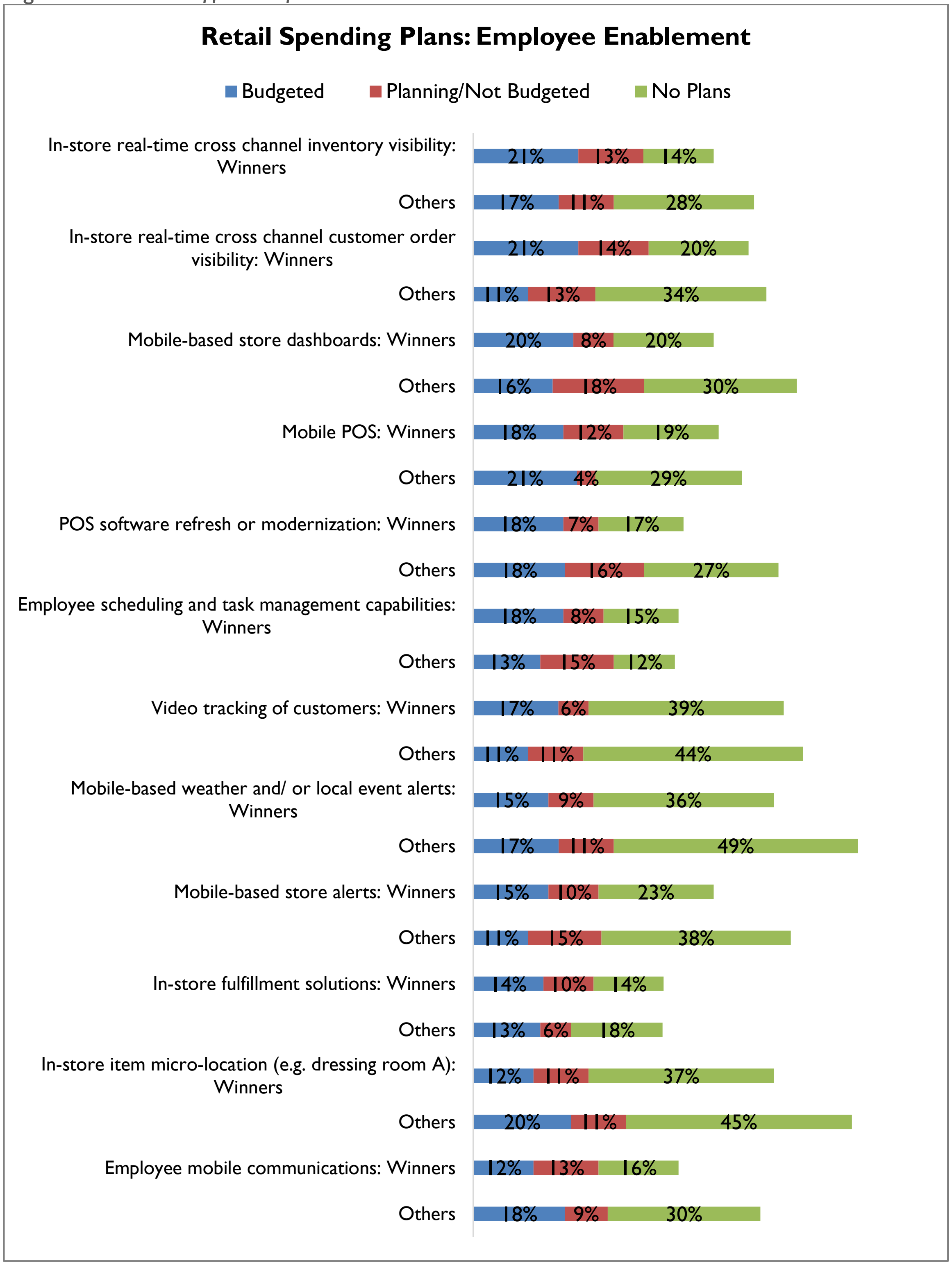
	Winners: High Value	**Winners: Some Value**	**Others: High Value**	**Others: Some Value**
In-store fulfillment solutions	64%		52%	
Mobile-based store dashboards	60%			50%
Mobile POS	58%		52%	
POS software refresh or modernization	57%		49%	
In-store real-time cross channel customer order visibility	56%		54%	
Employee scheduling and task management capabilities	56%		52%	
Mobile-based store alerts	55%			50%
In-store real-time cross channel inventory visibility	55%		55%	
Employee mobile communications	49%		44%	44%
In-store item micro-location (e.g. dressing room A)	45%			52%
Mobile-based weather and/ or local event alerts	41%			51%
Video tracking of customers		44%		45%

Source: RSR Research, August 2018

Non-Winners lag Winners in the value they assign employee facing capabilities, but not by much. Clearly, the pressure is on *all* retailers to enable their employees, but non-Winners believe *more* in enabling employees than they do customer-facing technologies. The irony is that past RSR studies have shown that non-Winners have actually lagged when it comes to employee enablement. In other words, actions don't necessarily follow words, at least when it has come to non-Winners.

So, what are the "hard money" commitments for employee-facing solutions? As before, retailers express great caution (Figure 18).

Figure 18: The Effect Of Past Under-Investment: Too Much to Do!



Source: RSR Research, August 2018

What Can We Make Of The Status Of New Store Technologies?

The bottom line for technology enablers for the next generation store is not that retailers are still in denial about the value of new solutions – they aren't. Also, retailers don't need to be convinced anymore that "Cloud" based solutions are viable – they are. The question about whether the employee is essential or superfluous to the next-generation store is also settled – employees are essential.

So, what's the hang-up? It all boils down to time and money. Retailers seem unwilling to follow the advice we offer in the 2018 IT Spending study:

> *"… sometimes, a company has to do what it knows is right… We strongly advise retailers to spend … wisely. If not now, when will it ever be time to catch up with consumers and find new ways to engage with them? Truly, the time is now."*

BOOTstrap Recommendations

Retailers generally acknowledge that the store must be integrated with the digital selling environment, and Retail Winners are actually encouraging consumers to start their shopping journeys in the digital space and finish them in the physical space – the store. Retailers also believe that technology-enabled employees are essential to making the next generation store a success. Finally, retailers accept that major new investments in their technology platforms and solution sets are necessary. But so far, retailers haven't made a lot of progress – even though consumers are clear about their expectations for a smooth and seamless, and consistent, shopping experience *right now*.

While acknowledging the steep level of re-investment and operational change that retailers face, we offer these recommendations as a guideline to keep in mind as they build their own road to the future store:

The Store IS The Differentiator

We live in a world where the value proposition to consumers has been systematically reduced to "price and availability". But consumers want more, and retailers have the basic ingredients to provide it. Retailers should focus on making the in-store experience as great as it can be – relevant to consumers' needs, enjoyable, and satisfying. And it should go without saying that all the content and functionality that consumers can enjoy in the digital environment needs to be available in the store too.

Shopping IS Entertainment

The concept of a "fun" in-store shopping experience got lost in the heyday of mass merchandising, but retailers (especially Retail Winners) now want to inject "fun" into the experience again. Hence, it's important to understand that people have fun today in different ways than in days past. Nowadays, people enjoy having access to instant content and community connections via their always-on internet enabled mobile devices. For stores to be fun, retailers need to provide instant access to content and community in the context of the shopper's needs. The store needs to reflect more of what shoppers can experience online than is now the case.

The Store IS The Order Fulfillment Center

For all the talk of forward-positioning inventory closer to the consumer (to enable fast direct delivery), some may have forgotten that *the store* already performs that function. While some retailers may want to offer direct delivery as an option, many retailers are focusing on making the store the best place to profitably fulfill an online order. There are advantages to this approach, including quick handling for returns and go-backs, and customer upsell opportunities.

Hire Better People – And Empower Them

When unemployment is low, retailers have a tough time competing in the marketplace for motivated service-oriented employees. But those people do exist. The bigger challenge is in attracting and *keeping* those people. RSR cannot stress this enough: retailers need to not only find the right people to staff the stores, but then train them, and empower them with the tools they need. Retailers believe that employees will perform more customer-facing functions in the future, and that they will be tasked to provide a more personalized engagement to consumers. But that's only a good thing if those employees are helpful and armed with *at least* the same information as that which consumers have at their fingertips.

Make The Complex Simple

While retailers acknowledge that more information and technology is needed to make the store better for consumers and help make employees more effective when interacting with those consumers, this can't be accomplished by over-complicating the in-store technology footprint. Luckily, most people use a consistent user interface in their daily lives (internet-enabled mobile devices), so one big challenge has been solved. But more than that, retailers can't afford to cram the store with more boxes and wires – it's just too expensive to acquire and to operate. This is where "Cloud", or network-based, solutions have a big part to play. To be able to take advantage of Cloud, however, retailers must first invest in the foundational network technologies needed to support such a strategy.

Solutions Providers: Proactively Address Data Security

The biggest roadblock to the adoption of network-centric solutions is retailers' concerns about data security and privacy. But vendors can't expect retailers to figure this out for themselves. Instead, solutions providers, and *especially* Cloud-based solutions providers, need to delineate a plan to ensure the security and privacy of retailers' – and their customers' – data.

Finally, Where's the Money? Where's the Time?

We're not naïve enough to think that retailers are going to "boil the ocean" and attack all the challenges and opportunities identified in this report at once. That would be organizational suicide.

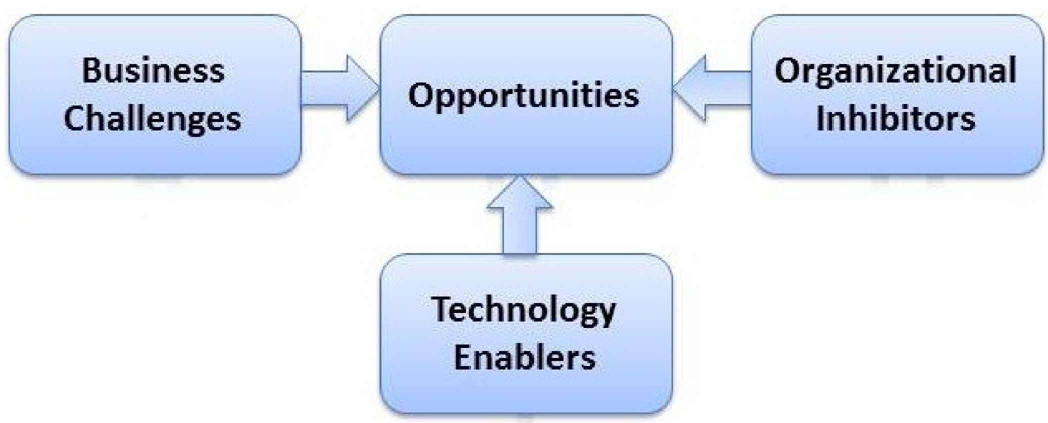
Retailers (with the help of their solutions partners) need to develop a prioritized roadmap for revitalizing the store. In many cases, new capabilities will have to be interfaced with legacy technologies, even when it expected that those legacy techs will ultimately be retired. Retailers must start with something seemingly simple: design the *desired* shopping journey, presumably one that melds the digital and the physical together into one seamless experience. Then build to that. It will take time, but we are confident that retailers will be rewarded.

Appendix A: The BOOT Methodology©

The BOOT Methodology© is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning Retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT Methodology© follows:



Appendix B: About Our Sponsor

In the new era of retailing, IBM understands the changing market dynamics of pricing and promotions are complex and require actionable insights, analytics, and cross-organizational collaboration to deliver a seamless, personalized shopper experience across all channels.

IBM solutions have helped retail organizations develop and continuously enhance their capabilities. IBM's many years of deep retail pricing experience, combined with leading optimization science and research resources, delivers true omni-channel pricing and promotional capabilities that allow our retail clients to set, manage and execute optimal and coordinated Intelligent Pricing strategies across physical and digital channels.

Appendix C: About RSR Research

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.