Five Priorities Driving the Renaissance of the Store in 2019

Finding and analysis from a survey of retail executives managing in-store technology and operational strategies in the USA.

IN PARTNERSHIP WITH

INCISIV

RESEARCH DEMOGRAPHICS.

80%

DIRECTOR LEVEL OR ABOVE

84%

OVER $500MM ANNUAL REVENUE

Incisiv conducted a quantitative survey of **77 retail executives** across key business functions of retail organizations investing and planning digital transformation in their store ecosystems.

23%
Store Operations

22%
Customer Insights & Strategy

19%
Information Technology

18%
Merchandising

9%
Multi-channel/ Omnichannel/eCom merce/Digital

8%
Supply Chain

Retail Format

Retail Format	%
Specialty Retail	34%
Apparel & Accessories	18%
Department Store	17%
Health & Beauty	9%
Hardware/Home Goods & Furniture	8%
Deep Discount/Dollar Store	5%
Consumer Electronics & Appliances	5%
Sporting Goods, Hobby, Book & Music Stores	4%
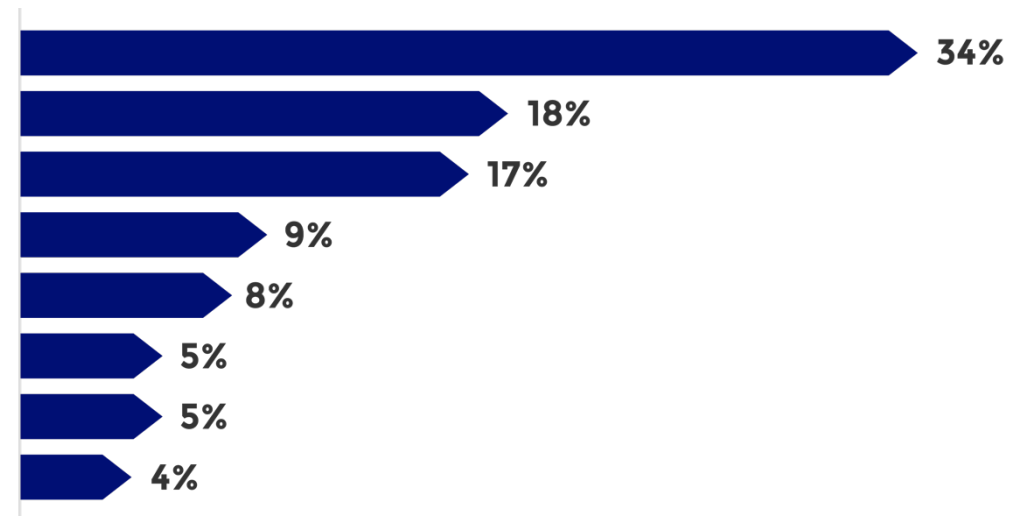
The store 2019: New expectations create greater sophistication.

As stores' role evolves, retailers add functionality through technology and improved operations.

The store is more relevant than ever as customers now utilize it as an extension of their digital journeys. More than half of today's retail sales are digital-influenced and this figure is growing[1]. To accommodate, retailers are required to not only implement increasingly sophisticated digital solutions in their stores but in many cases re-design all or part of their stores to enable these new capabilities. This requires significant investment. However, with a strong economy and, for most retailers, a realization that they must reassess their store strategy; 2019 will be a healthy year for investments in improving the store[2].

Customer wi-fi to meet shopper expectations

Beacons for proximity-based marketing and to track traffic flow

Order management systems to manage new fulfillment options and single view of inventory

Mobile POS to ease checkout

Kiosk ordering to add efficiency

Contactless payment options to remove buyer friction

Pick-up towers and lockers to increase efficiency

Clienteling applications for cross-sell/upsell
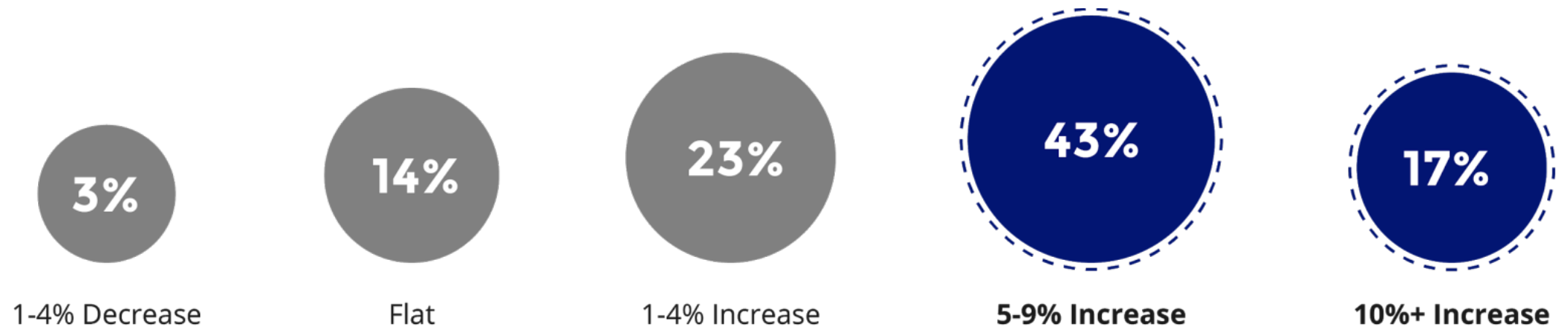
IoT to better manage inventory

New Focus, New Investment.

2019 investments match the store's role as the hub of omnichannel commerce.

Retailers have woken up to the need to re-invent their stores.

60% of retailers increasing store level investments 5%+ in 2019. This is greatest increase since 2007.

3%
1-4% Decrease

14%
Flat

23%
1-4% Increase

43%
5-9% Increase

17%
10%+ Increase

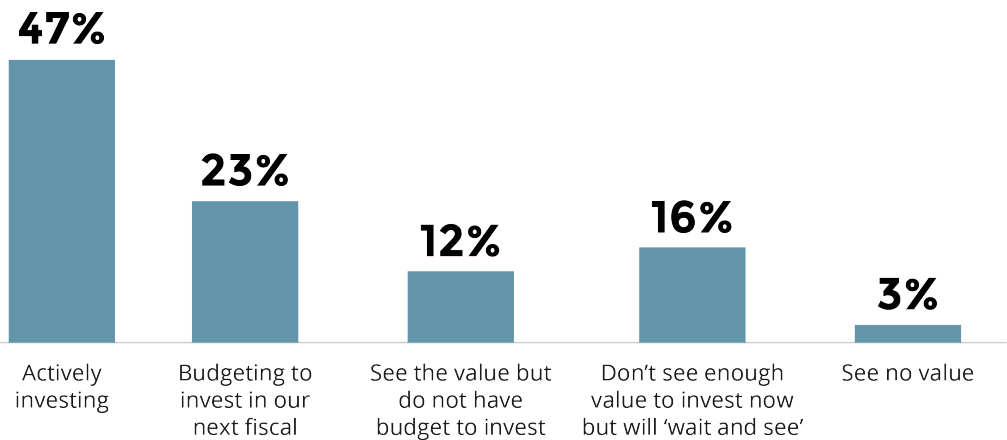# Emerging technology takes center stage in the store.

IoT and AR/VR seeing greater investment than ever before.

Value of In-store IoT Applications

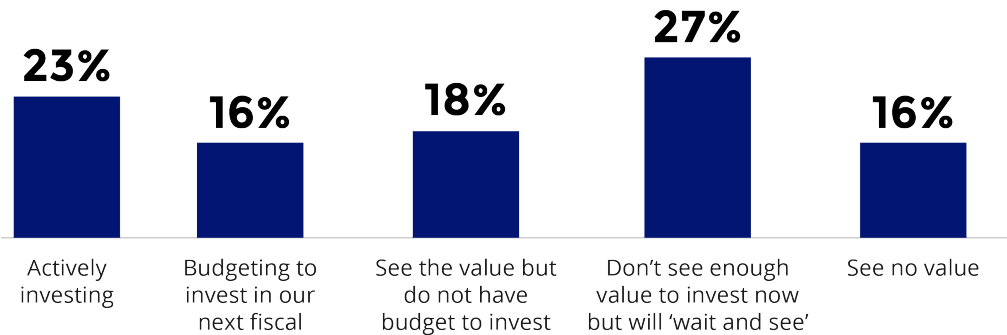**70%** of retailers are investing or plan to invest in IoT in 2019.

- **47%** Actively investing
- **23%** Budgeting to invest in our next fiscal
- **12%** See the value but do not have budget to invest
- **16%** Don't see enough value to invest now but will 'wait and see'
- **3%** See no value

Value of In-store AR/VR Applications

40% of retailers are investing or plan to invest in AR/VR in 2019.

- **23%** Actively investing
- **16%** Budgeting to invest in our next fiscal
- **18%** See the value but do not have budget to invest
- **27%** Don't see enough value to invest now but will 'wait and see'
- **16%** See no value

2019 investments by priority that will drive the store experience.

#1. Product Availability

Inventory control and visibility

Supply chain visibility

#2. Shopper Convenience

In-store marketing initiatives

Update in-store merchandising

Store remodels

#3. Immersive Marketing

In-store marketing initiatives

Store remodels

#4. Customer Insights

In-store analytics initiatives

Omnichannel analytics initiatives

#5. Operational Readiness

Store process refinement

Store fulfillment option expansion

Labor management initiatives

The store experience is driven by
#1. Product Availability (1of3).

Omnichannel shopping behaviors drives need for full visibility and access to inventory.

68% *

of retailers are looking to improve store experience through better Merchandising & Inventory Control.

A $1B retailer still loses $40M-$75M annually due to out-of-stock[3]. As stores continue to expand their fulfillment options to accommodate for pickup, delivery or shipping of online orders, inventory visibility across the value chain is critical. That is why achieving a single view of inventory is the #1 investment priority for retailers in 2019.

Additional investment areas include providing mobile inventory lookup for associates and customers and utilizing RFID for inventory management.

ALDO is streamlining ship from store orders through real-time analytics based visibility into inventory in the supply chain.

Saks Fifth Avenue is investing in data analytics capabilities to drive inventory optimization for merchandise planning and supply chain visibility.

Nordstrom plans focus on accelerating inventory turns, strengthen assortment and improve in-store product display as part of its strategic priorities for fiscal 2018-19.
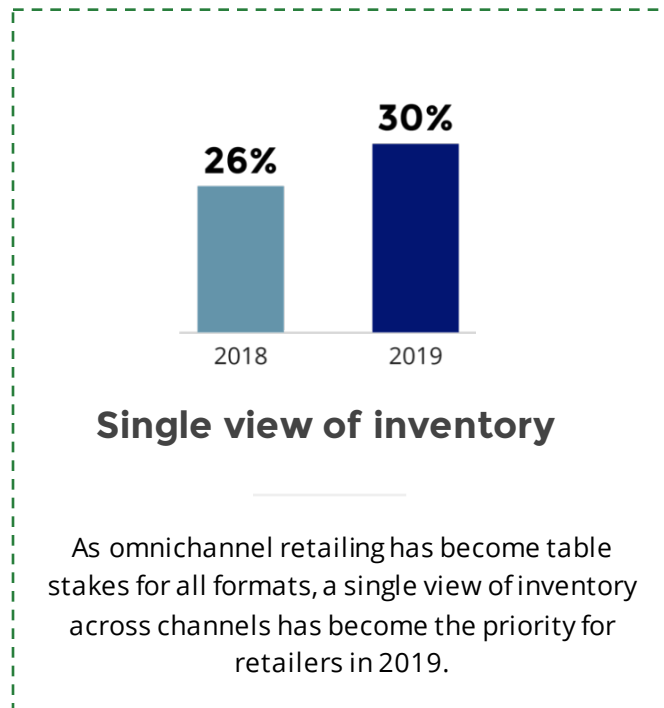
H&M is leveraging technology to optimize markdowns, reduce excess inventory, inform product assortment and pricing in the stores.

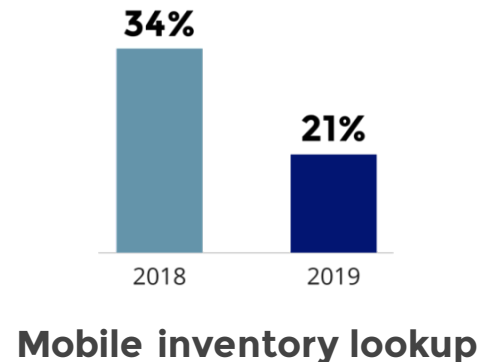*Note: Includes participants that include this as **high/very high priority**

#1. Product Availability (2of3).

Retailers increase investment in capabilities that better manage inventory and improve supply chain visibility.

In-place vs. planned technology investments: 2018-2019

26% 2018   **30%** 2019

Single view of inventory

As omnichannel retailing has become table stakes for all formats, a single view of inventory across channels has become the priority for retailers in 2019.

#1 Investment Priority 2019 (tied)

34% 2018   **21%** 2019

Mobile inventory lookup

Extension of order delivery information to mobile remains key driver of incremental investment to mobile inventory applications that saw strong base investment in 2018[2].

**14%** 2018   **17%** 2019

RFID for inventory management
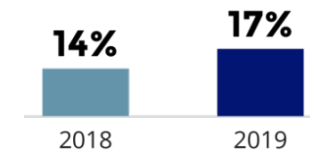
RFID based inventory management is not new but it continues to make progress for specific product applications. As costs come down and the need for single view of inventory increases, expect RFID to continue to see investment.

#1. Product Availability (3of3).

Emerging technology shows great promise for managing inventory challenges and improving merchandising strategies.

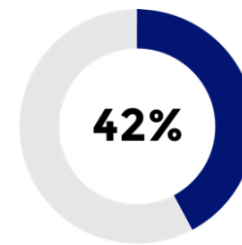**Emerging technology and retailer/brand use-cases**
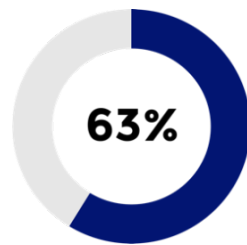
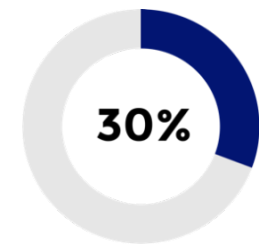|		
63%	**42%**	**30%**
of retailers see using IoT for inventory accuracy and control as best use case.	of retailers rate applying AR/VR for store planogramming as a valid use case.	of retailers view heat mapping for in-store merchandising as effective use case for AR/VR.
★macy's Levi's FINISH LINE	L'ORÉAL TESCO Coca-Cola	STORY Betabrand

#2. Shopper Convenience (1of3).

Execution of omnichannel strategies drives long needed investment in store remodels and layout improvements.

45% *

of retailers are planning to change store layout for better execution of their omnichannel strategies.

38% *

of retailers are planning to add fulfillment options to the store and dedicate more space for fulfillment.

Customers expect convenient and digitally seamless experiences during their shopper journey with the brand. Growth in store based investments in 2019 can largely be attributed to upgrades in store infrastructure in terms of technology, merchandise layouts and new or enhanced areas for product fulfillment[2]. Leaders such as WalMart, Kroger, and Home Depot are re-setting the bar for customer experience and we're seeing a response from others to keep pace.

Aldi plans to invest $5 billion to expand the store footprint and remodel 1800 stores. This includes remerchandising stores to include more fresh, healthy and convenience based product assortments.

McDonald's is investing $3 billion to continue the store remodeling initiatives to become a 'Restaurant of the Future', with kiosk ordering, new table layouts and dedicated parking for curbside pick-up.

Old Navy is planning an 18 month remodel initiative to improve store layout and add omnichannel capabilities across 1300 stores.

Target is remodeling stores to align to local shopper preferences. They will be adding omnichannel capabilities such as storage for same-day delivery, curbside pick up and redesigned store layouts.

*Note: Includes participants that include this as **high/very high priority**

The store experience is driven by
#2. Shopper Convenience (2of3).

Retailers realize that as shopper imperatives evolve the need to introduce new formats and footprints is required.

39% *

of retailers are planning to experiment with a new store format (E.g. smaller footprint, pop up, flagship).

Much of the innovation taking place in the stores is coming in the form of new formats designed to meet a new set of imperatives driving shopper behavior. Customers want their retail experience to be driven by efficiency, convenience, lifestyle and service. Retailers are increasingly experimenting with new store models, especially smaller and immersive foot prints that drive the next generation of customers to their stores.

DSW is experimenting with smaller store immersive experience by combining technology with video, sounds, lighting and attractive store merchandising, including a large vending machine for shoes.

HyVee's new store format blends fitness and grocery purchase experience together by including an Orangetheory fitness studio in the store.

PetCoach (owned by Petco), an online veterinary platform, launched a small store format with limited inventory and key focus on service.

Sleep Number launched an immersive store experience by adding 360 beds in an experiential environment with assisted technologies for personalization.

*Note: Includes participants that include this as **high/very high priority**

#2. Shopper Convenience (3of3).

Retailers get smart with dressing rooms and go further with Wi-Fi.

In-place vs. planned technology investments: 2018-2019

Smart dressing rooms
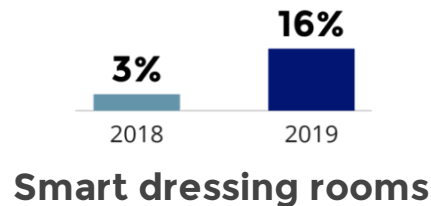
Smart dressing rooms enable a personalized experience by informing consumers about complementary or similar products for apparel and department store retailers. Technology forward retailers are implementing in 2019.
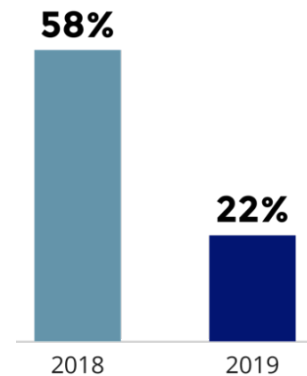
Customer Wi-Fi

While customer Wi-Fi is mature compared to other in-store technologies, it is still a top 5 investment area for retailers in 2019 as retailers experiment with interactive customer Wi-Fi experiences.

#5 Investment Priority 2019

Digital kiosks
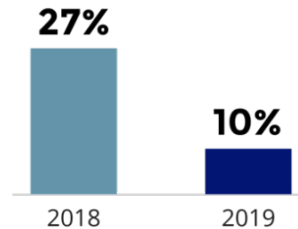
Kiosk investments saw some significant adoption for specific use cases (such as ordering and gift registry) in 2018. 2019 investments are more limited but their ability to add convenience to the shopping journey will drive some investment.

The store experience is driven by
#3. Immersive Marketing (1of3).

Digital marketing solutions are enabling retailers to interact with their customers across the shopper journey through engaging technologies and offers.

53% *

of retailers look to improve the store experience through better in-store marketing.

Enhancing customer engagement in the stores has been the calling card for analysts and media for several years now. Also, as pure play retailers bring their digital prowess into the brick and mortar environment and as leaders have fully embraced the customer engagement mantra, the rest of the industry looks to be following suit. In-store marketing technologies have matured tremendously in the last 24 months and retailers are seeing the value with planned investment in proximity-based marketing and advanced clienteling.

However, marketing technologies are often the 'shiny new object', so retailers must be careful to focus their investments in solutions that are right for their format and customer profiles.

IKEA boosts the in-store marketing experience with proximity-based mobile notification including welcome messages, coffee offers, family group based messages, and reminders to use the loyalty program.

Lululemon has launched a store with digital mirrors and story fixtures for personalized recommendations. They also added new fixtures for better merchandising and enhanced the checkout service.

Zara enables the customers to view the product assortment of the store through a model-led AR experience.
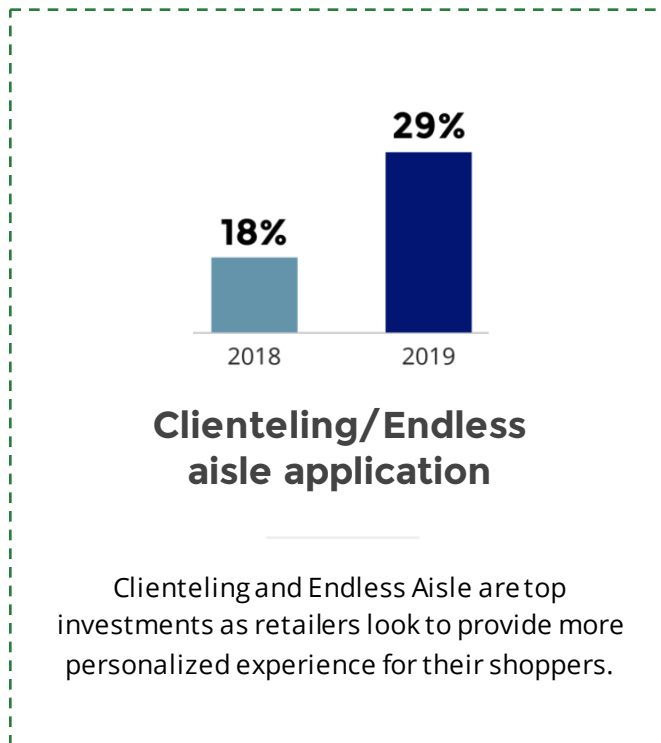
Missguided offers an immersive high-energy open retail ambience to attract millennial customers by bringing social media into the physical environment.

*Note: Includes participants that include this as **high/very high priority**
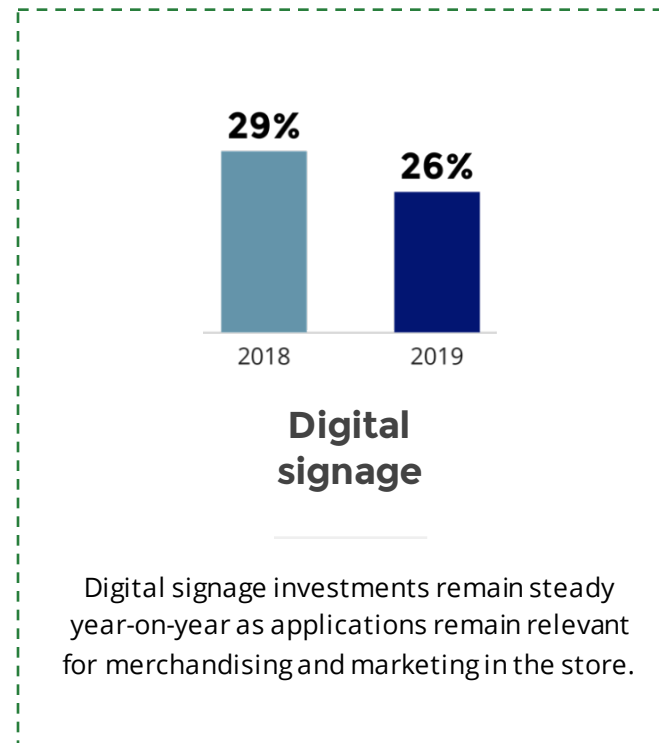
The store experience is driven by
#3. Immersive Marketing (2of3).

Retailers are increasing investment in customer facing and operational technologies to leverage contextual marketing opportunities with customers.
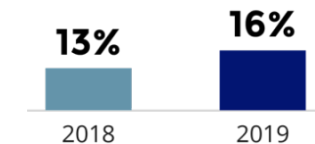
In-place vs. planned technology investments: 2018-2019

Clienteling/Endless aisle application

18% — 2018
29% — 2019

Clienteling and Endless Aisle are top investments as retailers look to provide more personalized experience for their shoppers.

#2 Investment Priority 2019

Digital signage

29% — 2018
26% — 2019

Digital signage investments remain steady year-on-year as applications remain relevant for merchandising and marketing in the store.

#4 Investment Priority 2019

Proximity-based marketing

13% — 2018
16% — 2019

Advances in personalized marketing is making it easier for retailers to provide dynamic offers at time of entrance or check out. Data privacy concerns remain a hurdle for many retailers but proximity-based marketing will see continued growth.

The store experience is driven by
#3. Immersive Marketing (3of3).

Emerging technologies begin to deliver value in driving a more engaging in-store experience.

Emerging technology and retailer/brand use-cases
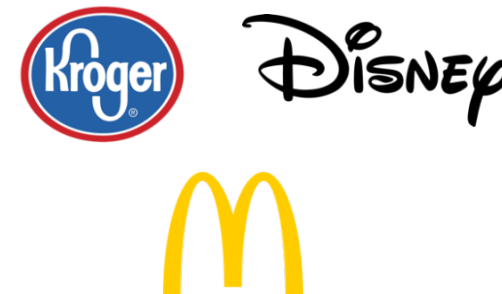
39%
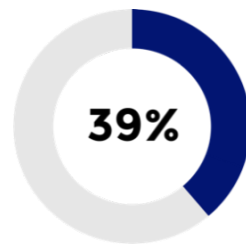
of retailers see using AR/VR in consumer marketing campaigns.

7-ELEVEN. **LOWE'S**

LACOSTE

32%
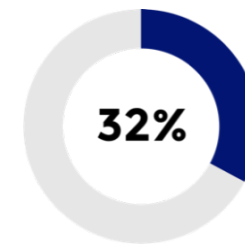
of retailers see leveraging IoT to deploy proximity-based marketing campaigns.

Kroger **Disney**

The store experience is driven by
#4. Customer Insights (1of2).

Leveraging analytics to understand customer preferences and behaviors will drive better decisions and hence better results.

52% *

of retailers plan to enhance customer insights through data.

While retailers cite customer experience as a key priority, most haven't aligned investments and experiences with today's shopper expectations[4]. Leveraging analytics to drive better decisions on customer facing technology investment and to identify points of friction in the customer journey remain fundamental to the success of digital store initiatives in 2019. More retailers than ever are identifying the value of data to deliver personalized experience across channels and platforms.

|	
AÉROPOSTALE	**Aeropostale** is planning and allocating inventory to its store based on local customer behavior analytics.
NIKE	**Nike** launched a new store format whose inventory and ambience is based on local customers buying habits. It also offers extensive customization of products.
JOANN	**JoAnn** is adding in-store shopper tracking technology to inform store product assortment and layout to better meet customer expectations.
MARKS & SPENCER	**Marks & Spencer** is improving its buying, pricing and designing decisions by using real-time analytics to test customer sentiments about promotions and offers.

*Note: Includes participants that include this as **high/very high priority**

# The store experience is driven by
#4. Customer Insights (2of2).

In-store analytics capabilities have matured significantly and can now mirror many of the capabilities of online analytics.

In-place vs. planned investments: 2018-2019

16% 2018   **25%** 2019
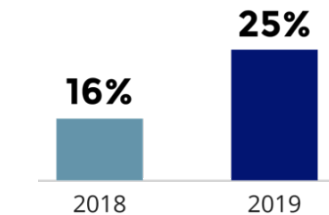
Cross-channel sentiment analysis

The need to identify customer opportunities across platforms and channels is driving the proactive investment of cross channel analytics.

19% 2018   **18%** 2019
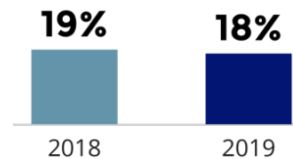
Video traffic counting/ dwell time analytics

The need to understand shopper behavior to inform product merchandising & layout decisions are key investment drivers in store-based customer analytics.

#3 Investment Priority 2019

Emerging technology and retailer/brand use-cases

35%
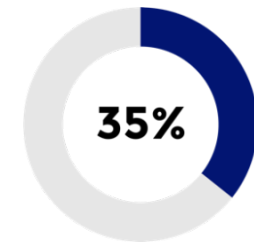
of retailers rate IoT as an enabler to enhance market basket analysis.

盒马   amazon   Walmart

#5. Operational Readiness (1of3).

Need for fundamental shift in business operations and culture to enable digital transformation of the store.

51% *

of retailers plan to refine store processes to gain better efficiency.

36% *

of retailers plan to add better labor management practices and tools.

As the role of the store has changed, retailers have added a great deal of complexity to their operations. With the rollout of of new digital technologies, the expansion of fulfillment options and the resulting redesigning of stores, operational excellence is critical to effectively execute. New processes need to be in place to account for the increased complexity.

Execution is largely driven by optimizing in-store labor. With just over one-third of retailers prioritizing labor management practices and tools in their stores, we see this as a red-flag. Technology and processes are only as good as the people using them.

*Note: Includes participants that include this as **high/very high priority**

At Home is leveraging their flexible supply chain strategy to offset the impact of tariffs on Chinese products. This allows direct connection with sourcing partners to reduce cost by production and acquire new products.

DTLR is standardizing its technology infrastructure by upgrading to a cloud-based order management system which can deliver consistent experiences to the growing customer base.

Dollar General launched the self-checkout DigiGo mobile application to enable convenient product scanning and contactless payment experience at the store.
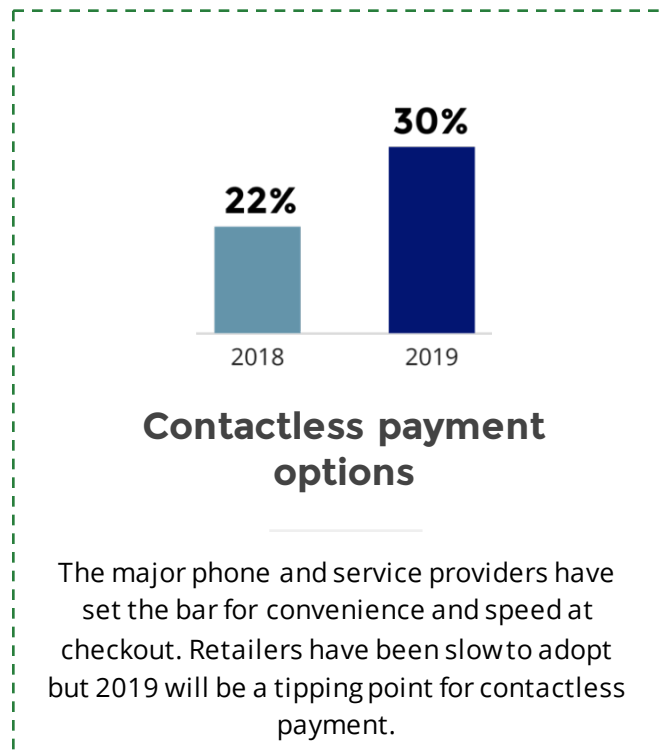
The Home Depot plans to invest $1.2 billion dollars to upgrade the store inventory operations by adding warehouses and digital capabilities to the supply chain network.

The store experience is driven by
#5. Operational Readiness (2of3).

Proactive investment in operations to gain scale and and drive efficiency.

In-place vs. planned investments: 2018-2019

Contactless payment options

The major phone and service providers have set the bar for convenience and speed at checkout. Retailers have been slow to adopt but 2019 will be a tipping point for contactless payment.

#1 Investment Priority 2019 (tied)
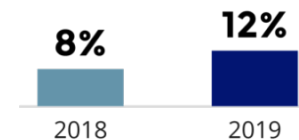
Smart shelves/ESL's

While electronic shelf labels have had limited adoption, smart shelf technologies are creating excitement around product intelligence and inventory management.
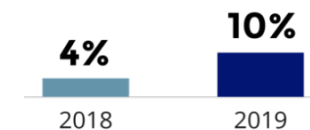
SD-WAN enabled network

The addition of multiple customer facing and store operations technologies is modeling the business case for store infrastructure investment. SD-WAN should be garnering greater interest than it is as it is an effective tool for managing multiple digital applications.

#5. Operational Readiness (3of3).

Emerging technology applications for operational improvements can drive significant value.

Emerging technology and retailers/brand use-cases

48%
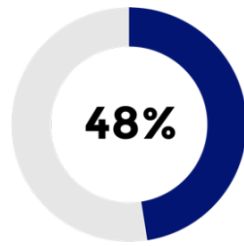
of retailers see predictive equipment maintenance as a viable use case for IoT.

STAGE

37%
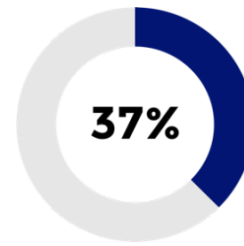
of retailers see using AR/VR to provide more dynamic product information in the aisle.

wayfair   ZARA

amazon

8%
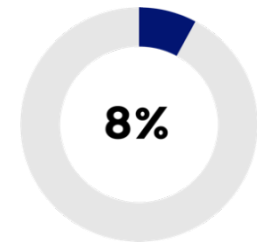
of retailers plan to add or upgrade shelf scanning robot technology in 2019.

Walmart

Aggressive investment drives confidence.

Close to half of all retailers rate their in-store digital maturity ahead of their competition.

18%

Much further along

29%

Somewhat further along

30%

On par

18%

Somewhat lagging

5%

Significantly lagging

Despite healthy 2019 investment plans, retailers still playing catch-up with shopper expectations.

Retailer investment plans significantly lag digital-savvy customer demands.

Chart data by technology category:

Customer Wi-Fi: 58%, 22%, 59%, 70%
Mobile POS: 36%, 25%, 43%, 55%
Mobile inventory lookup: 34%, 21%, 73%, 79%
Digital signage: 29%, 26%, 37%, 48%
Kiosks: 27%, 10%, 51%, 59%
Contactless payment options: 22%, 30%, 41%, 50%
Clienteling/Endless aisle application: 18%, 29%, 65%, 72%

Legend:
- Percentage of retailers that have invested in the following digital store technologies
- Percentage of retailers that have planned investment (addition or upgradation) of technology in 2019
- Percentage of overall consumers that believe the following in-store technologies have a significantly positive/positive impact on the shopper journey*
- Percentage of millennial and Gen Z consumers that believe the following in-store technologies have a positive impact on the shopper journey*

23

*Note: Incisiv Consumer Study 2018

Cultural and technology debt still hampers many retailers due to lack of strategy.

The required shift in culture is induced through targeted change management while customer engagement strategies can best be executed through reliable technology partners.

Barriers to investment don't change much year after year. While investment looks to be very strong in 2019, many retailers still don't have budget to do everything they need or want to do. What continues to be a disappointment is the ongoing resistance to change inside of retail organizations. The world is different, the shopper is different - this means the retailer must be different. Cultural resistance to change will be the Mendoza line between retailers that survive and those that don't in 2019.

As retailers compete to survive and grow it is necessary to partner with reliable technology providers who can understand the specialized needs of the business. They can help eliminate some of the top challenges such as perceived data security risks, operational risks in scaling projects, providing skilled third party human resources, and ultimately help to reduce overall cost of operations. Retail leaders have adopted this philosophy and have leveraged their technology partners to move further ahead of their competition.

Top challenges impeding retailer investment in store-based technology capabilities in 2019

Challenge	%
Lack of sufficient IT budget	48%
Inability to quantify ROI	44%
Resistance to change in the organization	38%
Perceived data and information security risks	35%
Operational risk in scaling transformation initiatives	34%
Not a strategic priority for the organization	29%
Lack of skilled IT resources in-house	26%

In **Summary**.

Shopper expectations are driving the need to add new capabilities that improve customer engagement and operational effectiveness. This is **adding a great deal of complexity to the store environment.**

Retailers are tackling this complexity by devoting a new level of investment to their stores. They are **leveraging both mature and emerging technologies** to execute on their strategies.

Investment **priorities focus on product availability, shopper convenience and immersive marketing** to improve the customer experience and compete with the both the leaders as well as new entrants in the market.

In addition to technology investments, many retailers are also **launching new formats to meet the changing imperatives that are driving shopping behavior**.

These investments will help retailers to **close the large gap** that still exists between customer expectations and the capabilities retailers offer in-store.

Despite the standard barriers that keep retailers from competing, **a defined strategy with the right technology partners** combined with a concerted effort to address a resistance to change will enable success in 2019 and beyond.

References.

1. Forrester Consumer Research 2018-19

2. RIS Store Experience Study 2018

3. Harvard Business Review 2018

4. Incisiv BRP-Windstream Enterprise Consumer Shopping Study (2018)

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