Transformation of Indian Retail – Digital Necessities

Technology has altered every stage of the retail value chain. Improved internet connectivity, greater reach in Tier 2 and 3 towns along with availability of affordable smartphones, and robust network are the key enablers responsible for this change. Emerging digital technologies such as cloud, big data, AI and ML have forced brands to rapidly adopt concepts such as nimble, non-seasonal, short cycle, omni-channel sales, in-store customization and targeted social media engagement.

The unprecedented shock of the COVID-19 crisis to trade and supply chain has impacted strategies permanently, from export controls to border movement restrictions. After initial panic, brands are now looking to design smarter and stronger, and diverse supply chains. As a result, several players in retail have implemented about three years' worth of digital transformation in just three quarters.

Digitization has not only accelerated the move towards a more productive landscape but has also led to fundamental shifts in the ways in which retailers work. Some of the emerging themes are:

1. **Supply chains are becoming more responsive with the emergence of local and more involved vendor bases:** Low cost procurement has been the governing theme for a while. This led to building concentrated global supply chains and long lead times with offshore production. COVID-19 disrupted this value chain due to the export controls, embargos and restrictions on cross-border movement posed by various countries. Retailers have responded by creating local delivery nodes, more diverse vendor bases, real-time monitoring of supply chains and solutions for inclusive vendor management.

2. **Concurrent inventory planning and management across channels:** Traditionally, inventory was procured to fulfill demand for each channel. Many channels were disrupted due to lockdown measures and concerns by customers to shop in crowded locations. With customers staying at home and online shopping growing in preference, the demand classification by channel and geography have become blurred. Retailers have adapted by ensuring that the right products are available across multiple channels, and that allocation and replenishment is managed concurrently and in real-time.

3. **Customer experience is being built around health and safety cues:** Physical stores are the preferred channel. COVID has forced retailers to re-invent the physical store experience including dynamic workforce management, smart fitting rooms, self-checkout and RFID enabled tags—all to ensure the safety and convenience of customers.

4. **The value proposition of omni-channel has been accentuated by the pandemic:** While omni-channel shopping has been discussed for some years, the global health crisis has dramatically increased consumers' use of online and offline channels. From click-and-collect to contactless delivery, an array of other fulfillment options have become prominent. Retailers have started integrating guided purchases with the help of virtual shopping assistants, and virtual experience rooms are designed to make transactions and delivery across online and offline stores easy and user-friendly.

5. Shopping experiences are changing across malls: Although there are high fixed costs, malls have always been the preferred location for retailers because of brand image. However, dramatically lower footfalls even after the lockdown, closure of many shop locations due to unsustainable high rentals, and additional costs related to sanitizing and following government-mandated health guidelines, have resulted in the emergence of digital tools for health contact tracing, location tracing for employees, improved time to serve while maintaining social distancing norms and reduction of expenses through remote management.

The use of technology and digital tools is no longer an investment choice but a necessary "new normal" for retailers. The cracks in the existing retail model operations have widened with the sudden and major acceleration of online sales. This is compounded by the fact that consumers are now physically distanced. It is abundantly clear that the survival of retailers is now defined by their ability to stay close to customers and leverage large volumes of data.

Some governing topics for retail companies to consider:

1. How will the company use business data to drive insights on brands/products and use it to incorporate changing preferences?
2. How should the company monitor performance for proactive interventions and decision-making?
3. In the new digital world, what should the appropriate operating model and its IT needs be?
4. Amongst the plethora of brands online, how will the company be able to target the right customers and communicate the value of its own brand/offerings?
5. What are the guiding principles for future technology platforms?

The end solution for any company will vary based on the current state of digital maturity, its focus for the immediate couple of years and the foundations that must be built to achieve long-term aspirations. A&M has supported retailers by approaching our evaluation in two vital areas:

1. Where should retail organizations focus their digital investments?

a. CRM: With the sharp growth of e-commerce stores and mobile shopping in recent years, the need for solutions are not just for basic customer segmentation but to track their journey and shopping behavior cross platforms. The focus areas should include:

   i. Building connected platforms for custom profiles and to collect data from mobile, social, website, QR codes and competitive purchases.

   ii. Tracking the entire journey of a customer by analyzing behavior time stamps and clicks, journey after entry, first purchases and re-purchases.

   iii. Optimizing research and remodeling products to enable 3D visualizations that suggest sizes for virtual fittings, as well as other behavioral recommendations, promotions and offers.

b. Operations:

   i. Improve demand forecasting through the use of traditional sales trends algorithms and factoring variables like state regulations, Google mobility and predictions of demographic shifts.

   ii. Better logistics management to improve last-mile delivery and handling of returns through the use of micro-fulfillment hubs.

   iii. Dynamic product and price management to improve full season sell-through and optimize product portfolio for better ROIC.

   iv. Enable digitally savvy stores that augment customer experience and improve store profitability.

c. Marketing: The focus areas are in the enhancement of promotions and markdown schedules, analysis of pricing architecture and model price elasticity, and the evaluation of competitive price tracking and dynamic pricing.

   i. Optimize pricing and promotion management to capitalize on spend and ensure optimum allocation towards the priority categories.

   ii. Dynamic markdown management basis on current inventory levels, sales velocity and performance against business targets.

2. **How can digital technology enable growth and operating efficiencies?** The foremost priority for driving any digitally-led transformation is to have a robust and clean database. It should be evaluated by first solving any data inefficiencies in the system. The use of monitoring and algorithmic tools that are optimally built on the basis of simple plug-n-play solutions are critical. The "how" aspect of leading a digital transformation can be seen in three lenses:

a. Data Lake

Common issues include:
- Multiple systems and databases for capturing and storing data
- Leakage of data and unrestricted access
- Non-compliance with global norms

Outcomes expected:
- Enabling a single source of truth
- Adhering to compliance norms
- Capturing audit trails for future disputes
- Increased ease of reconciliation across partners/channel

b. Monitoring

Common issues include:
- Delays in month-end activities and book closures
- No real-time tracking of detailed KPIs
- Re-active instead of pro-active decision-making

Outcomes expected:
- Establishing lead lag indicators
- Highlighting red flags
- Enabling faster decision-making through automated dashboards

c. Use of AI/ML tools:

Common issues include:
- Limited understanding of marketplace across regions and channels
- Ineffective marketing and promotional spends

Outcomes expected:
- Offering a unified customer experience across the digital and physical world
- Enabling real-time decision-making across channels
- Optimizing the sales mix

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