Microsoft

Framing the future of retail
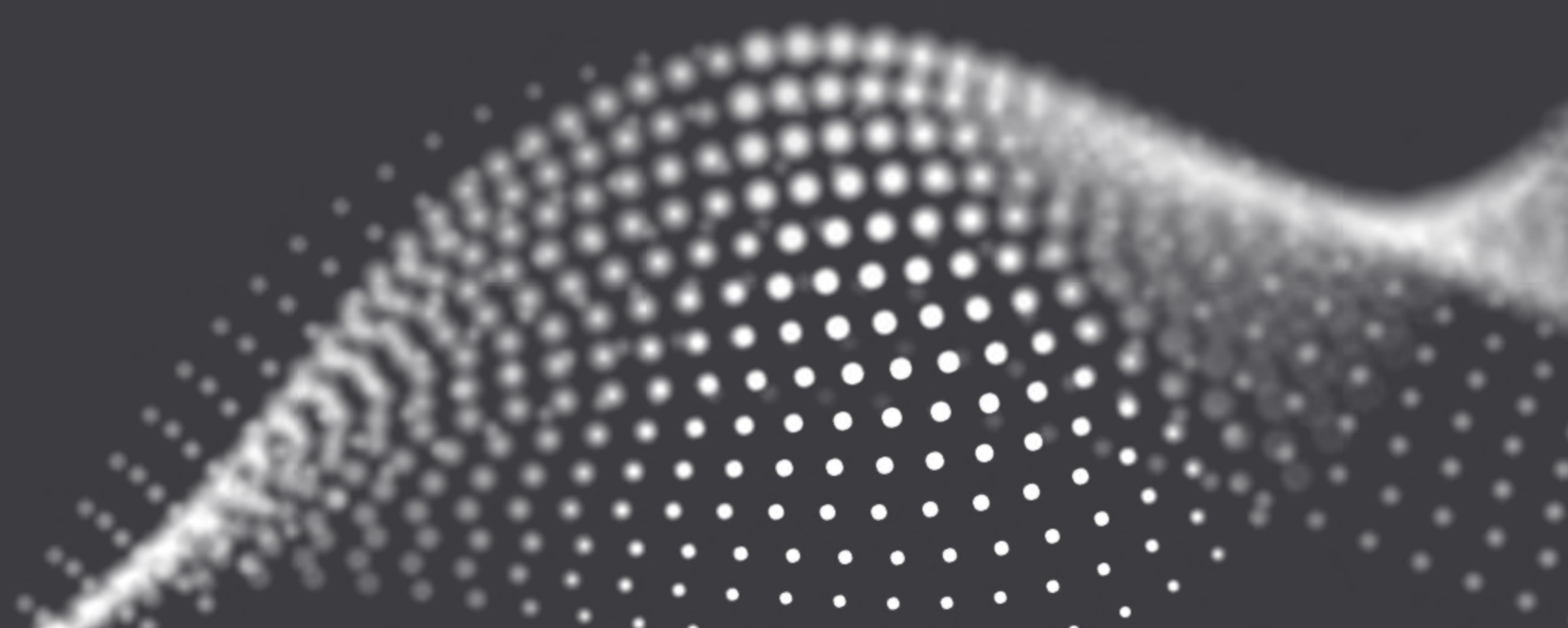
Realizing the power of data

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Chapter 1
The digital-first mindset

The doors are open

From corner shops to big box stores—and every shape, size, and specialty in between—retailers provide access to life's essentials. As the epicenters of economies worldwide, and a bedrock institution of daily life, people rely on retail, both in-store and online. In times of great uncertainty and rapidly changing conditions, retailers consistently meet significant challenges with fortitude and grace.

Great global disruptions have tossed aside business-as-usual and accelerated digital transformations in the retail space at breathtaking scale and pace. Retailers navigating these headwinds need takeaways that frame the business narrative and foster great change and innovation. Those who laid digital building blocks early have better weathered the storms. With solid foundations, many retailers are not just surviving, they're thriving.

Retail sales to now exceed $4.44 trillion in 2021.[1]

Digital-first, bold solutions in key areas—maximizing data value, elevating the shopping experience, empowering the store associate, and building a real-time supply chain—produce remarkable results. These solutions mean smarter, faster, more secure, and personalized experiences for consumers and retailers. We're on the threshold of more controlled, intelligent, and future-proofed spaces and systems.

The doors are open for the innovations that will realize the potential and power of data for retail

How to frame the future

Past: What's on the shelf

In the past, inventory led retail

Brick-and-mortar retail buyers once determined the products on the shelves, constrained by physical space, and this, by extension, influenced consumer choices. With the emergence of online retail came endless virtual shelves and almost infinite product choices. This limitless choice meant consumers faced new challenges in product discovery.

Present: What's on minds

These days, consumer-led retail is the norm

Consumers follow their feelings when making product choices. Influenced by social media and product reviews, consumers vet products using information from a wide array of digital sources, and retail marketing has adapted accordingly. Retailers and consumers alike now face challenges as trust in social media and digital information erodes.

Future: What's on the horizon

Data will lead the next evolution for retailers and consumers

The future of retail will unfold with actionable insights from connected and unified data, curated and shaped by AI and machine learning. Retail will also feature the next levels of personalization and be available on demand by any member of the retail workforce. The consumer experience will be enhanced with finely tuned customization, reducing stress, increasing joy, and making each customer feel truly special.

Data collected from customer touchpoints will grow a projected 430 percent from 2018 to 2025.[2]

Transforming the consumer shopping experience starts with accessing and understanding—*democratizing*—your data.

Retail trends and market forces

Retailers and consumers are challenged by product unavailability, labor issues, inflation—just to name a few
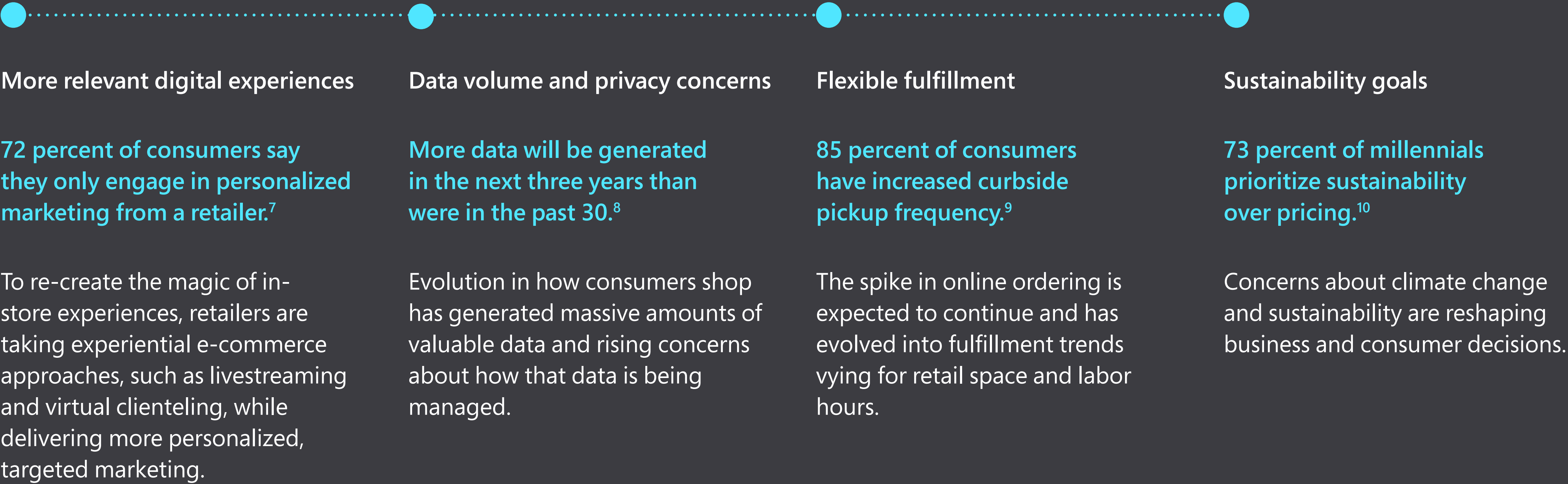
Retailers are stepping up, enabling even more rapid responses to multifaceted and sometimes unpredictable emerging trends and forces. Both in-store and online experiences are being reshaped into new standards within the framework of established, shape-shifting, and evolving industry trends.

Market forces:

Supply chain constraints	Labor shortages	Online sales supercharged	Loyalty shock
34 percent on-time performance of container shipments—an all-time low.[3]	**67 percent annual turnover rate in retail.[4]**	**19 percent growth in global online sales in 2020.[5]**	**75 percent of US consumers report new shopping behaviors.[6]**
Ongoing issues at every point of the supply chain—from manufacturing to transportation and final-stop delivery—make it hard for retailers to meet customer demand.	With increased turnover, related costs, and competition for workers, workforce issues are top-of-mind.	We witnessed years' worth of e-commerce growth in just a few months, hitting penetration levels previously forecast to be reached 10 years from now.	New shopping activities are surging in response to changing priorities, store closings, and economic pressures. These significant shifts in customer behavior are reflected in profound breaks with brand loyalty.

Retail is in a powerful position to address these challenges with digital, data-driven approaches comprising strategic moves that build toward a long-term vision.

Market forces:

More relevant digital experiences

72 percent of consumers say they only engage in personalized marketing from a retailer.[7]

To re-create the magic of in-store experiences, retailers are taking experiential e-commerce approaches, such as livestreaming and virtual clienteling, while delivering more personalized, targeted marketing.

Data volume and privacy concerns

More data will be generated in the next three years than were in the past 30.[8]

Evolution in how consumers shop has generated massive amounts of valuable data and rising concerns about how that data is being managed.

Flexible fulfillment

85 percent of consumers have increased curbside pickup frequency.[9]

The spike in online ordering is expected to continue and has evolved into fulfillment trends vying for retail space and labor hours.

Sustainability goals

73 percent of millennials prioritize sustainability over pricing.[10]

Concerns about climate change and sustainability are reshaping business and consumer decisions.

Chapter 3

Maximize the
value of your data

Transforming the consumer shopping experience starts with democratizing and controlling data

For customers, truly satisfying transactions develop just as much in the retailer's digital back end as they do in the back storeroom. As retailers' highest value asset, data can be used for deeper business and customer insights. Structured retail data—quantitative, organized, searchable—can get trapped in legacy systems. Constraints on data make it difficult for organizations to truly understand the full breadth of their data estates. Democratized data leads the way to actionable business improvement.

The 2021 Gartner CIO Survey shows that 63 percent of retailers expect to spend more on business intelligence and data analytics, and 35 percent will spend more on artificial intelligence.

Merchandising and supply chain will be the major areas that will incorporate data and analytics tools into processes that improve performance.[11]

Unstructured retail data—with no predefined format or organization—makes actionable insights much more difficult to find. Unstructured data, including customer reviews, tweets, pictures, hashtags, and more, is an untapped goldmine of retailer understanding. With AI, analytics, and machine learning, retailers can use their data for invaluable, actionable insights and business improvements across the board.

Customer story: GNC

By connecting its many different data sources, GNC has a deeper understanding of its customers, knowing how and when to act to meet their needs.

"

With Dynamics 365, our increased knowledge of individual customer journeys will further strengthen our customer relationships and turn GNC into people's primary destination for health and wellness.

—Scott Saeger,
Chief Information Officer, GNC

Read how businesses are framing their digital futures

Customer story: Walgreens

As Walgreens grows, they've dramatically improved aspects of operations, considerably lowered costs, and modernized decision-making processes with a data warehouse in the cloud.

"

When you make decisions based on data, you know that you're going to put the right product in the hands of the customer when they need it. And we're going to have happy employees because they won't have to manage inventory that's not needed in their stores.

—Anne Cruz,
IT Manager for Supply Chain and Merchandising, Walgreens

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The retailer's data estate—the infrastructure for managing the entirety of their data—is a true asset

Breaking down data and gaining more insights with AI serves every facet of business. While no business is resilient to everything, and while we've learned that global crises can blindside us all, digitally strategic retailers are better equipped to process whatever events might unfold.

Early digital-adapter retailers were more easily able to take quick action to manage multiple issues, recover from any setbacks, and emerge stronger. Technology has been deployed more quickly than most thought possible, establishing that retail can rapidly adapt to whatever comes their way and consistently better serve the needs of consumers.

Chapter 4

Elevate the shopping experience

Whether online or in-store, consumer experience determines sales success

With data analytics and new store technology, retail can create more engaged shoppers and improve lifetime value. Retailers can offer the most relevant shopping experience by using all their data insights; AI empowers them to offer personalized experiences, including regularly refined search results and recommendations. Customer-first strategy opens the door to myriad innovative ways that retailers can take advantage of their data and raise the bar for consumer experiences.

Companies that grow faster drive

40%

more of their revenue from personalization than their slower-growing counterparts.[12]

Personalizing the digital experience

Retailers are using experiential e-commerce approaches, such as livestreaming and virtual clienteling, to re-create the magic of in-store shopping and to deliver more personalized, targeted marketing experiences.

Almost 30 percent of global connected consumers reported using livestreaming to make a purchase in March 2021.[13]

Seamless customer service

Using technology to streamline customer service while empowering employees fosters lasting consumer relationships and delivers consistent engagement across online and in-store shopping.

Customer story: REI

The retail industry's shift toward more digital services inspired REI to transform their customer experience with virtual outfitting—bringing their highly reputable, personalized service into a virtual space.

"

More than 86 percent of our customers are extremely satisfied with virtual outfitting via Teams.

—Dominique Morel,
Divisional Vice President of Expertise, REI

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Customer story: Chipotle

Recognizing how impactful data can be, Chipotle is using technology to understand customers, market to them as unique individuals, and take full advantage of every opportunity for personalization.

"

We wanted to better understand customer preferences and how they change over time. Those are incredibly important things for a business of our size to understand.

—Sashi Kommineni,
Director of Enterprise Analytics, Chipotle Mexican Grill

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Intelligent stores

Using real-time observational data to improve in-store operations—including actions like keeping check-out lines short—is making shoppers happier. Optimizing retail space with customer movement analytics and product status will maximize sales.

Unified commerce

With centralized data, retailers can interconnect systems; increase engagement; drive conversions across online, in-store, and social channels; and turn shopper frustration and site abandonment into active carts and converted sales.

Evolving data and AI technologies are focusing on the experiences that help retailers meet consumers where they are—giving them what they want, when they want it, and reinforcing the kind of brand loyalty that endures.

71 percent of consumers expect companies to deliver personalized interactions. And 76 percent get frustrated when this doesn't happen.[12]

Chapter 5

Empower the
store associate

The global health crisis is profoundly impacting store associates

Labor issues, such as combating turnover and attracting new employees, are a top concern. Job satisfaction is inexorably linked to employee retention. With increasing costs and heightened competition for workers, retailers strive to be the employer of choice.

As retailers adapt to accommodate new shopping behaviors, store associates feel the effect. Surges in online ordering, multichannel fulfillment, and new automation solutions like cashier-less checkout have led to changing roles and responsibilities, shifting job expectations and the need for retraining.

Customer story: Widnes Boots Opticians

Widnes Boots Opticians improved workforce communication and collaboration, transforming clinician, team member, and customer retail experiences while ensuring compliance and safety.

"

We can create a culture of relentless customer care and make sure that the right behaviors are in place in the pursuit of that goal. If we get the customer care element right, the business result will speak for itself.

—Cahir Mullan,
Franchise Partner and Optometrist, Widnes Boots Opticians

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Retailers are enabling real-time store communications and collaboration

They are providing the modern communication tools store associates need to feel more connected to their company, their co-workers, and their customers.

Retailers are streamlining scheduling and task management

They are giving store managers the ability to digitize scheduling and task assignment while ensuring that associates have the flexibility to own their schedules.

Retailers are reshaping retail through automation and intelligence

They are unifying retailers' technology on one mobile platform, so store associates can gain new skillsets, adapt to changing customer needs, and serve their customers in the new and emerging capacities that consumers require.

Store associates are a key interaction point for customers. Investing in empowering employees to be more knowledgeable and prepared has a clear positive business impact.

Only 38 percent of US consumers say the employees they interact with understand their needs.

If its employees are not knowledgeable, 46 percent of all consumers will abandon a brand.

And surprisingly, the share of consumers who say they'd stop doing business with a brand if its service is not friendly comes in at 60 percent.[14]

The challenge now is to meet the expectations of consumers and employees in parallel. Through new frontline technology, many retailers are preventing negative experiences and winning the loyalty of both.

Customer story: Marks & Spencer

Digital capabilities are helping Marks & Spencer associates work more efficiently, spend more time with customers, and stay more connected.

"

Putting Microsoft Teams in the hands of our colleagues has allowed us to execute our digital transformation in a powerful way.

—Sacha Berendji,
Group Property, Store Development, and Technology Director, Marks & Spencer

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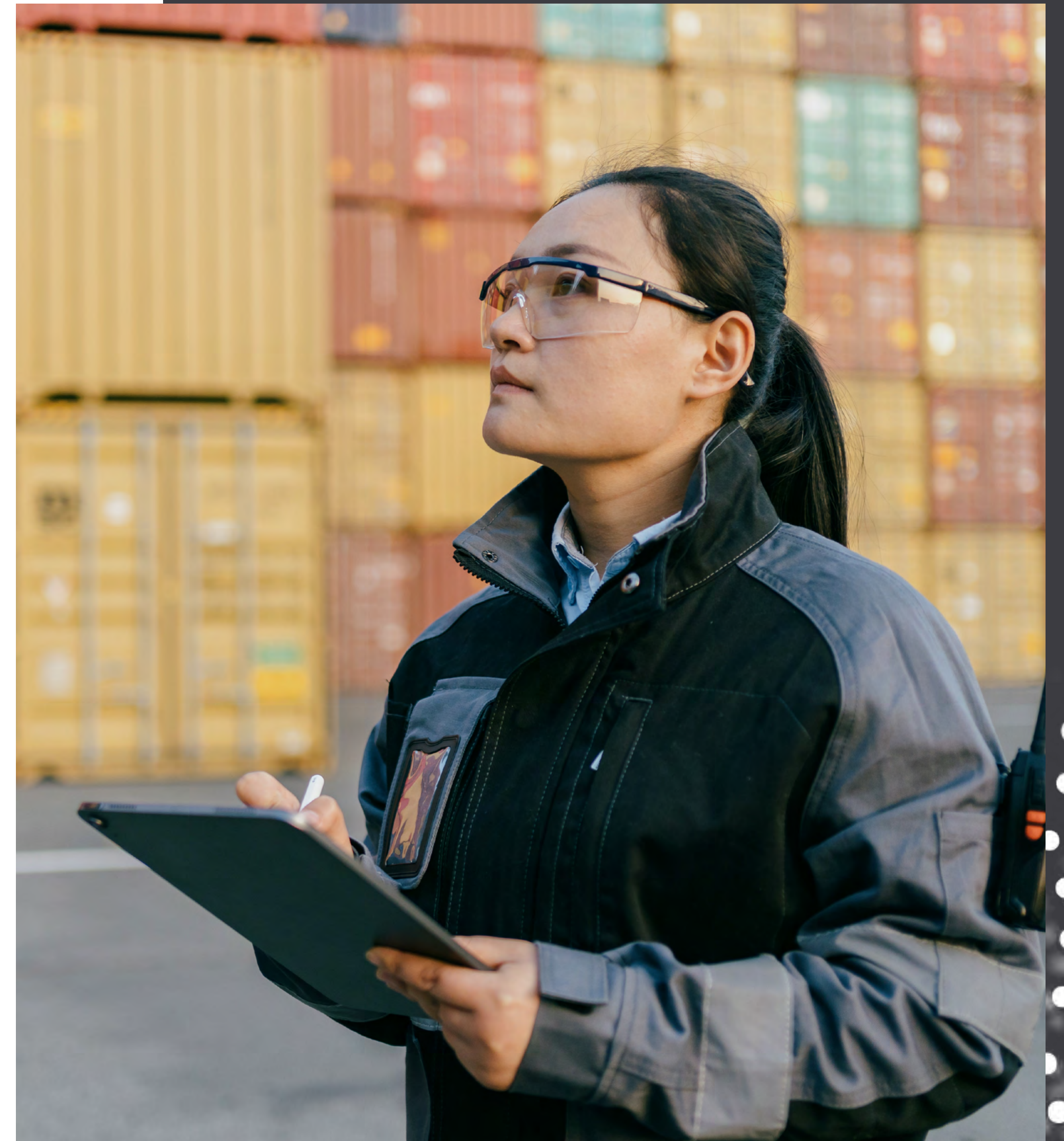
Chapter 6

Build a real-time, sustainable supply chain

The supply chain is under extreme pressure

As customer demand soars alongside unpredictable issues in manufacturing and transportation, the keys to unlocking retail business continuity are becoming increasingly more well-defined. Retailers are far better equipped to ensure business success with:

- Real-time, day-to-day metrics for deep visibility into inventory across operations and channels for data-driven decision making.

- The agility to quickly optimize resources, support operations, and pivot to meet consumer needs before, during, and after disruptive events.

Retailers need data-focused abilities to pivot rapidly in changing conditions

Quickly adapting to meet the wide array of workforce and customer expectations—optimizing inventory, identifying issues, and managing sales—can support retailers, both reactively and proactively. As supply chain issues settle and resolve, the retail sector can contribute to continued stability and growth with data-informed decision making and seamless shifts in accommodating consumer demand.

Flexible fulfillment

Fulfillment of orders—from point-of-purchase to customer possession—is one of the trickier transactions but is emerging as pivotal in retail's overall success. While health concerns may have sparked the hyper-speed development and rollout of alternate fulfillment options, consumers are nevertheless continuing to embrace these options for their convenience and efficiency.

By 2023, it's predicted that online grocery sales will make up 11.2 percent of total US grocery sales.[15]

Evolving fulfillment channels:

- BOPIS (buy online, pick up in store)

- BOPAC (buy online, pick up at curb)

- Last Mile (buy online, have delivered from store)

Customer story: Canadian Tire

Canadian Tire provides efficient, timely, and worry-free service to customers with curbside pick-up, paving the way for continuing customer service innovations.

"

We've had rave reviews from our customers about the great experience using our curbside pick-up at the store. They're blown away by the communication and the level of service they're getting via Teams, and the resulting trust means more overall shopping with Canadian Tire.

—Paul Medeiros,
Associate Dealer-Owner, Canadian Tire, Niagara Falls

→ **Read how businesses are framing their digital futures**

Ideal inventory management will reduce outages and improve assortments

And that will support real-time planning for delivering the correct amount and array of stock. A centralized system providing omnichannel inventory data in real time would enable smarter fulfillment orchestration and achieve optimal stock levels. Placing inventory and resources in the right place, at the right time—with the shortest possible lead time and at the lowest cost—can increase customer satisfaction and contribute to consumer brand trust.

Retail physical space is always at a premium

Which means that emerging trends will demand the reassessment of usage and capacity. Multichannel fulfillment, combined with inventory management and sustainability goals, roughly equates to prioritizing having the right stock on the backroom shelves—in the closest possible customer proximity. And this amounts to space conversion for accommodating the equivalent of a mini-fulfillment center. Micro-warehousing for mini-fulfillment centers can be an extremely effective tactic, but it requires complex planning, both in square footage and staffing management.

Customer story: Michael Hill

With their investment in an end-to-end, multichannel-capable digital retail operations platform, Michael Hill has optimized in-store operations, customer service, and other retail processes to consistently deliver stellar customer experiences.

"

We use the ship-from-store capability in Dynamics 365 to fulfill demand from many locations, rather than requiring human intervention whenever stock is transferred. That helps us reduce how many hops it takes to put a piece into the hands of the customers, and that's our end game—a better experience.

—Matt Keays,
Chief Information Officer, Michael Hill

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The future is inexorably linked with decisions being made now

Environmental sustainability has become an urgent issue in business, as well as in consumers' minds. The global supply chain occupies a significant place among complex, entrenched, and sprawling issues. Retail, along with most industries, is embracing sustainability and making efforts to consider the environmental and human impact of their products' journey through the supply chain. Every link in the chain—from sourcing raw materials to production, storage, delivery, and transportation—is undergoing scrutiny and change toward realizing sustainable best practices.

57%

of consumers globally are willing to change their shopping habits to help reduce negative environmental impact.[16]

In a recent Oxford Economics study, 65 percent of companies have created a clear purpose statement around sustainability, with a further 23 percent saying they are in the process of doing so.

That's 88 percent in total.[17]

From carbon offsets to green energy, get industry-specific, end-to-end strategies, and role-specific guidance on how to make your retail business more sustainable. "Sustainability in Retail" provides a closer look at the development in sustainability focus and key topics in the retail industry.

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Customer story: REI

REI harnesses the power of hybrid work technology to bring their employees closer and to create a workplace environment that works for the environment.

"

By using Teams for a more flexible approach to work, we help keep 1,500 people off the road every day. Sustainability was a driver for changing how we work.

—Joey Northcott,
Divisional Vice President of Enterprise Technology Services, REI
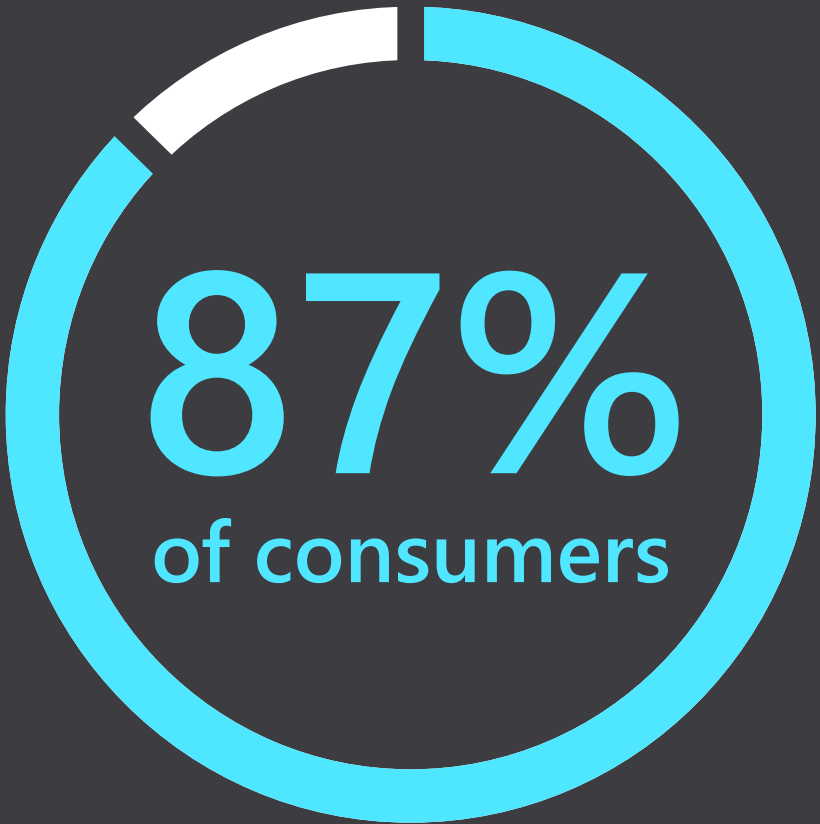
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The foundation of trust

Data security = peace of mind = freedom to thrive

With great data power comes great responsibility. Fully realized robust digital business comes with heightened awareness—from retailers and consumers alike—of the security of their data. Data management strategies need to maximize both value and security, for protection and peace of mind. Retailers are looking for comprehensive solutions and trusted partnerships to safeguard their entire data estate with integrated security, privacy, compliance, and identity solutions.

87%
of consumers

said they would not do business with a company if they had concerns about its security practices.

18%
of consumers

view retail as the most trustworthy industry in terms of protecting privacy and data.[18]

Microsoft Cloud for Retail

Connecting your people, your customers, and your data

Through disruption, retail evolves. Now is the time to leverage our learnings in support of retail's new future-forward momentum. Through the digital-first lens, the questions that can build the best strategic framework emerge:

- What is the potential of my data?

- Is my business built on trust?

- Am I set up for growth at scale?

Bringing together different data sources across the retail value chain, Microsoft Cloud for Retail uniquely connects experiences across the end-to-end shopper journey. Retailers can deliver more relevant, personalized experiences and operational excellence for their customers while supporting sustained profitability.

Full access to data and insights can elevate the customer experience

Maximizing the potential of data and adding intelligence enriches and connects core business processes. We can drive conversation, collaboration, and cost savings in an always-secure environment. In the hyperkinetic retail space, there are remarkable solutions for driving the forward momentum toward scale and controlled, continual success.

Be it knowing your customers better, empowering your associates, building a resilient supply chain, or maximizing the value of your data, Microsoft Cloud for Retail is built to meet your unique needs. We're equally committed to innovations and solutions for fostering sustainability and accelerating growth—ensuring that retailers continue to thrive. We're here to support you as you create strategies, make your investments in next-level agility, and realize the potential of your data.

We'll work right beside you as you build your business. Together, retailers and Microsoft Cloud for Retail can work toward building robust partner ecosystems that will address the industry's most urgent concerns and lay solid groundwork for innovative, resilient, and secure futures.

A passionate advocate for retailers and customers, Microsoft's Shelley Bransten strives to ensure they are set up for digital transformation success.

"

At Microsoft, we are committed to helping retailers by working side by side with them to co-innovate and co-develop next-generation solutions that address their most pressing business opportunities. Retail is 31 percent of the world's GDP, and that data is the demand signal for the world.

Microsoft Cloud for Retail data services consolidates disparate customer data sources—your data, your suppliers' data, the data you don't even know about yet—to uncover actionable insights in minutes, not days. Discover retail insights from all data sources—data warehouses, data lakes, and big data analytics systems—with a single, unified experience at any point in the shopper journey.

—Shelley Bransten,
Corporate Vice President, WW Retail & Consumer Goods Industry, Microsoft

→ **Read more about the retail business trends that are shaping our ways forward**

Microsoft Cloud for Retail's goal is to support retailers in future-proofing—supporting your readiness for what's next on the retail horizon. Building on a foundation of trust, our ambition is to empower the retail industry to connect customers, people, and data.

Frame your future and realize the power of data with Microsoft Cloud for Retail →

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