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Top Unified Retail Commerce Execution Trends for CIOs 2023

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Initiatives: Unified Retail Commerce for Digital Business Execution

Successive waves of market disruption are pitching retailers into a state of "permacrisis." Retail CIOs can use this trends research to advise the business on how to grow profitability by investing in technology to implement immersive experiences, optimize margin and create new revenue streams.

Overview

Opportunities

- Physical stores are the executional hub of unified commerce and are key to evolving immersive experiences that drive both associate and customer engagement.
- An overhaul of customer returns management, as well as shifting to assortment planning based on customer behavior hierarchies, are foundational to merchandising excellence.
- A shift to collaboratively creating and monetizing homegrown capabilities or implementing new services can create transformational opportunities for revenue and growth.

Recommendations

Retail CIOs evaluating investment decisions for unified retail commerce for digital business execution should:

- Implement and experiment with physical and digital immersive experiences that increase associate and customer engagement using technologies such as augmented reality/virtual reality/mixed reality (AR/VR/MR). Translate lessons into metaverse experiments.

- Implement merchandising technologies such as retail assortment management applications (RAMAs); unified price, promotion and markdown optimization (UPPMO); artificial intelligence (AI); and analytics capabilities that are imperative to achieving merchandising excellence and waste reduction for margin optimization.
- Identify opportunities to create new revenue streams through implementing sustainability-led business initiatives, monetizing data or in-house technology capabilities, as well as creating new services, such as retail media networks (RMNs).

What You Need to Know

This document was revised on 10 February 2023. The document you are viewing is the corrected version. For more information, see the Corrections page on gartner.com.

During the past few years, retailers have increasingly been hit with a series of public health, macroeconomic, geopolitical and climate change disruptions. This has forced them to focus on solving immediate problems related to supply chain, inventory and fulfillment challenges, high inflation and talent shortages. As a result, escalated costs, whittled margins and dispirited labor has drastically impacted profitability.

With profitability at risk, retailers must refocus on improving growth through the physical store, their most profitable channel. Digital channels, by themselves, are not as profitable. The physical store, as the executional hub of unified retail commerce, offers the greatest opportunity to strengthen the bridge between physical and digital channels. Investing in technologies such as AR/VR/MR will enable engaging and immersive personalized in-store customer experiences that will drive profitable growth. Critically, immersive technologies to augment the associate experience of frontline workers will empower them to deliver competitively differentiating customer experiences.

Profitability is also eroded by inaccurate demand forecasting and high levels of excess inventory, leading to unconscionable levels of waste. Moreover, costly management of unnecessarily large amounts of returns are a significant contribution to margin erosion. Implementation of AI-enabled merchandising solutions can go some way toward redressing the balance by optimizing costs and reducing returns. However, for long-term profitability and relevance in the market, merchandising planning must undergo a tectonic shift away from product hierarchies and toward customer behavior hierarchies.

Retailers are also continuing to look to synergistic collaboration opportunities with partners and ecosystems to diversify into new revenue streams for profitable growth. For example, RMNs offer retailers the opportunity to partner with brands/consumer packaged goods (CPGs) to bring new revenue streams to the retailer, while also benefiting the advertisers and customers. Some retailers are also capitalizing on opportunities to commercialize their in-house developed technology in the wider retail technology markets.

Overarching all this is the trend toward developing and deploying a cost-effective, but meaningful, sustainability agenda for future growth — a risk management initiative governed by boards of directors.

This must permeate every area of the business, from using renewable energy in physical assets, reducing waste in creating assortments, and implementing business models and initiatives, to supporting the circular economy such as recommerce, recycling and repairing. It also means complying with sustainability mandates from governments, legislators and customers. Data and analytics are vital for tracking, monitoring and honest reporting. Clear transparency is called for ensuring avoidance of "greenwashing" and "greenhushing" practices.

Table 1: Trends Profiles: Click links to jump to profiles

In-Store Workforce Management and Execution Trends	Merchandise Planning and Execution Trends	Digital Business Technology and Transformation Trends
Increasing Investment in Sustainability Is Setting the Path for Future Growth		
Unified Commerce Execution in the Store Is Paving the Way For Immersive Experiences	Retailers Are Still Wedded to Product Hierarchical Planning, but Are Shifting Toward Presenting Customer-Centric Assortments	Collaborative Ecosystems Are Developing Into Important Growth Contributors
Physical Is Reclaiming Ground From Digital as Channel Silos Continue to Blur	New Returns Approaches on Short Life Cycle Products Are Providing a Hot Opportunity for Profitability	Retail Media Networks Are Creating New Revenue Opportunities
Metaverse Is Still Emerging, but the Immersive Retail Journey Has Begun		Traditional Brick-and-Mortar Retailers Are Increasing Their Presence as Vendors in Retail Tech Markets

Source: Gartner (January 2023)

Figure 1 calls out the key retail trends categorized by topics covered in Gartner's retail research agenda.

Figure 1. 2023 Gartner Retail Trends for CIOs

Overarching Trend

Trend 1: Increasing Investment in Sustainability Is Setting the Path for Future Growth

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Analysis by Hanna Karki

Description: Retailers are facing increasing pressure from customers and investors to advance sustainability initiatives to increase customer engagement, improve resource efficiency and protect their reputation. Despite geopolitical disruption and tightening economic conditions, investments in sustainability are increasing, demonstrating that executives view this as a disruptive growth strategy.

Why Trending: Over the past 12 to 18 months, many retailers have announced significant investments in sustainability initiatives. For example:

- In October 2021, Morrisons, a U.K. supermarket retailer, announced that it is building a solar panel network in support of its net zero goal across its own operations by 2035. The retailer will own and operate its own “solar farm,” channeling the solar energy straight into its stores and sites across the U.K.
- In May 2022, global fashion retail group Inditex, Zara’s parent company, partnered with Infinited Fiber Company, a company that produces Infinna, a new textile fiber similar to cotton and created from 100% textile waste. This will minimize the use of virgin materials in a circular model of clothing production. Zara has since launched its first Infinna-based fashion capsule collection.
- The Iconic, an Australian fashion retailer, is collaborating with circular solutions provider AirRobe to facilitate reselling, renting and recycling of previously purchased items. AirRobe’s platform enables customers to add items to their account for future circular activities, thus providing retailers an opportunity to grow through the circular economy.

The 2022 Gartner Sustainability Opportunities, Risks and Technologies Survey revealed that 87% of business leaders expect sustainability investments to increase over the next two years. They expect mitigation of cost increases on energy consumption, customer transactions, emission avoidance and sustainability-related taxes (see 2022 Sustainability Survey: Use Sustainability to Drive Value and Mitigate Disruption).

Implications: Sustainability can set the path for future growth by supporting new products and business models that create value for stakeholders. For example, circular economy initiatives encouraging repair, resale and redesign of used products. Sustainability also boosts industry and cross-industry ecosystem collaboration that is vital for satisfying customer needs at scale.

Retailers that have not implemented actionable and credible sustainability programs are in danger of becoming irrelevant in the market. Publicly stating how the board discusses climate risks, announcing the climate transition plan, providing transparency into how targets are being set, measured and validated and how senior management are incentivized toward climate goals will create trust. Transparent reporting is critical to encourage investors and to avoid greenwashing and greenhushing accusations.

Meaningful metrics and KPIs are foundational for tracking performance, for compliance and for making course corrections as needed. In addition, retailers must capture investment-grade, auditable data to validate sustainability efforts.

In this regard, current solutions are not designed to provide insights and capture the data needed to support sustainability performance and reporting requirements. Manual approaches for reporting are fraught with data quality issues and are not scalable. Unless this is urgently resolved, retailers will lose the trust of customers, employees, investors and other stakeholders, weakening their market position and decreasing revenue.

Sustainability intelligence should, at least, support management of:

- Carbon emissions
- Energy efficiencies of the real estate portfolio, including stores
- Product life cycle environmental impacts
- Waste generation
- Supplier sustainability performance
- Alignment with environmental, social and governance (ESG) ratings and certifications, standards, and goals.

Actions:

- Prioritize and align technology investments based on the top material issues that your enterprise has identified as most important to future growth.
- Select technologies that will help drive sustainability transparency, particularly on issues that are identified as very high in importance for both the business and key stakeholders.

Further Reading:

Address Consumers' Sustainability Priorities to Improve Future Performance in Retail

Sustainability Survey: Key Findings and Recommendations

The Role of the CIO and Technology in the Enterprise Sustainability and ESG Endeavor

In-Store Workforce Management and Execution Trends

Trend 2: Unified Commerce Execution in the Store Is Paving the Way for Immersive Experiences

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Analysis by Max Hammond, Sandeep Unni, Kelsie Marian and Tom Nolan

SPA:

- By 2023, e-commerce will cease to be a differentiator in the retail marketplace.
- By 2026, retailers that successfully incorporate well-being strategies into frontline employee value propositions (EVPs) will achieve and maintain store associate attrition rates of 20% or less.
- By 2027, immersive shopping technologies will expand to enable more than 7% of sales interactions in nonfood segments from less than 1% in 2022.

Description: Physical retail stores remain the executional hub for unified retail commerce. They play a crucial role in developing profitable and flexible fulfillment models as well as providing enjoyable and immersive experiences for customers and in-store associates. Excellent in-store execution, through leveraging intelligence for deeper personalization, will drive higher engagement and conversion. Beyond this, the store itself is also becoming more omniscient by design. Over the past 12 months, retailers globally have invested in in store technologies that provide immersive experience and real-time intelligence at the customer, product and transactional levels.

Why Trending:

- The continual need to address frontline labor shortages is driving retailers' interest in technologies, such as in-store Internet of Things (IoT) and AI-based scheduling, to augment work and improve associate workflows.
- The need to create competitive advantage with high-quality, in-store talent is driving retailer interest in technologies and strategies that improve associate agility and retention.
- According to a 3Q22 Gartner survey on frontline worker experience, more than 85% of retailers agree their investments in frontline worker experience, such as overall well-being and improving work processes have been effective at reducing unwanted attrition. [1]

- The urgent need for improvement in store inventory management, local data processing and immersive customer and associate experiences is causing a ramp-up of retailer interest in edge computing in the store.

Implications: Enabling stores as hubs of operational excellence requires real-time integration between all digital and physical touchpoints, as well as a high-quality hybrid labor portfolio of humans and machines to scale frontline work. In tight labor markets, investing in associate experiences to support enablement and well-being will be key to attracting and retaining top in-store talent. An empowered frontline will be able to deliver operational excellence. For example, leveraging AI, IoT and automation technologies that facilitate near-real or real-time data will enable store associates to reduce repetitive work and perform tasks more quickly and intelligently. Associates will also be able to tap into "intelligent" data (for example, via workforce analytics) to deliver competitively differentiating customer experiences.

This will also include the use of technologies (such as, AR, VR and MR) as well as nontechnological physical experiences to drive highly engaging immersive experiences for associates and customers. This could include, for example, leveraging AR to improve or expedite associate training or to provide customers with new ways to experience and try products.

Actions:

- Select a team from members of IT, HR, supply chain, merchandising, operations and finance to investigate implications on costs, savings, knowledge and efficiency gains from conducting audit, forecasting, ordering and replenishment activities directly from the store edge.
- Identify how in-store technology (associate facing or otherwise) impacts associate well-being by tracking KPIs tied to improved associate experiences such as improved safety, flexibility and quicker intelligent decision-making capabilities.
- Prioritize investments in AI-based store technologies to proactively plan for labor needs and implement cost-optimized operational improvements.

Further Reading:

Predicts 2023: Immersive Stores Are a Critical Focal Point For Retail Profitability

Quick Answer: What Is Unified Retail Commerce, and Why Does It Matter?

Trend 3: Physical Is Reclaiming Ground From Digital as Channel Silos Continue to Blur

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Analysis by Sandeep Unni, Kelsie Marian, Max Hammond and Tom Nolan

SPA:

- By 2023, five Tier 1 grocery retailers will have adopted hybrid store models, installing go-style, smart check-out formats within their larger superstores.
- By 2026, retailers that successfully incorporate well-being strategies into frontline employee value propositions (EVPs) will achieve and maintain store associate attrition rates of 20% or less.
- By 2027, immersive shopping technologies will expand to enable more than 7% of sales interactions in nonfood segments from less than 1% in 2022.

Description: The physical store is the original real-time immersive experience for shopping. Retailers' physical store strategies for a digitally enabled store will be foundational to the future of retail.

Why Trending:

- Retailers are delivering on digital business strategies in the physical store to increase profitability and efficiencies, improve data insights and empower associates.
- In the 2023 Gartner CIO and Technology Executive Survey, 80% of retail respondents expect to increase store technology investments in 2023. Forty-seven percent are expecting increased store labor and human capital investments (see 2023 CIO and Technology Executive Agenda: A Retail Perspective).

- Retailers across segments continue to innovate through the launch of new store formats. For example:
  - Target recently debuted larger-format stores at nearly 150,000 square feet to optimize additional space and new design elements. [2]
  - Ulta Beauty unveiled a merchandising layout designed to make it easier for shoppers to navigate the store. [3]
  - Fast fashion retailer H&M introduced a new 7000-square-foot “store experience” concept space with year-long rotating styles meant to be an experimental destination that allows shoppers to explore styles in a community setting. [4]
  - Supermarket chain Asda announced plans to expand its “Express” convenience store concept with plans to open 300 new locations by the end of 2026. [5]
- Widespread closures of a number of struggling retail anchors at shopping centers and malls have resulted in the growing presence and diversity of nonretail tenants providing a range of lifestyle services and benefits. This, in turn, allows for more immersive journeys for consumers and a much needed revitalization of the brick-and-mortar experience, while also providing retailers opportunities through additional foot traffic.

Implications: As e-commerce has ceased to be a differentiator in the retail market, the digital battleground has moved to the physical world. This transition was accelerated by the pandemic, as consumers have adopted a wide variety of store-based fulfillment models to cope with the pandemic’s disruptions.

At the same time, the online sales growth at the height of the pandemic has since dampened as consumers are now increasingly comfortable with reverting to prepandemic habits and shopping in physical locations. Moreover, historic inflation is pressuring consumers’ discretionary spending and causing them to control basket costs by doing more comparison shopping in store. As a result, physical store foot traffic and shopping levels are thriving.

Multichannel retailers are also having to face the reality that e-commerce remains one of the least profitable ways to conduct business. According to a recent industry survey of global retail leaders, pure play e-commerce retailers are twice as likely as brick-and-mortar retailers to report that they're unprofitable. They are also nearly twice as likely to say they are struggling to make the investments necessary to improve profitability. [6]

Market watchers who predicted the demise of the stores have proven to be wrong. Despite macroeconomic headwinds that are weighing on future industry outlook, retailers, including digitally native brands, are forging ahead with plans to open new stores. New stores outnumber store closings by an order of two times, resulting in a significant addition of net new stores. [7]

Retailers must continue to reassess and redesign their strategies for the continued transformation of their physical store estate. They should evaluate and incorporate technologies for improved associate enablement and operational visibility to enable a true unified commerce model across the physical and digital.

Actions:

- Pull forward store technology investments by assessing multiple use cases and prioritizing a pilot to be deployed over the next 12 months. Experiment with technologies such as AR and VR that encourage engaging immersive experiences.
- Optimize customer order fulfillment by improving real-time inventory visibility and implementing or improving distributed order management.
- Engage with HR to deploy frontline employee experience technologies, as well as well-being plans, to support the store associate.
- Identify the data requirements to scale an end-to-end, complex, cross-channel process such as buy online, pickup in store (BOPIS), and evaluate the ecosystem of integrated solutions required to support store-based fulfillment.

Further Reading:

2023 CIO and Technology Executive Agenda: A Retail Perspective

Toolkit: Create a Strategic Technology Map for Unified Retail Commerce

Best Practices for Selecting Retail Distributed Order Management Systems

Trend 4: Metaverse Is Still Emerging, but The Immersive Retail Journey Has Begun

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Analysis by Robert Hetu and Sandeep Unni

SPA: By 2027, immersive shopping technologies will expand to enable more than 7% of sales interactions in nonfood segments from less than 1% in 2022.

Description: Gartner defines a metaverse as “a collective virtual, 3D, shared space, created by the convergence of virtually enhanced physical and digital reality.” Metaverse is yet on a distant horizon for retailers, but it triggers a journey where immersive shopping experiences evolve to support customer needs. Importantly, this evolution overlays both the purely digital and physical retailing environments.

Why Trending: Tremendous hype driven by Meta, bullish early valuations of some non-fungible tokens (NFTs) , and vastly increased capabilities in gaming and generative AI technologies have all combined to trigger significant interest among retailers. A wild ride continues to plague digital assets, exemplified by the failure of the crypto firm FTX. Even so, many retailers continue to seek out new revenue streams and touchpoint expansion for customer engagement, although early interest is limited primarily to younger consumers.

Implications: Metaverse initiatives won’t be a consistent source of revenue for most retailers until after 2030, but now is the time to prepare for the future. Retailers are largely in a nascent state regarding the metaverse despite the intense market hype. The uncertainty around the metaverse, Web3 and related technologies, combined with the lack of consistent revenue opportunities, will cause some retail leaders to dismiss it as just hype.

However, it could also have the opposite effect of driving retailers to invest too much and too early, generating no returns or even worse, losses. In the future, metaverse, Web3, NFTs and immersive experiences will seriously call into question the existing nature of the retailer/customer relationship, and therefore, the foundational retail business model.

This is the beginning of a journey, and as with most things, failing to plan is to plan to fail. Retailers must embrace the journey to digitally enabled, immersive experiences that will manifest in and across both digital and physical realms. To support the journey, here are some important findings to consider:

- Metaverse and Web3 initiatives require executive-level ownership and accountability at the retail organization to ensure alignment with corporate business and brand strategy.
- Generation Alpha, the cohort born after 2010, will account for almost two billion of the world's population by 2025. Today, there are ample opportunities to market to young consumers, so retailers must invest in targeting such evolving customer base opportunities.
- Always-on shopping experiences will embody the future of retailing, and an understanding of how customers behave in these new environments, as well as readying associates in immersive technologies, will be critical.
- Not all early efforts of learning and exploration may be financially viable; some technologies will never mature and some investments may be sunk costs.

Actions:

- Take a targeted use-case-based approach to early exploration. Identify at least one customer-facing use case for 3D or AR/VR/MR interactions to implement a pilot over the next 12 months.
- Engage with your executive peers to formulate a strategy for continuous evaluation of emerging metaverse technologies, including evaluating potential partnerships and ecosystem expansion.

Further Reading:

Quick Answer: Should Retailers Take The Metaverse Plunge?

Hype Cycle for Retail Technologies, 2022

Top Strategic Technology Trends for 2023: Metaverse

Merchandise Planning and Execution Trends

Trend 5: Retailers Are Still Wedded to Product Hierarchical Planning, but Are Shifting Toward Presenting Customer-Centric Assortments

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Analysis by Robert Hetu and Jonathan Kutner

Description: Customers have stretched existing retail business models, meaning that a tectonic shift in merchandising is required to move away from product-led hierarchy planning and transform toward customer behavior hierarchies.

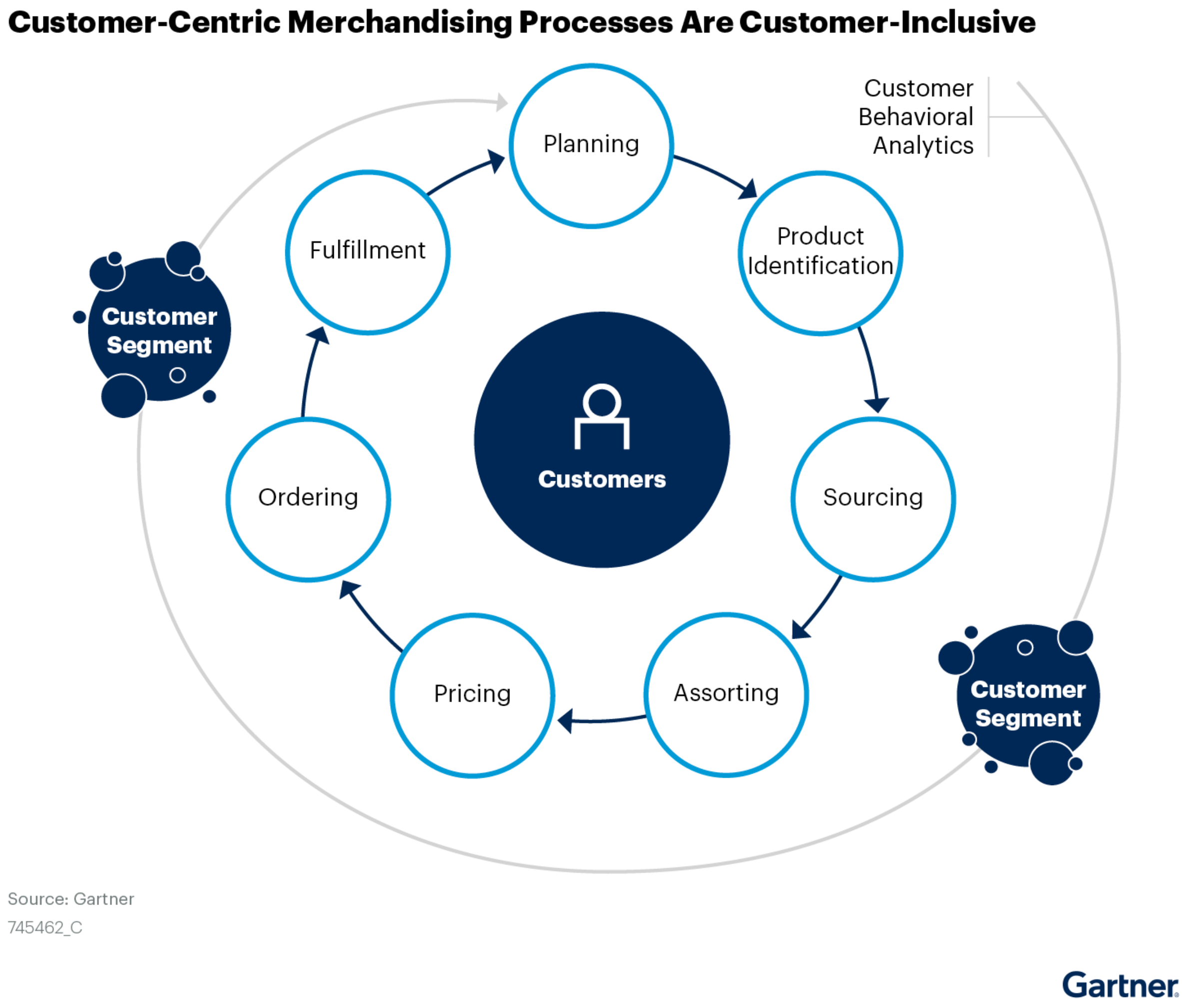
Why Trending: Consumers now expect to be in control of the products and services they consume. They will expect the same configurability in shopping experiences in retail as they receive from services such as Spotify and Netflix, where they can compose their own playlists and schedules. This will mean customers will no longer conform and fit neatly into retailers' traditional product hierarchies. Assortments will need to become configurable based primarily on the customer groups that make up the audience.

Implications: If merchandising processes continue to be linear, product-centric and customer-exclusive, they will result directly in lost sales, market-share erosion and failure in the long term. The tectonic shift to circular, customer-inclusive merchandising processes will disrupt the merchandising organization as never before, causing many to fail. Retailers who are too slow to implement critical AI-led merchandising processes to support the business' transition to customer centricity will not survive.

Beauty giant, Ulta, has recognized this shift toward customer centricity by reorganizing and profoundly shifting how it showcases products in more than 40 stores to group products by theme. This move is to bring "like" categories together, breaking down the traditional separation as dictated by their product hierarchy to create aspiration for their customers. Ulta's new layout is, it says, "more reflective of how shoppers actually shop beauty."

While this is an acceptance that traditional product hierarchies are no longer relevant, the execution is only being performed at the 'tail' end of retail, this being at the point of interaction with the customer, whether in physical or digital environments. But to fully embrace and reap the rewards from the customer-centric approach, there is a required full root and branch disassemblement of the existing product hierarchy, and in its place, an establishment of a new hierarchy model based on customer behavior. Without this transformation, merchandisers will not have the ability to identify or create meaningful combinations of products and services for various customer segments (see Figure 2).

Figure 2: Customer-Centric Merchandising Processes Are Customer-Inclusive



This will mean the organization will continuously need to convert the old merchandising structures with the outdated category or product hierarchy at the center, toward the more relevant customer-centric alignment. Why implement this conversion when it is the customer, and not products or categories, which are now essential to ensure the future of the organization?

Retailers should not need to go through this conversion every time they want to be relevant to the customer. It's a waste of time, effort and cost. Put in place the correct structure to allow seamless working practices, delight the customer and grow profitability.

Retailers must remove obstacles to reorient the entire organization around their customers, the true focal point. This will ensure all analysis, segmentation and working practices put the customer, not products, first, and produce true customer-centric assortments.

Changing the entire organization to wholly reform around customer-centric working practices will be highly disruptive. However, this should be managed as a phased transition, realigning the essential processes and departments one by one in a cadence that means the business can still function without damaging profitability.

Actions:

- Provide alternative methods, such as using AI, that allow merchandisers to recompose the business functions around customers instead of traditional product hierarchies.
- Leverage RAMAs for AI-led advanced analytics to achieve an intelligent curation of assortments and present a reduced, but more targeted, assortment of styles and colors in line with consumers' values.

Further Reading:

Market Guide for Retail Assortment Management Applications: Long Life Cycle Products

Market Guide for Retail Assortment Management Applications: Short Life Cycle Products

Retail Merchandising Propels Toward a Once-in-a-Lifetime Transformation

Trend 6: New Returns Approaches on Short Life Cycle Products Are Providing a Hot Opportunity for Profitability

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Analysis by Jonathan Kutner and Tom Nolan

Description: Returns remain an age-old issue for fashion retailers, with current return rates as high as 30% to 40% of products bought online being returned to the seller. [8] These rates have further implications for retailers beyond cost. They also have to decide whether to resell the returned merchandise, have it written off by the manufacturer or absorb the entire loss themselves.

Why Trending: For the 2022-2023 Holiday season, the National Retail Federation estimated returned items will represent $171 billion in lost sales for retailers. This has prompted 60% of retailers to reconsider their return policies, according to a survey from return management company goTRG. [9]

Values-led consumption, the need for compliance with environmental legislation and the adoption of the United Nations Sustainable Development Goals means that retailers are being forced to reduce waste significantly. [10] This requires that they cut excess purchasing, reduce customer returns, minimize markdown and promotional activity, and increase recycling. [11]

However, The State of the Industry: Returns as an Engagement Strategy Survey revealed that 91% of respondents stated that returns grew faster than revenue during the last year, yet only 27% have an assigned executive responsible for the impact of returns. [12] Returns can no longer remain just an accepted cost of doing business. Retailers need to rip up the returns playbook and restrategize, stop punishing the customer for returning, and make them part of the returns management process.

Implications: An example of how returns can suffocate retail profits is the impact that returns had on fast fashion online retailer Boohoo in 2021. They suffered a flood of returns of dresses that were more fitted than the loose-fitting clothing it sold at the start of the pandemic. This caused profits before tax to fall by a staggering 94%. [13]

Through implementing best-fit technology and providing more personalized sizing information based on the consumer's body shape and size, retailers can substantially reduce the rate of returns and further optimize customer loyalty and profitability.

While best-fit technology is attacking the returns problem at the front end, it will not, by itself, eliminate returns as a drain on retailers' profits. Alongside best-fit, a new approach to the returns management process is required. Effectively punishing customers for returns, such as Zara and Boohoo's policy of charging customers for returns, is certainly not the long-term answer.

More well-thought out alternatives are needed. For certain products, it is not economically viable to ask the customer to return. For example, there is no financial benefit to accepting returns for products that will take weeks or months to be resold and will incur costs in the returns process. Equally, it could be worthwhile to receive returns of bestsellers that can be quickly resold. These should be brought back and fast-tracked through returns processing.

For the slowest items in assortments it would be better to realize some return on the cost value back into profits and loss accounts (P&Ls) and bypass the returns processing than to incur costs with no guarantee of a profitable resale. One solution could be to ride the current emerging new trend for online marketplaces for secondhand fashion. Partnering up and diverting the poorest sellers via recommerce platforms, such as Vinted from Lithuania, will unclog the returns process log jams and free up time to speedily process the best products.

The impact on profitability will come from cost reductions in lengthy returns processing, increased access to returned bestsellers and reduction in liabilities showing on balance sheets of disputed inventory. Not dealing with terminal inventory, which could include returns, can be disastrous both financially and environmentally. In 2018 H&M suffered from a stockpile of $4.3 billion in unsold products and has reportedly burned 60 tons of new and unsold clothes since 2013. [14]

Actions:

- Leverage assortment optimization tools to create more tailored assortments and precise inventory demand forecasting to drive lower customer returns.
- Seek out best-fit solutions to apply consumer insights to optimize future assortments in the preproduction phase, and help to produce collections that are better aligned to customers' profiles.
- Partner up with secondary market resellers, and divert returns of the poorest sellers to recover cash value.
- Evaluate the organization's reverse logistics processes and implement a returns segmentation approach based on individual product profitability. For example, identify returned bestsellers quickly and fast track them through the returns process.

Further Reading:

Innovation Insight for Best-Fit Technology for Fashion Retailers

Market Guide for Retail Assortment Management Applications: Short Life Cycle Products

Market Guide for Retail Unified Price, Promotion and Markdown Optimization Applications— Short Life Cycle

Trend 7: Collaborative Ecosystems Are Developing Into Important Growth Contributors

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Analysis by Miriam Burt and Sandeep Unni

Description: A retail collaborative ecosystem encompasses a dynamic network of internal and external partners including competitors, technology vendors, customers, suppliers and/or players in other industries. The collaborators interact to optimize the customer experience through the creation of sustainable value for customers as well as themselves.

Why Trending: Shopping is embedded in the everyday lives of customers who want to search, transact, acquire and consume products and services in a convenient manner. They expect to move unhindered across channels and touchpoints to access offers that align with their values and lifestyles. To deliver this holistically and seamlessly, retailers are leveraging collaborative ecosystems to increase efficiency and close gaps in their offerings. Collaboration enables them to optimize costs, reduce the risk of solo efforts and innovate more quickly. It also gives them a competitive edge to grow revenue more quickly by increasing the speed to market of innovative products and services.

Implications: To fulfill customers' expectations agilely and at scale, retailers must continue to increase collaboration through more transparent and better sharing of critical data and knowledge. This will engender trust to enable joint, timely and effective responses to customer expectations in the same "shared" supply chain. Working collaboratively to maintain the delicate balance between product margin and supply chain flexibility will also help to protect profitability.

Some ways in which retailers are doing this are:

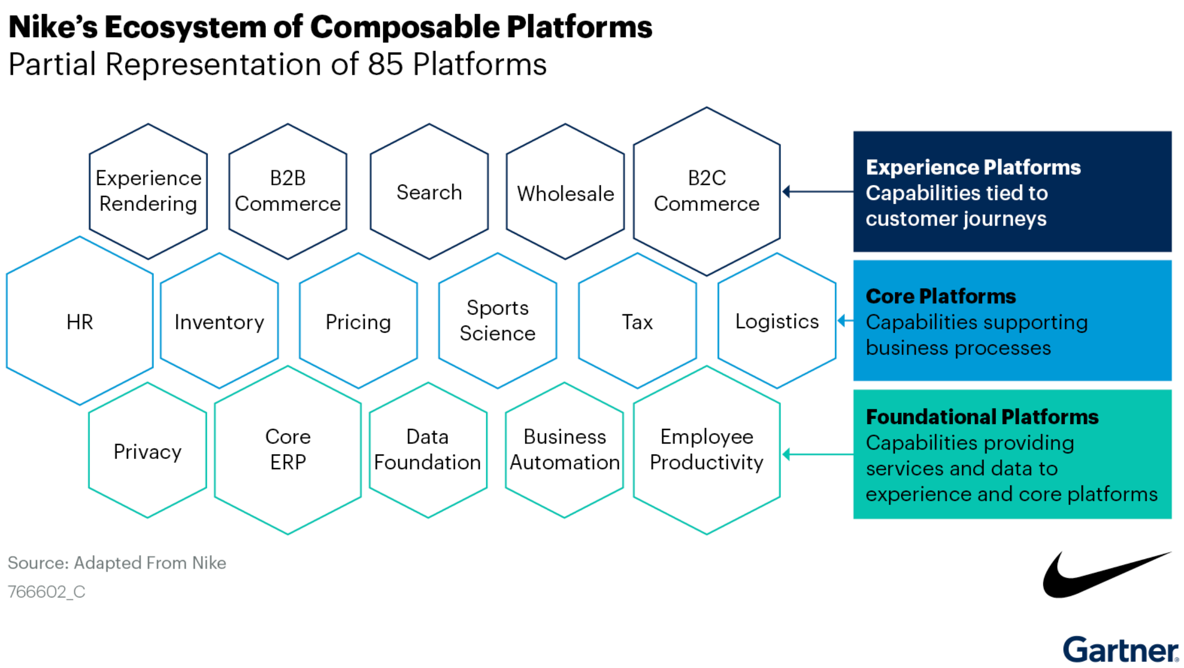
- Building collaboration with suppliers through collaborative platforms:
  - ICA in Sweden is improving collaboration with suppliers by sharing order forecasts to increase availability and reduce waste. [15]

- Enlarging customer bases by collaborating with other retailers through online marketplaces, sharing physical spaces, co-marketing or loyalty programs:
  - Majid Al Futtaim teamed up with several financial providers to launch SHAREPay, enhancing its SHARE loyalty program to allow customers to “Pay, Earn and Redeem” points in just one tap. [16]
- Expanding ecosystems to create value-added services from noncore competencies:
  - John Lewis proposes to build new rental homes for “build to let” services. [17]

Open API-based technology platforms, built from applications composed of business-centric interchangeable modular components, can facilitate smoother innovation. Business capabilities can be extended by allowing ecosystem stakeholders to use these composable platforms to support new business models, as well as create new products and services more agilely. Crucial to the success of this, is the urgent need for better internal collaboration between IT and their business partners.

One example is Nike’s ecosystem of modular and reusable composable platforms. In this “composable” approach, technology and business teams are required to collaborate to agilely assemble the reusable building blocks to compose applications capable of delivering well-targeted customer and business outcomes (see Figure 3).

Figure 3: Nike’s Ecosystem of Composable Platforms



Actions:

- Break down internal barriers to allow freer sharing of critical data, information and knowledge across traditional planning and operational silos to increase trust and enable intelligent decision making. This will also help to ease outward connectivity with external entities.
- Work with your C-level counterparts to explore how a composable business approach and a composable technology platform can increase agility and quickly bring innovations to market organically, as well as through your collaborative ecosystems.
- Actively investigate and pursue new retail partnerships to meet changing customer, business and market requirements.
- Conduct analysis of your current ecosystem partners at least once a year so you can get a continuous, updated view of your ecosystem dynamics for your strategic planning processes.

Further Reading:

- Industry Insights: State of Composability in Retail
- Case Study: Composable Platform Strategy to Drive Business Agility (Nike)

Trend 8: Retail Media Networks Are Creating New Revenue Opportunities

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Analysis by Hanna Karki and Tom Nolan

Description: RMNs are a form of advertising that retailers offer to third parties, such as CPGs and brands, to showcase relevant products they want to promote at any given phase of the shopping process. For multichannel retailers, this creates a highly profitable revenue opportunity through leveraging first-party data insights that they already own. Typically deployed in digital channels, retailers have the opportunity to extend this to the physical store in line with retailers' approach to unified commerce execution.

Why Trending: Several large retailers including Amazon, Kroger, Target and Walmart have realized high value from RMNs over the past 24 months. For example, Walmart Connect made $2.1 billion in 2021, and advertising revenue has increased 30% year over year as of 2Q22. [18] The positive margins of retail media can drive a significant percentage of a retailer's global profits, offsetting losses within their other businesses. Revenue gained can be used to invest in digital transformation.

Some reasons why this is trending include:

- Retailers' impetus to monetize their first-party data
- Offering the best value for customers — such as lower or contextualized pricing
- The steady move to collaborative ecosystems to share both risk and reward
- The higher revenue-to-margin ratio compensates for challenging physical product margins
- The phasing out of third-party cookies

RMNs allow retailers to support purchase decisions, promote brand awareness, feature new products, acquire new customers, and clear stock both for online and in-store environments. In-store digital advertising "space" refers to advertising through mobile apps, smart shelves and traditional devices such as point of sale, audio systems and digital signage.

Examples of retailers leveraging RMN in-store ad placements include:

- Kroger leverages smart screens from Cooler Screens to display the full suite of drinks in a given cooler, along with digitized nutrition facts. Brands can buy ads so that their products are shown to customers on the verge of making a purchase decision. [19]
- Best Buy's Store.Ads platform offers customers an immersive, in-person experience using branded audio and video, visual displays, and location-based mobile messages, interacting with customers as they shop in its stores. [20]
- Tesco utilizes its Media and Insights Platform (powered by Dunnhumby) coupled with JC Decaux's out-of-home digital screens to enable ad scheduling to be optimized based on audience behaviors and sales through the SmartScreen network in Tesco's stores. [21]

Implications: Disruptive and volatile environments have forced retailers to reexamine business models to manage the risk of becoming irrelevant in the market by:

- Shifting reliance solely on core products, securing the long-term viability of the business
- Creating new and innovative revenue streams through high-margin, nonretail activities
  - Studies have shown that Amazon's advertising business accounted for 68% of its overall global profits in 2021, offsetting declines within the broader business. [22]
- Reaching and growing new customers, as well as consolidating existing customer relationships
- Preventing media companies from further eroding ad revenue

Crucially, after years of overemphasizing e-commerce capabilities for customer engagement, retailers are realizing that their own media networks can retain and grow customer loyalty for increased profitability. Retailers are aligning retail media networks with their unified retail commerce strategies in order to deliver immersive and engaging experiences. This should include:

- Ensure promoted products are available for purchase in the store or available for delivery. This requires a real-time view of inventory and pricing to be coupled with the ad opportunity.
- LeverageIoT and digital signage; for example, to create immersive and engaging experiences in the physical store that are initiated by the customer.
- Balance customer experience with appropriate amounts and types of advertising to reduce advertising fatigue.

Actions:

- Avoid underestimation of the effort required for implementation of RMNs by carefully evaluating the impact on in-store technology investments.

- Equip the business to optimize profit margins by taking advantage of machine learning and real-time insights for customers' behavior in response to in-store advertising.
- Consolidate siloed sources of customer data to optimize implementation of RMNs.
- Consider in-store ad placements on RMNs in conjunction with broader media strategies that may require a multivendor approach.
- Deploy collaborative platforms to work with stakeholders such as the chief marketing officer, chief merchandising officer and third parties such as CPG companies, brands and suppliers to learn how IT can support the opportunities presented by RMNs.
- Learn how RMNs can optimize margins, pricing and promotions in conjunction with tools such as UPPMO.

Further Reading:

Predicts 2023: Immersive Stores Are a Critical Focal Point For Retail Profitability

Hype Cycle for Digital Advertising, 2022

Trend 9: Traditional Brick-and-Mortar Retailers Are Increasing Their Presence as Vendors in Retail Tech Markets

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Analysis by Miriam Burt and Hanna Karki

Description: An increasing number of traditional brick-and-mortar retailers are making their presence felt more strongly in retail technology markets. There is a noticeable trend toward retailers starting to offer or strengthen their own commercially available retail, technology-based products and services to others in the industry.

Why Trending: Digital technology advancements have disrupted traditional store-based retailers, shifting the balance of power toward customers. Retailers are forced to transform their businesses through adoption of digital technologies such as those supporting cloud, mobile, social, advanced analytics, AI, machine learning and IoT. Ways in which they are using technology to satisfy customer expectations and enhance customer experiences include:

- Creating new business models
- Streamlining and optimizing processes and operations
- Demonstrating their commitment to sustainability
- Augmenting associate capabilities
- Acquiring digital talent
- Monetizing their data

Over the past few years, retailers have employed a few strategies to boost their technology acumen, such as “techquisitions” — buying stakes in, or acquiring, digital or IT companies, investing in technology innovation labs and even launching venture capital funds.

However, more recently, retailers have started developing their own “homegrown” technology solutions to close gaps in the tech markets that have hampered them from accelerating their digital business transformation efforts. Some have also developed go-to-market commercial propositions for these homegrown solutions, making them generally available in retail tech markets. In other words, they have also become retail technology vendors. Some examples are:

- U.S.-based apparel retailer American Eagle Outfitter’s Quiet Platforms delivery network, a nationwide fulfillment and delivery offering for retailers and brands [23]
- U.K.-based Next’s Total Platform, which enables fashion brands and retailers to launch their e-commerce offering [24]
- Walmart’s Luminate platform for supplier data and collaboration for its network of suppliers and brands [25]

Implications:

Retailers entering technology markets with their own solutions will encounter the traditional barriers to new entrants. These include capital requirements for continuing R&D for development of the roadmap, solid product management and easy access to distribution channels. As technology vendors, they must also be able to help other retailers with critical “must have” capabilities, including the ability to:

- Execute unified commerce strategies successfully through composable platforms

- Demonstrate value for store associates
- Create customer values-driven solutions
- Engage with ecosystems
- Promote sustainability

To generate long-term competitive advantage, their go-to-market strategies must be compelling, but flexible, so they can pivot with agility and resilience in accordance with market conditions.

Very importantly, retailers will have to ensure that their eye remains firmly on their core retail business, which must continue to thrive in order to survive. On the flip side, they already have an easily accessible ready-made “in situ” test bed to accelerate roadmap development with comprehensive testing. They could also capitalize on partnerships with other retailers to progress enhancements of the technology.

Actions:

- Work with the chief marketing officer to review regular reports on consumer behavior in order to focus on consumers’ values when designing your technology products.
- Challenge enterprise architects to design a composable approach to building modular solutions in order to increase agility and resilience for competitive advantage.
- Develop a go-to-market strategy that includes partnering with other vendors in collaborative ecosystems to gain more visibility and traction, as well as to spread entry risks.
- Work with the product development team to establish a disciplined approach to roadmapping and scaling to avoid the risk of failure due to lack of proper resources for expansion.

Further Reading:

The Future of Retail: Enable 6 Must-Have Capabilities to Thrive in the Retail Industry

Evidence

[1] **2022 Gartner Frontline Workers Experience Reinvented Survey:** This survey was conducted to identify the employee value proposition elements that best attract, support, engage and retain frontline workers. In addition, the survey sought to determine whether they also improve business performance and discover how digitalization and automation efforts at the front line relate to positive outcomes in employee experience and business performance. The survey was conducted online from July through August 2022 among 405 respondents from North America (n = 155 in the U.S. and Canada) , Europe (n = 136 in Germany and the U.K.) , Latin America (n = 60 in Brazil) and Asia/Pacific (n = 54 in India) . Respondents' organizations had $100 million or more in 2021 enterprisewide annual revenue and 1,000 or more employees. Industries surveyed included healthcare providers, high tech (IT) , manufacturing, retail, energy, transportation, telecommunications, utilities, supply chain or distribution, healthcare life sciences, and services. Respondents were required to be first-line managers or higher with a minimum of six frontline workers directly reporting to them. Managers of teams must be in a specific physical location (on-site) or in field service (proximity to perform their work) . Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[2] Target Debuts New Larger-Format Store Featuring Modern Design and Expanded Space to Fuel Popular Same-Day Fulfillment Services, A Bullseye View, Target.

[3] Ulta to Introduce New Layout In Select Stores This Fall, Retail Dive.

[4] H&M Unveils Year-Long Rotating Style Destination in the Heart Of Williamsburg, Yahoo Finance.

[5] Asda to Open 300 Asda Express C-Stores, NACS.

[6] Retailers Grapple With E-Commerce's Drag on Profits: Report, Retail Dive.

[7] Mall Owners Say Retailers Are Still Opening Stores in Spite of Recession Fears, CNBC.

[8] Tackling the Unsustainable Rate of Returns, Eco-Age.

[9] Holiday Returns Are Swamping Retailers Again. How They're Coping., Barron's. (Paid subscription required.)

[10] The 17 Goals, The United Nations.

[11] Clothing Retailers Boost Profit Margins by Offering Fewer Markdowns, The Wall Street Journal.

[12] Returns Are No Longer Just a Cost of Doing Business, Retail Dive.

[13] Boohoo Hit As Shoppers Return More Clothes Than Before Covid, BBC.

[14] Why Fashion Brands Destroy Billions' Worth of Their Own Merchandise Every Year, Vox.

[15] Customer Voice: How ICA Sweden Shares Order Forecasts with Suppliers to Improve Collaboration, Increase Availability, and Reduce Waste, REFLEX Solutions.

[16] Majid Al Futtaim Launches SHAREPay, Enabling Members to 'Pay, Earn, and Redeem', Instantly, Majid Al Futtaim.

[17] John Lewis Partnership Announces First Proposed Locations for Rental Homes, John Lewis Partnership.

[18] Walmart's Advertising Revenue Is Small But Soaring, AdExchanger.

[19] Cooler Ecosystem, Cooler Screens.

[20] Reaching Our Audiences Has Never Been Easier., Best Buy.

[21] Tesco Media and Insight Platform, Powered by dunnhumby, Creates the UK's Largest Retail Out-of-Home Digital Display Network, dunnhumby.

[22] How Retail Media Is Reshaping Retail, Boston Consulting Group.

[23] Quiet Platforms Announces Launch of New Nationwide Delivery Network, American Eagle Outfitters.

[24] Next's Next Move — a Threat to Farfetch?, The Fashion and Design Club.

[25] Walmart Luminate

Acronym Key and Glossary Terms

Greenwashing	Greenwashing is a form of marketing spin that overinflates an organization's environmental sustainability credentials to create a positive public image. It is when the credentials being shown are not backed by any activity or program that has substance or credibility.
Greenhushing	Greenhushing refers to businesses and organizations that opt to stay quiet about their climate strategies because they fear being called out for greenwashing, or named and shamed if they fall short.

Document Revision History

Top Trends in Retail Digital Transformation and Innovation for 2022 - 14 March 2022

Table 1: Trends Profiles: Click links to jump to profiles

In-Store Workforce Management and Execution Trends	Merchandise Planning and Execution Trends	Digital Business Technology and Transformation Trends
Increasing Investment in Sustainability Is Setting the Path for Future Growth		
Unified Commerce Execution in the Store Is Paving the Way For Immersive Experiences	Retailers Are Still Wedded to Product Hierarchical Planning, but Are Shifting Toward Presenting Customer-Centric Assortments	Collaborative Ecosystems Are Developing Into Important Growth Contributors
Physical Is Reclaiming Ground From Digital as Channel Silos Continue to Blur	New Returns Approaches on Short Life Cycle Products Are Providing a Hot Opportunity for Profitability	Retail Media Networks Are Creating New Revenue Opportunities
Metaverse Is Still Emerging, but the Immersive Retail Journey Has Begun		Traditional Brick-and-Mortar Retailers Are Increasing Their Presence as Vendors in Retail Tech Markets

Source: Gartner (January 2023)

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