

Retail: Inflection point data & analytics



It's been a tough few weeks for multiple retail sectors, as nearly \$ 100 billion in US retail spend disappeared, as per a recent study by Forrester. Going forward as well, store sales are predicted to hit historic lows in the US, including apparel, restaurants, and car dealers.

The 'essentials businesses' are going strong, but at the same time, national chains are struggling. The consumer dynamics are changing, and retail needs in-depth data and analytics to manage and predict future performances effectively.

Retail is at the inflection point, making it clear that the consumer shopping experience will be part of a "New Normal" and not return to the past normal. We explore the role data & analytics will play to sustain and flourish in the "New Normal" retail experience.

It's clear that the global recession is a reality of the beginning of the "New Normal." We reflected on the key insights from great companies operating in past recessionary environments. It is more critical than ever that CEOs and their teams focus on the top priorities. A.G. Lafley, the former CEO of Procter & Gamble, captures four tasks that CEOs must uniquely do in such crises. (HBR, May 2009).

1. Defining the meaningful outside

Of all the external stakeholders, which are the ones that matter most? What results are the most meaningful? During a crisis, resolve in favor of the ones that matter most.

2. Deciding what business you are in

Where should you play to win? Where should you not play at all? Are you focused on your CORE business?

3. Balancing present and future

Learning to strike the right balance between the short and long term comes more from experience and judgment than from facts. This applies to the business and also your talent.

4. Shaping values and standards

Values establish a company's identity; they are about behavior. Standards are about expectations; they define what winning on the outside looks like. Staying true to these in crisis will define the company.

These four tasks that only a CEO can do are paramount, whether it is a Fortune 500 company or a start-up. The CEO can not delegate these!

On balancing the present and potential of a recession, the following "ten commandments" were captured (over four past recessions) and hold true for companies of all sizes:

1. Keep your prices/value equation as stable as possible for your consumers/clients.
2. Minimize the price/value spread between your product and lower-cost alternatives.
3. Don't degrade your product to save money, increase the role of innovation.
4. Keep pressure on all internal parts of the business and external suppliers.
5. Maintain your long-term product initiative plans.
6. Insist on top quality in recruiting and in your organization
7. Anticipate the consequences of your actions on clients and suppliers.
8. Study money management (cash flow) like never before.
9. Engage with your clients and strategic partners, among others, personally, like never before.
10. Motivate and connect with colleagues and leaders.



Data and analytics are positioned to help and accelerate all these tasks. The focus should be to turn the massive challenge in front of us into unique opportunities. There are three areas in particular, where the new retail experience will excel.

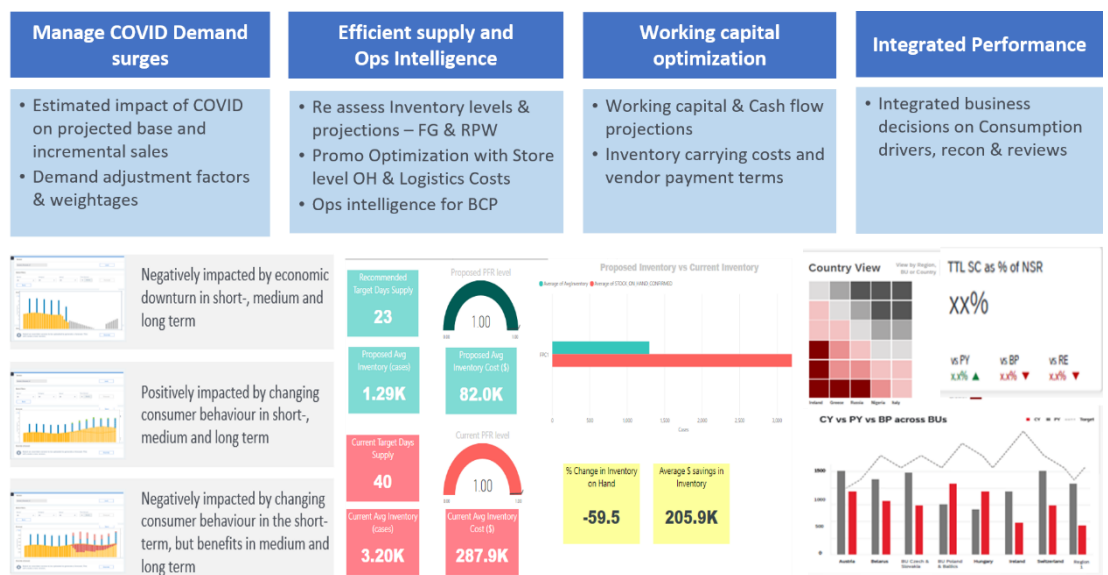
I. Operational re-alignment

1. Demand supply imbalance - As China reopens production, product supply is coming back to speed sooner than expected. Though many of the Chinese manufacturers have moved to meet the demand for medical supplies, many are still manufacturing their original ware. With most of the countries currently under lockdown, manufacturers will struggle as unprecedented stock returns continue, leading to surplus with Chinese manufacturers.

In the meantime, consumer demand will continue to remain uncertain in the near-term horizon, beyond essential categories. Lack of predictability for such demand will expectedly continue to widen the demand-supply gap, till equilibrium is eventually established. By this time, the overall supply-demand mismatch may result in significant price fluctuations.

Retailers operating in non-essential categories, who have invested in setting up robust digital operations, are experiencing a definite spike in digital demand. However, it is not enough to offset the loss from store sales.

Analytical interventions to identify patterns & surges in demand; re-assess inventory availability scenarios and simulating fulfillment options; optimizing cash flow and integrated decision cockpits for operations would play a vital role.



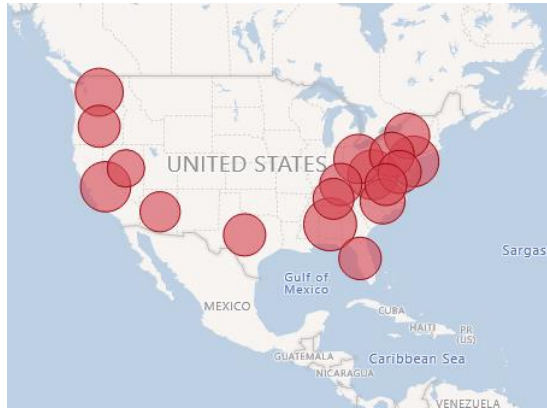
Source: Fractal

2. Liquidity will re-emerge as a challenge - Many retailers are running promotions to remain cash-flow positive. Retailers of essential categories, such as pharmacy and grocery, will continue to maintain the current peak in demand while dealing with inventory shortages.

Business re-organization has already begun, with major retailers announcing job cuts at a large scale. Simultaneously, in-demand online businesses are seen hunting aggressively for operational talent by offering better compensation. This trend, specifically, will be short-lived as the demand-supply imbalance is corrected. In the long term, retailers might even need to re-evaluate each store location for resource allocations and ascertain if it adds to the overall profitability.

3. **Diversify sourcing** - Retailers and manufacturers will need to re-evaluate their existing sourcing partners to seek cost-effective alternatives if required. Similarly, they may need to reduce dependencies on any one source and instead cast a wider net for sourcing to several different locations or geographies to hedge the risk that such a situation or trade agreements might bring up.

Analytical initiatives to identify high-demand zones & re-evaluate the sourcing partners delivering with the total cost of delivery.



Increased collaboration with existing suppliers: To expedite the product availability & ease down the capacity pressure on retail DCs, retailer organizations could enable their suppliers to ship to stores directly. For non-essential goods, manufacturers and retailers can collaborate with their suppliers to increase cash liquidity by removing incentives for on-time deliveries and advise them to delay raw materials procurement.

II. Consumer Expectations

4. **Omnichannel presence will be the new normal** - As the pandemic struck, businesses were made to think on their feet to respond to the change. Retailers who were able to shift focus and learn from the emerging challenges quickly have been able to salvage the situation. They had to shift focus on e-commerce channels to keep going, including setting up partnerships for the last mile coverage. The resurgence in the role of brick and mortar stores for essential businesses has been apparent during these times, including the heroic efforts from store personnel. Many have had to remain open while ensuring employee safety, limiting store hours, and controlling the number of people in the store at a given time. True omnichannel experience has been tested and pushed to its limits. The trend is here to stay and will be one of the key business differentiators in the post-COVID world. Innovations such as curbside pick up, In-Store Pick Up (ISPU), Buy Online Pick up In-store (BOPIS) are now the new normal. This situation may have been the final push for retailers to take omnichannel seriously and divert investments.
5. **Experiential retail will emerge** - One of the growing trends, before the COVID-19 pandemic struck, was experiential retail. As consumers get more accustomed to a zero-touch way of working, this trend might start gaining popularity, and storefronts might be used for brand interactions and product trials. Making the actual order placement and delivery happen completely online might help keep store operational costs down and limit the number of stores required.

Fractal's Behavioral Sciences arm is running a project to study the impact of COVID-19 on human behavior, the results from which will be made publicly available. Visit <http://finalmile.in/covidstories/> to participate and share your own story.



III. Innovation

One thing that the COVID crisis has brought with it is the realization that continuous innovation is no longer an option, instead, a necessary pillar for success as retailers start thinking about returning to business as usual (hopefully sooner than later). Such innovation efforts will touch every part of the business. While supply chain innovations are well underway, retailers will need to re-think other aspects of their business. It will include responsible merchandising strategy, pricing and promotions, store-level allocations, technology-enabled planogramming, and deploying always-on information on-the-go for store associates, among others. Data will become far more essential than before, and retailers that continue investing in foundational capabilities to harness such data (including in Artificial Intelligence/Machine Learning/Advanced Analytics, Cognitive BI, Blockchain, and Cloud capabilities) will lead to the future. Such skills will also become essential for retailers to be able to connect with their core consumers in a more meaningful way, beyond daily transactions.

A post-COVID world must be viewed as a time when business leaders and management will be more open to new ideas of embracing disruption and necessary transformation for the planet, the people, and profit. For some retailers, this disruption may well be the opportunity to pivot to a newer, more modern, and effective way of conducting business.

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