



# Retail, reimagined

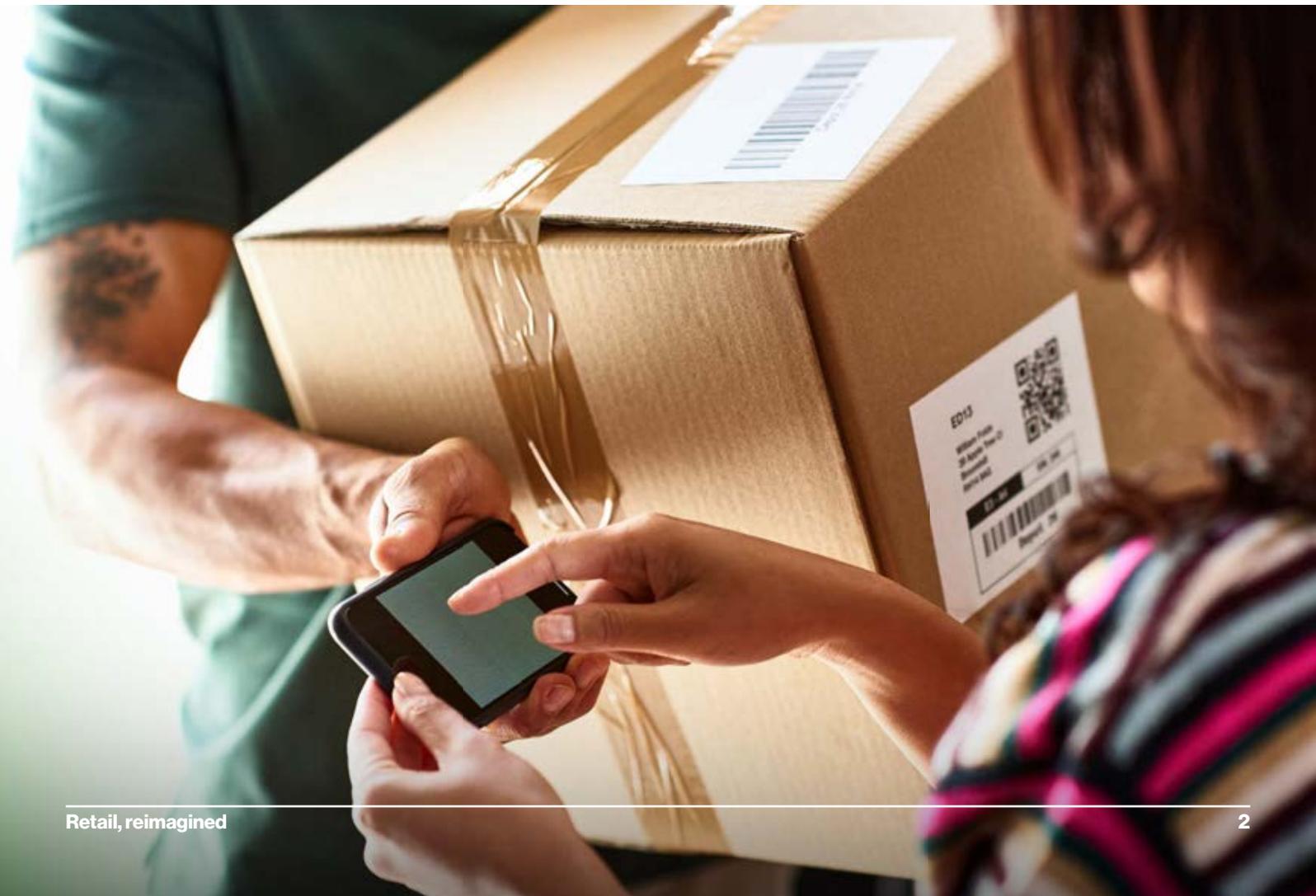
How can retail firms  
embrace the future?

# Retail, reimagined

## How can retail firms embrace the future?

Retailers face an increasingly difficult outlook as inflation begins to bite in economies around the world. Understandably, they are asking what the effects will be on consumer demand and are evaluating the likely impact on their businesses.

Rising inflation is the latest in a line of strategic challenges to have confronted the sector. Retailers have long been grappling with the sea change to online and multi-channel retail, often with a negative impact on margins, as they adjust to rising fulfilment costs and factors such as evolving consumer expectations of more sophisticated service, not to mention free delivery and returns. The pandemic and the Russia-Ukraine war have changed the sector dynamic radically, with retailers enduring significant supply-chain and labour-market disruption.

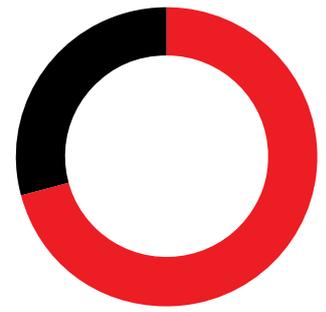


# Retail has adapted

Yet, judging by recent Verizon research, retail may be among the sectors best equipped to manage the current challenges. Our survey of 600 executives across 18 leading economies for *Business, reimagined* – our latest report on the future of work—examines the key dimensions of future-readiness. The pandemic hit retail hard: 71% of retail executives say the crisis highlighted weaknesses in their business strategy, compared to 66% across all sectors. Yet the findings also suggest retailers have emerged from the crisis stronger than before – and in ways that could serve them well in the period ahead.

One of the most important aspects of this strengthening is corporate decision-making. Retail executives are more likely than those in other sectors to report that, following the pandemic, their leadership team is better at thinking strategically and planning for the future – 84% vs 74% of firms overall – and at making decisions quickly (81% vs 71%). The same proportion (81%) say that leaders have improved collaboration between teams across the business (vs 68% overall), which supports performance and strategic agility. In fact, 11% of retailers are in the “Accelerator” cohort of businesses identified in the research as leading the way in building future-readiness, a slightly above-average representation compared to other sectors.

The research confirms the perception that many retailers responded well to the pandemic. They were agile and creative in meeting demand for online purchases, introducing kerbside delivery and in-store pickup, sometimes partnering with delivery firms to reach customers more efficiently. These rapid, tech-enabled adaptations may not have been highly profitable for retailers, given the fulfilment costs involved, but they were essential to maintaining business dynamics during the unprecedented lockdown periods.



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## How has the retail sector changed following Covid-19?

% retail executives who "agree" or "strongly agree"

The Covid-19 crisis has highlighted weaknesses in our business strategy



We have moved from the crisis-management phase of responding to Covid-19, and we are now rethinking our long-term business strategy



The Covid-19 pandemic has made us realize the importance of our core networks and remote-working technologies – and we are investing more in them as a result



The Covid-19 crisis has improved our leadership team's ability to think strategically and plan for the future



# The online conundrum

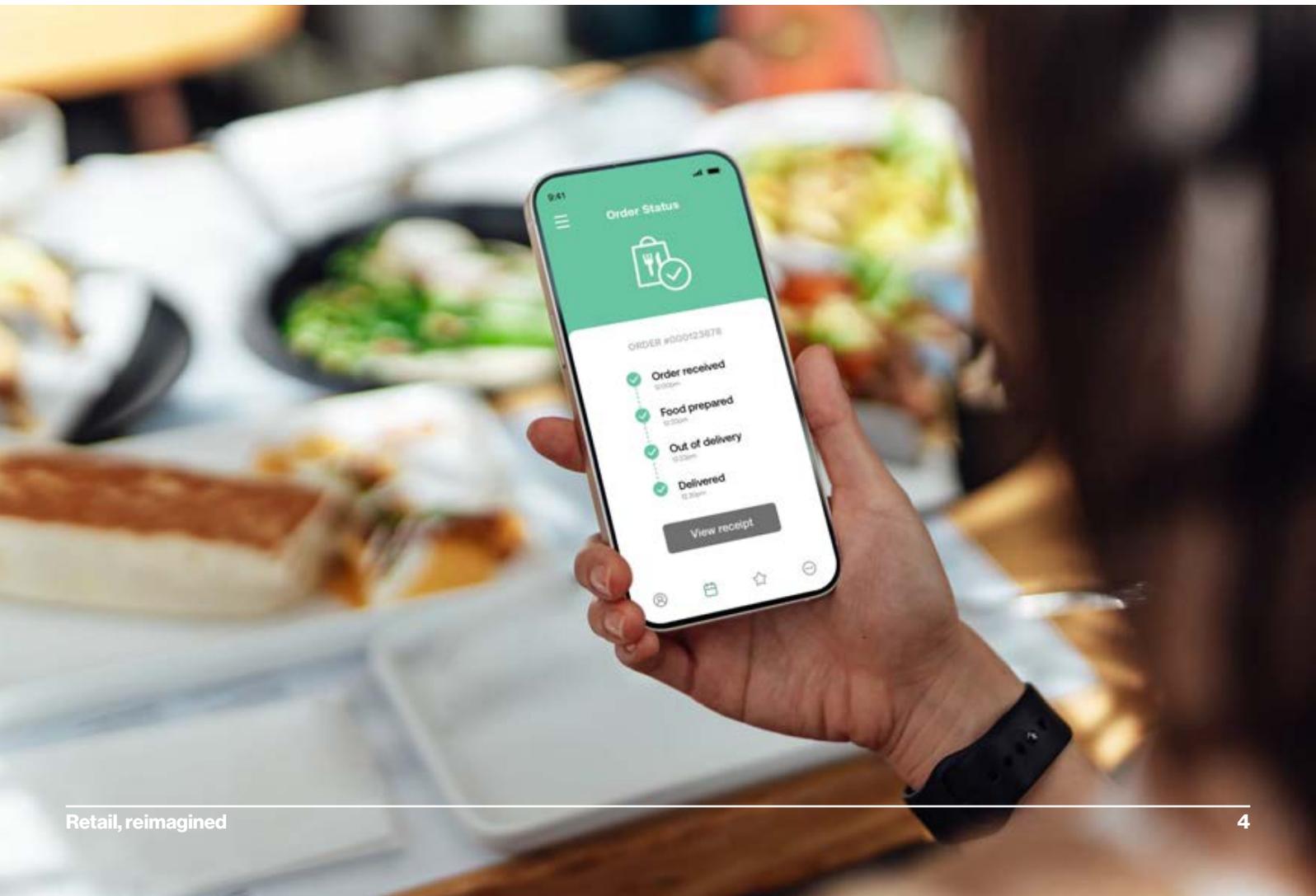
However, e-commerce fulfilment remains the retail sector's Achilles heel. While online is a hugely important part of the end-to-end customer journey – according to McKinsey, 70% of all purchases have an online element – it is not a highly profitable one. Even Amazon's retail business, with its immense buying power, strong supply chains and far-reaching delivery processes, makes only a 2% margin.<sup>1</sup> Less well-resourced companies find making money from their online businesses even more of a challenge.

For many, the answer is to compete on different territory, through immersive, experiential and theatrical retail. Bridging the online and physical worlds, gamifying the customer experience, and even expanding into the metaverse can drive a new narrative for retail brands and secure customer loyalty. Critically, they can also yield diverse datasets that allow retailers to understand more thoroughly and better serve their customers. Other retailers are focusing on making shopping seamless and effortless with “invisible” technology – such as Verizon Venture portfolio company, AiFi – which can transform the experience of visiting a store, with customers checking-in by app or credit card before enjoying frictionless shopping and checkout.

Retailers' record of adaptability over recent years should give them confidence about meeting a fresh wave of challenges. But, as economic pressures mount, what are the opportunities for retail businesses to become truly future-ready?

Our research points to four key areas:

<sup>1</sup> <https://www.macrotrends.net/stocks/charts/AMZN/amazon/profit-margins>



# 1. Align technology adoption with changing customer expectations

Few sectors are as responsive to consumer demand as retail – and, indeed, our survey found retailers are more likely than companies in other sectors to report a stronger ability to develop empathic, trusting relationships with their customers since the pandemic (79% vs 71% overall). Unsurprisingly, customers are also top of retailers' strategic priorities in 2022/23, with improving the customer experience ranked as a “high” or “very high” priority by 77% of retail executives.

That ambition is underpinned by investment in technology. More than 6 in 10 retailers say they are set to invest more in data analytics and software tools (70%), AI and machine learning (61%), and 5G and network technologies (70%). For these investments to pay off, it's vital that technologies are implemented in ways that engage customers and enhance their experiences; so, it is a surprise that retail firms' leaders were *less* likely than those in other sectors to have taken an active role in technology adoption over the past 12 months (56% vs 62%).

Ensuring technology adoption is customer-centric must be a leadership priority. It means continually focusing on the “the customer job to be done,” says innovation and strategy specialist Rita McGrath of Columbia Business School, one of the leading thinkers interviewed for *Business, Reimagined*. What are customers trying to achieve when they interact with your business, and how can you help them achieve their aims? The answers to these questions should inform the company's approach to every customer interaction, as well as its decisions about technology investments.

Technology has the potential to enable far more personalised experiences, allowing shoppers to pick their preferred methods of engagement, whether in-person, digital or a multi-channel blend, drawing on mobile apps, social media and, increasingly, augmented or virtual reality offering virtual dressing rooms and product-visualisation technology, or fully digital experiences in the metaverse. And, of course, firms have to meet customer expectations in relation to security and data usage.

## In 2022 do you plan to invest more or less in each of the following technologies compared with 2021?



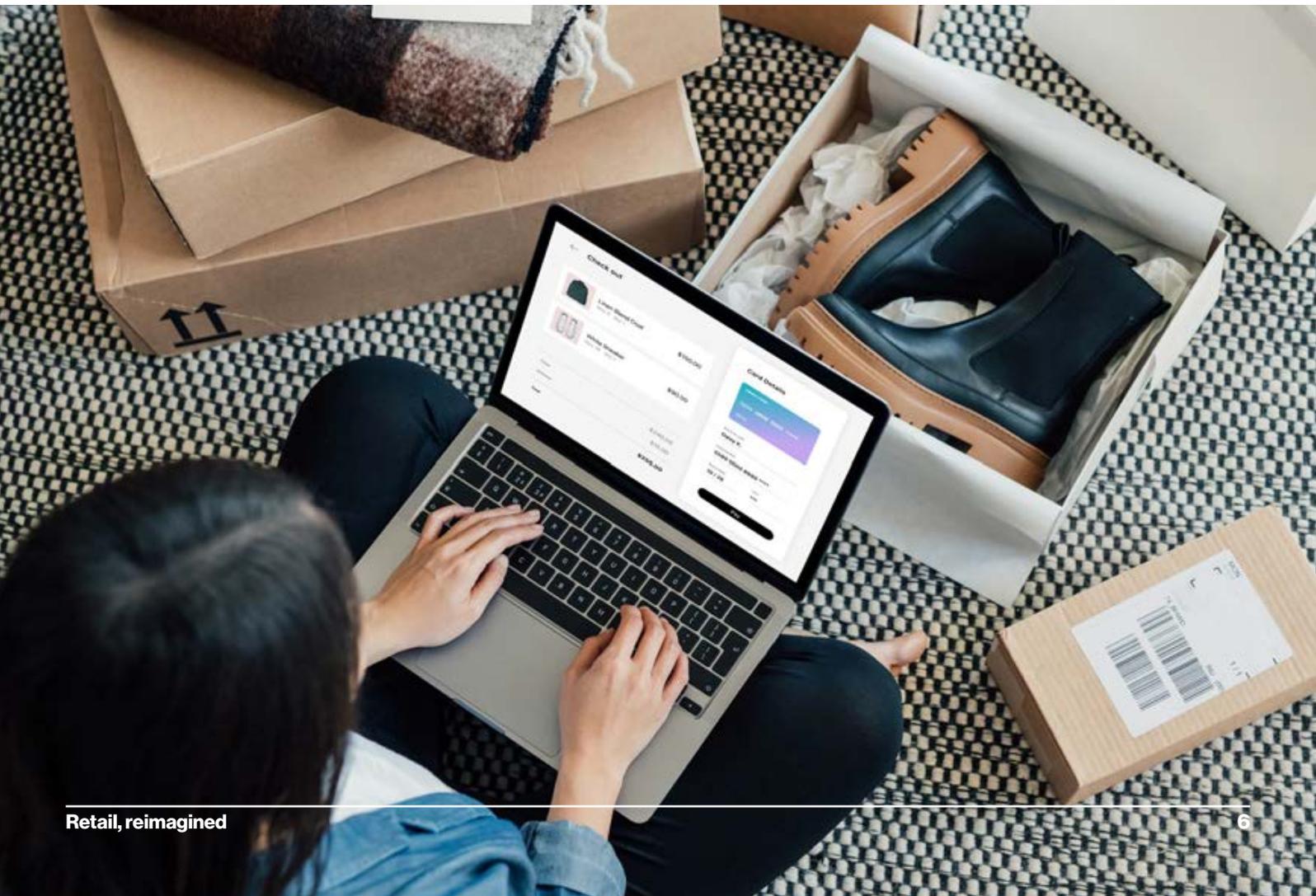
## 2. Deliver on digital infrastructure to support strategic ambitions

Focusing on customer experience also means ensuring that the organisation's digital infrastructure is adequate to meet the new demands that the business will place on it.

Our survey found that 81% of retail executives agree that the pandemic has made them realise the importance of their core networks and technologies. Yet they were less likely than other sectors to say they were working on areas such as automating specific customer transactions to make them faster; enabling customers to choose between digital and human advisor-led options for customer service; and empowering customer-facing employees to make decisions about service provision based on customer data. Maintaining the pace of investment across these and other areas will be key to meeting strategic ambitions on customer experience and strengthening human connection with the brand (as another Verizon white paper sets out).

Improved technology also has a key role to play in optimising and automating processes around asset tracking and inventory management. Intelligent tracking based on Internet of Things (IoT)-enabled devices can support smarter operations, greater efficiencies, and ultimately help the business anticipate and meet its customers' needs.

To avoid a gap opening between strategic ambitions and delivery capabilities, retail firms need to monitor continuously their progress on digital transformation and work hard to maximise the impact of the tools they have adopted. Leaders will need to ensure precise alignment of business lines, with the Technology function contributing as a strategic enabler.



### 3. Achieve efficiencies and enhance resilience with an ecosystem mindset

Retailers are well aware that their operations are highly sensitive to any disruption to complex supply chains, and many recognise that building ecosystems with key partners is crucial to enhancing the efficiency and resilience of their businesses. In our survey, 86% of retail executives agreed it would benefit them to be able to interact with their supply-chain ecosystems in a more integrated and automated way, compared with 78% across all sectors.

Given their strategic priorities, better integration with ecosystem partners is essential to retailers in capitalising on the opportunities around smart real-time inventory management; in moving quickly to meet increased demand; and in anticipating and mitigating disruption, and to optimise “last-mile” service for customers. A robust ecosystem is also essential to maintaining transparency and trust, for example in tracking product origins. Selecting partners and suppliers that are active contributors to a sustainable ecosystem will be key.

High-performing ecosystems demand fast, powerful, and secure platforms, especially for managing supply-chain challenges. Adam Koeppel, Verizon’s Senior Vice President for Technology Strategy, Architecture and Planning, says that one of the key opportunities is to “deploy private networks with edge compute capabilities that provide a low-latency solution for key applications provided by ecosystem partners.” This is critical to applications such as frictionless checkout, and in managing retail supply chains. Verizon works with Aruba and Juniper Networks, for instance, to help organisations harness edge-to-cloud capability and create high-performance, AI-driven WiFi networks that can meet retailer needs. Another relevant opportunity or example would be Edge compute rendering graphic processing units (GPU) in support of AR/VR, holographic and high fidelity content opening up new doors to retailers looking to take instore customer experience and interaction to a new level.

#### Supply-chain integration and automation is a strategic priority for retail firms

##### Retail executives

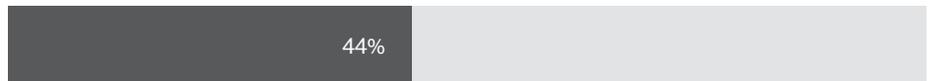
It would benefit our business to be able to interact with all of the parties in our supply chain ecosystem in a more integrated and automated way



We have a clear strategy for supply chain integration and automation, and believe that it will help us grow revenue, increase efficiency and / or reduce costs



We are integrating solutions to create a more automated service experience between vendors, suppliers and business customers



## 4. Bridge the skills gap

As retailers forge ahead with digital transformation, they increasingly need key digital skills to take advantage of the full potential of new technologies – and, critically, to apply those technologies to deliver business outcomes, including through integration with ecosystem partners.

However, the research found that 41% of retail firms already report that a lack of digital skills is making it difficult for their organisation to achieve its strategic goals, compared with 33% on average across sectors. Specific gaps include data-analysis skills (highlighted by 40% of retail executives vs 30% across sectors) and problem-solving skills (36% vs 25%).

Strategies for bridging the skills gap include acquiring key skills by hiring new talent. But competition will be intense and key skills may be in short supply, so a “grow your own” capability – developing the skillsets of people already in the business – will be essential, making learning and development core to the future-ready business. As Andreas Schleicher, Director for Education and Skills at the OECD, puts it: “The good workplaces of the future will be great places of learning.”

However, the research found that retailers are currently less likely than other businesses to have talent and skills strategies in place. Only 56% have continuous development plans for employees (vs 67% overall), for example. Investment in employee development will directly help bridge key skills gaps; moreover, a reputation for investing in employees will enhance the organization’s attractiveness to prospective recruits, boosting future hiring efforts. To meet their future skills needs, retailers need to start laying the foundations now.

Many retailers face a turbulent period as the global economic outlook worsens, but the sector has significant opportunities to capitalise on the lessons it has learned and the resilience earned via the disruption of recent years. If retailers can maintain their drive to build customer-focused, tech-enabled businesses, their future looks bright.



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