Store Operations

Reinventor

You are at the cutting edge of digital transformation. This assessment will help you identify your next steps so that you can continue to stay ahead of the competition.

- Your store is flexible and you anticipate and adjust to customer needs and demands in real time.

- You gather data from various external sources about weather, foot traffic and local events and understand how these drive demand.

- Your integrated approach to advanced analytics allows you to predict customer needs, and you use tools and technologies to empower employees.

- Your operational model is not only responsive to business demands, but also acts on new revenue opportunities.

What's next?
As you transform further, you will gain an even deeper understanding of shoppers and neighborhoods. You will also begin to leverage hyper-local data about customers, competitors, weather and events. Enhanced Internet of Things (IoT) data, greater insight into consumer behavior and expanded demand forecasting methods will help you optimize staffing schedules and task management to meet real-time traffic throughout the day.

Your Action Plan

- **Further empower store associates as brand advocates:** Hire, train and retain employees who will function as brand ambassadors. Artificial intelligence can be used to locate the best associates by isolating their key characteristics and efficiently identifying best-fit candidates from large pools of applicants. Arm employees with mobile and wearable devices that provide insights such as a customer's purchasing history and deeper product knowledge, and encourage them to provide recommendations so they can cross-sell and upsell.

- **Hyper-localize your offer:** Continually align every aspect of the store—location, assortment, content, prices and services—with hyper-local neighborhood dynamics. Create a single pool of inventory with full visibility, either through IoT a radio frequency integrated circuit, and use order-management optimization to determine the optimal ship-from location.

- **Rethink your space:** Augmented and virtual reality can make the store experience interactive and distinguish you from the competition. While many companies have launched "store-of-the-future" labs, where designers prototype incremental changes and bring in employees to test them, you should harness employee inspiration as well. Given their relationship to the customers, they are sure to have creative and helpful ideas for new store features and designs. Create events like hack-a-thons where employees can pitch ideas for completely new store concepts. Bring the winner into the lab to figure out how to develop the new concept, execute it and roll it out to all the stores.

- **Adopt true customer-centric metrics:** Move from store-centered metrics—which typically measure sales, the operating expense percentage and profit generated by brick-and-mortar stores—to customer-centric metrics, as you combine online and offline businesses. Look at how pioneering, digitally native brands have embraced the total addressable market (the revenue opportunity available for a product or service), unit economics and customer lifetime values in order to optimize profitability.

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.

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- **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 of 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.