Three Things Retailers Must Focus on in 2020 — Stores, Digital and Sustainability

Published: 13 March 2020   ID: G00467121

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Retailers continue to experience challenges integrating their store and online operations, developing expertise with AI technology and advancing sustainability initiatives. This research provides supply chain leaders with insights into these key focal points from the NRF 2020: Retail’s Big Show.

Impacts

■ Retailers who don’t renew their focus on utilizing their store portfolio will fail to develop compelling unified commerce consumer-facing experiences.

■ Retailers need to develop realistic, and benefit-adding use cases for artificial intelligence (AI) and machine learning (ML) into their supply chain operations.

■ The focus on creating sustainable supply chain operations is accelerating, but requires investment and publicity to drive it forward.

Recommendations

Supply chain leaders in retail companies should:

■ Emphasize continued integration of physical store and online operations by establishing an aligned cross-functional project team empowered to deliver process optimization and technology enablement.

■ Develop expertise in the maturity of relevant AI technologies by investigating investment opportunities in supply chain planning and logistics operations.

■ Enable the workforce to build both comfort and confidence in AI-enabled technologies by establishing processes for successful adoption and associated return on investment.

■ Advance supply chain sustainability initiatives by ensuring they are tied to specific business and consumer outcomes and needs.
Analysis

This research is based on insights drawn from a combination of retailer interactions and presentations at the National Retail Federation’s (NRF) 2020: Retail’s Big Show and from more than 30 retail store visits in New York City in January 2020.

The Big Show hosted over 40,000 attendees, showcased retail technologies from more than 800 companies and saw something of a return to the basic fundamentals of retailing.¹

The 2020 show demonstrated a sharp continuation of the 2019 feel, with a notable reduction in brand new technology and an increased emphasis by retailers articulating how they use technologies showcased in recent years in their retail operations. Consequently, some of the most interesting technology innovations were to be found in the startup zone which showed a clear emphasis on supply chain across areas such as last-mile delivery, microfulfillment and returns.

A key take-away from the show is that retail’s future depends more than ever on the role that brick-and-mortar stores can play within a wider unified commerce model. See “Transforming From Multichannel to Unified Retail Commerce Primer for 2018” and Figure 1.

Figure 1. Impacts and Top Recommendations for Supply Chain Leaders

<table>
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Source: Gartner
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Impacts and Recommendations

Retailers who don’t renew their focus on utilizing their store portfolio will fail to develop compelling unified commerce consumer-facing experiences.

For some time now, leading retailers have recognized the need to harmonize their store and online operations to present a more seamless shopping experience for their consumers and so it was no surprise to see this ambition feature in the show.

“The best retailers have innovated, so that the physical store has the upper hand again,” Ron Johnson, CEO of the tech home service company Enjoy informed his keynote audience.

During his opening keynote, Microsoft CEO Satya Nadella told retailers that, “you have to be cool on your own,” in encouraging them to develop their own technology strategy in order to differentiate their offering from the competition.

Some interesting shifts in consumer preferences were evident from various presentations, especially in relation to younger shoppers. Even though much of their purchasing activity takes place through digital channels, 81% of teenagers say they prefer to shop in physical stores. In addition, virtually all (98%) Gen Z’ers say that they have a preference to shop at brick and mortars.2

Such data points indicate the importance that younger shoppers placed on the need for stores to form the majority of their physical shopping experience. Retailers that can resolve their structural and organizational issues, created since the emergence of their e-commerce channel, can have a bright future in a unified commerce world. To do so, they need to more comprehensively understand their consumer’s shopping behaviors, and many technology vendors were showcasing data analytical tools to assist with this goal. Further, a clear emphasis continues to be applied to fulfillment from store operations, as well as the growing role and importance of distributed order management technology.

This creates the need for retailers to build the competency in-house or partner with best-of-breed vendors. We also noticed a significant emphasis on the needs of store associates and providing them with the technology to deliver enhanced consumer service and the opportunity to be part of a digital workplace.

There was also a marked increase in the level of discussion about providing experiential retail. In its more advanced form, this initiative provides consumers with unique in-store experiences, much of which will be digitally enabled through augmented and virtual reality and social media interaction through the customer experience. While this technology develops, the show also focused on the need for retailers to meet the basics of great consumer experiences in every transaction.

The Gartner team conducted nearly thirty visits to New York retail stores during the week of the show. We found that innovation within the store environment this year was limited with most...
retailers standing still and some, such as Nike, Rebecca Minkoff and Saks Fifth Avenue retreating from some of their most progressive and/or aggressive new approaches to the customer experience.

Some green shoots of innovation were seen, most notably in Walmart’s Intelligent Retail Lab (IRL) store which leveraged hundreds of cameras to provide real-time computer vision analysis of shoppers and product availability. This is tied to a growing emphasis on computer vision technology across the NRF 2020 Exhibitors Halls, with a variety of use cases being showcased such as real-time inventory tracking, item picking robots, and shopper and staff tracking.

We also discussed future strategy with a range of retail supply chain leaders, many of whom were predominantly focused on core processes and consolidation of recently developed capabilities in areas such as sales and operations execution (S&OE) and/or sales and operations planning (S&OP), product flow, talent, cost optimization, and CO₂ reduction.

**Recommendation**

- Emphasize continued integration of physical store and online operations by establishing an aligned cross-functional project team empowered to deliver process optimization and technology enablement.

Retailers Need to Develop Realistic and Benefit-Adding Use Cases for AI and ML in Their Supply Chain Operations

There exists a key challenge in developing credible use cases for AI outside of planning in the retail supply chain. The amount of configuration applied by leading retailers in their ERP, distributed order management and other core systems is limiting both retailer and solution providers abilities to drive repeatable and/or standardized AI-driven solutions, and instead necessitating more project management office (PMO) and/or consultant-driven AI efforts in areas such as warehousing, order management and transportation optimization. A Gartner survey into the use of AI reported that 71% of retailers planned to invest in AI by the end of 2021. See “Future of Supply Chain: Reshaping the Profession.”

AI and ML applications dominated the technology on display again this year. Messaging across a broad spectrum of vendors and application types was remarkably similar with many using the same standard terminology. Real-world use cases applicable to the supply chain were, however, somewhat limited beyond planning.

At the show, we frequently heard from retailers investing in improving customer data quality and capture, then leveraging technologies such as AI or ML to create further insight. But what really matters is what to do with all this data. Typically, this starts with what their consumers expect to experience in each moment of their shopping journey, ranging from increased personalization to improved inventory visibility, or more clarity into their last-mile delivery options. See “Supply Chain Customer Centricity Part 3: Using Customer Journey Analytics to Enhance CX.”

The show illustrated many ideas on mining this new currency of data. On the show floor and in theater presentations, customer data was THE currency.
AI and ML featured heavily in showcasing robotics. In a departure from previous years, the robotics on display focused more on practical use cases within warehousing such as slotting, retrieval, inventory management, pick, pack and dispatch, and less on more futuristic potential use cases within store operations.

**Recommendations**

- Develop expertise in the maturity of relevant AI technologies by investigating investment opportunities in supply chain planning and logistics operations.
- Enable the workforce to build both comfort and confidence in AI-enabled technologies by establishing processes for successful adoption and the associated return on investment.

**The Focus on Creating Sustainable SC Operations Is Accelerating but Requires Investment and Publicity to Drive It Forward**

Leading retailers are starting to embed sustainability-related initiatives into their supply chain operations. Gartner’s “Future of Supply Chain: Reshaping the Profession” research indicates that 70% of businesses plan to invest in circular economy sustainability initiatives by 2021.

Outdoor apparel retailer Timberland is testing online shoppers’ willingness to help the environment by offering to plant a tree every time customers choose to have their orders delivered in four to eight days versus the standard three days. On average, about 14% of consumers are taking up the offer, resulting in the planting of about 55,000 trees to date.³

This initiative forms part of Timberland’s commitment to plant 50 million trees by 2025, and comes as shippers are under pressure to reduce transportation-related emissions that contribute to extreme weather, higher temperatures and rising sea levels.

Thanks to high-profile awareness campaigns, consumers today are increasingly concerned about the global use of plastics, paper and landfill-destined materials. Consequently, many have a clear perception of their responsibilities to take action to reduce their use of these materials and are becoming more selective and measured in the choices that they make. They are also placing demands on retail organizations to be transparent about their environmental objectives and to demonstrate progress toward this achievement.

This pressure is forcing the retail industry to do more than just offer competitive products, an acceptable consumer experience and fast order fulfillment. It compels retailers to view their consumers as having different emerging reasons to be loyal and to recognize that consumer beliefs and obligations toward environmental sustainability must be met.

The NRF show had a far stronger emphasis on sustainability and circular economy initiatives than in previous years, with numerous retailer-driven presentations on emerging trends such as recommerce, product rental and sustainable packaging. This shift was evident across segments from luxury, fast fashion and grocery. Interestingly, some vendors were also talking about how they
could translate, for example, benefits derived from improved planning capabilities into CO₂ or waste reduction impacts.

We experienced many conversations around consumer’s concerns about sustainability and retailers plans to either strongly invest in eco-friendly initiatives or grow awareness of existing efforts. Clear focus across many brands is being applied to areas such as managing their CO₂ footprint, exploring nearshore production, increasing their volume of ethical trade, improving labor conditions and looking to reduce water usage and product packaging. When coupled with the emergent areas of recommerce, rental and sustainable packaging, it becomes clear just how wide the variety of initiatives that are focused on sustainable supply chain operations truly is.

**Recommendation**

- Advance supply chain sustainability initiatives by ensuring they are tied to specific business, and consumer outcomes and needs.

**Gartner Recommended Reading**

Some documents may not be available as part of your current Gartner subscription.

- “Retail Digital Transformation and Innovation Primer for 2020”
- “Retail CIO New Year’s Resolutions, 2020”
- “Rethinking Physical Retail in the Digital Era”
- “Hype Cycle for Retail Technologies, 2019”
- “Retail Supply Chains Embrace the Circular Economy”
- “Supply Chain Customer Centricity Part 3: Using Customer Journey Analytics to Enhance CX”
- “Survey Analysis: Retail Use of Artificial Intelligence Expected to Surge”
- “Future of Supply Chain: Reshaping the Profession”

**Evidence**

Gartner analysts attended NRF 2019: Retail’s Big Show and this report was based on the findings from a combination of vendor meetings, retailer meetings and observations from the floor show over the three-day event.

1 “NRF Takes Over NYC,” National Retail Federation (NRF).
3 “Timberland Sees Eco-Green With Slower Delivery Speeds,” Reuters.