

THAT MAKES CENTS



Season 3 Episode 5 Customer Centricity

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Bobby: Hi everybody. I'm Bobby Stephens and welcome or welcome back to That Makes Cents. This is the podcast where we break down consumer industry trends to explore their impact on businesses and all of us as consumers.

Today we are talking about rethinking the store experience with the customer at the center. For an industry that is obviously competitive, retail companies are constantly pushed to rethink their approach to deliver convenient, memorable, and customer-centric shopping experiences.

Even though customers are now returning to in-store shopping, they are also looking to engage or stay "hyperconnected" with their

preferred brands through every channel available. So the continued integration of both online and physical stores while drawing on a personalized experience will be absolutely crucial to succeed.

Joining me today to chat more on how to redesign stores for today's customers are two experts. First, Daniel Eckert, who is an operating partner at Corsair Capital, a senior adviser at Commerce Ventures, and was previously the senior vice president of Walmart Services and Digital Acceleration at, well, you probably guessed it, Walmart.

And I'm also happy to be joined by my colleague Adam York, a leader with Deloitte

Consulting who is focused on Strategy for Retail and Consumer Products clients.

Thank you both for coming on the show. I'll turn it over to each of you to tell our listeners just a touch more about your work. How about Daniel, you go first, and then we'll move to Adam.

Daniel Eckert: Sounds great. Thanks for having me, Bobby. Presently, I have the great privilege of working across the innovation spectrum through my work both at Commerce Ventures and Corsair Capital.

With regards to my work at Commerce Ventures, we work at the bleeding edge of retail technology and financial technology

with investments in many, many early-stage companies that are working to enable the next generation of commerce and commerce infrastructure. And in my work at Corsair Capital, we partner with more mature middle market companies in the business services space that we are looking to invest in and drive their next chapter of growth.

As you mentioned in your kind introduction, prior to what I'm doing today, I served as a senior executive at Walmart where I was responsible for our digital acceleration practice during really the peak time frame of Walmart's omnichannel transformation efforts, which spanned about 2014 to 2020, and was also leading Walmart services for over a decade, which included all of our consumer-facing service offerings at Walmart, both digitally and physically.

Adam York: Thanks so much for having me as well. As you mentioned in your kind intro, at Deloitte, I focus on advising our retail clients on how they can drive growth, create operational efficiencies, and provide outstanding experiences for both their customers and their associates, often at the intersection of physical and digital retail.

Over the past decade, I've helped some of the world's largest and most successful retailers navigate the early days and really now the maturation of omnichannel as they sought to create customer-centric strategies and experiences that could differentiate them as leaders in the marketplace.

Bobby Stephens: Awesome. That's a great combination of the two of you to come at this from several different perspectives. So, why don't we just dive in. In the intro, we spoke about how consumers want to stay engaged with their favorite brands through multiple channels in order to stay "hyper-connected," which, I mean, sounds really very connected.

But I think it's also interesting to note that retailers actually opened more stores than they closed in 2021. That's probably a trivia question that many people would get wrong,

and that's presumably to meet increasing demand for an in-store shopping option. So, with new stores opening, how are these stores evolving to become customer-centric? Daniel, let's start with you.

Daniel Eckert: Sure thing. A topic of particular passion for me, for sure. I think the evolution of the, if you will, terrestrial retail experience really began to change with a growing recognition that customer expectations of what they were looking for in a retail shopping experience were changing themselves at a very accelerated rate.

And what's interesting is as you really looked at the research, what you saw is that the expectations of what they wanted in retail shopping were actually being informed by the non-retail experiences they were seeing in the advent of the hyper-digital age, primarily driven by the advent, candidly, of the iPhone in 2007. It really supercharged access and convenience equations for the customer.

And they were translating what they were seeing in a non-retail environment to their expectations set in a retail environment, which at that time, while eCommerce was really penetrating some categories by and large as it is today, the physical shopping experience was still the dominant form of shopping.

It was just now being informed by different expectations and powered by a connected, more digital experience. And so, from there, retailers began to take note and started completely rethinking their offering to customers and thinking about ways on how they could use technology and digital experiences and knit them together with the shopping equation in physical stores, largely to meet the customers where they were.

And by blending that digital and physical shopping experience to meet customers where and how they want to shop, we're giving them a new opportunity to engage and connect with their customers (as you mentioned) in a more hyper-connected way.

Adam York: Bobby, maybe if I could just add on to what Daniel said, I think what really also has been happening is the role the physical retail store is playing has evolved. If you go back 15, 20, 30 years, really, the physical store was just a curated forward position set of physical inventory that a customer could come in and shop, grab things off the shelves that they needed. And that was kind of the whole role of the store.

Now, if we look at the way retailers are using stores more innovatively, there's four or five different faces that those stores are really playing in the future environment. Sure, in some cases, they're still playing their traditional role as a set of inventory that a customer can come get, but they're also a flagship brand billboard where retailers are showing off their newest and latest things.

They're micro-fulfillment centers for pickup and delivery services that are an hour or two hours away from a customer location and can speed things up. And in some cases, retailers are actually trying to put products and services together and offer an entire integrated experience in that one location.

Bobby Stephens: It's interesting, you guys both touched on something; Daniel, you kind of hit on the smartphone and the advent of that, and the convenience that that brought to non-retail parts of people's lives that they started expecting in retail. And then Adam, you mentioned the other roles of the store, whether it's delivery, pickup service, et cetera—that also can contribute to the convenience of a retail experience.

So, let's talk about convenience, which from consumers, we know is a crucial piece of the puzzle. And as a little plug, we even had an episode on that topic a little bit ago. So, check that out when you get some extra time.

But there really was a time, I think, and maybe this is the 15, 20 years ago you went to, Adam, where consumers kind of planned their day around store locations and hours,

whether it was the commute or a quick trip in the morning on a Saturday when they knew the store would be open and not so crowded, whatever that might be—and they kind of planned around the store.

And I think that paradigm's kind of shifted. And now with technology that's always on, consumers really get to experience every step of the retail journey, whether they're at home, in-store, at work, or somewhere in between or in the metaverse or whatever.

So, Daniel, maybe we'll start with you again. We would love to hear your thoughts on how this simultaneous journey really comes to life today.

Daniel Eckert: Yeah, sure thing, Bobby, and probably building off a little bit of what Adam talked about, is that the always-on environment that now the retail shopping equation looks like for customers, it really does create this unrivaled access and convenience for shoppers in any access point and for every walk of life.

But to your point, it equally creates some pretty unrivaled challenges for the retailers that power them. When you think about Adam's comments around the physical store now fulfilling multiple pieces of this retail shopping equation and being now inextricably linked to the digital shopping experience, serving as micro-fulfillment centers, and also as enablers to showcase the latest innovation in the shopping journey—it takes a countless number of technologies that need to be knitted together across both the physical and the digital experience to bring that to life.

Which creates a lot of complexity and complication for a retailer to reliably sustain the access points that they're providing to customers so that they can get what they want, when they want it, and how they want to actually access that retail brand.

It is a really, really complicated ballet to make that happen. And it requires a lot of technology, rethinking workflows for your associates, rethinking how your technologies

work and play nice together across what could often be a 25-year-old, 30-year-old mainframe technology into modern three-tiered architecture technologies and into native applications on the web. It's a lot for a retailer to bring to life, to create this always-on connected environment that consumers have now come to expect.

Bobby Stephens: I think that shift you just called out there, the shift in always-on, the shift to things like micro fulfillment. And I liked your quote about I think it was unrivaled options for the customer equals kind of unrivaled challenges for the retailer. And one of those challenges is probably dollars and cents, so to speak.

Daniel Eckert: You bet.

Bobby Stephens: I would assume the shift does really have a real cost for retailers. So, how do you guys think about the shift and profitability for some of these new convenience-based models versus, again, back to that tried and true, and I think in many cases, really optimized for cost, customers coming into the store, picking up the basket themselves, and doing most of the work themselves, and even checking themselves out a lot of times nowadays, too.

Compare and contrast those models and what are we seeing retailers do? Maybe Daniel first and Adam, you second.

Daniel Eckert: Yeah, you bet. And I would often around the halls of Walmart, you would hear me say, nothing beats the shop-yourself profitability equation. And retailers in Walmart inclusive, I think had spent decades perfecting that model to create basket-level profitabilities that in many ways, were unrivaled in the retail shopping equation. And then along comes digital.

First, with eCommerce, then with this blended commerce environment where you can access digital channels and have them fulfilled conveniently from the last mile of a supercenter or neighborhood market or any type of big box retail chain. And if you can

just suspend that shop-yourself equation for just one minute, and now start thinking about all of these other new access points, they necessarily, Bobby, like you had said, will start to increase cost.

And so, retailers right now, and we're I think still in early innings, to think through how you actually return to a model of basket-level profitability when you're supporting all of these new access points and technologies, how you actually normalize that to what I guess you would say the new normal looks like for an omnichannel or blended commerce retailer.

And in those early innings, what you're seeing many of the innovators begin to focus on is bringing in productivity improvements across the entire proposition. Whether that's having a laser focus on building modular micro services, architecture, and the code base, or then turning to more, I would say, terrestrial issues of workflow management, task management, and making task management more efficient for associates.

Thinking about how to use technology to make task management and workflow management efficient for associates, turning to automation and robotics in the supply chain, and getting into finding ways to make a micro-fulfillment equation serve ever greater order counts ever more efficiently and ever more expeditiously for either that pickup equation or for a delivery equation.

So, I think you're also seeing a lot of retailers start to think about the amount of costs that they had taken on in building out these retail shopping experiences and coming to partners or suppliers, or even in some instances, to customers and saying that, "Look, there are additional costs in providing this convenience, and we need some form of participation from you to enable us to continue to sustain it."

You know, this could actually translate into how you charge your customers. There's likely a willing to pay for that convenience among certain customer segments, for

example, ever-faster shipping. But the question is, would they be willing to pay a higher price for the product or do you actually play those surcharges, if you will, or taxes, however you like to describe it if you're an economist, to pass along to the consumer.

So, early innings still here, but I think there's a lot of work and a lot of energy now being put into how you can return to a normalized level of profitability that is close to, I don't know if it'll ever get to, but close to what that shop-yourself basket equation looks like.

Adam York: Bobby, I think I would just emphasize a couple of points that Daniel touched on. First, I think it's the time that retailers need to optimize the cost side of the equation that we've got here. They had decades to figure out how to optimize the shop-yourself model. And we're only a few years into the other modes of fulfillment that have all come up in the buy online, pick up in-store or ship from store kind of equations. And so, I think retailers need time to figure out how to optimize it.

But maybe the more important side of the equation is how do you start charging the customers for some of the value that's been provided here in these new models? And I think that's also becoming a much more complicated equation where in the past, when customers shopped, it was about how much does the gallon of milk or the loaf of bread on the shelf cost me, and that was really all I cared about.

Now, you've got a complex set of different charges to think about as a customer, whether that's how much does the milk cost, how much is the delivery fee? Did I pay a membership premium of some kind for this month or for this year to be part of this retailer's delivery option—that makes it a lot harder for customers to understand how much am I really paying for this convenience or for this supply that the retailer is giving me.

And I think that will take time for customers to figure out as well, but you're starting to

see more retailers start to experiment with actually directly charging for some of these value-added services, especially as we kind of come out of the COVID environment.

Bobby Stephens: Both of your statements kind of remind me of my days as a startup founder and operator. We focused way more on sort of customer-level profitability, lifetime value versus CAC. And that was more of a function of just needing to raise additional capital. Daniel, you're probably familiar with this.

But I do think it might be healthy for some of our retail clients to at least think about incorporating that to basket-level profitability analysis, to store-level, category-level stuff. Especially if you can get that view of the customer across, you can understand all of your investments over time in that customer and all of the costs that come with serving groups of customers, you might be able to optimize some of those services and taxes and all that in a way that is long-term beneficial. So, maybe something to come back to in a later episode for us.

Frankly, it kind of tees up this next question, which is, we do like to let our guests here on That Makes Cents sort of paint a picture of the future. And I think in that case, it's clear it's sort of a blend of digital and physical, or I think as you've been calling it, terrestrial, Daniel, which I really like that, it sounds way cooler.

And, of course, the consumer needs to be part of that. And so, what I kind of want to ask you guys is, how do you see the customer or consumers increasingly becoming a part of a retailer product strategy. What are the shifts that retailers need to make to engage their customers through the product life cycle? So, maybe, Adam, let's begin with you.

Adam York: So, I mean, we've been talking about really the promise of omnichannel in retail for the better part of a decade now, but I think we're actually finally starting to see real maturation of that promise just in the last couple of years and maybe some of

that acceleration of the COVID environment that a lot of our retailers had to struggle through and figure out in a very quick way some of the strategies that we had been talking about with them on a five- or seven-year horizon back in 2018 or 2019.

But just as consumers are thinking about the future, retailers also have to be thinking about what is the product the customer is going to want, when is it that they're going to want it, and where is it that they're going to want it in a very forecast-driven, proactive way.

The future of omnichannel retail will require retailers at least in aggregate to understand what each customer is going to want and where and when, so that they can deliver it at that moment. Being reactive to the customer's desires and needs is the old way of retail. They've got to be much more proactive if they want to meet customers in the moment in a go-forward kind of way.

Daniel Eckert: I would just build on that, Adam and Bobby—the term “omnichannel” in my opinion, if I'm painting a picture of the future, is probably a term of the past. I've always defined omnichannel as selling all the stuff that I have through every channel that I can. And the reality is that it really has become a blended commerce equation where you have both digital tools that you can do from your phone or from your desktop that maybe connect to a micro-fulfillment center or store to be fulfilled.

But you also have digital tools that are empowering customers to have a better shopping experience inside that terrestrial retail shopping equation as well. And to Adam, your point, when you think about that blended commerce reality, if retail leaders do it right, they're going to make the customer just inextricably linked to their product life cycle, and always keep them at the center to solve the challenges or frictions or their changing expectations or increased workflow complexity.

Obviously, there's a number of ways you can accomplish that through customer-centric

research, observational technique, shop-alongs, but probably, most importantly for retailers, it's actually a shift in mindset that just needs to be embedded across the retail organization and their employee base to really, truly bring it to life for the long haul.

And it's important to continue to remember—and I think back to the top of Bobby's comments, a great trivia question—is that physical retail storefronts actually added more in 2021 than in prior years, which is a clear testament that customers still like to engage and the predominant shopping method is in the physical retail storefront.

It's now just being powered by some incredible digital tooling. And I think the best-in-class retailers will continue to work to serve that shopping equation with digital technologies and tooling that make that shopping experience delightful for their customers while also powering the other things digitally.

Bobby Stephens: I like those two perspectives. It's interesting, Adam, what you said on the product side, the what, when, and where. I mean, I'm probably a little oversimplifying it, but the what, at least in certain categories, maybe hasn't changed that much in the past bit. You know, it's still kind of the same stuff.

But I think the precision by which retailers have to address the when and the where has gone from getting the right DC roughly in the right quarter to it needs to be on the right shelf in the right store at the right hour. And/or it needs to be on the parcel truck going to someone's house in the right minute.

And so that precision, to your point around proactivity with that, you miss it, you're done. So, I think that's really, really, really important, and then all the technology and strategy behind that is fascinating. So, thank you guys for letting us behind the scenes a bit.

So, why don't we wrap up the episode with—not that none of these questions have been fun, they've all been fun—but a specifically fun question, a purposely fun question.

So, we've been talking a lot about how retailers can focus on creating that seamless, memorable customer-centric shopping experience. And why don't I just open it up, maybe Daniel, you first, and Adam, you second, and then I'll go third, so I have time to think of my answer here. What brand or brands has really provided that experience for you in very recent times?

Daniel Eckert: Well, I'll have to at least recuse myself from saying Walmart given my tenure there. So, I'll go for a couple different brands.

I think in a core retail brand equation, I would probably say Home Depot is among my favorite in terms of really bringing this to life. They've done a terrific job with their app and have also, I would say, aside from supporting pick up in-store, as well as delivery options, they've really done a terrific job for that in-store shopper and pro by building tooling inside of the Home Depot app to really make that experience brought to life, and make it easier, more convenient, faster.

I would say their store mapping application is probably among the best that I've ever seen. They've really done a great job of keeping that customer at the center and really obsessing about what are the types of experiences they need to enable and the frictions they need to reduce in that shopping experience.

And then I'd say just from an overall retail brand, Marriott, I think is, doing a great job as well. Here, again, another example of a blended type of experience that has to be brought to life between digital and physical interactions, everything from their mobile check-in to their digital key through their mobile app.

Adam York: So, just building on what Daniel was saying, I think one that sticks out for me most recently is Sam's Club. And that's because they've eliminated one of the absolute, most frustrating experiences for me personally as a shopper. And that's when I get to the end of my shopping journey on a busy Saturday afternoon and I see a line of 30 people waiting to check out. The last thing I want to do is spend 10 or 15 more minutes waiting to give the retailer my money and walk out the door.

And so, if I think about what they've done with their scan and go feature in their mobile app and the ability to just scan things as I go, and then frankly, skip the whole checkout line and walk out the front door, like that's a super big benefit for me personally in my own shopping journey. So, I love the retailers who are figuring out ways to help me basically skip checkout because I find that's the most time-consuming and frustrating experience while shopping a store.

Bobby Stephens: I love it. Those are three well-known big brands. So, I'll go with maybe a smaller one. And that is ... I don't know if you guys have even run into them, but they're pretty pervasive in Chicago and kind of growing outside of it. It's kind of a modern convenience store called Foxtrot.

So, essentially, if you think about what they've done is they've taken all the assortment and the experience of a corner store and sort of elevated it to modern expectations.

So, you think about the brands that are in there, you think about the organic nature of some of the food, some of the gifts and living that sort of busier city lifestyle, they've got delivery of everything in the store within an hour. You could swing by and pick up a gift on the way to a friend's house if you've forgotten it, you can sit there on your Wi-Fi and get a cold coffee if you want to work a little bit.

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It's a nice experience overall. And so, I found myself engaging with them for many different occasions, if you will, whether it's breakfast or working a little bit or grabbing a quick dinner before I'm on the way home. And that was sort of the, again, that modern convenience aspect of it was really valuable for my life at the time. So, that's one for me.

You guys, really, I would like to thank you both for joining me today and sharing

your thoughts and experiences on the customer-centricity topic. I think we hit on a ton of things around the mix of digital and physical, the expectations of the consumer and how those keep evolving, and a lot of the challenges that that presents for retailers, but obviously, at the same time, opportunity for retailers to invest in themselves or for other startup and innovative players to make some space in the market as this thing changes.

So, for any of you all out there who'd like to learn a bit more, you could go to [deloitte.com](https://www.deloitte.com) to check out some of our recent publications on the future of retail stores. I'd also suggest that you follow Daniel and Adam on LinkedIn. You could also follow me on LinkedIn if you don't yet, but lots of great content there. So, thank you all for tuning in, and we'll see you all on the next episode of That Makes Cents.

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