POWER OBJECTS

An HCL Technologies Company

The Retail Industry:

Alive, Well Evolving

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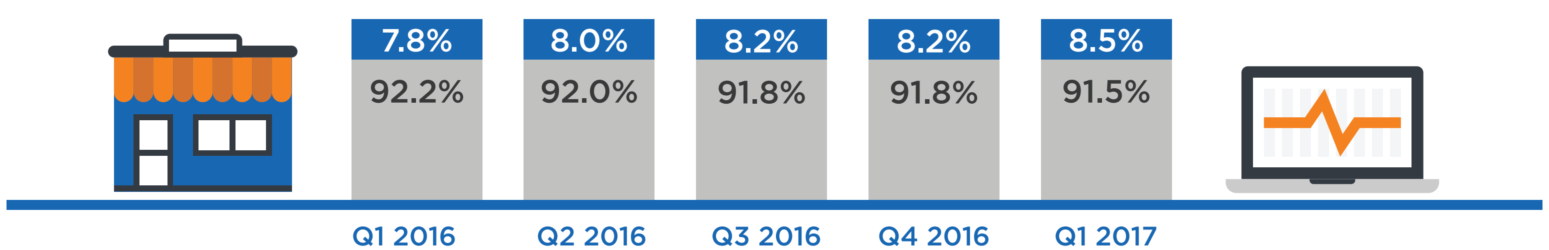
Background

Retail Armageddon is upon us – or at least, that's what the media headlines keep proclaiming. History, however, paints a different picture. The retail environments of the 1980s and 1990s have set the stage for where we are today. While some may claim retail is dying – particularly brick-and-mortar stores – in fact, it is simply another progression towards an industry which increasingly leverages technology, such as Dynamics 365, to manage their customer relationships, business data, and improve overall customer experiences. Retail is changing, but it is far from dying.

Speculation and deductive reasoning isn't the only factor driving the claim that retail is still thriving, despite the rise of online retailers and e-commerce platforms. This data from the National Retail Federation clearly delineates consumer spending online versus in-store sales over five separate quarters. [1]

In-Store vs. Online Sales: Last 5 Quarters



While the trend has increased online sales, most sales still take place in-store – not online. Furthermore, many of the most successful online retailers, including behemoths like Amazon, leverage brick-and-mortar stores to at least some degree to accelerate sales. [2] To fully grasp where the industry is headed, it is important to first look at where it has been. Upon further look, it will become apparent the adoption of Enterprise Resource Planning (ERP) software, such as Dynamics 365 for Retail, has been integral to success.

Evolution of an Industry

Competition that impacted retailers through the 1980s and 1990s helped shape the landscape we now have in front of us. Consumer demand for items at lower costs fueled the drive for innovation and creativity retailers needed to keep the edge over their competitors.

Then came the onset of the Internet, and this again changed the landscape for retailers who were now expected to have a footprint both in brick-and-mortar as well as online. This multi-channel challenge led to an entirely new form of change for retailers and solution providers to adapt to.

The advent of online shopping meant retailers needed a way to keep inventory in stock on the shelves, as well as in warehouses to be shipped for online orders. They needed to predict demand online versus in-store to keep the right levels in stock in each location. Furthermore, it became increasingly more vital to ensure inventory levels were adjusted online in real-time as transactions took place at point of sale (POS) devices. As if that's not complex enough, payment processing, talent resourcing, and loyalty programs all became increasingly important to track as well.

The desire for more accurate forecasting, multi-channel sales, and better customer interactions is why such strong retail solutions, such as Microsoft, SAP, Oracle, Epicor, and JDA, developed. These companies did not just pop up overnight; they evolved to improve the processes retailers need to economize the supply chain process, lower the cost-to-shelf for products, and deliver the lowest price possible. In fact, they have evolved so much to the point that Microsoft introduced new ERP functionality into the Dynamics 365 workloads, called Dynamics 365 for Retail.

The introduction of such a specific product line within Dynamics 365's ERP functionality reinforces the notion that technological advancements have created a state of evolution, rather than crisis. This software transformation will likely continue for many years as companies make major shifts to adapt to the digital world; a world where a potential customer can be standing in your store, use their phone to price compare, and purchase from your competitor right within your own store.

The good news is Dynamics 365 for Retail is at the forefront of this revolution, creating a solution that is accessible to all. While not every retailer can invest in software teams capable of inventing and managing a solution like Amazon deployed, they are able to gain access to the same sorts of tools and functionality through the Retail workload. Imagine being able to compete like (and with) Amazon. Dynamics 365 for Retail puts the power of convenience and flexibility into the hands of both the retailer, as well as the consumer. As customers increasingly up their expectations, those leveraging Microsoft's software will be able to compete with unified customer experiences across platforms, and improve customer service and inventory management, which allows for things such as in-store pickup, and so many more features.

As shown, the newfound ease and convenience customers expect does not necessarily spell collapse for any given company. Retailers who learned the power of software have demonstrated just that. As further evidenced, Forbes Magazine reported a 4,080-net increase in store openings versus closures for the United States in 2017. [3] Retail brick-and-mortar is, in fact, growing, despite the seemingly constant news of store closings. The combined strength of ERP and Customer Relationship Management (CRM) functionality under one Microsoft platform will no doubt play a pivotal role in continuing this trend.

This said, it is rational to wonder why store closures seem to make bolder headlines if, in fact, the number of open stores is growing. The fact is technology has enabled retailers to better identify trends and outlooks within their structure without having to wait for individual store locations to fold. This improved business intelligence enables them to make big decisions quickly and accurately. Therefore, they are no longer keeping non-profitable and underperforming stores open as long. They can now close those stores in a timely manner to minimize losses, and given new insights, these challenging decisions can all be made at one time, thereby creating the perception of an entire industry's collapse.

Target (US) is an excellent example because it experienced a highly effective system, and in looking at their operations, we see the tremendous good that can come from a successful software implementation. At the same time, Target Canada was bankrupted largely by a network of poorly designed software solutions which did not communicate well with one another, nor did it leverage accurate data.[4] Meanwhile, in the United States, Target has refined its operations under a custom ERP system which has created a 72-billion-dollar company.[5]

While the system may not be Dynamics 365 for Retail, it is worth highlighting because of these capabilities. Through decades of use and accurate data collection, Target created a seamless experience both for its customers, as well as those working along the various parts of their robust supply chain. So much so that when you complete a transaction through the POS machine at checkout, everyone from store employees checking inventory to the distribution center worker knows the store is now missing the products in your purchase. Beyond that, Target knows exactly how many units can fit on each store shelf, each distribution center, each truck, etc. The vast amount of data points needed to track all this is daunting, but their development teams have built a system which delivers on many, if not all, their goals. Among many more uplifting capabilities these features allow for, they also contribute to enabling predictions which allow for routine store closures to be made before they begin hemorrhaging money.

Access to this degree of analytics is delivered by expansive networks maintained by Target's development teams, as well as their contractors, and this network plays a vital role in their operations. However, the upkeep comes at a hefty price tag which is intimidating for companies exploring the feasibility of rolling out their own ERP solution.

Evolution of an Industry |continued|

Thankfully, with Dynamics 365 for Retail, these robust sets of functionality and features come neatly packaged and ready, dramatically reducing overall development costs for the system. Additionally, Microsoft has intentionally designed the product with developer shortages in mind. More and more, the varying levels of functionality are crafted in ways which allow more generalized development work – read, less costly – as well as some features which no longer require developers at all! Many features have been crafted to enable administrators, customizers, and Power Users to tailor their systems to the unique business needs of their organization.

These changes are essentially putting retail on steroids. Suddenly, ERP solutions are more accessible than ever to companies of all sizes without the need for unlimited dollars to spend on development. This allows smaller retailers to quickly remain flexible and deliver on what the customer is asking for. Dynamics 365 for Retail is opening doors for smaller and mid-sized retailers to experience rapid changes and growth, but it is also enabling retailers of all sizes to remain agile, closing underperforming stores and quickly reopening in stronger territories. In reality, solutions like Dynamics 365 for Retail are the reason the industry is thriving.

The Amazon Challenge

Bulk store closures as part of routine business operations has contributed to the hype of retail's demise, but the sentiment is heightened further by the Amazon challenge which is forcing retailers to again rethink their multi-channel capabilities and balance between their market channel presence. Amazon has taken everything that has been done throughout the past twenty-five years and revolutionized it to their advantage. Entering the market after the advent of technology which provided for stronger agility and efficiency, Amazon didn't face the barriers of the past in the way many other retailers do.

While even Amazon needs to keep up with a changing marketplace, they benefitted from entering with these critical business technologies driving their business from day one. Amazon centered themselves around strong logistics and distribution to meet the demands of consumers around the world. Perfecting the model did not happen overnight; it was something that Amazon, like software companies, continued to enhance and evolve over the years. Perhaps it is why Amazon's founder, Jeff Bezos, has long called it a technology company – not a retailer.[6]

Entering the market understanding this would be their secret weapon to success, Amazon was ready to embrace the technology and culture of change needed to propel themselves to where they are today. Taking a clue from Amazon, new businesses have sparked a developing trend that is beating down long-established brands. These new brands are coming to life under the Amazon model, increasing choices for the brand and budget conscious consumer. Meanwhile, long established brands are only now beginning to seek out the fountain of youth, rushing to adapt old business processes into the new, consumer-expected way of doing business. This creates a situation where newer and more agile companies can better meet customer expectations.

That said, consumer expectations have changed as quickly as the landscape changes with the entry of new brands and the amount of choices now available. This evolution into informed consumers created a major challenge for retailers seeking to exist in a highly competitive and evolving landscape. Retailers cannot sit back and focus on one or a few items and think they can stay in existence. They must develop and maintain the right product mix; control supply chain costs; provide value for the consumer; implement fresh updates to brick-and mortar stores; and showcase strong, customer service capabilities.

There is not one solution alone to resolve this trend, and retailers need to be adaptable to the quickly changing landscape. They must develop their operations to handle fast changes which maintain that "fresh" and competitive edge. Those slow to change and unable to remain agile will not deliver in time to compete with the next contender.

Once again, Target surfaces as an example of issues faced by big box retailers whose systems and processes were put into place before the rise of online shopping. While Target's systems are talking to one

> "While closing doors and restructuring does not necessarily spell collapse, it certainly can feel that way…"

another extremely well within the United States, there are still pitfalls that Dynamics 365 for Retail's platform addresses.

Rewind to Black Friday, 2015. Target joined many retailers in learning the pains of growing online shopping when it experienced overwhelming traffic volume. It could not support the number of shoppers, and site visitors were being greeted with "virtual lines" – the very reason shoppers flock online versus in-store. In a world where 50% of adult shoppers would abandon a purchase if made to wait more than three seconds for a page to load, a virtual line is a death sentence to sales.[7] Target was more fortunate than other retailers because their disruption lasted only about 40 minutes, but on one of the biggest shopping days of the year, that is a major pitfall.[8]

Dynamics 365 for Retail comes into play in situations like this by providing the option for cloud-based deployments which utilize Microsoft's always-on infrastructure. This provides reliable access to data centers around the world allowing for variable levels of traffic – utilizing Microsoft's global network to account for influxes. Companies maintaining their ERP solutions within their own servers are at the whim of the consumer and under the constraints of physical infrastructure. Even with redundancies in place, it is no match for the expansive network Microsoft's Dynamics 365 platform runs on.

When unexpectedly high traffic takes place, retailers managing their own infrastructure can only handle as much as their servers can. Meanwhile, their competitor using a cloud-based deployment of Dynamics 365 for Retail can access additional server space, quickly returning access and speed to their website. A willingness to exist under the new model is setting new retailers up for success, allowing them to compete more successfully than smaller retailers' efforts could in the past. Big box retailers need not fear though – joining the evolution is feasible even for the established giants. It just requires a desire to do so.

The Challenge of Change

Big box retailers have been around for years, and their initial lack of willingness to change was certainly obvious. Sears, J.C. Penney, and Macy's are prime examples of companies that thought they were big enough to wait it out. They soon realized their brand alone would not keep customers coming through the doors.[9] They have since begun to adapt, but these giants cannot change their long-entrenched processes overnight, and resting on their laurels has now resulted in closing doors and restructuring. While closing doors and restructuring does not necessarily spell collapse, it certainly can feel that way – both to the company as well as to consumers who have long known, trusted, and showed loyalty to these brands.

Using Sports Authority as another example of a fallen icon, they also experienced a shift in their business after new market penetration occurred when Academy Sports, and most recently Scheels, entered the area of the Overland Park shopping center in Kansas.[10] All three of these stores carry very similar products, but the "wow" factors of Sports Authority's competition are bringing customers through their doors. Sports Authority did not adapt processes to meet the demands of the consumer. As a result, Scheels is now a shopping destination as it contains a café and Ferris Wheel in the middle of the store, as well as various games for children. There are now at least five large sporting goods locations customers can choose from within the 10-mile radius of the Overland Park area where Sports Authority previously stood:

- 1 **Academy Sports**[11]
- 3 **Dicks Sporting**[12]
- 1 **Scheels**[13]

This landscape does not include Cabela's and Bass Pro Shops within the area that also have product selection cross-over, nor does it include smaller sporting goods stores. That said, is it any wonder brands are struggling to exist, compete for market share, and still turn a profit without ending up like Sports Authority?

Software as a Solution

Retailers need to look at the continued trend of the consumer by taking advantage of technology solutions such as Microsoft Dynamics 365 for Retail, coupled with tools like Power BI for analytics and customer engagement. These technologies enable companies to become more adaptable to change. Technology solutions are not an end-all, be-all, but these platforms do enable agility and predictive analysis of consumer patterns like we have never seen.

Utilizing the power of Dynamics 365 for Retail, businesses can compete online and in-store with the best deals, loyalty programs, and supply chain processes on the market. The platform's flexibility enables a seamless experience which allows users to go from mobile to desktop to in-store purchases or pickups utilizing the same system. The business cost savings coupled with the improved customer experience are driving the new world of retail.

Using technology to interact with customers is now the focus of all retailers interested in staying alive and continuing to evolve in the changing marketspace. When a customer visits a retailer's website or store, it is a critical moment to capture their attention and customize the experience to each shopper.

Retailers like Lowes have developed apps, using technology called wayfinding, which guides the customer through the store, directly to the aisle location they are looking for.[14] Meanwhile, Target continues to evolve their online and in-store customer experience by creating smaller footprint stores and combining online and pickup opportunities for their customers.[15] They've also begun incentivizing customers when they come into the store. By doubling down on the customized and tailored shopping experience many consumers now desire and expect, Target is aiming to retain their vast consumer audience.

These degrees of customized experiences would be impossible without flexible technology and processes. There is no industry immune to change and evolution, and those that will survive and thrive are those willing to embrace technologies such as Dynamics 365 for Retail, which enable retailers to efficiently target and market consumers from the same platform which is projecting supply chain demands. This kind of intelligence has never been so tightly intertwined in our business analytics. It is what enabled the current climate to take shape, and it is what will drive our future marketplace – in retail and across other industries.

Crisis, as many headlines imply, makes people who do not grasp the concept of change and technology frightened and misled. These evolutionary changes are exciting, driving innovation, and creating new opportunities for everyone. By embracing change and technology, companies will find the burdens of competition become more normalized and easier to handle as their business processes become increasingly more adaptable to the changing marketplace.

Trusted Solution Provider

PowerObjects, an HCL Technologies Company, has witnessed firsthand the impacts technology can have on retailers large and small. Approaching three decades of experience working with top brands in the retail industry, PowerObjects is ready to introduce agility and better business insights into your organization.

To connect with PowerObjects' experts in Dynamics 365 for Retail's capabilities, contact us today!

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