



Future Series

The Retailer of the Future:

Three Key Trends

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The past decade brought significant changes to the retail landscape. As tech-savvy consumers gained purchasing options and mega-retailers began to offer same-day or next-day delivery, traditional retailers found themselves challenged to not only differentiate themselves, but survive. The bad news? These dynamics will continue, and the pace of change will accelerate, in the 2020s and beyond. The good news? Just as advanced technology has opened new opportunities for consumers, it can help every retailer win in the future. Here's a look at how the role of the retailer will continue to evolve in response to three critical trends and how technology can help.

Abstract

The recent changes that have occurred in the retail landscape have been nothing short of transformative which means the role of the retailer must change in response. Armed with smartphones and an array of purchasing options, consumers have seized new power. The world's largest retailers, including Amazon and Walmart, have responded by leveraging technology of their own to rewrite the rules of product assortment, fulfillment and delivery. Today consumers seek the best combination of price, delivery speed, product assortment and other purchasing factors, across a seemingly endless array of buying channels. While traditional retailers have struggled to compete in this new environment, the future looks bright today as long as they can respond to three key trends that will continue to transform the retail industry. By leveraging advanced capabilities like artificial intelligence and data analytics to understand and meet consumer needs, traditional retailers can regain their footing, and even assume leadership, in 2020 and beyond.

A Look Back at the Transformation of Retail

As a partner to 76 of the world's top 100 retailers, Blue Yonder has a unique perspective on the changes that have reshaped the retail environment in the last decade. We've witnessed these changes, and helped our customers navigate them successfully. These transformative changes have included:

- **The rise of omni-channel.** According to McKinsey, since 2016 e-commerce has been responsible for over 40% of the growth in US retail sales.¹ As consumers became more comfortable browsing and buying products online, retailers were forced to offer more channel options, support larger assortments and grow online sales without cannibalizing their brick-and-mortar locations. They were also pressured to have the right products in the right place, at the right time and at the right price, to satisfy customers at the moment of purchase or risk losing the sale. At the same time, they struggled to minimize overstocks and markdowns.
- **Growing consumer expectations.** With their promise of next-day or same-day delivery, and their massive assortments, Amazon and Walmart completely changed the fulfillment and logistics game. Traditional retailers struggled to keep up, often over-promising in terms of service or pricing to make the sale eroding long-term profit margins.



- **The demise of shopper loyalty.** Retail brands used to mean something, but no more. In the past decade, shopper loyalty has been replaced by price comparisons, discount-code hunting and delivery prioritization. Retailers have been challenged to rebuild personal relationships with their shoppers.
- **Data overload.** Insights about consumers obviously hold enormous strategic value. But the digitalization of retail has created massive volumes of broad information about geography and demographics, as well as granular data about consumers' color and size preferences, product seasonality and the path to purchase. Retailers have been striving to make strategic sense of all this data and separate the trivial from the essential.
- **Supply chain disconnects.** As front-facing employees have made pricing and delivery decisions in an effort to win consumers' hearts, these offers have not always been profitable or even possible to deliver on when they are turned over to fulfillment. Different planning horizons, diverse priorities and a lack of connectivity have often brought functional teams into conflict with one another, instead of working collaboratively toward shared goals.

Looking Ahead: Three Trends That Will Continue to Transform Retail

While these foundational changes to the retail landscape are not going away, retailers have been successfully defining some strategies to improve their performance in light of these changes. They are redefining their roles and adding new capabilities.

For example, more retailers have been blending their online and offline sales channels, so they can make intelligent trade-offs and balance their omni-channel results. Retailers have also been connecting their supply chains more effectively, to ensure that customer promises are aligned with actual fulfillment and logistics capabilities as well as financial goals.

While these are positive changes, Blue Yonder has identified three key trends that retailers absolutely must contend with, moving forward. If retailers can recognize these key facts about the retail landscape, strategize operations accordingly and continue to evolve into new roles, they will be prepared for long-term leadership.

1 The Customer Is King: More Than Just a Catchphrase

Incredibly high consumer expectations are here to stay. As the largest retailers offer even wider assortments, customized products, specialized services and flexible pick-up/delivery options, every retailer has to focus on customer service at the individual level. McKinsey reports that a full 83% of consumers would prefer to have their retail shopping experience personalized in some manner; further, the consulting firm estimates that personalization could drive a 20-30% increase in store revenues.² More than ever, retailers need to know when shoppers are entering the store, who they are and what they are looking for. They need to be ready with personalized offers, such as customized pricing and promotions. They need to have the right product in the right place at the exact right time. And they need to have supply chain capabilities in place to execute on these offers flawlessly while still retaining healthy profit margins. What does all this mean? It means gathering and applying shopper data strategically, and cascading key insights throughout the supply chain to align the entire organization around meeting shopper needs. Data science and analytics need to mesh with a “control tower” that visualizes the end-to-end supply chain, acting and reacting autonomously in real time to ensure that shopper promises will be kept, both reliably and profitably.





2 “Good Enough” Is No Longer Good Enough

In 2020, just about every retailer is applying advanced software to achieve a solid level of performance in defining assortments, managing categories, creating space plans, and keeping shelves stocked via fulfillment and logistics. But, as digitalization has increased the speed and sophistication of every retail activity, these bare-minimum capabilities won't be enough to win in the future, with shopper expectations continuing to grow. To move beyond merely “good enough,” retailers need to increase their investments in innovative technologies, including artificial intelligence (AI) and machine learning (ML). As retailers strive to delight millions of individual shoppers across diverse channels and the supply chain grows in its sprawl and complexity human cognition and manual planning processes are no longer sufficient. AI and ML, coupled with data science and analytics, can create customized offers on a massive scale, while also sensing any logistical obstacles to delivering on those offers and self-correcting the supply chain autonomously. This level of performance is the new bare minimum, or “good enough” needed to maintain retail leadership as the digital revolution continues.

3 Data Is the New Engine of Success

Every retailer today has access to huge volumes of data so how can it be used as a strategic advantage? The secret is combining internal data about shoppers' transactions, behavior and preferences with a range of third-party data about industry trends, social media influences, local events, weather forecasts and other factors that will affect demand. In the future, AI, ML and data science will leverage multiple data streams to make extremely accurate predictions then define personalized or localized offers that balance service with profit. Granular decisions such as items, colors, sizes and geographic locations can be made with confidence, thanks to the mathematical and analytic capabilities of AI. When these decisions prove slightly off-base, or logistics obstacles arise, AI also allows real-time learning and correction. While every retailer has access to the same types and volumes of data, the innovative use of advanced technologies will be the crucial differentiator in determining how well data is actually applied to make intelligent trade-offs, define offers and make real-time supply chain decisions in support of shared objectives.

The Future Is Autonomous

You may have noticed that AI and autonomy are mentioned repeatedly here as the solution to retailers' future challenges. That's because they represent the most significant capabilities retailers need to succeed in the incredibly complex competitive landscape of the future. Winning customers' loyalty, exceeding their expectations and leveraging data successfully — all of these depend on an increasing use of autonomous decision making, fueled by AI and ML.

How prevalent will artificial intelligence become in the 2020s? According to a report by IDC, "By 2024, 60% of retailers will implement AI-enabled software solutions; however, only 20% of those will unlock true differentiation-focused use cases, broadening the gap in the new intelligence divide."³ Clearly, retailers' investments in advanced technologies such as AI must serve an essential strategic purpose, by supporting a mission-critical capability somewhere along the complex retail supply chain.

For example, via AI and predictive analytics, retailers can more accurately anticipate and plan for consumers' future purchases, making recommendations and ensuring items are in stock. Lightning-fast fulfillment and a connected, efficient supply chain can help retailers meet individual consumers' service expectations and support flexible real-time delivery options restoring a strategic foothold against the mega retailers. Advanced digital technology can enable retailers to successfully merge their online shopping and retail stores, creating a new business model that supports real-time, personalized recommendations; click-and-collect capabilities; and in-store digital assistants that help make the sale and secure shopper loyalty.

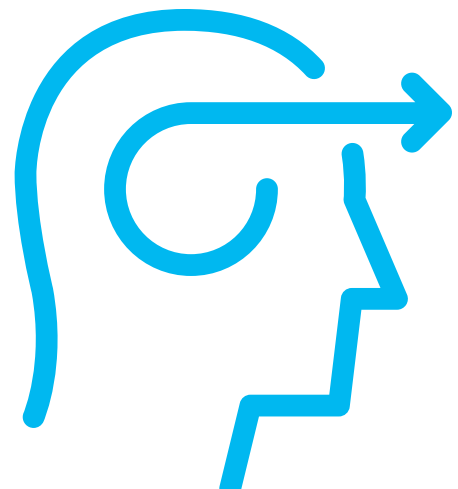
In addition, AI and ML can support retailers' increasingly important sustainability goals, by making intelligent choices about waste, packaging needs, emissions, fuel efficiency and other environmental impacts. By building these factors into the autonomous decision process, the retail supply chain can, in effect, be programmed to operate as sustainably as possible, making the right environmental choices without human intervention.

These emerging technologies are making the end-to-end retail supply chain more efficient, accurate and productive, by cutting down on manual labor and associated human error. In fact, McKinsey has estimated that about 45% of human activities along the supply chain could be automated using current technologies.⁴ But that's just the beginning. Advanced digital solutions also make the retail supply chain self-learning and self-healing, able to deal with disruptions in real time with little to no human intervention.

Assortment planning, pricing, replenishment, order fulfillment, delivery and more can be automated and accelerated simply by gathering and applying real-time data for autonomous decision making. A smart control tower with end-to-end visibility can sense disruptions before they happen and ensure the right response lever is pulled automatically, with efficiency and financial benefits cascading across the end-to-end supply chain. These capabilities are absolute essentials for the successful retailer of the future.

Blue Yonder: Your Partner Today, and Tomorrow

Artificial intelligence, machine learning, supply chain autonomy and other concepts discussed in this paper may seem like futuristic concepts out of reach for most companies today. But the world's retail leaders are already using these advanced technologies to deal with growing consumer expectations, data overload, supply chain disconnects, the drive toward sustainability and other challenges.



Backed by the experience gained across 4,000 customer engagements, Blue Yonder understands the challenges companies are facing in 2020. Blue Yonder can help you master these challenges and address the three trends described above via:

- **Industry-leading, advanced solutions** in category management, assortment planning, demand forecasting, allocation, fulfillment, warehousing and transportation that leverage the power of the Internet of Things (IoT), AI and ML to fuel autonomous decision making
- **Smart, standalone control tower solutions** that sense and manage exceptions in real time across the supply network
- **A robust, extensible technology platform** built to unite all trading partners and support the seamless sharing of information across multiple enterprises
- **A cloud-enabled software-as-a-service (SaaS) delivery model** that quickly and cost-effectively gets Blue Yonder's industry-leading solutions up and running, for a fast return and a low lifetime total cost of ownership (TOC)
- **Software customization and consulting services** that make emerging concerns such as sustainability a centerpiece of your business model and operating strategy

With deep customer experience, a library of best practices and a full range of end-to-end supply chain solutions enabled by AI, Blue Yonder is uniquely qualified to help you become the retailer of the future. From greater visibility to more customized offerings, Blue Yonder can help you achieve significant time and cost savings today — and set the stage for a fully autonomous supply chain tomorrow.

1,2,4 Future of Retail Operations: Winning in a Digital Era, McKinsey & Company, January 2020

3 IDC FutureScape: Worldwide Retail 2020 Predictions, October 2019, IDC #US45588719

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There's a reason

21

of Gartner's Top

25

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set the stage for
success in the 2020s.

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