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Keeping retail customers at the center

Reengineering retail stores for differentiation and growth

Long before COVID-19, consumers were changing the way they shop. An evolving economic environment of financial pressures, rising educational and health care costs, and, above all, new technology-aided competitive options was already shaping consumer behavior.[1]

The pandemic accelerated some trends and made others seemingly permanent while forcing a reconsideration of what personal means when it comes to shopping. With brick-and-mortar stores shuttered, millions of people opened laptops and smartphone apps to make purchases. Customers quickly began expecting the same level of customization and personalization they once experienced through human contact at their neighborhood pharmacy or florist.

When brick-and-mortar stores reopened, patterns of consumer engagement shifted again. More shoppers started to buy online and picked up their purchases in-store (BOPIS).[2] Multichannel shopping practices are changing consumers' relationships with brands and retailers in ways that remain unsettled. Still, companies will be investing in both stores and online experience for the foreseeable future, and the integration between the two will be critical.

Looking forward, retailers must reimagine how to create a holistic, tailored shopping experience, enabling human-centered customer journey touchpoints. Successful omnichannel retail is about recognizing how consumers are thinking and behaving, starting with seeing how people toggle between, and blend, shopping online and in stores. Some retailers have been challenged in terms of spinning off online stores from physical locations. Even so, retailers should consider all their channels as complementary, not in competition.

Figure 1. Even as in-store retail foot traffic returned, digital traffic remained elevated—an indicator of the continuously changing face of retail and consumer preferences.

Weekly consumer retail traffic
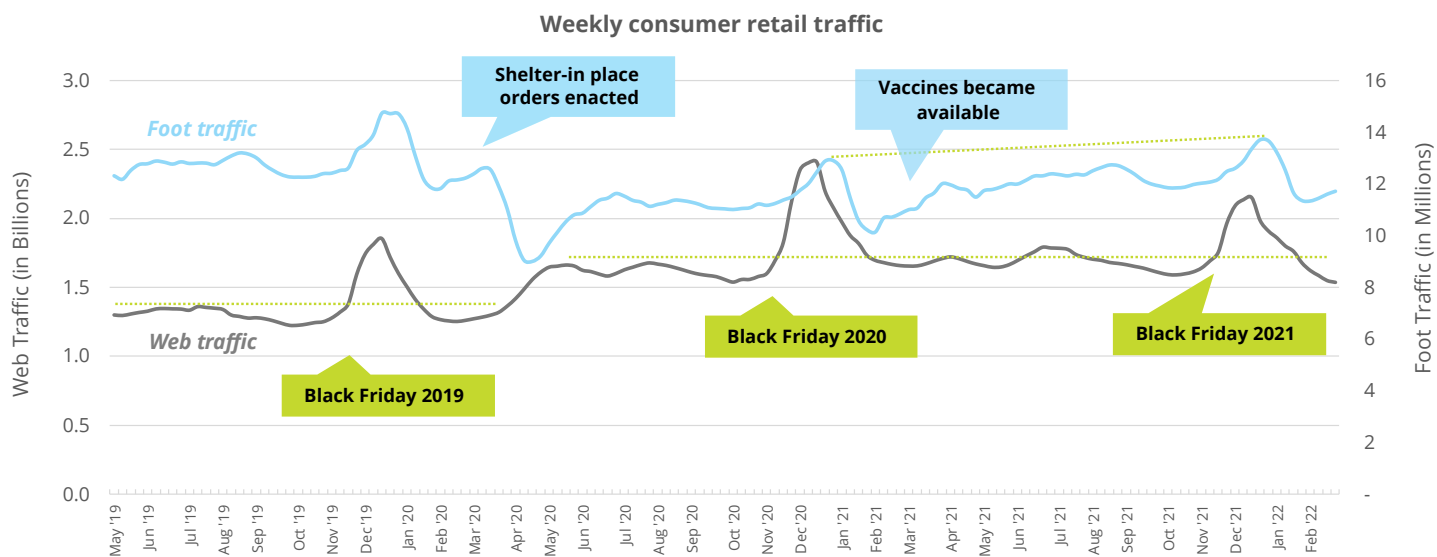
Source: PlaceIQ, SimilarWeb, Deloitte InSightIQ Analysis
Note: Average retail traffic data, 4-weeks rolling; weeks aligned to Retail 4/5/4 calendar; "retail" reflects a representative set of retailers across sub-sectors; "traffic" may include BOPIS visits to retailers; foot traffic based on a sample of 200 MM monthly active mobile devices.
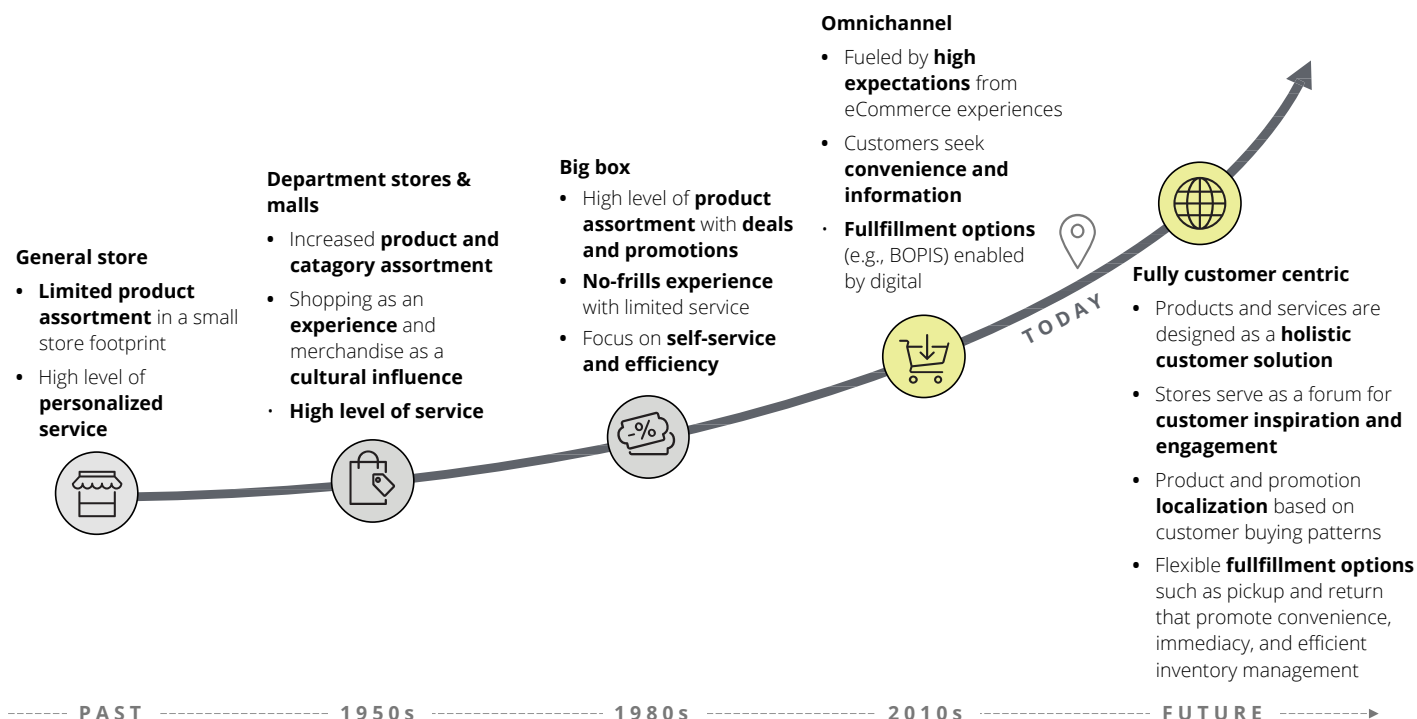
The store: Past, present, future

For decades, retailers competed mostly on convenience, price, and product. Over the years, new types of store experiences—from department stores to big box stores—offered different levels of service to meet varying customer needs and an evolving market. Then, e-commerce made its entrance, radically empowering consumers and forcing retailers to create parallel channels serving customers who might arrive via several potential pathways. Fortunately, technology became far easier to use, helping retail startups and small businesses smoothly create credible online experiences.

In the mid-2010s, many retailers steadily increased investment into e-commerce. Some noted a "retail apocalypse" was occurring, as store closures and bankruptcies increased from 2017-2020. The COVID-19 pandemic seemingly accelerated this view—at first. But in recent months, this view has been tempered by new data that suggests yet another a change in direction. Retailers are responding to shifting consumer demands, and a retail renaissance of sorts is catalyzing a reverse in the store closure trend. In fact, retailers opened more stores than they closed in 2021.[3]

Retailers appear poised to capitalize on customer centricity and should look to re-evaluate their approach to convenience, product strategy, pricing, and in-store experiences. Even as retailers worked to improve the online sales experience throughout the pandemic, many consumers were happy to reincorporate in-person shopping once they were allowed back inside stores. After months of online ordering and opening cardboard boxes, people recognized that physical stores offer benefits that no app or website can match. These benefits include hands-on product demonstrations, easy pickups and returns, expert support and advice, convenience and immediacy, and avoiding potential shipping issues—of which there were many.
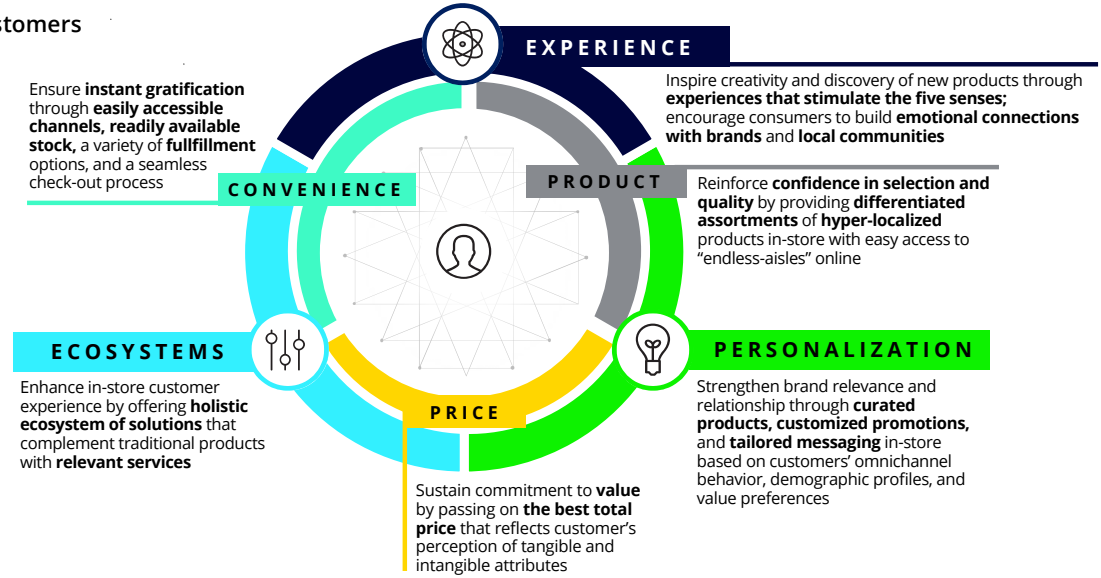
Figure 2. Stores have always evolved. This continuous state of evolution of stores has picked up speed over time and promises to accelerate in the not-so-distant future.

General store
- **Limited product assortment** in a small store footprint
- High level of **personalized service**

Department stores & malls
- Increased **product and catagory assortment**
- Shopping as an **experience** and merchandise as a **cultural influence**
- **High level of service**

Big box
- High level of **product assortment** with **deals and promotions**
- **No-frills experience** with limited service
- Focus on **self-service and efficiency**

Omnichannel
- Fueled by **high expectations** from eCommerce experiences
- Customers seek **convenience and information**
- **Fullfillment options** (e.g., BOPIS) enabled by digital

TODAY

Fully customer centric
- Products and services are designed as a **holistic customer solution**
- Stores serve as a forum for **customer inspiration and engagement**
- Product and promotion **localization** based on customer buying patterns
- Flexible **fullfillment options** such as pickup and return that promote convenience, immediacy, and efficient inventory management

PAST ---------- **1950s** ---------- **1980s** ---------- **2010s** ---------- **FUTURE**

We recommend retailers move toward becoming fully customer-centric, anticipating consumers' needs while shopping and purchasing as people's preferences shift based on technological breakthroughs, social conditions, and several other factors. Retailers should continue to innovate on convenience, product, and price. Retailers should look to personalization, experience, and ecosystems to differentiate, while promoting human-centered and customer-led approaches to unlock value–both offline and online.

Figure 3. Differentiation with customers

Stores should serve as a tool to help strengthen brand relevance, reinforce confidence in selection and quality, and enhance in-store customer experience, effectively encouraging consumers to build emotional connections with brands and local communities.

EXPERIENCE
Inspire creativity and discovery of new products through **experiences that stimulate the five senses;** encourage consumers to build **emotional connections with brands** and **local communities**

CONVENIENCE
Ensure **instant gratification** through **easily accessible channels, readily available stock,** a variety of **fullfillment** options, and a seamless check-out process

PRODUCT
Reinforce **confidence in selection and quality** by providing **differentiated assortments** of **hyper-localized** products in-store with easy access to "endless-aisles" online

ECOSYSTEMS
Enhance in-store customer experience by offering **holistic ecosystem of solutions** that complement traditional products with **relevant services**

PERSONALIZATION
Strengthen brand relevance and relationship through **curated products, customized promotions,** and **tailored messaging** in-store based on customers' omnichannel behavior, demographic profiles, and value preferences

PRICE
Sustain commitment to **value** by passing on **the best total price** that reflects customer's perception of tangible and intangible attributes

Expectations of convenience

Before e-commerce, the customer experience was generally very linear and somewhat contained. Consumers largely associated retail convenience with store location and operating hours: How far do I have to drive to run that shopping errand? Now, technology is "always on," which allows customers to experience virtually every step of the retail journey simultaneously—whether at home or in-store. The explosion of retail channels[4] has raised expectations to sky-high level. Now, consumers are taking the ability to buy just about anything, 24/7, at a competitive price, for granted. For customers, convenience and reliability equate to a seamless transition among retail channels. An arms race to provide customers with rapid fulfillment—whether in the physical or digital purchase channel—has reset expectations. For example, rapid fulfilment is conditioning people to expect product delivery to home in one to two days—or in as little as 15-30 minutes. Plus, generous return policies encourage consumers to over-order online, knowing they can return any items they don't like or sizes they can't wear. Still, this places an increased burden on retailers.

Customer expectations are evolving and have been accelerated significantly by COVID-19. Looking ahead, especially in the wake of

pandemic and supply chain disruptions, we recommend retailers deeply understand consumer expectations of convenience—and gently reset some of those expectations on shipping and returns. Convenience plays an outsized role in driving global retail's digitization. Getting it right is key.[5]

How can retailers boost return on investment around convenience? In short, through technology, data, and tailored local operations. Influencing consumer expectations can help mitigate the risks retailers face from high (and rising) costs of returns. The store of the future may look different than it does today, shifting from a one-size-fits-all format. Leveraging insights as to what format, products, and service offerings are relevant will have an impact. Influencing expectations can mitigate the risk retailers face from high cost of returns. Comparatively, the BOPIS option can trigger a convenience boon for customers and financial incentive for retailers. Forty four percent of consumers are willing to pay a premium to pick up on the same day instead of waiting for two-day delivery.[6]

Customers as the future of product strategy

Traditional merchandising has focused on products, with retailers regularly analyzing, selecting, and planning product assortment based on historical performance and subjective judgments. Technology has helped manufacturers speed up new designs and orders to leverage trends—albeit at a societal and environmental cost. But retailers often find themselves out of stock and behind the times.

The shift that retailers need to make is toward customer-centric merchandising, with strategies focusing on the customer journey and engagement. Retailers can engage customers in product development, testing, and merchandising, while simultaneously integrating insights upstream in the value chain. A holistic plan should aim to unite marketing, supply chain, finance, and consumer insight efforts to consistently deliver value to customers—even as their preferences shift. New technologies are already helping stores track customers and generate real-time data on decision-making and product selections. The tricky part is customizing the experience without triggering concerns about surveillance and intrusive data use.

How can retailers set up brick-and-mortar stores for the customer of today and tomorrow? Retailers are reconsidering their real estate strategies and opportunities around how to optimize size and location based on shifting consumer preferences. While average square footage had been shrinking in 2021, we witnessed new store openings that slightly outpaced closures. Furthermore, consumers find increasing value in shopping in-person, with the value of in-store visits increasing by 66% in the last two years.[7] To many consumers, an in-person experience is often irreplaceable. Eighty two percent of customers say they want to touch and feel a product before they decide to buy it. Retailers need to take advantage of these trends by integrating in-store and e-commerce teams to move toward a holistic product strategy, tailoring inventory to local markets to showcase differentiated assortments, and offering adjacent products and services to encourage cross-selling.[8] As retailers embark on this transition, incorporating technologies such as augmented reality can further enhance the customer experience.

Considering supply chain disruptions in recent years, retailers need to focus on shoring up inventory plans and building centralized, demand-driven, end-to-end inventory management systems. They must also use real-time data and insights to keep supply chains solid and products in stock.

Price is more than a number

Pricing used to be fairly simple, with each item bearing one price, or perhaps a second price for periodic sales. Retailers either maintained an "everyday low price" strategy or high-low pricing to attract foot traffic. Nationally, retailers applied uniform prices across all stores and markets. Data availability and e-commerce have changed this practice, along with the entire playing field. Now, retailers can tweak prices based on platforms, regions, and even individuals. Many have experimented with subscription, membership, and other models. Subscription-based products and services offer customer incentives (price and convenience) while benefitting the retailer (customer loyalty, better sales projections, improved inventory management), but can be difficult to successfully design and balance.

The important issue is customer perception of value—a trickier factor than calculating maximum short-term profit from sales. Value perceptions fluctuate based on a variety of factors. Today, it's about inflation. This inflation comes on top of two years of pandemic-induced belt-tightening that's hit many consumers hard. Even so, customer price expectations are driven by experience, convenience, and social concerns—as well as the products themselves and their availability.[9] Meeting these consumer expectations demands new and creative pricing models—and better data.

Economic conditions are also complicating pricing strategy. Two years after the COVID-19 pandemic began, supply chain disruptions persist and labor shortages are driving inflation globally. According to the U.S. Bureau of Labor Statistics, the consumer price index for all urban consumers (CPI-U) increased 8.5% over the past year before seasonal adjustment.[10] And, there is no relief in sight. Nearly 75% of US consumers are concerned about rising prices for everyday purchases.[11] Retail pricing strategy needs to be customer-centric, emphasize value, and aim to maximize profitability while being sensitive to consumer concerns. Retailers should be smart about their pricing strategies and tread carefully, especially when it comes to passing on price increases to consumers as a means of maintaining profitability.

Making in-store experiences memorable

Consumers still prioritize price, selection, and convenience. More price-conscious shoppers are looking for a pleasing experience. With most people accustomed to the ease of online browsing and self-education, along with the challenges in hiring and retaining in-store associates, retailers can't count on traditional sales reps and availability alone to make a difference. Store managers face a higher bar in creating in-person experiences that add value to what customers can already find online. The solution to this challenge, like many others in the retail industry, could be the adoption of new, customer-facing technologies on the back end.

To make these experiences memorable, technology could be vital as retailers use new data to humanize in-store and online interactions at every point, while customizing the store experience based on local or even individual preferences. Some 82% of retailers state their 2021 store strategies attemps to bridge stores and e-commerce through innovations. Plus, 93% of top performing retailers believe their strategy and technology are well aligned or somewhat aligned around the consumer experience.[12] To strengthen the overall brand connection with each customer, retailers should consider how they can invest in digital self-service while empowering store associates as product and experience advisers.

Consumers are accustomed to a high degree of personalization in online retail. Websites recognize users and load their preferences, shopping carts, and past purchases. It's an element that brick-and-mortar stores need to emulate without engaging in what some might perceive as intrusive or disruptive surveillance.

Sixty-one percent of customers say they use a digital device for research while visiting stores, aiding retailers' efforts to personalize those visits with tech-enabled features.[13] Loyalty programs can engage customers and give them a perception of value.[14] Retailers already work to engage customers between visits with emails, but there is a balance to strike between the right amount and too many. Marketers will need to explore other media and networks to encourage store visits.

Retailers can also find value in applying ecosystem concepts to stores. This helps enhance in-store customer experience by offering a holistic environment of solutions that blend traditional products with complementary services. As such, customers see a seemingly connected meshing of physical and digital products, a blurring of industry lines, and a one-stop shop that delivers services related to product selection. These concepts all serve to attract and serve customers. Ultimately, these ecosystems can strengthen the customer relationship and build loyalty.

The new retail environment: stores and beyond

The future of retail is a blend of online and in-person—a shopping environment that's personalized as much as possible. Looking ahead, retailers should adopt a holistic strategy that integrates all channels, including those that have yet to emerge. Stores will increasingly look to technology and data to help shape customer experience, aligning new online and store design with overall customer strategy. However, there will be a completement with overall process execution and the human touch, where needed.

We recommend retailers amplify their strengths by advancing their strategy on convenience, product, and price while looking to differentiate based on personalization, experience, and ecosystems. Flexibility, and a long-term view, can help retailers create a shopping journey that stays customer-centric no matter who the customer is or where they are shopping from.

Endnotes

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