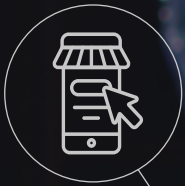


**aruba**

a Hewlett Packard  
Enterprise company



# The road to digitalization in retailing

Looking ahead to a more personal  
and profitable future

# Executive summary

Every sector of the global economy is being disrupted by new technology and business models, and nowhere is this more visible than in retail. Significant new competition and digital investments are being made across the board. In fact, Gartner predicts that by 2023, Alibaba and Amazon will have captured 40% of market share of online retail and that global retail sector technology spend will grow 3.6% to reach almost \$203 billion in 2019.<sup>1</sup> Similar growth rates are expected in 2020 and 2021.

Shopping no longer exclusively happens online or in-store. Successful retailers will connect their customers' different buying channels for a more holistic view of each shopper and a richer, end-to-end customer experience. Retailers that can leverage the latest developments in retail technology to combine these distinct shopping behaviors will succeed in offering the personalized experiences consumers demand. Not only will this drive greater customer loyalty, it will also enable more efficient back-office operations.

In our recent study of retail workers, almost two-thirds (63%) of managers and employees surveyed agreed that 'my organization is at risk of falling behind our competitors if we do not implement new technology'. Those same workers cited the benefits and impact of digital workplace technology: 72% reported better productivity, 65% were able to finish tasks quicker, and 62% recorded better workplace wellbeing.

Looking forward, the challenge for retailers is to modernize their brick and mortar presence and create a solid omnichannel strategy. But, what approach to integrating technology and undertaking digital transformation will deliver viable returns? Given that retailers are necessarily focused on their customers above all else, a concentration on implementing technologies that enhance the consumer's entire omnichannel experience – including the in-store interaction – must be a key priority. And, crucially, be given equal footing with technologies that enhance back-end efficiencies.

Unless retailers embrace smart digital spaces, ones that empower their staff with the tools and flexibility they need to do their jobs better, they stand little chance of navigating the disruption that is already gripping the industry. Additionally, they must ensure those smart digital spaces are customer-aware, from home to store, and offer not only the engagement that drives satisfaction and loyalty from both associates and customers, but are smart enough to know such things as customer dwell times and real-time inventory status. This report therefore focuses on how retailers can transform from within, embedding technology within the workplace to achieve the goal of a greatly enhanced customer experience.

The following information and recommendations are based on a recent study from Aruba, a Hewlett Packard Enterprise company. The survey featured feedback from over 900 managers and

non-managers at global retailers, and interviews with two industry experts: digital commerce strategy consultant Gabrielle Hase and founder of ASOS Ventures, Daniel Bobroff.

<sup>1</sup> <https://www.gartner.com>



# Five key trends emerged:

## 1. Lagging in workplace technology:

Compared to other industries, retail has been slow to implement workplace technology. Over a third of those surveyed said that technology in the workplace was an area that required improvement and over a quarter (27%) still couldn't participate in a "bring your own device" practice. More than half (51%) believe that if better implemented, retail technology could bring enhanced collaboration.



## 2. Employees must be empowered with technology:

Retailers focus obsessively on customer service, but do not always equip their associates with the technologies that can empower them to do a better job. To thrive, the brick-and-mortar retailer of the near future needs to focus on technology at the edge of the network, where associates and shoppers are. It must provide staff with the connected digital tools that allow them to deliver a more personalised service to every customer.



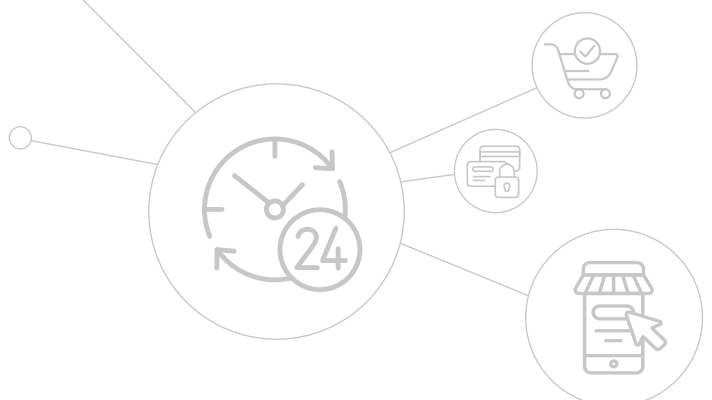
## 3. A need for deeper insights into stock and inventory:

With growing customer demands to access any item through any channel at any time, the necessity for retailers to have a precise picture of their inventory is essential for increasing profit margins and retaining customers. Only by improving their data systems and making better use of inventory tracking technology can retailers solve the age-old problem of knowing exactly what they have in stock at any given time.



## 4. The old silos need to be broken down:

Retailers need to prepare for a world where customers pay no attention to the traditional division between physical and online retailers. This will require the internal divisions and structures that currently exist to be broken down, so internal systems blend seamlessly and work together – be it marketing or IT – to deliver the experiences customers now expect.



## 5. An opportunity to think longer-term:

Our experts reported a tendency for retailers to approach the long-term investment challenge of digital transformation with a mindset that demands immediate results. Instead, they argued, retailers need to accept the necessity of major investment in both systems and people, and to find new ways of measuring success that do not entail the mothballing of transformation projects that just deliver immediate results, it needs to be about both the short and long-term.

# Part one

## The story so far: room for improvement

A survey of industry professionals suggests retail has some room for improvement when it comes to digitalization. Retail consultant Gabrielle Hase believes that the sector is falling behind. "Retail as a sector is notoriously slow to adopt new technology. Because retail is very focused on the here-and-now, because your fortunes live and die by how much you sell today and tomorrow, it can be very myopic and not great about thinking ahead."

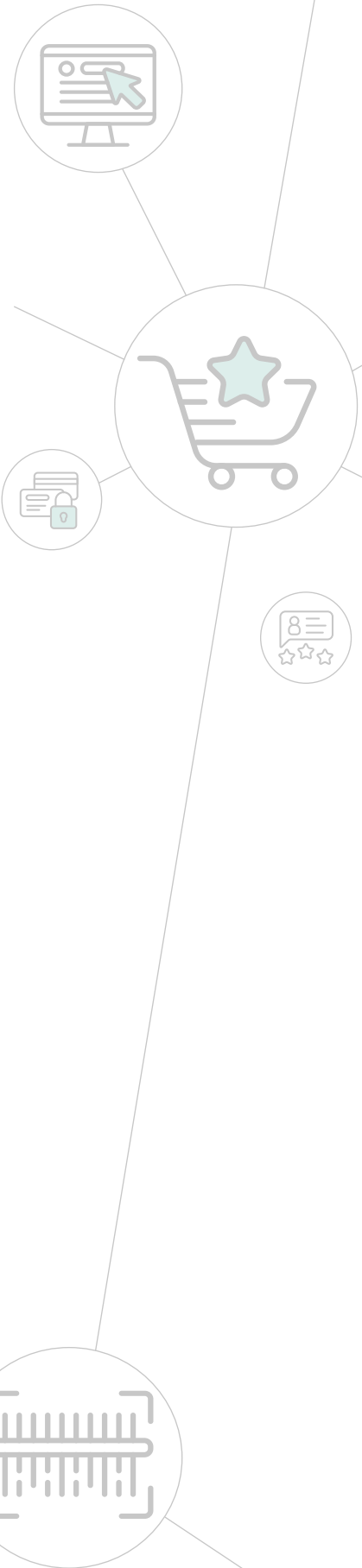
Hase also identifies a lag when it comes to implementing technology that can generate organizational improvements. "Retail is quicker to adopt customer-facing technology because there's a faster ROI. When you're putting in technology to improve back-end efficiency it's much harder to prove the ROI, and this is where I have seen retailers tend to under-invest."

This short-term approach, one that prioritises immediate results over ultimate value creation, is leading to a failure to execute on digital transformation projects, even as retailers accept their importance as a competitive advantage. One study found that 84% of retailers acknowledge the need for digital transformation, but on average have spent around £1.5m on transformation projects that have either failed or been cancelled<sup>2</sup>. Around 60% from the same study said these costs had discouraged them from pursuing similar programs in the future.

So, what explains these costly failures? A risk-averse attitude to technology may be one reason, meaning retailers fail to respond effectively to what Daniel Bobroff describes as "a time of mega disruption, with technology and early-stage companies challenging every part of your business model and value chain."

A skills and knowledge gap, both within existing teams and recruitment functions, is another. "Finding the necessary digital skills in the open market is expensive and hard to do," says Gabrielle Hase. "For some it's also hard to know who to hire, because a traditional retailer probably doesn't know what separates a good search engine marketer from a bad one, for instance." In our survey, 31% of retail managers said that a challenge of implementing technology was that "it requires new skills that employees don't have in our organization."

Retailers, therefore, find themselves at a difficult juncture. Almost all accept that digital transformation is the only option if disaster is to be averted. But many are being hamstrung in their efforts by a short-term mindset, a skills gap and the burdens of legacy holdings and infrastructure. Retail seems to be lagging when it comes to realising the advantages of new technology. So how can it catch up?



# Part Two

## What needs to change: a clearer view of inventory, costs and customers

While customers increasingly expect same-day delivery, many retailers struggle to know where their stock is. The customer penalty for 'out-of-stocks' (OOS) is clear: a recent study found 81% of consumers expect to be able to check if an item is in stock before going in store, 79% expect retailers to provide precise inventory levels, and 81% expect to have the OOS item shipped to them from a location where it is available<sup>3</sup>. Moreover, 72% will go to a competitor to find the missing product, and 67% will make fewer trips to the retailer where it was OOS in the future.

According to Gabrielle Hase, the challenge of improving inventory tracking points to a wider problem of retailers failing to coordinate the different parts of their business. "Retailers will have their store state, then they'll have e-commerce, customer service off in the corner, and then wholesale. Those are departments that have been added on over time, and typically they don't talk to each other. You cannot serve a customer effectively or well if you're doing it from within a silo. You have to be cross-channel and function."

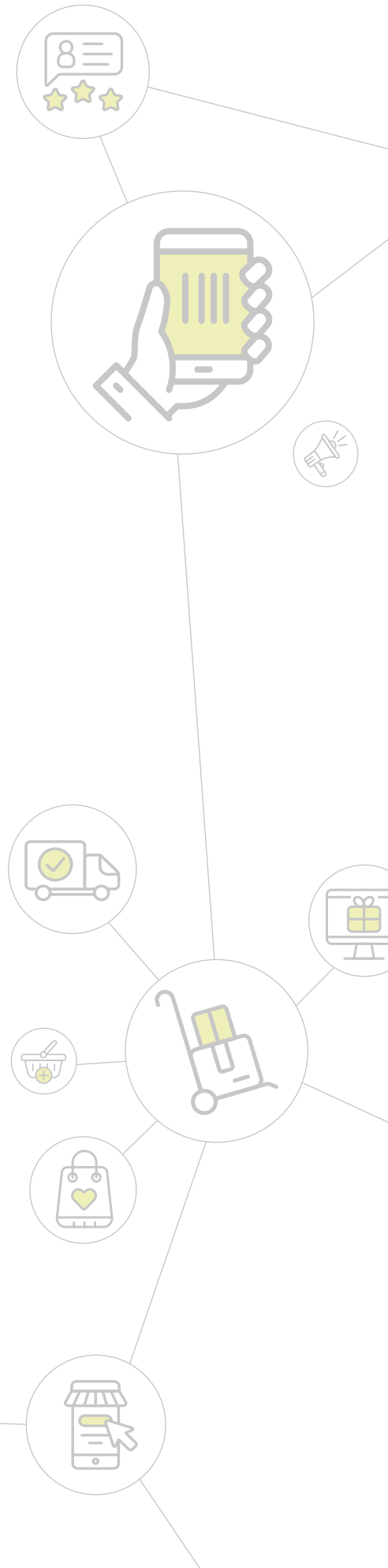
This means that when it comes to inventory, the structure of many businesses fails to match the needs of the customer. Rather than allocating stock to different pools that serve the store, ecommerce, pop-ups and wholesale, brands must have a streamlined, single view across all channels. Their customers' shopping patterns are omnichannel, so they must be too.

At present, technology is beginning to solve one of the most fundamental questions for any retailer: knowing what they have in stock.

For this, RFID technology and electronic shelf labels (ESLs) can help. These devices connect wirelessly to in-store or cloud price management software and can monitor stock levels in real-time, tackling out-of-stocks before they occur.

The same holistic approach is needed if retailers are to improve their understanding of customers and enhance their shopping experience. "I still see so many businesses who think they know who their customer is," Gabrielle Hase says. "They've done some kind of segmentation, but they don't understand across every channel how that customer truly shops."

To overcome that, retailers need to develop "one record of a customer that captures everything they have purchased (no matter what channel), all of their different interactions with customer service, and their interactions over social media."



<sup>3</sup> <https://www.ibm.com>



That, says Daniel Bobroff, largely comes down to improved data management. "It's about having the data available in the right form, and cleaned so it can be used, whereas now it comes from here, there and everywhere."

This can be achieved through digitally smart IoT and mobility powered tools. VoIP headsets, for example, allow retail associates to more effectively communicate with others in the store, including fellow associates and shoppers. This empowers them to interact with virtual assistants (Google, Cortana, Alexa) and to check backend systems. As competition with online retailers increases, and stores become more experience driven, reducing shopper abandonment is non-negotiable as is increasing shopper satisfaction. Retail workers must be able to respond immediately, whether that is finding an item quickly in the store or ordering it online while the shopper is there.



Achieving this, in Gabrielle Hase's view, will require retailers to improve the way they approach digital transformation and overhaul IT systems. "You can go to market and buy lots of software that will solve these problems. But then you need to integrate them and extract the data that already exists in your system without breaking everything."

Additionally, when looking at transformation projects, retailers should look at new ways of measuring success and think longer-term on ROI, Daniel Bobroff believes. "We are talking about continuous innovation, and ROI tends to limit the horizon: you either hit the target, or you kill the project. There need to be other metrics that help us move towards success."

If better investment of digital transformation projects is one necessity, another may be for cultural change. New technology can encounter internal opposition, he says. "If you try to introduce new production technologies, for example, you will get a lot of resistance from the traditional staff who have worked in a particular way for a long time, such as pattern cutters. They fear they will be out of work if they have to suddenly lose their old way of working and now adopt this new solution put in front of them."

Retailers, he believes, must also accept that the talent they need for digital transformation cannot all be recruited into traditional, in-house roles. "We live in a world where it's sexier to work in a fast-moving start-up or build your own than it is to go and work for a legacy retailer. To access the highly talented engineers in this space, of which there is a shortage, you need to outsource. You need to create a culture which allows you to combine internal and external resource and get them working together."

If retail is to catch up in the digital transformation race, it needs to overcome technical, human and cultural barriers: changing the way it integrates new technology, and acknowledging that it must meet digital talent in the middle. Without a better and more co-ordinated approach to overhauling back-end systems, it will continue to struggle to meet the needs of customers on the shop floor.

# Part three

## What the future holds: a more personal and profitable future

If retailers need to pursue digital transformation as an urgent priority, what can they hope to achieve as a result?

It will all become about simple, smart, and personalized omnichannel shopping. Until recently, there was no connection between what a shopper bought or looked at online and their behavior in store. Retailers didn't know it was actually the same loyal shopper that made lots of online purchases. Through emerging technologies and the insights they bring, retailers can now create that single relationship from home to app to store, making connections where there weren't any before.

Knowing who the customer is, where they are, and their preferences is critical. To do this, retailers are using analytics, location, and context (who the person is, what they like, where they are) and they are seeing rising sales as a result. This is important because shoppers are driven not only by product, but by simplicity and a personalized experience. In short, they are starting to make choices on where they shop by how easy that retailer makes their life, not just on price or proximity. Creating smart stores using location-based services, artificial intelligence, and analytics enhances the customer experience, boosting loyalty and avoiding shopper abandonment.

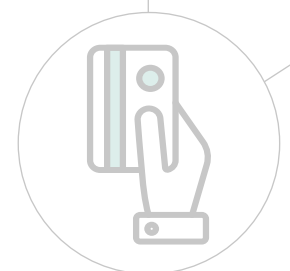
To this end, many retailers are turning to augmented reality (AR) to strengthen the relationship between consumer and brand online and in-store. Cosmetics brand Charlotte Tilbury created a "magic mirror" on the wall of one of its London stores. The mirror would scan a shopper's face and then reflect it back wearing ten of the brand's iconic looks – all without applying a scrap of make-up. A smart move considering that 61% of consumers prefer stores that offer AR experiences<sup>4</sup>.

And, it's not only customers that benefit from innovative technology, but employees too. In fact, the success of a retail brand depends on an engaged, empowered workforce. The only way you can beat Amazon is by having people who really know their stuff on the store floor. Plus, you get a lot of employee engagement when you empower people and give them the tools to do the job. In fact, retail workers in the Aruba study said they saw a rise in productivity (72%), wellbeing (62%) and the ability to differentiate against the competition (59%) as a direct impact from digital workplace technology.

The digitalization benefits are not just about the point of sale or employee engagement – they can be about the bottom line, too. Establishing better connectivity for shoppers and associates is great for the front of house, but back of house operations can also benefit. Understanding inventory status at any moment can help retailers avoid shortages. When tied into mobile app buying patterns, retailers can make sure they have the right products in their stores. This is key as digitalized inventory smarts can be a time, and money, saver.

Both experts also pointed to the efficiencies that technology can offer retailers, whether that is using the Internet of Things to more effectively track and manage warehouse space, or blockchain to reduce the burden of administrative tasks.

All told, the opportunity of digital transformation in retail is clear. At every point in the supply chain, there is a digital opportunity to make retail move faster, work more efficiently, and serve customers better. If retailers want to improve the customer experience, then they need to focus first on transforming the user experience for customers and employees alike.



## Conclusion: The road forward

For retailers, the present can sometimes seem bleak, but the future appears bright. If, that is, technology is embraced and integrated in a way that empowers employees, serves customers and improves the bottom line.

The opportunities that undertaking a digital transformation presents to retailers are considerable. From inventory management, employee engagement, customer service, warehousing and delivery, every facet of a retailer's business can be improved through technology. But that will only be possible if retailers overcome some of the barriers many currently face. These include legacy systems, a culture that sees innovation as more of a cost line than a value opportunity, and a short-term mindset that fails to give digital transformation the necessary room to flourish.

Retailers need to grasp the necessity of not just upgrading their business models, but fundamentally overhauling them. This means breaking down the internal silos to match the integrated experience that customers now demand; effecting cultural change so that technology is seen as a fundamental part of the supply chain at all stages; finding new metrics to measure the success of digital transformation projects over the medium and long term; giving customers the innovative self-service tools they expect; and, empowering employees with technology in all parts of the enterprise, especially those on the front line of customer service.

In the end, to survive and thrive retailers must go where their customers want them to be. The empowered customer has no regard for business divisions and internal silos. They simply want the efficient, seamless omnichannel experience that the market has educated them to expect.

Only technology can break down the internal barriers and provide this level of service. And that will only become possible when retailers get comfortable with the idea that their business models must change as much as the expectations of their customers.



aruba

a Hewlett Packard  
Enterprise company