Retail revival in turbulent times

Executive summary

Faced with unprecedented uncertainty and a darkening economic outlook, retailers need to look to data to anticipate rapidly changing customer needs. But pressure on budgets is forcing retailers to scrutinise spend more than ever before. How is that affecting investment in tech? What can retailers do to extract maximum value from their tech spend? Conducted across 500 senior retail tech decision-makers (TDMs) with revenues exceeding £100M and excluding sole traders, this research looks at how retailers are preparing for a tough trading landscape, and if a 360˚ view of the customer can drive opportunities from ambiguity.

Key findings

Data driven

Ensono point of view: **In general, the retail industry is dragging its feet on data maturity. Significant cohorts of the sector are failing to use data to drive impactful decision-making in key departments.** Retailers are also missing a significant opportunity by not using their data to build a '360˚ view of the customer' to tailor hyper personalised shopping experiences. This trend is largely driven by issues created by a lack of data culture internally, and an industry-wide failure to win customer trust to share data when they interact with brands. Retailers need to proceed with transparency, offering their customers clarity and guarantees on the safe handling of their information, and a clear view of what they will get in return for sharing data. The increasing popularity of reimagined loyalty schemes has shown the way forward here, incentivising more personalised and more impactful data collection.

Only 37% of retail TDMs believe they are mature/innovators - "We use data for almost all departments and deicion making."

Maturity varies across retail – 60% of Grocers say they are mature in their use of data (most of any sector), followed by Entertainment **(41%)**, and then General Merchandise **(41%)**. Grocers are the pioneers of loyalty programmes, clearly recognising the value of data when it comes to making informed decisions. Both major providers and challenger grocery brands have developed multiple touchpoints with their customers, offering them personalised discounts and recommendations through a growing list of loyalty apps – all shaped by granular data on someone's shopping habits and preferences. Other segments of retail have an opportunity to follow from their lead.

Larger companies are more unsure about their data maturity, hinting at the sprawling legacy infrastructure that can slow change and adoption of more agile, cloud-native technologies – 41% of TDMs from companies with revenues of **£3 billion or over**, view themselves as **'not mature yet'** and class themselves as a user of data that is still on the journey of learning how to use it. This compares to just **12%** of respondents from companies with **revenues of £100 million-£499.99 million.**

34% **Only 34% strongly believe they have a 360˚ view of their customers -**

and only **34%** strongly believe they have high-quality data to **make decisions at pace.**

28% **Only 28% strongly agreed their organisation has a data driven culture.**

59% of TDMs believe "The retail industry has not done enough to win customer trust in sharing data when they interact with brands" and 75% believe they need to do more with the customer data they do have.

- General Merchandise **(67%)** ranked highest across retail in responses to the statement that retail had not done enough to **win customer trust**, followed by **66%** in Fashion and **66%** in Entertainment.
- Several key areas of retail see the greatest urgency in **doing more with customer data** – Electricals **(83%)**, Sports & Leisure **(82%)** and Grocery **(77%)**.

Investment in tech

Ensono point of view: Tech investment is not, on the whole, slowing down for most retailers. Organisations are focused on increasing tech investment to stay in touch with rapidly changing consumer behaviour, supported with a range of tools – especially behavioural analytics, monitoring, and cloud infrastructure. There are signs, however, of trouble on the horizon.

More than a fifth of firms have decreased investment as a result of changes in customer behaviour, pointing to financial constraints and internal struggles to show value to sceptical senior stakeholders.

Such a trend could be a case of retailers looking to optimise tech investment. The problem with this stance is that it risks firms standing still and losing touch with customers. It is essential that tech decision-makers focus on showing value from technology investments, highlighting the ROI that can be delivered from tools like analytics, cloud and identity management at times like this.

Issues with getting to value fast enough can be solved with a shift in project delivery, focusing on small iterative changes rather than lengthy build-ups to big-bang releases.

Retailers should not be hunkering down, but instead act smartly, and focus on using technology to stay in touch with, and nurture, a core loyal customer base.

63% of TDMs have increased tech investment as a result of rapidly changing consumer behaviour. The majority (48%) have increased investment by 21-40%.

- 76% Home & DIY firms have seen a rise in tech investment – this was the top response across retail. It was followed by Department Stores (68%), Fashion (66%), Sports & Leisure (64%), and Grocery (63%).

22% have decreased investment because:

- Financial constraints (45%)
- Uncertainty of how to start and complexity (41%)
- Lack of senior stakeholder buy in (38%)
- Lack of capacity and infrastructure to deliver online offering (34%)
- Lack of in-house technical roles resources (34%)
- Couldn't get to value, fast enough (32%)

Comms/marketing is viewed as the top department that needs to become data-driven, viewed as such by 44% of respondents.

Comms/marketing is an unsurprising top priority, helping retailers cut down on costly trends like cart abandonment, deliver intelligent recommendations to customers, and build a personalised relationship between brand and customer – hearkening back to a 'corner shop feeling' of retail where the retailer pre-empts customer needs.

The other top targets are IT (43%), customer-facing/shopfloor operations (39%), stock and inventory/logistics (37%), and finance (35%).

- These priorities showcase the different ways data can be used across a retailer's operations.
- For shopfloor operations, data supports real-time stock inventory for retailers, making shops into local warehouse hubs to reduce the reliance on new warehouses when space in the UK/cost prevents opening new ones.

Stock and inventory should not slip off retailers' priority list to become more data-driven: the challenges of global supply chains with the ongoing socio-economic distress. Retailers can use customer data to make supply chains more efficient and sustainable by having less vans on the road, coupling orders, and gain a better view of true supply and demand (e.g. pre-empting seasonal peaks, stocking garden furniture in stores in the south that are soon due to experience warmer weather).

Different retailers are focusing on contrasting areas of their business to become data-driven. In Fashion, the top priorities are comms/marketing (62%), stock and inventory logistics (43%), and then shopfloor operations (42%). This reflects the priorities of fashion retailers, a segment of retail laser-focused on connecting with customers via personalised communications and then reliant on efficiencies across their physical footprint to get product to customers.

- Entertainment, by contrast, has IT on top to become data-driven, comms/marketing 5th; general merchandise has comms/marketing as a low priority. Being data-driven is certainly not about creating siloes and should be an organisation-wide venture, and retailers should invest to reflect that.

TDMs believe the following will be **most important to spur growth at their companies:**

Behavioural and product analytics	39%
Monitoring and performance tools	36%
Cloud infrastructure	36%
Identity and access management	36%
Mainframe systems	35%
Business intelligence solutions	32%
API services	32%

Differing priorities for growth across sectors. In Grocery, the top tool for growth is identity & access management (46%). This reflects the increasing success amongst grocers with loyalty schemes, utilising QR codes via mobile devices to streamline payments and offer shoppers a quick and personalised route to buy. Pret A Manger's coffee loyalty scheme is a particular success story here.

For the retailer, this approach offers them an agile way to connect with customers, gathering a strong bank of data they can use to personalise and unlock new revenue streams by nurturing the shopping experience for customers every step of the way.

Tech voice in business strategy

Ensono point of view: **Technology is a linchpin to retailers' success. Businesses in the sector are clearly embracing this, putting technical decision-makers at the heart of shaping the strategic direction of the business.**

Tech investment is, however, still being slowed by a lack of stakeholder buy-in. This will become ever more vital as the economic outlook continues to darken. Tech decision-makers will need to continue to prove ROI to budget-holders and ensure technology remains at the heart of retailers' plans to survive and, eventually, bounce back from the recession.

Innovation from retailers will be key, winning over customers and encouraging them to continue to spend their increasingly pressured income with them.

79% **of TDMs agree they have a voice in shaping the strategic direction of the business.**

- Some sector variety – Health & Beauty shows a comparatively low role for TDMs in shaping the strategic direction of the business (71%) vs. 83% TDMs in Grocery.
- Difficulties remain in connecting this voice to budget – of those who have decreased tech investment due to changing customer behaviour, 38% said it was down to a lack of senior stakeholder buy in.

34% estimate that 21-40% of their organisation works in a technical team.

- On average, retailers have 28% of their organisation working in a technical team.
- Biggest technical teams in Home & DIY, Electricals and Grocery (30%, 29% and 29% respectively on average working in a tech-focused team).
- The skills gap still hangs over retail – 11% estimate that no more than 1-10% of their organisation is working in a tech-focused team. Similarly, just over a third (34%) of TDMs surveyed said their organisation has not increased tech investment in recent months as a result of rapidly changing consumer behaviour, because of a lack of in-house technical roles resources.

76% **More than three-quarters of retailers prioritise first-mover advantage.**

The majority of tech decision-makers surveyed are clear-eyed that being left standing still and watching the early adopters is simply not an option in the cutthroat competition of modern retail.

- **The top three responses to this statement reflect the areas of retail where competition and innovation are reaching a peak:**

1. Grocery	91%
2. Sports & Leisure	86%
3. Fashion	85%

- Backing up this ambition with reality will require investment that drives innovation and ensures business survival during this difficult time.

Consumer assumptions during the cost-of-living crisis

Ensono point of view: Retailers face a daunting 2023. Ensono research makes clear that the sector expects to lose a significant portion of their customers as the cost-of-living crisis continues. Survival will hinge on a new approach.

The days when the modus operandi of retailers was scale economics, a rush to get as many customers on board as possible, went out the door with cheap money. We are in a world of unit economics, where retailers should be doing everything possible to optimise the lifetime margin on each unit (in this case, the customer).

This new reality is about driving value across a customer's lifetime, focusing all the business' energy on preserving and nurturing a core cohort of loyal customers who will keep coming back.

Taking the business on this journey will require them to build a deep picture of customer behaviour, supported by the latest in data, analytics, cloud-native infrastructure, and customer identity management.

As the cost-of-living crisis continues, TDMs **expect to lose the following % of their customer base:**

Customers	TDMs
0%	1.2%
1-10%	12.8%
11-20%	24.6%
21-40%	30.4%
41-50%	21.8%
51-75%	5.6%
More than 75%	1.6%
Unsure	2%
Mean: %	**29.03%**

Only 34% of TDMs are "very confident" that their organisation will be able to keep in touch with customer concerns and anxieties during the cost-of-living crisis with 48% "somewhat confident" and 17% not very confident/not confident at all.

- Higher revenue is **no guarantee of confidence** in connecting with customers – Retailers with revenue of £500 million - £999.99 million were, in fact, more confident **(73%)** than larger retailers with revenue of £2 billion-£2.9 billion **(69%)**.
- There is **more surety in staying connected** with customers in essential services vs. luxury sectors – **89%** of respondents at Grocers and **88%** Fashion retailers confident vs. **71%** in Entertainment and **74%** in Health & Beauty.

On average, TDMs expect to lose 29% of their customer base as the cost of living crisis continues. However, with a clear view of their customer and focussing on delighting existing customers, retailers can drive opportunities from their loyal customer base.

- The largest % drop in customers is in department stores – brands expect to **lose on average 32%** of their customers. This is perhaps a reflection of customer churn during a period of drastic price rises with inflation, as shoppers look to prioritise the value and convenience offered by eCommerce.
- **Pressure on smallest retailers shows no sign of abating** – TDMs at companies with just **1-9 employees** on average have the biggest expected drop in customers **(36%)**, compared to **27%** at companies with more than **500 employees.**

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