RSR
Retail Systems Research

Why The Retail Store Won't Survive As A 'Tech-Free Zone'

Benchmark Report

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Executive Summary

Key Findings

Despite the fact that the majority of consumers' paths to purchase begin in the digital domain, most retail sales *still* conclude in stores in 2024. But without significant effort by retailers to improve the in-store shopping experience, *this won't be a given much longer*.

Technology has permeated virtually every corner of modern living – except for stores. For consumers, ***retail stores have become one of the last tech-free zones*** they encounter.

As a result, we surveyed over 100 US-based retailers to uncover the challenges – and their plans – to bring stores up to speed. At the same time, we surveyed over 1,000 US-based shoppers to gain a true prospective of how that effort is progressing. The following are some of our key findings:

- Retailers are more optimistic about how much shoppers "*love to browse stores*" than consumers are (88% compared to 69% of consumers). This is a warning sign – while it may be good news that over 2/3rds of consumers still enjoy the store experience, 1/3 do not. That's too big of a segment for retailers to ignore.
- When asked about the value of accepting returns of online orders in stores, retailers are aglow with the possibilities: 61% see it as a high value opportunity to upsell or cross-sell additional merchandise. In reality, only 40% of shoppers say they look for a similar item. Forty three percent of consumers told RSR that, "I simply return the item and walk out".
- When it comes to new technologies, retailers' desire for new metrics to understand events in stores – particularly adverse events – continues to grow in the wake of the COVID-19 pandemic. Sixty-five percent ascribe high value to a store management portal that will alert them to a whole new host of next-gen KPIs. Retailers want to know what's going on in stores.
- However, retailers are not happy with many of the tech investments they've rolled into stores so far. Half of those who've implemented video solutions to track customers and employees are dissatisfied with their investment, and 46% are unhappy with their investment in POS exception-based reporting tools. A wave of new investment into stores appears imminent.
- At the same time, retailers' highest priorities for customer-facing tech in stores are not in line with what shoppers want most. While retailers turn their attention to next-gen solutions like hyper-localized assortments and targeted one-to-one marketing communications, shoppers say they are still falling down on basics like price, product, and knowing who their best customers are. They are demanding more competence at "the basics" than retailers demonstrate.

As always, we conclude with baseline recommendations all retailers can follow that result from the data we have found. We certainly hope you enjoy the report.

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Research Overview

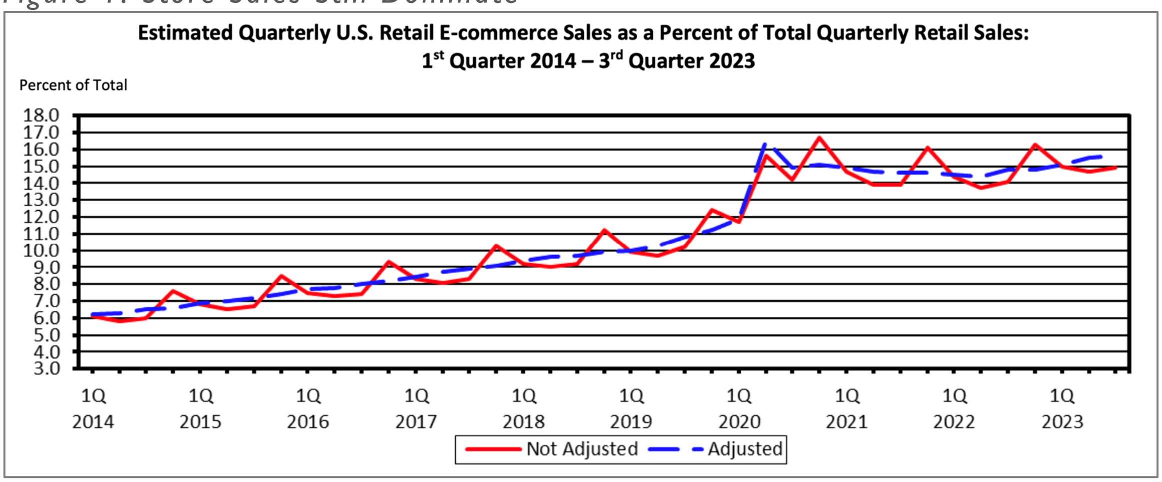
The Store: Getting In Tune With How People Live

In RSR's 2022 benchmark study on the state of the retail store[1], we pointed out that "*physical stores have a here-and-now opportunity to continue to evolve as a critical component of differentiation from ECommerce pureplays*." That was a different story than the prevailing opinion just 5 years earlier, when retail industry observers predicted the imminent demise of the store as we know it.

What had changed? In 2022 (just as the world was recovering from the effects of the pandemic on consumers' shopping patterns), 43% of retailers strongly agreed with the statement, "*The store remains the primary strategy for the company's growth.*" In this year's update, 61% strongly agree with the same statement. What's behind that upbeat position is that post-pandemic consumers have demonstrated a great willingness to once again shop in stores.

Highlighting this, **U.S. Census Bureau** data shows that while pure ECommerce sales jumped from 12% to 16% at the height of the pandemic, the ratio has remained relatively steady since then (Figure 1).

Figure 1: Store Sales Still Dominate



Source: U.S. Census Bureau, November 2023

To the relief of retailers, consumers proved the pundits wrong. Even if consumer shopping journeys may start in the digital domain[2], 84% of all sales are still rung up in stores.

For consumers, the reality is a little more nuanced. While 69% of the over 1100 consumers that RSR surveyed in November 2023 either "strongly agree" or "agree" with the statement, "*I like to browse stores*", it comes with a qualification. Consumers clearly want something more than they are currently getting (Figure 2).

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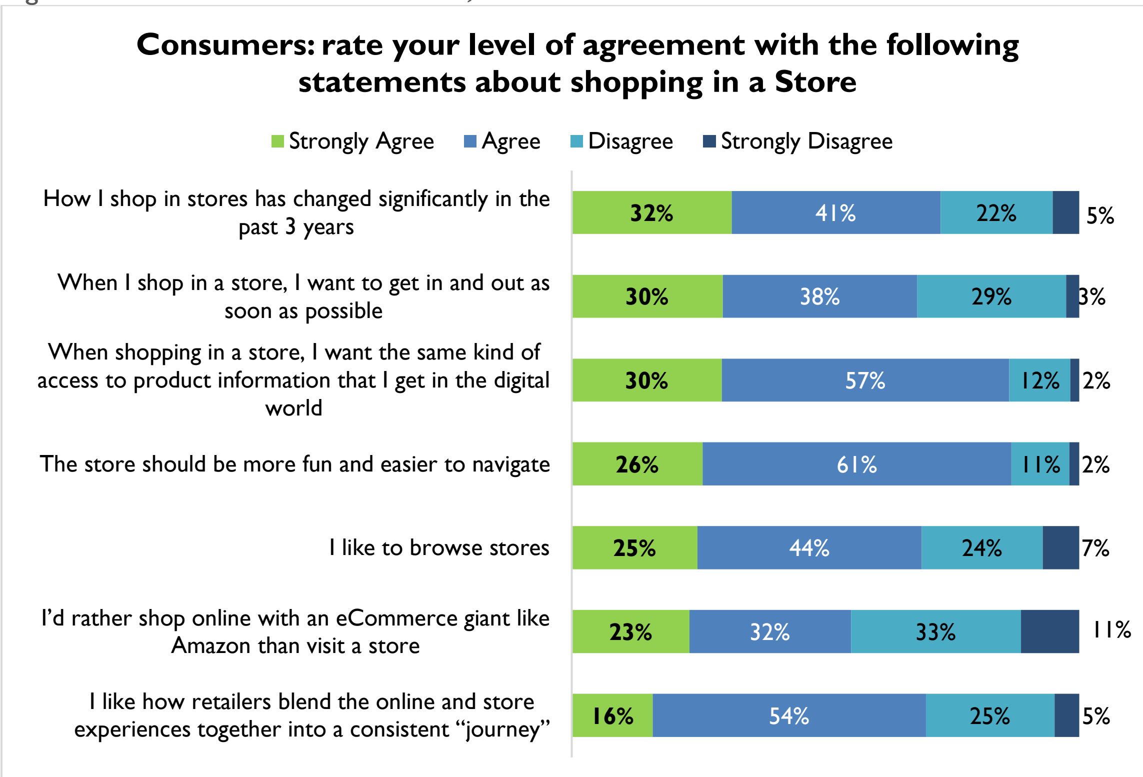
[1] **What Can Retailers Do In Stores That Amazon Still Can't?,** RSR Benchmark Report, February 2024

[2] According to one study, 63% of all shopping journeys begin online: https://www.zippia.com/advice/online-shopping-statistics/#:~:text=That%20means%20nearly%2081%25%20of,to%20begin%20their%20shopping%20experience.

Figure 2: Consumers Like Stores, But….



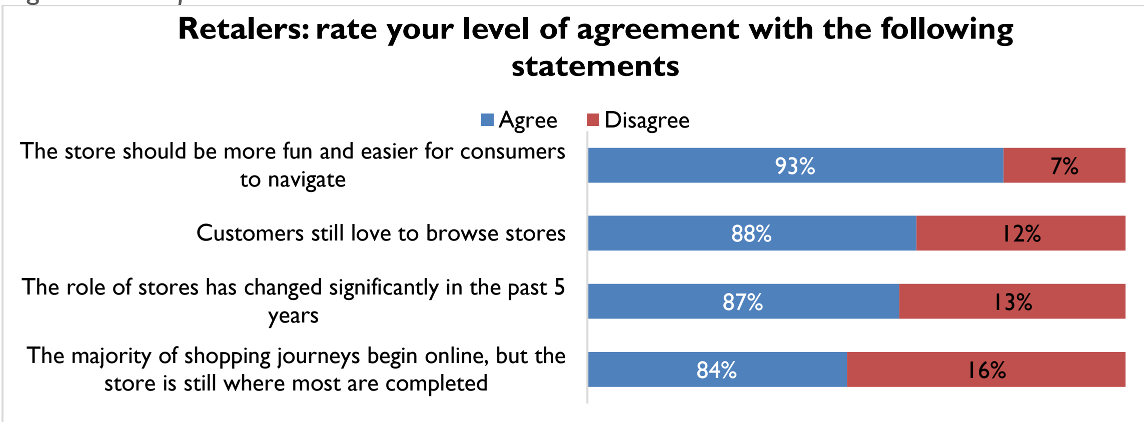
Source: RSR Consumer Study, November 2023 (n=1132)

The evidence is clear that while consumers like to shop in stores, they want the experience to be more in tune with how they live their lives. Technology has permeated virtually every corner of modern living, and we all enjoy real-time access to information 24X7. But one of the few places where that's not the case is in the store, which when it comes to consumers is a tech-free zone. While shoppers may enjoy the familiarity of a visit to the store, they don't want to have their time wasted, they want access to product information while they're shopping and an experience that is in line with what they get when they sign on the ECommerce website.

The bottom line for retailers is that consumers may still go to the store – ***but they can't take that for granted***.

While retailers are counting on the notion that shopping is more than a necessity, that it is a social activity and can even be fun, they also know that the store experience needs to better reflect how shoppers' lives have changed (Figure 3).

Figure 3: Yup!



Source: RSR Research, April 2024

Let's look at a few of the differences between what consumers tell us vs. what retailers say:

- Retailers are more optimistic about how much shoppers "*love to browse stores*" than consumers are (88% compared to 69% of consumers: Figure 2). This is a warning sign – while it may be good news that over 2/3rds of consumers still enjoy the store experience, 1/3 do not. That's too big of a segment for retailers to ignore.

- Retailers and consumers agree that the store experience should be "*more fun …*" (93% vs. 87%). That invites the question, "what is fun"? Internet-enabled (and often mobile) technologies have changed the way people entertain themselves and each other. To the extent that shopping is entertainment, the store needs to reflect new behaviors.

- Retailers and consumers are also in agreement that the store should be "*…easier to navigate*". Simply put, that means being respectful of shoppers' time. When we asked consumers more specifically about their time in the stores, two-thirds said that they "*want to get in and out as soon as possible*" (Figure 2).

- Recognition that consumers want a retailer that doesn't waste their time is especially important when considering that so many shoppers do their initial browsing in the digital domain. Eighty-four percent of retailers in this study either "strongly agree" or "agree" that "*the majority of shopping journeys begin online, but the store is where most are completed*."

What we can glean from these datapoints is that while retailers may be breathing a sigh of relief that consumer attitudes remain generally favorable to the stores, **they know that they need to make the store a better reflection of how people live.**

Relevance Is A Tech-Enabled Capability

In many ways, the new store is the antithesis of the mass merchandising model that worked so well in the years 1980 to 2000. That model was based on highly standardized product assortments presented consistently at virtually every location, priced and promoted in the same way.

For most retailers, if any localization was permitted, it was with variations in the physical layouts of the stores, zoned pricing, and key value items (KVI's) managed at the store level. The model was overtly *product*-centric, and the objective was to push as much of an assortment through each store as possible.

That all changed with the rising popularity of *customer-centric* retailing, where the objective became to sell as much to each consumer as possible. RSR's research has found that to accomplish that, true "one-to-one" retailing isn't what either consumers or retailers are necessarily looking for; what they do want is *relevance*, which means that the value offer is more finely tuned to local preferences.

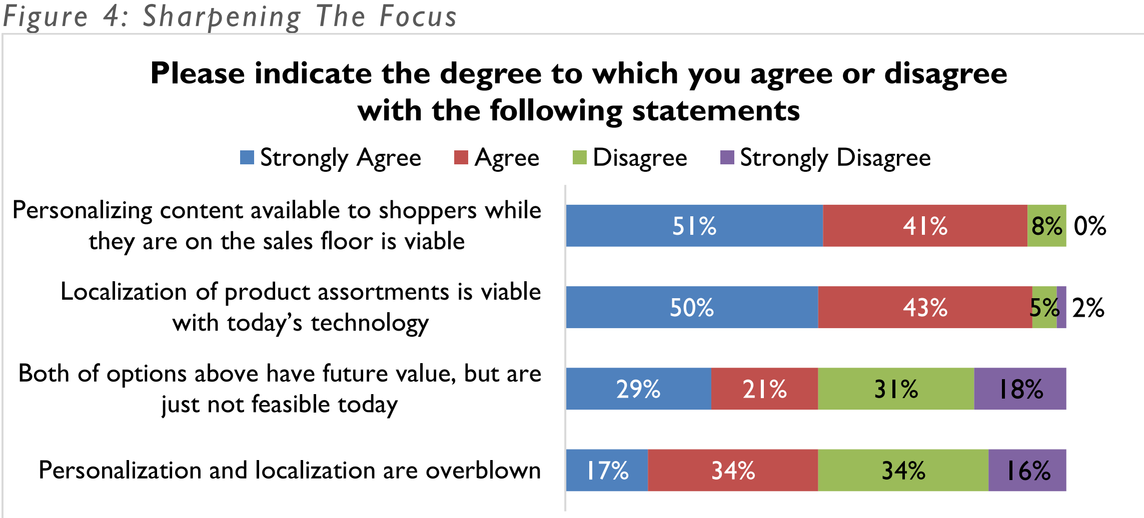
One example of the shift from old-style mass merchandising to more localized offerings is U.S. retailer Target. According to information website Quora, "*Target stores have a consistent and uniform look across their locations as part of their branding strategy. This uniformity helps create a recognizable and cohesive brand image for Target, making it easier for customers to identify and navigate their stores… <to> create a familiar shopping experience for customers, regardless of which Target store they visit."* But Target is changing with the times. Since 2017, the company has opened many smaller format stores with ***more localized and curated selections***.

Relevance ties into consumers' strong desire to not waste time ploughing through huge assortments to find what they in all likelihood have preselected on their mobile phones.

For retailers, relevance means achieving a level of localization based on what local consumers buy and how they use the store. What makes that even possible is *information and technology*. Modern retail merchandise planning, forecasting, allocation, and replenishment systems are capable of modeling demand at the store/SKU level using consumer, competitive, and market insights to localize the value offering. Not only that, but the combination of customer relationship management systems, geo-location data, digital marketing, and instore WiFi access for customers makes it possible to influence shoppers with focused content while they are in the store.

One-half of the retailers we queried for this study "strongly agree" that localization of product assortments and the ability to deliver targeted, personalized content to consumers while they are shopping in the store is viable given the capabilities of today's technologies.

Figure 4: Sharpening The Focus



Source: RSR Research, April 2024

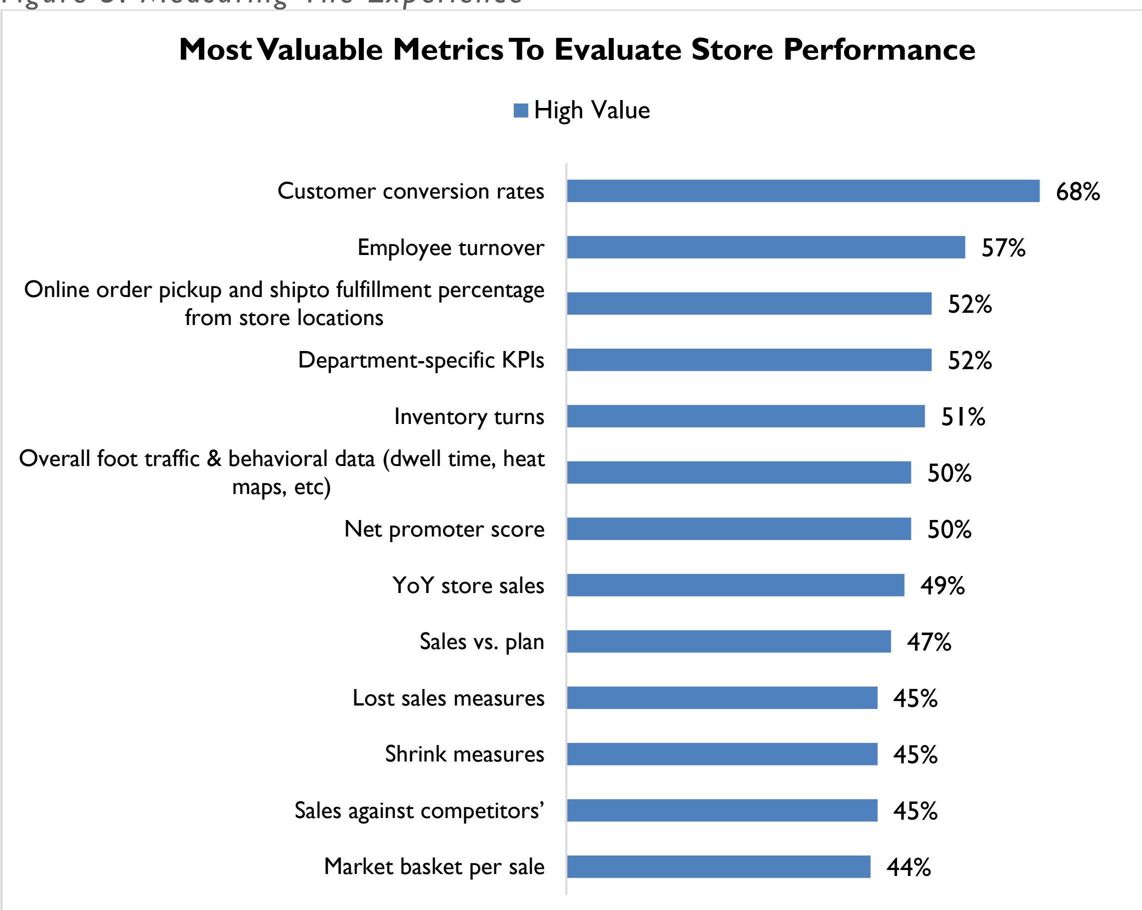
These kinds of capabilities are all in the service of making the store "feel" more personal and more relevant to consumers. As RSR has said many times before now, ***retailing is no longer about what merchants want to sell, but about what consumers want to buy- and how they want to buy it***.

How Retailers Measure Customer Satisfaction

In the mass merchandising store model, the winning formula for the store was "more people + more products = more sales". Store managers paid most attention to measures related to the *volume* of sales, such as the number of transactions, sales per employee and/or square foot, and average basket size. While those measures are valuable, the winning formula has become more complex. Now retailers need to also pay attention to measures that help them to better understand the *quality* of the customer experience.

At the top of the list of measures that are important to retailers is "*customer conversion rates*" (Figure 5). The value of this metric is surprisingly consistent across performance groups (over-performers, average, or under-performers) retail verticals, or revenue brands.

Figure 5: Measuring The Experience



Source: U.S. Census Bureau, November 2023

Right behind conversion rate in importance is "*employee turnover*". Just as with conversion rate measures, the number of retailers that assign a high value to employee turnover is surprisingly consistent across the various data cuts that RSR uses. In RSR's 2023 benchmark on the state of the store employee[3], we observed that:

> *"… a well- trained and fairly compensated workforce reduces turnover, which both saves money in the long run and improves sales-per-employee. This is the essence of viewing employees as assets, not expenses."*

While the dynamics of the modern retail workforce are beyond the scope of this benchmark, it is noteworthy that employee turnover is viewed not only from the perspective of labor expense, but also because there is a tangible relationship between knowledgeable employees and customer satisfaction.

It's also worth noting that customer behavioral measures ("*foot traffic"* and "*dwell time"*) and customer attitudinal measures ("*net promoter scores"*) have become just as important - if not more so- as inventory turns, sales vs. plan, and YoY sales, in helping retailers measure store performance.

It is clear from these responses that more retailers are looking beyond sales transactions as an indicator of customer satisfaction with the store experience – they are searching for measures that will help them to understand if consumers actually enjoy that experience.

Retail Winners And Why They Win

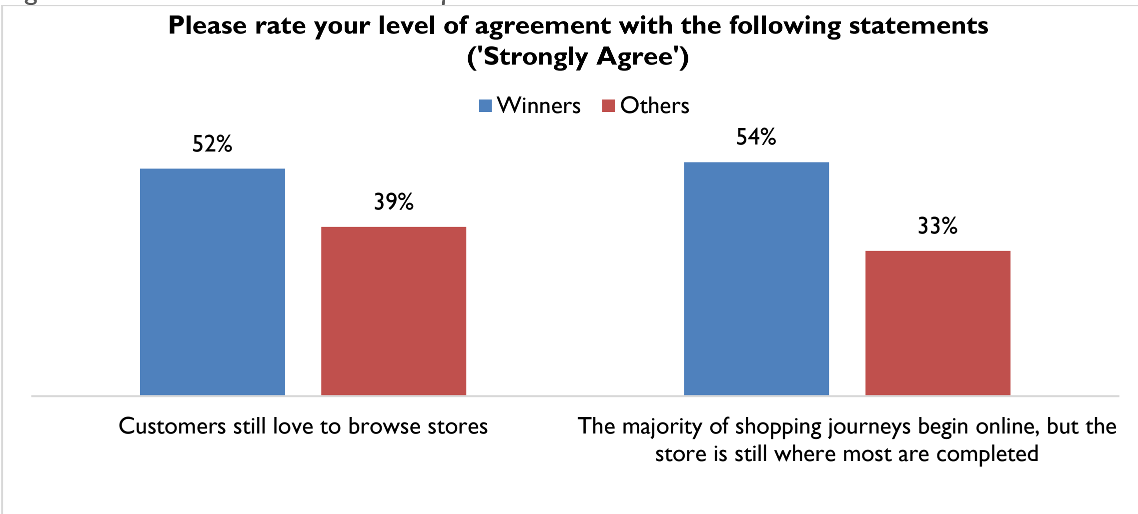
In our benchmark reports, RSR quite frequently cites differences between retailer over-performers in year-over-year comparable sales and their competitors. We find that consistent sales performance is an outcome of a differentiating set of thought processes, strategies, and tactics. We call sales over-performers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

RSR's definition of these Winners is straightforward. Assuming industry average comparable store/channel sales growth of **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." Winners don't just do the same things differently. In each of our studies, we find that they do entirely different things. They view the challenges differently, and they react differently.

Consider what we find when we look at the same data from Figure 3 (how retailers react to hot-button statements), when viewed through the lens of sales performance (Figure 6).

[3] **Retail In The Face Of An Entirely New Workforce Model**, RSR Benchmark Report, May 2023

Figure 6: Winners Are More Upbeat



Source: RSR Research, April 2024

The fact is that Retail Winners are more upbeat about the future of the store than average and under-performers are. While that might seem like an acknowledgement of the obvious, it's important – because that attitude dictates how retailers view challenges and opportunities and influences their willingness to spend on bringing information and technology to the sales floor.

RSR concluded its 2022 benchmark on the state of the store by observing:

> *"To be relevant, stores need to be participants in consumers' digital ecosystems. To that end, retailers want to both utilize consumers' personal devices to make the shopping experience more engaging, and to make stores more of a destination than they currently are."*

That's exactly what's happening in today's marketplace. But the devil is in the details, and this 2024 update will highlight some of challenges that retailers are facing as they seek to modernize the store shopping experience, how Retail Winners turn those challenges into opportunities, and the role that technology plays in addressing both the challenges and the opportunities.

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 Q1 2024 and received answers from 103 qualified retail respondents. Respondent demographics are as follows:

- **2022 Revenue (US$ Equivalent)**

Less than $50 million	0%
$51 million - $249 million	8%
$250 million - $499 million	25%
$500 million - $999 million	44%
$1 Billion to $5 Billion	20%

- **Products sold:**

FMCG (Convenience stores, Food & Drug, Health Care Products)	34%
Fashion & Specialty (Apparel, Footwear, Accessories, Luxury, Personal Care/Cosmetics)	27%
Hard Goods (Consumer Electronics, Home Décor, Home Improvement, Automotive)	14%
General Merchandise (Discount, Mass Merchant)	25%

- **Retail Presence:**

	Retail Presence
USA	100%
Canada	44%
Latin America	18%
UK	38%
Europe	16%
Middle East & Africa	3%
Asia/Pacific	5%

- **Year-Over-Year Sales Growth Rates** (assume average growth of 5%):

Average & Below Average	35%
Better than average ("Retail Winners")	65%

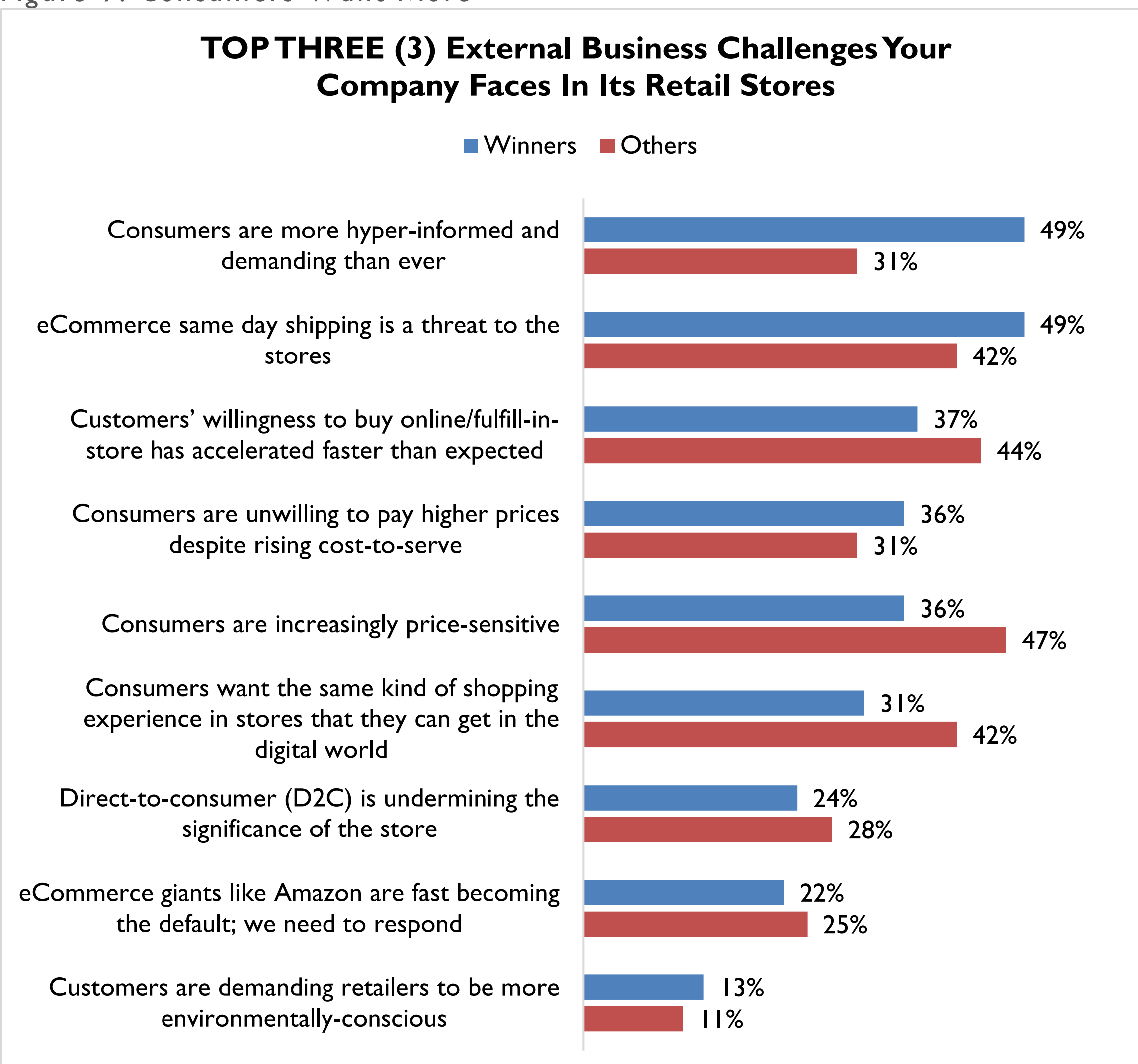
Business Challenges

Consumer Expectations Drive The Agenda

"The store" is not dead – but it is being redefined in the context of how consumers live their lives. Retailers know that today's shoppers demand instant access to information almost as an entitlement, to look up product information, read reviews, and check competitive prices. That is reflected in the business challenges that retailers prioritize in this study. When we asked retailers about those external forces that are driving changes within the company, almost every one we offered are either directly or indirectly about consumer behaviors (Figure 7).

The responses show some interesting differences between how over-performing Retail Winners and others view their top external challenges. For Winners, the greatest concern is *hyper-informed and demanding consumers* – and their willingness to choose same-day direct deliveries, bypassing the store completely.

Figure 7: Consumers Want More



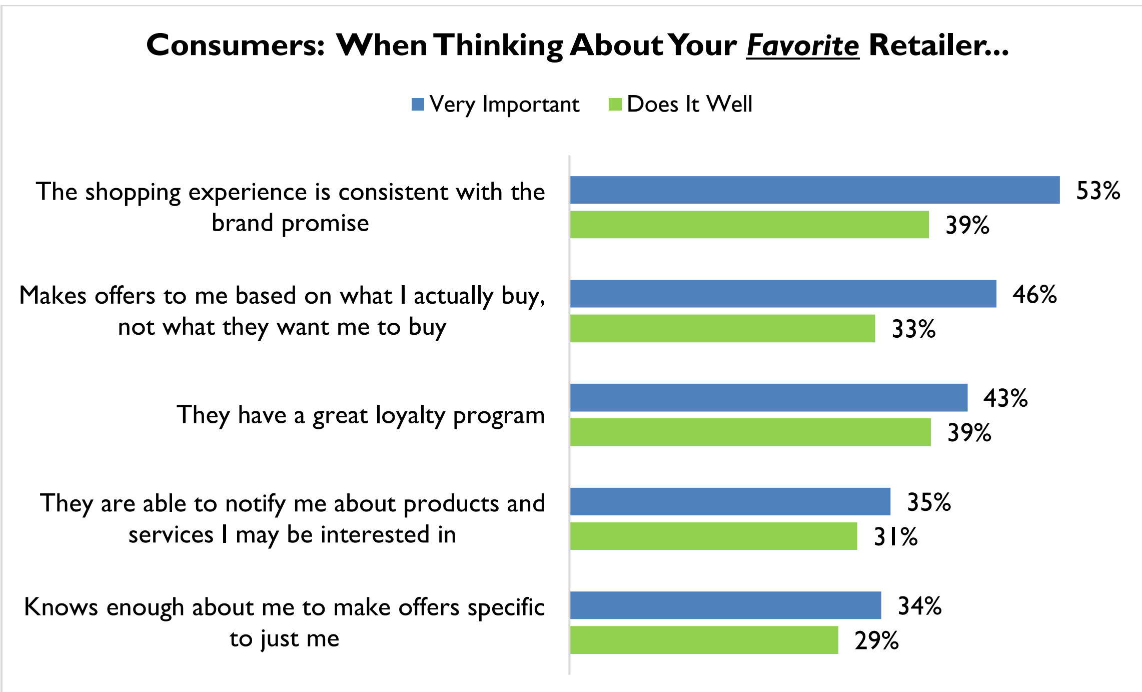
Source: RSR Research, April 2024

For average and under-performers, the top challenge is *consumer price sensitivity*. That concern is consistent with what RSR learned in our recent survey of U.S. consumers[4]; in that study, 62% rated "*prices matter more today than ever*" as "very important" – more than twice as many as those who rated the 2nd most important expectation ("*I routinely get frustrated with how difficult it is to engage with a person when I have a customer service issue with a retailer*", 30%).

From a performance perspective, results show that while over 1/3 of Winners also express concern about consumer price sensitivity, the issue is obscured by the more generalized concern about consumers being hyper-informed. It's an important distinction; *price* is just one attribute of value, but today's consumers are looking for more than just a competitive price.

So, what are consumers looking for from the store experience? We asked consumers just that question, and here's what they had to say (Figure 8).

Figure 8: What Do You Want?



Source: RSR Consumer Study, November 2023 (n=1132)

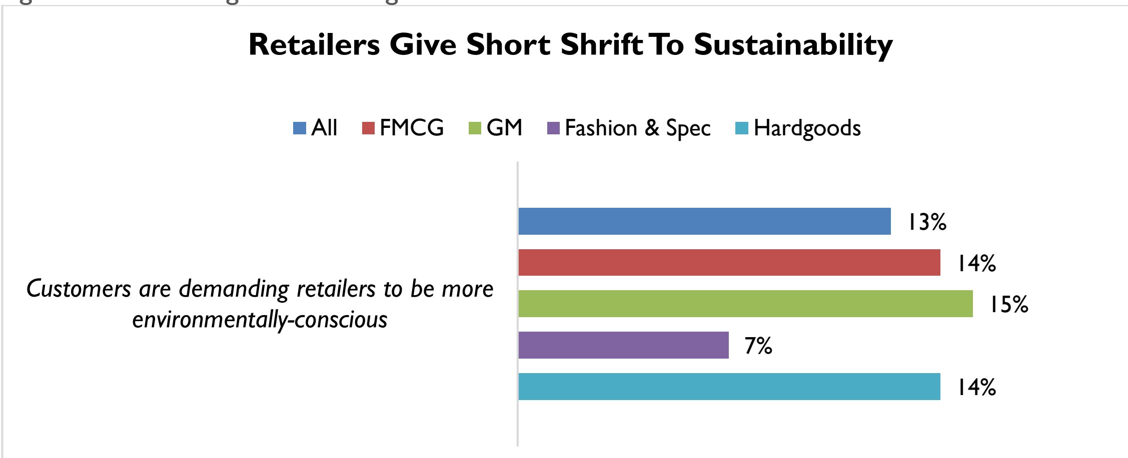
What consumers seem to be saying is, "*I've shared a lot of information about my needs with you – now I want you to use it in a way that makes the shopping experience more relevant to me*". Retailers need to pay attention.

A Clear Miss

One challenge that retailers are clearly <u>not</u> paying attention to is *sustainability and the environment*. What's shocking about this finding is that it is so consistent – across all the verticals (Figure 9), and even by performance (Figure 7).

[4] In November 2023, RSR conducted a survey of 1132 U.S. based consumers, to better understand shopper attitudes about retailers and shopping.

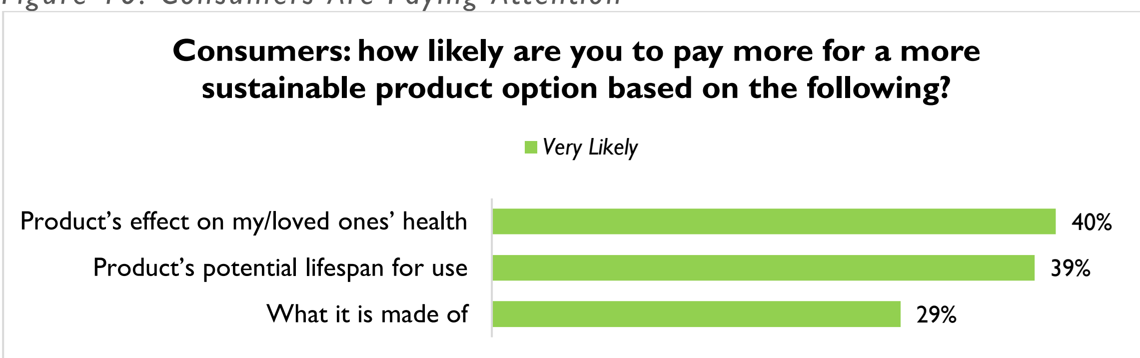
Figure 9: Missing A Growing Consumer Concern



Source: RSR Research, April 2024

In fact, consumers are far ahead of retailers when it comes to the sustainability challenge (Figure 10), and even express a willingness to pay more for the products that are environmentally friendly.

Figure 10: Consumers Are Paying Attention



Source: RSR Consumer Study, November 2023 (n=1132)

This is a clear miss on retailers' part, and it may come back to haunt them. According to other studies, the challenge is even greater than Figure 10 suggests. For example, according to a 2020 McKinsey U.S. consumer sentiment survey[5], more than 60 percent of respondents said they'd pay more for a product with sustainable packaging. Another study revealed that 84% of customers say that poor environmental practices will alienate them from a brand or company[6].

Operational Challenges: One Stands Out

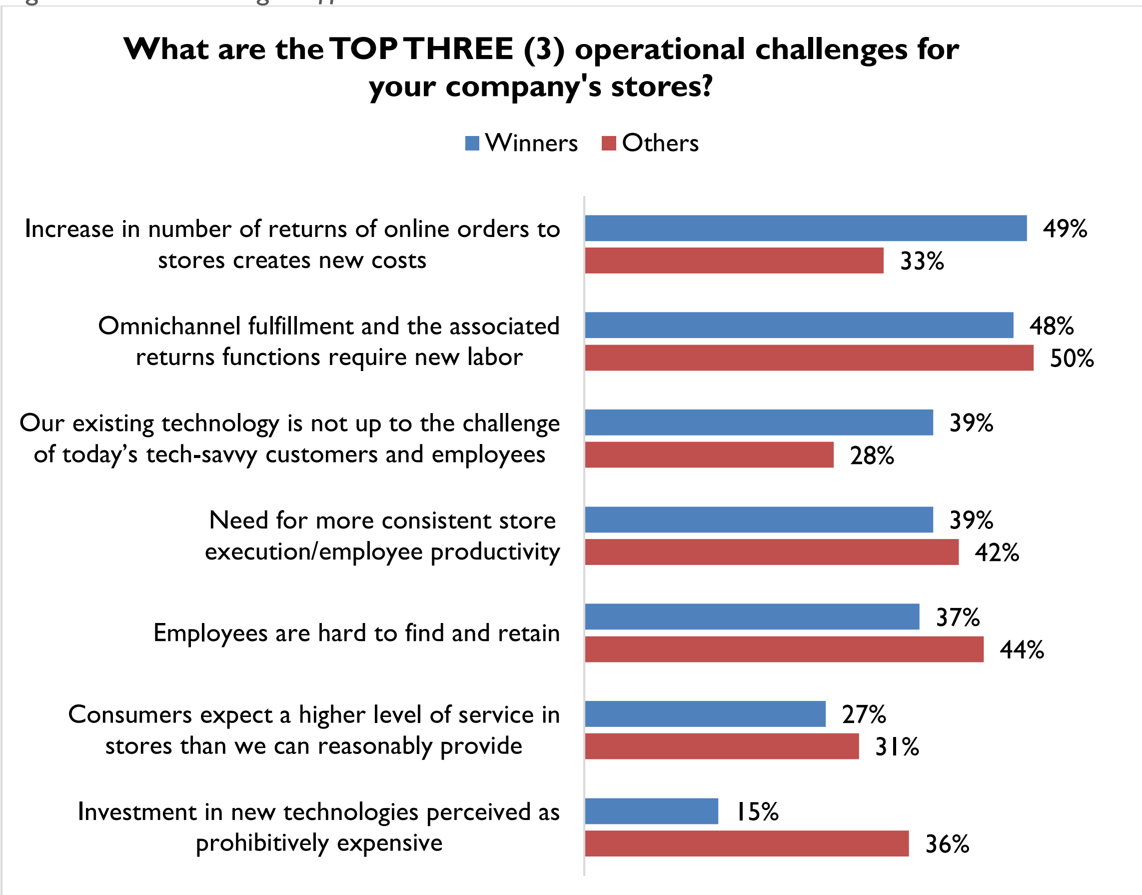
In RSR parlance, operational challenges happen within the theoretical four walls of the enterprise – as opposed to business challenges, which happen beyond those four walls. Retailers large and small continue to be operationally challenged by the effects of omnichannel shopping in particular. Buy-online-pickup-instore (BOPIS) has created all-new tasks for store personnel, which in turn has created the need to find efficiencies throughout the operation in order to maintain expense-to-sales ratios and per-order profitability.

5 https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/consumers-care-about-sustainability-and-back-it-up-with-their-wallets

6 www.theroundup.org

Responses to this study indicate that one-half of all retailers continue to struggle with the new functions that add to the cost-to-serve and require better trained and enabled employees (Figure 11).

Figure 11: One Big Difference

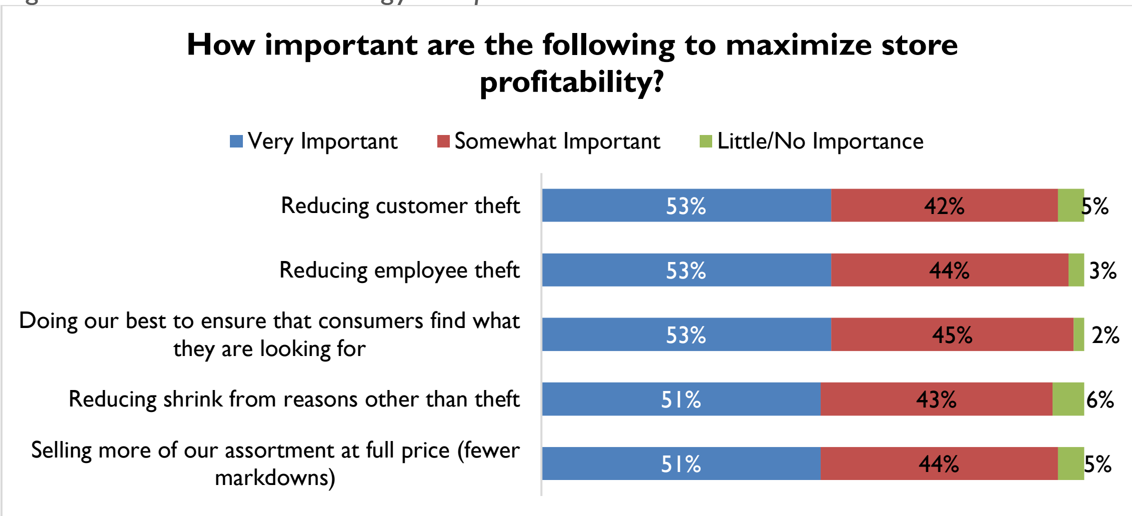


Source: RSR Research, April 2024

While there's general agreement about most of these challenges, one stands out: over 1/3rd of average and under-performing retailers say that addressing other operational challenges with technology is "*prohibitively expensive*", compared to only 15% of Winners.

But retailer concerns about the high cost of store-level technology that is at odds with what retailers tell us are the most important things that they can do to maximize store profitability (Figure 12).

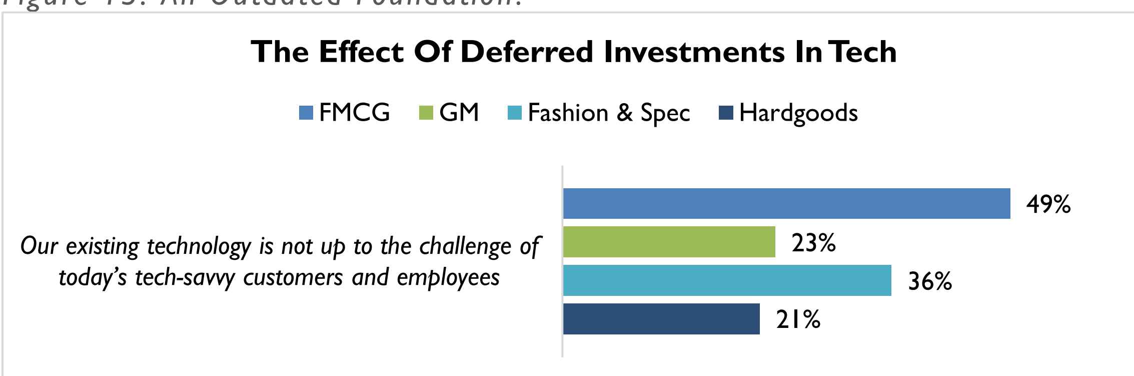
Figure 12: Could Technology Help?



Source: RSR Research, April 2024

Succeeding at each of these objectives can be addressed with an infusion of information and technology. But deferred on investments in foundational technologies now stand in the way of addressing those objectives with the new solutions available today (Figure 13).

Figure 13: An Outdated Foundation?



Source: RSR Research, April 2024

The tendency to defer on technology investments is especially true when it comes to FMCG retailers. Given the razor-thin operating incomes that these retailers must work with, that's understandable, but it stands in the way of progress now. If there is any good news on this point, it's that retailers know what they're up against, and are moving towards modernization. For example, in a recent study that RSR conducted[7], we found that a surprising 56% (and 53% of FMCG'ers) of the retailers queried are planning new investments in the corporate WAN infrastructure to enable more network-centric business applications particularly in the stores.

As we'll see in the next section of this report, **many of the opportunities that retailers see are dependent on a robust and flexible technology foundation**.

[7] **The World Is Connected: The Store Must Be Too**, RSR Benchmark, January 2024

Opportunities

Changing Dynamics

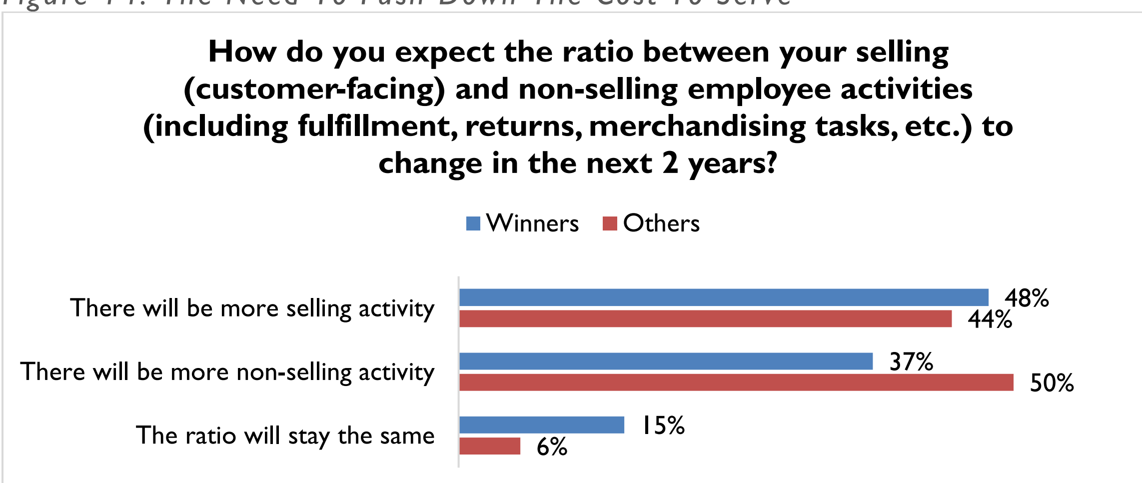
Earlier in this report, we learned that over-performing Retail Winners are more optimistic about the future of the store (Figure 6). Winners also told us that their greatest business challenge is that consumers are better informed than ever and are therefore more demanding – *and* that shoppers are increasingly willing to bypass stores altogether and opt for same-day shipping from big ECommerce operators if the store doesn't meet their expectations (Figure 7).

Non-Winners on the other hand, complain that consumers are beating them up on price, that they are triggering new costs associated with instore fulfillment for online orders more than expected, and that they expect the same kind of information-rich experience in the store that they get in the digital space.

With all the new service expectations that digitally enabled shoppers have - along with their unwillingness to let retailers raise prices to cover new costs - something needs to change, or at least, that's what non-Winners are saying.

There's a big gap between how Winners see the world and how non-Winners do. That is hinted at when we asked retailers to project how much selling vs. non-selling activity will change in the next two years. While almost one-half of both Winners and others agree that there will be more selling (customer-facing) activity in the stores, far fewer Winners think that non-selling activity will also increase, in spite of all the new order-fulfillment and related services that consumers are demanding (Figure 14).

Figure 14: The Need To Push Down The Cost-To-Serve



Source: RSR Research, April 2024

The inference to be drawn from this is that over-performers are already taking action to control the spiraling cost-to-serve, particularly as relates to new processes required to fill customer orders, to handle direct-to-consumer order returns, etc. But as we'll see in the Technology Enablers section of this report, non-winners aren't throwing in the towel, and in fact may be looking to leapfrog Winners with investments to better enable store employees, management, and consumers.

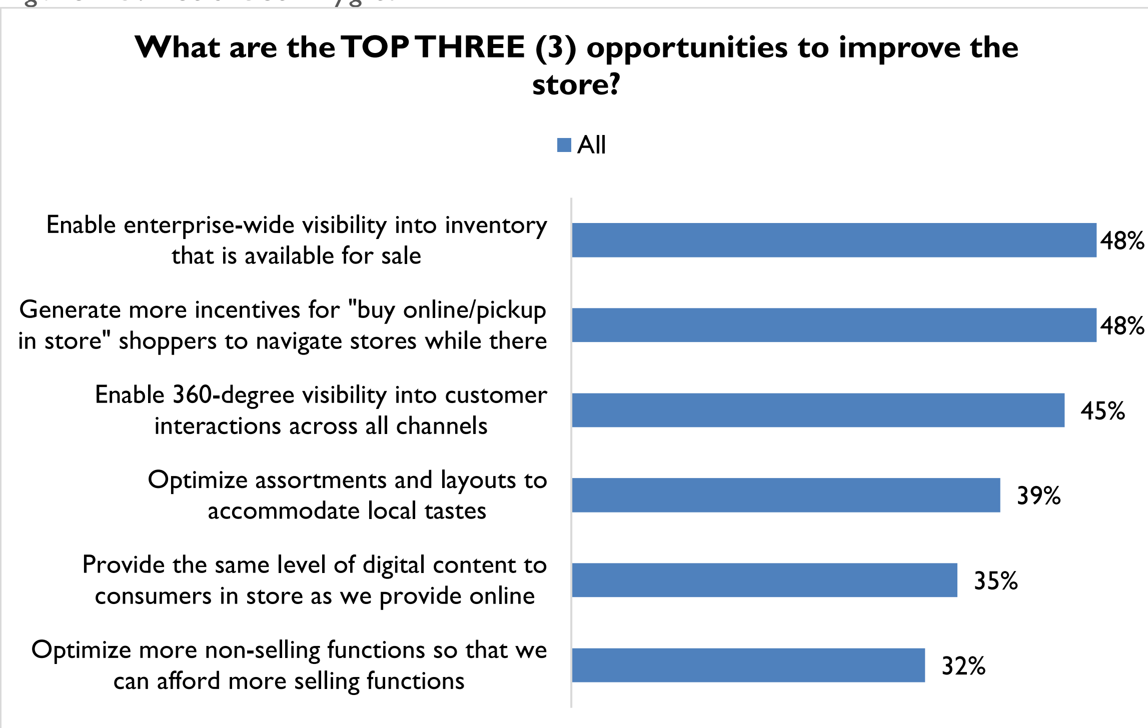
The Store As One Component Of An Enterprise Selling Environment

Before the explosive rise of the World Wide Web (1995 – present), the store was designed to be an "island" of retail. Everything that the store needed to execute was within the four walls of the building, and if the upstream enterprise was offline for any reason (for example, because the corporate network failed), it was business-as-usual.

But as we've already seen, consumers often start their shopping journeys outside of the physical store – they browse and sometimes even select the products that they want to pick up in the store. Consumers don't "see" channels (ECommerce or the store). Instead, they see the total brand - the sum of what a retailer sells, how they sell it, and how they wrap it up in value-adding services.

Looking at the top opportunities that retailers prioritize, it's clear that the time is now to integrate the store into the total enterprise selling environment (Figure 15).

Figure 15: Let's Get Phygital[8]



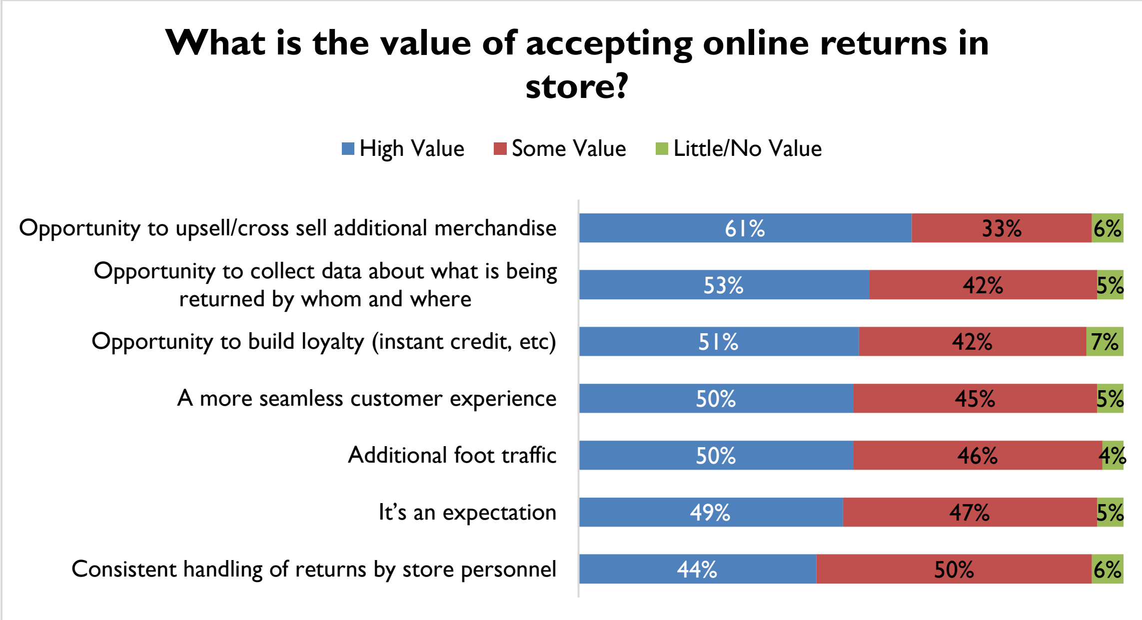
Source: RSR Research, April 2024

Three of the top opportunities are to enable access to inventory and customer information across the entire enterprise, and to offer the same level of digital content to consumers in the store as they can get during the digital shopping experience. Another big opportunity is to incentivize online shoppers to linger in the store while picking up their online orders. These opportunities are all focused on harmonizing the physical store with the digital channel.

One way that retailers are attempting to blend the digital with the physical is to encourage shoppers to bring their direct-to-consumer returns to the store (Figure 16).

[8] According to the website ScienceDirect, "phygital" is "marketing term that describes blending digital experiences with physical ones."

Figure 16: Another Reason To Go To The Store

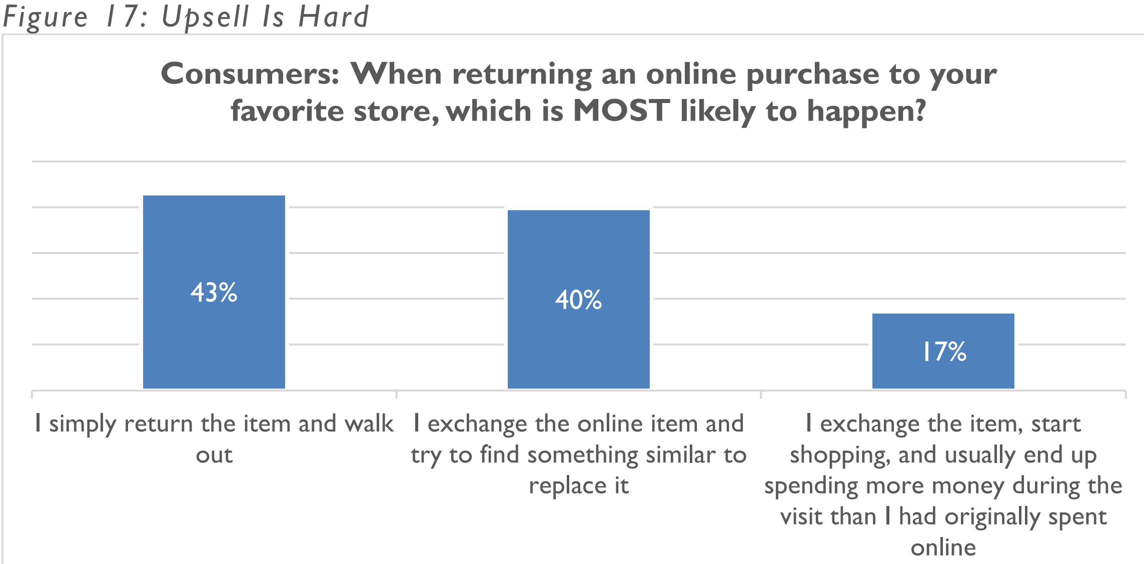


Source: RSR Research, April 2024

The reasons for accepting online order turns in the store are varied, depending on retail vertical. For Fashion and Hardgoods merchants, it's all about generating more foot traffic in the store. For general merchandisers and FMCG retailers, it's all about creating upsell opportunities. Looking at this by performance, Winners and others agree that **creating upsell opportunities** is the top reason to take in online order returns.

But according to the consumers we surveyed in our November 2023 study, retailers' hopes that handling online order returns in the store will create upsell opportunities is overly optimistic (Figure 17).

Figure 17: Upsell Is Hard



Source: RSR Consumer Study, November 2023 (n=1132)

Summing Up The Opportunities

Everything that we've seen thus far points to one big to-do: **the store channel needs to be integrated with the digital selling channel to create a unified enterprise selling environment**. To accomplish that, the store first needs to be updated to enable real-time visibility into key information assets for both customers and store operations personnel. The store assortment and format should be optimized to cater more to local tastes. And importantly, non-selling processes need to be hyper-optimized to shake out as much cost as possible, to be able to afford to meet the expectations of digitally enabled consumers.

Retail Winners seem to be in the lead when it comes to these objectives, but average and under-performers aren't giving up. As we'll see in the Technology Enablers section of this report, non-Winners have big plans to invest in the technologies needed.

But before we can discuss the technology enablers, we need to examine the organizational inhibitors that stand in the way.

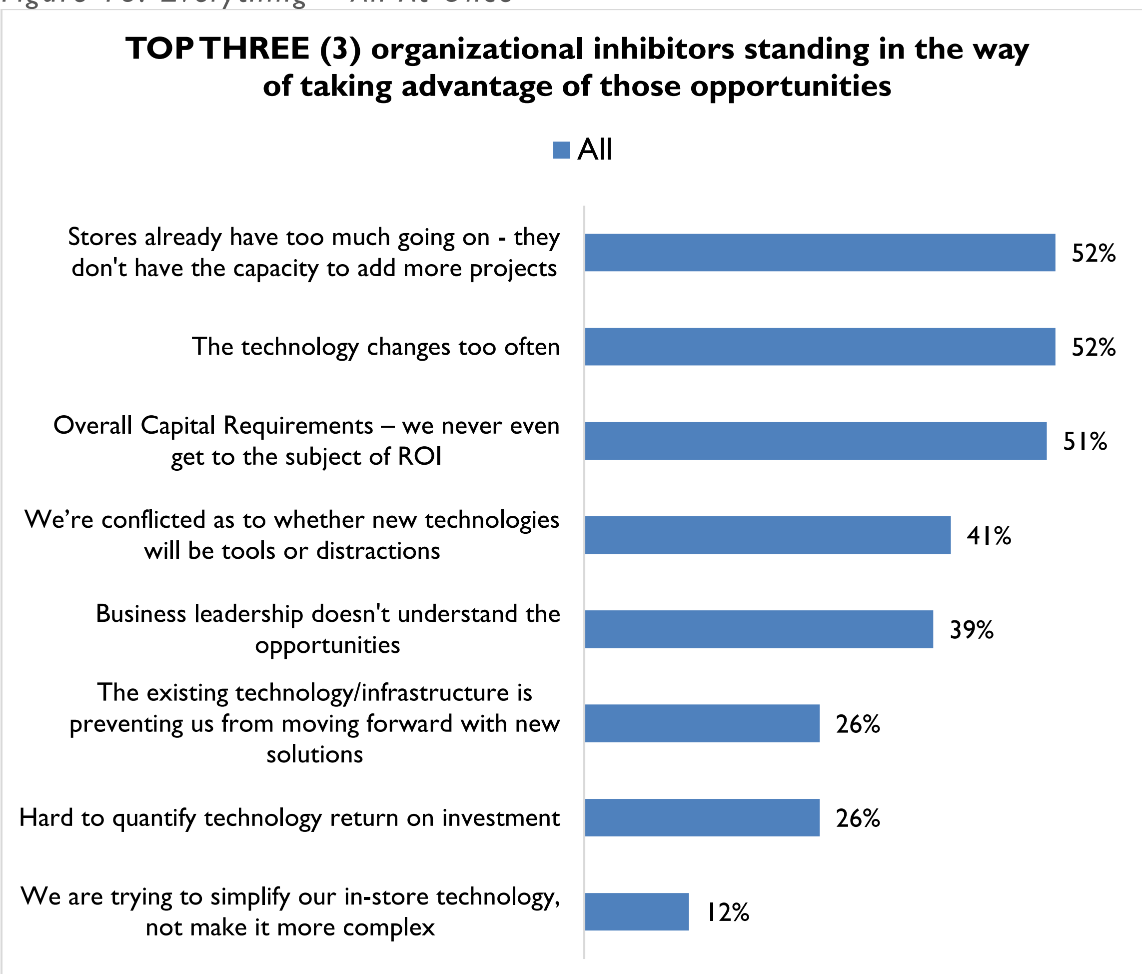
Organizational Inhibitors

Daunted By A Long List Of To-Do's

In the summer of 2022, the world was still trying to absorb all the changes brought on by the global pandemic, retailers were grappling with consumers' dramatic shift towards omnichannel shopping journeys. Our August 2022 benchmark report[9] observed that, "… *we can expect that retailers' concerns about the need for big new capital investments will recede once decision makers have the opportunity to develop their strategies and rationalize their spending plans. But … it is certainly top-of-mind right now. Clearly, retailers have not yet rationalized all the changes that could occur.*"

While the overall capital investments required to modernize the store with new technology remains a top concern, there are clear indications that retailers are already at work – and are perhaps feeling overwhelmed by how much must be addressed (Figure 18).

Figure 18: Everything – All At Once

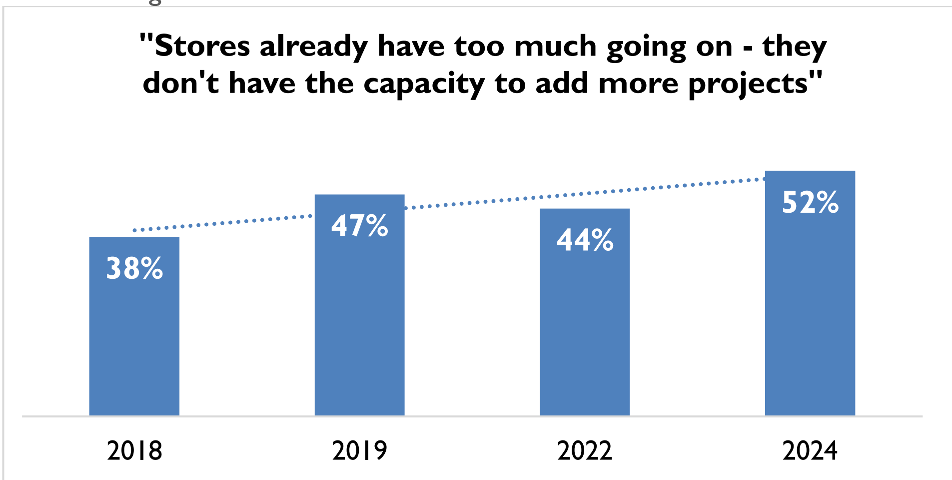


Source: RSR Research, April 2024

[9] What Can Retailers Do In Stores That Amazon Still Can't?, RSR Benchmark Report, August 2022

The potentially overwhelming number or technology investments needed for the stores isn't a new concern. In fact, looking back over the past several years, RSR's benchmarks have shown it to be steadily growing (Figure 19).

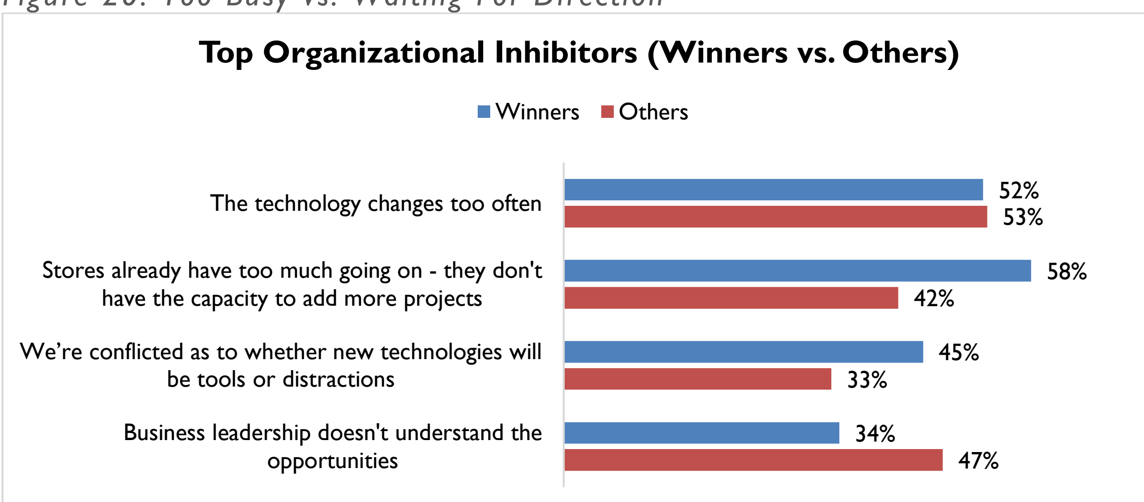
Figure 19: Increasing Pressure



Source: RSR Research, April 2024

If there's good news in this trend, it's in that retailers are not frozen with inaction – in fact, quite the opposite! But looking at this result by performance, we can clearly see that while over one-half of all our survey respondents share concerns about the fast rate of technology change, non-Winners fret over a lack of clear business leadership to champion change in the stores, while "too much going on" is primarily a Winners' concern (Figure 20).

Figure 20: Too Busy vs. Waiting For Direction



Source: RSR Research, April 2024

The inference is clear: Winners are deeper in a change cycle – and are feeling the pressure to prioritize.

How To Stay Focused

With all the potential changes that retailers could pursue (discussed in the next section of this report), how do retailers stay focused? Traditional methods for prioritization seem to be failing. For example, Figure 21 shows that almost one-half of all our respondents believe that it's too late to depend on an ROI expectation – consumers' expectations are clear, and if retailers want to compete for share of wallet, they have to keep up.

Figure 21: It's a Cycle

Source: RSR Research, April 2024

Non-Winners continue to look for more leadership. But another important factor in establishing and maintaining a focus is in using analytics to both monitor real-time conditions in the store environment (to help identify the most pervasive problems), and to track process improvements over time as a result of technology investments. Retailers clearly aren't willing to blindly spend their way towards a more modern store. Instead, they are in a change cycle of: prioritize –> invest –> observe –> adjust.

In the next section of this report, we will discuss what technologies are being given priority, and how far into the into the change cycle they are.

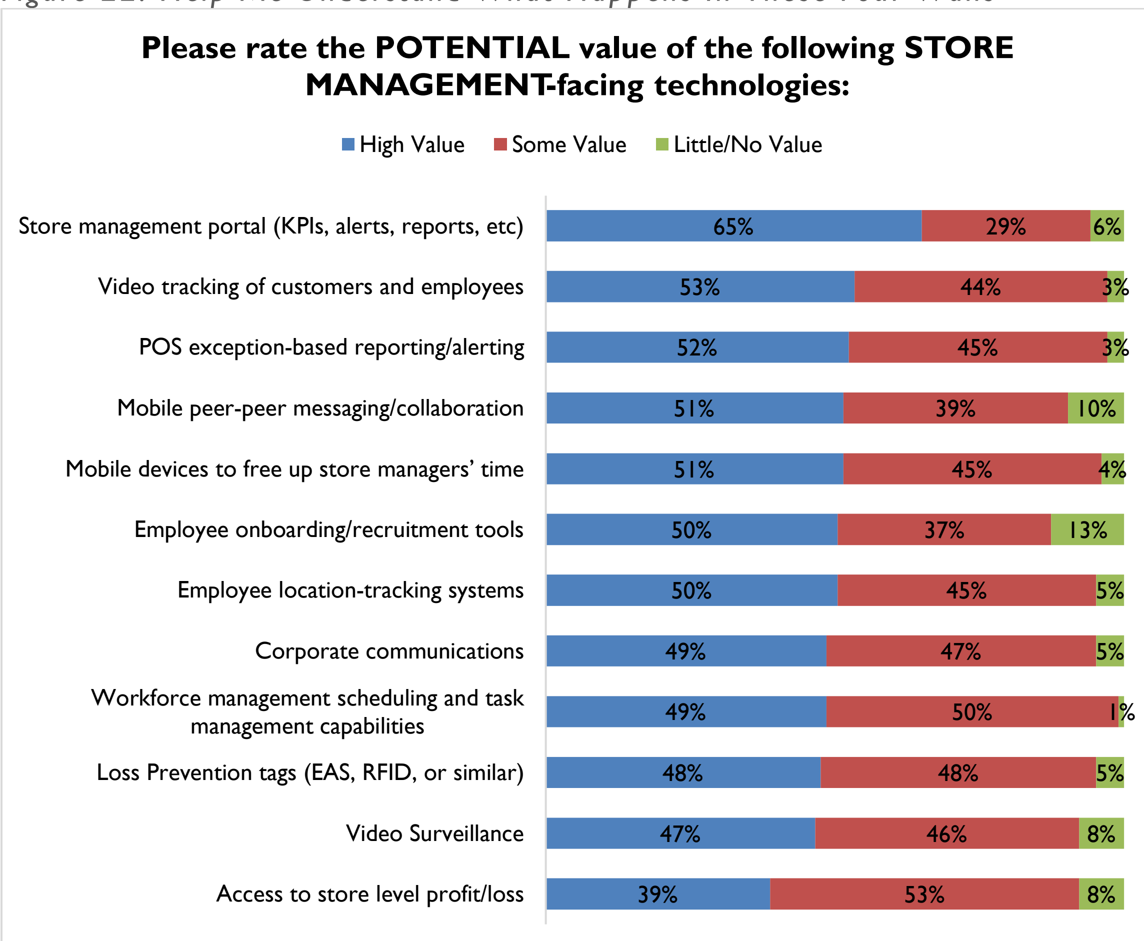
Technology Enablers

Where Do Retailers See The Most Value For New Technologies In Their Stores?

Because the list of technologies that retailers *could* put in their stores is so extensive, we segmented the options into three main categories: *Store Management tools, Customer-Facing technologies*, and those that are directly put into the hands of *Store Associates* to help them provide more value.

Let's first examine those that help bring the big picture into focus. Figure 22 shows where our retail respondents see the greatest potential to better manage their stores overall. As of this moment in 2024, the name of the game is better reporting and KPIs. The ability to track customers and employees, and the ability to know when/why exceptions occur at the point of sale round out the top three priorities (Figure 22).

Figure 22: Help Me Understand What Happens In These Four Walls



Source: RSR Research, April 2024

Regular readers of RSR's benchmark reports will see the data above as natural extension of what retailers have increasingly been telling us over the past several studies we've conducted. In fact, since the global19 pandemic of 2020 and the tumult it brought to a comparatively-serene store landscape prior, retailers' desire for new metrics to understand events in stores – particularly adverse events – has steadily grown. The topic is so high on retailers' lists that RSR conducted its first ever study on the topic in 2022[10]. From that report:

- 52% of retailers strongly agree that management is "*constantly looking for new ways to measure performance*" - but likely more importantly, those tools need to be easily digestible: 98% agree that "*the executive team needs performance reports that are 'short and sweet'*".
- The better a retailer's sales performance is, the more likely they are to trust in the power of data. 76% of Retail Winners are already using and satisfied with tools that help them make sense of data being extracted from their legacy operational systems.
- When it comes interfaces, executive dashboards already hold the most appeal to retailers. 97% say these are the most valuable tools currently available, and 54% are not only already using such tools, but report that they are very happy with the results so far.
- Retail Winners are also already far more reliant on things like natural language interfaces, exception alerting tools, and role-based mobile access, often-times at an implementation rate of more than 2 to 1 over their average and underperforming peers.

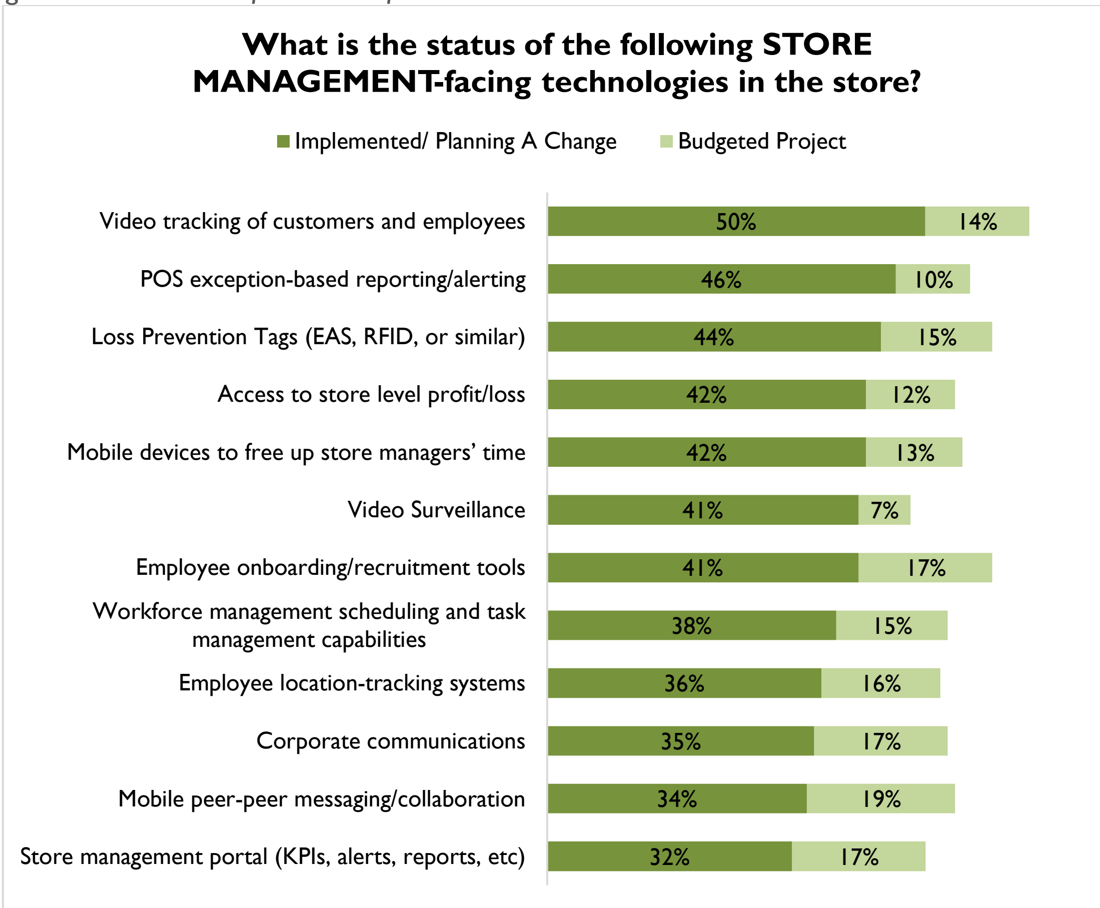
Put simply, retailers want to know what's going on in stores. The better the retailer, the more they want new tools to help them get that information - and to get it in both a simple and actionable fashion.

Can't Get No Satisfaction

However, understanding the potential value of these store management tools is one thing; understanding what retailers think of the investments they've already made in such tools something else entirely. As Figure 23 clearly shows, retailers *are **not** particularly happy* with the implementations they've rolled out so far.

[10] **How Retailers Are Operationalizing Analytics With New KPIs,** RSR Benchmark Report, June 2022

Figure 23: A Lot Of Dissatisfied Customers



Source: RSR Research, April 2024

Typically, we do not see data like this. For example, more retailers are *unhappy* with the video solutions they've installed (50%) and planning a change than are happy with the investment they've made to date (44%, not pictured). The same trend extends to investments in POS exception-based reporting and alerts: 43% of retailers report satisfaction with their current solution, while 46% tell us they have implemented such tools *but are **not** satisfied* with them.

What makes this data so unusual is that while a large portion of retailers are dissatisfied with the solutions we asked them about - *video tracking*, for example - a relatively small number of retailers who have yet to invest in this category have put budget aside for net-new investments (only 14%). This trend extends across all of the technologies we put forth (the highest net-new investment solution on offer is mobile peer-to-peer collaboration at 19%), and thus begs the question: *are retailers simply going to reinvest in the areas where they are dissatisfied - or will they be turning their investment dollars elsewhere?*

We cannot offer a definitive answer. What we are able to ascertain, however, is that when it comes to the technologies retailers value the most - those that afford them a more granular understanding of what is happening within the four walls of their stores – a very large swath is not happy with the results to date.

What About Shoppers?

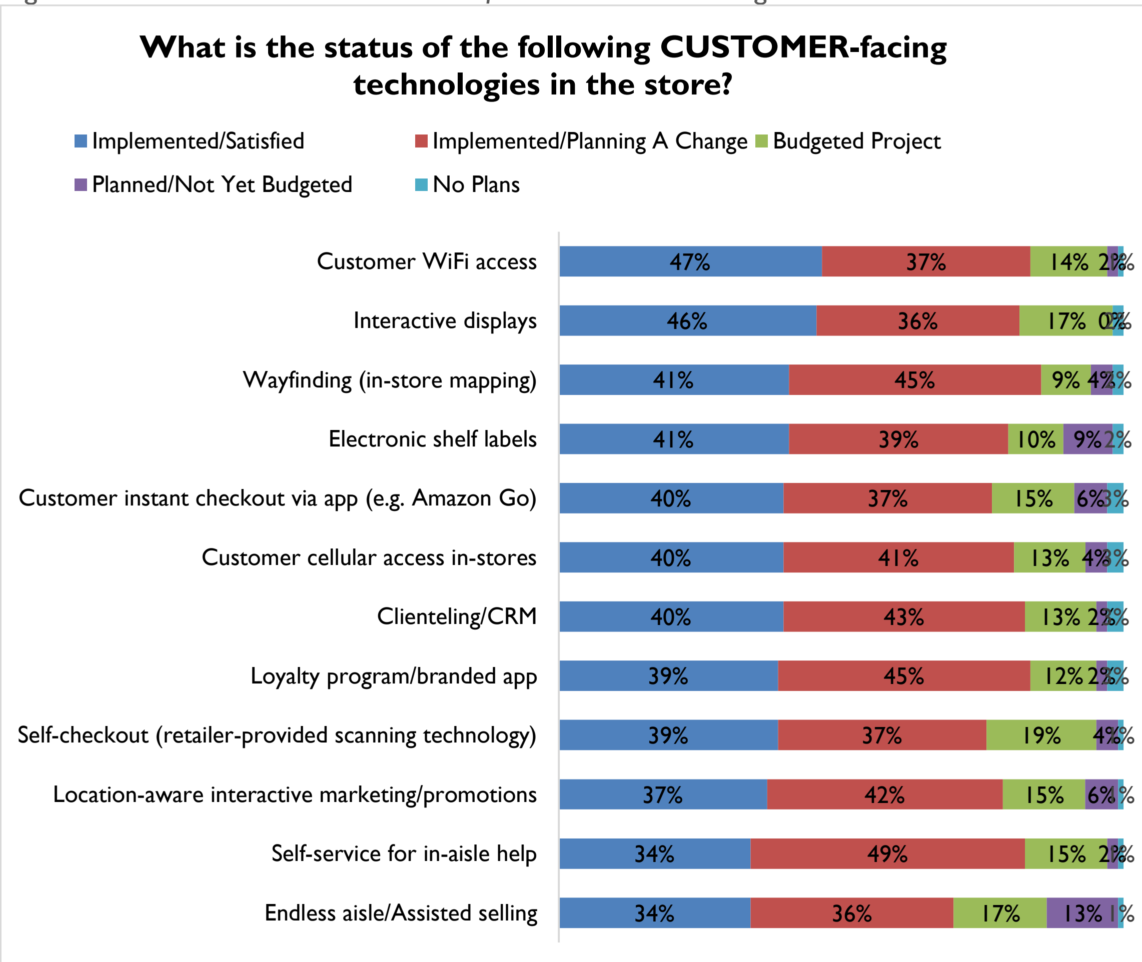
When we turn our attention to the technologies retailers think will help engage their shoppers most, the short answer is "all of them". Our respondents ascribe the highest value to those which augment available store merchandise (endless aisle and assisted selling), but the focus does not stop there. Exactly one-half of retailers say that location-aware promotions are a high priority, and even more (54%) are highly interested in the value fast-changing *electronic labels* could bring to their shelves (Figure 24).

Figure 24: ...And A Great Deal Of Replacement Coming...

Source: RSR Research, April 2024

What makes this data so interesting is twofold. The first is steeped in classic conundrum: retailers report interest in solutions rooted in somewhat-lofty goals at the top of their list (endless aisle technologies, ESLs), while – as evidenced in Figure 25 – their investment to date has been in lower hanging fruit. At nearly 50%, in-store customer WiFi tops the list of the customer-facing technologies that retailers have invested in and are so-far happy with.

Figure 25: ...And A Great Deal Of Transition Coming...



Source: RSR Research, April 2024

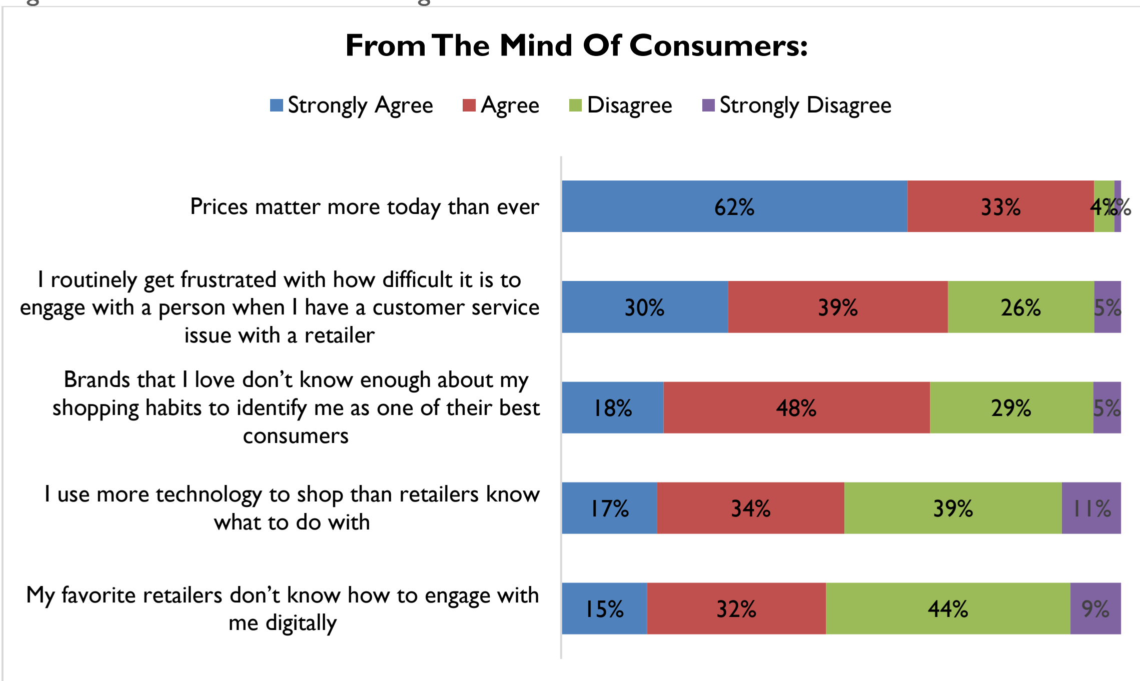
Figure 25 also shows significant shift in retailers' portfolios of customer-facing technologies in the coming 12-18 months, with nearly half of retailers unhappy with their current plays in self-service, wayfinding, and loyalty apps.

However, the other thing that made the data in Figure 24 so interesting (examining where retailers' think the best investments they can make in technologies to please customers are), is that the list simply does not line up with what customers say they want most.

As we saw in Figure 8 (asking customers what matters most when shopping in stores), the thing that matters most to shoppers is not getting hyper-localized offers (34%), nor is receiving personalized messages about products they may be interested in (35%). In fact, shoppers aren't looking for anything even close to that complex.

Figure 26 shows where ***their*** priorities lie.

Figure 26: ...But Is It The Right New Tech?



Source: RSR Consumer Study, November 2023 (n=1132)

What matters most to shoppers is price: 95% say it matters more today than ever before. But the things that fill out the podium of their top 3? Frustration with the ability to get a person when they have an issue (69%) and the fact that despite years of shopping, even their favorite retailer doesn't know enough to identify them as a good and loyal customer (66%).

When it comes to things that would actually please shoppers most, retailers' priorities are not aligned properly. They are focused on next-gen solutions like 1:1 marketing and personalized assortments when in truth, shoppers just want them to master the basics first. Do you know me? Can you offer me a product I want at a price I agree with? And when customer service issues invariable arise, can I get a helpful human being to assist me?

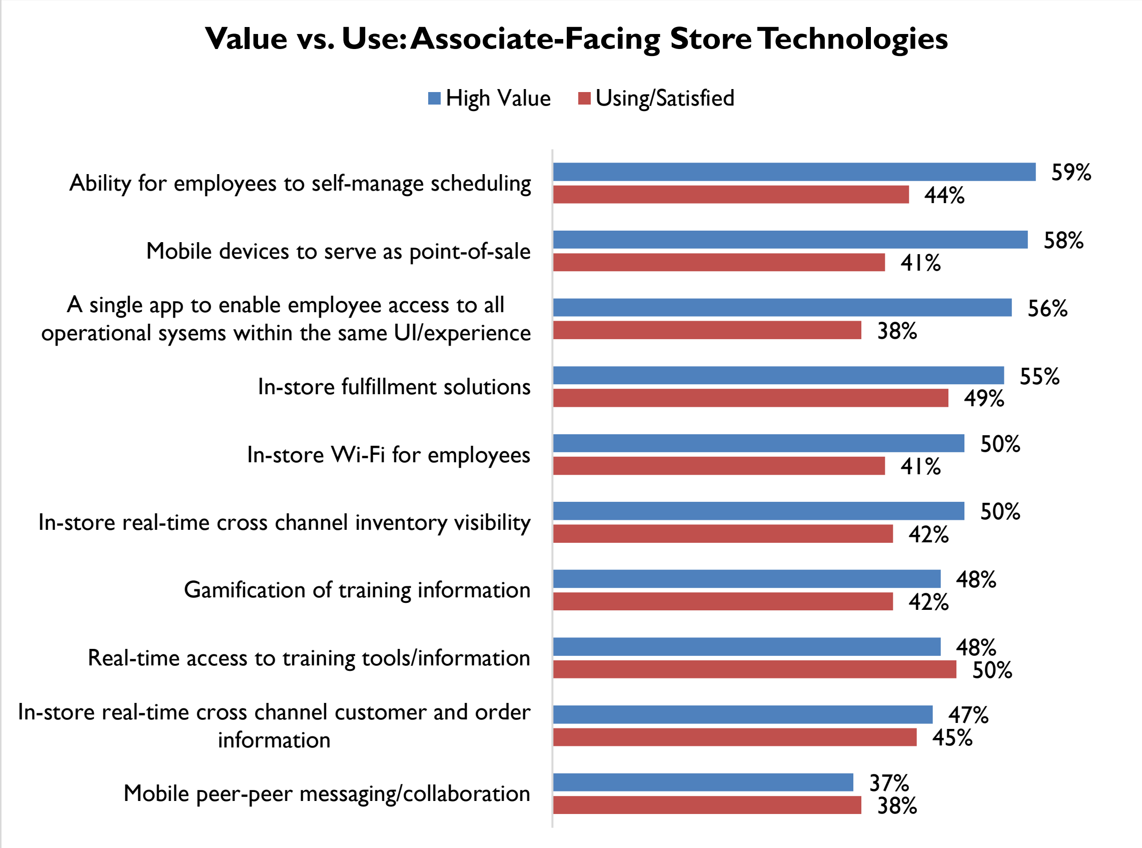
This isn't about AI 2025: this is about Retail 101.

Speaking Of Associates

In order to provide the type of assistance that customers so clearly – and so vocally - desire, retailers must first find ways to make their in-store workforce relevant.

Figure 27 compares the value retailers assign to the technologies that *could* be used to bring relevance back to the modern workforce, and which are being used to great effect today. The good news? This divide seems to be narrowing with time.

Figure 27: A Narrowing Divide



Source: RSR Research, April 2024

Much has been written about the difficulty retailers presently face in their ability to find, train and retain good associates and store managers in the current market. The disappearance of the baby-boomer employee pool from the marketplace - combined with historically low unemployment rates and cultural shifts in the priorities of the younger, eligible retail workforce - has made for an incredibly complex challenge landed squarely on retailers' doorsteps. However, the good news is that when compared with what we uncovered in our annual deep dive research piece into this topic, 2023's *Retail In The Face Of An Entirely New Workforce Model*, the situation seems to be slightly improving.

Indeed, the investments retailers have made in tools like in-store fulfillment solutions, the ability to check cross-channel inventory in real time, and the ability to use a mobile device as a point of sale, in particular, seem to paying real dividends as the gap between "would be nice to have" and "we are currently using and happy with the results" starts to shrink.

This is a trend we will be keeping a close eye on in future research projects, in order to track exactly how retailers plan – and are able – to return their in-store staff to positions of true value and relevance, in order to help fulfill some of customers' most fundamental demands.

Now it is time to offer some baseline recommendations based on the plethora of data retailers have shared in this report.

BOOTstrap Recommendations

Based on what retailers have shared with us in this report, we offer the following recommendations to ALL retailers operating stores, regardless of their revenue, geography, or product segment.

Acknowledge The Good News – Briefly

The fact that 71% of consumers still like to browse stores is excellent news. However, the fact that 88% of retailers strongly agree with this sentiment – while **only 25% of shoppers do** - should serve as a very clear warning sign: consumers want the store experience to be more than it currently is.

Their message is twofold: things are not as dire for stores in the Amazon age as the press may have one believe. But left unattended, they could rapidly become so.

Recognize How Quickly Change Is Occurring Among Shoppers

Nearly 3 out of 4 US-based shoppers say the way they shop stores has changed significantly in the past three years. This undoubtedly means technology, and unwise is the retailer who buries their head to avoid how quickly the modern landscape is changing. *Shoppers are likely to encounter more tech-friendly options at their doctor's office* than they are at most retail stores, and are resolute in their message: they want the store experience to level up to the rest of their lives. Stores simply cannot continue to exist as the "technology-free zones."

Arm Employees With Tech To Manage The Degree Of Change There, Too

In the face of historically low unemployment rates, a shrinking available workforce, and significant shifts in the values and priorities of the labor force that *is* available, it has become increasingly challenging for retailers to hire, train, and retain good employees in recent years. However, based on the data in this report, retailers finally seem to be getting a handle on the situation. The investments our respondents have made in tools like in-store fulfillment solutions, the ability to check cross-channel inventory in real time, and the ability to use a mobile device as a point of sale are now paying real dividends, helping them to both *attract new associates* and provide a genuine measure of <u>relevance</u> *to those associates* once they are customer-facing.

It's Time To Get Real About Returns

Our first-ever BOPIS benchmark research serendipitously published a few weeks before the COVID-19 outbreak of March 2020. Its key findings – that BOPIS capabilities were only being leveraged by an elite group of retailers and were seen by the masses as a nice-to-have-feature "someday" - were almost immediately made obsolete. In the following months and years, retailers did everything in their power to enable buy online/pickup in store, return to store, buy online/pickup curbside: whatever was needed to keep the lights on.

Fast forward to today, and Winners, who *because* they were sooner to adopt BOPIS technologies and therefore have *more data* from those endeavors to draw upon, know something average and lagging retailers yet don't: the increase in the numbers of online returns to their stores has created a network of unforeseen costs. The inefficiencies of the systems they cobbled together in urgency are coming back to haunt them.

At the same time, the majority of consumers tell us that when returning an online item to a store, their most likely behavior is to simply return the item and walk out. Upsell in this situation is proving to be more elusive than once thought. Retailers need to face facts about what their online returns are really doing to their bottom line, and either adjust their technologies – or their policies – to be more in line with reality.

No Matter Where You Are In Your Development, Continue Working Towards The Big Goal: A Unified Enterprise Selling Environment

For years now, we've been talking about how the store channel needs to be integrated with the digital channel. This is a lofty goal, and if viewed in totality, can seem overwhelming. However, through the instruction of Retail Winners' lead in this report, year over year, we can see a stepwise approach emerge for how this goal can become reality: the first step is providing stores with real-time visibility for store operations. Once achieved, that same level of real time information needs to be made available to customers. Next, store formats and assortments will need to be tailored more towards localized tastes. Not on a 1:1 ratio – far from it. But enough so that it encourages local shoppers to visit stores, rather than just conduct more transactions online. And lastly, non-selling processes (like returns, as we've just discussed) require optimization to become more financially viable.

No matter where your organization is in the pages of this playbook, do not be discouraged. No one can accomplish all of the necessary steps all at once, and those who try will likely lose focus. By way of comparison, those who *can* stay focused and work to level-up in each category will have the strongest chance of competing – even with Amazon.com – for many years to come.

Reexamine The Tech You *Are* Investing In

Lastly, when it comes to the technologies our retail respondents are investing in, their investments do not so far line up with where they perceive the most value. For example, retailers' top satisfaction with a store tech investment to date (at nearly 50%) is in WiFi for customer access. This is relatively base compared to the technologies where they see the highest possibility to raise customer satisfaction rates, such as endless aisle technologies – significantly harder to deploy, but with far greater perceived payoff.

What compounds this issue, however, is not just that retailers are continuing to delay investment in the technologies where *they* see the most value, but that they are avoiding the technologies that customers say are of most value, as well. Customers want retailers to address the following three store frustrations above all else: price, the inability to get to a person when they have a problem, and the fact that – despite years of loyalty and providing troves of personal and shopping data – even their favorite retailer doesn't know enough to identify them as one of their best customers.

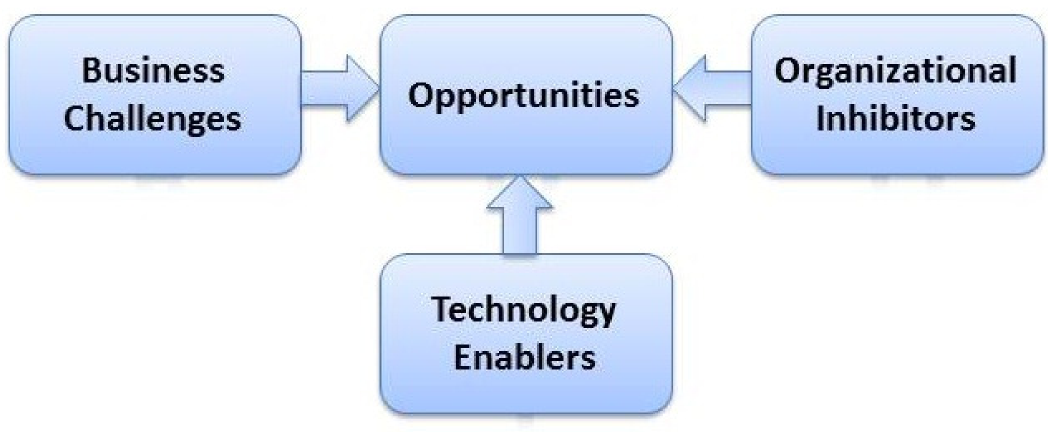
Shoppers' demands are straightforward, and retailers would do well to align their coming projects with this reality. Customers are quite clear in their demands, and they are not looking to allow stores to continue to operate as tech-free zones.

Appendix A: The BOOT Methodology©

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

- **Business 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.
- **Opportunities** – 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.
- **Organizational 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.
- **Technology 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:



Appendix B: About Our Sponsor

Jumpmind is a leading provider of innovative retail technology solutions. The company's cloud-native, mobile POS platform empowers retailers to streamline operations, enhance customer experiences, and achieve sustainable growth. With a future-proof architecture and a focus on delivering exceptional value to its clients, Jumpmind is committed to shaping the future of retail technology.

Jumpmind powers inspired in-store experiences for a growing list of leading brands and retailers, including: American Eagle Outfitters, Build-A-Bear Workshop, Petco, Reitmans Canada Ltd., The Paper Store and The Vitamin Shoppe. Learn more about Jumpmind at www.jumpmind.com/.

Appendix C: About Our Partner

IORMA (the International Omni Research Markets Association) is a Foresight Research Organisation concerned with future trends in Global Consumer Commerce and the impacts of evolving disruptive technologies.

IORMA provides a range of services to assist organizations, businesses, governments and academia in preparing for the future (and avoiding surprises). It is a "beacon of future positive hope", identifying the accelerating and evolutionary future fusion of global advanced technology with global humanity - and all the positive hope that brings to humanity for a progressively better New World. 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.