

Finding a Way FORWARD

E-COMMERCE ANGST IS PERVASIVE AMONG RETAILERS WHO KNOW THEY SHOULD BE DOING MORE, BUT AREN'T SURE WHAT.
> **By Marc Milstein**

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Retailers are deep into a journey of business transformation and seeking to engage customers in ways unimaginable just a few years ago. Rapid advances in areas such as analytics, social media, inventory optimization, assortment planning, supply chain and fulfillment capabilities give retailers a huge array of variables to consider moving forward.

Since much of the innovation vital for success requires extensive investments, retailers are making difficult choices when it comes to prioritizing new tools, solutions and organizational structures. To gain deeper insights and perspectives into how the industry is managing through and looking to capitalize on these challenges and opportunities, Retail Leader and IRI convened a thought leader roundtable at the National Retail Federation's annual convention in New York. Those in attendance included a cross section of senior executives from multi-billion chains and small innovative operators. They participated in a wide-ranging conversation around the topic of “The E-Commerce Journey.”

Among the areas everyone at the table agreed upon was the need to leverage data much more precisely and involving every area of the business. They also raised the need to better understand customer behavior and more precisely target shoppers via personalization vs. mass marketing.

“I think retailers are in trouble. Retailers will continue to exist, but people are looking for confirmation from peers. When we think about customers, we tend to think about six segments of shoppers — but it is more like six million,” according to one executive who shared a view on the personalization trend.

As e-commerce and social media play increasingly greater roles in grocery shopping, personalized commerce and marketing is absolutely a requirement, he noted.

“It sounds impossible, but we as retailers must accommodate consumers individually. We can beat Amazon but we need to target every consumer. Retailers have more data than anything

else. We know who shops with us. That is how we are going to lock in customers,” he said.

Other grocers at the table pointed to ongoing challenges in targeting customers and in transitioning from a traditional store-based business model to one that is much more dynamic and relevant in a mobile and digital age dominated by e-commerce.

“We know that 75 percent of shoppers are buying three-to-four times a week. Yet we are still working on a 52-week promotional and pricing schedule vs. customers who are shopping 200 times during the year,” said another supermarket executive.

“Once we started tracking where and how people shopped, we quickly realized major changes were needed. The movement of the digital frontier into brick and mortar is vital. We must adapt to the e-commerce shopper.”

Meeting new and heightened expectations that are often established by digital innovators outside of the traditional retail industry is key to winning with customers and retaining them.

“If we do not cater to the experience — to the dining experience, to the quiet evening at home with children — we will continue to miss out. Look at the growth of fresh items and prepared meals. We have to cater to the growing number of customers looking for high convenience, high quality fresh items,” he added.

The discussion also focused heavily on the battle to compete against not only Amazon but also the growing power of other e-commerce niche players and deep discounters.

“There are more than one billion websites competing for the attention of shoppers. Amazon announced they are hiring 100,000 people in the next 18 months. What does that say about the competitive environment?” one participant noted.

“Amazon is the number one product search engine,” added another. “They are spending \$6-\$8 billion in R&D.”

“There are a lot of problems with Amazon — but one problem they do not have is the ability to price dynamically. They can change (prices) instantly,” said one of the retailers. “We in the supermarket industry change prices

weekly. We need to change the perception that Amazon always has the best prices. That worries me,” noted another

An executive with one of the major chain participants pointed to the growing power of deep discount formats as the biggest threat on the horizon.

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One of the biggest revelations to emerge from the roundtable was the sheer number of challenges and decisions confronting the industry and the emergence of advanced data analytics as key to success. It was widely agreed that retailers are scrambling to understand and leverage key success factors because determining what concrete steps to take is confusing.

“Loyalty cards are relevant and data propels change for supermarkets. Some retailers are good at using data, but we are not where we should be,” he said.

Beyond the wealth of data now available from store and e-commerce sales data is the growing wealth of information that is coming from the Internet of Things.

“We deploy a huge number of IoT devices, including refrigerators and freezers. But how we leverage and use that data to drive loyalty is another question. We have to have complex event artificial intelligence, highly engineered systems,” to do that, the executive stated. “Is it worth the investment? Absolutely.”

Whether supermarkets will make the investments required to move into the digital and analytics age is less clear given some of the industry’s legacy issues around investing, operations and risk-taking.

“CFOs [only] talk about how much the investments will pay off in terms of ROI. Rather than embrace innovation, management suffers from ‘group think’ decision-making rather than focusing on the data out there,” according to one executive. “It is extremely difficult to change the perspective of CEOs, who have been looking at the same type of reports and metrics the past 20 years. You can’t change the mindset,” he noted.

Another executive lamented: “No one ever wants to make a mistake at our company. Never! Never! Why? Our challenge is not a lack of talent. It is a lack of innovative thinking. We need people who can run digital.”

The role of big data and analytics in inventory management was also cited as key for saving costs but also building a customer-centric operation.

“More precise inventory management means getting products into the hands of consumers much more quickly and efficiently, and that means fresher products for consumers,” said an executive. “We need greater visibility into when deliveries are

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coming into the warehouse and the store and whether those deliveries will be early or late.”

Integrated inventory management processes driven by big data analytics will impact numerous critical areas, including store associate scheduling and labor costs, driver security, leveraging cameras installed on trucks, providing data to police, and other operational areas.

“We do not all do the same on logistics but we should all be doing better,” according to the executive.

That is especially true as more and more consumers rely on digital methods to research and purchase food and all manner of consumable products. Determining the best processes for fulfilling orders will be essential in a future in which Amazon and others move forward and evolve in terms of assortment, order processing and delivering product to the consumer’s door or alternative locations. For example, conversational commerce involving devices such as Siri and Echo is a growing concern.

“I can talk in the shower and say I need a razor and it is added to my list just like that,” said one retailer.

The fact that such futuristic capabilities — and many others — are today a reality only served to underscore the vexing situation confronting many retailers on their e-commerce journey. The current operating environment requires retailers to cope with abundant challenges to drive sales and grow profits while attempting to position themselves for success in a rapidly changing competitive landscape that is being transformed by innovation. **RL**

