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Store performance in the era of hybrid retail

A report into how grocery, DIY, homewares and large format retailers can improve the performance of their stores in order to better manage operational costs

Brought to you by Pricer, a leading global technology company serving the rapidly growing smart retail market with in-store digital solutions that enhance both store performance and the shopping experience.

What we learn

- The store now operates in a hybrid retail environment where multiple channels and media overlap in new ways to tempt and serve the customer
- Anything less than ruthless operational excellence in predictive analytics, replenishment, the service of online orders and waste management will eat into margins that are already under pressure
- Fewer staff in store looks set to become the norm, so they will need a lot more support from tech and smart data to give retailers a decent return on higher than ever wages
- Customers' demands will always run ahead of retailers' ability to meet them, but so much more can be done to keep pace
- Sales per square foot is a redundant measure of store performance and must give way to a broader set of metrics based on the value of the store operating in this hybrid retail environment
- In-store, the shelf edge remains the moment of truth for customers, but now it has to do more
- The store has potential that it has yet to unleash, and that depends on multiple technologies being integrated in the service of both staff and customers.

Let’s start with talking about why the store needs to perform better

Ever since online retail began to make a real dent in store sales, seven years ago, opinions have gone from one extreme to the other as to the future of bricks and mortar. Some suggested the store would disappear entirely, while others talked about a new golden age of physical retail with the store acting as the hub for all other channels to the consumer.

As with all predictions, they are flawed by their inability to see the future and by their often partisan nature which can be seen to be self-serving. Worse, they often attempt a generalisation about all retail when, in fact, while some types of retail have failed to thrive in the era of ecommerce, others have boomed through a continuous process of change and adaptation.

Recent upheavals in global economics, politics and health have almost annihilated any cosy assumptions about what might come next, but the resulting uncertainty has actually clarified many of the arguments over what might actually happen.

The imperative for change is all about the bottom line

Profitability for most retailers in our categories is down which is due to:

Higher costs

- Of labor
- Of goods due to inflation
- Of operations due to compliance with regulation, CSR and waste reduction
- Of meeting the needs of more demanding consumers
- Of adapting stores for Covid and as the pandemic has eased

Lower margins due to

- Investment in safety measures during Covid
- Intensified competitive activity
- Lower spend by consumers hit by inflation

Change begins with a recognition of the sheer range of challenges that retailers are facing and the biggest is how to trade in the era of hybrid retail that emerged to serve the post-pandemic consumer.

Smart retailers have taken a hard look at their operational costs in order to protect their margins. And they have started to make investments based on a deeper understanding of what their customers want, customers that are buying through multiple on- and off-line channels. According to eMarketer, worldwide e-commerce sales will continue their upward trajectory, reaching $7.385 trillion by 2025 and making up a 24.5% share of all
retail sales.

Trying to serve the customer in this complex environment is tough. However, because the consumer knows what they want and are not shy about sharing, it is possible to adapt to their needs.

Here then is the paradox facing retailers – how to make the investments urgently needed to meet the needs of an ever more demanding customer, while containing operational costs in order to protect profits. While it is reasonable to blame an unprecedented clash of crises – post-pandemic aftershocks alongside inflation, many people expect upheavals to happen more often to the point where they need to be built into standard operating procedures – the age of the what the trend forecasting company WSGN describe as the polycrisis has arrived. This demands investment at the exact moment consumers are having to rein in their spending.

2025 - worldwide e-commerce sales

$7.385 trillion

24.5% share

of all retail sales.

This has essentially seen retailers take the middle ground between the two extremes, recognising that the store continues to play an important role, but one that needs to be tightly integrated with all other channels to market. In response to eCommerce spending in the U.S. rising 10.8% YoY during the 3rd quarter of 2022, reaching a total of $251.71billion (up from $227.2billion for the same period in 2021), according to Digital Commerce 360, many retailers are now taking a digital-first approach, focusing on the online ahead of stores but at the same time broadening the role of bricks-and-mortar into, for instance, online-only warehouses or dark stores.

New channels and media have broken the barrier between store and digital shopping to see the emergence of hybrid ecommerce that embraces the precise mix of channels and media required by each customer according to their individual preferences. According to McKinsey, 75% of U.S. consumers engage in omnichannel activities, doing their research and making purchases both on online and in offline channels.

Some of these new channels are presenting retailers with opportunities to boost the performance of traditional outlets. Retail Media, defined as using the retailer's existing web site as a sales channel for partner brands and marketplaces, is predicted to grow fast in 2023. Insider Intelligence reckons that by 2024, retail media spend will reach $60 billion.

Commerce through non-owned channels, such as TikTok and Instagram, will also grow, particularly among Gen Z. The number of social buyers will grow by 10 million says Insider Intelligence.

Other hybrid models are emerging; the circular economy which sees more and more consumers turn to resale and re-commerce services is fast going mainstream. 65% of U.S. consumers are involved according to figures from the US Environmental Protection Agency. In addition, says Wharton Baker Retailing Centre,

30% of major retail brands are already offering a resale service.

This then is the future of retailing, one that is being embraced right now with a wealth of live examples that see the store thrive and the emergence of new measures for success no longer simply based on sales per square foot, but on the performance of all channels collectively in creating loyal customers.

People shopping

And that depends on what we call People Shopping – where the store is built, stocked and operated for the convenience of both customers and staff. Technology now enables retailers to accelerate that goal in ways that balance investment with returns, to create a store that operates both independently as well as part of an ecosystem of routes to the customer.

And the next biggest challenge? Who will serve these customers?

Fewer staff and higher wages is the new normal in-store. Inflation is driving demand for higher wages while at the same time, employers are having to pay more because of a shortage of recruits.

In the UK, according to the Office for National Statistics, nominal unit labor costs (ULCs) in Quarter 4 (Oct to Dec) 2021 were 9.6% higher than their 2019 levels. In 2022, in the U.S., general labor costs rose 5.3% according to Trading Economics, while productivity was down 2.9%. In July 2022, according to the World Economic Forum, 4.18 million Americans quit their jobs for a variety of reasons, chiefly pay and working conditions.

The shortage of staff is exacerbated by the wide range of tasks they have to undertake, including:

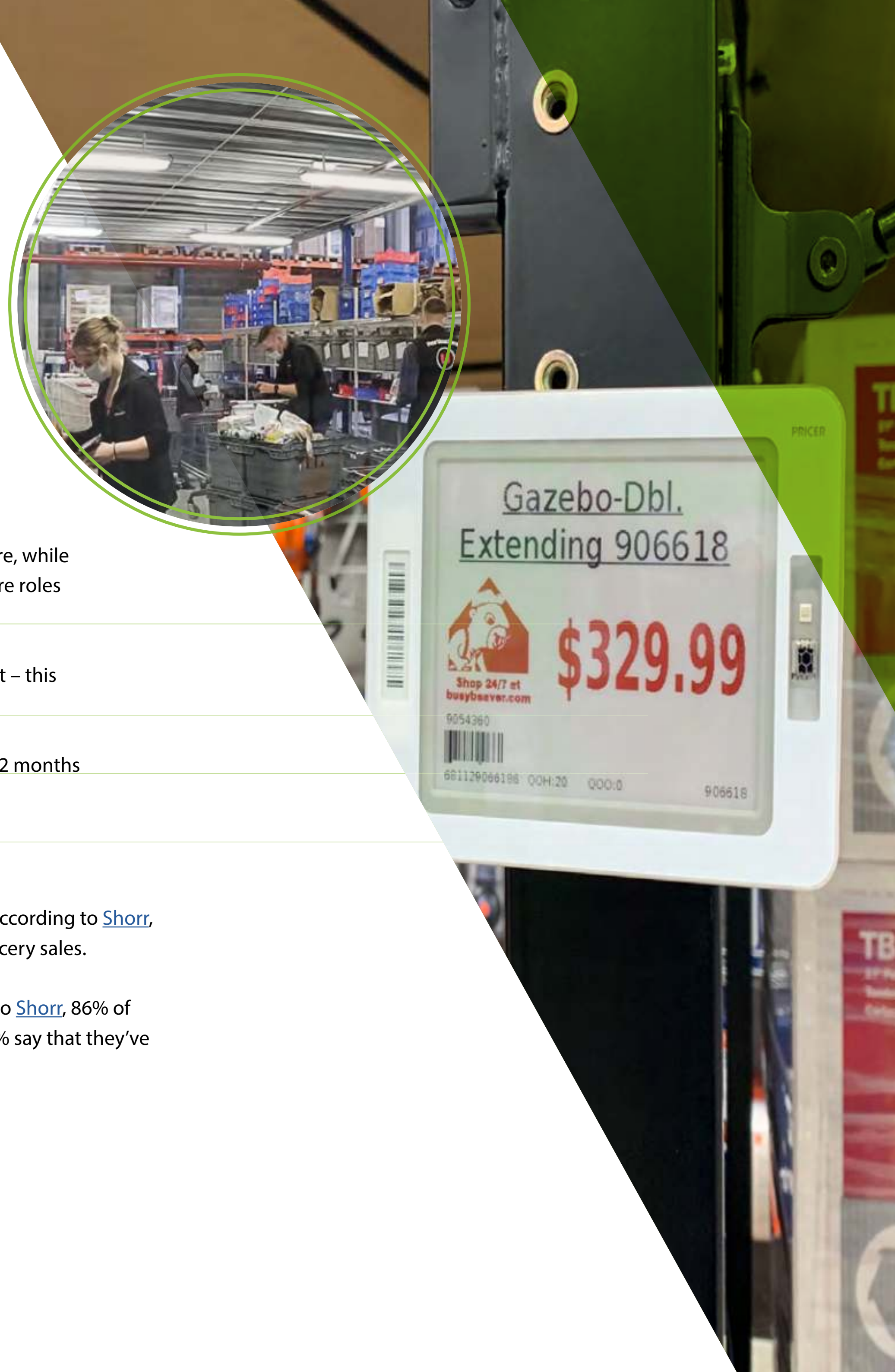
- Fulfil orders while the store is closed
- Pick in store for online orders
- Handle collections and returns of products purchased online (returns from hire and recycling as well)
- Manage store events, such as livestreaming, treasure hunts etc.
- Oversee fixed, mobile and self-checkouts

In 2022, in the U.S., general labor costs rose

5.3%

A picture emerges from research undertaken by Pricer in 2022.

39% of the retailers polled felt that in the last 12 months there has been more pressure put on the store to fulfil ecommerce orders – this rises to 52% of store associates, indicating they feel a greater pressure operationally and in their day-to-day roles to fulfil online orders in the store.



23%	said store staff are having to perform more tasks to fulfil ecommerce orders through the store, while a quarter (25%) of store and area managers said that the store itself is having to perform more roles because of the acceleration to digital.
31%	of retailers said there was more pressure on stores to be able to offer 1-hour click-and-collect – this pressure was most keenly felt among regional and area management (57%).
29%	said that more online orders had to be fulfilled using the stores stock allocation in the past 12 months
32%	felt that that the store was now more digital than it was a year ago.

Staff are also having to manage pick, replenishment and ranging around more complex assortments. According to Shorr, in the U.S., sales of private label products now outsell branded products by three times, or 17.4% of grocery sales.

In addition, staff are dealing with new types of packaging in the age of sustainability where according to Shorr, 86% of consumers are more likely to support a product that comes in a sustainable packaging. In addition, 57% say that they've put more effort into choosing sustainable products or products with sustainable packaging.

Staff need new technology, data and processes to help them adapt

People coming into retail today don't want to do these tasks anymore, and this is a major reason why the industry is finding it so hard to recruit and retain. The answer is to use technology to both improve the performance of the store in ways that will reduce costs as well as give staff more rewarding roles. This is about automating what can be automated, and making manual tasks easier.

Equipped with hand-held technology and working with a connected shelf, staff can:

- Optimise assortments and change prices, promotions and layouts more often
- Improve the in-store experience for customers as they are spending less time on repetitive tasks
- Replenish more efficiently based on knowledge of the exact status of the shelf
- Put near sell by date products on promotion – at the right time and price to maintain margin
- Make sure digital signage is always working

Automating what can be automated, and making manual tasks easier.

60%

Nearly 60% of consumers are more price sensitive now compared to before the start of the pandemic.

The electronic shelf

The key technology that creates the connection between staff and stock is the electronic shelf label (ESLs), a well-established technology that can change prices, product information and promotion instantly and universally in a matter of seconds, removing at a stroke the many hours normally spent by staff changing paper labels manually, a task to which they can add no value and which can be prone to error.

Using ESLs, retailers can now make micro changes and price adaptations which were either too costly or simply not possible quickly enough before. More frequent and rapid changes at the shelf edge are needed more than ever. Original research of over 2,000 UK shoppers in the latest 'Pricer Consumer Insight Report' shows that when it comes to grocery spend, nearly 60% of consumers are more price sensitive now compared to before the start of the pandemic. Only 15% said their price sensitivity hadn't been impacted.

ESLs can go further when supported by artificial intelligence (AI) to enable dynamic pricing that uses business rules to systematically make faster, smarter and more informed price changes based on their elasticity. In short, this is about making the most profitable price decisions which may be as much about raising as lowering prices to boost margins or volumes. The software also uses data from demand signals to drive price changes at the right time, be it daily, weekly or in real or near-real time. According to a report by Oracle NetSuite, a cloud computing company, 79% of retail executives believe that integrating artificial intelligence and virtual reality in stores will increase sales.

Figures from a Pricer study show that the time saved by not having to print and replace price tags, based on 500 changes per week, 2 minutes to change price tag (including printing sorting and finding the right product), at 20 EUR hourly cost equates to => 17 000 EUR per annum saved.

The triggers to make changes are any external signal such as a change in consumer demand or price sensitivity, a competitor's price changes or another more personal factor that the retailer is tracking based on their particular position in their market. At a stroke, the rapid reaction capability that on line retail takes for granted is now afforded to the store.

Replenishment and ecommerce

Even necessarily manual tasks can benefit from automation to cut the time taken to complete them. These include restocking the shelves as well as picking products to fulfil online orders. These same labels can switch to inventory mode, to display information such as theoretical stock, replenishment day, average sales or products’ EAN barcode. Flash technology is then added that can show staff where a product should go on the shelf, which in complex assortments represent a saving of up to 38 seconds per item.

For online orders, as volumes surge, retailers are searching for productivity improvements in an area of their business that continues to generate little or no profit. Figures based on store observations made by Pricer and results communicated by a leading brand of food store show that time saved on every item picked is 5-10 seconds. At 100 orders, 30 items per order, 20 EUR hourly cost, 7 days / week, 7 second pick save equates to => 42 500 EUR annual saving. The label in this scenario also contains flash technology that alerts the picker to the correct product using light.

ESLs are not just about improving store performance for staff but customers as well. Labels now carry enough information to act as a message board, a recipe book, a health and diet clinic, a lifestyle magazine and a cultural mirror, particularly when they extend into the ‘digisphere’ using QR codes.

Display information such as theoretical stock, replenishment day, average sales or products’ EAN barcode.

The investment case for ESLs

Battery life

Battery life is strategic, it is about risk management. The retailer needs to be in control of the lifecycle of the tech at the shelf edge, not the vendor, so they can decide when to migrate to the next innovation. However, battery life in a radio frequency network is typically 4-5 years which means the retailer will be caught in a perpetual ESL installation, unable ever to get full control over their estate.

Infrared over radio frequency

Optical wireless technology based in the near-infrared spectrum means that the labels do not need line of sight in order to operate, are practically interference free (unlike radio based solutions) and require a fraction of the battery power to communicate. Infrared also enables hundreds of thousands of price labels to be changed instantly and at exactly the same time, levels simply not achievable with other technologies, despite vendor claims to the contrary.

Partnerships

Retailers can gain longer-term returns from their investment from ESLs by collaborating with complementary partners in areas that include implementation, management, and other technologies with high store performance benefits, such as self-checkout, kiosks for tobacco products, digital signage and click and collect infrastructure, such as lockers.

Return on investment

'The Total Economic Impact of Pricer', a commissioned study conducted by Forrester Consulting in November 2022, exploring the cost savings and business benefits of in-store digitalization enabled by Pricer's Electronic shelf label solution, found that Pricer delivers a five year Return On Investment (ROI) of 277%.

Forrester combined the results into a composite organisation that is an omnichannel grocery retail chain with 500 stores. In addition to the ROI, Forrester's research showed that deploying Pricer's solution equates to a Net Present Value (NPV) of 96.02 million dollars. It also found the solution effectively pays for itself in 18 months, highlighting Pricer's ability to quickly deliver value to retail organisations.

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277%

EXAMPLE

Nebraska Furniture Mart

Nebraska Furniture Mart, owned by Berkshire Hathaway, are the largest home furnishing stores in North America.

Its Dallas location has 560,000 square feet of retail space (pictured), its Omaha and Des Moines stores have close to 500,000 square feet of retail space and the Kansas City store encompasses a total of 1.1 million square feet of retail and warehouse space.

NFM's Director of Information Technology shares more on pricing leadership and how the Pricer solution fits in this strategy.

"The labels take a large burden off our sales staff as well as the merchandisers."

Monitoring, tracking, and reacting to competitive price changes has never been more important. NFM reviews online pricing from competitors every night, updating up to 600 price tags each morning before its doors open. With paper tags, 600 changes for its 4 large stores is a daunting and moralekilling task for store personnel. NFM turned to Pricer to support a further key store challenge. By integrating Pricer's automated product positioning to support their kiosk entrance displays, NFM is able to provide realtime product location to their customers.

The future

The successful store is one that is sensitised to what is happening in the market and with its customers before, during and after they visit or connect. The shelf is therefore becoming the listening post for these inputs, but one that can then respond instantly to circumstances as well as, one day, individual customer needs.

This is the direction of travel. As costs to be present in every channel escalate, retailers will be looking for a higher return in order to justify the investment. And for most, at the very centre, the store continues to act as the hub that still defines what is unique and attractive about their brand. Store performance therefore for any retailer that trades mostly through bricks and mortar is about their future as a business.

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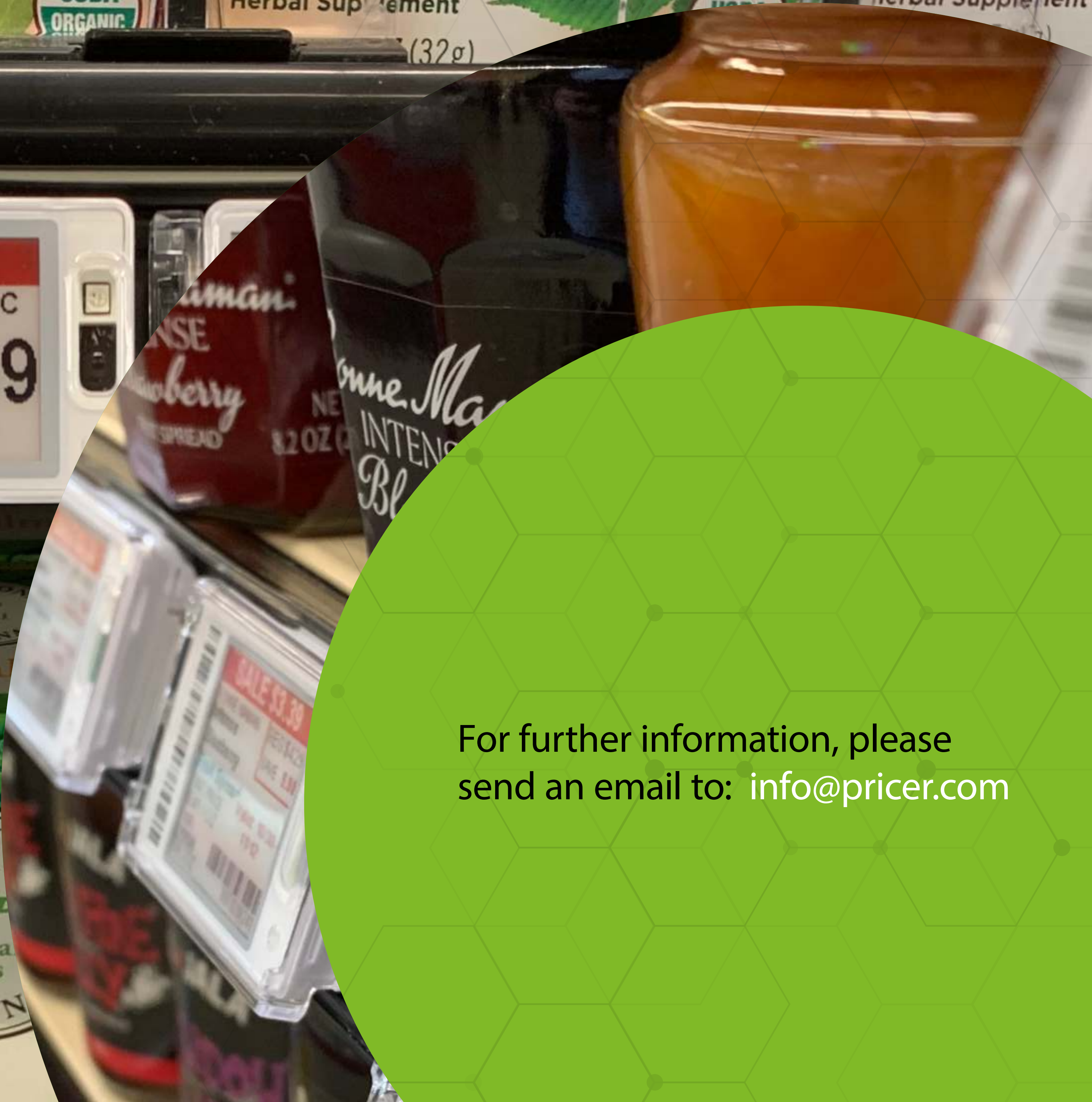

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