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Insight.



Building for Competitive Growth

A guide for retailers
looking to **increase**
profitability and
customer delight through
unified commerce



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Foreword

There have been many attempts to describe, succinctly, what modern retail looks like. The crux of the situation though is that the customer doesn't care what we call it; **to them it is just retail.**



Consumers' needs and expectations are changing and whilst the majority tend to change their behaviours slowly, digital, in all its forms, is accelerating this pace of change.

Events of early 2020, which saw the emergency stop of all physical retail, promote this change. Customer demand was still there, but in the socially-distanced world of Covid-19, brands have to step up and facilitate this new reality.

A well-informed customer is demanding more of their relationships with brands. The brands by their turn, must now prioritise investment around customer need (and use), stay true to their proposition and invest in people.

This report highlights some of these changes and influences on changing customer behaviours. Our report partner, **Proximis**, provides thought leadership and we provide suggested actions for consideration.

Unified commerce is about breaking down the channel mentality within retail and putting the customer front and centre.

Andrew McClelland | IMRG Consultant | [IMRG](#) | Andrew.mcclelland@imrg.org



Retail was hit hard during this crisis as any 'non-essential' stores have been closed for up to three months - and even though state support has been delivered, store closures and the fall in consumer demand have had a catastrophic impact on the various industries.

In fact, this crisis is a unique occasion to accelerate digital transformation.

Challenges as the high street is reopening include being there for consumers -

how and when they want, proposing a modern Commerce everywhere and anytime possible, satisfying consumers with a high level of delivery promise.

The coronavirus crisis has accelerated the need to unify Commerce across retail and this report explores practical ways of addressing ways of doing so.

Eric Chemouny | COO | [Proximis](#)

Tough Times

The current woes of many retailers don't need any introduction, but a review is useful. Retail is always in a state of flux and the current environment is no exception. Evolution of the industry has generally been rather sedentary with occasional sea changes showing a new direction: the specialist stores where the customer was served, the introduction of department stores where many different categories appeared under one roof, local becoming national chains of stores, self-service, high street to out-of-town retail parks to destination shopping centres, and then the advent of digital, which in itself continues to evolve.

More recently of course, the global health crisis has challenged sales expectations, supply chain and restrictions on physical retail space. Amid those changes however, fact is that retail, whether it is done on the high streets or online, is not about a sales channel, but an experience.

Technology arguably made it more complex to cope with the changes over the past decade, but the significant societal evolution had the biggest impact. This isn't the place for a detailed analysis on the 'loss of the high street', but an opportunity to highlight the key sales drivers. Irrespective of the changes however, the modern customer still expects good service, product selection and a consistent experience across the brand.

Merchants are facing tough competition and they need to understand that the competition isn't just about other retailers: another is that there are lots of calls on a customer's disposable income. By way of illustration, a report¹ published by consultants PwC in 2018 predicts some categories doing better than others and non-retail areas of consumer spending are squeezing what is available for retail purchases. Household bills and miscellaneous services (financial services) are taking the biggest slice, whilst recreation and culture (experiences) are emerging as a major recipient of discretionary spend. Ironically, financial services include interest payments – perhaps the increase in buy-now-pay-later payment options will end up restricting the amount of money customers spend on new retail products!

¹<https://www.pwc.co.uk/economic-services/ukey/pwc-ukey-march18-consumer-spend-automation.pdf>

	Shares of total spending			Implied average real growth rates	
	2018p	2020p	2030p	2018-20p	2021-30p
Alcohol and tobacco	3.5%	3.4%	2.9%	0.6%	0.3%
Clothing and footwear	5.5%	5.3%	4.3%	-0.4%	-0.2%
Communications	2%	2%	2%	1.3%	2.3%
Education	1.8%	1.8%	1.7%	1.5%	2%
Food	7.9%	7.5%	5.5%	-1.2%	-1.1%
Furnishings	5%	5%	4.9%	1.8%	1.7%
Health	1.8%	1.8%	2%	1.6%	2.6%
Housing and utilities	27.1%	27.5%	30.8%	2.5%	3.1%
Miscellaneous services	13.4%	13.7%	14.9%	2.7%	2.8%
Recreation and culture	9.6%	9.7%	9.9%	2%	2.3%
Hotels and restaurants	9.3%	9.3%	9.4%	1.4%	2.1%
Transport	13.1%	13%	11.8%	0.6%	1.1%
Total Spending	100%	100%	100%	1.5%	2%

Chart 1: Household budget share projections to 2030 and implied average annual real growth rates by household spending category in main scenario
Sources: ONS data for Q1-Q3 2017 and PwC estimates and main scenario projections for later periods

Covid-19 has brought its own commercial and cultural challenges. With physical retail restricted, the biggest argument for stores, the social and 'touch-feel' arguments, are under increasing strain. Those customers 'loyal' to the store experience will need some convincing that their favourite brands are staying true to expectations.



Prior to the health crisis, online retail sales growth was slowing, caught between the changing dynamics of a maturing market and subdued retail spending. IMRG's eRetail Sales Index in August 2019 reported overall year-on-year growth slowing to 4.4% against an overall retail market increase of 3.3%² in the same month. Figures from May 2020, however, show that multichannel retailers have had to adapt, some

²<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2019>

doing well, to a new demand for online demand. May saw year-on-year sales grow by 33%, driven in a large part by Multi-channel brands looking to mitigate the revenue lost from the closure of all non-essential retail stores in March 2020. May saw the resumption of demand from customers as they adjusted to the new environment. This demand was primarily from high street shopping stalwarts who's only choice for purchasing was online. Illustrating this change, the Index showed multi-channel retail sales growth at 53% whilst online brands, although still benefiting, grew by 10%.

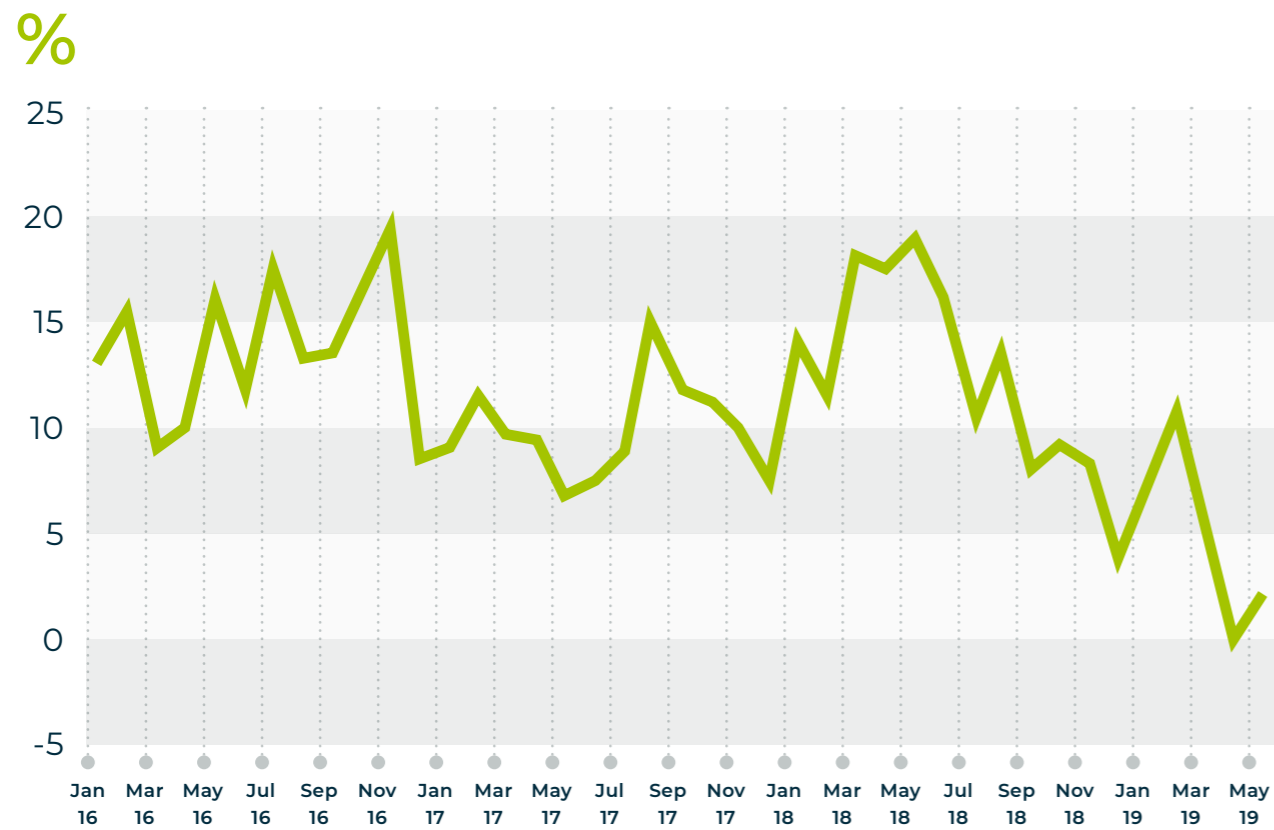


Chart 2

Against this backdrop, **and whilst online growth received a 'shot-in the arm' during H1**, most of the growth for a retail brand needs to come from increasing customer retention and their lifetime value. This will come through sharpening competition against peers, maintaining a profitable sales strategy and continuing to delight the customer - the customer's satisfaction being the key to the winning formula. Indeed, because online can throw pricing into sharp focus, merchants will also have to address operational efficiencies in order to remain competitive. **This is particularly poignant half-way through 2020, as spring/summer ranges have been sat in warehouses, taking up the space and capex required for autumn winter20/21.** The value proposition will be a clear differentiator – moving the conversation away from just price; **which will be particularly difficult for fashion brands in this environment.**

Clarity for the customer – one brand, one experience

IMRG data from the second quarter of 2019³ shows that average customer retention rates are hovering around 43%, meaning that retailers are still relying on a high proportion of new customers. Retention costs are lower than acquisition so what are the key elements around retention that can make the difference?

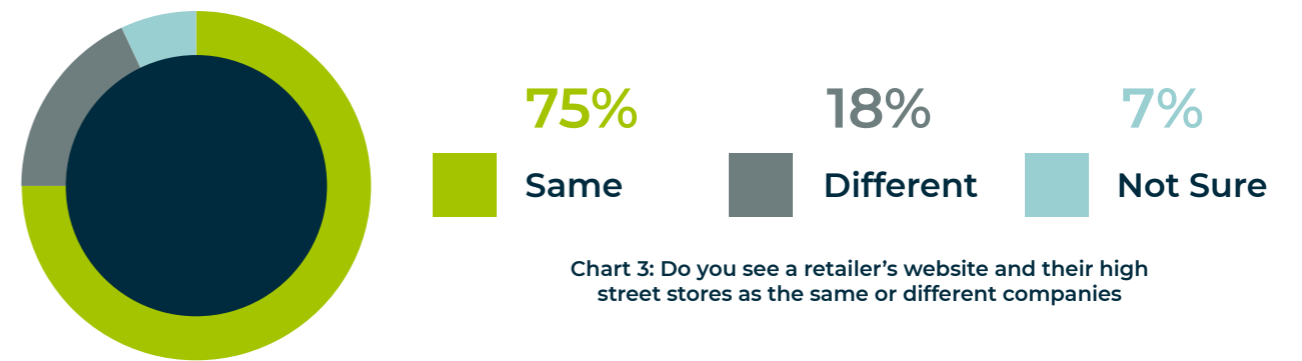


Chart 3: Do you see a retailer's website and their high street stores as the same or different companies

Retailing is very much a mixed affair of online and offline. Leaving aside industry terminology, the customers really do not differentiate between online and offline. Shopping comes down to a purchase requirement and each journey can start and finish in different places, often engaging with different tools along the way. For brands, the challenge lies in making this journey as seamless as possible and encouraging repeat business.

Starting from the physical shopping experience, an IMRG/Maru customer survey in September 2019 highlighted some interesting trends. Three-quarters of shoppers surveyed linked the brand's digital offering with the physical store. **7%** thought they would be separate entities, with the balance not knowing. Most shoppers understand the relationship between the two, but merchants shouldn't take it for granted – especially brands who sell direct and through retail partners.

Just over a third of customers who have tried to reserve online for in-store collection have found the local store was out of stock. This could be taken as a positive as it saved the customer a wasted journey, but it is still a lost transaction. Data in the same survey showed that **40%** of these customers went on to order online from another retailer.

³IMRG Quarterly benchmark for Q2 2019 – May, Jun, Jul

The data doesn't show if this order was also a click and collect order, but it does show the fragility of retaining a customer. Brand loyalty might exist but if that requirement can't be fulfilled, then the customer goes elsewhere.

There is also a demographic split in behaviours as well. The 18-24 and 25-34 age groups are most likely to have experienced this disconnect between store and website stock: perhaps a reflection on their expectations or on the choice of merchants available for this age grouping. This information, in any case, largely reflects that a consumer's behaviour is largely incumbent to the individual and their own personal preferences. Age and generation aren't the defining characteristics that they once were.

Click and collect is well established and is continuing to grow as fulfilment options open up to include stores, lockers and third-party locations. Overall, IMRG expect C&C to total **12.5%** of retail sales volume by 2022⁴.

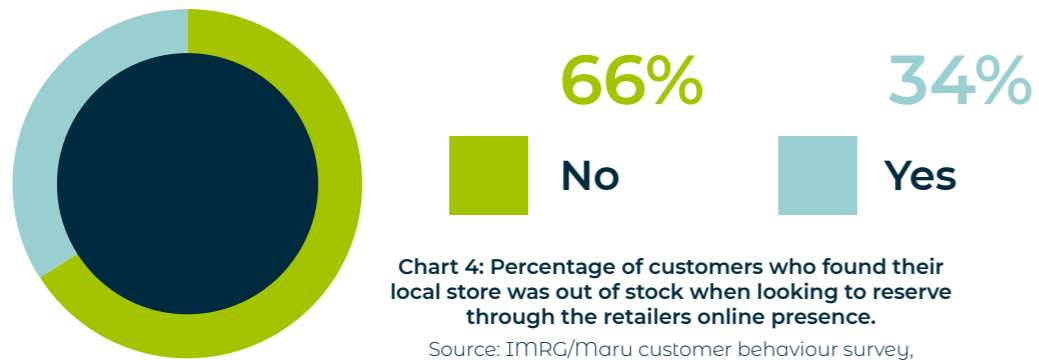


Chart 4: Percentage of customers who found their local store was out of stock when looking to reserve through the retailers online presence.

Source: IMRG/Maru customer behaviour survey, September 2019

Customer support is also another interesting area where differences between online and offline can be stark if it lacks the right bridging solution. Customers coming into store are now more knowledgeable than ever before, often having checked store stock on the website if that information is available before making the journey. **76%** of UK consumers have carried out online research before attending a store, according to research by media agency UM⁵. Often this is for more considered, or higher ticket, purchases.

In-store access to web ordering is about erecting 'elastic walls' – a concept around maximising efficiency of selling space but not necessarily stocking every SKU the business had access to. Smart tills or kiosks, or mobile points of sale, mean

⁴IMRG UK Click & Collect Review 2018

⁵Retail Buying Study 2018, UM

that staff can guide customers through product selection and discovery, thereby reducing the chance of the customer leaving without having made a purchase, even if then delivered to their home.

Customers will expect store staff to be more knowledgeable than them and, at the very least, encounter the same experience in-store as online. The same can be said for the rest of the experience. Customers don't differentiate between sales or communications channels: it is all about convenience for that purchasing decision.

Changing expectations around social distancing and hygiene in-store will add further complexities, perhaps dampening the impact of retail 'theatre'.

Customers want merchants to get the basics right. Product selection available across all channels, consistent messaging / experience, delivery on the customer promise and the ability to deal with the brand, irrespective of the channel. It's called retail.



Business focus – the challenges to unified commerce

Culture and structure

Customers are expecting a consistent service and product selection across all channels. The challenge for retailers is to meet these expectations in a cost-efficient way.

The most obvious sign for customers that retailers haven't quite got it right is their interaction with different channels. At the same time, this can be one of the areas that is hardest for merchants to get right.

Internal culture is at the root of getting a consistent brand experience for the customer. Driven from the top, this needs to reflect the desired customer experience and requires a new way of thinking for many brands. Overall performance needs to be the focus and whilst individual business units still need budgets and targets to manage performance, these should be based on factors that impact the overall organisation. For example, competition for sales revenue between channels does not create a cooperative spirit and causes a point of friction that the customer will experience. Targets based on a channel's contribution to overall sales may be more appropriate.

Merchant Action: Review corporate structures to help business units work together for the benefit of the brand and the customer. Address KPIs, budgets and business structures to focus on one point of delivery and success: the customer.

Stock management and oversight

There is always room for channel-specific promotions, but the customer should be able to access them from other channels. For example, end-of-season stock might be better cleared via the website rather than shipped out to stores. However, customers

may want to return to store. Fulfilment systems need to be flexible enough to get this stock back in to inventory as quickly as possible. It may be more efficient to add this stock to the store inventory and get them to sell it at a bigger discount. Another alternative is looking at the role of the stock file and how this might facilitate efficiencies in operations.

Merchant Action: Review possible stock flow scenarios and consider technology solutions to make sure they can facilitate business, rather than restrict it.

Stock is the life blood of any retailer. It is also one of the biggest costs and can bring a business down if it is not managed effectively; **a particular challenge during summer 2020.**

It is not uncommon for merchants to run separate stock files based on sales channel. Several brands have come unstuck in the past where a channel has run out of product, but the business had stock allocated to another channels. Systems weren't flexible enough to transfer the stock from one channel to another – often even where the stock was held in the same physical location.

According to research by IBM⁶ in 2016, **81%** of retail customers now expect enhanced stock information. Not only do they want to know that the brand has stock, but also how much and where it is. This isn't just for online: Click & Reserve (C&R) customers now expect that level of granularity with store stock as well. IMRG/Maru research showed that **34%** of customers had experienced the situation where the item was out of stock when they went to pick it up.

The main challenge for merchants is making sure the stock file is accurate enough to enable effective management of the stock position. Stock file accuracy is also important for operational efficiency. For example, where a store accepts a return from an online purchase, it might not be included in their SKU profile. The business needs to know its existence so that the product can be sold on – particularly important if it is an end-of-line or sale item. Store fulfilment for online orders may be a way of efficiently getting that product to another customer, rather than shipping back to a central location again.

⁶Consumer Expectations Soar: What does it mean for retailers?
IBM 2016

Product availability on the shelf is also important and shouldn't be ignored, especially when the focus is on the digital channels. Likewise, maximising availability information in digital channels enables the customer to make informed decisions, not just about that purchase but on how they view the retailer.

With checkout abandonment rates around **36%**, merchants need to understand the drivers behind this customer behaviour. For example, clarity of information relevant to that purchase, such as payments types, delivery expectations and return processes are still key reasons for abandonment.

Promotional activity and inventory management can only be carried out with an accurate stock file. Buyers and merchandisers will drive promotional activity based on knowing what stock is available, and where it is. A promotion based on stock which is not available doesn't provide a good customer experience, potentially impacting retention. Moreover, a promotion for products that are readily available would be a good way for merchants to move unsold inventory.

Merchant Action: Oversight for the stock file should be centralised and seamlessly connected to the rest of the merchant's data. The accuracy of data impacts cash-flow, health of the balance sheet and the customer experience. Implementation of technology in stores and fulfilment centres can ease the burden, but further complications with supply chain and introduction of third-party collection points can make it harder for the business to know exactly what stock it has, where it is available or additional information like the opening hours of the shops. Integrating an open stock management software that is natively connected to a POS and web platform is the only way to provide accurate and thorough information to the customer who is making a buying decision.

Fulfilment – delivering on the customer promise

The challenge is not easy because consumer behaviour is unpredictable. It is not so much the age group that defines the shopping preference but rather the lifestyle. Hence, if a businesswoman would pick delivery at her office, the same customer

might opt for high street shopping on the weekends, with an e-reservation or click-and-collect option to avoid standing in queues. Customers use click and collect for convenience, fear of missing a home delivery and reduced prices where the delivery option is provided as a free service. Retailers like to offer C&C, not just from the proposition perspective, but to also drive footfall and incremental sales. However, data from the IMRG/Maru survey shows that **42%** of the shoppers in the survey hadn't made a purchase in-store when collecting their C&C order. If sales associates had access to the customer's online purchase history, and online abandoned carts, upselling would have been possible in-store. IMRG's Click & Collect report⁷ highlights areas that merchants should consider with their C&C offering, which include a focus on convenience and in-store factors like a mobile POS that is connected to the rest of the merchant's data to promote incremental sales.



Chart 5: when picking up an item ordered online and collected in a store (click-and-collect), have you ever made an additional in-store purchase when collecting?

Merchant Action: Shift from channel focus to a customer focus. Define the promise that needs to be delivered. Ensure it has the right technology to extract, enrich and display the information required to give that promise. Ensure they train their people to address the way of doing commerce using both online and offline channels. Provide an in-store system that utilizes the data available from all the relevant systems. Consider promotional activity that relates to their reason for visiting, perhaps focusing on accessory categories rather than complex products. Don't make it a maze to move from online to in-store: you are more likely to upset the customer picking up an order or trying to return a product bought online in-store.

⁷IMRG UK Click & Collect Review 2018

Moving unsold items is increasingly becoming a priority for merchants to reduce losses. Supply chain, breadth and complexity of product offerings, and customer promise all add cost to the retail business. For example, fashion brands used to offer an average of two collections per year. In 2013 this had risen to 18⁸. This increase in seasonality puts additional strain on the business, makes it harder to maintain control of the stock file and, of course, necessitates increased promotional activity. Buyers are looking to offload excess stock as quickly as possible, **particularly where circumstances upset the usual annual sales calendar and stock-holdings go out of sync with customer demand**. At the same time, as collections change, fulfilment needs to ensure the new season is available to all the sales channels. A surge in demand, driven by promotional activity, can put a strain on the business activity if the merchant lacks the tool to manage its orders and channels in the most optimal way.

Merchant Action: Planning goes without saying. However, it is essential that this takes in all the impacted areas of the business. During periods of intense promotional activity, such as Black Friday, ensure that delivery options match system capacity and expected demand, perhaps even with some healthy headroom if this is exceeded. Drop same/next-day delivery options and increase standard delivery terms to 3-5 days. Perhaps charge a premium for urgent deliveries or maintain next-day for full-price purchases. **Where existential threats and the resulting systems and process changes impact the capacity of the fulfilment system, be upfront with customers around the new expectations for delivery and fulfilment.**

Review organisational structures to ensure the demand of managing rapid season turnover doesn't create inefficiencies in the business.

Internal pressures can create issues around promotions. Buyers are looking to shift stock to make room for the new season, business managers are concerned about meeting sales forecasts and fulfilment centres have a finite capacity for pick/pack/dispatch and storage. Any one of these out of sync and the others are impacted. This doesn't even consider the impact on the customer promise.

⁸ Priscila Queiroz Guimarães Wiegandt Ceglio, 2013
- Managing the apparel omnichannel cost-to-serve –
Cranfield School of Management 2016

Merchant Action: Promotional activity needs to consider the organisation's capacity to manage the expected outcomes. The near-constant promotional cycle can create a business within a business. Some online presences now include a specific discounts tab, and this may be the best way if the scale justifies the resource. If not, then the focus must also include making sure that messaging is consistent across channels, even if an offer is channel specific. Store and customer services staff need regular briefing on upcoming promotions so that they are as well informed as customers.

Business resources need to be aligned around a promotional calendar to allow for capacity planning. Some room for flexibility needs to be built-in, but a reporting mechanism can be built so ad-hoc promotions can be planned for outside of the marketing function.

Fulfilment – returns

Central to the modern retail proposition, certainly for distance sellers, is returns. The Consumer Rights Directive 2011 (CRD) brought in some much-needed updates: they introduced clarity for the customer through defined returns and refund periods. They also allowed the business to link receiving the product to issuing a return. Right-to-return was designed to give consumers the ability to check a product, as they would in a store, and return if it wasn't to their liking, with no detriment other than footing the bill for the return postage.

Customers have taken this to heart: a merchant's returns process is now a key factor in the purchasing decision. **67%**⁹ of online customers check a merchant's returns provision before making a purchase. The same report also suggests that **84%** of customers won't shop with the brand again if organising a return turns out to be more complicated than expected.

⁹ IMRG UK Click & Collect Review 2018

Returns rates, according to IMRG¹⁰ data, are currently standing at around 20%, with some categories significantly higher. This represents a substantial amount of stock tied up and unavailable for sale. There is also a significant financial impact for the merchant. These include lost sales, **possibility of repackaging or other hygiene requirements**, processing costs and the financial impact of putting the stock back into inventory.

Merchant Action: As a clear point of differentiation, brands should review their returns process and consider it an investment in regaining control of stock and customer retention. The first consideration when dealing with returns is giving the possibility to the consumer to return products, either bought online or in-store, anywhere they prefer. Introducing third-party collection/drop-off points gives the customer flexibility when dealing with an online pure-play or multi-channel retailer with a limited store footprint; it's about convenience. Systems that allow for printed labels, easy requirements gathering and non-intrusive information gathering will help satisfy the customer and give the business useful intelligence.

Conclusion

When talking about customers and associated actions, the conversation should always come back to KPIs around acquisition and retention.

The ever-increasing complexity of multi-channel retailing can hide the fact that the concept itself is simple: making available the product your consumer wants, whatever the channel, without friction. As businesses grow and become more complex, internal barriers and divisions often cause more issues than a poor customer proposition: they can even cause its decline. Failing to meet the customer's expectations will only lead to increasing losses and shops closing.

Culture, technology and business planning can make all the difference in delivering on the customer promise, perhaps even reviewing what it means to the business and customer.

With pressures coming from competition, costs, taxation and customer fickleness, there is a lot to be gained by breaking down the old silos, gaining insight in operations and developing measurement tools that enable joined-up thinking. **For physical retail, the events of 2020 pose significant challenges for the future. Will new social distancing measures reduce the financial viability of certain store formats? Will there be an increased appetite for 'shopping local' while the recent increased adoption of online by some customer segments may continue into prolonged usage. Of course, the financial impact on some brands may reduce the options for the future even further.**

Retail is built around product, supply, pricing and the customer. Unifying operations across all the sales channels and business's operational units will deliver a clearer proposition, maximise efficiencies and provide the customer with the same experience, wherever they shop with the brand.

¹⁰IMRG Capgemini Quarterly Benchmarking - Q2 2019/20

Additional Information: About IMRG

For over 20 years, IMRG (Interactive Media in Retail Group) has been the voice of etail in the UK.

We are a membership community comprising businesses of all sizes – multichannel and pureplay, SME and multinational, and solution providers to industry.

We support our members through a range of activities – including market tracking and insight, benchmarking and best practice sharing. Our indexes provide in-depth intelligence on online sales, mobile sales, delivery trends and over 60 additional KPIs. Our goal is to ensure our members have the information and resources they need to succeed in rapidly-evolving markets – both domestically and internationally.

www.imrg.org

Additional Information: About Proximis

Proximis Unified Commerce is the only native fully-fledged and adaptable unified commerce solution which allows brands and retailers to offer a frictionless buying experience to their consumers, mixing all touchpoints and data in one single Unified Basket. Proximis Unified Commerce puts an end to the complexity of retail operations by reconciling with much agility e-commerce, smart fulfillment, order and stock management as well as sales in physical stores.

Since its official launch in 2016, an extensive number of distributors and brands from various sectors use the solution, including, JouéClub, La Grande Récré (Toys) agnès b., Gémò (Fashion and Apparel), Agatha, (Jewellery), le Groupe Krys (Optics), Dugas, V and B (Wine), Phyto, Lierac, Jowae (Health & Beauty), les Galeries Lafayette (Department store), Ladurée (Luxury food commodity)... to name a few.

www.proximis.com/en/