# Why optimizing operations will enhance the consumer experience

EY

**Building a better working world**

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# Retailers must redesign their operating model to evolve with their consumers, starting by addressing five key areas.

‣ What areas of the operating model should retailers reshape for a frictionless consumer experience?

‣ How will redesigning operations help retailers and brands gain a competitive advantage?

‣ What are the core questions retailers should ask as they enhance their operating model strategy?

Imagine as a consumer, you're shopping online for a birthday present you need for this weekend. To you, you press "confirm order," are promised a shipping time, await your product and that's that. But what happens behind the scenes to make your weekend delivery come to fruition? It involves your product being accurately in stock — merchandising, connections across all nodes of the supply chain to guarantee delivery time, etc. It's all part of the operating model that fuels the consumer experience. It sounds seamless, except on the day your order is supposed to arrive, you instead receive an email stating: "Your order has been canceled due to supply chain issues and the item is on back order. We are not able to provide you specific dates for completion of this order. You will receive a full refund in five to seven business days." You're now likely feeling deflated and begin scrambling to find another gift at the very last minute, all the while harboring resentment at the retailer for letting you down.

When terms like "supply chain disruption," "out of stock," "labor shortage" and "shipping delays" are trending in the news, on social media platforms and at the dinner table, it isn't a good thing. Retail operations are at the very core of the experience-led consumer journey; they work best when they function in the shadows. If it's working right, your consumer's focus will be only on the memorable experience and the products and services you're selling (i.e., the uppercase "E" experience), not worrying about the logistics of how, when or whether they'll receive their product or service (i.e., the lowercase "e" experience). If you can build a strong foundation, removing friction from customer touchpoints and meeting customers anytime and anywhere, you open the door to a world of possibility, delivering valuable customer experiences above and beyond trying to make a sale.

## Are you dispensable or indispensable?



While **ⓔxperience** is quickly becoming table stakes, retailers will differentiate by focusing on **Ⓔxperience** to unlock market share and incremental lifetime value from their consumers.

Companies can no longer rely on simply selling "stuff" to consumers in a transactional manner. They need to play an **enriching role along their journeys** — which unlocks the potential for **additional lifetime value** from consumers.

To get here, retailers must achieve an intimate understanding of the consumer. The relationship begins well before someone enters a store or logs onto a website. It continues long after a sale is complete.

Equipped with detailed **consumer data**, retailers are able to deliver meaningful interactions that are **contextually relevant, personalized** and **connected over time and across channels**.

In addition, backed by a **reliable supply chain** and **adaptive operations**, retailers are able to bring their brand promise to life when it matters most for their consumers.

# Five core elements of the retail operating model

With the foundation of consumer data[1] in place, how do you now organize the operating model around the experience? If you don't get the lowercase "e" right in these areas, you won't get the chance to deliver that uppercase "E" value-added experience. Here are five core elements that should be addressed in this effort:

## 1. Supply chain

Can your consumer journey succeed if the last mile of the supply chain doesn't? The global supply chain of today is struggling to keep up with consumer expectations. Long lead times, a lack of flexibility and agility, and challenges in omnichannel integration out of and back into the supply chain are just some of the pressures on retailers. Top retailers with the ability to digitize supply chain processes have optimized demand sensing and inventory planning through advanced AI-based solutions and product delivery through highly automated distribution centers, where robotics help process orders and get them out the door with tremendous efficiency. These companies have made a big investment, and it's paying off. But it's also raising the bar for the retail industry as a whole, putting pressure on smaller retailers to deliver the same level of performance to their consumers.

The challenge for companies that have not started the standardization and digitization journey is steep. Adapting on the fly, during a time when logistics providers are being pushed to their limits, is a risky proposition.

Supply chain visibility is essential to delivering the experience that consumers expect. When you have a system in place that enables you to track inventory in real time and run scenarios to optimize decision-making, you can improve operating resilience. The ability to seamlessly move products from one location to another when necessary to fulfill on-time purchases builds consumer trust. Companies in the retail space are reimagining their entire supply chain strategy and operation, including how and where they fulfill customer orders. They are considering which, among the traditional store, a buy online pick up in store (BOPIS) process, ship-from-store (SFS), micro-fulfillment centers (MFCs) or a traditional distribution center, is the best way to deliver a better consumer experience.

Resiliency, agility, traceability, flexibility and reliability. These are the key attributes of an effective supply chain in today's world. Localized production, automation, digital insight and simulations, and autonomous delivery are fast becoming a reality and common practice, so it's important to at least begin planning how these capabilities fit into your future business model. In this post-COVID-19 economy, supply chain will be the most critical element of your business in building trust and delivering exceptional customer experience and satisfaction.

## 2. Merchandising

Optimizing merchandise replenishment to have the right product in the right place at the right time for every customer interaction, while still optimizing margin, is critical. Inventory management needs to be a fluid process that can quickly adapt to market shifts in consumer demand throughout the year. Listening to and understanding your customer is critical in presenting the assortment of products that will best fulfill their needs.

Pivoting assortments quickly to meet personalized customer needs can provide an opportunity for retailers to gain market share and accelerate conversion.[2] It's an opportunity to give your consumers the feeling that you understand and can anticipate their needs on a deeper level.

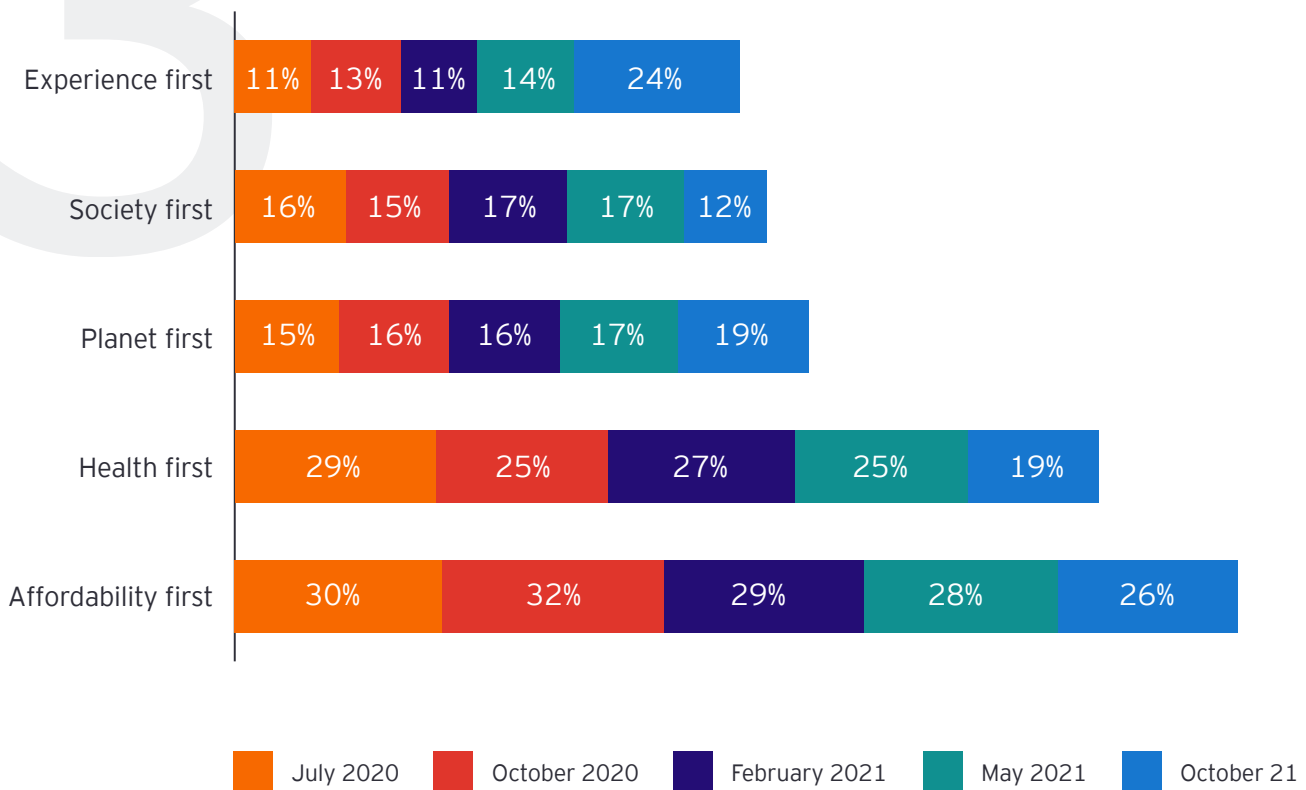Key questions to consider from a merchandising perspective:

- Do you have the ability to dynamically assort on the fly if it's through one of your digital channels?
- Do you have the ability to dynamically showcase or spotlight products in your stores to assist customers in finding exactly what they want?
- How do you take consumer signals into account in dynamically adjusting your assortment?
- What does the consumer have an appetite for, and how do you use that information to influence supply?

The planning function in a retail operating model is essential. Companies are using predictive algorithms to figure out what is going to sell and how much they can get for that sale, but they are basing it on historical data. Retailers must use customer data, synthetic data and AI capabilities to curate a product assortment that will meet every customer's personalized needs and at the specific point in time when the customer needs them.

## 3. Store operations

The new role of physical stores in today's retail environment fits perfectly with the experience-led consumer journey. In the October 2021 EY Future Consumer Index (the Index), Experience First jumped 10 points to become the second largest future segment, overtaking Health for the first time since the inception of the Index.

| Segment | July 2020 | October 2020 | February 2021 | May 2021 | October 21 |
|---|---|---|---|---|---|
| Experience first | 11% | 13% | 11% | 14% | 24% |
| Society first | 16% | 15% | 17% | 17% | 12% |
| Planet first | 15% | 16% | 16% | 17% | 19% |
| Health first | 29% | 25% | 27% | 25% | 19% |
| Affordability first | 30% | 32% | 29% | 28% | 26% |

Retailers and brands need to bring value to their spaces and make it worthwhile for consumers to pay a visit.

Key questions to consider for improving store operations:

‣ Is it easy for my customers to do business with me?

‣ Have I removed friction from all touchpoints with my customers?

‣ Can I turn customer touch points into trust points – opportunities to build trust with my customer?

‣ Do I provide value to my customers above and beyond the sales transaction?

Think about all these factors as you decide what you want your brand (stores and digital) to look like and how it should function. This is another opportunity to break the mold and use the creativity of your team to build a strategy that stands out from others in your space – and stimulates the imagination of your consumer. Find ways to listen to and understand what consumers like and don't like about their shopping experience with your brand and work those into your store operations. Finally, do you understand how you can enrich your customers' lives before, during and after they buy something from you?

## 4. Platforms

The role of the platform in enabling the strategic vision for a better retail uppercase "E" is to provide consumers with a seamlessly consistent brand experience by providing experiences that help your customers enjoy your products in ways that they have never imagined or by providing experiences that make them realize that they cannot live without you. Smart retailers are beginning to recognize that fostering this type of connection will increase basket size, frequency of shopping occasions, consumer loyalty and unprovoked advocacy for your brand.

Key questions to consider around your platform strategy:

‣ How well do you know how your products are consumed after the transactions?

‣ Have you identified pain points around consumption in your product category or with your products that are good candidates for fostering connection or a new touch point with your consumers?

‣ Do you know where your consumers share their "E" experience with your brand, products and shopping experience?

‣ Have you mapped the various touchpoints along the consumer journey that need to be adjusted to create a great "e" experience?

‣ Do you think about your customers' needs beyond just selling them something? Are you able to add value and enrich their lives – an "E" experience?

Retailers have started to create ecosystems of service and experiences that they offer to the consumer. This connected platform approach not only adds value to the lowercase "e" experience, but also provides access to consumer data that continues to further drive the uppercase "E" experience affording the retailer to stay top of mind, create a strong brand impression, while collecting and analyzing new types of behavioral or interest data that can be valuable in delivering experiences, designing marketing, dynamically assorting the right products and increasing sales.



## 5. Ecosystem of partners

What many retailers are coming to understand about designing an operating model that caters to the consumer is that they can't do it alone. Invest in a living, dynamic, and evolving ecosystem of partners that will enable your company to take advantage of new capabilities as they are being developed. Use this network to look for new capabilities to bring to your consumers across all areas of your organization, including operations, supply chain, merchandising, in-store operations and more.
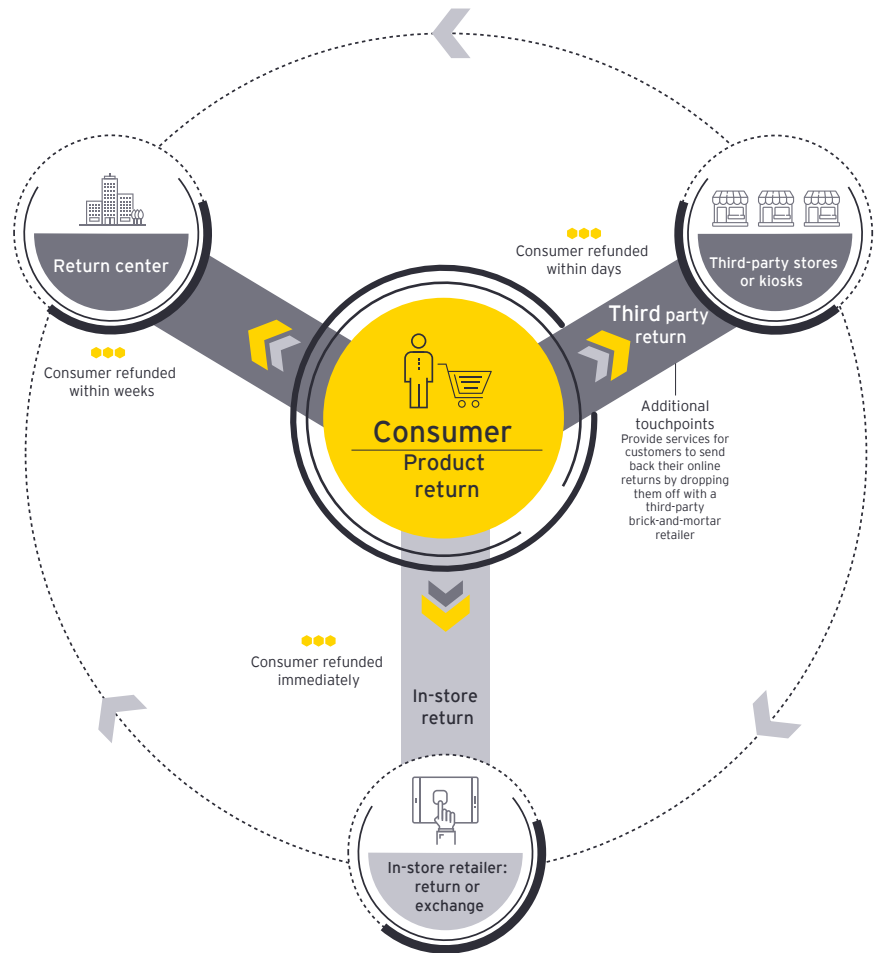
Understand your value chain and the connectivity from consumer to store, store to supplier, technology to marketing and operations, and marketing to real estate. At every turn, think about your consumer and how these connections help or hinder the desired consumer experience.

## Reverse logistics

Product returns have become much more common during the pandemic, a result of consumers making more purchases through e-commerce. And in the digital age, there are multiple ways in which a retailer can take back merchandise. This creates an opportunity for retailers to gain a competitive advantage and make a lasting impression on the consumer. Reverse logistics touches each of the areas we've mentioned thus far: supply chain, merchandising, store operations, platforms and the ecosystem of partners. At each step, the ability to create a frictionless experience and deliver satisfaction to the consumer as quickly as possible is critical to earning more business and, ultimately, a consumer for life.

Key questions to consider for reverse logistics:

▸ If the product to be returned is brought directly to the store, is the location to make the return easy to find?

▸ Is there a process in place to make the transaction easy for the consumer?

▸ Are store personnel clear about the retailer's return policy?

▸ How quickly can the product be returned to the floor, or to the store's inventory?

▸ Can returns be made at the same location that curbside pickup transactions are handled?

▸ Do you understand the cost implications of re-introducing a product into your supply chain?

**Return center** — Consumer refunded within weeks

**Third-party stores or kiosks** — Consumer refunded within days

**Third party return**

**Consumer Product return**

**Additional touchpoints** Provide services for customers to send back their online returns by dropping them off with a third-party brick-and-mortar retailer

**In-store return** — Consumer refunded immediately

**In-store retailer: return or exchange**

The same methodical process should be followed if product returns go to a return center or to a third-party location. Returns are not the desired outcome of a sale, but they obviously do happen. It's another opportunity to create a unique and frictionless experience. It gives your brand the power to enable consumer loyalty and establish a unique competitive advantage for your organization.

# Summary

The customer experience is as important as it has ever been to being a successful retailer. Many problems can be mitigated by studying what your consumers are saying about you. Those brands that can resist frustration in today's turbulent market and identify strategies to reduce friction, listen to and know your customer, deliver excellence, and add value beyond the transaction will have a significant advantage as the next iteration of retail continues to emerge.

## References

[1]Why consumer data is the foundation to the consumer experience

[2]Six ways for retailers to drive rapid e-commerce growth

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