MANUAL
FUTURE-ORIENTED RETAIL

Customer-Centricity

Real, digital, international

Omnichannel strategies for future-oriented retail

The fact that only 17,000 clothing retailers have survived from the 52,000 in business at the start of the millennium illustrates the dramatic nature of the change.

By Dr. André Claassen

The world of retail is experiencing greater upheaval than ever before. The demographic change turning ever more digital natives into affluent customers, the increasing number of product lines available online today, but also the simpler processes used in order systems and faster logistics handling have seen the share of online sales increase to over a third in some areas, such as clothing.

The fact that only 17,000 clothing retailers have survived from the 52,000 in business at the start of the millennium illustrates the dramatic nature of the change in this sector. It is predominantly chain stores and manufacturers who have filled the gap, while sales volumes have doubled in connection with almost the same revenues of around € 60 billion. Over the same period, retail space has risen by around 14% to 124 million m² and storage space has increased three-fold since 2003. This has resulted in a continuous decline in space productivity in retail over the past three years with a continued drop in footfall. This is due to a huge decline in space

on the outskirts of large cities and will result in a further reduction in the "B" category space of small and medium-sized companies, whereas "1a" category space will continue to be fiercely contested. The falling rents for these "B" category spaces over years now could not stop this trend and do not justify the retention of this infrastructure.

Overall, this will significantly accelerate the consolidation in retail among the established market players as they are retaining their developed structures in terms of organization, business model and processes for too long. At the same time, however, this will open up scope for new concepts which view technological possibilities as an opportunity right from the outset, regardless of whether the purchase transaction is conducted online or in store. The entry point of retail has shifted from the high street to consumers' mobile phones. Future retail concepts will soon be

completely digitized and will use all available sales channels in equal measure.

Omnichannel strategy: The framework for future retail

Sales activities will continue to primarily focus on the reachability of end consumers. Embedding the brand in the mind of consumers and therefore the desirability of the product are playing an even more important role than before. The factors of brand authenticity, living up to service promises and the control of the sales channels in terms of market positioning and brand experience are becoming increasingly important as market differentiators in an entirely digitized retail sector. The companies who "own" consumers by collecting their personal data, understand their needs, behavioral patterns and life circumstances and serve them optimally via their preferred sales channel will continue to be the main winners. The key factor is not just where the actual sales transaction is carried out, but also how it is initiated and followed up – in other words, the entire "customer journey".

Once the brand and consequently the product is embedded in the mind of consumers, it is then important to occupy the areas that the customer frequently visits digitally and physically and to put product availability and the personalized way of addressing customers and the customers themselves at the center of all the company's activities. In future, physical stores will be just as digitized and feature the same evaluation capabilities as any website. This will cover the duration of a customer's
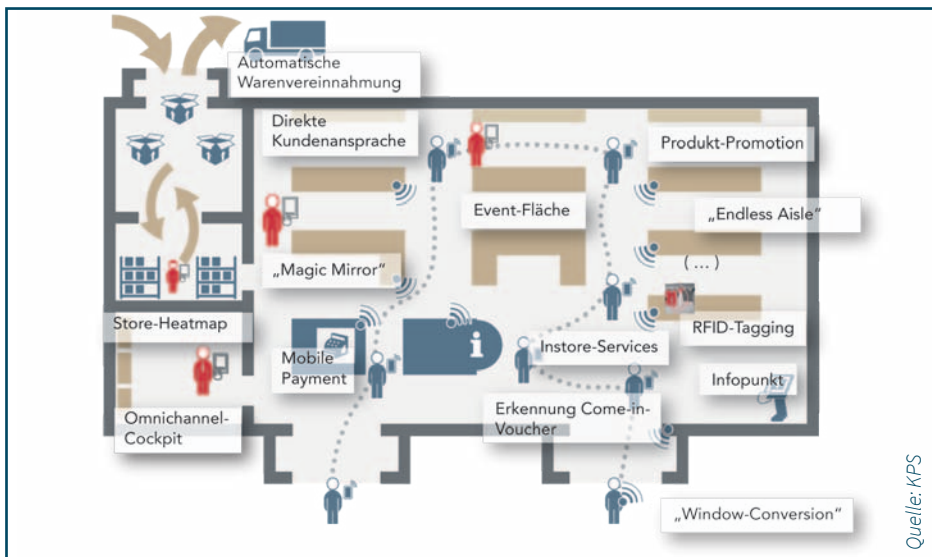
Strategies

Quelle: KPS

Fig. 1: Capability of a digitalized store for logging data on consumers

visit to the store, content and service management in the store as well as promotions and personalized offers for customers.

Fig. 1 shows a digitalized store's capability for logging consumer data via mobile device/ WiFi technology and the automated identification of goods through RFID. This provides opportunities for data evaluation (paths, duration of visits), efficiency gains (real-time inventories accuracy, etc.) and the generation of additional services. All of this and other future technological developments will permanently change the store business and eliminate the boundaries between the individual sales channels.

The digitalization of the company is not just restricted to processes but also covers the digitalization of products, services and advertising.

The digitalization of the company is not just restricted to processes but also covers the digitalization of products, services and advertising etc. and the testing of new business models. These new business models may, on one hand, result from close interaction with cooperation partners, but also from the close relationship with customers and comprehensive customer care. Companies should focus on the activities which produce the greatest benefits for the respective target group.

Omnichannel processes enable channels to be merged

So-called omnichannel processes play a key role in interconnecting the various sales channels. This involves combining processes with at least two or more sales channels. A key requirement for smooth processes is the fusion of organizational structures between the respective channels and the set-up of end-to-end processes. Here, the processes integrate customers into the company's procedures and support them on their customer journey. Definition of the customer journey from the customer's perspective is strongly advised. The possible interactions and process variants as well as content and information for the respective customer case are determined on the basis of customer touchpoints. All process paths right up to enterprise resource management and the logistics backend processes are now set up based on these touchpoints.

Fig. 2 provides an overview of the various sales channels of an omnichannel retailer and the possible interactions with the customer. The process list takes account of the customer touchpoint, in other words the customer's point of contact with the company and allocation to the respective sales channel.

Omnichannel Processes/Functions	Channel			
	Store	eCom	Catalogue / Call center	Platform Sales
Sales of complementary product line (Endless Aisle)	■	←→ ■	←→ ■	
Sales of own product line through platform			■ ←→	■
Sales of online products at the store, payment at cash desk	■	←→ ■		
Reservation store products via eCom, mobile & call center (Click&Reserve)	■	←→ ■	←→ ■	
Omnichannel customer return	■	←→ ■	←→ ■	←→ ■
Omnichannel payment and credit	■	←→ ■	←→ ■	
From local store campaign (Promotion / Coupon) to web- / mobile revenue (advertising success check) – „Customer Touchpoints"	■	←→ ■	←→ ■	←→ ■
Omnichannel based on auf Filialbera-tung	■	←→ ■	←→ ■	
Omnichannel-Loyalty-Programm	■	←→ ■	←→ ■	←→ ■
Omnichannel-Customer-Service (360°)	■	←→ ■	←→ ■	←→ ■
Order&payment eCom, pick-up at store („Click&Collect")	■	←→ ■	←→ ■	
Order & payment eCom, Express delivery from store	■	←→ ■	←→ ■	
Sales via supplier platform Express delivery from store	■	←→		■

Source: KPS

Strategies

Fig. 2: Overview of the various sales channels

The processes listed will undergo significant changes based on the new technological opportunities.

The revenues share of the actual omnichannel purchases amounts to below 3% at most retailers which actually have such processes at all. These companies lack the experience required with regard to the extent to which the processes are actually accepted by customers. However, it is vitally important to obtain experience as early as possible in order to continually improve the processes for customers, to adapt incentives and KPIs for employees on a cross-channel basis and to implement technological improvements. The checking of the availability of goods can be as complex as you wish depending on the omnichannel process and product line structure. From the organizational allocation of inventories to the physical distribution (warehouse, sales space,

supplier warehouse) to inventories approval, all scenarios must be defined based on sets of rules. This not only has a major impact on the front-end and back-end processes, but also results in a new form of KPI management at the company. The shift from fixed costs to variable transaction costs in an omnichannel company alone requires a new form of KPI management.

With the change of business model to omnichannel retailing, it is not only the company's processes that change but also the technological platform requirements. In addition to the seamless integration of various sales systems (e-commerce, cash desk, mobile, CRM and marketing) and the backend systems (WAWI, warehouse and logistics systems) the technological platform must be able to process all data points in the

"customer journey" – regardless of whether in store or on the website. This results in a huge increase in data volume which must be processable in real time due to the increasingly occurring parallel activities.

Transparency on the customer journey and the creation of the 360-degree view of customers is based on the clear identification of customers via their mobile phones. For the first time in the history of retail, the anonymity of the customer is not dissolved by human interaction but instead by automated recognition. This also applies to the clear and automated identification of an item. While efficiency gains in recording data were achieved with the introduction of barcodes, the goods, time and place can be automated and identified without physical intervention thanks to transponder technology.
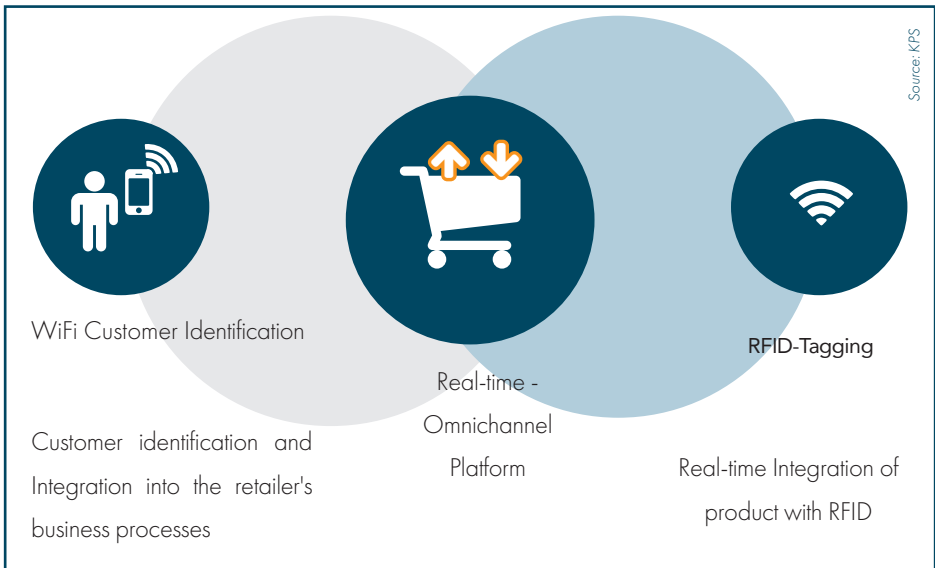

Source: KPS

WiFi Customer Identification

Customer identification and Integration into the retailer's business processes

Real-time - Omnichannel Platform

RFID-Tagging

Real-time Integration of product with RFID

Fig. 3: Symbiosis of the physical and the digital world

Fig. 3 shows the merger of the physical and digital worlds through the closed customer and product cycles and their integration into the technological platform.

This opens up entirely new opportunities in terms of customer contact and efficiency gains, especially for large-scale retail. Both cycles, however, create so many data points that the currently existing technological infrastructure is not able to process them in most cases. Migration from a platform, which is essentially geared towards branches and not very well integrated, to an omnichannel platform, which meets the requirements of future business models, means a long and expensive transformation for most companies.

The need to change and the speed at which this transformation must take place have never been greater.

Company transformation – migration instead of upgrading system functionality

DSticking with the old structures and hoping that the fall in footfall and revenues are attributable to the weather and seasonal blips will not help retailers in the current structural transformation. A functional upgrade of the platforms, which already exist in most cases, or a process upgrade or digitalization of individual branches will alleviate the situation short-term, but problems will continue to exist due to an organizational silo philosophy, a lack of end-to-end processes, inadequate comprehensive KPIs and controlling concepts, non-transparent inventories and insufficient software architecture.

Transformation at all levels is the key to success. The new business model should cover the new processes end-to-end based on the strategy using a fully integrated platform technologically. The migration from the old structures to a new solution (technological platform) is faster, reduces complexity and can be set up as part of a graduated launch strategy that minimizes risks. Onmichannel transformations are doomed to fail without a systematic, end-to-end process philosophy. The introduction of new business models should not aim to achieve functional goals but rather organizational ones.

Strategies

Outlook: Verticalization and the speed of innovation are increasing

The need to change and the speed at which this transformation must take place have never been greater. The strong emphasis on end consumers will continue to increase. On the one hand, this is explained by the fact that the established retail structures will largely disappear and manufacturers from almost all sectors must consider how they will structure access to customers and sales in future. The verticalization, which began in the early 1990s in the clothing industry, will now be transferred to all segments together with digitalization. Both access to customers as well as entire value-creation chains will change. This may go as far as individual future products being manufactured directly in the store and the former sales space having to meet more functions that at present, serving as a mixture of showroom, logistics center and production facility. Administrative processes in customer-facing areas, such as cash desk processes, will be completely automated and will run in the retail

background. Processes with a high degree of added value for end consumers will significantly shape the shopping experience at the branch and be celebrated.

The efficiency gains driven by digitalization will be a key factor in daily requirement product lines. Thanks to the Internet of Things (IoT), additional innovations are under way (refrigerators handling shopping for daily needs) which will see the further disappearance of traditional retail structures. The omnichannel ethos and the shift of the access point will not stop at the mobile phone but will move to customers' homes (e.g. Amazon Alexa). All of this presents huge challenges for the established retail structures, but even greater opportunities for new business models and potential sales. The key success factors are focusing on customers and the speed of transformation. Technological hurdles in the form of a lack of standards, an insufficient degree of maturity of technologies and the processing of mass data are easier to overcome than changing the old organizational structures and processes.

➜ *Author Dr. André Claassen*

Dr. André Claassen began his career in international retail over 30 years ago. He held various retail-related management positions at SAP from 2002. Dr. Claassen has been responsible for the expansion of the fashion segment at KPS AG since 2015, and specializes in business transformation and process optimization.

■