Rethink, reimagine and reinvent the retail store

Delighting the digitally savvy consumer with a revived in-store experience

IBM Institute for Business Value

What a difference a year makes

From last year's so-called retail "apocalypse" to its current "renaissance," stores have been in the news a lot lately.[1] And while both narratives are overblown, the retail industry is undergoing its biggest transformation in 50 years. Modern technology and competition, and over-building in some regions are factors, but at its core consumers are changing how they shop and engage. Now is the time to rethink the definition of the store and the role — or roles — it plays in customers' lives. To attract and delight customers, and eager associates, reimagine every aspect of the physical space, and reinvent retail operating models to achieve customer centricity and enable continuous innovation.

Rethink space

Despite retail's rich history of grand public showplaces, most stores today are as utilitarian as they are ubiquitous. They are trying to satisfy both the top and bottom of what was once called the purchase funnel: building awareness, driving traffic and completing the purchase.

Consumers have nearly unlimited choice of when, where and how to shop. Replicating a single formula or store concept across hundreds or thousands of locations is no longer a recipe for success. And there will be fewer locations as well. A 2017 IBM Institute for Business Value (IBV) study showed, for example, that only 22 percent of retailers plan to increase the number of physical stores or selling spaces over the next two years.[2]

Retailers can seek to differentiate their stores by focusing on the in-store experience pre- and post-sales service and social interaction. They can also exploit that they have products on hand, helpful sales associates, and a place for people to meet and socialize. But recent experience demonstrates that taking that type of incremental approach is unlikely to be enough. Today's retail environment calls for more radical transformation.

Instead of slowly evolving their stores, innovative retailers will rethink how physical space can best serve customers in the context of their lives. The definition of "store" is expanding to include showrooms. For example, the Nordstrom Local showroom format — a store with merchandise on display for shoppers to browse, touch and try — drives customers to purchase online exclusively.[3] On-the-go, self-service options are also becoming more prominent, including the Best

Buy Express vending machine[4] and Whole Foods and Walmart's fully automated online order pickup lockers and towers.[5]

Armed with a detailed understanding of shoppers and the neighborhoods in which they reside, successful retailers will leverage hyper-local data on customers, competitors, weather and events. In turn, they can tailor individual aspects of their offerings to reflect local customer and market dynamics. So, while a grocery store in one neighborhood may feature an interactive test kitchen and locavore-friendly specialty fare, another may emphasize meal kits and prepared foods. Stock level, staffing and promotion will vary for home versus away sporting events, and at the store level for fans of major league sports.

Blending digital and physical

Alibaba has opened 65 Hema supermarkets across China. At Hema, a hybrid of digital and physical shopping, customers can shop, dine, order groceries for delivery from their mobile phones and make payments using facial-recognition technology.[8] The Hema mobile app uses big data analytics to remember purchase preferences and make personalized recommendations.

View retail stores as a platform, and create physical, digital and virtual elements that are easily adjusted based on evolving consumer behaviors, including:

- A set of cloud-native applications to deliver individualized customer services and more efficiently conduct operational tasks. These applications can provide recommended actions based on insights derived from a host of sources: e-commerce, operational systems, third-party market data and various Internet of Things (IoT) sensors monitoring behavior, position and performance of customers, associates, products and equipment.

- Numerous interactive customer digital displays, like electronic shelf labels, "magic mirrors" and digital signage, can provide contextual decision-making content, pricing and personalized offers while gathering data on shopping behavior.

- Augmented and virtual reality that not only adds to the store experience and fun factor but can enable a continuing conversation between the brand, store associates and consumers.

There is a direct and positive correlation between having both a physical and a digital presence. In retail, the halo effect — the tendency for a positive impression created in one area to influence another — may boost web traffic and online sales. Opening one new physical store in a market results in an average 37 percent increase in overall traffic in the region to that retailer's website, compared with web traffic prior to the store's opening.[6] For emerging brands, those less than 10 years old, new store openings drive an average 45 percent increase in web traffic following a store opening.[7]

Empower store associates

Store associates can be a key difference between high-performing and low-performing stores. They are the face of the brand and the frontline of the customer experience. There are several ways in which leading businesses are innovating to improve store associate quality. The Container Store, for example, actively hires its customers, knowing that a customer-turned-associate will start with a high degree of knowledge and be a great ambassador for the brand.[11]

Artificial intelligence (AI) technologies can now also be employed to improve associate quality by quickly isolating key characteristics of the best associates and efficiently identifying best-fit candidates. Yet many retailers not only staff their stores primarily with part-time hourly associates, they have them spend more time on operational tasks than serving customers.

With the right associates in place, this no longer needs to be the norm.

It's critical that retailers supercharge their associates with the right tools to support every aspect of the job. Mobile and wearable employee devices and applications can provide associates with insights to enable them to cross-sell and up-sell. Among these insights are a customer's purchasing history and preferences, deeper product knowledge and recommendations. And associates no longer need to be tethered to the store. US retailers Macy's and Saks are using mobile communications and selling tools to facilitate associates engaging with customers via text, chat, email and video wherever they are.[12]

With enhanced IoT, insight into consumer behavior and expanded demand forecasting methods, staffing schedules and task management can be optimized to meet real-time traffic throughout the day.

From clicks to bricks

Amazon operates nearly 500 retail locations, including Whole Foods, and has recently acquired the More retail chain in India.[9] In China, Alibaba, Tencent and JD.com have all invested billions in their physical retail presence.[10]

Solve the last mile and measure what matters

As consumers embrace speedy home delivery, retail stores increasingly become a critical node in supply and fulfillment ecosystems. The challenge is which location to ship from to meet customer needs while capturing the most profit. A single pool of inventory with full on-hand visibility — often through IoT or radio-frequency identification (RFID) — and using order management optimization to determine the optimal ship-from location is becoming a must-have capability.

Real-time visibility also helps retailers boost fulfillment by enabling faster, more agile responses to unexpected events. According to a recent IBV supply chain benchmarking study, 17 percent of retailers sampled who provide this service have higher profitability, and 20 percent more favorable market perception.[13]

Store metrics typically measure three things primarily; sales, expense percent and four-wall profit. As store roles change, so will the metrics by which they are measured. If the store's purpose is to be a physical connection point between a brand and a local community, then its four-wall measurement should be based on any purchases its customers make anywhere.

This shift toward customer-centric metrics is a critical — and often challenging — issue for retailers. Measure from the customer up and operationalize these metrics with equal importance to current transaction, product and channel metrics. Unencumbered with legacy and recognizing the need to optimize profitability, many digitally native brands have embraced total addressable market (TAM), unit economics and lifetime value more aggressively than traditional retailers.

Some retailers have begun to shift to more customer-centric metrics, most notably by combining their online and offline businesses. But many have not, and resource decisions in merchandising, pricing and promotion, marketing and supply chain often have legacy remnants of whether they were store or "dotcom" functions, metrics that are not as useful as they once were.

Where to begin

Reinventing the store requires a deep under-standing of how and why customers shop and engage, and a vision of where to begin. It demands a willingness to experiment, fail often and fast and the patience to build, test, learn and scale. And it will take resources, which necessitates courage to forego short-term profits for long-term success.

Most retailers already seem to be investigating or considering where to start. The possibilities include: rethinking point of sale (POS), improving associate productivity with mobile applications, adopting click-and-collect or local delivery, leveraging IoT and AI for predictive mainte-nance, setting up sensors to track the movement of people and products and triggering real-time offers to consumers. Any of these can be a good starting point or used to tee up the larger discus-sion of how to implement comprehensive business model changes.

The critical decision is not where to begin, but when. Store reinvention won't happen overnight, but it must begin.

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