Retail's Changing Dynamics

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Short-term challenges driving long-term opportunity

An IDC InfoBrief, sponsored by TATA Communications | December 2020



Introduction

Pandemic-induced disruption has had profound impacts on the retail industry and, in turn, retailers' technology investment and planning priorities.

As consumers reduce their retail spending, shift dollars online and toward essential categories, consolidate in-store trips, and aim to reduce in-store interactions, the nature of shopping behavior has fundamentally shifted. Many of these trends will prove to be lasting, driving a more permanent change than a cyclical one.

Given these shifts, retailers are investing in customer experience innovation, both online and in store. While the technology investments required to navigate the future of retail have not fundamentally changed, the priorities have shifted.

Where retailers with the capacity to invest can create a more seamless digital experience, rethinking what's possible in the digital ecosystem, they can take advantage of an important opportunity to meet customers' changing behaviors in a way that many of their competitors won't.

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Global Retail Growth

The global retail industry has seen consistent strong growth over the past several years, growing in the low- to mid-single digits.

In late 2019 and early 2020, the industry continued on pace for an expected 3-6% growth annually.

Pandemic induced lockdowns reduced opportunities to spend, and a challenging labor market reduced capacity to spend.

The result was a dramatic drop in retail spending over several months, which has been recovering since the summer.

The overall trajectory appears to have recovered to prepandemic levels, but the spring slowdown will have reduced overall growth for the year by 2 - 4%, leaving it roughly flat compared with last year.

Looking ahead, consumers anticipate a post-pandemic rebound in their retail spending but expect to do so at a lower lever than pre-COVID





Source: IDC Retail Insights Analysis of US Census Bureau Advanced Monthly Retail Trade Data and other global public data sources (e.g. UK Office for National Statistics Retail Sales Index, European Commission Directorate General for Economic and Financial Affairs Retail Trade Survey); Retail Consumer Insights Survey, IDC, September, 2020

The Uneven Impact of the Pandemic

While overall industry sales have shown some resiliency, the impact is dramatically different across segments Within segments, those companies that were more digitally mature and operationally prepared for rapid changes in customer shopping behavior have fared better.

Essential Segments

Grocery, Health & Personal Care, Convenience, Hardware & Garden, Mass/General Merchants

Stores remained open, uneven demand spikes, operational constraints, categoryspecific demand surges, supply interruptions, unanticipated shift to eCommerce/curbside options

Accelerated from low single-digit growth pre-pandemic to 6-8%

Non-Essential Segments

Apparel & Footwear, Department Stores, Electronics, Furniture, Hobbies

Stores shut down, significant reduction in demand (store closures and lower discretionary spending), shift to eCommerce channels, continued inventory backlog

Annual sales for year expected to decline by 10-15% vs last year

eCommerce (Pure-play eCommerce)

Rapid and significant acceleration in demand, uneven demand surges, delays in fulfillment, operational constraints

Growth accelerated 300-500 bps, trending 15-20% growth



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COVID as a Catalyst: Accelerating Digital

Consumers have shifted spending online dramatically.

This drives acceleration in pure-play eCommerce retailers and accounts for the channel shift among traditional brick-and-mortar retailers.

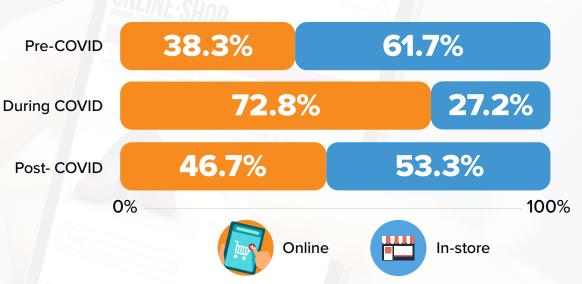
Major global retailers have reported online sales growth at or above 100%, in some cases accounting for 50-60% of overall sales growth.

Consumers report a significant shift in their mix of instore versus online spending, telling IDC that nearly ³/₄ of their retail spending during the pandemic is online.

Expectations are expected to revert slightly postpandemic, but still trend well above pre-COVID levels, with consumers expecting to split their retail wallets about evenly between in-store and online channels.

Changes in consumer shopping behavior have also driven adjusted profitability expectations among retailers for their omnichannel business.

Online/In-Store Spend Mix



Omni-channel Profitability Growth Expectations as a Result of COVID

Growth expectation remains same as last year	3.7%
1%–5% growth	13.1%
6%–10% growth	54.7%
More than 10% growth	27.4%
Don't know	0.5%



How Are Retailers Shifting Technology Investments in Response to COVID?

Retail investments were largely focused on customer-facing technology like mobile, with growing investments in analytical capabilities. Deployments of mobile technology and IoT were widespread and retailers were starting to experiment with technologies like AI and robots.

Responses to the pandemic via technology investment are not one-size-fitsall. They are a function of retail segment and digital maturity (e.g. Retailers in non-essential segments will have less investment capacity, but those that are more digitally mature are seeing less of a negative impact and more of an ability to adjust and pivot operations).

Digital Maturity vs. Vertical Impact

More digitally mature

Essential segments	Invest to disrupt. Accelerate digital and introduce innovative new business models	Invest to take share. Leverage digital to meet customer demand and expectations where competitors are lagging.	Non- essential segments
More positive impact	Invest to disrupt. Accelerate digital and introduce innovative new business models.	Keep the lights on. Postpone digital investments and conserve cash with typical focus during an economic downturn.	More Negative impact

Shifting Technology Investment in Response to the Pandemic

% of RetailersCrisis Response: Technology projects
that reduce operating costs15.6%Crisis Response: Technology projects that react to the
crisis brought on by COVID-19 (e.g. business continuity)20.0%Adaptation: Projects that address areas that were revealed
as weaknesses during the pandemic15.9%Adaptation: Projects that support the new operational
requirements brought on by the COVID-19 pandemic15.2%Acceleration: Projects that help us to capture market share12.8%

Acceleration: Projects that introduce business model innovation 19.0%

Less digitally mature

Consumers Have Adjusted Their Experience Expectations in Significant Ways

Beyond the growth in online shopping, consumers are consolidating trips to physical stores, aiming for fewer, larger trips. Meeting their experience expectations is critical within this new dynamic—the risk of not getting it right is substantially greater with larger baskets in play.

Customers show a strong preference for spending little time in the store while interacting with fewer people.

Options to purchase at home and pickup in-store or curbside are driving decisions.

The implied safety of avoiding trips for items that are out of stock drives a desire to view available store inventory online prior to purchase.

Similarly, customers appreciate the flexibility of being able to return online regardless of purchase channel.

In-store, customers have a strong preference for a contactless payment experience.

Likelihood of Shopping Elsewhere if Retailer Does Not Offer...

% Тор	2 Box
Flexibility to return purchases made in store or online to either channel	50.9
Ability to buy online and pick-up in store	59.0
Options to buy online and pick-up curbside	49.1
Visibility into the available inventory and costs online (pick up, and at which stores, vs. delivery) before I buy	47.6

Consumer Preference for Contactless Payments In-store

	%
I will only shop with a retailer that offers contactless payment options	23.5
I prefer contactless payment, but it won't change my decision to shop at a certain retail location	46.3
I don't care about contactless payments	30.2



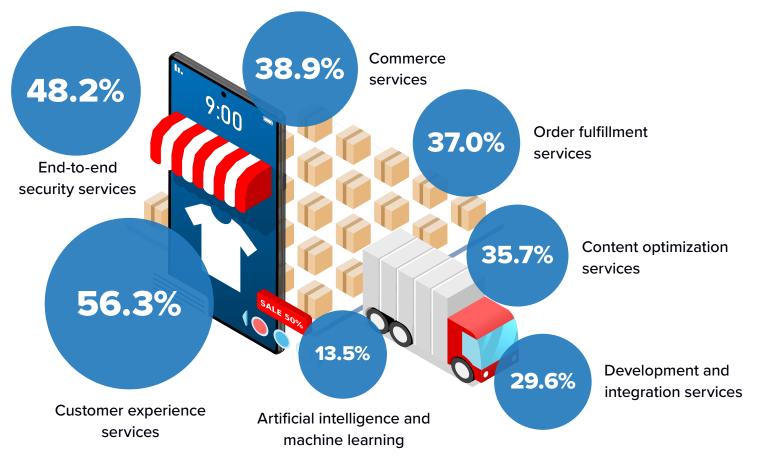
Retailer Responses to Changing Expectations

In the face of dramatically shifting customer expectations and shopping behaviors, customer experience innovation is a top priority for business transformation.

More than half (55%) of retailers rate CX innovation as their top 1 - 2 priority for transformation over the next three years.

Among those rating CX innovation as their top priority, 52% are taking action, consolidating customer data and developing advanced analytics; 26% are evolving their loyalty programs; and 22% are focused on delivering contextual interactions with their customers.

To enable innovation, retailers rate customer experience services as the most important technology capability over the next 12-24 months.





Innovating the In-store Experience

The in-store experience is a focus of change and innovation for retailers, and much of the innovation activity aligns with changing customer expectations around experience.

Technology Supporting In-store Experience 40.20% 33.89% 23.26% 19.10% 18.94% 18.94% 7.64% 7.31% IOT for in-AR/VR for AI for CX Computer vision & personalization AI for Automated store customer customer checkout experience experience Already implemented Currently implementing

Activities Supporting In-store Innovation Strategies

% of Retailers Already or Currently Implementing

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Implementing mobility to improve employee productivity and/or customer service	55.2%
Implementing automated drive-through order pick-up	50.5%
Reducing store size and assortment and increasing focus on service (e.g., Nordstrom Local)	49.7%
Implementing augmented reality or virtual reality to improve customer engagement	48.7%
Implementing an automated checkout solution	47.0%
Implementing augmented reality or virtual reality to improve employee productivity	46.2%
Implementing contextualized consumer interactions in store (knowledge of where the consumer is in real time)	45.7%
Adding new roles in store to manage processes enabled by mobility, IoT, video, VR/AR, analytics, etc.	44.0%
Implementing robotics for in-store customer service	18.3%



Essential Guidance

Assess the combined impact of the economic challenges of the pandemic along with your organization's digital maturity. The intersection of these critical factors drives technology investment priorities. Prioritize opportunities to deliver omni-channel table stakes, like **buy online**, **pickup in-store**, **curbside pickup**, **and seamless returns across channels**. While customers perceive these as critical to safety during the pandemic, in the long term these will be important conveniences essential to the customer experience.

Consider experience enhancements beyond the basics—deliver an in-store experience to online customers at home with **personalized virtual appointments** and share experiential content through **livestreaming**. Deploy a CX platform and customer data foundation with analytics to enable improved contextual experiences across channels.



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Message from the Sponsor

TATA Communications' Transforming and Enabling New World of Retail Business

COVID-19 has disrupted the world of business with companies around the world, reinventing their strategies to survive in the so-called "new normal." **Global Retailers are seeing a decline in footfalls, leading to lower EBITDA and compromised Inventory Turnover Ratios, thus accelerating the need for them to actively evaluate new operating and business models** with low in-person employee, customer and partner interactions and new rules of customer engagements. And as they explore these new models of work, retailers are also looking to deliver exceptional and innovative customer experiences, enhanced operational productivity and efficiency, manage risks, build agility and hence drive growth.

TATA Communications' Secure Connected Digital Experience

TATA Communications' Secure Connected Digital Experience enables digital first strategies and businesses. It helps enterprises build a connected business ecosystem while enabling experience and trust across the value chain, be it customers, employees, and partners. A key component of Tata Communications Secure Connected Digital Experience is the Tata Communications Digital Customer Experience Platform that recreates the in-store experience online for retail companies. It's Store-At-Home solution offers next generation of enterprise commerce and intelligent video collaboration solutions for superior digital customer engagement.

 Tata Communications Digital Customer Experience Platform promises to enable growth by transforming your customer engagement and sales process by providing secure, in-store experiences to your customers without them having to leave their homes – through a digital-first experience with secure video collaboration and commerce tools available with Tata Communications Store at Home offering. Tata Communications Store at Home enables in-store buying experience through: Video Commerce enabled on Intelligent skill-based Routing, Multi-Session Co-browsing and Agent Assist functionalities, Live canned demo with integration of Content Delivery Network, Policy enforcement as per business requirement and more — all collaborating to a secure, digital, in-store buying experience thus mitigating footfall decline and helping customers in quicker sales gestation period, higher conversion, better experience for employees and retail customers, and overall improved top-line for retailers.

For more information on Tata Communications Digital Customer Experience Platform, visit here - https://www.tatacommunications.com/ secure-connected-digital-experience/customer-experience-platform/.



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