

# Internet Retailing



## WHAT LIES BENEATH

How, in the digital age, accumulated changes – sometimes incremental, sometimes sudden, and often not seen by the consumer – have transformed the way retailers do business



## KEY POINTS

- Digital technology and changing customer behaviours are driving change within retail
- Digital disruption offers the opportunity for digital transformation, where companies become more agile
- Changes in one part of a retailer's business cascade through the company's back-end and customer-facing operations, often in unexpected ways
- Retail is increasingly a data-driven business and retailers have made huge strides in improving the quality of product data
- Going forward, retailers will need to improve the quality of customer data too
- When data is consistent, it's easier to implement changes within the business
- Those companies that use data best will be those that thrive

## CHANGE AND CHANGE AGAIN

Welcome to the latest white paper in our series considering areas within digital commerce where change – an overarching theme over these pages – is at its most dynamic. Our subject this time around is how developments within retail practice, such as offering a click-and-collect service or launching a transactional mobile site, can affect the entire business, often in unexpected ways.

How best to illustrate this theme? Those viewing a print copy may already notice this white paper is chunkier than its predecessors. That's because, in great part to show how retail is evolving at a pace that's sometimes difficult to see from the inside looking out, we've also gathered together three previous white papers produced in conjunction with Stibo Systems.

The first, *Multi-Everything* (initially published in 2012), sets out issues that are still live around managing data, especially product data, within cross-channel retail. *Insight to Action* (2013) shifts the focus to how businesses can best use data to drive sales. *The Foundations of a Consistent Customer Experience* (2014) refines our ideas still further, considering the role both of data and of key digital technologies in customer experience-centred retail, which we defined as “essentially omni-channel... with a human face”.

For this latest and framing white paper, we look back at what we've found, but also ahead. We consider how the developments we've charted, and developments yet to come, will shape and change (that word again) retail in the years ahead as we enter the era of customer experience-centred retail and, not so far out, a world where the digital and physical worlds blur together as the so-called Internet of Things becomes a reality.

*Ian Jindal, Editor-in-Chief, Internet Retailing*

## STRATEGY, TRANSFORMATION AND SURVIVAL

Retailers' transition to digital isn't just critical to beating competitors, it's crucial to survival. Digital transformation is placing unprecedented pressure on organisations to evolve, and the speed of change is ever accelerating. Those that do not, or cannot, embrace new retail business models will add to the ever-growing list of casualties. So how do retailers evolve? By building a digital-ready culture, by creating and communicating a vision, but most importantly, by understanding the customer.

The biggest barrier to building a digital-ready culture is a lack of consistent data across the business. The cause of this is directly linked to data in silos, and legacy data from technologies that are no longer fit for purpose in the digital age. Data is no longer the preserve of the ecommerce team. Along with promoting new digital skills throughout the organisation, simple access to quality data is key. Data drives automation, powers operations and most importantly delivers the ability to meet customer expectations.

The focus for building a digital-ready business is to create a single version of the truth for customers, products, suppliers and locations. This master data will be vital to retailers' digital strategy, transformation and survival.

*Simon Walker, Director, Innovation, Stibo Systems*

# How we got to now...

**R**etail has changed. Over the past two decades, an entire market sector has been transformed by a combination of new digital technologies and new patterns of customer behaviour. To get an idea of the rate of technological change, consider the following: according to Ofcom figures, as 2006 gave way to 2007, domestic broadband penetration in the UK first reached more than 50% of households.

At around the same time, at the January 2007 Macworld conference, Steve Jobs unveiled Apple's iPhone. Microsoft CEO Steve Ballmer, for one, wasn't impressed. "It doesn't appeal to business customers because it doesn't have a keyboard, which makes it not a very good email machine," he noted. More happily from a futurology perspective, Microsoft invested \$240m to buy a 1.6% share of Facebook in October 2007.

Fast forward less than a decade and Facebook reported in August 2015 that, for the first time, more than a billion people used its service in a single day; smartphones and tablets are near ubiquitous in the developed world, and domestic broadband, except to those in certain rural areas, is so taken for granted that it's become analogous to other domestic utilities such as electricity.

Running in parallel with these technological changes, customers are driving cross-channel retail with an enthusiasm that would have seemed barely credible even a decade ago. Click and collect, shopping for even big-ticket items via mobile, 'showrooming' and sharing photographs of potential purchases via social media are now commonplace behaviours, yet these are new developments. It wasn't until Christmas 2012, for example, that click and collect became a truly mainstream proposition.

We don't mention all this for the sake of nostalgia, but to illustrate how retailers have been caught up in a maelstrom. This has meant it's sometimes been difficult for those who work in the sector, dealing with change on a near-daily basis, to take a step back and see how retail has evolved – and continues to evolve, because if the last decade has taught us anything, it's not just that retail has changed, it's that *retail is changing*.

## ...AND WHERE WE'RE GOING

It's a process that, in conjunction with Stibo Systems, we have covered in a trio of white papers. We've now gathered these papers together not principally because of what they tell us about the recent past – although they're revealing in this respect, showing how retailers have come to recognise the importance of centrally managed and consistent product data – but because of what they suggest about where the industry is headed.

To quote Simon Walker, director of innovation at Stibo Systems, "Retail has become very much data-driven, and the need for high-quality data to support decisions and to drive cross-channel customer experience is becoming ever-more important."

This is an ongoing process where, as we've already noted, consumers have taken the lead. Smartphone and tablet adoption has been far faster than all but the keenest mobile evangelists predicted. Retailers have struggled to keep up. That's especially true for mass-market retailers such as supermarkets, where customers fall in to diverse groups and use different channels in different ways. Retailers are still in what Walker calls a "catch-up phase".

Nevertheless, he adds, "Retailers are beginning to put in place plans and strategies around this, and these plans and strategies are the foundation which is driving digital transformation."

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At John Lewis, for example, the company has a programme of IT improvements, both in front-end and back-end systems, mapped out for the next few years as it seeks to improve already impressive cross-channel operations. “[My team is] judged in terms of enabling the business to do its absolute best for customers and partners to do their jobs to the best of their ability,” John Lewis IT director Paul Coby has said of this work. “I can talk about IT until I’m blue in the face, but if our operational performance is not up to scratch, then no-one is going to listen to all the other stuff. It’s as simple as that.”

It’s key to realise this kind of “digital transformation” doesn’t just affect individual parts of the business. Long gone are the days when a web team was left alone to set up a transactional desktop site to operate separately from the rest of the business. Today’s cross-channel commerce is all about flexibility, about being able to react fast to customer demands.

Take an (increasingly everyday) example such as a customer within a metropolitan area ordering a new dress or shirt for a night out. Because the customer is busy, click and collect isn’t convenient, so the customer opts for a same-day delivery. Sale secured, thanks to the retailer having the ecommerce, marketing and merchandising expertise to persuade the customer to hit the buy button.

But that’s just the beginning. Not only does the retailer need a delivery service, either in-house or contracted out, on call to get the item to the consumer, but the retailer needs to be confident that an item is held somewhere it can be quickly retrieved, and that someone is able to pack the item and get it ready to send to the customer. If the retailer fails in just one of these areas, the result is an unhappy customer and reputational damage. A single sale makes demands that cascade throughout the whole business, both in terms of customer-facing and back-end operations.

According to Simon Walker, within these kinds of scenarios, it’s often the back-end systems that most clearly show the strain: “There may be a great deal of sophistication in the ecommerce infrastructure,” he says. “However, in the supply chain, in supply management, in customer data management, these are often silos or legacy systems where companies are unable to join together the information or join together systems in an easy way.”

“ Cross-channel retail is all about flexibility, about being able to react fast to customer demands ”

#### DATA THAT SERVES BOTH BUSINESS AND CUSTOMER

So what can retailers do to deal with such issues? Our 2014 white paper, *The Foundations of a Consistent Customer Experience* dealt with this issue. In the paper we outlined why retailers need to build a strong but flexible infrastructure resting on a foundation layer of core technologies. Only then will retailers be able to deal with the demands of cross-channel retail that’s focused on individual customers – customer-centric retail.

Retailers have found this challenging. However, as Simon Walker has already suggested, it’s essential work. That’s because any attempts to create new approaches to retail, built around the customer, inevitably end up also being about the data companies hold. Such approaches are about marrying up product descriptions with supply chain information, stock levels and customer information, and doing this in real-time across different channels – and then analysing what all this means to better serve the customer.

In this context, there’s a revealing trend among larger retailers to put chief marketing officers in charge of data and to employ customer experience directors. The role of these ‘owners’ of company data will become increasingly important in the years ahead as they deal with the disruptions cascading through the company as a result of the deployment of digital technologies. More than this, their role will also be to drive “digital transformations” that make the most of the data held by companies.

“Data is becoming recognised as an asset to a business rather than just ones and zeros and letters sat in various databases,” says Walker. “There is actually



tangible value to this we can measure, and therefore we need to put somebody in charge of the data and the information, to make sure we're optimising that, and making the best use of it for business.”

Among the many challenges these officers face is dealing with a mismatch between the increasingly sophisticated product data that companies hold and a comparative lack of information when it comes to recognising customers across different channels. In itself, this is significant because when we first started writing about master data management in 2012, we were describing a business landscape where a surprising number of larger retailers were still dealing with a legacy of information held across multiple Excel Spreadsheets. Just ensuring the consistency of product information was challenging.

A new emphasis on master data management has helped retailers to address problems here. It's also had a positive knock-on effect within the current retail landscape in that retailers updating back-end legacy systems at least know there's a repository of consistent information to help build upon.

In contrast, it's far more difficult to gather reliable information about customers, to marry up online activity with what these same customers are doing out in the real world. As to why retailers need to do this – and it's worth remembering that in an era where customers are increasingly conscious of the value of their personal information, it's a fine line between being helpful and seeming to snoop – we're back to the idea of customer experience-centred retail.

“Customer information is becoming much more important to retailers,” says Simon Walker. “They're looking not just to gather information about customers in order to help merchandise and range stores, they're also looking at that information to say, ‘Well, what different types of experiences can we create with that customer information to make sure we're offering relevant products, relevant experiences and providing relevant digital experiences as well as physical store experiences?’”

*“ It may seem paradoxical, but agility within retail, an ongoing capacity to implement new initiatives, rests on consistency ”*

### KEEPING UP WITH CUSTOMERS

To answer this question effectively, companies need to have a clear understanding of how designing new types of retail experiences will have profound effects throughout the company. We’ve already explored how back-end operations can be tested by something as apparently simple as introducing new delivery options, but the customer-facing part of the business can be affected too. Think, for instance, about bringing digital technologies into the store – or even opening a digitally driven “compact store” where, for instance, shoppers can put clothes on a virtual rail and then see them worn by models, as M&S has done in Amsterdam.

This kind of initiative is often easier for specialist retailers, where incentivised expert staff typically already have a culture of using digital information sources to augment their own expertise and help them serve customers. To see this at the cutting edge, visit Burberry’s landmark London store on Regents Street, recently relaunched as a kind of bricks-and-mortar version of the Burberry website, known as Burberry World Live.

In contrast, many high street and mass-market retailers expect shop-floor staff to be running the tills and stacking the shelves, and there’s no culture of using digital technology in the store. Yet these kinds of retailers can make huge gains here.

This is because simply giving such employees more access to information, perhaps through apps on a tablet, means they’re better able to serve customers. At a time when retailers are trying to gather information about customers, and to marry up the online and offline worlds, in-store colleagues can be a conduit for information.

“It’s about the mentality shift from where employees sit – one day I’m just stacking boxes, the next day I’ve got an app that allows me to do a great deal more through the store and through the entire business, online and offline – it’s that transition that’s not there yet, but is moving,” says Walker.

Once again, as the role of staff is redefined because of digital technologies and new kinds of customer behaviour, change cascades through the business as retailers deal with such questions as how to credit employees for adopting new working practices – and how to make them part of the process of change.

### IN CONCLUSION

Change is never easy to manage, and there will always be stresses and strains as companies update systems or institute new working practices. But to return to where we began, customers will drive change even when retailers don’t, so retailers need to react, and where possible to lead. Yet to do this, retailers need at least some fixed points. In particular, we would argue, the data retailers hold needs to be as reliable and consistent as possible.

This in turn means that when retailers upgrade legacy systems, or bring digital technology into stores or create pop-up digital stores, or send personalised messages via mobile when a customer enters a store, these are initiatives driven by reliable data. We could add many further examples of emerging retail practice here. It may seem paradoxical, but agility within retail, an ongoing capacity to implement new initiatives, rests on such consistency.

The challenges here, it’s worth adding, aren’t going to diminish in the years ahead. Just the opposite. As we move to a world where more and more objects connect to the digital world and “talk”, the era of the Internet of Things, digitally driven retail will become even more complex. And more exciting and innovative too, with huge opportunities for those who begin preparing now rather than later.

“It’s about retailers adapting to the complexity of the cross-channel customer, being able to provide a framework within their organisation which can adapt to the ever-changing needs of the customer, and the ever-changing economic situation,” says Simon Walker. “That’s going to help retailers succeed in the future.”



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