



The Digital Transformation Of The Retail Business Model

RSR Benchmark Report, June 2023

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Research Overview

Compared to other industries, retailers are late to the **digital transformation** agenda. Yet they cannot take a time-out to perform a wall-to-wall redesign of their operations on either the selling side or the supply side of their businesses. Where should they start? Which business processes are the best candidates for digital transformation strategies?

These are the questions that the RSR team sought to answer when conducting this study.



***For The
Purposes
Of This
Study...***

***Digital
Transformation***

***Internet of
Things (IoT)***

RFID

Strategy

Enabling Technology

One Enabler

Survey Respondent Characteristics

RSR conducted an online survey from April- May 2023 and received answers from 92 qualified retail respondents.

- By Revenue (2022):

Less than \$250 million	2%
\$250 million - \$499 million	8%
\$500 million - \$999 million	27%
\$1Billion to \$5 Billion	51%
Over \$5 Billion	12%

- By Performance:

Average & worse than average ("All Others")	29%
Better than average ("Retail Winners")	71%

- By Vertical:

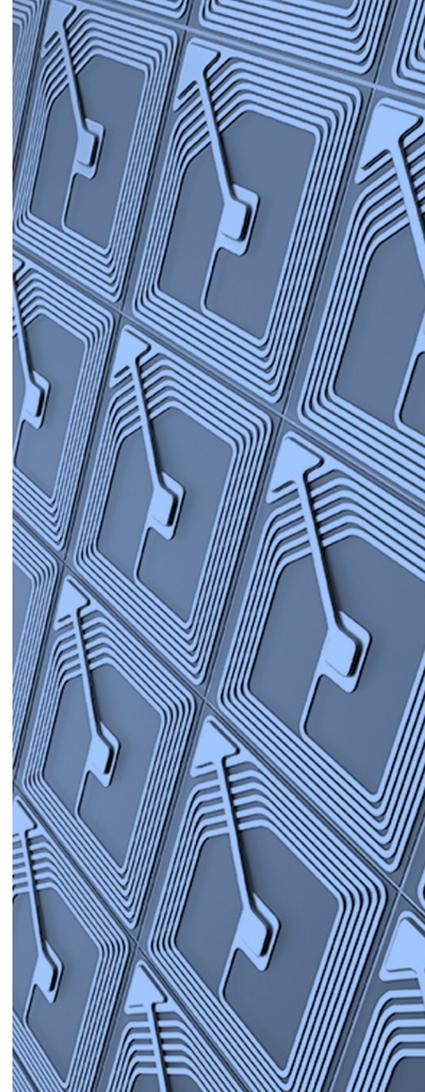
Fast moving consumer goods	23%
Apparel, footwear and accessories	37%
Hard goods	11%
General merchandise	26%
Brand manufacturers	3%

- Top Markets Served:

USA	100%
Canada	38%
Latin America	14%
UK	16%
Europe	20%
Middle East & Africa	4%
Asia/Pacific	8%

Key Learnings

- The top investment priorities for retailers all relate to servicing consumers in the new *digital+physical* selling environment. This means that optimizing processes to better service consumers takes precedence over efforts to lower operating costs. While the two shouldn't be mutually exclusive, with the explosive growth in omnichannel customer order fulfillment - they tend to be.
- Internal operational challenges are shifting from a focus on inventory accuracy and visibility toward consumer-related issues. Retailers seek to leverage the digital signals generated by shoppers' digital paths-to-purchase to understand and better serve them.
- When it comes to the roadblocks standing in the way, retailers identify the current IT backlog as the issue. Retailers believe they can afford IoT technologies (the rapidly diminishing price of RFID technologies, in particular, has had enormous effect), but they don't have the human capital to manage all of the things they would like to take on.
- Retailers see RFID systems that provide real-time insights as the lynchpin to everything else that they hope to do.

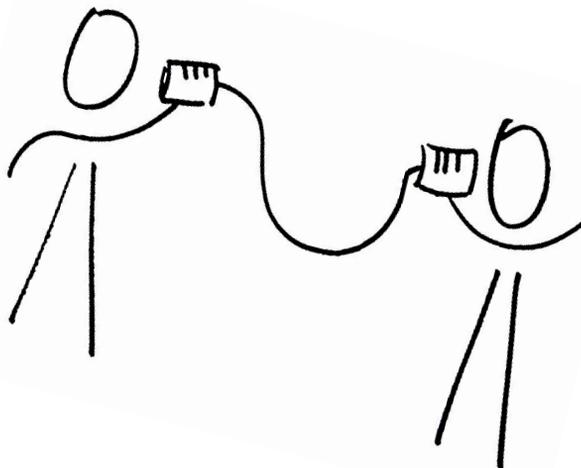


Digital Transformation Can Help Retailers Achieve Several Strategic Objectives...

- **Optimize our customer-facing operations (69%)**
- **Make faster and smarter decisions in response to changing market conditions (68%)**
- **To optimize our supply chain operations (66%)**
- **To enable a much more agile response to real-time operational conditions (65%)**
- **To help the company address a sustainability agenda (65%)**
- **To mitigate risk (60%)**

IoT Enables The New *Digital + Physical* Selling Environment

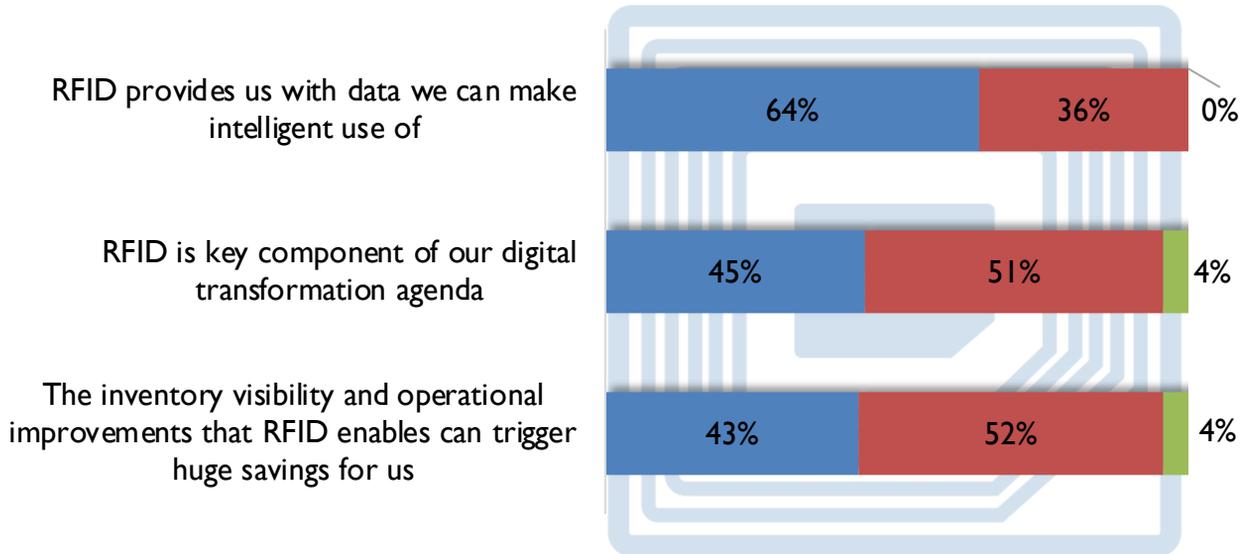
What is the top reason your company would invest in Internet of Things-based projects?



RFID Is One Component Of IoT...

How much do you agree or disagree with the following statements about RFID technologies?

■ Strongly Agree ■ Agree ■ Disagree

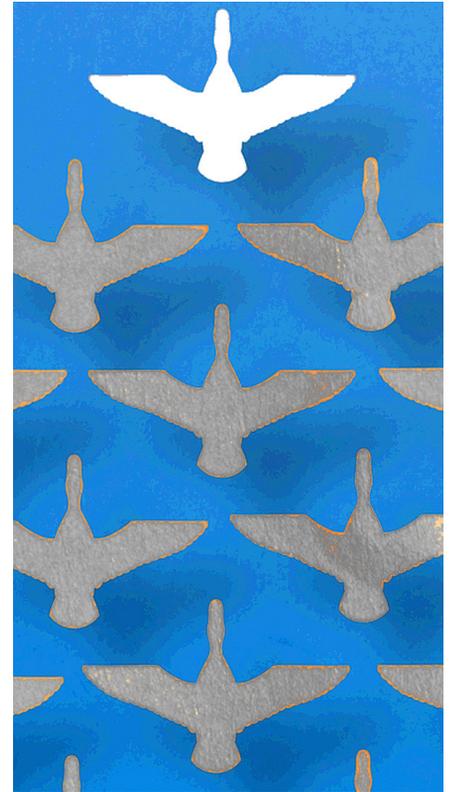
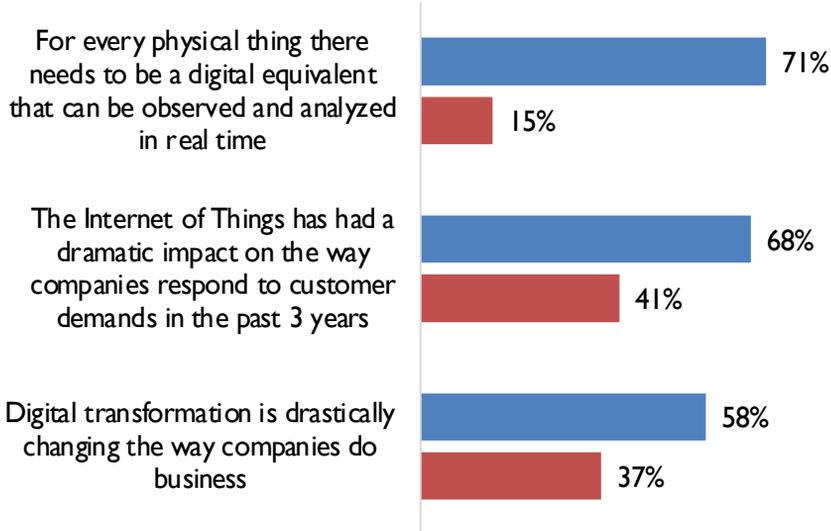


... but there are others, including 'signals' created by consumers in their digital shopping journeys, digital images, geo-location signals from mobile devices, etc.

Winners Are Clearly Leading

How much do you agree or disagree with the following statements about digital transformation?
(‘Strongly Agree’)

■ Winners ■ Others





Growth and/or Cost Control?

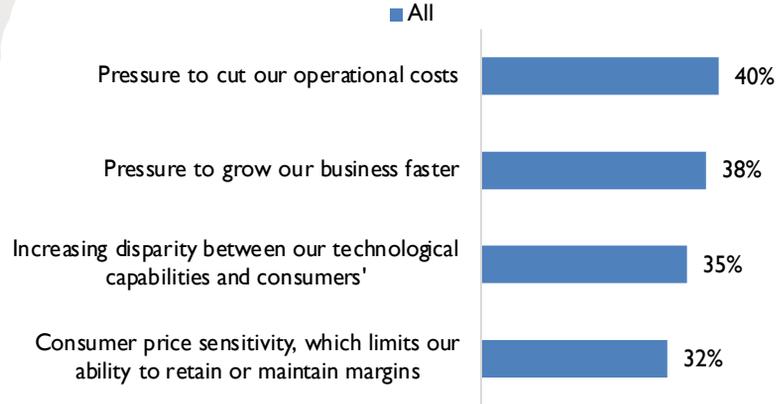
Business Challenges

“If your business isn’t growing, it’s dying.”

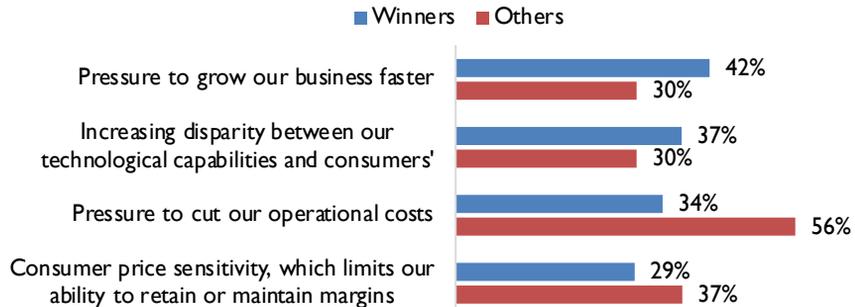
Retailers’ assessment of the pressure to cut operational costs has remained unchanged since the last time RSR surveyed the industry on the subject in 2022 , but the importance of growth has only increased.

Now, Retail Winners are most concerned about achieving new growth, whereas a clear majority of non-winners are challenged to reduce costs in order to improve profitability.

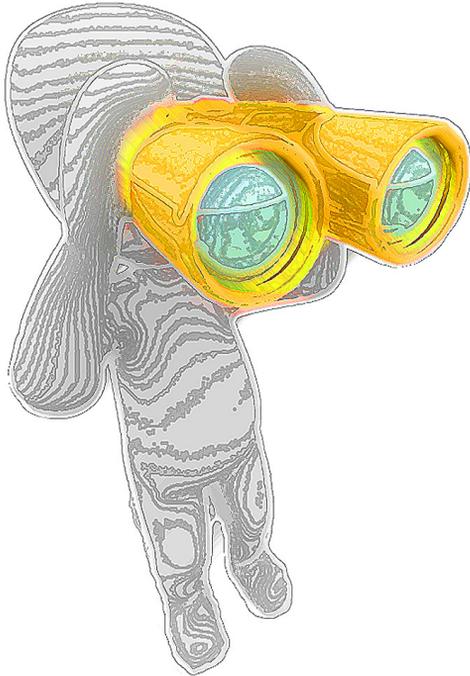
What are the TOP THREE (3) business challenges your company faces that drive your interest in Digital Transformation?



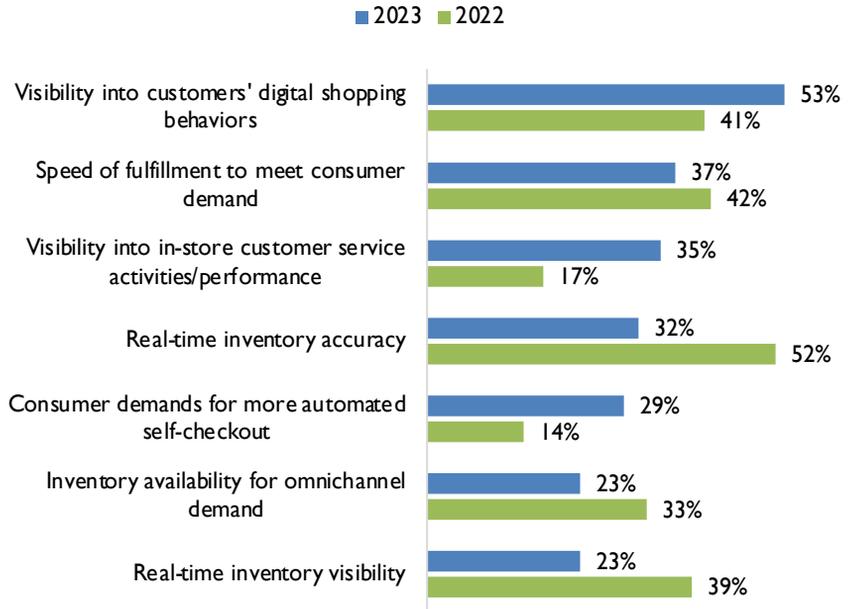
Winners' Different Perceptions Of The Top Business Challenges



As Retailers Make Progress On Inventory Visibility & Accuracy, Eyes Turn To the Consumer



TOP THREE (3) operational challenges you see IoT technologies being able to address? (YoY)



But Inventory Visibility & Accuracy Remains A Top-3 Issue For Retailers That Sell Big, Frequently Replenished Assortments

Operational Challenges (Selected Differences)	FMCG	GM
Real-time inventory visibility	38%	38%
Real-time inventory accuracy	48%	48%



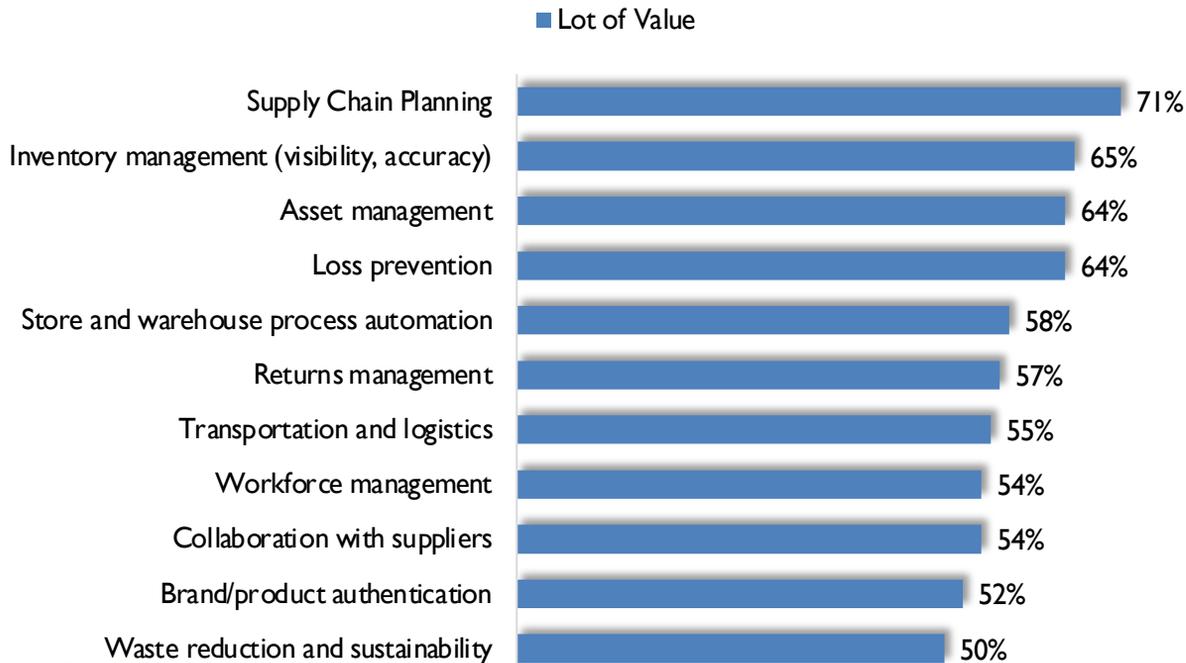


- Everywhere!

Opportunities

The Potential For Across-The-Board Improvements Is Huge

High Value Opportunities For Impact From Deploying Internet Of Things Solutions (50% + agree)

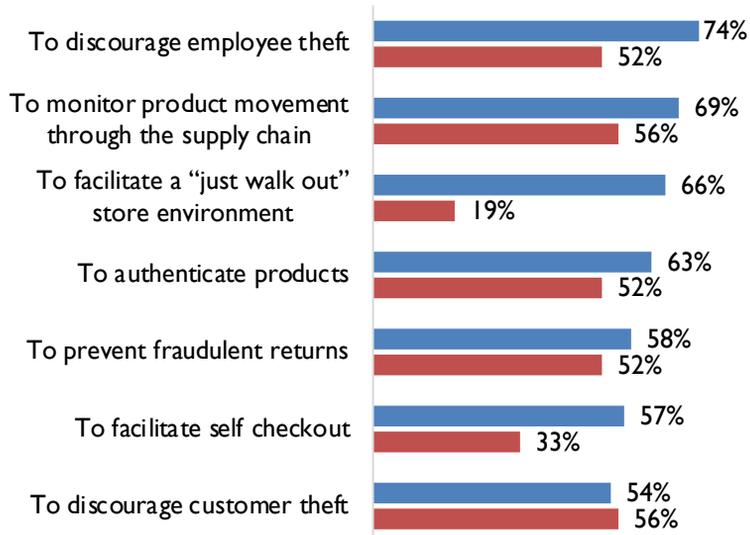


Retail Winners See IoT As A Key To Both Reduce Risk And Unlock New Value



Digital Transformation And Loss Prevention, Returns Management, And Brand/Product Authentication Opportunities ('High Value')

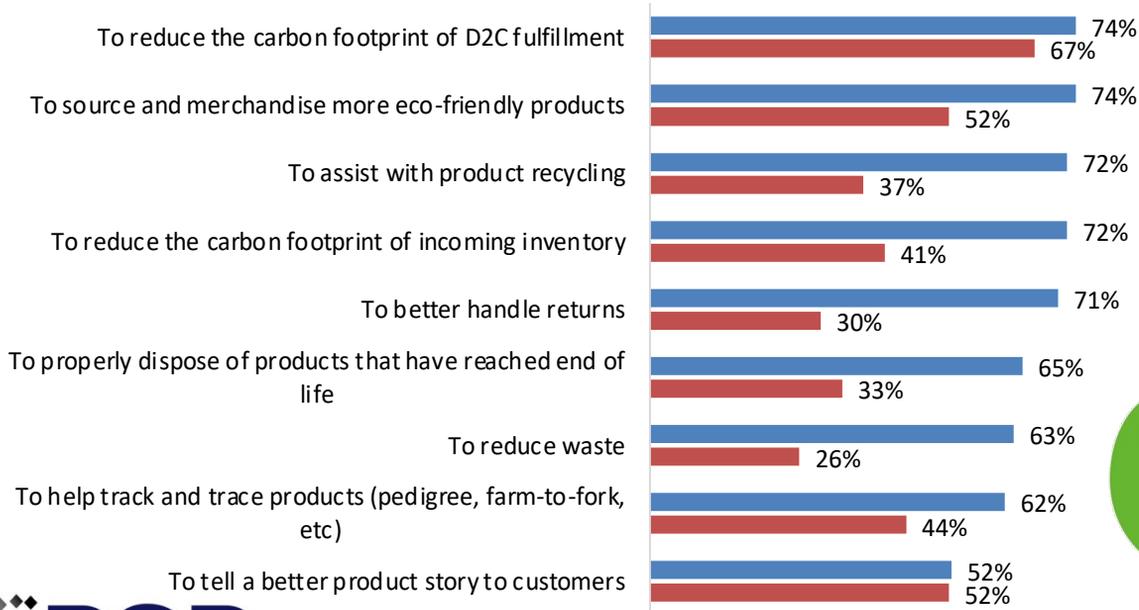
■ Winners ■ Others



Winners Also See IoT As An Enabler To Help Achieve Sustainability Goals

Sustainability Opportunities That Digital Transformation May Help To Address ('High Value')

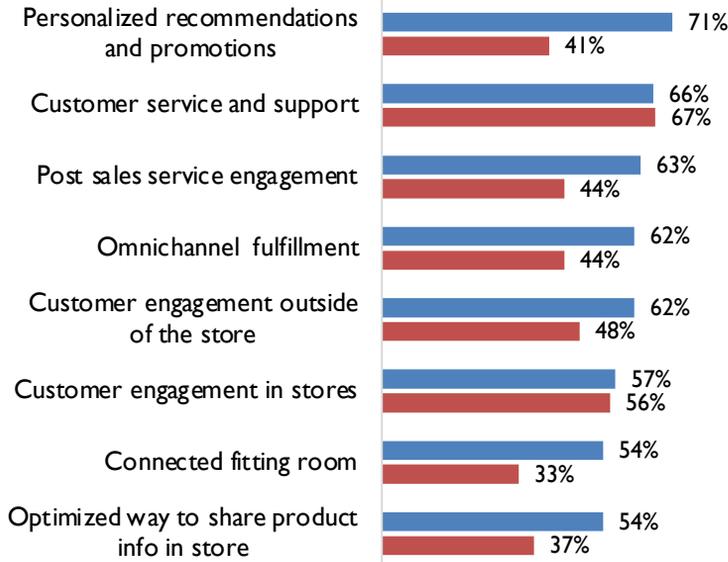
■ Winners ■ Others



Winners Also See Opportunities To Deploy IoT Solutions For Customer-facing Processes

(**'High Value'**)

■ Winners ■ Others



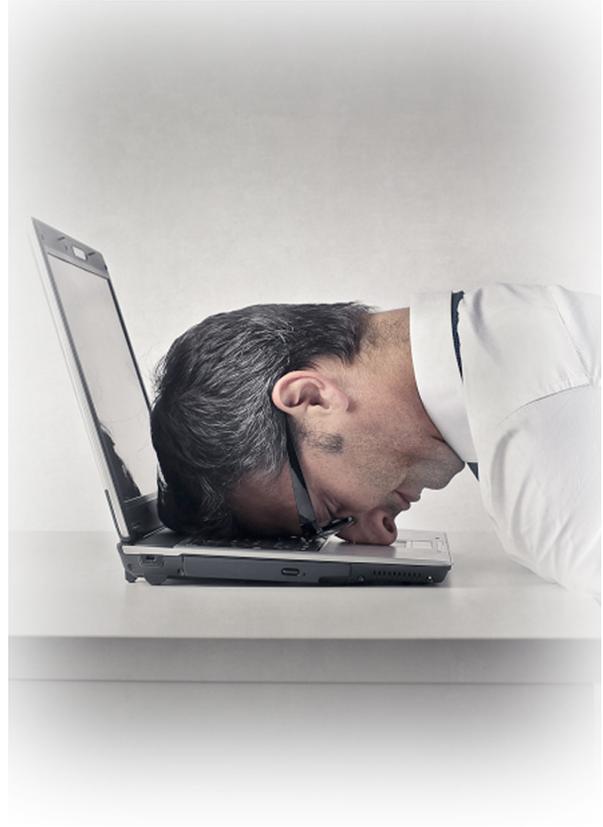
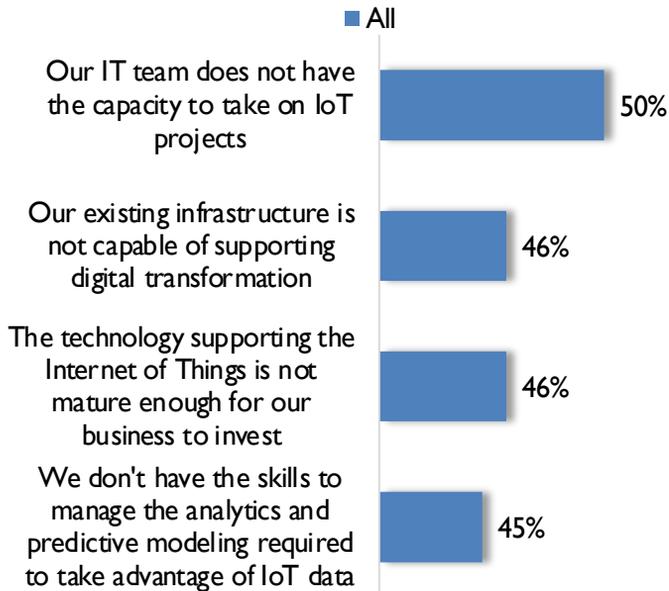


Organizational Inhibitors

What Stands In The Way?

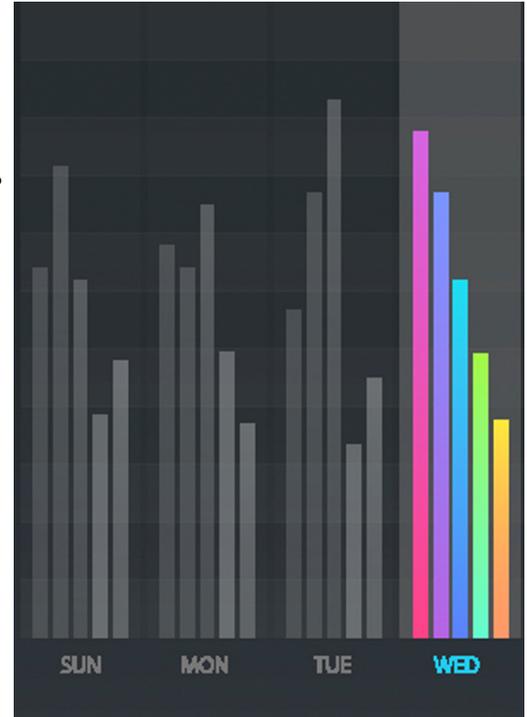
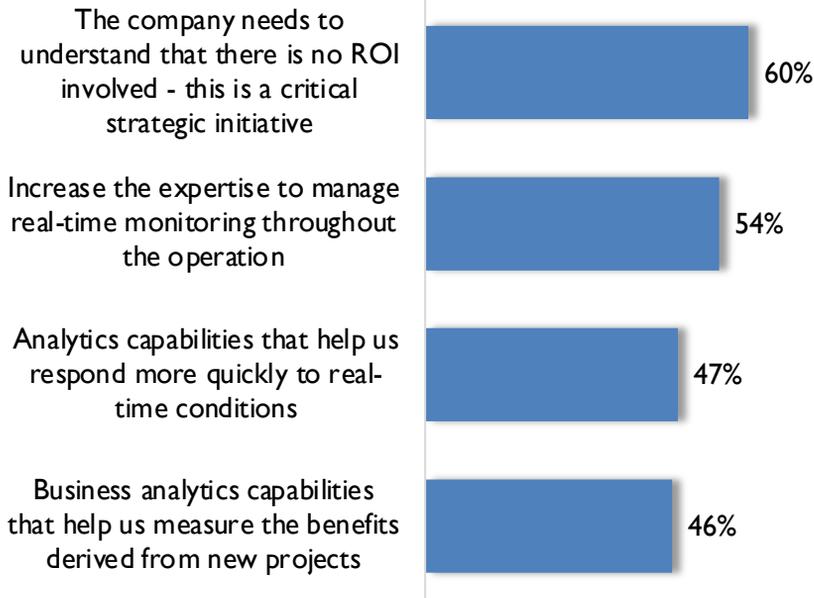
Retailers Are Profoundly Uncomfortable That Their Future Is IT Dependent!

Top 3 organizational inhibitors preventing your organization from implementing IoT solutions



How To Get Around It? Use The Insights From Data & Analytics To Show the Way Forward!

Top-3 Ways To Overcome Organizational Inhibitors



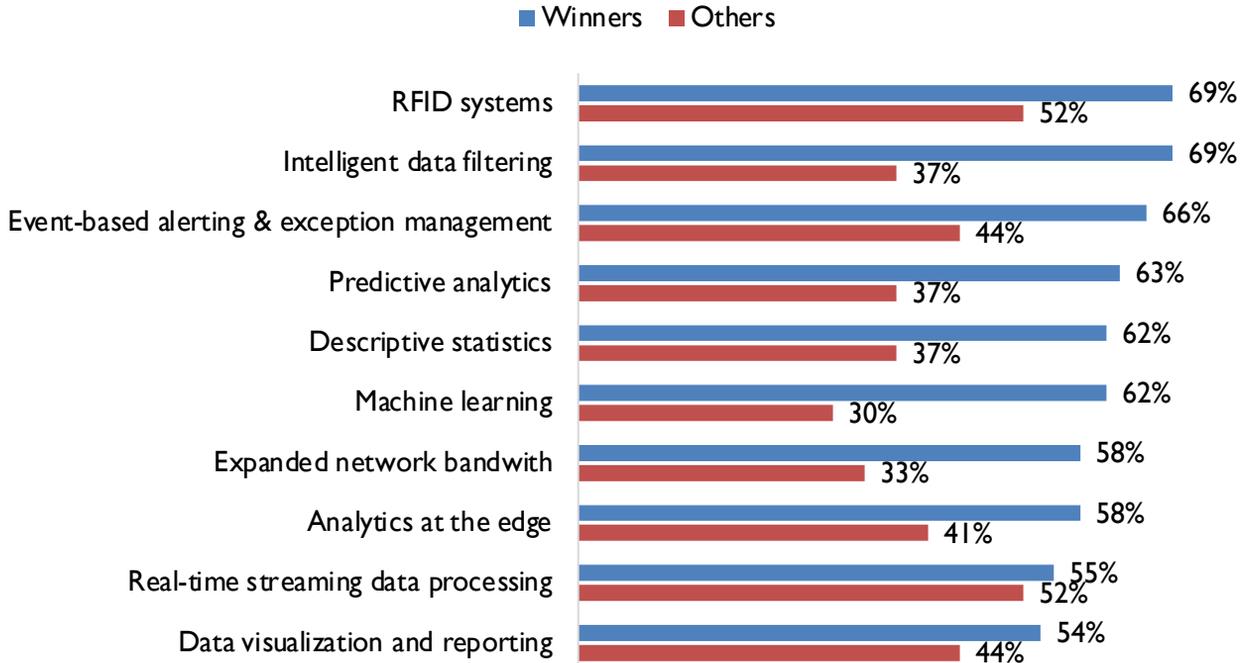


Retail Winners Take The Lead

Technology Enablers

Winners Say “More Please!”

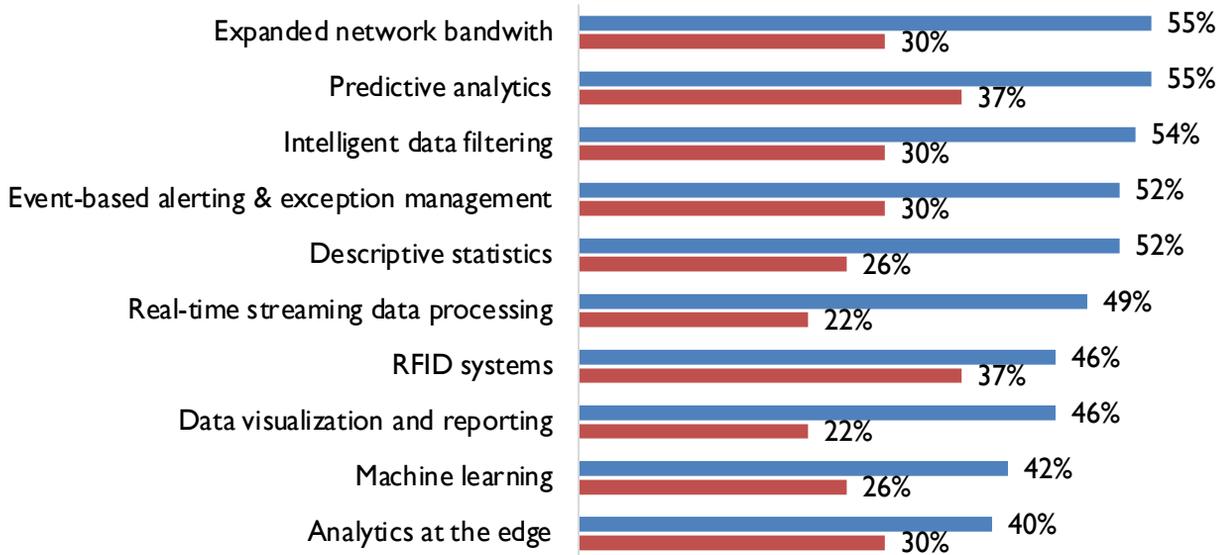
'Necessary' technologies to implement a digital transformation strategy:



Retail Winners Are Far Ahead

Please rate your company's current status with the following technologies:
(**'Implemented & Satisfied'**)

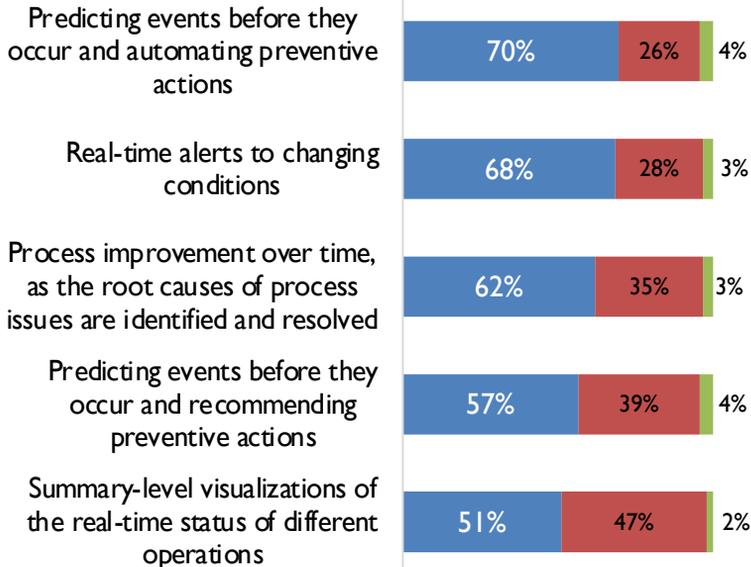
■ Winners ■ Others

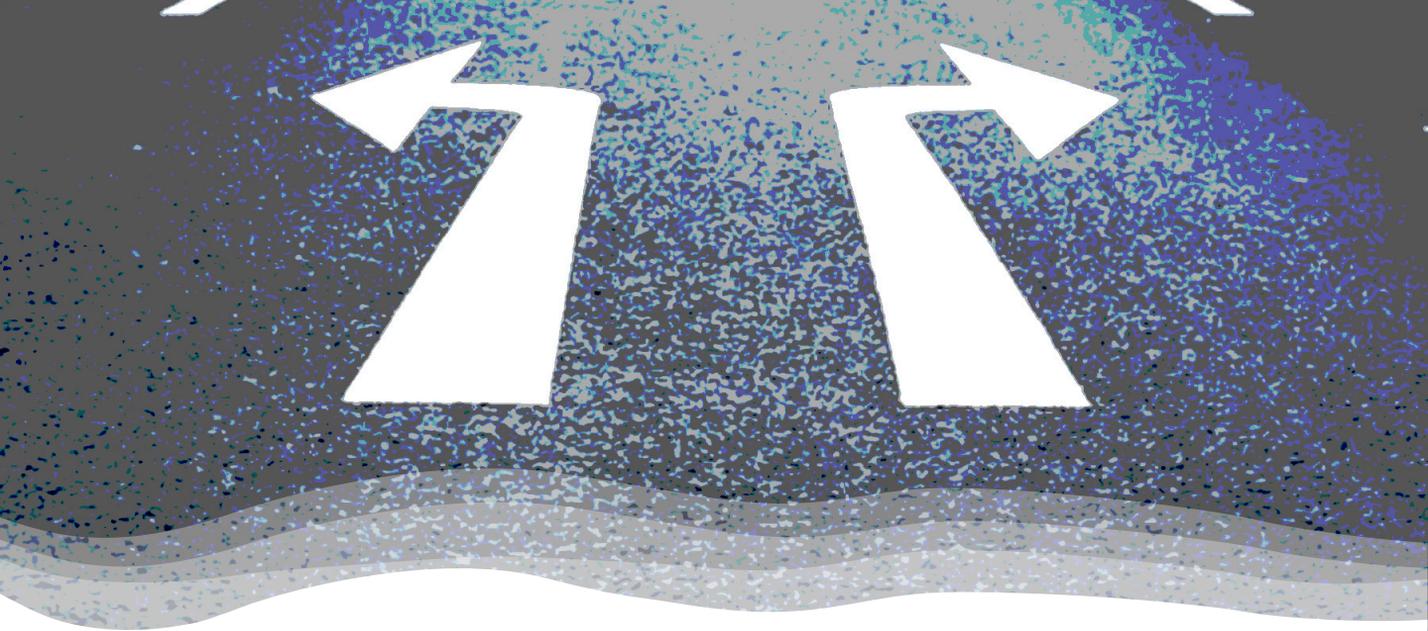


In the Long Run...

Where does your company expect to see long-term value in terms of organizational responsiveness to IoT-generated data?

■ Lot of Value ■ Some Value ■ Little/No Value





Report Recommendations

Rethink RFID's Role

The ability to derive insights from RFID-provided data has improved exponentially. It is time to let go of past perceptions.

Put Aside The Why

Digital transformation is not the typical retail technology implementation. The usual metrics of fast ROI doesn't apply. This isn't about competitive advantage: this is simply about the ability to survive long enough to play the next round.

Join The Modeling Revolution

Digital transformation and the technologies it employs offers the ability to predict all kinds of unforeseeable patterns before they occur – to model future states – and react to them faster once they do. Don't miss out.

Seek Out Flexibility

The paramount need-to-know what inventory is available– and where it is– is just the beginning. How quickly a retailer can get inventory where it is needed most – in real-time - is a lesson in the importance of flexibility.

Think Small To Think Big

Digital transformation is not an all-or-nothing, sweeping endeavor. It is the culmination of many small projects tied together under a common set of well-defined goals.

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.





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