

The Store of the Future

The Reinvention of the Physical Store

April 2019



Foreword From Cisco

“We all know the retail industry is seeing massive change. This is driven not only by digitization of the industry and by new online competitors, but by customers. Consumers are changing even faster than the industry itself. They are increasingly ‘always on’—always connected—and far more informed about products before they even enter a store (usually a digital one) and at the moment of purchase.

Traditional brick-and-mortar retailers are struggling with this new type of consumer, a consumer who expects the same frictionless buying experience, interaction, advice, and ease of delivery that they would get online. Meeting these needs requires a high level of in-store digitization. The majority of retail revenue still comes from offline stores, and this status quo is not expected to change in the near future, so now is the time for retailers to take action if they are to remain relevant. Consumers can value a positive experience in a physical store over the convenience of online—and even over price.

At Digital Summit at Cisco Live 2019 in Melbourne, retailers reconsidered how they look at their brick-and-mortar stores, viewing them as data-gathering platforms and reshaping them according to the data they intend to collect. This event delivered key insights into how data should influence the core retail capabilities of merchandising, sourcing, and pricing. This new approach, which is set to be a winning strategy for retailers both now and in the future, is outlined in this paper.”



Ruma Balasubramanian
Chief Transformation Officer,
Asia Pacific, Japan & China, Cisco Systems

1. Executive Summary



Retail is undergoing an unprecedented period of change, brought on by the shift to online—as well as social, technological, and economic factors. The role of big-box stores is being challenged. As growth slows, retailers are responding by scaling back new store expansions, investing in smaller retail formats, and reshaping their existing physical assets by reimagining the Store of the Future.

The store is not dead, but it does need to be reinvented to remain relevant for the future. E-commerce is forecast to account for 27 percent of global chain retail sales by 2023 (up from 19 percent in 2018), which means that physical stores will still account for the majority of sales and remain an essential route to consumers.

To differentiate and remain relevant, physical stores will need to become a physical portal for brand encounters and product experiences—places where consumers can learn, co work, socialize, be inspired, and experiment with new products.

Edge by Ascential has identified four key characteristics of the Store of the Future: it creates a memorable experience that can't be replicated online; it is positioned as a social hub; it builds frictionless online-to-offline (O2O) interaction; and it offers curated products that differentiate it from the competition.

Retailers such as Walmart and Carrefour lead the way globally, investing in the in-store experience and customer offering, while ensuring the store is central to a future O2O proposition. In terms of digital-first stores, Alibaba's Hema format sets the standard that retailers are racing to catch up with.

The reinvention of the store brings a number of opportunities for retailers and their suppliers, although these can only be fully realized if both parties can achieve a greater understanding of customers and their needs, demands, and behaviors.

As such, retailers will need to view their stores in new ways and judge them by a new set of measures, encompassing organizational structure, brand offer, retailer economics, and supply chain. In particular, traditional brick-and-mortar (B&M) retailers must invest in data and solutions to understand:

- who their customers are
- where they are in the store, and how long they stay
- why they are there (the reason for the visit)
- where they are in the sales funnel
- how to best engage with them, based on this context.

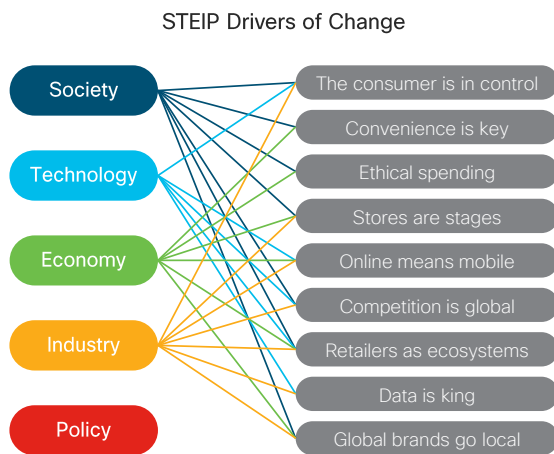
As Patrick McDermott, CRM Manager, Toys R Us Japan, says, “The way we stay relevant and the way we can compete with these big digital giants is ... to understand the customer as much as they do.”

The ability to monitor, measure, and assess store-based traffic and performance—and to align key performance indicators around these—will be an important differentiator for future retail winners.

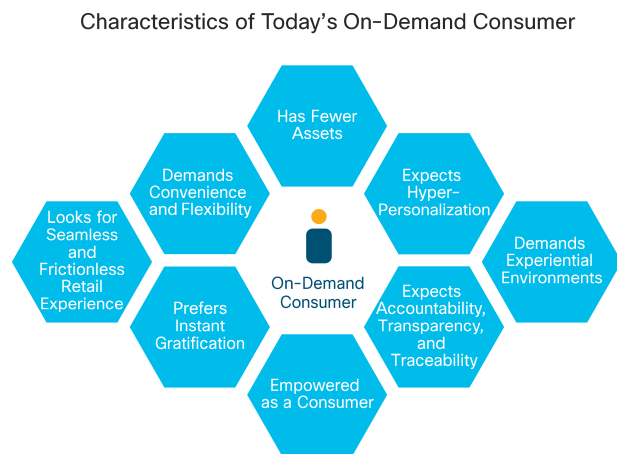
2. The Changing Retail Landscape

Meeting the needs of the on-demand consumer

Edge by Ascential uses our STEIP framework to identify drivers of change in **s**ociety, **t**echnology, **e**conomy, **i**ndustry, and **p**olicy, and evaluate how they are affecting retail and its future developments.



Source: Edge by Ascential



Source: Edge by Ascential

To remain relevant in the future, retailers must cater to the changing shopping habits of today's on-demand consumer.

Customers' expectations are mainly driven by the digitization of experiences. They enjoy constant access to the Internet via an increasing variety of mobile devices, and they demand convenience, flexibility, personalization, and transparency.

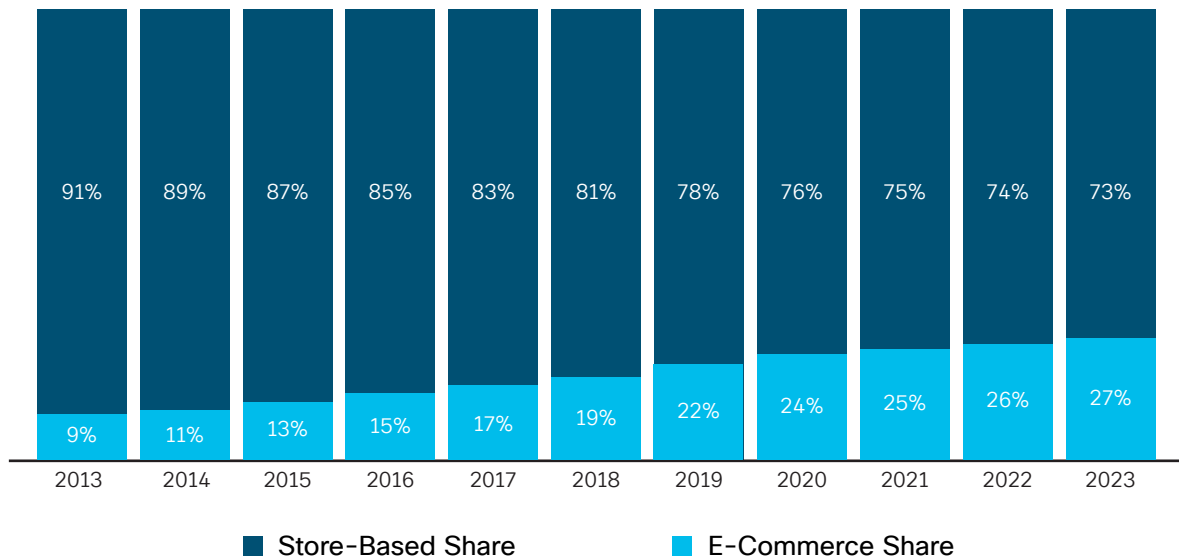
However, they also require experiential retail environments; the ability to touch, taste, smell, and feel products remains important to them. This is clearly an area where the physical store still has a unique and important role to play.

E-commerce is growing rapidly, and stores must adapt to survive

Retail is undergoing an unprecedented period of change, led by the growth of e-commerce, which is forecast to grow from 19 percent of global chain retail sales in 2018 to 27 percent by 2023.



Store vs E-Commerce Share of Global Chain Retail



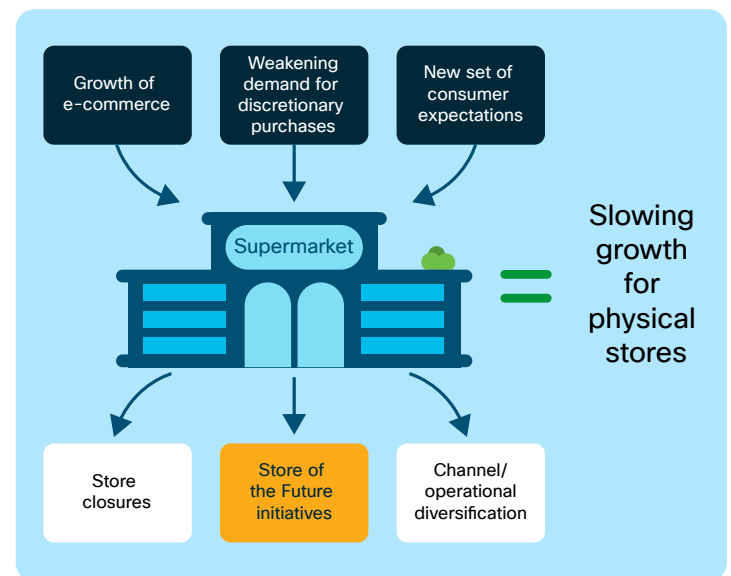
Source: Edge by Ascential

All over the world, physical stores are under pressure and growth rates have slowed as consumer spending shifts online.

In response, retailers are scaling back new store expansions, closing stores, or investing in smaller store formats. Leading operations have begun to reshape their existing physical assets by reimagining the Store of the Future.

In the Asia Pacific region, the growth of e-commerce is even more pronounced, led by the rapid expansion of leading players such as Alibaba and JD.com. Anny Huang, Head of E-commerce, NTUC Income Insurance, Singapore, agrees, "E commerce has evolved a lot ... Given the pressure coming from China, we were kind of forced to leap and speed up a lot faster than what we imagined."

In this region, e-commerce will approach 50 percent of the total retail chain by 2023, with Alibaba and JD.com both building an O2O network of digital-first stores. Both of these retailers are able to leverage the benefits of the physical store environment by using sophisticated customer data to optimize store layouts and offer personalized solutions for shoppers (see case studies in the following section).



3. The Store of the Future

A framework for success



The role of the store must evolve away from simply offering a wide range of products, competitive prices and proximity to local catchments. To differentiate, the store will increasingly become a physical portal for brand engagement and product experiences—a place where consumers can learn, co-work, socialize, be inspired, and experiment with new products. Toys R Us Japan is one example of a business moving away from a big-box store business model to focusing on offering a unique customer experience through the power of the Internet of Things (IoT).

Edge by Ascential has identified four key characteristics of the Store of the Future. It:

- creates a memorable **experience** that can't be replicated online
- is positioned as a **social hub**
- builds **frictionless O2O** integration
- offers **curated products** that differentiate it from the competition.



Source: Edge by Ascential

The growth of e-commerce—fueled by new technology—is driving the need to offer frictionless O2O store environments. “These newly emerging digital technologies, they blur the boundaries between online and offline areas,” says Brian Chung, APJC Business Development Lead for Retail Industry. “That is the key critical element that all the brick-and-mortar spaces should look at in the first place.”

For omnichannel retailers with convenient store locations, click-and-collect and other in-store pickup facilities are a key priority, especially in the search for profitable last-mile fulfillment.



Digital engagement in the store can also help retailers provide added-value customer service, while optimizing back-end operations. For example, sensors can monitor food temperature for product freshness, energy efficiency, and queue management, and inform workforce planning.

Retailers around the world are now increasing investment to reposition their stores in a way that centers on these four elements. Best-in-class case studies include Walmart, Carrefour and Alibaba.

Case study: Walmart—using stores to win in digital

Walmart is transforming its business to become a digital leader, particularly through expansion of online grocery pickup. It will extend grocery pickup to 3,000 locations across the US during 2019, providing convenient solutions for shoppers and a more profitable route to e-commerce that leverages existing store real estate.

Walmart is also investing in automated solutions such as pickup towers, supply chain robotics, and partnerships with third-party delivery companies, to improve both store and supply chain profitability.



Walmart is leveraging stores to become a digital leader

Case study: Carrefour—investing across the store of the future

Carrefour is repositioning its store real estate as part of its transformation plan, “Carrefour 2022,” which includes investing in small stores and repurposing space in Carrefour’s hypermarkets.

Given that hypermarkets account for more than half its global sales, investing in the Store of the Future is critical for Carrefour, and it consistently ranks best in class across all four areas of our framework (experiential, social, frictionless, and curated).

This includes experiential counters and merchandising; social meeting hubs and bars in stores; product ranges tailored to the area; and in-store digital displays.

“All those e-commerce and m-commerce online players are disrupting the entire retail industry big time, and that has become a big threat for all those brick-and-mortar-oriented retailers.”

Brian Chung,
APJC Business Development Lead for Retail Industry

Carrefour is investing in the Store of the Future



Carrefour Mons (Belgium)

Experiential



Carrefour Express Milan (Italy)

Social



Carrefour Warsaw (Poland)

Frictionless



Carrefour Warsaw (Poland)

Curated

Case study: Alibaba—digital-first stores

E-commerce giants like Alibaba are also investing in physical stores, and its Hema format in China is setting the global benchmark for digital-first stores.

To access additional information about products, customers scan product barcodes using the Hema app. They can also order products online and have them delivered in 30 minutes (within a 1.8-mile radius).

Perhaps most importantly, these stores focus on fresh food, featuring a variety of service counters offering different cuisines, as well as comprehensive produce and seafood areas. This highlights the importance of the physical store as an experiential way for shoppers to touch, taste, smell, and feel products before purchasing.



Alibaba's digital-first
Hema format

Case study: JD.com—7Fresh O2O stores

JD.com is building out a 'boundaryless retail' concept to reach consumers wherever and whenever they shop. To achieve this, it is planning to open 1,000 new 7Fresh supermarkets in China over the next five years.

These stores combine the benefits of a physical store environment with JD.com's technology and back-end systems. This includes using customer profiles to optimize the store layout, and positioning 'magic mirrors' above the shelves, which provide product information on a screen when products are selected.



JD.com expands its 7Fresh store format

Case study: Flow Solutions—using IoT to modernize Toys R Us

Toys R Us Japan was facing significant competition from online retailers. So it decided to adapt its business model for the future and focus on creating a personalized customer experience—online and off. But building this experience requires data.

The company worked with Cisco partner Flow Solutions to leverage Cisco Meraki solutions and IoT capabilities such as people counting and demographic monitoring. When combined with point-of-sale and staffing data, this built a clear picture of how people use their stores. Now, Toys R Us Japan can start to integrate this information with data from its online store to create a powerful, holistic customer experience for the future.

Case study: Energybox—connecting 12,500 food retail stores

Retailers in the food industry know that ensuring consistent quality of service and impeccable food safety can be challenging. “If you’ve got just one or two stores, it’s easy—you can just go in,” says Alan Seigrist, CFO, Energybox. “But when you start talking about 50 or even 100 stores, it becomes an extremely difficult challenge.”

Couche-Tard, the largest independent convenience store operator in the US, has 12,500 stores. So it enlisted Cisco partner Energybox to help it improve the consistency of service by using IoT technology to connect and automate every store.

Thanks to Cisco IoT capabilities, Couche-Tard now has a close understanding of what’s happening in each individual store. It can gather data from each one—and even manufacturers—to help it ensure back-end operations are running smoothly, save energy, and improve the customer experience.



4. Winning Capabilities for Retailers

A new set of performance metrics

Physical stores will evolve from simply being a place to stock and sell products, to acting as a portal where visitors can learn, socialize, and experience and test new products. In addition, stores will have a growing role in influencing and fulfilling orders across an increasingly complex path to purchase.

For this to truly happen, retailers need to view their stores in new ways and judge them by a new set of measures, across the following four areas.

1. Organizational structure

- New ways of measuring store performance and what success looks like
- Quicker and more agile decision making to compete with e-commerce
- Reskilling of employees to reflect the changing role of the store and service requirements

2. Brand offer

- Partnerships with third parties and other retailers to provide new and added-value services
- Rationalized product range to support store efficiencies
- Investment in private-label innovation to increase differentiation

3. Retailer economics

- Ability for stores to collect data on shoppers and their in-store behavior
- Exploration of new revenue opportunities (especially from leveraging data)
- Sublets and leases for excess in-store space

4. Supply chain

- Just-in-time and in-full deliveries to improve availability
- Solutions that enable an expanded food service and experiential offering
- Investment in front-end automation

In terms of retailer economics—and collecting data on shoppers and their in-store behavior—it will be critical to build new capabilities that help retailers better understand:

- who their customers are
- where they are in the store, and how long they stay
- why they are there (the reason for the visit)
- where they are in the sales funnel
- how to best engage with them, based on this context.

“One of the challenges physical retailers have right now is measuring how people are using their stores,” says Chad Stewart, Founder and CEO, Flow Solutions. “In Japan and in Asia, there is a significant lack of IoT in physical stores.”

But as retailers build digital capability and invest in O2O integration, the flow of meaningful data in physical stores will significantly increase. The challenge for the sector will be to recognize and realize this data, to ensure it is captured and translated into customer-focused insights.

Find out more

Retail:

https://www.cisco.com/c/en_au/solutions/industries/retail.html

Planet Retail:

<https://www.ascentialedge.com/>

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