Thriving in Unpredictable Times

How Australian Retailers Prepare for the Future and how Their Plans Compare to Their Global Peers

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Research Overview

Fluent Commerce, commercetools and Contentstack commissioned Power Retail to assess the state and challenges of digital complexity in the retail industry across the US, U.K., France, Germany and Australia, as well as provide an outlook for the next 12 months. The survey and analysis were conducted in late 2022.

What's in the report?

RISING COMPLEXITY

How the pace and complexity of digital retail operations will increase over the next 12 months.

GETTING READY FOR COMPLEXITY

Retailers haven't scaled the capabilities required to manage this increase in complexity — but retailers in some regions are better prepared than others.

THRIVING IN COMPLEXITY

Sharpening their focus on execution helps retailers outperform the competition in an unpredictable retail landscape.

Operational complexity will continue to rise.

Due to the COVID-19 pandemic, retailers' online sales experienced a once-in-a-generation increase, with digital sales growing three to five times across formats. In response, many retailers added new ways to fulfill online orders to continue servicing customers during lockdowns, while adding inventory and sales locations to their operations.

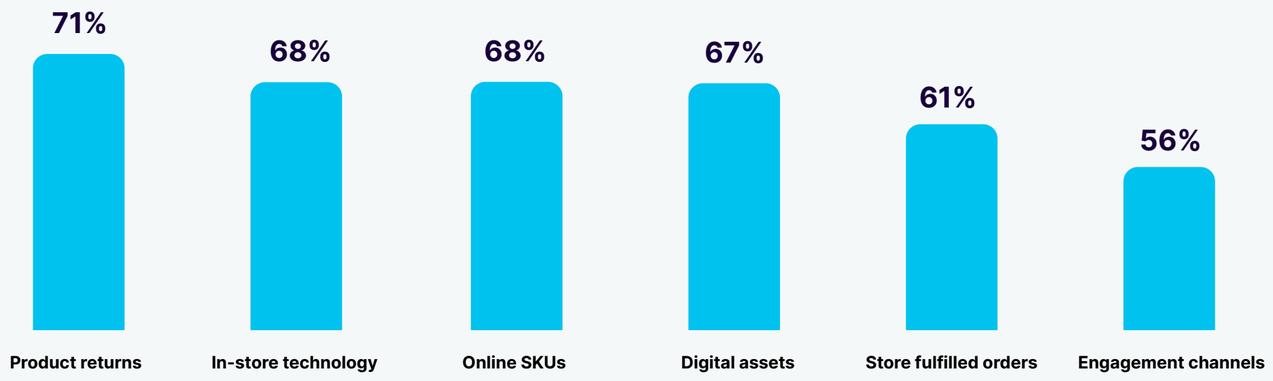
This unexpected and exponential growth has caused a dramatic increase in business complexity. Retailers have done their best to manage this, but few have been able to effectively scale their capabilities to keep pace.

On top of that, many retailers are expecting to expand internationally. Australia boasts the highest number of internationally growing retailers globally, with **42% of Australian retailers planning to expand the number of countries to which they ship.** However, this is easier said than done: **58% of all retailers surveyed rated themselves as "ineffective" at managing sales in international markets,** and 57% identified rolling out into new markets as the biggest challenge facing their online commerce operations.

This study examined retailers' self-described capabilities across four dimensions: digital commerce, digital marketing, order fulfillment and store operations.

Projected Growth

% retailers that expect the following to grow over the next 12 months.



The top areas where most retailers expect an increase in complexity over the next 12 months are:

01. Online SKUs: Retailers will increase the number of SKUs they sell online (increase in drop-ship), even as they continue to weather inventory and supply chain challenges.

02. Digital Assets: For 65% of retailers worldwide, the number of digital assets (e.g., product images, how-to videos) will increase, requiring brands to provide support for a variety of delivery options.

03. Digital Channels: A majority of retailers worldwide plan to increase the number of channels used to engage with shoppers.

04. Shopping Channels: The majority of global retailers (55%) plan to increase the number of digital channels they sell through.

05. Fulfillment Locations: 40% retailers surveyed plan to add to their fulfillment and distribution nodes and locations, with only 1% of retailers worldwide planning to decrease the number of fulfillment locations.

06. Product Returns: Most retailers expect the volume of product returns to increase, and as a result, retailers need to find ways to reduce the cost to process them.

Digital content and returns will grow significantly.

Not only do retailers expect their business operations to become increasingly complex over the next 12 months, they also anticipate that these changes will occur rapidly.

Business capabilities that were added to manage pandemic-driven growth (e.g., curbside pickup, delivery partnerships) will continue to exhibit steady growth but must be refined to ensure smoother execution and enhanced profitability. With consumer confidence waning and the cost of living increasing and hence, spending less on non essentials, the focus for retailers is on reducing the cost to serve to protect margins.

The three core themes driving growth are:

Digital Merchandising
Growing the online SKU count isn't enough to drive traffic and conversion; innovative merchandising is key. High-quality content has been proven to drive engagement and conversion, which presents both an opportunity and a challenge for retailers.

Shopper Engagement/Personalization
Retailers have to meet shoppers where they are. This means having an increased and improved presence across all commerce and engagement channels. Social media presence will be essential for brands targeting a younger cohort of shoppers.

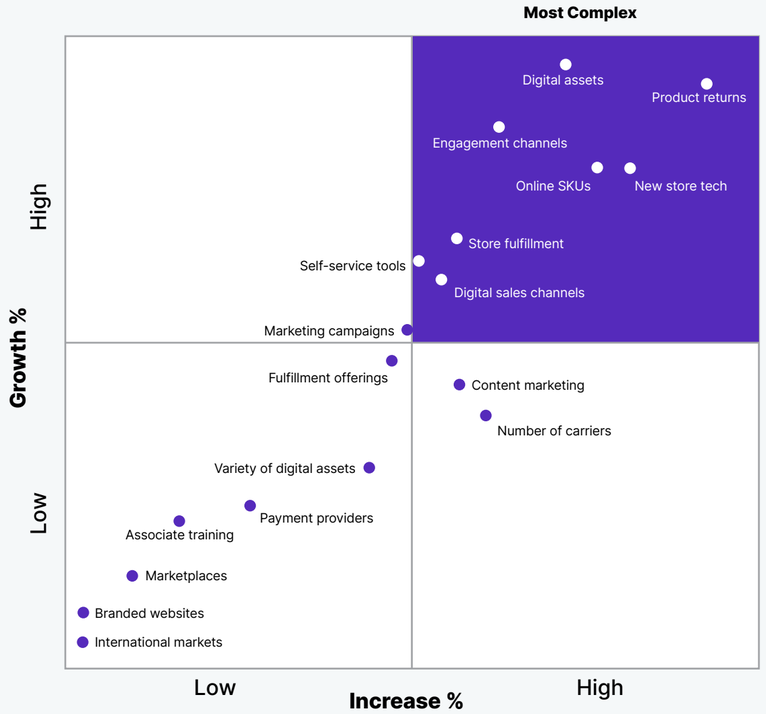
Store Transformation
The goal of unifying physical and digital shopping environments is within reach, but to do so, retailers must embrace new approaches to their store experience, operations, and technology. Retailers across the globe are preparing to increase the number of technologies used in stores, the volume of orders fulfilled from stores, and the number of returns. **In Australia, 49% of retailers are also expecting to add more last-mile delivery partners to their fulfillment plans.** Australian retailers are also prioritizing training for in-store associates, yet only half of retailers in the US and Europe plan to make this a main area of focus. This could indicate that US- and Europe-based retailers are a step ahead of Australian retailers in this regard.

Digital merchandising, personalization and distributed order fulfillment are the core drivers of business complexity

The three themes identified above will be key drivers of business complexity. Effectively managing this complexity will stretch retailers' budgets and resources. While digital complexity will increase across most areas, we don't expect a significant increase in payment providers. Instead, it is more likely that retailers will look to consolidate vendors in an effort to boost profitability.

The subject of associate training yielded some unexpected results: Retailers don't foresee much growth in training, even in the face of increasing store fulfillment and operational complexity. Considering the number of in-store fulfillments will increase, alongside the need to process click & collect orders as well as in-store returns this presents a **concerning gap.** To maximize their stores' potential, protect shoppers' experiences and keep costs low, staff urgently need to be trained on these new processes and be provided with the tools to perform them.

In the next 12 months, retailers expect to increase in the channels through which they sell, the locations from which they fulfill orders, and the number of in-store fulfillments.



X axis - % of retailers that say that they will increase these over the next 12 months

Y axis- % of growth in capabilities expected by retailers over the next 12 months

Note: This shows the relative increase and relative growth

What challenges are in store for retailers?

Retailers expect to experience certain challenges, particularly in regards to store operations and technological capabilities:

- **Store inventory accuracy** was the challenge most often cited by global retailers, with 64% of retailers including it in their top three challenges.
- The second-biggest challenge for global retailers is a **lack of good technology** to manage online orders and returns, which was cited by 54% of all respondents.
- Only 13% of global retailers believe that their content management platform can completely support their business over the next 12 months. Australian retailers were a notable exception (24%), suggesting they are markedly more optimistic than their counterparts in the US and Europe.
- By the same token, only 18% of global retailers say their campaign management platform can completely support an increase in channels to meet customers where they are, though it is worth noting that Australian retailers once again displayed optimism well above the global average (27%).

Getting Ready For Complexity

As a whole, global retailers are ill-prepared to effectively manage the increase in operational complexity.

Retailers are underprepared to manage their immediate growth.

While global retailers significantly increased investment in digital capabilities over the last few years, most still feel unprepared to handle growth across a few critical areas.

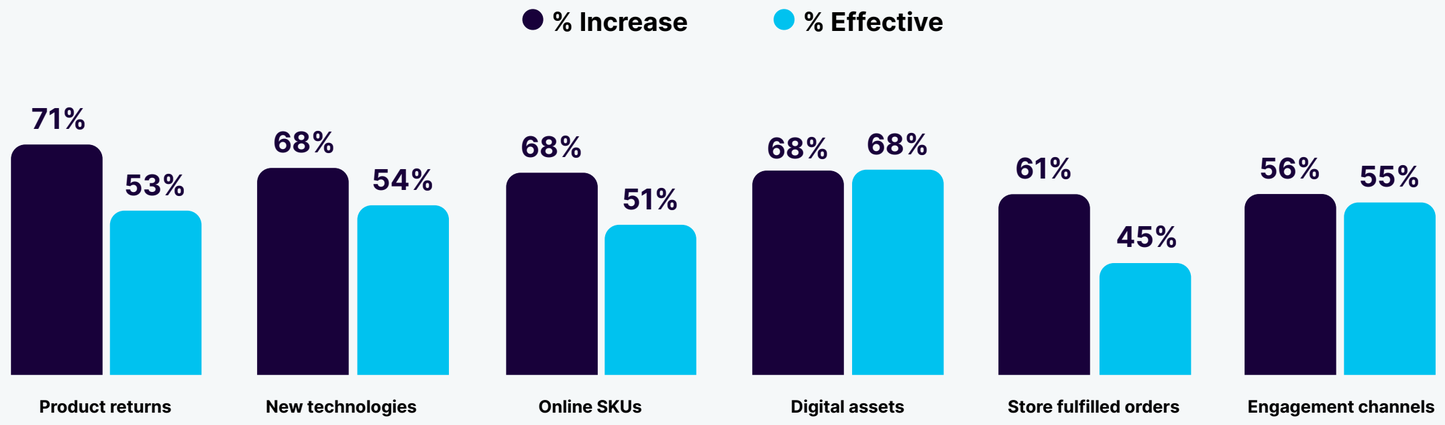
Less than half of retailers in the US, UK, France and Germany believe they can effectively manage all aspects of their digital operations over the next twelve months. Curiously, Australian retailers seem to be more confident: Over 70% of respondents in Australia believe they are already effectively managing their digital operations. Brian Walker, of The Retail Doctor, comments: “There is often a lag with which both challenges as well as positive change reaches Australian retailers. We might be seeing this here in these results in that not all challenges have been identified as upcoming issues yet.

The gap between growth and effectiveness suggests that retailers have either underinvested or need to focus more on industrialization and scalability. Two areas are particularly illustrative: managing digital assets and fulfilling online orders in-store.

Top Growth Area vs. Retailer Effectiveness

% that say the following will increase over the next 12 months

% that say they will be effective in managing the following over the next 12 months



Where are retailers least effective?

Managing Digital Assets

Only 41% of global retailers believe they will be effective in managing the number of their digital assets over the next 12 months.

Managing and propagating digital assets across channels is one of the foundations of personalizing the shopper experience. Based on our research, an overwhelming majority of global retailers believe they don’t have the right capabilities to support it.

Fulfilling Online Orders in Store

Only 35% of retailers in the US, UK, Germany and France believe they will be effective in managing the volume of online orders fulfilled by stores. Again, Australian retailers are more confident in this regard than their global counterparts, with **82%** believing they will manage this process effectively. Whether this optimism is born out of superior order management compared to retailers in other regions, or a lack of awareness of efficiencies to be gained still, is a question worth investigating further.

Most retailers established their store fulfillment operations from scratch during the pandemic. However, in the face of increasing order growth, rising wage costs, and low picking efficiency, retailers need to scale their pick and pack operations (technology and process).

How will fulfillment operations change for global retailers in the next 12 months?

Although retailers in the US and the UK display less confidence in their fulfillment capabilities than Australian brands, **60% of US retailers, 59% of Australian retailers and 55% of UK retailers are on track to significantly increase the number of fulfillment services on offer** (e.g., same-day delivery, locker pickup, etc.).

France and Germany are in the minority in this regard, with only 49% of French retailers and 45% of German retailers expecting to increase fulfillment offerings in the next 12 months.

Similarly, **an increase in the number of carriers and delivery partners** is anticipated for 54% of US retailers, 53% of Australian retailers and 51% of UK retailers in the next 12 months, while less than half of retailers in France and Germany (47% and 41%, respectively) plan to increase carriers.

35% of global retailers plan to add **more third-party inventory and fulfillment partners** in the next 12 months, with responses ranging from 32% (Germany) to 36% (UK & Australia).

Australia's bullish outlook for the next 12 months did not extend to in-store fulfillment of online orders. Only **52% of Australian retailers expect an increase in in-store order fulfillment,** compared to 55% of French and German retailers, 65% of UK-based retailers, and 77% of US retailers.

The US and UK are leading the **overhaul of the returns process,** with 61% of US retailers and 52% of UK retailers planning to increase their returns locations. Retailers in Australia, France and Germany seem less keen to expand this area of their operations, with only 42% in Australia and 43% in France and Germany planning to do the same.

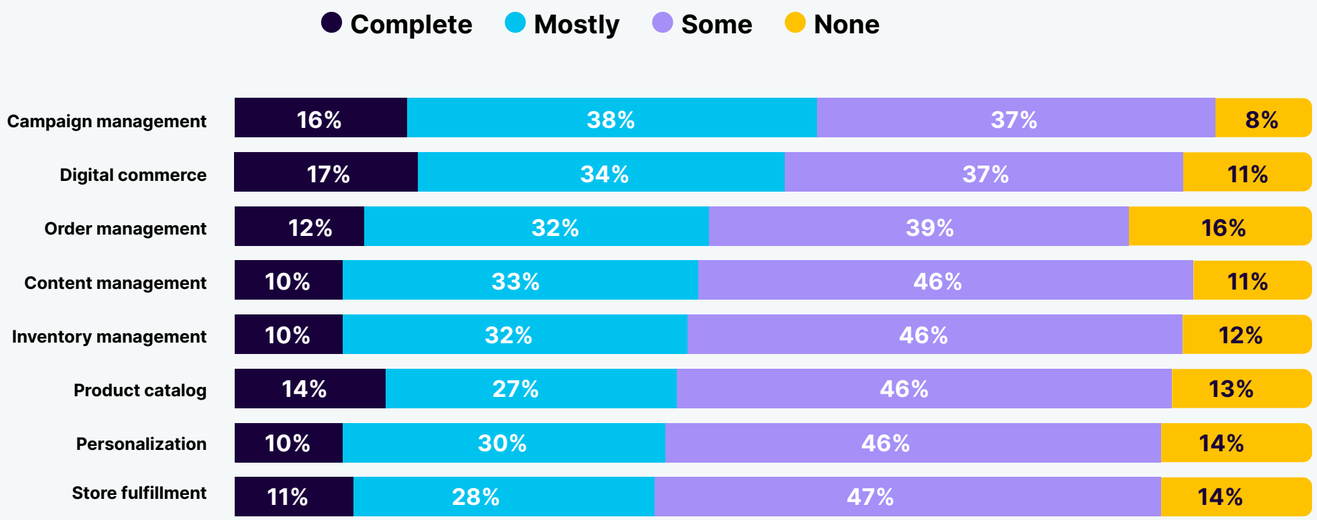
Despite the overall positive growth, there are still pain points for global retailers. **47% of global retailers believe they are ineffective at managing carriers and delivery partners,** including 57% of US retailers, 53% of German retailers, and 51% of French retailers. The UK (51%) and Australia (24%) are the only regions in which a majority of retailers believe they are effective at managing carriers and delivery partners.

Retailers struggle with effectiveness when customer and digital experiences intersect.

Retailers believe they can effectively manage their status quo (i.e., sales channels, engagement channels, and marketing campaigns; however, they are ineffective in managing the core drivers of future complexity, namely digital merchandising, personalization and store fulfillment.

As is evident from their low effectiveness rating across these major complexity drivers, the customer experience suffers when the online and in-person elements collide. What's

Technology Platform Support



more, as customers continue to expect more from retailers, a brand's inability to effectively manage the intersection of digital and physical customer experiences can pose a significant business risk. Retailers that are unable to improve their performance across these dimensions are in danger of losing their customers to the competition.

Inventory management and tech skills are top challenges facing retailers.

For a majority of retailers in the US and Europe (69%), store inventory accuracy is regarded as one of the top three challenges facing their online commerce operations.

Inventory levels were at all-time lows during the pandemic as demand surged and retailers struggled to put products on the shelves. In response to the shortages caused by all-time high demand levels, retailers significantly increased future demand projections — an overcorrection that has left retailers struggling to rid themselves of excess inventory. There is a lesson to be learned from this multibillion-dollar problem: Retailers must have accurate, real-time inventory across all channels.

Although Australian retailers largely managed to avoid store inventory issues, their operations are not without their own challenges. Only 30% of Australian retailers feel confident that their order management platform can completely

support their future growth. This paucity of confidence is even more pronounced in the US and Europe: only 9% of retailers in Germany and France are confident in their order management platforms, compared to 11% of US retailers and 13% of UK brands.

Australian retailers are also experiencing a more acute tech skills shortage than other global retailers: 62% cited limited in-house technology resources as their number-one challenge in managing their fulfillment operations, while their counterparts in the US and Europe were all below 50%.

The knock-on effect of the tech skills shortage in Australia is retailers' diminished ability to remain technologically agile. This feeds into another key challenge facing 53% of Australian retailers: the high cost—and lower benefit—of maintaining legacy systems with limited technological capabilities.

Order fulfillment, content, personalization and commerce platforms need an upgrade.

Reducing cart abandonment is a major challenge for retailers around the globe (61% in the US and Germany, 62% in the UK, 60% in France), with Australia (38%) as the lone exception. Conversely, a larger percentage of Australian retailers (29%) feel that improving online promotions is a major challenge compared to retailers in the US (10%), UK (14%), France (19%) and Germany (17%). Australia also faces challenges in rolling out to new markets (23%) that are by and large not shared by retailers in the US (0%), Germany (1%), the UK (4%) and France (7%).

Orchestrating an end-to-end omnichannel process across dimensions (commerce, marketing, fulfillment, store operations) is the key to overcoming some of these challenges. This orchestration requires retailers to have robust and scalable data and technology infrastructure; however, more than three-quarters of retailers surveyed believe their current technology platforms can't support their business needs over the next year.

The legacy systems currently in use by most global retailers are expensive to maintain and require a near-constant allocation of IT resources just to keep them functioning. The shortcomings of legacy systems will only exacerbate these challenges as customer expectations continue to expand. Adopting MACH (microservices-based, API-first, cloud-native, headless) technology would allow retailers to be more flexible, more agile and faster to market.

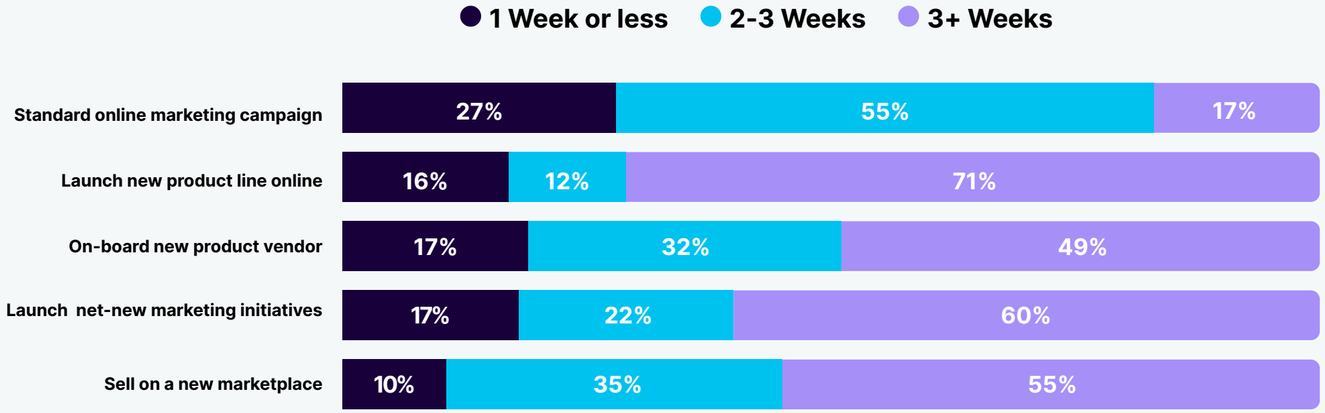
Upgrades will require significant investment

Fewer than half of retailers globally believe their store fulfillment and personalization platform will support their needs over the next year.

These are the two areas where we see the most significant amount of complexity in the near term. The substantial increase in content assets and the desire to perform precision targeting will lead to an upgrade of personalization and content management platforms. The overall rise in store-fulfilled orders will mean that the store fulfillment infrastructure (inventory, picking, slotting, etc.) will require a significant upgrade — and, therefore, a significant investment.

Speed of Execution

Time taken to execute a process



Speed to market is impaired by slow processes.

Most retailers are unprepared to handle the increasingly fast pace of changing shopper preferences. To better understand retailers' current speed-to-market capabilities, we evaluated the execution time of some essential business processes (see chart) that are core to the sales and marketing engine.

The results were illuminating. Only 14% of global retailers can launch a standard online marketing campaign within a week; when launching a net-new marketing campaign, this number falls to 11%. The numbers are starker when we look at what's required to launch and sell a new product online. In this age of instant gratification, 81% of retailers take at least two weeks to onboard a new vendor to increase their product range, and 49% take more than three weeks.

Supported by agile technology, a redesign of business processes can help retailers improve their speed to market and cash in on changes in shopper trends and behavior faster than the competition. Having the ability to add a new product due to a sudden surge in demand or interest (e.g., a spike in demand for maxi dresses because of a sitcom) or to tailor messaging to new trends (e.g., tuxedos for the Minions movie and "Gentleminions" meme) can be highly effective strategic differentiators.

Getting up to speed is mandatory for all retailers around the globe. 59% of global retailers cited challenges with their ability to make updates to content and/or the speed at which those updates can be performed, which limits their ability to engage on time with customers and has a chilling effect on customer retention.

Summary

Complexity

The complexity of digital businesses will continue to rise across areas of commerce, marketing, fulfillment and store operations.

Retailers need to measure and benchmark how their core execution capabilities (e.g., channels, content, SKUs, vendors) will grow over the next 12 months.

Chasm

Retailers are underprepared for the continued growth and complexity of their digital businesses.

Areas of past underinvestment need to be addressed and capabilities that were added quickly during the pandemic need to be scaled.

Clarity

Retailers need to narrow their focus on capabilities that have the greatest impact for their business model.

Focus on use cases where the impact is clear, measurable and reportable. Focusing on quick wins can help clear the path for more significant resources and investment.

Compete

As digital demand regresses to the mean and portability continues to be elusive, the fight for the shopper dollar will intensify.

Retailers need to upgrade their omnichannel capabilities (technology and process) over the next 12 months, specifically in areas of digital fulfillment, content management and personalization.

Neha Sampat
CEO
Contentstack

The need for speed for commerce marketing teams

The stark reality of eCommerce marketing is that content is non-negotiable: To win and hold customer attention, content must be everywhere, and it must always be evolving.

Marketers need tools that support this reality. Managing large volumes of content and assets is now as important as managing the delivery of that content on every channel at speed and at scale.

Outdated, legacy technology has handcuffed marketing teams for too long. In Contentstack's 2021 Headless CMS Survey, marketers named "slow content velocity" and "inability to control the customer experience across channels"' as key pain points with their legacy CMS.

The good news? MACH (Microservices, API-First, Cloud-Native and Headless) technology sets marketing departments up for speed, freeing teams from dependency on IT, and enabling agile, collaborative, and scalable processes.

The great news: MACH technology can be implemented quickly with your existing stack, and show ROI in weeks or months. Omnichannel, personalization, and dynamic content experiences are already possible for commerce marketers. Brands no longer have to settle for "slow".

Michael Scholz
VP, Product &
Customer Marketing,
commercetools

Survival of the fittest: agility and flexibility to tackle change

The only constant is change. Pandemics, supply chain challenges, innovation, and emerging solutions: retailers cannot rest these days to respond to change and increasing customer demand. Today, there's more to running a successful business than ensuring you're two steps ahead of having the products consumers want and need.

Retailers can better meet customers' expectations and make every commerce experience seamless, frictionless, and delightful when they rely on an agile and flexible commerce portfolio and an ecosystem of best-of-breed technology.

MACH solutions provide an open, composable environment that makes it easier for businesses to unlock infinite opportunities and effectively tackle challenges. Companies struggling to enable end-to-end omnichannel due to disparate systems can shift to a best-of-breed-vendor, language, and channel-agnostic-approach and easily combine various technologies into one ecosystem unique to their needs. The most complex processes and business aspects stop being a blocker with flexible data modeling and extensible technology. Combating ineffective digital & customer experiences becomes easy with the ability to experiment with new products and features and respond to changes without risk.

The best part is that MACH is a future-proof solution, so you can adapt to the changes and keep moving forward no matter what the world throws at you next.

Jamie Cairns
Chief Strategy Officer,
Fluent Commerce

Retailers can eliminate overselling and underselling with accurate inventory availability and a flexible fulfillment logic

What are the top challenges in fulfillment? The first one is accurate inventory. Without it, you'll end up with canceled orders and disappointed customers. Retailers oversell and undersell if they don't get this right. But often inventory data is siloed. Or the systems that store it can only send periodic batch updates. They're not good at sharing data in near real-time. That's where a distributed order management system can help. Both in getting the data in faster, and letting you fine-tune your safety stock levels so you don't oversell. In fact, we had one customer reduce their canceled order rate by over 50%.

The next is optimizing fulfillment. How do retailers make sure they're shipping from the best location? Whether it's closest to the customer, the one with the most stock or oldest stock. How can they tweak your sourcing logic so you're getting the most margin out of every order? Manage drop ship orders? And if they are out of stock, can they accept and manage backorders?

It takes an order management system with flexible fulfillment logic and workflows. And one powerful enough to provide you with an accurate, near real-time view of inventory at scale.

Prepare for the unexpected now and contact us today

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