

Aspirational

You are beginning your digital transformation.

You have taken an important step by completing this assessment, which tells you where you stand and the actions you need to take to graduate to the next stage.

- Your in-store experience—including the layout, store systems and merchandising displays—could be more flexible and adaptable.
- You could do a better job of harnessing external data to deliver growth.
- Your associates fulfill their basic responsibilities on the store floor, preventing loss and reacting to customer requests.
- Your existing technology supports current operations but is not yet optimized to scale and grow the business, making it a cost rather than a revenue-driver.

What's Next?

You should aim to adjust your store layout more frequently, combine and collect data at different touchpoints and empower your employees with tools so they can proactively enhance the customer experience.

Your Action Plan

- **Develop your roadmap:** Identify strategic advisors who can partner with you to map out a digital reinvention strategy designed with cost takeout to help fund the journey. The right strategic partner can help you prioritize the best “get started” proof-of-concept project. Focus on one area—whether it’s improving your store design or empowering sales associates—that will enable you to demonstrate early results. This will help build trust in your digital strategy as you tackle larger projects.
- **Turn store associates into brand advocates:** Change your perception of employees from hourly associates paid to perform a specific task to brand ambassadors who are building long-term relationships with customers. Consider hiring loyal customers, as they can often be vocal brand advocates.
- **Know your neighborhood:** Instead of relying only on past seasons’ sales to predict consumer behavior, start gathering data from external sources about factors including weather, foot traffic and local sports and music events. This information can help you better understand consumer behavior, predict demand and personalize customer service. Tailor your inventory to specific local neighborhoods.
- **Rethink your space:** Think about how your physical space can best serve and adapt to customers. “Stores” now encompass on-the-go, self-service options and showrooms where customers can browse and try items before ordering them online. Modernize and migrate applications to the cloud while utilizing new technologies that allow you to respond in real time. These technologies include sensors that track the movement of people and goods and trigger real-time offers to consumers when they walk through a store or go to your site.

Find out more: ibm.com/retail-operations

The Landscape

The brick-and-mortar store is in the midst of a transformation. The footprint and layout are changing as retailers develop different ways of engaging with customers that leverage the physical and experiential elements of a traditional store while providing easier, tech-driven ways to shop. In addition to their conventional role as sales channels, stores are also now becoming distribution and fulfillment centers.

Indeed, the definition of “store” is changing. It now includes variations such as “pop-ups,” or temporary stores, that allow brands—both brick-and-mortar and digital-first—to test a new market. “Stores” can also encompass fully automated, online-order pickup lockers and towers inside grocery stores and big-box stores, which draw online shoppers, who often make additional purchases when on-site. In addition to experimenting with new physical formats, retailers are seeking to differentiate their brands and nurture brand communities with pre- and post-sales services, including in-store social events (like cooking classes) and useful online content (like DIY guides).

Most of the competition has progressed to the middle stage of transformation. While many retailers have started to bridge digital and physical operations—through options like online shopping and in-store pickup—they are still fine-tuning same-day and home delivery. Retailers have piloted several digital experience-enhancing and data-collection solutions, but struggle to measure results and roll them out economically. Additionally, the overall technology suite is still inflexible and costly to manage, and it has not yet achieved significant ROI in most cases.

It’s also worth noting that when it comes to payment processing, Asia is more advanced than Europe and North America. Asian retailers allow customers to pay with their mobile apps and use facial recognition to verify identity.

Challenges

- **Increasing price pressure:** Modernizing stores is expensive. Even seemingly small costs can expand considerably when multiplied by the number of stores in the chain.

This creates pressure to demonstrate rapid ROI for every new initiative. In addition, increasingly price-sensitive consumers place downward pressure on gross margins.

- **Changing consumer expectations:** Giant online marketplaces have redefined what “value” means to consumers.

Consumers no longer evaluate potential purchases based on price and availability alone; they also expect community feedback, such as reviews, and detailed content about the product, including product specifications and comparison charts.

Consumers bring these expectations with them when they shop in brick-and-mortar stores.

- **Technology choices:** From cloud-based solutions to handheld mobile tools that empower store employees, a dizzying array of technologies is needed to modernize the store experience.

Picking the right ones to roll out first for maximum impact presents a challenge, as does understanding investment return timelines, since short-term technology expenditures can temporarily reduce earnings.

Changing the Perspective

Blending the digital and physical store.

Problem: Nourish, a Chinese supermarket chain, recently opened 65 new stores and wanted to create a new food shopping experience for consumers that would help it stand out amidst a crowded marketplace.

Solution: Nourish created a hybrid of digital and physical shopping experiences that enabled customers to shop, dine or order groceries for delivery through their mobile phones and make payments using facial-recognition technology.

The mobile app uses big data analytics to remember purchase preferences and make personalized recommendations.

Personalizing the customer shopping experience.

Problem: Potter Paints' customers found it challenging to choose between thousands of paint color options because they couldn't visualize which colors would look best in their homes.

Solution: Potter Paints created a color visualizer app that uses color-matching technology to evaluate people's favorite photos and create a personalized color palette with all the corresponding Potter Paints shades.

The app then enabled users to upload photos of their homes and try out various color options to get a feel for how they would look in daylight and artificial light. The app has been downloaded by close to 3.5 million people.

Only 22% of retailers plan to increase the number of physical stores or selling spaces in the next two years.

Source: 2017 IBM Institute for Business Value study, "Next-Generation Retail Store Performance Data and Benchmarking Database."

In a survey of 12,800 C-suite global retail executives, 71% expect a greater emphasis on customer experience than on products over the next few years.

Source: IBM Institute for Business Value + Oxford Economics Report, "Retail Incumbents Strike Back."

Opening one new physical store results in an average 37% increase in overall traffic in the region on that retailer's website, compared with web traffic prior to the store's opening.

Source: "The Halo Effect: How Bricks Impact Clicks." ICSC.
<http://reports.icsc.org/thehaloeffect>

For emerging brands (those that are less than 10 years old), new store openings drive an average 45% increase in web traffic.

Ibid.