

Digitalisation of Retail: On The Way To The Smart Store

A survey and whitepaper from EHI in partnership with
Panasonic Business Europe

[Original in German](#)

Foreword

The digitisation of commerce is in full swing, the former separation between on and offline seems largely over, and retail is developing cross-channel omnichannel concepts. In recent years, general technological development has continued to gain momentum. With the growing relevance of topics such as IoT and artificial intelligence, new opportunities and perspectives for the design of a digitisation strategy are opening up for retailers.

As smart stores, businesses play a special role in this area, where technology, shopfitting, and personnel create engaging environments and inspire customers. But the path to a networked store, where customers are addressed via personalised and intelligent digital services, and where operational processes are optimally digitised and automated, often turns out to be cumbersome and extremely complex.

The aim of the white paper is to use the current EHI study "IT Trends in Commerce" and other studies from EHI to highlight which topics should be considered and the discussion about a meaningful and necessary strategic (re) orientation of digitisation taking into account the strategic role of the physical store.

Marco Atzberger
Member of the Executive Board
EHI Retail Institute

The digitisation of trade

The current HDE market figures for 2018 show total retail growth, including online, up 2% from € 512.8 billion to € 523.1 billion. Drivers here are online trade with growth of 9.7% to EUR 53.4 billion, but the lion's share of sales (469.7 billion) is still attributable to brick-and-mortar retailing, ie just under 90%.

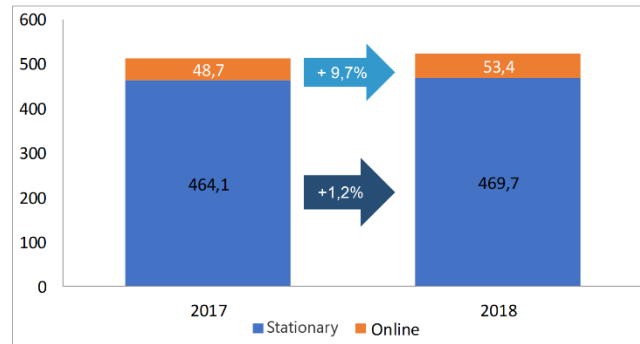
An overall view of the trade, however, underestimates the importance of the online trade has achieved in individual industries, such as books, toys or consumer electronics. Sectors like food and furniture show slow development currently.

A similar trend to the German e-commerce market is also emerging in Austria and Switzerland.

Growth within German Retail

Dynamic in the online market, volumes still stationary

Sales in the German retail trade in 2017 and 2018



Source HDE, 2019

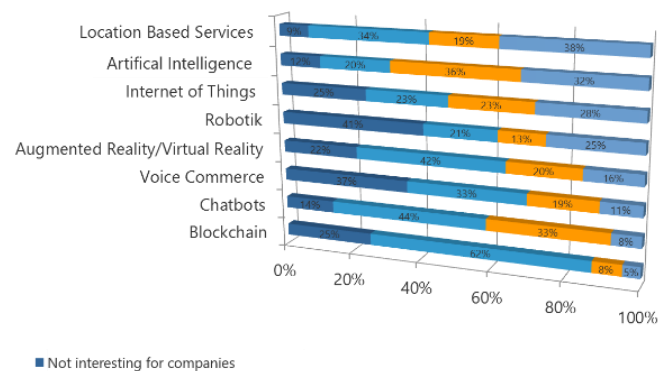
For all three countries, online stores that address their customers through multiple touchpoints have grown the most on average, according to the latest EHI e-commerce studies in D-A-CH. Obviously, those companies that manage to offer their customers a holistic, seamless shopping experience across all channels will benefit the most. No wonder that more and more online shops open their own shops. Ideally, the individual channels refer to each other and develop their interaction within omnichannel trading to maximum effect.

In order for traditional business to continue to maintain its prominence, more than ever, consumers need additional incentives to enter and shop at a store. The in-store shopping will be decisive for the competition. As a result, creating a superior customer experience is best way to compete - online and offline.

Retailers want to expand their activities in the field of digital services across all sectors, and the digitisation of the PoS is consequently a focus for development. However, many companies are still trying to understand plethora of innovative technologies that are designed to make shopping in-store and on the Internet easier, faster or simply more entertaining.

New Technologies

Concrete planning for the company



Source: EHI Studie : IT –Trends im Handel (2019)

According to the EHI study "IT Trends in Commerce" published at EUROICIS 2019, at least the large chain stores have already gained 25% experience with innovative technologies such as Location Based Services, Internet of Things and Robotics. Artificial Intelligence and Chatbots are included in the technology strategy of the company.

However, the availability of technology alone is not a success factor, the inclusion of it in the corporate strategy, the right role of the store, the choice of services, the local staff and finally the customer benefits must all fit, if the digitisation is to succeed.

Importance of the store business in omni-channel trading

Those businesses that use synergies across both online and offline retail to combine both worlds for the customer, will fundamentally change the business model of brick-and-mortar retail, even though stores still account for the higher level of sales. The online store must be brought to the surface, because they offer the greatest chance for personalised marketing. Especially since it has been found that online shops apparently work well when there are also physical stores.

Omnichannel-Service-Set for Onlineshops

Only Click & Collect really established among the dealers

Number of Onlineshops



Click & Collect



Instore-Return



Online-Availability display

N = 274 | Quelle: „Omnichannel-Commerce 2018“ (EHI Retail Institute)

Source: „Omnichannel-Commerce 2018“ (EHI Retail Institute) Untersuchungsbasis waren die größten 1.000 Online-Shops, davon 526 mit stationären Aktivitäten

Not surprisingly, in the field of omnichannel services, a rethinking of flexible touchpoints begins, digital service activities and omnichannel activity are significantly expanded. Above all, Click + Collect, Instore-Return and Instore-Order are today important services of physical shops for the omnichannel concept. However, digital applications and omnichannel services must be visible to the customer in the store and presented in an easy-to-understand manner. A uniform market presence is also important: the customer must find the same brand image offline and online (web shop, app, social media and in the shop).

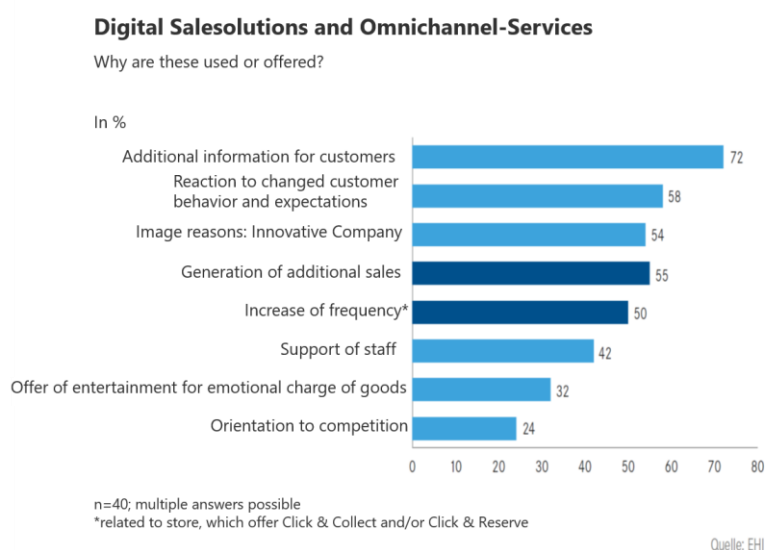
Tomorrow's store planning will have to deal more than ever before with new technologies and digital developments. At the same time, the previous creative-conceptual, classical planning work must be further strengthened. This is increasingly about the creation of entertaining worlds of experience with a community feel, merging the classic retail experience with gastronomy, art and entertainment to meet the new expectations of the modern customer.

Specifically, this means that department stores and companies from textile, shoe and sports retailers as well as from specialised trade sectors such as decoration, furnishing, jewellery or books now put their products in a much more attention-grabbing environment. In fact, more is staged instead of presented with often very personal-looking furnishings and other everyday objects. It is these creative product presentations that arouse the customer's desire to touch things and to try out products, thus immediately placing the physical brand experience in stores in the foreground.

Changing shopper behaviour combined with customer expectations of a modern company are, for respondents, key reasons for using digital media. From the point of view of more than half of the respondents, they contribute to the image of an innovative trading company that keeps up with the times and is always up to date technologically. This assessment is

even more strongly represented by the surveyed traders when it comes to offering omnichannel services.

Providing additional information, especially about assortments and products that are not directly tied to a sales pitch, is a major reason for 72 percent of digital retailers to use media in their stores. Above all companies from the food trade as well as drugstores, DIY stores and the sports trade represent this view. In food and drugstores, products are primarily commodities that require additional information to be displayed including the information on ingredients, origin, processing or special quality awards, especially for fresh produce. In the other trading sectors, digital media are used primarily for information about the material, technology and functionality of products.



In particular, in those companies where the transfer of information via PoS media is very important, they are also considered as support for the sales staff in the sales process. Overall, 42 percent of respondents cite this as a reason to use digital techniques in sales. In addition, in the case of companies from the fashion and lifestyle trade, in particular, there is an emotional engagement they can offer via entertainment such as music videos, fashion shows and image films e.g. instore screens can display localised offers depending on their position in the store.

Digital sales technology

In the meantime, screens and video walls, which are now available in different sizes in about two-thirds of the respondents in their shops, have become largely established. Taking into account those companies with in-store TV, which often uses similar content and technology, more than 80 percent of the surveyed retailers today use digital media in this form. However, 16 percent of the respondents say that these are still tests or only provided in selected locations.

Until now, screens or video walls in the shop windows are less common. In most cases, these are test installations or a time-limited deployment at selected locations. Only three companies from the non-food trade, including a department store operator, have screens in the shop window as part of the concept and follow a precise specification as to where to place which screens and which content.

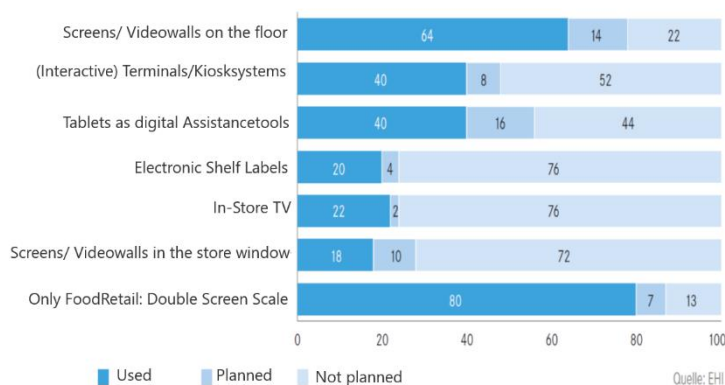
In addition, some companies have free-standing terminals on the sales floor, in elevators, next to escalators or stairs that serve primarily as signage systems or (interactive) service points. Existing terminals can also be used as an additional platform for linking online and stationary business.

In the meantime, the use of tablets as digital assistance systems is relatively widespread, with 40 percent of the respondents, especially from the textile, shoe and sports trade. One third of these dealers only using the tablets for the sales staff. In addition to information about the product, the employees also have access to cross-channel information (availability, prices, terms of delivery) and can, if desired, directly place a webshop order for the customer in the store.

Digital Sales Technologies for Retail

What is used? What won't be used in the near future?

In %



Source: EHI Studie : Ladenbau – Monitor 2017, Seite 56)

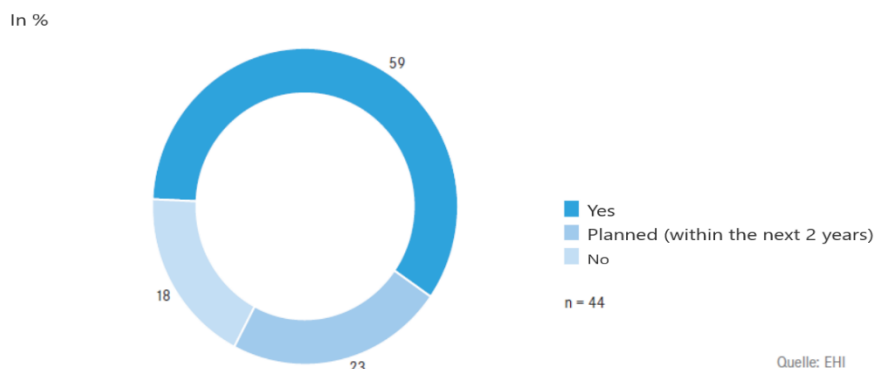
Electronic Shelf Labels (ESL) are one of the technologies that have become increasingly popular in recent times. Technological advances in recent years have made great advances in readability, presentation, and power consumption. Barcodes or QR codes can now also be displayed on the displays, with the help of which the consumer can retrieve additional information via his smartphone app, e.g. about ingredients. The cost of this technology is paid off very quickly, particularly in sectors, such as in the food trade, where prices changes are a frequent occurrence. It is therefore, not surprisingly, primarily companies from the food trade who use ESL at least selectively or are currently still in the test phase.

Inventory management

One of the basic requirements for implementing a smart store strategy is extensive inventory transparency across all sales channels - both online and offline. For the branches, this means that omnichannel services such as Click & Reserve and Click & Collect or the creation of online wish lists by customers are automatically taken into account in the inventory management of the branches. A practical example of this: If a Click & Reserve is triggered online, it is first of all imperative that the customer gets the correct store inventories in real time as far as possible. In the branch, the staff must be informed accordingly and the reservation must be noted in the branch systems. The key is then that store inventories are displayed in real time on shelf or goods carrier level. This is possible, for example, through the use of so-called "smart shelves" equipped with sensors shelves.

The question of the automated synchronisation of the stock data of the branches with omnichannel processes running on the web channel therefore formed the starting point for the trade survey of this white paper. 59 percent of participating retailers stated that information from the e-commerce channel was automatically taken into account in their store's inventory management, with another 23 percent planning to do so in the coming years. Thus, the important prerequisite of the transparency of the inventory of a large part of the panel participants has already been fulfilled.

Does data of the E-Commerce-Channel get attention regarding stockmanagement for your store?



Source : EHI Whitepaper Smart Store (2018)

Most often today and in the next two years, Click & Collect processes are taken into account in store inventory management, followed by Click & Reserve and the display of store inventories in online wish lists. It shows that retailers have significantly upgraded the implementation of omnichannel services, especially in the last few years, and that they now often have integrated and networked inventory control.

The mapping of the store inventories in real time on shelf/product level, however, hardly takes place at the moment. Only 5 percent of companies said they were technically capable of doing so, and another 5 percent plan to do so in the near future. A real-time mapping of stocks at the individual product level is conceivable in various ways: shelf sensors, the use of RFID technology, high-resolution HD cameras or the use of robots are a few options. However, very few companies already have an adequate technological infrastructure.

However, this could change rapidly in the coming years - how fast that happens depends not least on the price development of the applications.

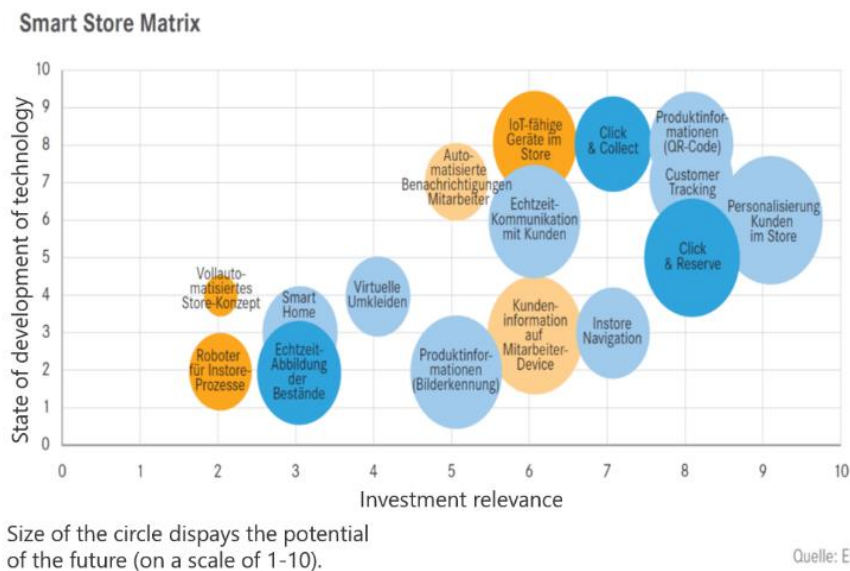
Smart store matrix

In addition to digital sales aids and applications from inventory management, new applications for customer tracking and communication, for in-store operations and smart devices for employees shape the new technological playing field in the business.

The smart-store matrix, listed here, is intended to give the reader an overview of the status quo and potentials of individual applications, as assessed by IT managers in the retail sector.

The horizontal symbolises the current degree of technological maturity on a scale of 1 (low) to 10 (high), while the vertical indicates the current investment relevance according to the same system. The size of the circles shows the future potential. The definition of the future potential results from expert discussions with some study participants as well as the assessment of the authors of the study.

- Applications for Stockmanagement
- Applications for Customer Tracking and Communication
- Applications for Instore Operations
- Applications for Smart Devices for employees



It can be stated that trade is currently in the midst of a design and development phase in terms of implementing smart-store concepts, with the implementation of omnichannel processes or the equipping of employees with powerful mobile devices in many cases already far advanced. At a very early stage, there is the introduction of individualised and personalised customer service, but most companies are still at a very early stage. The in-store communication with the customer via chatbots or messenger is still in its infancy, but

could greatly expand in the coming years, especially since in the field of AI, the highest dynamics can be observed. Typical IoT applications such as Smart Shelves are rarely used, but there is a lot of trade interest.

Conclusion and investment behaviour

Of course, digitisation of the retail industry is initially a development driven by technological opportunities, but it cannot be solved in a technical dimension alone. Above all, the opening of an online shop is not a solution to the digitalisation issue, but only a step on the way to integrated omni-channel trading.

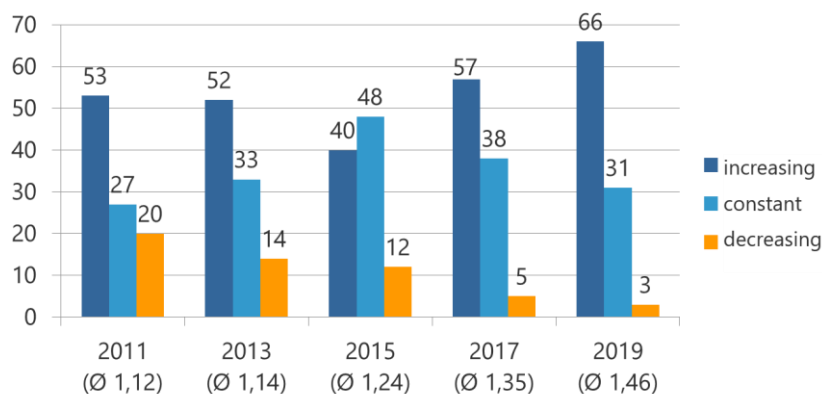
It is not only necessary to integrate the IT infrastructure in the store online and stationary, but it is also necessary to seamlessly integrate the technology in the shop so that today's demanding end customer has a holistic, inspiring and purchase-inspiring shopping experience. For this to succeed, the "why" has to be clarified before an omnichannel service is offered and technically implemented.

An iterative approach is highly recommended, the applications from the areas of inventory management, customer tracking and communication, instore operations and smart devices are so diverse and evolve so fast, so that the solution that did not fit yesterday, tomorrow already make good use of is.

IT-Budgets

Assessment of the development of the absolute IT budget and averages as a percentage of net sales

Nominations in percent / averages in percent of net sales



Source: EHI Studie IT Trends im Handel (2019)

The requirements are also reflected in the investment budgets of the dealers. In 2015, the triumph of e-commerce had led to a certain shock, and the stationary trade was uncertain whether and how to invest and therefore froze the budget, but in late 2018 two-thirds of the questioned IT chiefs of large retail chains stated that IT need to increase. They need budgets that flow not only into online activities but also into projects that make the store fit for a seamlessly integrated, digital and stationary inspiring omnichannel commerce.



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