Agility, Resiliency, And Sustainability As A Strategy In Consumer-Facing Businesses

Benchmark Report

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Executive Summary

The world isn't as predictable as it once might have seemed. A "wash, rinse, repeat" retail business model doesn't work very well anymore, and executive teams are learning that the organization must be designed to take quick action in the face of both unpredictable demand *and* uncertain supply.

The purpose of this benchmark is to uncover what retail decision makers are doing to address **Agility** (the ability to quickly adjust to changes in consumer demand), **Resiliency** (the ability to respond to supply side shocks), and **Sustainability** (the ability to support ecological, human, and economic well-being).

Some of the highlights of what we found:

- Retailers accept that they will never see a return to predictability, and that their best course forward is to move from "command and control" to "sense and respond". *Their number one concern is customer's mobile phones* (and the ability they provide to buy from competitors), and rightfully so.
- On the bright side, retailers see implementing location-aware capabilities as a way to improve virtually every aspect of the shopping experience by knowing how both shoppers - and inventory - move. They see these tools as opportunity to speed up the supply chain, to make CRM data from loyal customers more actionable - even to open new ways to sell to existing customers. All this falls under the umbrella of *improving omnichannel profitability* – and *that* is the name of the game in retail today.
- The best performers plan to spend the next 36 months steeling their businesses as much as possible to whatever the world throws their way – 80% see workforce equity and inclusion as an important way to enhance their business' resilience; 56% will undertake climate risk analysis.
- As to roadblocks, retail respondents don't *just* blame the fact that many of their <u>systems</u> are rooted in the past. Their #2 inhibitor is that business leadership still prefers to run by "gut feel." For the newest generation of retail leaders, this plays every bit as old-and-in-the-way as the DOS-based point of sale systems.
- If arcane technologies are the roadblock, better data and analytics *to make sense of that data* will show the way around them. Our retail respondents display something of a "holy trinity" for a way forward:
    1. Improved data quality will enable the business to become focused on what matters most;
    2. Analytics to allow retailers to respond to incidents as they arise (in real time), and, ultimately;
    3. *Business analytics* will help to measure the business effects of those efforts.

The virtuous cycle of sustainability, resiliency, and agility is entirely interconnected, but at its core, it is entirely dependent on the best data and analytics available to enable real sustainable change. To call this an ecosystem would be a dramatic understatement.

As always, we also offer several in-depth and pragmatic suggestions on how retailers should proceed.

We certainly hope you enjoy it,

Brian Kilcourse and Steve Rowen

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Research Overview

Why Achieving Agility, Resiliency, And Sustainability Is Important Now

The retail business model as we have known it for almost 100 years was developed with an underlying assumption that *change is predictable,* and that *achieving operational efficiency* is the key to success. With that baseline assumption and objective in mind, businesses have, with very few exceptions, focused on delivering on the promises as stated in financial plans with a "command and control" organizational construct.

As long as the world was a predictable place, that model worked well - with the obvious caveat that the brand's value proposition had to be relevant to consumers. Companies focused on continuously improving their line-of-business processes (supply chain operations, store operations, etc.) to maximize the sell-through of optimized product assortments and to eliminate as much process friction as possible to eliminate unnecessary operational expenses, all in the service of delivering bottom line results.

But increasingly, the world isn't as predictable as it once might have seemed. Consumer demand certainly has become more unpredictable, starting in 2007 with the introduction of the Apple iPhone and all the way through the global pandemic of 2020-22.

Supply has also become unpredictable to the point where "the supply chain" has become a topic at the dinner table. And finally, new consumer service demands (for example, "buy-online-pickup-instore": BOPIS) have tended to work at cross purposes with retailers' efforts to control operating costs.

To complicate matters, an emerging demand coming from consumers related to *sustainability* is fast becoming a top-of-mind challenge. **Retailers are being driven more by changing consumer expectations rather than internal efficiency considerations when prioritizing efforts associated with sustainability**. As RSR noted in its most recent supply chain study[1], "Consumers have made their feelings about environmental issues crystal clear to us in our research … *the messages that resonate most with them are directly related to something far more personal: their health*."

But other issues related to sustainability are also starting to rise in importance as well: how a product is made, where it is made, what the working conditions are for those who make it, and how the product will be recycled. And there are potential *efficiencies* associated with a sustainability agenda too: eliminating waste, reducing carbon emissions, and addressing the costs associated with direct-to-consumer deliveries (packaging, last mile logistics).

Netting all these considerations out, it is increasingly clear that a "wash, rinse, repeat" retail business model doesn't work very well anymore. Retailers are challenged to reliably deliver top line sales and bottom-line earnings more than ever. Executive teams are learning that the organization must be designed to take quick action in the face of both unpredictable demand and uncertain supply.

The purpose of this benchmark was to uncover what retail decision makers are doing to address **Agility** (the ability to quickly adjust to changes in consumer demand), **Resiliency** (the ability to

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[1] **The Quest For A Resilient And Agile Supply Network,** RSR Benchmark Report, April 2023

respond to supply side shocks), and **Sustainability** (the ability to support ecological, human, and economic well-being).

Cards On The Table

In RSR benchmarks, we often comment that "more revenue" and "improved profits" are *desired outcomes*, not objectives (we have yet to work with a business that wants *less* revenue!). Retailers make that point abundantly clear when we ask them to state what their priority is for the coming year; the agenda is all about ensuring the company's economic well-being by driving **sustainable growth** (Figure 1). But that is a different definition of "sustainability" than consumers have in mind.

Figure 1: Challenges For Sustainable Growth

Which of these is the highest priority to your company in the next year?

■ All

Find new ways to drive sustainable growth	52%
Strengthen operational effectiveness	33%
Enhance business resilience	15%
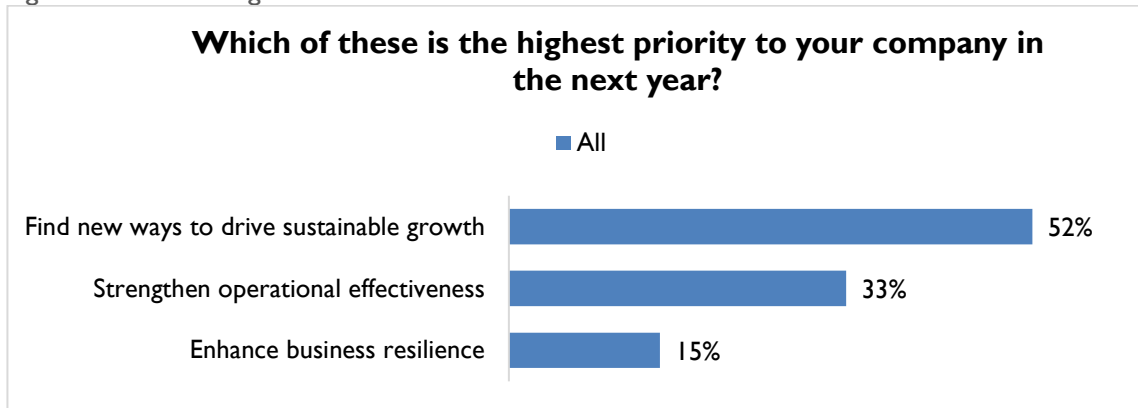
Source: RSR Research, August 2023

It's also clear that sustainable growth is increasingly dependent on *data and analytics* (Figure 2). Most importantly, *customer* analytics are viewed as the most important analytical capability by our survey respondents. RSR has written for years that the essence of a *customer-centric* go-to-market model is not to sell what the retailer wants to sell, but what consumers wants to buy. Putting customer analytics at the center of operational decision making is how retailers make that happen.

Figure 2: Data & Analytics To Drive Sustainable Growth

Please rate the importance of the following to drive sustainable growth in the next three years:

■ Very Important ■ Somewhat Important ■ Not Important

	Very Important	Somewhat Important	Not Important
Customer analytics	76%	22%	2%
The ability to adjust business plans based on rapid changes in local conditions	71%	29%	0%
Site analysis	67%	29%	5%
Market research and planning	64%	36%	0%
Market network optimization	63%	33%	3%
Optimize human and financial resources to support local operations	61%	38%	1%

Source: RSR Research, August 2023

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Real World Definitions

Earlier, we offered our definition of **Sustainability**, as *the ability to support ecological, human, and economic well-being*. Figure 1 shows that retailers put the emphasis on their *economic well-being*. Figure 3 adds some color to that perspective.

Fascinatingly, retailers generally prioritize the more qualitative attributes of sustainability ("ethical", "environmentally conscious", "not harmful", "social responsibility"), over quantitative attributes ("energy efficiency", "eliminate waste", "reduce carbon footprint", "carbon neutral").

Figure 3: 'Sustainability' Defined

"Sustainability means..."

Legend: ■ Very Much ■ Somewhat ■ Not At All

	Very Much	Somewhat	Not At All
Ethical sourcing of products	75%	23%	2%
Energy efficiency in all our operations	72%	25%	2%
Environmentally conscious manufacturing processes	72%	26%	1%
Selling products that are not harmful to our customers	69%	26%	5%
Social responsibility regarding factory labor	64%	32%	3%
Corporate initiatives to eliminate waste/repurpose resources	63%	33%	3%
Reducing the carbon footprint in bringing products to market	59%	38%	3%
Getting to carbon neutral quickly	55%	39%	6%

Source: RSR Research, August 2023

That's an important insight, since it highlights that retailers are in fact paying close attention to how they are being perceived by *consumers*.

Retailers summarize **Resilience** to mean the ability to "weather unexpected financial conditions", "absorb supply chain shocks", and "resonate well with consumers" – in that order (Figure 4). These all relate to maintaining top line sales; "effectively managing operational costs" is a secondary consideration. Once again, these priorities signal a big change in how retailers frame their continued economic well-being.

Figure 4: 'Resilience' Defined

"Resilience is the ability…"

■ Very Much   ■ Somewhat   ■ Not At All

To weather unexpected financial conditions	75% / 23% / 2%	
To absorb supply chain shocks and quickly recover	72% / 28% / 0%	
To market, promote and price goods in a way that resonates well with shoppers	70% / 25% / 5%	
Of our technology assets to respond well to changing conditions in the marketplace	67% / 32% / 1%	
To attract, hire and retain good employees	60% / 33% / 7%	
To effectively manage operational costs	60% / 39% / 1%	

Source: RSR Research, August 2023

There is another consideration that is important to highlight: the ability of "*technology assets to respond well to changing conditions...*". We have already observed that retailers are increasingly aware of their dependence on data and analytics (Figure 2) to drive sustainable growth. But as we will see in a moment, retailers have a real concern about the company's ability to deliver timely insights from their analytics systems.

Finally, we asked retailers to flesh out what **Agility** means to them. At the start of this report, we defined agility as "the ability to quickly adjust to changes in consumer demand". While according to our survey respondents that's part of what it means, there's more to it than that (Figure 5).

Figure 5: 'Agility' Defined

"Agility is the ability to..."

■ Very Much ■ Somewhat ■ Not At All

Match supply and demand when both have changing dynamics	80% / 20%	0%
Realign our workforce to meet challenges as they arise	72% / 25%	2%
Realign our organization to meet new operational demands	63% / 36%	1%
Accommodate shoppers' ever-changing paths to purchase	63% / 34%	2%
Take advantage of new technologies as they become available	62% / 37%	1%
Effectively compete with new competition as it arises	59% / 40%	1%
Find alternate sources for the products we sell	57% / 41%	1%

Source: RSR Research, August 2023

While there's strong agreement among all retailers to be able to keep pace with consumer demand and changing shopping behaviors, they also want to be able to realign their workforce to meet operational challenges head-on and respond on the supply side to find alternative sources when demand requires it. Importantly, almost 60% of our respondents see these capabilities as important competitive weapons.

But once again, "technology" is on retailers' minds. In this case, retailers want to be able to take advantage of new technologies when they become available – presumably to accommodate new and changing consumer shopping behaviors. That sounds like a positive (just as it did on Figure 4), but when we asked retailers to identify the *one* line-of-business functions that would be most vulnerable to factors outside of the business's control, we were surprised to learn that retailers are even more concerned about IT than they are about the supply chain (Figure 6).

Figure 6: Which Function Is Most Impacted?

Which area of your business would be most vulnerable to disruptions outside of the company's direct control?

■ All

Information Technology (IT)	33%
Supply Chain	23%
Other Admin, Marketing, Merch. Mgmt.	21%
Other Operations	12%
eCommerce/Direct Operations	11%
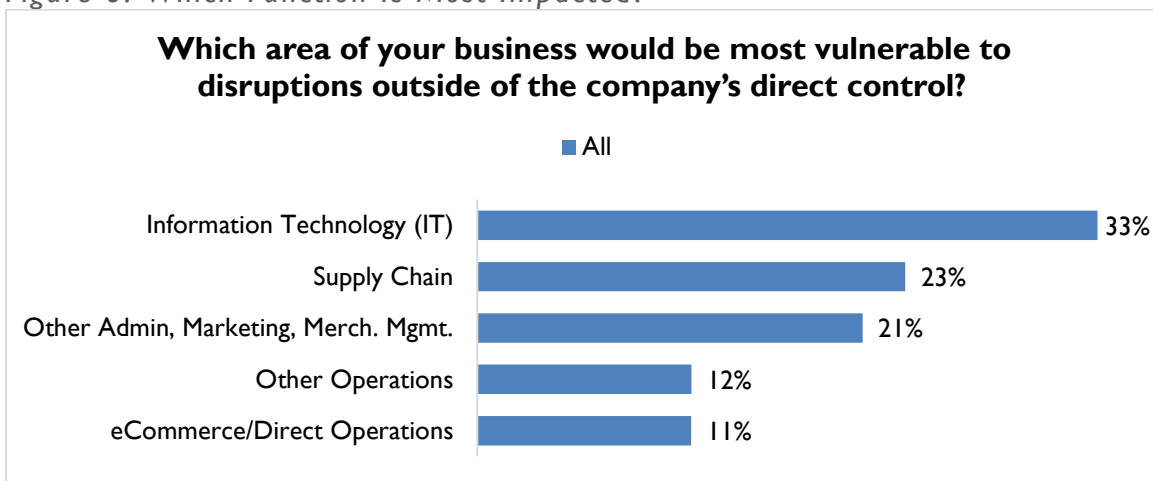
Source: RSR Research, August 2023

This response invites all kinds of conjecture. Is the IT backlog so long that the organization can't respond to new demands on a timely basis? Is the explosion of new data analysis requests overwhelming the organization? Has historic under-investment in technology come back to haunt retailers now? We'll discuss these issues more in the **Organizational Inhibitors** section of this report.

But regardless of the answers to those questions, it is crystal clear that when it comes to **Supply Chain** resilience and agility, IT capabilities play a vital role. In fact, the top-3 most important capabilities to enable an agile response to supply chain conditions are <u>all</u> IT related.

Figure 7: All Eyes On The Supply Chain

As it relates to the supply chain, how important are the following to your company's resilience and agility?

Legend: ■ Very Important ■ Somewhat Important ■ Not Important

Capability	Very Important	Somewhat Important	Not Important
Increased ability to monitor the supply chain in real-time and react as necessary	76%	23%	1%
Digital twin of operations to evaluate disruption scenarios and prepare supply chain to minimize financial impact	74%	24%	2%
Real-time inventory management/visibility	71%	29%	0%
Expanding our customer order fulfillment network to include 3rd parties, DCs, fulfillment centers, intra-store, and direct from store	68%	28%	5%
The ability to source products closer to home	68%	29%	3%
Product or assortment flexibility	68%	30%	2%
Predictive modeling	64%	34%	1%
The ability to execute alternative sourcing strategies	61%	38%	1%
Moving away from supply chains and towards supply networks	60%	37%	3%
Rapid allocation, replenishment (smaller quantities, more frequent)	60%	38%	2%
Faster product lifecycles	52%	45%	3%

Source: RSR Research, August 2023

In RSR's recent study on the state of digital transformation in retail[2], we remarked that:

> *"The most immediate challenge driving retailers' interest in pursuing a digital transformation agenda is the need to expose – in real-time and with a high degree of accuracy – **available-to-promise inventory** to both consumers and employees anywhere within the enterprise. Inventory visibility is an enabler for an effective omnichannel selling environment, but it also enables retailers to identify supply chain bottlenecks and disruptions, and ultimately to optimize the flow of goods in an agile manner as market demands dictate."*

The retail business model is now being challenged to respond in real time to disruptions, both on the supply side of the model and in the selling environment. It's difficult to overstate how fundamental of a shift that is. The objective is to make decisions to exception conditions throughout the business in time to affect the outcome of any operational process. New processes and technologies are essential to making that happen. The fact that many retailers are concerned about the IT organization's ability to support a more agile business should be a call to action.

The good news is that according to responses to our survey, retailers are already in the process of transforming their businesses to be more agile and resilient. But as is often the case, over-performing retailers, those which RSR calls "Retail Winners" are much more aware of the challenges and opportunities associated with such a stance, as well as which technologies are most important to make it real.

Retail Winners And Why They Win

In our benchmark reports, RSR frequently cites differences between retailer over-performers in year-over-year comparable sales and their competitors. We find that consistent sales performance is an outcome of a differentiating set of thought processes, strategies, and tactics. We call sales over-performers "Retail Winners."

RSR's definition of these Winners is straightforward. Assuming industry average comparable store/channel sales growth of **4.5 percent**, we define those with sales above this hurdle as "*Winners*," those at this sales growth rate as "average," and those below this sales growth rate as "*laggards*" or "also-rans."

One trend that will emerge in most RSR benchmarks is that Retail Winners view information assets through a *strategic* lens, whereas non-winners tend to think them *tactically*, to address specific challenges. This is consistent with what RSR has observed in virtually all our benchmarks: Winners view the information assets as having the *strategic* ability to create new value, while average and under-performers use information assets *tactically*, to control operations.

In this report, Retail Winners and others agree that they need the increased ability to monitor the supply chain in particular; that will require the use of non-transactional data such as geo-location tracking information, and more advanced analytics (Figure 7). Where Winners stand out is in their belief that predictive modeling is essential to their plans. While retail is and always will be a reactionary business, over-performers want to have engaged in scenario planning so that when events do occur, they are ready to act with the right resources in the right places.

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[2] **The Digital Transformation Of The Retail Business Model,** RSR Benchmark Report, July 2023

How important are the following to your company's resilience and agility? ('Very Important')

■ Winners ■ Others

Category	Winners	Others
Increased ability to monitor the supply chain in real-time and react as necessary	80%	70%
Predictive modeling	76%	45%
The ability to source products closer to home	72%	61%
Moving away from supply chains and towards supply networks	70%	42%
The ability to execute alternative sourcing strategies	67%	52%
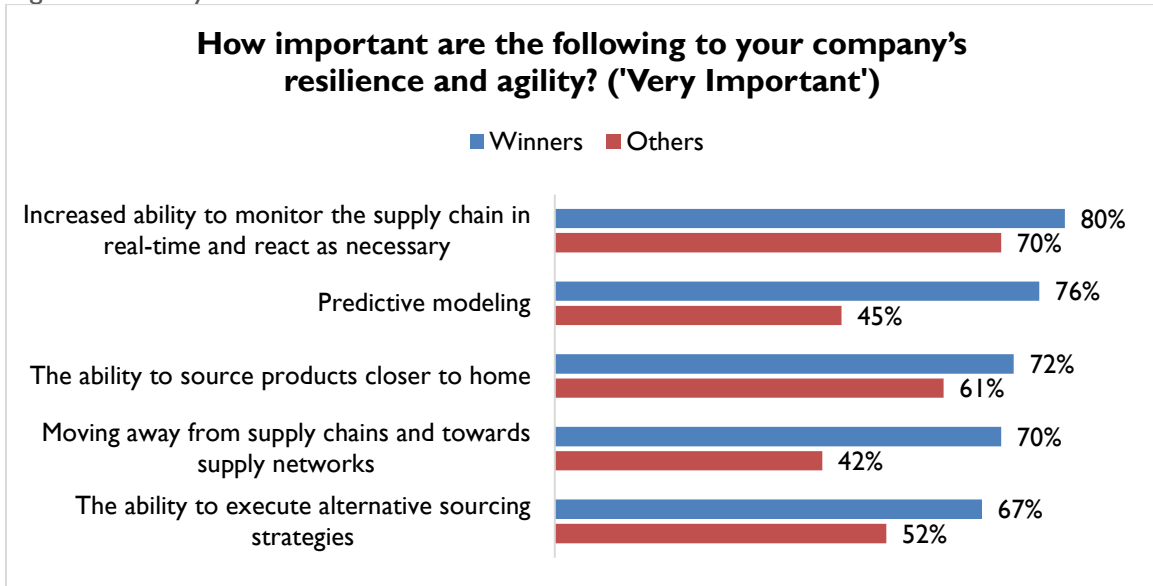
Source: RSR Research, August 2023

Methodology

RSR uses its own model, called The BOOT Methodology© to analyze Retail Industry issues. We build this model with our survey instruments. See Appendix A for a full explanation.

In our surveys, we continue to find the kinds of differences in thought processes, actions, and decisions cited above. The BOOT helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Survey Respondent Characteristics

RSR conducted an online survey in May 2023 and received answers from 106 qualified retail respondents. Respondent demographics are as follows:

- **2022 Revenue (US$ Equivalent)**
  Less than $250 million   1%
  $250 million - $499 million   14%
  $500 million - $999 million   39%
  $1Billion to $5 Billion   29%
  Over $5 Billion   17%

- **Products sold:**
  Fast moving consumer goods   37%
  Apparel, footwear and accessories   16%
  Hard goods   11%
  General merchandise   32%
  Brand manufacturers   3%

- **Retail Presence:**
  USA   100%
  Canada   44%
  Latin America   13%
  UK   15%
  Europe   20%
  Middle East & Africa   5%
  Asia/Pacific   11%

- **Year-Over-Year Sales Growth Rates** (assume average growth of 4.5%):
  Average & Worse Than Average   38%
  Better than average ("Retail Winners")   62%

Business Challenges

Consumers… And The Supply Chain

In the **Overview** section of this report, we pointed out that retailers are focused on *sustainable growth*, and that for most retailers that is driven by maintaining a focus on both the customer and the supply chain. Operational efficiencies have become a secondary consideration.

It's no surprise that the supply chain is an area of focus. In RSR's 2023 supply chain benchmark[3], we observed that:

> "While over the prior 30 years the supplier side had been hyper-optimized to reduce costs, it came at the expense of resiliency and agility. Faced with new risks revealed during the pandemic, both retailers and suppliers have struggled to adapt to fast changing conditions."

What is perhaps a bigger reveal is that retailers are *even more focused* on consumers' increasingly mercurial shopping behaviors (Figure 9).

Figure 9: Changing Consumer Demand And Increased Supply Chain Volatility

What are the Top Three (3) Business Challenges related to agility, sustainability and resilience?

■ All

Challenge	%
Customers can buy products from anywhere using their personal technology	46%
Changing consumer buying patterns have undercut the value of physical stores	37%
Supply chains are increasingly fragile	34%
The cost of bringing goods to market fluctuates wildly	32%
New and agile competition is eroding our value to consumers	29%
Shifts in trade agreements with countries of origin	29%
Adverse weather events can interrupt supply	24%
Financial markets are constantly in flux	20%
Customers have an increased focus on sustainable products/options	17%
Trade partners' and associations' increased focus on sustainability is impacting our decision-making	13%
Changing geopolitical conditions can prevent us from bringing goods to market	10%
Difficulty finding/retaining a reliable workforce	9%

Source: RSR Research, August 2023

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[3] **The Quest For A Resilient And Agile Supply Network,** RSR Benchmark Report, April 2023

In RSR studies, any "Top Three" selection that is chosen by one-third or more of our survey respondents is considered important. What we see in Figure 9 - by a meaningful margin - is that retailers worry that consumers literally have a world of choices at their fingertips, 24X7, via their smart mobile devices, and are taking advantage of them.

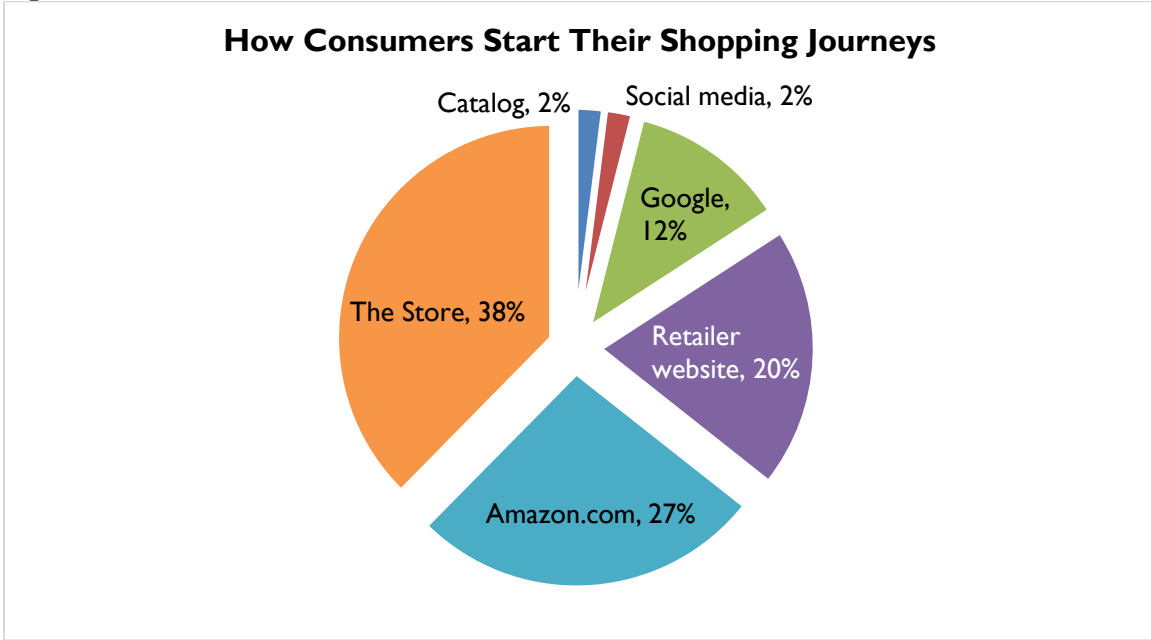**Retailers have reason to be concerned, even alarmed**. An October 2022 survey of over one thousand shoppers by RSR revealed that 41% of consumers begin their shopping journeys with a Google search, on the Amazon.com website, or via social media (Figure 10).

Figure 10: Cause For Alarm

How Consumers Start Their Shopping Journeys

Catalog, 2%
Social media, 2%
Google, 12%
The Store, 38%
Retailer website, 20%
Amazon.com, 27%

Source: RSR Research, October 2022

This goes a long way towards explaining why in Figure 2 retailers put so much emphasis on *customer analytics*. Retailers know that they need to use the data that consumers create in their digitally enabled paths to purchase to understand and influence those behaviors. *How* that is to be accomplished is the hard part, but it starts with observation and analysis.

Interestingly, Fashion & Specialty retailers are less concerned than general merchandise (GM), fast moving consumers goods (FMCG), and hardgoods retailers, about the top challenge. These retailers, who frequently feature bespoke and seasonally oriented products, trust that their unique assortments will continue to draw consumers (Figure 11). But they worry more than other retailers about the #2 challenge, the future viability of the store as the starting point of shoppers' journeys (47% compared to 37% of the aggregate).

Figure 11: Fashion Retailers Are The Exception

Top Business Challenge By Vertical	FMCG	GM	Fashion & Specialty	Hardgoods
Customers can buy products from anywhere using their personal technology	53%	50%	29%	40%

Source: RSR Research, July 2023

To have an agile response to the dynamics of consumer demand, retailers need to collect the behavioral data that consumers are leaving along their paths to purchase and use it to discover a consumer's *intent*. In the **Technology Enablers** section of this report, we will discuss how retailers are seeking to address this challenge.

Back To The Supply Chain

Right behind changing consumer behaviors and their effect on the stores as the top challenges, retailers express concern about the state of the supply chain – specifically that it has become increasingly fragile.

It's hard to imagine that retailers wouldn't be concerned after the events of the last few years! While over the prior 30 years the supplier side had been hyper-optimized to reduce costs, it came at the expense of resiliency and agility. Faced with new risks revealed during the pandemic, both retailers and suppliers have struggled to adapt to fast changing conditions. Supply chain agility and resilience have become boardroom issues, even while challenges on the consumer side are still being addressed.

We see that concern reflected in how retailers rank their top operational (internal) challenges. By a big margin, retailers are concerned about optimizing their supply networks to help them achieve "maximum profitability" (Figure 12). That's a nice way of saying that retailers know that they need to re-engineer their supply chains to be more flexible while still delivering products at the most favorable unit cost-of-goods. The supply chains of old were designed to deliver the latter, not the former – now retailers want both.

Figure 12: Retailers Want To Sense Disruptions As Early As Possible

What are the Top Three (3) Operational Challenges your company faces as it relates to agility, sustainability and resilience?

■ All

Optimizing our supply chain network for maximum profitability	75%
Dynamically determining the best fulfillment option and pickup/delivery for customers	63%
Evaluating the longevity and impact of disruption	49%
Finding optimal customer-facing employees	48%
Deciding where to place or move inventory	37%
Finding alternative sources when disruptions occur	28%

Source: RSR Research, August 2023

But retailers are almost as challenged to optimize customer order fulfillment operations too. Over the last several years, retailers have tended to alternatively focus on either the *supplier side* of the supply chain (how goods are brought to market), or the *consumer side* (how goods are put into the hands of consumers). To be truly agile and resilient, retailers are saying they need to address both challenges.

Although these two challenges affect most retailers, there is a difference of focus by retailer performance worth noting (Figure 13). Specifically, more over-performing Retail Winners than average and under-performers are giving priority to optimizing them supply network to deliver the best unit-cost-of-goods, while more average and under-performers are focused on shaking the costs out of customer order fulfillment and delivery.

Figure 13: Different Focus

Top Operational Challenges	Winners	Others
Optimizing our supply chain network for maximum profitability	80%	67%
Dynamically determining the best fulfillment option and pickup/delivery for customers	57%	73%

Source: RSR Research, August 2023

While it's not an either/or choice by any means, more Winners seem to be saying that a good gross margin covers a multitude of other inefficiencies.

Netting Out The Business Challenges

Taken in whole, retailer responses to the RSR survey seem to say that retailers accept that they will never see a return to predictability, and that their best course forward is to design their processes for a quick response to ever-changing conditions in the marketplace. The management structure needed should move from "command and control" to "sense and respond", and to accomplish that, operational processes must be armed with real time insights derived from advanced data and analytics.

In RSR's recent report on digital transformation in retail, we observed that "*retailers can't take a time-out to perform a wall-to-wall redesign of their operations on either the selling side or the supply side of their businesses.*"[4] But in essence, retailers <u>are</u> re-examining their processes on both the customer and supply sides with an eye towards making them more agile and resilient.

In the next section of this report, we'll look at how they are planning to accomplish that.

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[4] **The Digital Transformation Of The Retail Business Model**, RSR Benchmark Report, June 2023

Opportunities

What's At Stake?

On the flip side of such daunting external challenges, retailers see an enormous amount of upside to implementing location-aware capabilities. Figure 14 shows that this isn't just about understanding customer shopping patterns, but also as the means to improve virtually every aspect of the shopping experience by knowing how both shoppers - and inventory - move. This holds the opportunity to positively affect every component of the selling cycle - from speeding up the supply chain, to making CRM data from loyal customers more actionable - even to opening new ways to sell to existing customers. All this falls under the umbrella of improving omnichannel profitability – and *that* is the name of the game in retail today.

Figure 14: So Much To Gain

What are the Top Three (3) Opportunities you see from implementing location intelligence?

Opportunity	Percentage
Improved profitability from omnichannel opportunities	48%
Optimized return on inventory investment – better inventory balance	48%
Improved customer intelligence	47%
Improved understanding of customer movement within stores	41%
Making CRM data more usable/actionable	39%
A faster, more efficient and resilient supply chain network	37%
Taking advantage of new selling opportunities	37%

Source: RSR Research, August 2023

The Value Of It All

Indeed, retailers see enormous value to location intelligence capabilities. The question is, how do these capabilities help retailers achieve greater resilience and agility to improve the *selling environment*? Figure 15 highlights retailers' priorities.

As it relates to the selling environment (Store, Ecommerce, Direct-to-consumer), how important are the following to your company's resilience and agility? ('Very Important')

Category	Percentage
The ability to optimize store floor plans to local demand	74%
The ability to optimize local assortments to local demand	74%
The ability to use customer analytics as key inputs in merchandise planning	70%
The ability to run simulations based on model forecasts (for price, promotions, assortment, etc)	70%
Tools and processes for collaborative planning with vendors	67%
The ability to optimize store planograms to local demand	67%
The ability to determine the optimal customer order fulfillment location on a per-order basis	64%
The ability to optimize price, promotions and markdowns	63%
Dynamic pricing as a real-time response to demand and supply conditions	62%
The ability to optimize store floor plans and planograms to better support fulfillment of online orders	60%
Optimize store planograms for straight-to-shelf deliveries	54%

Source: RSR Research, August 2023

Figure 15 doesn't just show what is important, but what our respondents feel is "very important". Their responses speak volumes. None of the options we offered falls below the 50% mark of being "very important".

What does this mean? In short: in a post-pandemic world, having had consecutive years of competing with more agile retailers, the lesson has become crystal clear: *rigid processes are no longer acceptable.* **Retailers are now pursuing agility in every component of their selling environment**.

But where are we when it comes to the development of such capabilities? As Figure 16 shows, nowhere near where retailers wish to be.

Please rate your company's supply chain capabilities for the following tools and techniques ('In Development / Under Construction')

Capability	Percentage
Product or assortment flexibility	55%
The ability to source products closer to home	51%
The ability to execute alternative sourcing strategies	49%
Expanding our customer order fulfillment network to include 3rd parties, DCs, fulfillment centers, intra-store, and direct from store	44%
Predictive modeling	41%
Rapid allocation, replenishment (smaller quantities, more frequent)	41%
Faster product lifecycles	40%
Moving away from supply chains and towards supply networks	39%

Source: RSR Research, August 2023

Looking Ahead

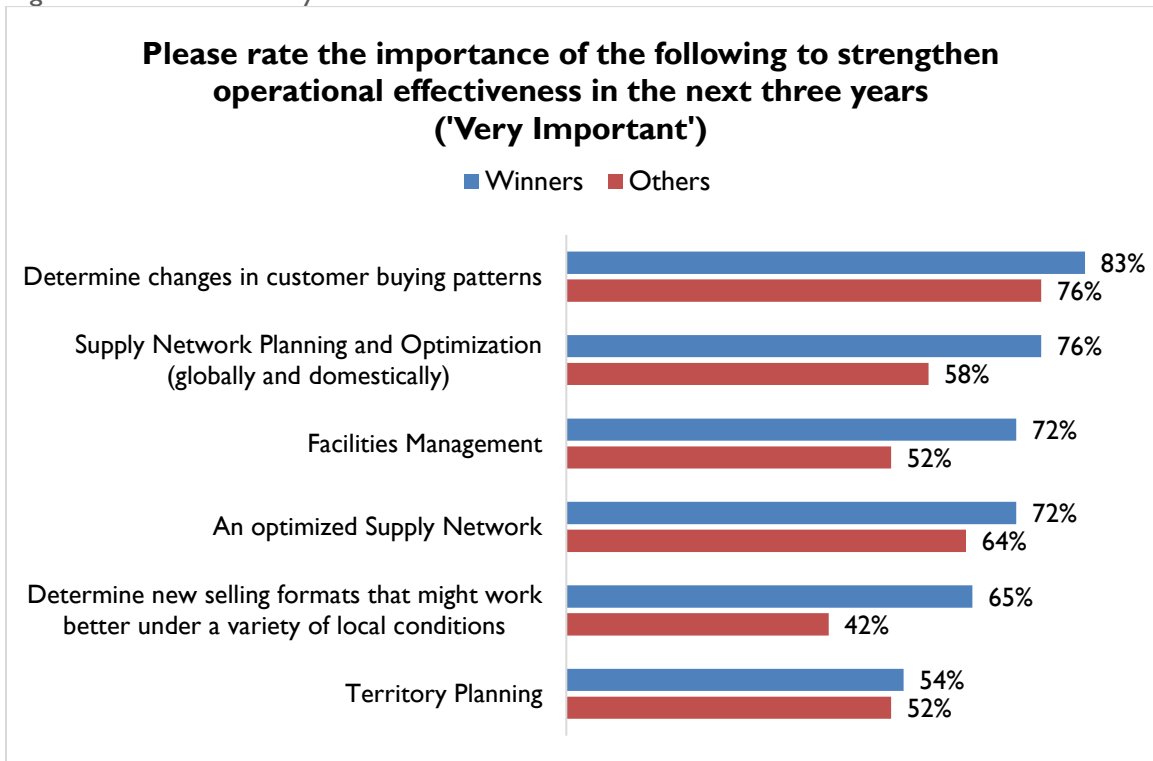As we'll see in the next section of this report, to make headway, retailers have their work cut out for them to get past some significant internal roadblocks. Before we dive in, however, it is worth noting which endeavors retailers say could benefit from greater *operational* effectiveness. As Figure 17 shows, the answer isn't the same for everyone.

Figure 17: Some Busy Years Ahead

Please rate the importance of the following to strengthen operational effectiveness in the next three years ('Very Important')

■ Winners ■ Others

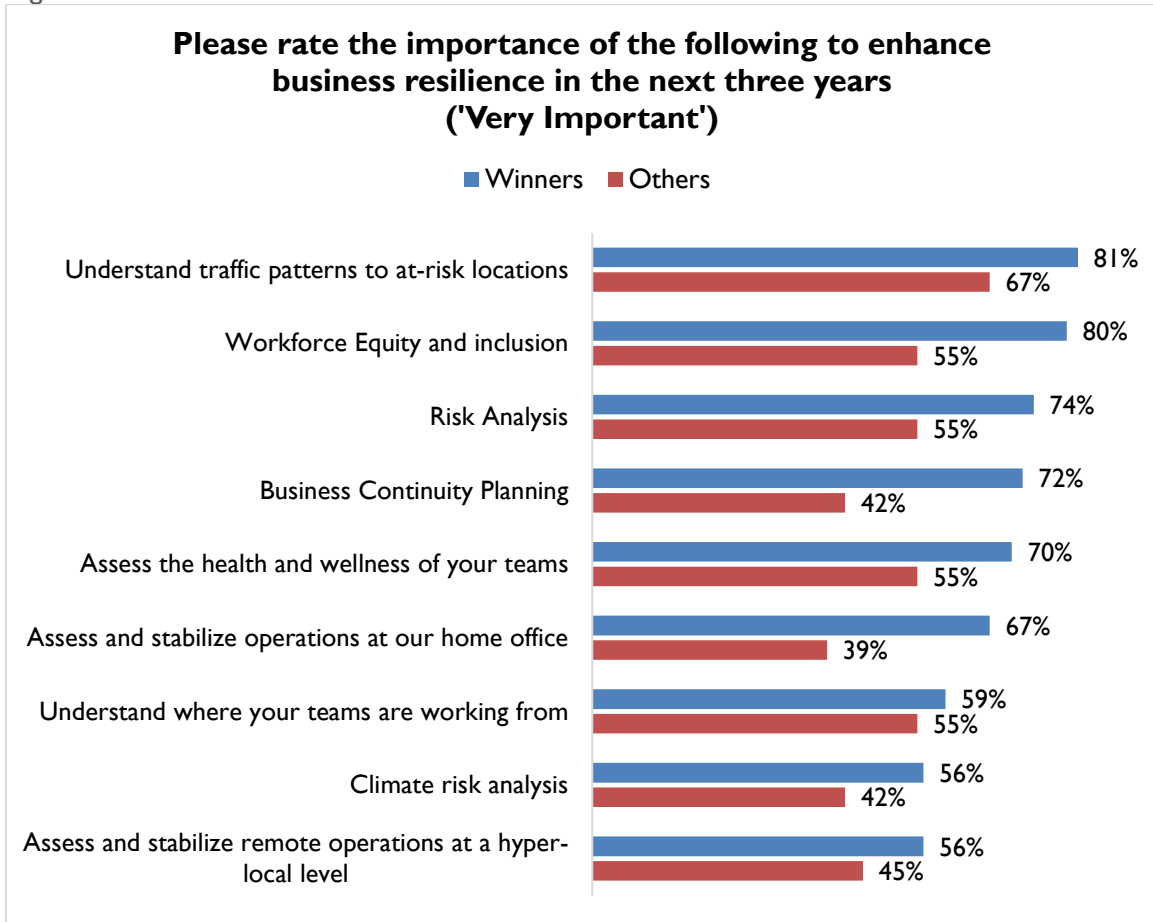|	Winners	Others
Determine changes in customer buying patterns	83%	76%
Supply Network Planning and Optimization (globally and domestically)	76%	58%
Facilities Management	72%	52%
An optimized Supply Network	72%	64%
Determine new selling formats that might work better under a variety of local conditions	65%	42%
Territory Planning	54%	52%

Source: RSR Research, August 2023

More Retail Winners than average and under-performers recognize the need to understand shoppers, something we've already seen not only in this study (Figure 7), but also in recent benchmark reports about Merchandising, The Customer Experience, and The Digital Transformation Of The Retail Business Model. This is one of the most valuable lessons **all** retailers have taken from the pandemic: that to meet demand, one must think about how fickle it can now be – and how quickly it can change. However, where Winners really shine is in the data points beneath the topline finding. They have a stronger recognition of the need to improve how their own facilities are run and managed, how they can work with partners – both domestic and abroad – to optimize the flow of goods from point of origin AND are more open to the idea of new selling formats as they invariably arise.

To put it bluntly – Winners aren't just focused on reacting *more quickly* to what customers might do in the future: they are doing everything they can right now to prepare for the inevitable unpredictability of customer behavior at every level possible: from how a product gets to its destination to what that destination even looks like. It's an important distinction.

Resilience Over Time

When it comes to *resilience*, Winners' next few years will be quite busy fortifying their operational models as much as possible (Figure 18).

Please rate the importance of the following to enhance business resilience in the next three years ('Very Important')

■ Winners   ■ Others

Category	Winners	Others
Understand traffic patterns to at-risk locations	81%	67%
Workforce Equity and inclusion	80%	55%
Risk Analysis	74%	55%
Business Continuity Planning	72%	42%
Assess the health and wellness of your teams	70%	55%
Assess and stabilize operations at our home office	67%	39%
Understand where your teams are working from	59%	55%
Climate risk analysis	56%	42%
Assess and stabilize remote operations at a hyper-local level	56%	45%

Source: RSR Research, August 2023

The COVID-19 pandemic presented myriad "free" lessons for those willing to learn, and what Figure 18 shows us is that Winners were open to the education. Winners plan to spend the next 36 months steeling their businesses as much as possible to whatever the world throws their way – be it crises resulting from climate change or a workforce that completely decides to "quietly quit" all over again.

Winners also want to know more about the health and wellness of their workers. They want to make their workplaces more equitable for anyone willing to put in the work. And they want to be able to understand what the data is showing them about where the risks are at *everywhere in the physical work environment*. It's both noble and practical. It's also necessary in a time when competition for both consumer and employee loyalty is only a click away.
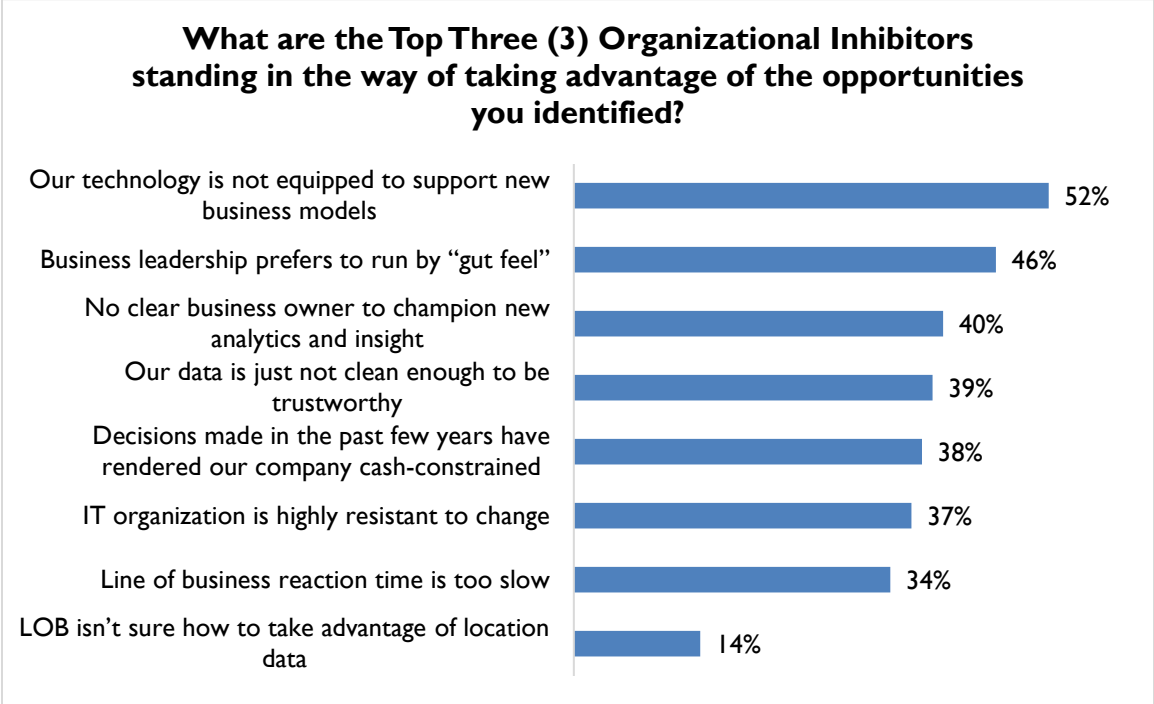
Let's see what's holding more retailers back from doing all they can.

Organizational Inhibitors

A Capital 'P' Problem

Our retail respondents suffer no illusions. The primary reason they have yet to realize more of the long list of Opportunities identified in this benchmark report is simple: they are working with legacy technologies, many of which were implemented when the agility required by today's business models would have seemed like fantasy (Figure 19).

Figure 19: The Ugly Truth

What are the Top Three (3) Organizational Inhibitors standing in the way of taking advantage of the opportunities you identified?

Our technology is not equipped to support new business models	52%
Business leadership prefers to run by "gut feel"	46%
No clear business owner to champion new analytics and insight	40%
Our data is just not clean enough to be trustworthy	39%
Decisions made in the past few years have rendered our company cash-constrained	38%
IT organization is highly resistant to change	37%
Line of business reaction time is too slow	34%
LOB isn't sure how to take advantage of location data	14%

Source: RSR Research, August 2023

To put a finer point on this, the fact that 52% of retailers say that "our technology is not equipped to support new business models" is significant. The fact that only 38% of retailers selected this option when we last conducted this survey less than 2 years ago makes it more so. This isn't just a problem – it's a *growing* problem.

It bears noting, however, that our retail respondents don't *just* blame the fact that many of their systems are rooted in the past. The second most-selected offering is that business leadership still prefers to run by "gut feel." For the newest generation of retail leaders, this modus operandi plays every bit as old-and-in-the-way as the DOS-based systems at stores.

Indeed, "this is how we've always done it" is truly the enemy of progress. However, as we'll soon see, the very fact that our respondents are ***aware*** of these technology and personnel issues means they have the ability not only identify them, but to *envision a path beyond them*.
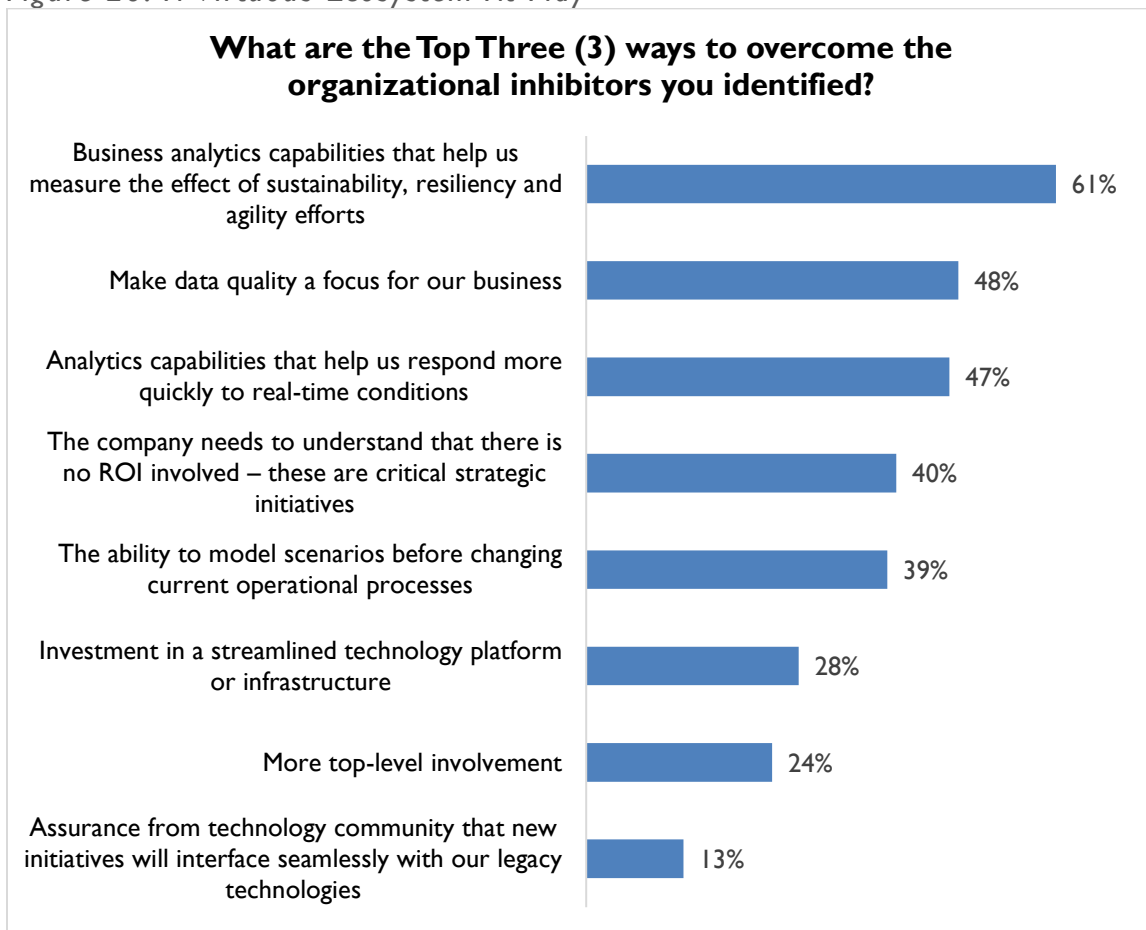
The Dose Makes The Poison

If arcane technologies are the roadblock, better data and analytics *to make sense of that data* will show the way around the inhibitors that retailers identify. Figure 20 shows something of a "holy trinity" for a way forward:

1. Improved data quality will enable the business to become focused on what matters most;
2. Analytics to allow retailers to respond to incidents as they arise (in real time), and, ultimately;
3. *Business analytics* will help to measure the business effects of those efforts.

The virtuous cycle of sustainability, resiliency, and agility is entirely interconnected, but at its core, it is entirely dependent on the best data and analytics available to enable real sustainable change.

To call this an ecosystem would be a dramatic understatement.

Figure 20: A Virtuous Ecosystem At Play

What are the Top Three (3) ways to overcome the organizational inhibitors you identified?

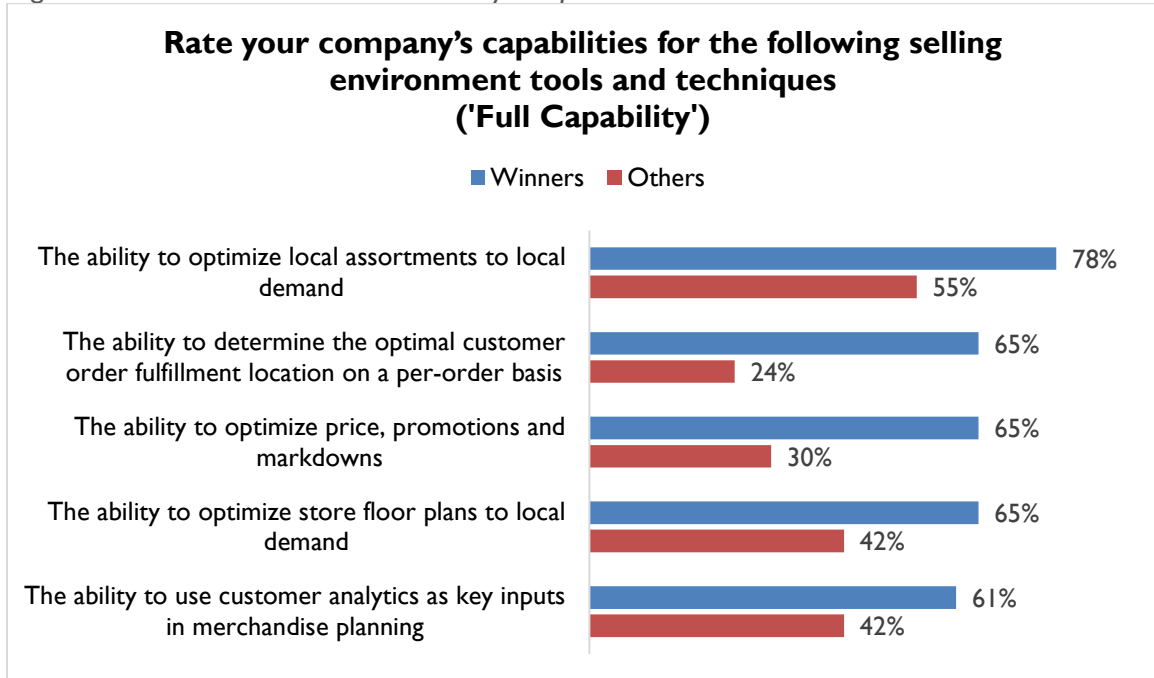|	
Business analytics capabilities that help us measure the effect of sustainability, resiliency and agility efforts	61%
Make data quality a focus for our business	48%
Analytics capabilities that help us respond more quickly to real-time conditions	47%
The company needs to understand that there is no ROI involved – these are critical strategic initiatives	40%
The ability to model scenarios before changing current operational processes	39%
Investment in a streamlined technology platform or infrastructure	28%
More top-level involvement	24%
Assurance from technology community that new initiatives will interface seamlessly with our legacy technologies	13%

Source: RSR Research, August 2023

Now let's explore where retailers see technology being able to help, and just as importantly – where they are planning their investments.

Technology Enablers

The Current Battlefield

To understand how retailers approach technology enablers, it's important to first level-set current capabilities. Figure 21 makes clear just how much more capable the retailers with the best performance already are within the *current* selling environment. "Good" retailers are in good shape. Challenged retailers will undoubtedly be challenged further.

Figure 21: Where You End Usually Depends On Where You Start

Rate your company's capabilities for the following selling environment tools and techniques ('Full Capability')

■ Winners ■ Others

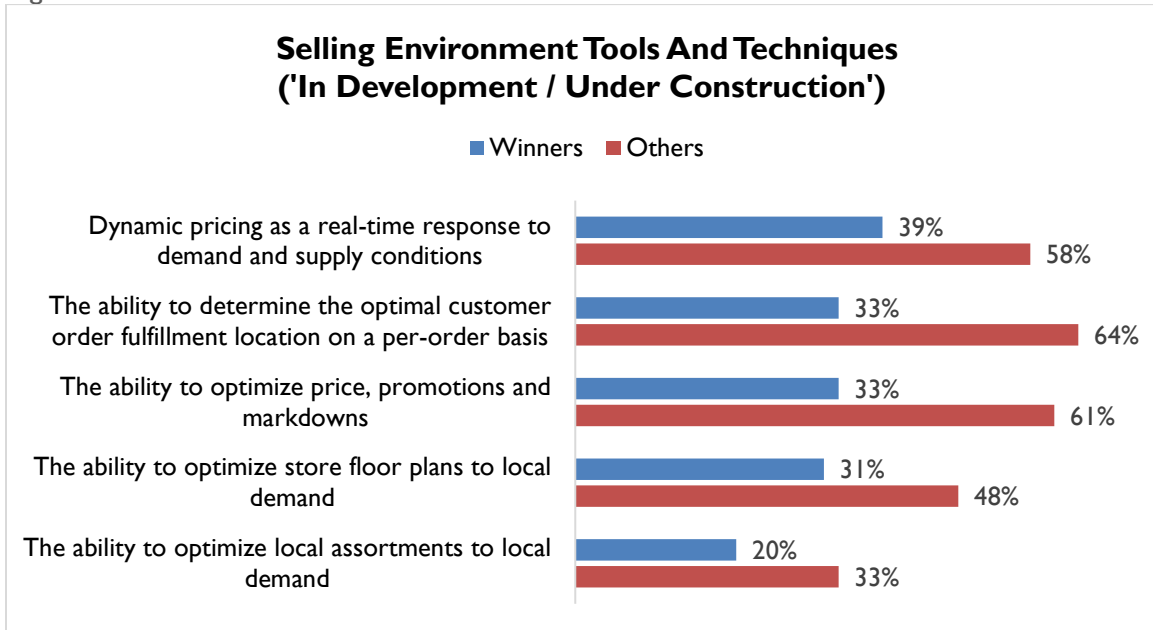| Capability	Winners	Others
The ability to optimize local assortments to local demand	78%	55%
The ability to determine the optimal customer order fulfillment location on a per-order basis	65%	24%
The ability to optimize price, promotions and markdowns	65%	30%
The ability to optimize store floor plans to local demand	65%	42%
The ability to use customer analytics as key inputs in merchandise planning	61%	42%

Source: RSR Research, August 2023

This trend applies to all corners of the selling process: the ability to plan which merchandise to sell, the ability to figure out where that merchandise should be allocated (and whether or not it need be localized), the ability to price it once it's there (or if, after too long, it should be promoted or marked down), and ultimately, how an ensuing customer order should best be fulfilled. This is not a subtle head start for Winners.

However, while "challenged" retailers may be starting from a position of disadvantage, it's not wise to count them out just yet. Figure 22 shows which selling tools and processes are currently in development. Average and underperformers are currently working hard to deliver in a whole slew of important aspects of the selling environment.

**Selling Environment Tools And Techniques
('In Development / Under Construction')**

■ Winners   ■ Others

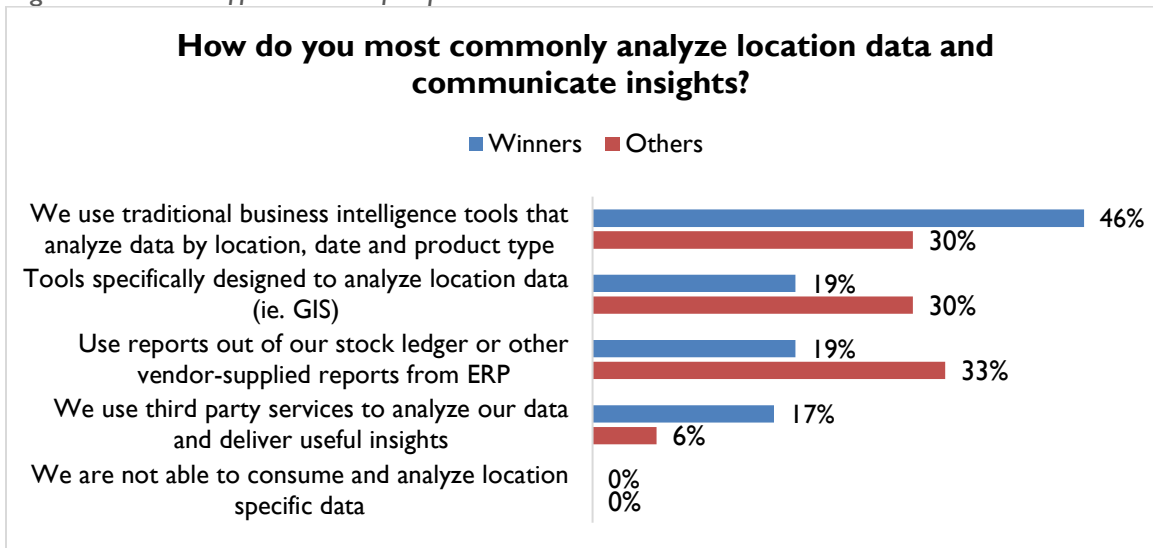|	
Dynamic pricing as a real-time response to demand and supply conditions	Winners 39% / Others 58%
The ability to determine the optimal customer order fulfillment location on a per-order basis	Winners 33% / Others 64%
The ability to optimize price, promotions and markdowns	Winners 33% / Others 61%
The ability to optimize store floor plans to local demand	Winners 31% / Others 48%
The ability to optimize local assortments to local demand	Winners 20% / Others 33%

Source: RSR Research, August 2023

Variance In Approach

Another area worth examining is what retailers are doing with the data they collect from location-enabled capabilities. As Figure 23 clearly illustrates, the best performers have integrated geo-location data into their existing analytical tools to gain insights across a combination of factors (location, date, and product type). Average and under performers, by contrast, are most likely to utilize ERP-provided or stock-ledger reports to analyze whatever location data they've collected, although almost as many are searching for another answer.

This is yet another indicator of how much more advanced Retail Winners' systems and processes *already* are.

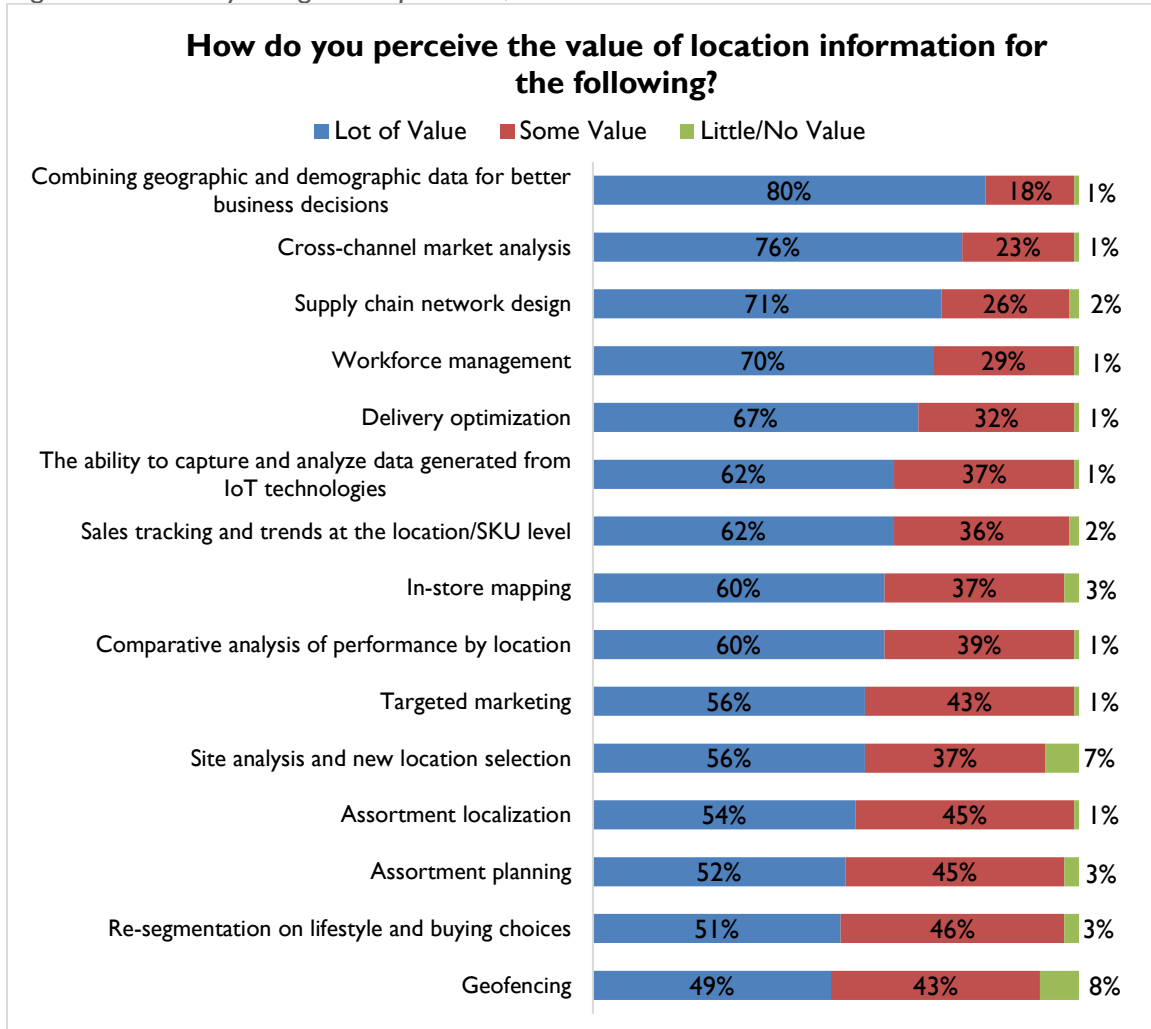Figure 23: A Difference Of Opinion

**How do you most commonly analyze location data and
communicate insights?**

■ Winners   ■ Others

We use traditional business intelligence tools that analyze data by location, date and product type	Winners 46% / Others 30%
Tools specifically designed to analyze location data (ie. GIS)	Winners 19% / Others 30%
Use reports out of our stock ledger or other vendor-supplied reports from ERP	Winners 19% / Others 33%
We use third party services to analyze our data and deliver useful insights	Winners 17% / Others 6%
We are not able to consume and analyze location specific data	Winners 0% / Others 0%

Source: RSR Research, August 2023

Clear And Present Value

When it comes to the how and why retailers would want to use location information, the list is somewhat overwhelming: almost no area of the business doesn't stand to gain (Figure 24).

Figure 24: Everything Is Important, But Cross Channel Most

How do you perceive the value of location information for the following?

Legend: ■ Lot of Value ■ Some Value ■ Little/No Value

Category	Lot of Value	Some Value	Little/No Value
Combining geographic and demographic data for better business decisions	80%	18%	1%
Cross-channel market analysis	76%	23%	1%
Supply chain network design	71%	26%	2%
Workforce management	70%	29%	1%
Delivery optimization	67%	32%	1%
The ability to capture and analyze data generated from IoT technologies	62%	37%	1%
Sales tracking and trends at the location/SKU level	62%	36%	2%
In-store mapping	60%	37%	3%
Comparative analysis of performance by location	60%	39%	1%
Targeted marketing	56%	43%	1%
Site analysis and new location selection	56%	37%	7%
Assortment localization	54%	45%	1%
Assortment planning	52%	45%	3%
Re-segmentation on lifestyle and buying choices	51%	46%	3%
Geofencing	49%	43%	8%

Source: RSR Research, August 2023

While the topline finding, above (*combining data for better business decisions*), is interesting, it serves as an umbrella that covers all the data points that follow. As a result, Figure 24 serves as prioritization scale: location data can create many opportunities.

But with that topline finding as an outcome, cross channel market analysis is the way retailers hope to reach that outcome most. At a time when cross-channel selling reactions to increasingly erratic cross-channel buying patterns can literally make or break a retailer. Retailers understand the stakes.
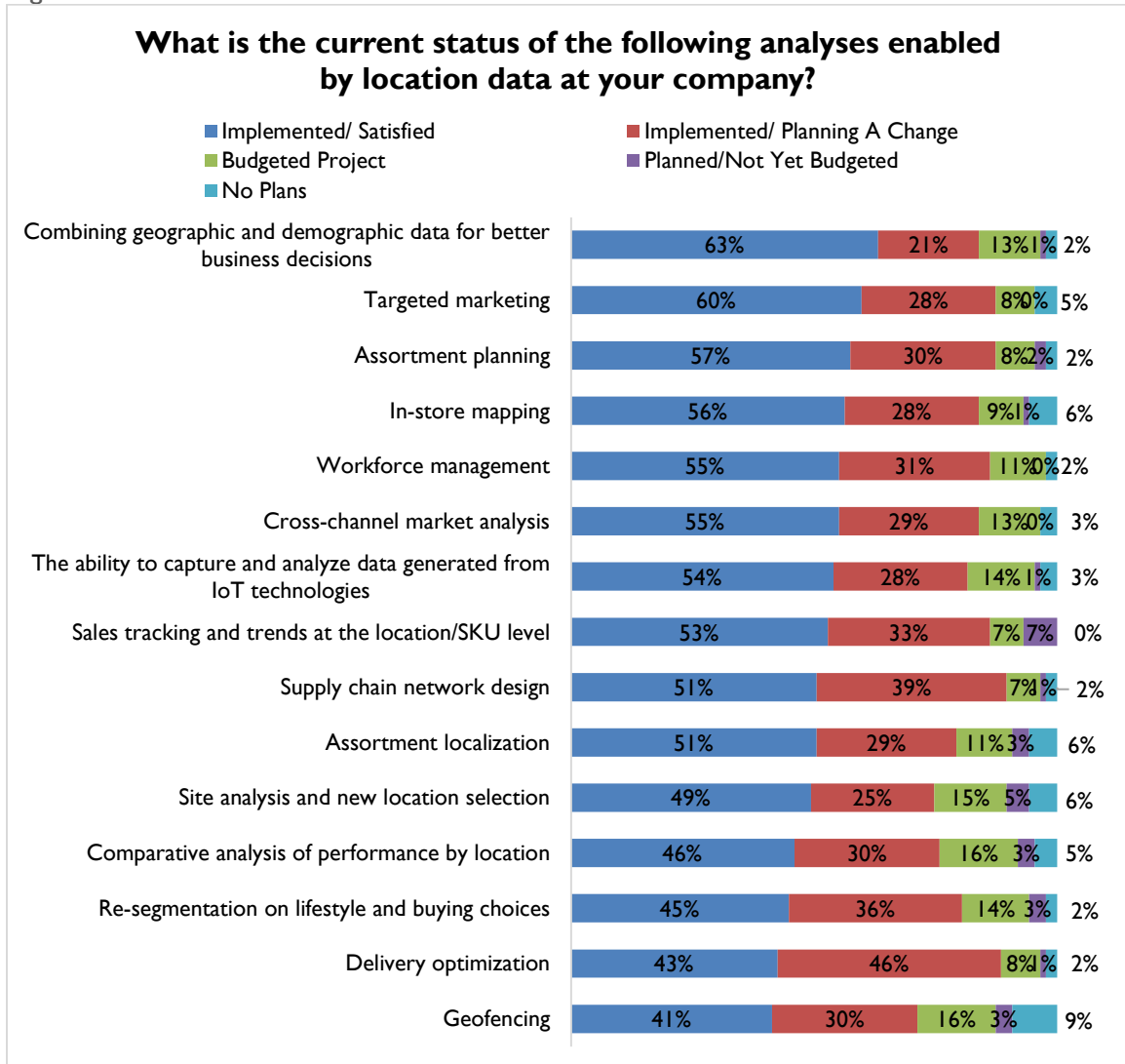
Place Your Bets

If Figure 24 highlights retailers' *understanding* of the stakes, Figure 25 serves as nothing short of testament. Retailers are spending in accordance with their priorities. From assortment planning to

supply chain network design, from site analysis to workforce management, retailers are investing in location-based technologies to help every aspect of their businesses.

They may have been slow to get moving, but retailers are now in the throes of a massive investment cycle.
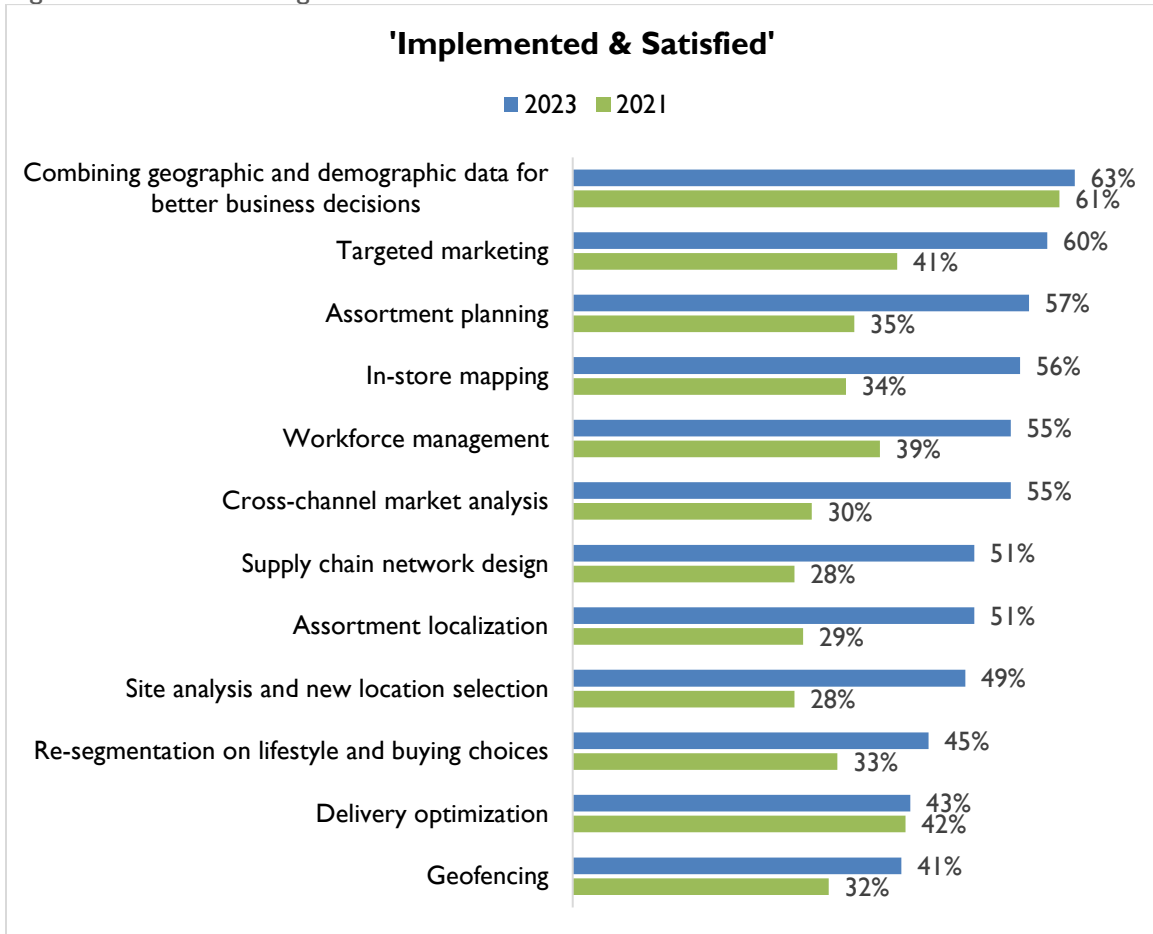
Figure 25: All In

What is the current status of the following analyses enabled by location data at your company?

Legend:
- Implemented/ Satisfied
- Implemented/ Planning A Change
- Budgeted Project
- Planned/Not Yet Budgeted
- No Plans

Category	Implemented/ Satisfied	Implemented/ Planning A Change	Budgeted Project	Planned/Not Yet Budgeted	No Plans
Combining geographic and demographic data for better business decisions	63%	21%	13%	1%	2%
Targeted marketing	60%	28%	8%	0%	5%
Assortment planning	57%	30%	8%	2%	2%
In-store mapping	56%	28%	9%	1%	6%
Workforce management	55%	31%	11%	0%	2%
Cross-channel market analysis	55%	29%	13%	0%	3%
The ability to capture and analyze data generated from IoT technologies	54%	28%	14%	1%	3%
Sales tracking and trends at the location/SKU level	53%	33%	7%	7%	0%
Supply chain network design	51%	39%	7%	1%	2%
Assortment localization	51%	29%	11%	3%	6%
Site analysis and new location selection	49%	25%	15%	5%	6%
Comparative analysis of performance by location	46%	30%	16%	3%	5%
Re-segmentation on lifestyle and buying choices	45%	36%	14%	3%	2%
Delivery optimization	43%	46%	8%	1%	2%
Geofencing	41%	30%	16%	3%	9%

Source: RSR Research, August 2023

Full Steam Ahead

While the results of this report have shown that the changes required to adopt a more resilient, agile, and sustainable enterprise may have gotten off to a slow start, Figure 26 closes out by showing that they are at least underway.

'Implemented & Satisfied'

■ 2023 ■ 2021

Category	2023	2021
Combining geographic and demographic data for better business decisions	63%	61%
Targeted marketing	60%	41%
Assortment planning	57%	35%
In-store mapping	56%	34%
Workforce management	55%	39%
Cross-channel market analysis	55%	30%
Supply chain network design	51%	28%
Assortment localization	51%	29%
Site analysis and new location selection	49%	28%
Re-segmentation on lifestyle and buying choices	45%	33%
Delivery optimization	43%	42%
Geofencing	41%	32%

Source: RSR Research, August 2023

It is important to note that Figure 26 highlights the *implementation and satisfaction* across a broad spectrum. From the planning and allocation of products to the marketing of those products, to the management of the people tasked with selling those products to the delivery of them to the end consumer – and every analysis point in between – **retailers are happy with the investments they've been steadily making in location-based technologies**.

As this report has called out frequently, they still have a long way to go. But they are happy with the choices they've made thus far. It's a great start.

BOOTstrap Recommendations

It is increasingly clear that a "wash, rinse, repeat" business model doesn't work anymore in retail. Both consumer demand and supply have become less predictable, and as a result, retailers seek to improve their operations to be more **agile** and **resilient**, to ensure more **sustainable** growth.

Let's define those terms:

- **Agility** is the ability to quickly adjust to changes in consumer demand;
- **Resilience** is the ability to respond to supply side shocks;
- **Sustainability** is the ability to support ecological, human, and economic well-being. Here, it's important to note that consumers are pushing retailers to focus more on *ecological* and *human* well-being, while retailers are focused on consumer careabouts to further their own *economic* well-being.

From the insights highlighted in this study, RSR offers the following recommendations to assist retailers in their efforts to achieve greater agility, resilience, and sustainability.

It's Not Just About Winning, It's About Surviving

The RSR team has observed for years that a key difference between Retail Winners and other retailers is that over-performers *view their information assets as strategic weapons*, whereas average and under-performers use those assets tactically, typically to control operations. In the current environment, it's better to say that **survivors** use information assets strategically, while failing retailers can't or don't.

Sustainable growth is entirely dependent on data and insights. And importantly, customer analytics are at the center of Winners' decision-making processes.

Consumers' Sustainability Concerns Are Vital To Achieving Sustainable Business Growth

Retailers prioritize several qualitative attributes of sustainability – ethical sourcing, environmentally conscious practices, social responsibility when it comes to factory labor – over quantitative attributes like improving energy efficiency, eliminating waste, reducing the carbon footprint, and becoming carbon neutral. They set their priorities because those are things that consumers increasingly care about. At best it's early days before any of those priorities become real. But it's a start.

IT Investments Are Overdue

Retailers have historically been stingy about IT spending. Before the global pandemic of 2020-22, *some studies pegged retail IT spending at about 1.5% of sales*, compared to a *cross-industry average of 4%*. Before 2020, retail was still arguably a *physical* business - approximately 85% of all sales happened in the stores. After 2020, a huge percentage of consumer shifted to the *digital* domain, even if many purchases ultimately were completed in a store. Now, the new storefront is digital. To paraphrase: "this is not your father's IT".

The new selling environment requires a very different IT posture than in the past – starting with big new investments in data analysis tools, techniques, and expertise. Retailers' ability to respond quickly to changes in both supply and demand depend on it.

Eyes On The Supply Chain

Although in this study retailers prioritize the consumer side of the business even more than the supply side, the ability to "*monitor the supply chain in real time and react as necessary*", use "*digital twin <technologies>… to evaluate disruption scenarios and prepare supply chain to minimize financial impact*", and to enable "*real time inventory management/visibility*" are all top-of-mind capabilities for retailers. And, they are all IT dependent.

Scenario Planning / Predictive Modeling Is Vital

Three- quarters of Winners view their ability to use predictive modeling techniques as key to helping them to react much more quicky to supply chain disruptions and sudden shifts in demand. Less than one-half (45%) of average and under-performers view this capability as "very important". They are wrong.

Consumers Are Talking – Pay Attention

Consumers generate a huge amount of information during their digitally enabled shopping journeys that can be used by retailers to understand how, when, where, and why shoppers make the choices they do. But shoppers aren't feeling the love. In fact, an October 2020 consumer study conducted by RSR revealed that 54% of consumers believe that "*my favorite retailers don't know how to engage with me digitally*", and 68% thank that "b*rands that I love don't know enough about my shopping habits to identify me as one of their best consumers.*" That is a damning indictment.

Retailers clearly recognize that this represents a major challenge to their continued growth. Interestingly, while 80% of Winners rate "customer analytics" as very important to sustainable growth, even 70% of average and under-performers agree. Everyone needs to get on board.

Don't Give Up On Efficiency

Retailers are focusing on top line growth, i.e., selling more, than they are on achieving and maintaining operational efficiencies. That may be necessary in the short term given the state of the selling environment. But retailers cannot lose sight of more "traditional" objectives, for example to optimize supply networks to deliver products to market at the lowest possible cost of goods. It shouldn't be mutually exclusive to be either agile or to be profitable. Retailers need to be both.

Appendix A: The BOOT Methodology©

The BOOT Methodology© is designed to reveal and prioritize the following:

- **B**usiness Challenges – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **O**pportunities – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **O**rganizational Inhibitors – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning Retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **T**echnology Enablers – If a company can overcome its organizational inhibitors, it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT Methodology© follows:

26
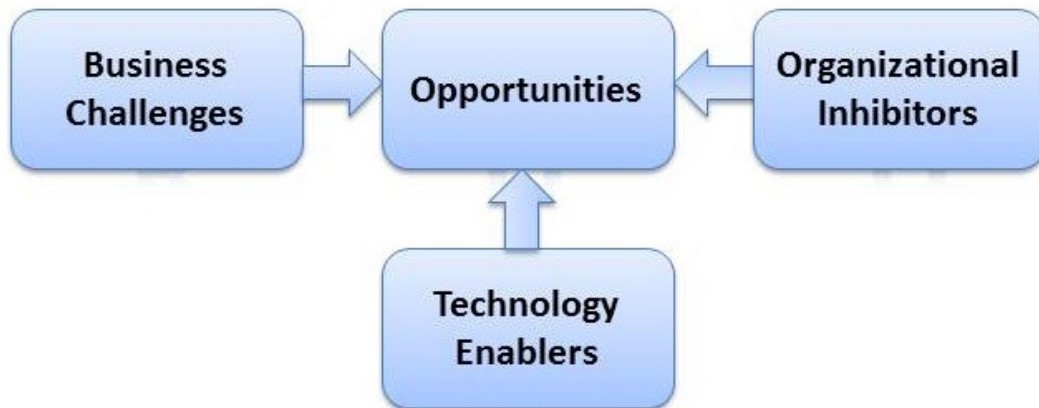
Appendix B: About Our Sponsor

Esri provides the world's most powerful mapping and spatial analytics software. Our product, ArcGIS applies The Science of Where to connect everyone, everywhere through a common visual language. It combines mapping and analytics to reveal deeper insight into data. For Retailers ArcGiS extends the key capabilities retailers need to understand why things happen where they do. Every transaction in retail happens in a specific place for a reason. Using ArcGIS, leading retailers find hidden insights in their data, enabling them to understand their customers and their enterprise.

Visit us at esri.com.

Appendix C: About Our Partner

The IORMA Consumer Commerce Centre is a neutral resource for Businesses and Governments that recognize their need to understand and respond to the ways in which the 8 billion global consumers are changing – in the products and services they want and need, and the ways they want to obtain them. These changes are happening globally, driven by developments in society, in business and in technology.

The changes are important not only for all those dealing direct with consumers, but for Businesses at all places in supply networks and for Governments and Academia in preparing for the future associated societal and economic impacts of these changes. To learn more, visit: https://iorma.com/

Appendix D: About RSR Research

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;

- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;

- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.