

Retail's race for relevance

Contents

<u>Foreword</u>	3
<u>Introduction</u>	5
<u>Rethinking Real Estate</u>	7
<u>Customer Connections</u>	14
<u>Visions of the Future</u>	23
<u>Key Takeaways</u>	29
<u>Who are K3?</u>	30

Foreword

Retailers with a headless commerce solution are 28% more likely to report that they are meeting customer demands.

By Carole Gilkes, Chief Customer Officer at K3 Business Technologies

If you've made it out the other end of 2020, first of all, congratulations. While retail titans like Arcadia Group have been brought to their knees for lack of customer knowledge and agility, plenty of high street players have shown us remarkable resilience, pivoting completely to meet customer demands. Indeed, our research has found that 77% of retailers surveyed are able to decide on and action customer experience decisions more quickly than a year ago.

The past 12 months have pushed businesses to take a step back, reflect and reevaluate.

So, let's go back to basics:

What makes an excellent customer journey?

- Skipping long queues with a self-service option?
- Ordering a pint without having to budge from your seat?
- Easy returns across channels?

The truth is, it depends who your customers are – and even then, their demands are always changing.

For the world of retail and hospitality, 2020 really hammered home the old adage, "the only constant is change". Now it's clearer than ever – no matter the size of your business, **there are two things you need to build a successful customer experience:**

1. Knowledge of your customers' ever-changing demands
2. The agility to meet those demands

The old normal is dead and buried, and the high street is slowly but surely making its peace with adaptation as a culture rather than a process to get from

point A to point B. If adaptation and innovation are baked into your ethos, then we're right there with you. However, as many businesses will have become painfully aware of through this turbulent year of rapid and ever evolving needs, retail tech isn't.

Finding the agility to meet customer demands has been a mammoth task, and it's highlighted a flaw in the current tech landscape. A while back, patching up systems when a new customer need popped up was a viable approach. But much like you, K3 has gone back to basics, and our customer base has spoken, we need a system built for sustainable innovation. Well, here it is: [K3Imagine](#)

How it works:

We've decoupled our hardware and our software. Simply put, this means you can plug and play legacy systems and hardware with new bleeding edge POS software and ERP solutions, while keeping everything connected in real-time on our intelligent, cloud native Imagine platform. This is what gives you the ability to innovate without major disruption or costly system replacements.

What it means for your customers:

The customer journey is connected, flexible, and customers can reach you on their terms.

The proof is in the pudding: retailers with a headless commerce solution are 28% more likely to report that they are meeting customer demands.

[K3Imagine](#) offers our clients the ability and agility to develop and test customer experiences before making vast investments, and to meet the demands of a rapidly changing world quickly without taking on huge risk.

To help you navigate the new world of retail, K3 has partnered with Retail Gazette to find out how businesses like yours plan to make the most of their bricks and mortar.

I hope you enjoy the read!



Julia Mueller

Chief Customer Success Officer at K3 Business Technologies

Introduction

Since the dawn of the digital age there has been a theory that eCommerce is going to replace physical retail.

Anyone in retail will know it is a far more nuanced debate than that, with a more blended version of bricks and clicks clearly the direction of travel for the industry.

The real issue is relevance. In a world that changes very quickly due to technology, new trends and generations of shoppers wanting different things from life, it is imperative for retailers to position themselves accordingly and meet customers where they are.

K3 and Retail Gazette's exclusive research shows that as devastating as the pandemic has been for the retail industry in terms of missing revenue, store closures and job losses, it has also provided a reset moment. It has provided an opportunity to introduce changes that have been needed for a long time, and to build in additional flexibility to ensure they can maintain all-important relevancy in the unpredictable years ahead.

Almost two-thirds of retailers we surveyed said they expect to have fewer but better stores following the pandemic, and the majority now describe themselves as more agile than they were a year ago.

Does that mean retail is in a position to build back better as shops reopen and the industry reemerges to full capacity following the pandemic?

Only time will tell, of course, but this report assesses that notion, weighs up what impact the Covid-19 crisis will have on brick-and-mortar retail and the shape of the industry, and how companies' relationships with their consumers are evolving.

Read on for insights, analysis, and hypothesis

Headline statistics

What retailers predict is going to happen...

61%

expect to have fewer but better stores by next year

39%

say at-home experiences through online channels will be the CX model that defines the next decade in retail

What retailers are doing about it...

80%

said they used the pandemic to make changes they already knew were required

77%

are investing more in eCommerce in 2021



But crucially, **61%** are investing in better links between stores and online, envisaging an omnichannel future defined by interconnected channels



And that is because those with a headless commerce solution are **28%** more likely to report that they are meeting customer demands.



But there's huge amounts of work to do...

Only **25%** of retailers can claim they are anywhere near omnichannel status, at present because they don't have a single view of the customer

Methodology

Retail Gazette surveyed 141 senior retail leaders in January/February 2021, asking 15 questions covering their future plans, changes to operations over the previous 12 months, and store and technology investment strategy in a post-pandemic environment.

Rethinking real estate

Planning applications for new stores declined by 22% across England in 2020, with major cities seeing a significant drop in numbers according to a study released in February 2021.

The real issue is relevance. In a world that changes very quickly due to technology, new Applications fell from 3,908 to 3,037 year on year, with York experiencing the single largest drop of all cities and Dartmouth and Totnes in Devon reporting the largest decrease in applications by region.

This snapshot of demand for retail space comes from law firm Boodle Hatfield, which said the various coronavirus pandemic-enforced lockdowns were "catastrophic to the retail sector, causing developers to cut their retail development pipeline".

Considering there were several high-profile administrations, notably Arcadia and Debenhams, which were acquired by online players that took on the brands but not their shops, a smaller physical retail footprint in the UK is the post-Covid-19 reality.

Indeed, **Retail Gazette and K3's research finds 61% of UK retailers expect to have fewer but better stores in one year's time**, compared to just 18% of businesses predicting the next year will result in them opening more stores in a different format to before.

How do you see your real estate developing over the next year?



With IMRG data indicating online retail sales in the UK grew by 36% year on year and the Office for National Statistics consistently tracking eCommerce at around one-third of total retail sales, it is perhaps no surprise respondents see an online-led shopping future.

Some 39% say at-home experiences through online channels will be the customer experience (CX) model that defines the next decade in retail.

While 5% of retailers say the megastore city centres, such as London's Oxford Street, will define the retail landscape, there is still an expectation by a significant part of the industry that physical shops will hold influence. Some 21% think the high street will define retail in the next decade and 14% believe it will be pop-up experiences.

Which customer experience model do you think will define the next decade of retail?



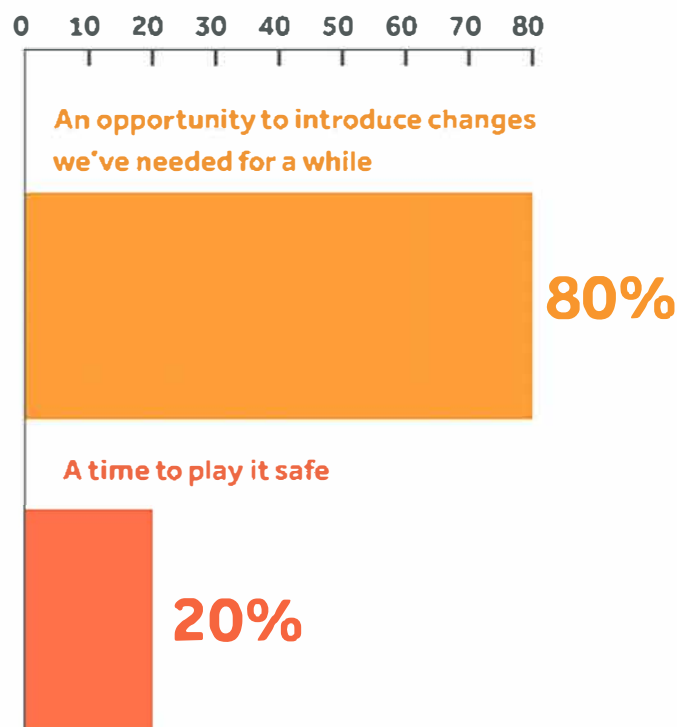
What do fewer but better stores look like?

What is striking about the Boodle Hatfield research, though, is there were still over 3,000 planning applications for new stores – even in a pandemic. And with the major grocers continuing to open shops at a faster rate than just before the pandemic, this is certainly no apocalypse of retail space.

The pertinent question to ask, then, is what will the shops that do open and remain open look like? What has been learnt from the challenging 2020 and early part of 2021 that can be put into practice as some semblance of normality returns to the sector?

The pandemic has impacted retail drastically, with the rise in digital and the disappearance of familiar household retail names, but 80% of retailers we surveyed said they used the period to make changes they already knew were required.

The pandemic has changed retail drastically, which of the following best describes how your organization has approached this period of turmoil?



Examples of this in action include B&Q owner Kingfisher shifting its infrastructure to allow shops to act as local distribution hubs for its online businesses, and Currys PC World linking its stores to online shoppers via video communication.

Meanwhile, as department store chain John Lewis closes down some of its store estate it is looking to introduce shop-within-a-shop offerings in sister company Waitrose's stores. And Marks & Spencer (M&S) has signed a deal to sell Joules, Seasalt, Phase Eight and Hobbs online and in its shops, as a way of expanding its appeal.

Our research shows 27% of retailers are collaborating with other retailers to create a high street strategy that meets the needs of a local community and 51% would be prepared to do so but are not doing it yet, meaning more partnerships are on the way.

Would you be prepared to collaborate with other retailers to create a high street strategy that meets the needs of a local community?

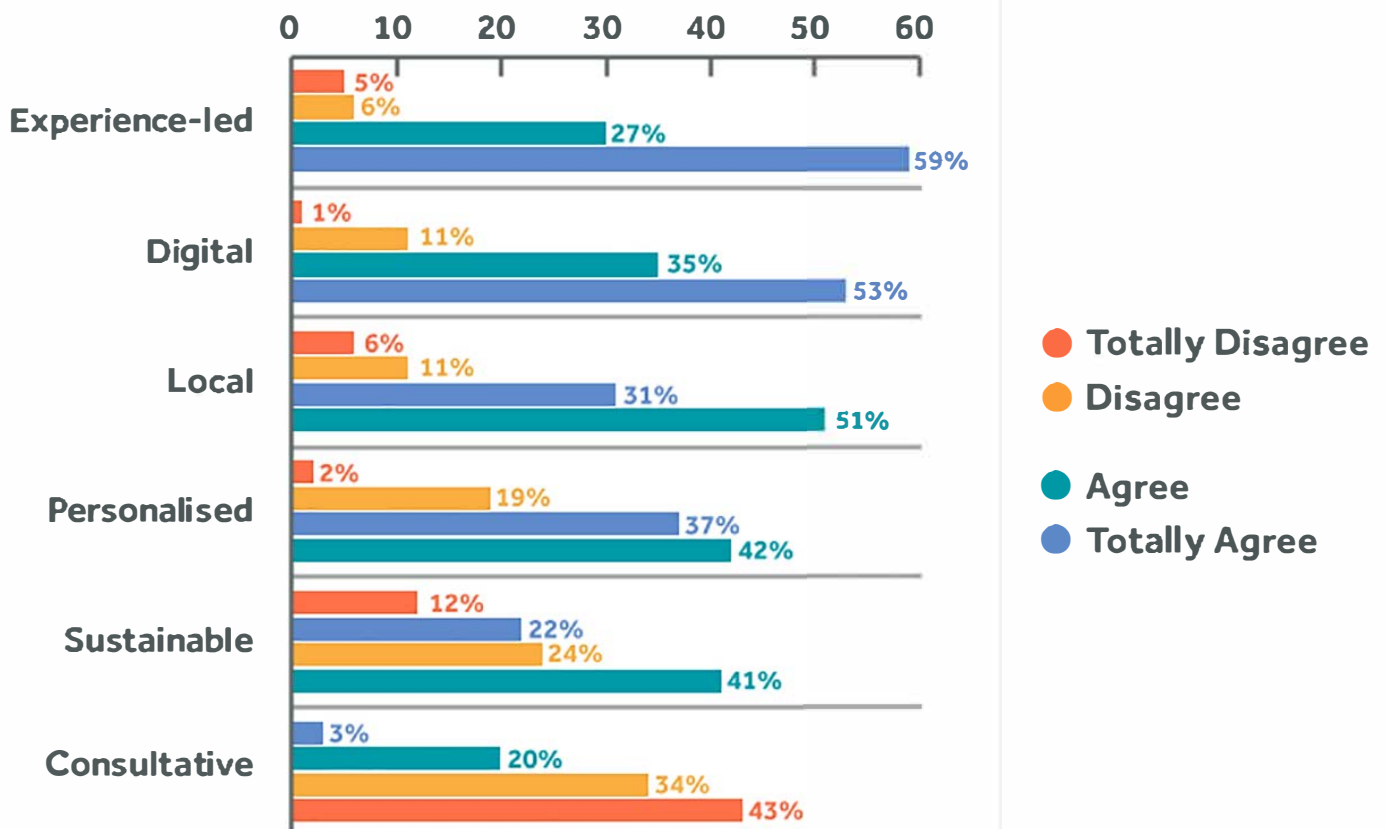


A technological influence

Since the turn of the year the UK has seen some new physical retail players, including Amazon Fresh and Situ Live. Both of which put technology at the heart of what they do, with the former using its 'Just Walk Out' technology to enable app users to scan in, choose items, leave without visiting a till and be charged automatically.

Situ Live, which is set to open the first of what it hopes will be several stores across Europe at Westfield London, will provide staff to talk customers through products from brand partners across multiple categories, including 'Fitness & Wellbeing' and 'Connected Home', before letting shoppers buy via QR code direct from a manufacturer.

To what extent do you agree with the following statement: The future of bricks and mortar retail will be more...



The appearance of this type of shop is perhaps no surprise, with our survey showing 87% of retailers agree the future of bricks and mortar retail will be more digital, suggesting an industry on board with more tech-influenced shop concepts coming to market.

Introducing a strong digital infrastructure will create a foundation to deliver compelling, localised experiences, and indeed, some 89% say the future of bricks and mortar will be more experience led, and 84% suggest it will be more local. To summarise, **retailers are expecting brick-and-mortar to be more technological, offer goods tailored to the community around them, and provide compelling experiences.**

But do they understand their customers well enough to deliver this vision?

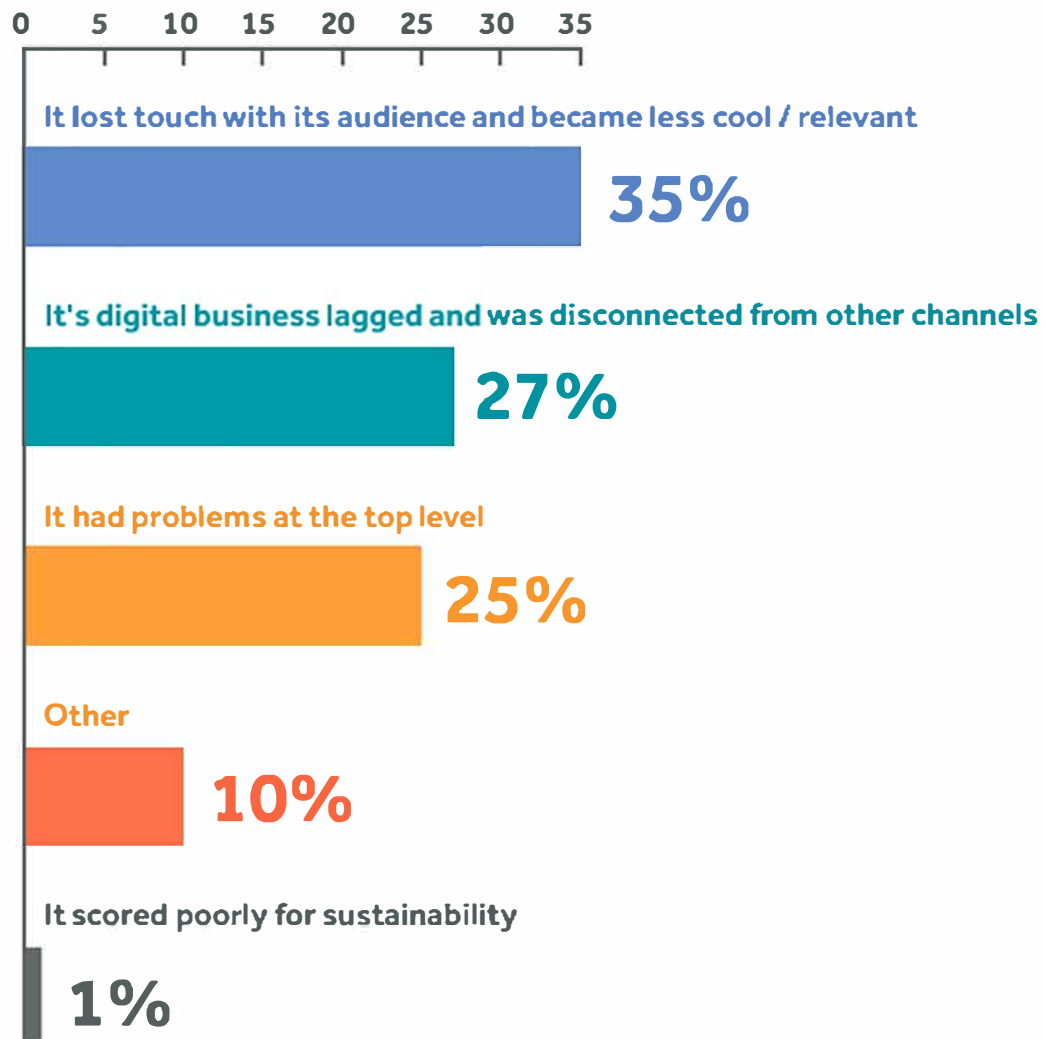
Customer connections

The main reason Arcadia, which operated brands such as Topman, Topshop, Dorothy Perkins, and Burton, went bust is because it lost touch with its core audience, according to our research. Some 36% of retailers say so.

Retailers answering our survey said the ex-industry powerhouse was brought to its knees due to lack of customer knowledge and agility, and because its digital business was a laggard disconnected from other channels (27%). So, what are others doing to make sure they don't succumb to a similar fate?

As we've discussed, the majority of retailers have used this turbulent period of trading to make changes they knew they needed to make. For the 20% saying they had spent 2020 "playing it safe", problems of an Arcadia-scale could be just around the corner.

What do you think is the main reason Arcadia Group went bust?

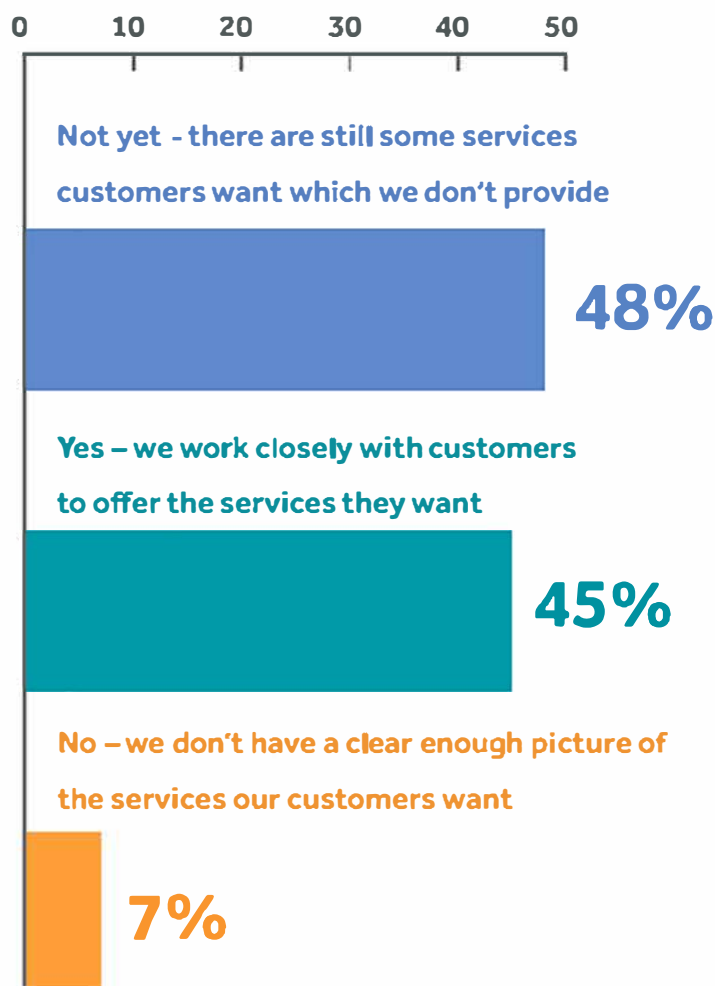


With the pandemic showing success came to those who pivoted completely and provided customer propositions they never had done before (who could have imagined a M&S-Deliveroo partnership ever taking shape before March 2020?), it's clear the retail industry is in 'adapt or die' mode. This really is not the time for standing still.

There's an even split between those which do believe they are working closely with customers to ensure they get what they want (45%) and those not doing so yet (49%). For the latter, they admit there are still some services they need to add to their offering to ensure their customer connectedness.

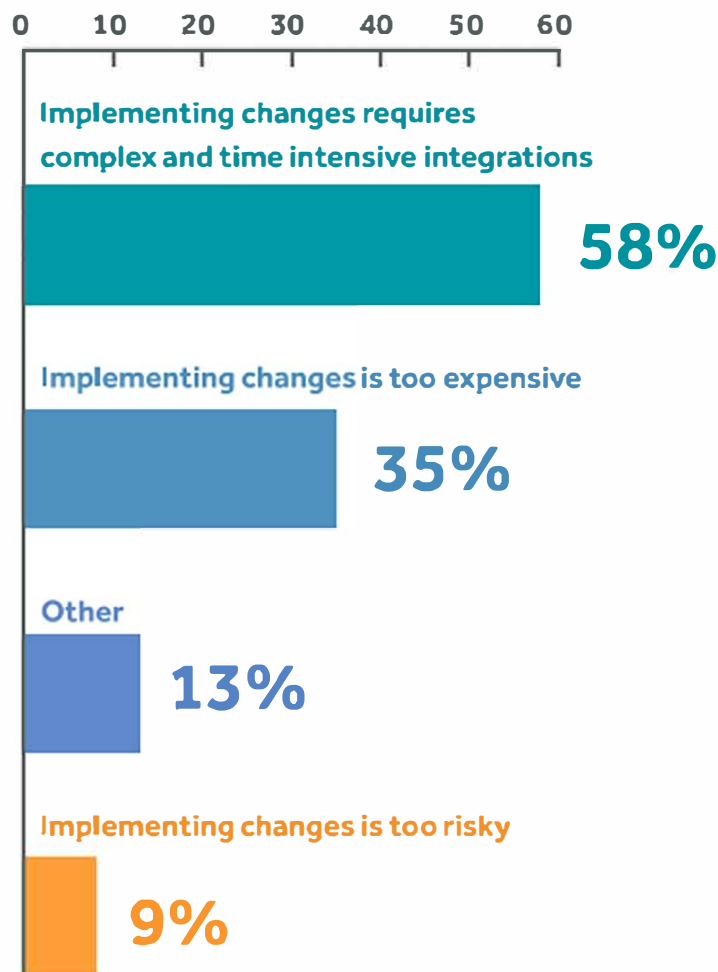
As for the 6% of retailers saying they don't have a clear enough picture of the services their customers want, is there any hope at all? [Separate consumer research from K3](#) shows one-third of shoppers will cut and run if they don't receive the services they want.

Do you believe you are meeting your customers' CX demands?



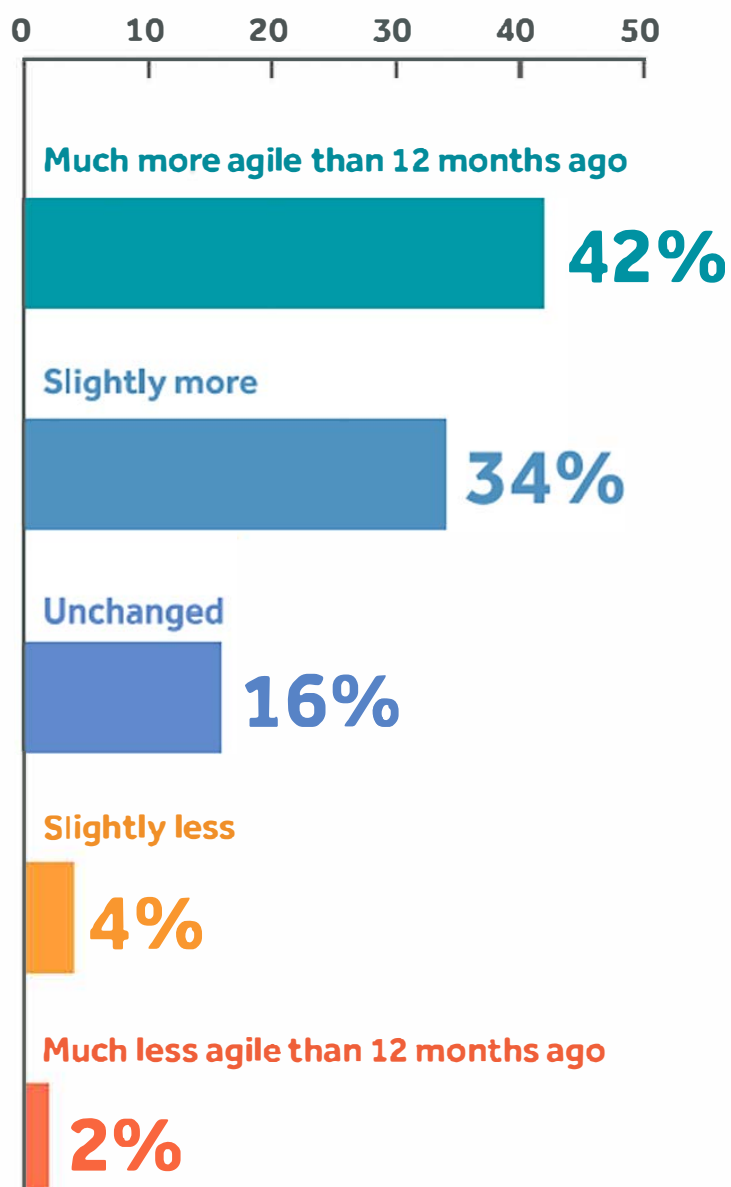
In February, Amazon launched its 'Build It' initiative, whereby the online titan presents concepts to consumers, who indicate their sentiment towards the ideas by pre-ordering. If a concept reaches its pre-order goal in 30 days, Amazon begins to build it, and those supporters will be among the first to get their hands on it – that's a compelling example of consumer centricity and shows the type of competition facing wider retail.

Which major challenges do you face when it comes to meeting your customer's CX demands?



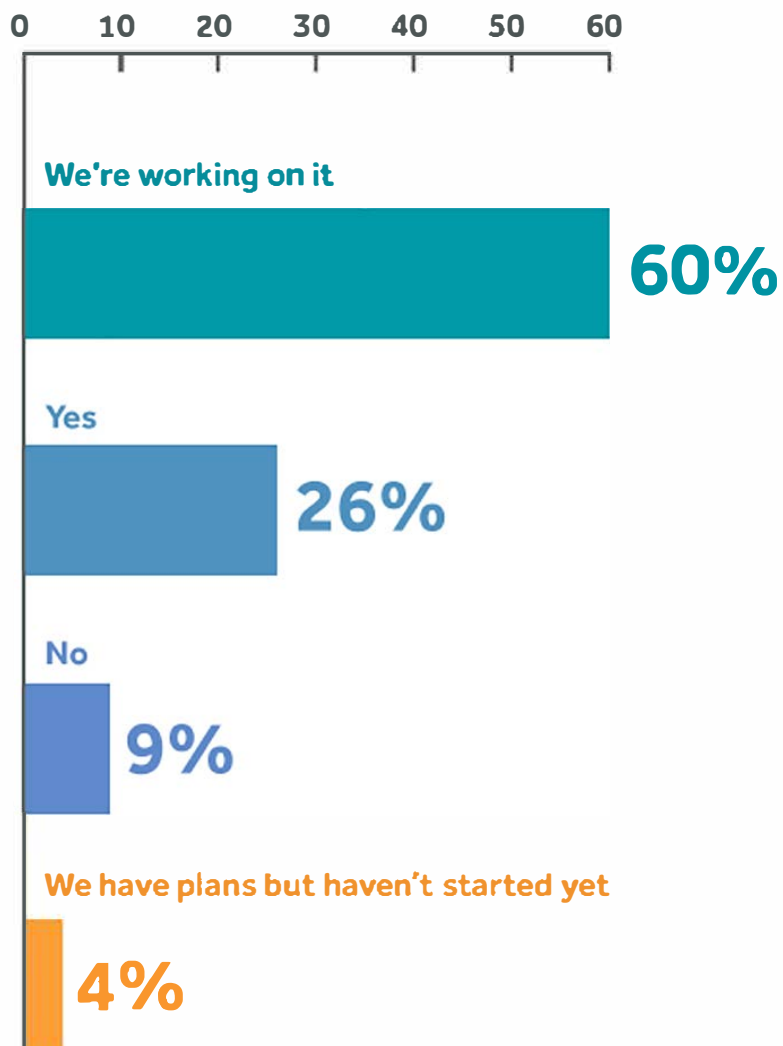
To what extent is your organisation able to decide on and action CX decisions quicker than it was one year ago?

K3 – Retail's race for relevance



Do you have a single view of your customer across all channels?

19



While it's clear that an omnichannel strategy is front of mind, three-quarters of retailers we surveyed admit they do not have a single view of their customer across all channels. Some 60% say they are working on it, but only a quarter of all the retailers responding to the research say they already have a single view. What this means is only a quarter of retailers can claim they are anywhere near omnichannel status, at present.

But falling short of meeting CX needs might be about to change. Retailers' investments into tech have been paying off, with 77% acknowledging they are now in a position to make important CX decisions quicker than one year ago. The industry clearly sees such agility as crucial to success in modern retailing.

The retailers that remain after a challenging 2020 are those which have been able to show agility already. Companies such as Next, Joules, and Seasalt have shown significant resilience in these tough times, and despite taking knocks like everyone else in the pandemic, they have strengthened through new partnerships, acquisitions and following clear strategies.

Stumbling blocks

Retailers say they are focused on customer service – with 93% of survey respondents suggesting excellent customer service is something that they either had in place last year or will be ramping up in 2021.

However, we've established that 55% of retailers don't feel they are meeting customer demands – so what's getting in their way?

When asked about the major challenges they face in meeting customers' demands, 59% of retailers say implementing changes requires complex and time intensive integrations. But how can retailers expect to be successful if they can't find the time to invest in what they know is important?

Indeed, everyone values their time – retailers and customers alike. Retailers need to respect that their customers feel this too and invest in tech that meets their demands for a convenient and frictionless omnichannel experience.

The irony is that single view CX tech can ultimately save retailers time in the long run. For those without a single view, valuable time is being spent cobbling together a disconnected picture of their customers. In the short term, a single view can save time on reporting. In the long term, having a real-time pool of data allows retailers to be more reactive if CX decisions are or aren't working out.

Some 34% cite implementing necessary CX changes is too expensive and 9% suggest it is too risky. Selecting an agile platform here is crucial. This is where headless commerce solutions like K3's intelligent cloud platform

and retail suite can retailers. An agile solution allows retailers to plug and play modules, and try CX changes without sinking loads of money and time into expensive hardware, or changes that customers don't actually want.

And, according to our research, on average, **those with a headless commerce solution are 28% more likely to report that they are meeting customer demands.** This statistic suggests a decoupled hardware and software solution works well against the time/money/risk arguments retailers say are holding them back.

White Stuff's head of eCommerce, Seb Villien, speaking at IMRG's Fashion Connect event in February said achieving a single view of its customers is the business's "big focus".

"We're working on getting that single view of stock, customer and data – it's the imminent priority," he commented.

Judging by our research, Villien and White Stuff are not be alone in that mission. And they will be seeking out the options available from the technology community to help make their strategy a reality.

What methods do you use to understand what kind of customer experience your customers want, and track CX success?



Keeping track

At present, the methods retailers use to understand what type of CX shoppers want centre on analysing general customer data and monitoring wider market trends. Half of the retailers surveyed use one or both of these approaches, but if data is driving decisions in a business without a single view of the customer, how useful is it really?

It all shows retailers are in the process of understanding their customers and they know it's important they do so. But their current efforts are clearly not bearing fruit because – despite their continued attempts – that customer knowledge gap persists.

Gaining that single view of customers is going to be important for those retailers that want to continue driving growth supported by a loyal audience. For those that are struggling to keep their heads above water, it represents nothing short of a lifeline.

So, where is the retail industry headed?

Visions of the future

There is no doubt about it; 2021 is a watershed moment for the retail industry.

Online players Boohoo and Asos picking over the bones of the prostrate Debenhams and Arcadia – and Amazon's first UK grocery store openings – are the most tangible examples yet of eCommerce's rise to prominence and power in the overall retail landscape.

With such a shift in how retail looks compared to only one year ago, it is clear retailers need to focus on staying relevant. And to maintain relevancy they must keep up with what it is consumers want by putting them at the heart of everything they do.

Retailers we spoke to for this research are putting their eggs in the technology and the sustainability baskets.

Move over Sir Philip, there's a new green empire developing

Sir Philip Green's Arcadia empire may have crashed in 2020 due to irrelevance and disconnected digital channels, but a new green empire is on the rise.

Since the turn of the year, Asda, Lush, Sainsbury's, Tesco, and Holland & Barrett are among those putting in-store sustainability services in the form of recycling, reducing food waste, or saving packaging from landfill at the heart of their plans. And, according to our survey, 32% of retailers have already added or are planning to add re-commerce services.

The ability to upcycle is also a focus for 38% of retailers this year, according to our survey, which might mean consumers see this reflected in products available to buy, store design, and marketing strategies in the months ahead.

It all speaks of a greater commitment to reducing environmental impact, which is hugely encouraging considering the carbon reduction goals the UK and the rest of the world are working towards as part of the Paris Agreement. [And with supplementary research from K3](#) showing nearly 30% of customers having boycotted a retailer due to lack of awareness for the environment, it makes commercial sense as well as environmental.

Your technologically-enabled shop

The aforementioned arrival of Amazon Fresh and Situ Live suggest a new era of technologically-enabled shops is coming to the UK.

It's arguably the next stage of an ongoing evolution: supermarkets and convenience stores have increased their self-service offerings in recent years, and fashion players like Zara and Uniqlo have started to introduce these concepts too.

Showpiece stores like Amazon's may bring long-term convenience, but the cost of the tech required to follow suit is prohibitive for the wider industry right now. Despite this, 49% of those we surveyed said they are increasing their general in-store technology investment in 2021, showing this to be a clear priority in the plans for fewer, better stores.

The real tech change is coming in terms of integrations and communications that make life seamless for shoppers. The tool that has revolutionised retail in recent years, mobile, comes into play in a big way here.

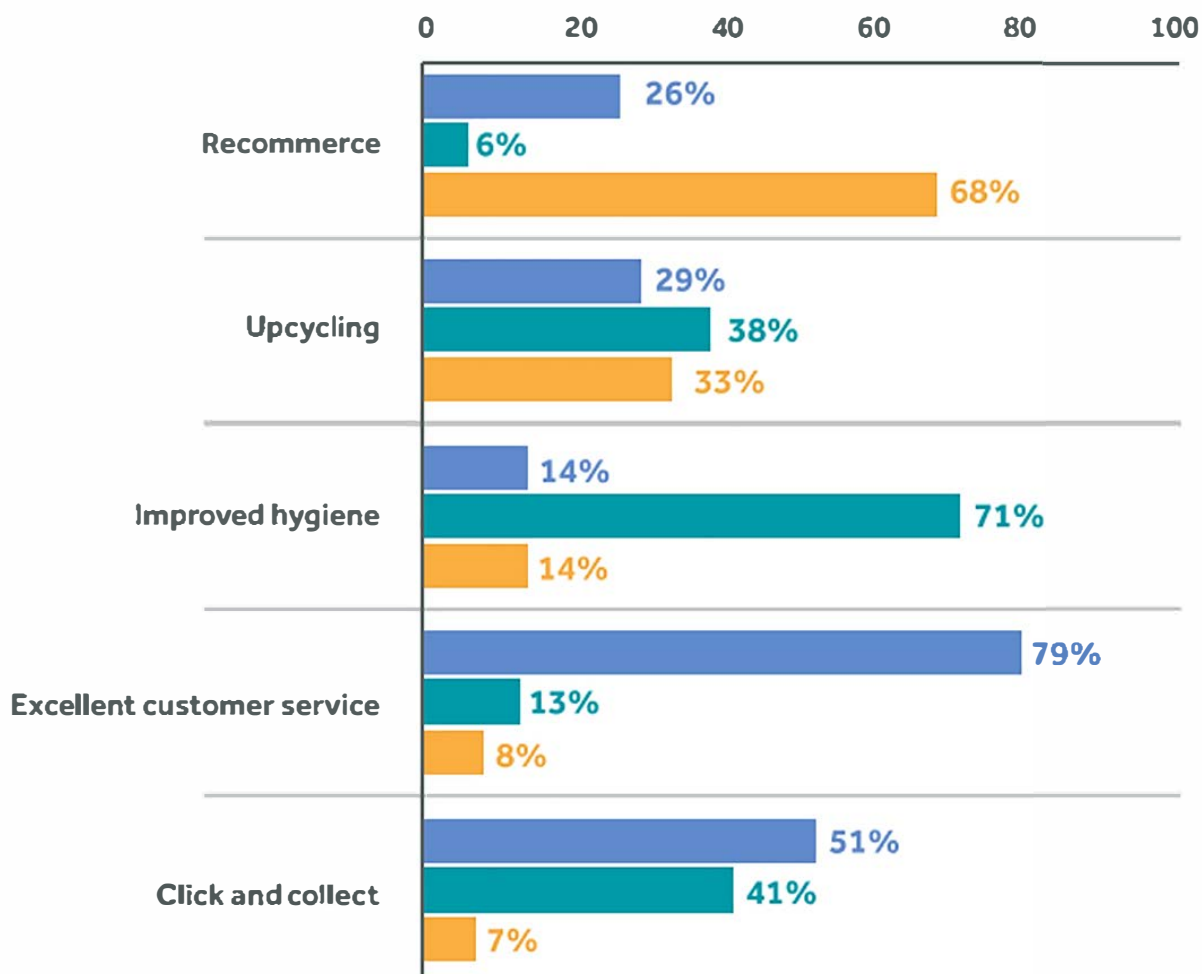
In the palm of most consumers' hands, mobile is the glue that connects physical and digital experiences for shoppers – it can be as a price comparison reference point at the shelf edge, but it can support even greater shopfloor innovation too.

Investment in a mobile strategy can help shops and its high compute capacity often means retailers can provide compelling and personalised CX without the need to shell out on clunky hardware in every corner of a store.

Some 41% of retailers are planning introducing click & collect services in 2021 – suggesting the connection of physical and digital assets is front of mind.

86% of retailers are either keeping budgets the same or raising expenditure on better training for store staff to fulfil a consultative role, while 83% say the same about better designed stores.

Which of the following were you already offering before 2020, and which have you acquired going into 2021?

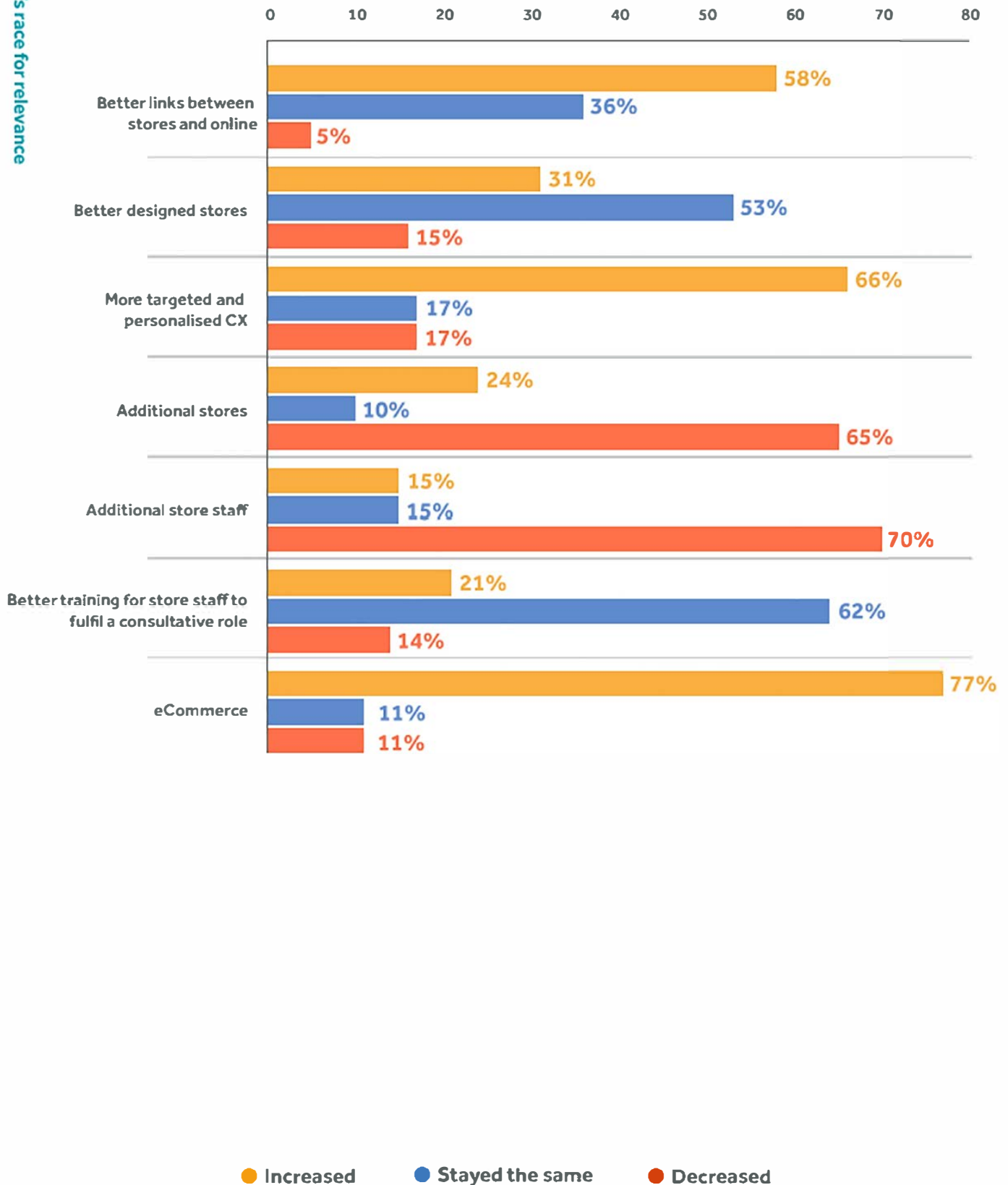


● Before 2020 ● Going into 2021 ● We don't offer this

For which of the following is your budget increasing this year?

26

K3 – Retail's race for relevance



It is clear retailers see the future of the store as tech-enabled consultative hubs featuring a blend of automated services and in-depth human expertise for an “experience-led” offering. They’ll be greener and they will offer personalised service as a matter of course.

Putting their money where their mouth is

Retailers’ budgets are being directed to make these visions a reality, according to our survey.

Some 77% are increasing their expenditure on eCommerce, but they are mindful that a harmonised online and offline experience is crucial, with **61% investing in better links between stores and online** such as fulfil from store and click & collect.

Indeed, Harvard Business Review conducted research of 46,000 US consumers in 2017 and found people who shop across more than one channel spend an average of 4% more than single-channel consumers, highlighting the importance of prioritising omnichannel customers.

Shooting in the dark?

Whatever the next decade brings, it is crucial for retailers to know what their customers want and have an agile tech strategy to accommodate any changes in demands.

Those businesses which don’t do this – and, as our research shows, there are many retailers still in this position – are shooting in the dark with a gun that doesn’t work. Just like Arcadia was.

It is a period of many challenges for the industry but there is sizeable opportunity for those able to turn the lights on throughout their organisation, map out their vision with the right tools, and shape their businesses to the needs of the 21st century shopper.

So, what should retailers take away from this research?

Key takeaways

The components of retail relevancy in four sentences:

A is for adaptability:

Retailers realise flexibility is essential and have used the last year to improve agility, meaning business and customer-facing decisions can be acted upon quicker than ever before.

Knowledge is power:

Most retailers view of their customer is based on disconnected fragments. By gaining a single view across all channels, retailers can better understand and serve their customers.

Be better connected:

To avoid Arcadia's fate, retailers need to connect their offering. A connected offering across channels = better understanding of customers + the ability to meet customers where they are.

Green is for go:

Customers want greener operations from retailers, who plan to be more environmentally friendly – joining the dots here is non-negotiable.

Who are K3?

K3 has been at the forefront of the retail technology industry for the last 30 years. As a leading supplier of software solutions, we have serviced countless clients across the globe.

We blend our own IP with third-party solutions and leverage the flexibility of our future-facing K3|Imagine platform to create an indispensable end-to-end IT infrastructure for businesses of all sizes.

K3|Imagine is a flexible, adaptable and extensible foundation from which our customers can holistically build and integrate boundless areas of connected interaction, intelligence and services.

In a world full of uncertainty, K3 provides an absolute resolution to today's biggest challenges and empowers businesses to be ready for the now.

We are truly fundamental to a healthy business.

[For more info, visit K3BTG.com](https://www.k3btg.com)

Or contact Mark Gaydon, Enterprise Solutions Seller at K3
email: mark.gaydon@k3btg.com

