Digitalization in the Retail Industry

Trend report

What is the Retail Industry?

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As one of the largest private sectors in the world, with **15.7 million** people working in retail in **2022** in the US alone, retailers facilitate billions of transactions through various distribution channels across a range of industries, from food, apparel, motor vehicles, and electronics.

However, the industry is changing. The retail sector must reconsider long-standing processes in response to the growth of digital technology, the impact of the COVID-19 pandemic, and shifting consumer behaviors.

Furthermore, whilst brick-and-mortar stores have long been the foundation of the retail industry, the market share of online marketplaces and E-commerce platforms is increasing.
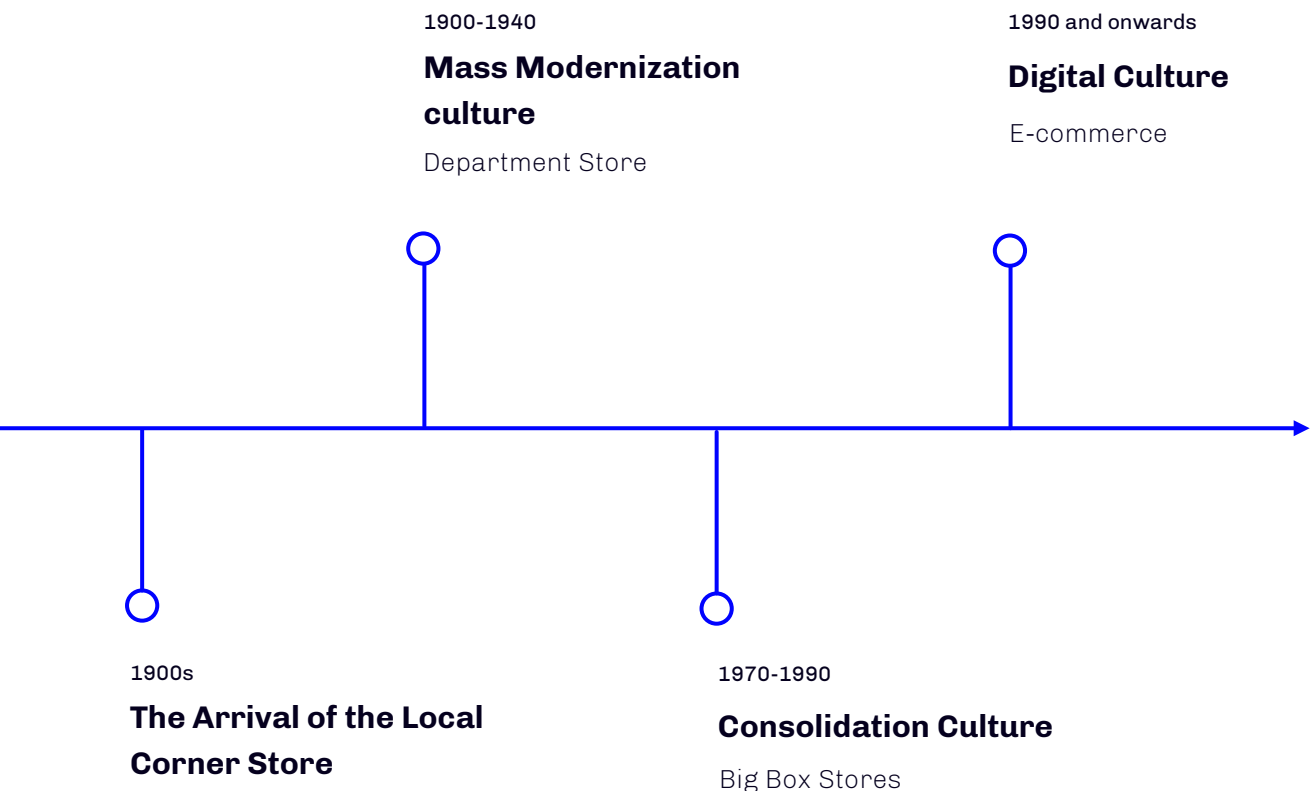
Therefore, for retailers to meet demand and compete in the next era of retail will require an embrace of an omnichannel approach and the seamless integration of offline and online channels to create exceptional shopping experiences and a secure, intelligent IT infrastructure is vital to these efforts.

The Transformation of the Retail Industry

The retail industry has existed for centuries.

From its humble beginnings as a community hub, where people shopped for necessary items. As societies advanced and cities grew, interconnectivity driving trade and information sharing increased the creation of specialty shops.

1900-1940

Mass Modernization culture

Department Store

1990 and onwards

Digital Culture

E-commerce

1900s

The Arrival of the Local Corner Store

1970-1990

Consolidation Culture

Big Box Stores

Thus, bringing us to where we find ourselves today. However, as consumers' reliance on technology grows, the shopping experience, formerly built upon human interactions, has now arrived at the stage where an individual can purchase products without communicating with anyone.

Additionally, automation and robotics can fulfill previously human tasks such as checking inventory on shelves.

The retail industry is experiencing a digital transformation. Just as the post-war opening of world trade precipitated globalization and significant restructuring in the 1960s and 1970s, the current wave of digitalization has intensified competition.

Retailers must respond to rapidly emerging digital trends to operate more effectively, whether leveraging digital technologies to adapt their operations or appealing to consumers' desire for choice and convenience.

The Digitalization of the Consumer

Consumers today are increasingly capable of using digital retail services. Moreover, their experience of online shopping and its borderless nature makes them reluctant to settle for less.

Younger generations' knowledge of digital tools has increased their familiarity with online shopping. On average, 60% of Millennials purchase products online, whereas the transition to a digital shopping experience has been slower for pre-Internet and pre-mobile generations.

Nevertheless, as the ease and functionality of digital technology improve, the number of technology converts, individuals in their 70s who regularly acquire information, communicate, and engage with social media daily, is also impacting the number of people shopping online. According to a recent survey, 85% of seniors say they research products online.

Therefore, the shift in demand for digital shopping experiences presents a unique opportunity for brands and retailers to engage new online customers in ways they never could before.

For example, by using consumer data, they can better understand the individual. Thus, helping retailers to deliver personalized engagement strategies that improve the customer experience and respond effectively to consumer habits.

However, the rise of a generation of online shoppers exhibiting markedly different consumer behaviors is impacting the traditional pillar of the retail industry: the brick-and-mortar stores.

Today, consumers have access to every retail store in the world within their pockets or a key tap away. Consequently, many consumers question why they would spend time or money to travel and shop in-store when smartphones and laptops offer such convenience.

The era of the great retail demassification has resulted in a massive elimination, repurposing, and downsizing of brick and mortar stores. Yet, despite the rise of online shopping, it hasn't made stores obsolete, with in-store spending recovering to 8% year-over-year growth in March 2022, compared with approximately 5% in early 2021.

The Digitalization of the Retail Business

As retail activity steadily becomes more digitally oriented, businesses must seek to deliver greater transparency and information regarding their products.

For example, product information and stock levels must be reliably created and maintained to enable the correct presentation to customers across digital channels. Furthermore, retailers must ensure that information labels outlining the origins of materials are regularly updated digitally for environmentally and socially aware consumers.

In addition to delivering transparency, digitalizing retail processes introduces novel possibilities for retailers. For instance, retail businesses can share consumer data regarding their needs and behavior throughout the value chain.

The resulting Big Data can support decision-making, meaning reliance upon intuition or gut feeling is less emphasized. Instead, data, advanced computer software, and sufficient time series of data support retailers to create demand forecasts, pricing formulas and volume predictions accurately.

For retailers, the direct benefits of digitalization are apparent, none more than the rise of automated business processes. Besides improving the efficiency of business-critical tasks, it will also help to reshape business models and the value chain.

Although early forms of automation, such as automated sales-based ordering, have existed in the retail sector for some time, other manual processes such as price setting, shelf-space allocation, and assortment composition will benefit from automation technologies.

As automation grows across the retail sector, projections of [the global retail automation market are set to reach a value of €20.25B by 2026 — at a Compound Annual Growth Rate (CAGR) of 9.7% between 2021 and 2026](#).

However, digitalization poses new demands for the IT management of retailers. In the past, functional or piecewise retail craftsmanship was sufficient, but today, retailers require a systematic management system that enables holistic insight.

The role of Enterprise Architecture (EA) is invaluable in mediating knowledge and understanding of the broader organizational system. Thus, retailers can understand and communicate the implications and casualties of their businesses and consumers involved in digital retailing.

Trends that will shape the Retail Industry

The retail sector has experienced a drastic change in recent years. As services and processes evolve following the infusion of digital technologies, businesses must identify how these elements will deliver a competitive edge in today's market.

Here we will discuss the trends shaping the industry's future.

Dig deeper

Supply Chain Disruption

Digital Commerce and Omnichannel

Personalization

Digital Workforce and Industry Specialists Supply

Supply Chain Disruption

The past few years have dramatically affected the retail industry's supply chain capabilities.

Supply chains affected by COVID-19 meant businesses missed out on sales opportunities, thus hindering their bottom line and throwing forecasts and plans into disarray.

Therefore, the impact on its supply chain forced retail businesses to utilize digital technology to resolve these issues.

For example, integrating business systems into logistics companies' TMS solutions improved forecasting and streamlined assortments.

The blend of big data applications and AI algorithms makes aspects of the supply chain, demand forecasting, inventory allocation, end-to-end information, and operations scheduling flow more accurately and efficiently.

IoT devices and 5G support the accumulation of data, supporting logistics and improving supply chain flexibility to predict where issues may occur.

Moreover, connecting stakeholders with access to each other's data ensures retailers can engage and collaborate with vendors, suppliers, or trading partners. Thus enabling effective supply chain management and facilitating the development of deep and long-term relationships with suppliers to boost resilience.

Furthermore, the desire to connect and lock-in customers has resulted in global retailers investing significantly to predict demand more intelligently. Through micro-fulfilment centers, dark stores, and subscription models, retailers can better understand what their consumers want and when it is needed.

From the information acquired via digitalization, manufacturers can bypass intermediaries and sell directly to consumers, cutting out parts of the supply chain and delivering competitive pricing.

For example, music and other digital products no longer need physical shelf space. Instead, with books, music, and movies, consumers are turning to specialized digital channels like Amazon, iTunes, and Netflix to research, discover, and purchase their digital content.

More than four in five retailers (82%) say that COVID-19 has had a significant disruptive impact on their supply chain. Therefore, retailers must ensure their supply chains are robust and flexible enough to handle any disruption.

Digital Commerce and Omnichannel

Digital commerce is expected to maintain its upward trend. In the US, E-commerce sales totalled $871 billion in 2021 and have been growing at an average of 16% annually since 2011.

As consumers shift toward E-commerce channels, 73% of global shoppers said E-commerce would be more critical this year. In addition, improvements in digital technology allow for more immersive shopping experiences, proving a challenge for traditional retailers.

Whilst traditional retailers possess the advantage of long-help consumer relationships built on trust and loyalty, the surge in online retail activity, with mobile commerce emerging as the primary retail purchase method, has forced retailers to rethink their approach.

Therefore, retailers seek to scale their E-commerce operations and offerings to compete in today's digital world. Thus, retailers look to blend their online and offline presence to create an omnichannel approach.

An omnichannel approach enables retailers to deliver a more consistent shopping experience across all platforms.

The strategy ensures customers receive an easy, coordinated, and seamless shopping experience regardless of purchasing from a laptop, smartphone, or brick-and-mortar store.

For retailers, the approach creates a single platform that coordinates digital and physical options allowing channels to complement one another rather than compete.

The introduction of an omnichannel approach enables retailers to leverage and integrate data into their decision-making and product offerings. Their analysis lets retailers better understand how to improve their services, deliver a personalized customer experience, and support retainment.

Whatever the future of retail, a personalized relationship between businesses and customers will always be integral, and an omnichannel approach looks to deliver upon this need.

Personalization

Today, consumers expect personalized shopping experiences. Whether it is through partnerships, investments, or M&A, there is an expectation upon retail companies to connect online and offline experiences to meet the consumers' personalization demands.

The retail industry processes enormous amounts of customer data daily to facilitate consumer demand. It has become the foundation of its operations, from driving sales, supporting decision making, and personalizing communication to current and potential customers.

However, with so much dependence upon data and the growing demand for personalized services, retailers face a significant challenge in maintaining compliance with growing data regulations and information governance.

For example, EU- and non-EU-based companies with a global presence are experiencing the challenge of implementing measures to address GDPR.

GDPR seeks to enforce the expanded data privacy rights of the individual and provide EU citizens with improved transparency and control over personal data; hence, it requires businesses to deliver adequate protections and embrace a holistic approach to data policy governance.

Whilst the principle is relatively straightforward, the adaptation for businesses, particularly within the retail sector, of legacy systems to manage personal consumer data and comply with changing content and data access regulations is viable but will demand significant expense.

Additionally, retail businesses must deliver products and services with the ability to easily select the level of personalization based on the consumer's wishes.

The provision of a sliding scale of privacy and personalization will impact all aspects of a business' operations to ensure consumers are informed about using their data.

However, the growing possibilities of the virtual world present a new challenge for regulators.

For example, obtaining consent before using personal data for a purpose prevents retailers from using personal information, even when it may be in the individual's best interests. Establishing a solution to manage each individual's authority poses a challenge and requires a high cost for traditional retailers to collect, maintain, and control such information in legacy solutions.

The acquisition of personal data and maintenance of compliance, alongside delivering personalized experiences, represent a major stumbling block in the data privacy vs personalization problem.

Digital Workforce and Industry Specialist Supply

As the digital sphere of retail operations grows in importance, retailers must identify their skills gaps and assemble the optimal workforce for their digital business needs, focusing on flexibility and quality.

Digital technology is having a massive impact on the retail industry, from the rise of E-commerce, contactless solutions, and robotics and automation within stores and warehouses.

Therefore, as digitalization advances, retail businesses must embrace the reskilling challenge. 83% of retailers invest heavily in employee recruitment and retention as they regard digital transformation as essential to their future and maintaining relevance.

As technology expands and the demand for offline and online services increases, retailers need workforces who possess a hybrid range of skills and can fulfill different business functions to become future-proof and adapt to changing consumers' expectations.

For example, retailers must seek individuals with enhanced interpersonal skills to deliver exceptional customer experiences and master new relationships with consumers, suppliers, and partners.

In addition, they must also pursue individuals with the technical skills to integrate data and analytics into their processes to improve the delivery of digital services across the retail value chain.

The most significant barrier to digital innovation is a lack of skilled teams. Therefore, retail companies must recognize the importance of digital specialists and rethink the skills and profile of their workforce. If they cannot, it may affect the organizational ability to innovate, increase costs, and prevent the delivery of consumer expectations.

The 7N Way:
The flexible IT consultancy

A global network of extraordinary IT people – delivering on clients' objectives and beyond

Sector expertise drives the digital transformation

In recent years, macro events have increased the pace of innovation, development cycles, and competition, while creating an ever-changing risk landscape. Armed with knowledge of these trends and their implications on the business, our agents and consultants can help mitigate risk and identify opportunities in our clients' business cycle.

Over decades, 7N has been part of several waves of digitalization. Today, our consultants work across industries and geographical borders to deliver the projects that define the new digital realities.

We offer clients a highly specialized portfolio of IT services and solutions delivered by the top 3% of IT professionals. Our expertise spans across many industries providing digital transformation across all phases of the IT project life cycle.

By engaging early with 7N, our clients already benefit from our expertise when defining project scope and strategic needs, and they always gain flexibility to adapt and accommodate changing demands while retaining control and maintaining ownership of IT development in-house.

How we deliver high-performance IT

Delivering with high efficiency shouldn't lead to higher workload. We build efficient teams, where expertise and experience accelerate more than headcount and capacity. In doing so, we helm form small, highly efficient teams, staffed to maximize client impact.

A tailored recruitment process refined over 30 years

We have a sophisticated our best-of-breed approach to identifying and quality-assuring top 3% IT professionals. Our model is designed to identify personal capacities, professional skills, and drive to deliver to our clients. For all clients, we have dedicated recruitment teams with extensive local knowledge and global reach for candidate sourcing. We tailor our recruitment process to each client's technical and cultural needs.

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Schedule a meeting and hear more about how we can help you assess your possibilities and overcome your challenges.

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7N

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7N Group is an elite IT consultancy agency with more than 20 years of market experience in serving all aspects of critical IT projects both within the public and private sector.

We have dedicated ourselves to finding the right match between our consultants and the companies we serve – we believe that is how the best results are created. At 7N, we have built a professional community of extraordinary people. A community dedicated to achieving professional and personal development. A place where the best gets to play with the best.

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