The retail industry is at a pivot point: adapt to the new reality or perish. The COVID-19 pandemic has accelerated consumer adoption of online, contactless shopping and curbside and home delivery fulfillment scenarios. Technology will play a critical role in enabling retail organizations to thrive in the next new normal.

The Big Retail Pivot: Keeping Up with Current Consumer Needs as Demands Change — Again

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Questions posed by: ServiceNow
Answers by: Leslie Hand, Group Vice President, IDC Retail Insights

Q. Will the customer behaviors that have shifted because of the pandemic be with us forever?

A. The retail industry is pivoting quickly to the next "new normal," which will include the continued acceleration of consumer adoption of online, contactless shopping as well as curbside and home delivery fulfillment scenarios. As a result of COVID-19 and stay-at-home orders, consumers were highly motivated to shop online — even those who never did before; thus, 2Q20 year-over-year (YoY) ecommerce sales increased by over 44%, raising ecommerce as a percentage of all U.S. retail sales to 15%, according to the U.S. Census Bureau. During this time, consumers have come to appreciate and value the convenience and choice of online shopping more than they did in the past.

Essential goods retailers (those that sell grocery or household supplies) fared much better than nonessential retailers (those that depend on apparel and other discretionary goods purchases) through the first half of 2020, but both segments saw an increase in online activity among customers in the short term. Buying new clothes became less important to consumers as they stayed at home and most offices and events were temporarily shut down, but sales in these categories should bounce back — although perhaps not to pre-pandemic levels — when life returns to normal. Some important differences to note are as follows:

» Essential goods retailers, including Walmart and Target, reported stellar YoY revenue and operating profit gains in the April–June quarter of 2020, attributable to an effective omni-channel strategy and optimized price strategies: 90% of online orders were fulfilled by stores instead of shipped to homes from a distant independent warehouse. The retail distribution model still works best for essential goods retailers, and with the added convenience consumers experienced, it will maintain momentum (at approximately 10% of total sales, down from the early pandemic peak). IDC Insights' Cross-Industry Consumer Response to COVID-19 Survey, conducted in March 2020, provides further evidence of expected omni-channel consumer engagement: A full 60.5% of consumers ages 18–24 indicated that they prefer "buy online, pick up in store" (BOPIS) options over home delivery.

» Nonessential retailers fared less well in the April–June quarter of 2020. In April 2020, sales fell 59.3% from the previous year and are still hovering at 6.9% below YoY sales. Retailers in this segment with omni-channel capabilities, including inventory visibility and scalable cloud-based commerce systems, have been able to add curbside pickup and have outperformed their peers as a result.
Q. How should retailers refocus their technology investments as a result of the big pivot to the next new normal?

A. Retail technology investment tactics and strategies align closely with a retailer's level of digital maturity and ability to accelerate investment to satisfy immediate and evolving consumer needs. The initial response to the pandemic required that essential goods retailers address critical needs in areas where they identified immediate competitive deficiencies (e.g., supply chain agility), and nonessential retailers closed their doors while focusing on online commerce (and some had serious issues as they tried to scale to meet consumer needs). But as nonessential stores started to reopen and new contactless processes were put in place, retailers began to progress through various stages of investment focus, ultimately moving from a focus on business continuity to cost optimization to resilience to targeted investments and, finally, to the new normal.

Retailers have always prioritized business continuity, productivity, and resilience of stores. The phrase "keeping the lights on" in stores literally means to keep everything running to support customer needs, and it certainly is a rare occasion to have business pivot overnight to a new kind of keeping the lights on. Disaster recovery plans were not enough to guide retail response, and as a result, continuity of operations and built-in resilience, as well as improved adaptability, will be the norm as retailers continue to invest in the new normal, with the intent to be better prepared next time (and most retailers believe that there will be a next time).

As retailers move toward the new normal, technology investments that support long-term goals will move from tactical (immediate) to strategic (long term) in the following priority areas:

» **Infrastructure, software, and business process modernization** — from improving scalability and security to being resilient, adaptable, and self-healing

» **Omni-channel contactless commerce, payments, and fulfillment** — from being partially available to omni-channel and infinitely personalized and contextualized

» **Omni-channel contact centers and communication** (internal and external) — from working remotely successfully to having truly flexible and scalable capabilities

» **Inventory visibility and accuracy** — from knowing what inventory is on hand to knowing the on-hand inventory is right (in real time)

» **Supply chain collaboration and automation** — from establishing assortments and supplier agreements digitally to prescriptively automating changes to supply sources, assortment, price, and orders collaboratively

» **Workforce management and productivity** — from independent workforce hiring and scheduling capabilities to responsive business context–adjusted processes (that might include temporary workforce hiring)
What is different now? Haven't retailers already been working on
digital transformation (DX) and omni-channel?

Yes, but COVID-19 has accelerated digital transformation and is driving an urgent call to action. Technology investments among the leaders reportedly accelerated DX programs by up to two years because of rapid strategic and tactical shifts and have set these retailers up for success as they move forward. In IDC’s COVID-19 Impact on IT Spending Survey (conducted July 20–31, 2020), retailers reported that they will invest in technology to close the gaps in digital transformation, with 29.9% indicating that they have accelerated DX efforts because of the COVID-19 pandemic. 25.7% of respondents are advancing quickly toward the new normal with longer-term commitment, change management, and integrated, continuous enterprisewide DX innovation planned.

A key difference in the go-forward strategies now is that retailers are no longer proactively working toward building a set of capabilities to serve the future of retail — the future is here. Therefore, approaches to DX are very grounded and pragmatic, addressing current needs such as reducing costs and increasing speed of implementation and speed to value. For right now, retailers are forgoing big platform replacements for initiatives that deliver value/ROI faster. Key initiatives enable getting access to data, leveraging insights to drive actions, and integrating processes to automate workflows.

Walmart and Target are perfect examples. Both companies had previously made investments in omni-channel capabilities and were able to scale online commerce and quickly adapt existing in-store and curbside pickup processes as well as delivery processes to meet consumer needs. They were also able to quickly run competitive price and promotion analysis to improve margins after taking a significant operational cost hit in the first month of the pandemic. Only the most digitally mature retailers were prepared to manage stock with uneven demand and manage new operational processes efficiently. There was also the corporate challenge of managing work from home and furloughs and layoffs as well as the long list of tasks related to opening and closing facilities (given local regulations and organizational strategies).

Lululemon was a standout performer in the nonessential retail group, maintaining 80% of sales during the period stores were closed and overall segment sales were down more than 50%. Why? Because the company has technologies and processes in place that enable systems of record to inform real-time execution of business. Lululemon can deliver personalized service to customers by providing an accurate view of inventory, scalable commerce, and tight integration to order management and shipping processes.

For many stores, the move from a physical location to a purely digital presence was seamless. Digitally advanced grocers, such as Kroger, were able to turn stores into fulfillment centers overnight, reallocate staff and provide raises and new incentives across the board, and hire new temporary employees from restaurants and hoteliers that were shut down. Kroger was able to execute swiftly and effectively because it was able to quickly translate new scheduling demands into resource requirements and create the workflow to hire employees and place them in all the necessary positions.
Q. Can you provide guidance for retailers on what the priorities are for thriving in the next new normal?

A. Retailers should focus on addressing immediate needs pragmatically and then progress quickly into making investments to improve the ability to continually adapt to consumer needs seamlessly. Most retailers will act to implement net-new capabilities tactically in the very short term (within 3–6 months), but they will look to optimize implementations and perhaps even do a second investment to improve cost structures, productivity, long-term viability, and overall value.

Priorities have been rearranged because of the COVID-19 crisis, and the need not only to leverage data and insights more to drive actions but also to integrate and automate workflows has never been greater than it is today. Some solutions require net-new investments in software or hardware, and some require process improvement and better integration of technology that the retailer already utilizes. In either case, retailers can speed everyday responsiveness and continual adaptation to business needs while improving customer service and productivity performance by implementing a cloud-based platform that integrates the systems of record with execution systems.

IDC offers the following guidance:

- Consider investing in technologies such as infrastructure, software, and business process modernization; omni-channel contactless commerce, payments, and fulfillment; omni-channel contact centers and communication (internal and external); inventory visibility and accuracy; supply chain collaboration and automation.
- Establish priorities to accomplish over the course of the next 3–6 months, 6–12 months, year, and 2+ years.
- Look for opportunities to wring more value from existing investments and for opportunities to replace legacy technologies or processes. Can processes and workflows run autonomously, taking redundant tasks away from humans, and thereby improve the productivity and effectiveness of staff and technology investments? This is a fast path to value for retailers looking to reduce operating costs and improve business value.

Retailers have stepped up to lead the response to COVID-19, working hard to maintain supply chain and commerce workflows despite a variety of new operational and human resource pressures. Some retailers had to shut down for months, while others experienced unheard of demands on supply chain and store operations with spikes in online business. Retailers persevered and emerged with a renewed focus on ensuring continuity, productivity, and resilience of stores should a similar crisis ever reoccur.

Most importantly, the crisis has led to the emergence of a new resolve to modernize and digitize end-to-end operations and processes with an eye on being adaptable for continued shifts over the long term. This is good news because with a clear vision for how to make businesses more responsive and more efficient, retailers can unleash investment in things that will make a material difference to their success, and they can get started today with connecting data to processes and systems of record to execution systems.
About the Analyst

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As Group Vice President for IDC Retail Insights, Leslie Hand is responsible for the research direction for IDC Retail Insights, and leads research related to the digital transformation of retail omni-channel operations. Leslie works with retailers and technology providers on developing best practices and strategies, aligned with where they are, and where they want to go, leveraging IDC quantitative and qualitative data sets.

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**About ServiceNow**

The retail sector has been undergoing a period of immense disruption as the digital economy has fundamentally reshaped the ways consumers interact with retailers and transformed the industry. Their ongoing success, or even survival, will depend on frictionless operations and service — both online and in stores. Many retailers are often stuck with disparate systems and communication channels, resulting in major inefficiencies and poor customer experiences. Retailers need to automate their operations so they can quickly adjust to changing market dynamics. Most retailers, on average, spend 1-2% of sales on technology versus the leading online retailers who are spending at a rate of 10%. ServiceNow can help address the critical retail digital transformation trends leveraging the Now Platform to automate and streamline processes, reduce expenses, empower the front-line employees, and ultimately delight your customers. For more information visit [www.servicenow.com](http://www.servicenow.com).