EXECUTIVE SUMMARY

The roles of the retailer and the customer have shifted. The customer is educated about the product, its pricing, its quality. She can see all of this information in real time, online. While a majority of retailers believe that they provide a seamless experience across all channels, they are not always taking the last 1,000 feet into consideration. Shopping is not seamless if it has a breakpoint at the street level. Retailers need to close the loop with the use of digital technologies.

HOW SEAMLESS IS THE WHOLE SHOPPING EXPERIENCE?

Millennial and Gen Z customers are triggering a complete disruption of the retail industry, causing the shift of power from retailer to customer. Digitally savvy and armed with information gathered online, they expect retailers to intuitively deliver on their constantly evolving needs, as well as to demonstrate respect and understanding of who they are and what their expectations might be. They want this to happen seamlessly, whether they are online or in a physical store. This is what omnichannel shopping experience means to them.

A startlingly high 64% of retailers consider themselves advanced or leading at providing an overall seamless shopping experience, according to a Forbes Insights/EY survey of 72 retail executives. Andrew Hogenson, Americas Retail Leader, Consumer Products & Retail Advisory, EY, believes that retailers may be missing a mark here. “They’re measuring themselves against older standards, older expectations. With Millennials or the Gen Z generation, there is a higher bar that they have to meet to really be considered mature,” he says.
Retailers are quite aware, however, that they have to make up some ground in the seamlessness of the in-store part of the shopping experience. Just 45% of them think highly of the experience they offer in the last 1,000 feet. (See chart.)

**MATURITY LEVELS**

<table>
<thead>
<tr>
<th>Overall omnichannel</th>
<th>The last 1,000 feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading</td>
<td>3%</td>
</tr>
<tr>
<td>Advanced</td>
<td>61%</td>
</tr>
<tr>
<td>At a halfway point</td>
<td>13%</td>
</tr>
<tr>
<td>Beginning</td>
<td>7%</td>
</tr>
<tr>
<td>We have not started yet</td>
<td>43%</td>
</tr>
</tbody>
</table>

Maturity levels are defined as follows:

- **Leading**: 60% or more of the customers are using multiple channels.
- **Advanced**: 40% to 59% of the customers are using multiple channels.
- **At a halfway point**: 30% to 39% of the customers are using multiple channels.
- **Beginning**: 20% to 29% of the customers are using multiple channels.
- **We have not started yet**: Less than 20% of the customers are using multiple channels.

Note: Does not add to 100% due to rounding.

Is it possible to be a leader in the overall shopping experience while lagging on the last 1,000 feet? Statistics tell us that this final stretch affects the whole experience. Ninety-two percent of those who are overall leaders are also leaders in this 1,000-foot segment. In fact, 81% of respondents who are leaders in the last 1,000 feet had sales increases, compared with 65% of those whose last 1,000 were not integrated into a seamless, omnichannel shopping experience. (See chart.)

**REVENUE GROWTH OR DECLINE OVER LAST 3 YEARS**

<table>
<thead>
<tr>
<th>Leaders in the last 1,000 feet</th>
<th>Laggards in the last 1,000 feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Decline</td>
</tr>
<tr>
<td>81%</td>
<td>35%</td>
</tr>
<tr>
<td>19%</td>
<td>65%</td>
</tr>
</tbody>
</table>
Despite the prevalence of online shopping opportunities, the in-store experience remains crucial. Customers who order online for an in-store delivery will leave unhappy if the item they ordered is not there or if it takes a long time to locate it. Those drawn to a store by a sale announced online will be miffed if the same sale is not happening in the stores. And they will lose confidence in the brand if sales associates cannot quickly find product information that customers can access on their mobile phones.

Customers view shopping as a single experience, not as separate interactions in different channels. In-store technologies close the loop and create a consistent, seamless environment, delivering on that vision. They are critical, as the role of the store is becoming more complex, important and demanding.

Stores deliver the fulfillment of the expectation of a retailer’s brand. They are the ultimate touchpoint between the consumer and the retailer. Their role is to drive a unique, differentiated customer experience. For some categories, stores have become more of a showroom where customers can interact with the product and talk to someone who is an expert.

Digital technologies at the store level can free up the store associates to focus less on tasks that technology can do, and allow them to focus more on the customer. And it is in-store technologies such as tablets that can keep sales associates well-informed about the products.
Retail executives see the importance of in-store technologies. First and foremost, in-store digital technologies help with inventory management, with replenishment being by far the top reason for out-of-stock issues (76%).

**Digital Technology at the Store Level:**
- Will help us with inventory management at the store level: 94%
- Is changing the nature of our organization/human capital: 92%
- Requires significant change management capabilities: 88%
- Has competing priorities with other investments/initiatives: 83%
- Is changing the nature of our customer relationships: 79%
- Is a critical mechanism to level the playing field with e-commerce: 72%

**Better Out-of-Stock Results Are Attributed To:**
- In-store digital technologies: 79%
- Employee training: 47%
- Increased management focus on inventory management at the store level: 47%
- Product optimization: 19%
- Partners'/vendors' cooperation: 4%
DIGITAL TECHNOLOGIES AND OUT-OF-STOCK INVENTORY MANAGEMENT

The issues with out-of-stock have bigger repercussions in an omnichannel shopping environment. In the past, the only negative effect was on the walk-in customer, who did not find what she expected. Today, the ripple effect spreads across the shopping channels. It includes online customers who may be using the store as a pickup point as well as those who researched online the availability of products before visiting the stores.

Retailers clearly recognize the importance of in-store digital technologies. Ninety-four percent believe that these technologies will help them with inventory management at the store level, and 79% attribute their better out-of-stock results to in-store digital technologies.

With manual restocking, still practiced in many stores, it’s very difficult to make sure physical inventory is accurate. It becomes a tradeoff between the level of accuracy and the level of labor that retailers allocate to inventory management. And these associates are needed as experts on the floor.

Today, the data about inventory is not digitally captured, and therefore most retailers don’t have an understanding of the number of their items that are out of stock. Moreover, they have a false impression that they’re doing better than they really are. A sense of realism needs to kick in soon, as the stakes of poor inventory management have become much higher.

WHY AREN’T RETAILERS MORE ADVANCED WITH IN-STORE TECHNOLOGIES?

For the time being, “in-store technologies are a nice-to-have, but over the next six to 12 months in-store technologies will be shifting from nice-to-have to a must-have,” says Anand Raghuraman, Americas Strategy Leader, Consumer Products & Retail Advisory, EY.

With fulfillment models evolving very fast, so are in-store technologies. At the beginning of the online shopping era, it felt as though brick-and-mortar shopping would no longer be relevant. Nothing could be further from the truth. While the roles of the stores are changing, they are still very important. But because of the uncertainty about the future of stores, in-store applications have been slower to develop than online e-commerce. As a result, they are now in a flux of development and changing faster than other digital applications. It is in this shifting environment that retailers are trying to figure out which technologies will bring a differentiated experience.

“In-store technologies and new delivery models are evolving so rapidly that even if retailers are close to maturity today, next year their solutions may already be outdated,” says Godfrey. His solution: pilot and test fast and fail fast. Then rapidly deploy what works well for you.
The scale, difficulty and cost of installing in-store technologies are the reasons some retailers are behind on the maturity curve. For large retailers, the rollout needs to happen across 1,000 or 2,000 stores. Store associates, the biggest labor base, need to be trained in how to utilize the technologies. Not an easy task considering that employee adoption and engagement are the top challenges in adopting omnichannel. (See chart.)

Additionally, stores need to be enabled with Wi-Fi, and maintenance issues need to be sorted out in case the systems go down. Customers, meanwhile, already have certain ingrained expectations about the stores they have visited many times before. Technology missteps may just put them off.

Considering the high cost as well as everything that can go wrong, it is no wonder that retailers view anything having to do with stores as potentially disruptive and very complex. But change is inevitable. Retailers cannot ignore a crucial link in the omnichannel experience, and they will need to close this loop to ensure seamless shopping.

**MOST CHALLENGING IN ADOPTING OMNICHANNEL, IN TERMS OF THE HUMAN ELEMENT:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption/engagement</td>
<td>64%</td>
</tr>
<tr>
<td>Leadership skills</td>
<td>40%</td>
</tr>
<tr>
<td>Change management capability</td>
<td>40%</td>
</tr>
<tr>
<td>Learning and development</td>
<td>38%</td>
</tr>
<tr>
<td>Incentives and rewards for employees</td>
<td>36%</td>
</tr>
<tr>
<td>Culture and mental models</td>
<td>33%</td>
</tr>
<tr>
<td>Organization and process design</td>
<td>25%</td>
</tr>
</tbody>
</table>
It is not surprising that tablets and mobile applications are the most used in-store technologies. Tablets untether management and associates and also put information at their fingertips. They help capture sales. A customer who cannot find a product she is looking for may leave the store without making a purchase. But tablets can help close the transaction because associates are able to order the product online and have it shipped to the customer’s home or find it in another store nearby and steer a customer there.

Customers not only want to find what they are looking for, but, being starved for time, they also want the transactions to happen fast. That is why mobile checkout has become a must-have.

Digital shelving and in-store messaging, also high up on the retailers’ list, is much more than a way to manage inventory and prevent out-of-stocks. Digital shelving and messaging can deliver the same information about a product that a customer can read while shopping online, such as nutritional information, reviews or promotions.

### IN-STORE TECHNOLOGIES CURRENTLY USED BY RETAILERS:

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smartphone/tablet apps (mobile)</td>
<td>64%</td>
</tr>
<tr>
<td>Digital rewards programs</td>
<td>64%</td>
</tr>
<tr>
<td>E-commerce sites</td>
<td>60%</td>
</tr>
<tr>
<td>QR codes</td>
<td>49%</td>
</tr>
<tr>
<td>Digital screen messaging (e.g., EnGage)</td>
<td>47%</td>
</tr>
<tr>
<td>Web-connected store systems (e.g., sales registers pulling in customer data)</td>
<td>46%</td>
</tr>
<tr>
<td>Near frequency chips (NFCs)</td>
<td>32%</td>
</tr>
<tr>
<td>Beacons</td>
<td>15%</td>
</tr>
<tr>
<td>Electronic shelf labels (ESLs)</td>
<td>13%</td>
</tr>
<tr>
<td>Smart shelves sensors (e.g., Powershelf)</td>
<td>3%</td>
</tr>
</tbody>
</table>
REAL-TIME PRICING: THE CUSTOMER IS READY

A customer shopping online can see a real-time price and can also compare it with prices charged for the same item by other retailers. In the store, the price is often displayed on a paper tag, with more paper tags glued over the original price, to show new discounts. A customer can see that the price has been changing, clumsily. This sows more doubts in the customer’s head: Is the price I am looking at really the best, most up-to-date price?

Retailers understand that customers are drawn to real-time pricing—the same type of pricing they have online—in the stores. Real and dynamic pricing is the most effective way to engage consumers, say 44% of survey respondents. Consumers’ reaction to digital, real-time pricing will be positive as well, according to retailers. Sixty-one percent of retailers say that customers will engage with personalized offers. Fifty-seven percent say that customers will appreciate the efficiency and visibility of real-time pricing.

Agrees Hogenson: “Consumers are ready for real-time pricing. They have it already as part of the online experience. For the Millennials and Gen Z, shopping in stores, online or via mobile applications is one seamless notion.”

Customers are ready, but are retailers? At this time, many don’t have the shelving or in-store technologies and infrastructure. They are also afraid of making a mistake. An incorrect digital price, such as a misplaced decimal, can digitally spread faster and cause more damage than a human putting a paper tag on a shelf. “There’s a lack of maturity with real-time pricing at the retail side. But given the importance of it, they will get there,” sums up Hogenson.

**WHAT ARE THE MOST EFFECTIVE WAYS TO ENGAGE CONSUMERS?**

- Real-time/dynamic pricing: 44%
- Digital promotions in store: 43%
- Two-way communication: 42%
- Limiting out-of-stocks: 42%
- Loyalty pricing/programs: 33%
- Mobile self-checkout: 29%
- Targeted/individual promotion via digital channels: 24%
- In-store research capabilities (mobile app, e.g., Shelfbucks): 22%
- Soliciting feedback (online reviews, etc.): 21%
OVER THE NEXT TWO YEARS, HOW WILL CONSUMERS REACT TO DIGITAL, REAL-TIME PRICING?

- Will engage with personalized offers: 61%
- Will appreciate the efficiency and visibility: 57%
- Will increase loyalty: 35%
- Will not notice: 4%
- Will feel it imposes on their privacy: 3%
- Will question lack of consistency: 0%

LOOKING AHEAD

Investment in digital technologies, already at high levels, will intensify over the next two years. Ninety-one percent of respondents say their investments will be significant. New technologies/predictive analytics is the top area where retailers will be investing over the next two years (46%), though digital in-store technologies are less of a priority (29%). (See charts.)

It’s smart to invest in analytics and predictive capability, and to use the data to understand customer behavior and build more intimate relationships with them. But with the data-driven insights in hand, are retailers executing on these insights? Many retailers cannot execute on customers’ expectations in-store, in terms of digital events, in-store promotions, shortening the checkout time or modifying product configurations.

That’s where many retailers today are missing the mark. They fall short when data-driven insights indicate they should introduce real-time pricing in stores or deliver mobile checkout. It’s the execution of the insights through digital events that delivers the value by changing the shopping experience. That’s where retailers rely on in-store technologies in that last 1,000 feet, to actually deliver the value from the insights.

Summing up: retailers need to start looking at digital technologies holistically, and integrate them to connect the end points.
TOP INVESTMENTS OVER THE NEXT TWO YEARS

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New technologies/predictive analytics</td>
<td>46%</td>
</tr>
<tr>
<td>Talent acquisition/training</td>
<td>39%</td>
</tr>
<tr>
<td>Creating a value proposition for customers (pricing)</td>
<td>32%</td>
</tr>
<tr>
<td>Optimizing product offering</td>
<td>32%</td>
</tr>
<tr>
<td>Product innovation</td>
<td>29%</td>
</tr>
<tr>
<td>Digital technologies in-store</td>
<td>29%</td>
</tr>
<tr>
<td>Adding/expanding/upgrading online shopping</td>
<td>28%</td>
</tr>
<tr>
<td>Transforming into an omnichannel operation</td>
<td>25%</td>
</tr>
<tr>
<td>M&amp;A, JV, spinoffs, etc.</td>
<td>15%</td>
</tr>
<tr>
<td>Adding/upgrading brick-and-mortar stores</td>
<td>13%</td>
</tr>
<tr>
<td>New market expansion</td>
<td>8%</td>
</tr>
<tr>
<td>Improved inventory management at the store level</td>
<td>4%</td>
</tr>
</tbody>
</table>

METHODOLOGY

This report is based on a survey of 72 retail executives conducted by Forbes Insights. All the executives worked at companies with more than $1 billion in revenues; 43% had revenues between $1 billion and $4.9 billion, and 57% had revenues of $5 billion or more. The majority of executives came from operations (53%), followed by merchandising (32%) and general management (10%). A majority (36%) were at the senior vice president-level, and 24% were C-level. They represented convenience stores (35%), specialty stores (26%), mass grocery (24%) as well as drugstore (8%) and club (7%) chains.

ACKNOWLEDGMENTS

A special thank you to Compass Marketing Inc.
The consumer products and retail industry is out of balance. Companies that over depend on cost efficiencies to boost profits and satisfy shareholders risk irrelevance. They must address long-term structural change by tilting the balance back toward profitable growth.

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