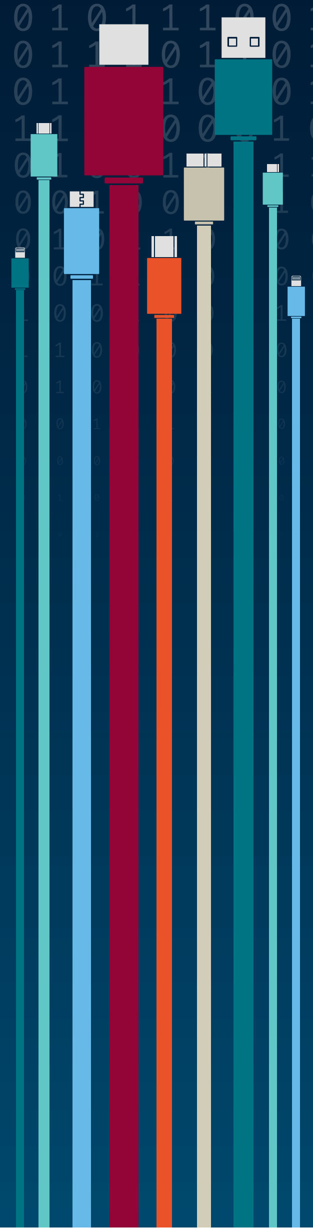
TLT

RETAIL
AGILITY

The Digital Imperative

Bridging the IT and data gap in post-pandemic retail



Technology & data

Introduction

The Covid-19 pandemic quickly changed the way many retailers do business. As the economy reopens, it is fascinating to see which of these changes stay and which are consigned to the history books.

One thing seems certain, however: despite a return of physical shopping, the market share of online will remain elevated and play an even more significant role in retail. As well as protecting the future of the physical high street, retailers need to consider whether their current infrastructure and investment strategies provide solid enough foundations for an increasingly busy "virtual high street".

For most retailers, this means addressing some fundamental issues around IT systems, systems integration, customer-facing technology and data. We spoke to the UK's 100 largest retailers about the impact of the pandemic on their budgets, plans, risks and opportunities.

For 89%, the pandemic has highlighted significant gaps in digital capabilities and areas for improvement. However, while retail IT budgets have grown over the last year, they remain below the global corporate benchmark. Boards must recognise the importance of strengthening and investing in their IT, and IT departments must work harder to build a case for increased spend.

Our research also reveals how retailers are investing to improve the customer journey. While technologies such as automation, data tracking and analytics offer significant opportunities, they raise issues with data security, privacy and regulatory compliance. Outdated legacy systems are also creating unnecessary risk and limiting retailers' room for manoeuvre.

In every corner of the global economy, data has established itself as an important and valuable business asset. However, collecting data is not enough and the ability to turn this into actionable insight is a crucial capability that many retailers admit they lack.

Knowing where and how to invest in the next year is going to be a challenge. The recent increase in online sales provides not only a justification to invest in IT, but also a motivation. It's more important than ever to meet customers' needs wherever they are and, increasingly, this means online.

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Mind the gap

Digital channels have been a lifeline for retailers during the pandemic. Now that the economy is opening up, the task becomes turning that lifeline into an opportunity.

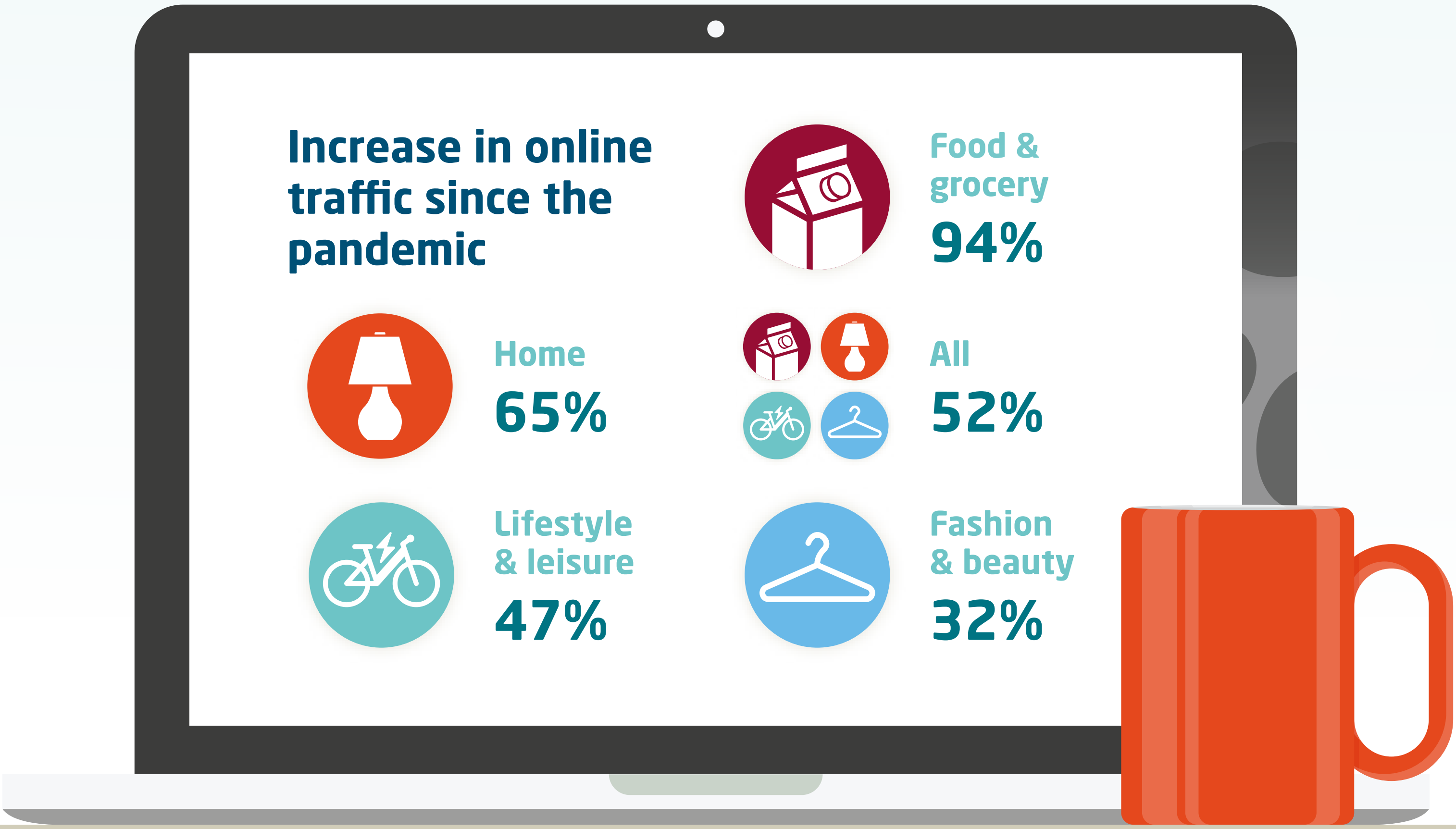
The pandemic has driven a rapid increase in online shopping, with the UK's top 100 retailers confirming an average 52% increase in online traffic during the pandemic. This rises to 94% in food and grocery and by as much as 130% for some retailers.

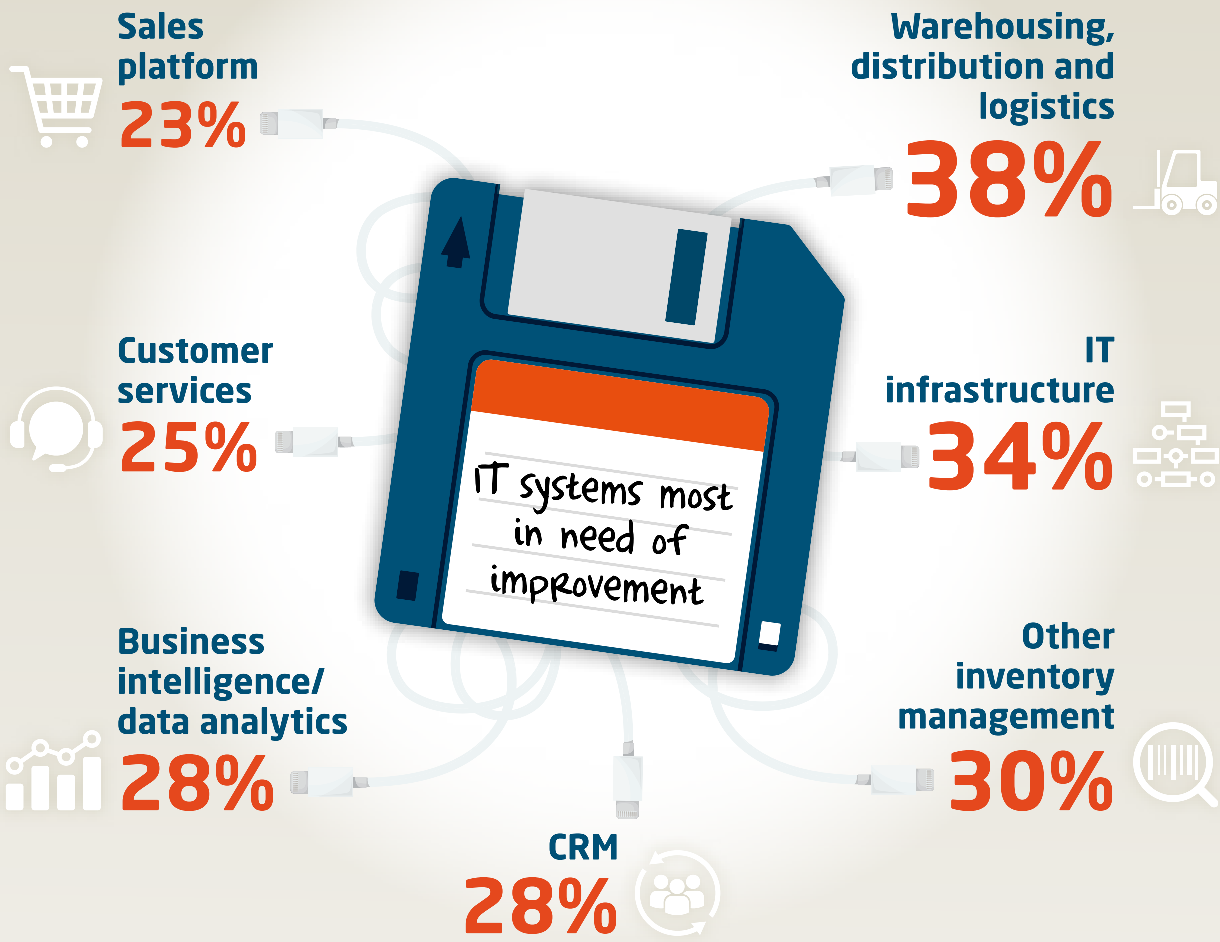
These levels are expected to remain elevated even as people begin to return to physical stores, with research suggesting people have become more accustomed to digital shopping and major retailers such as IKEA reporting higher proportions of online sales even after stores reopened.

89% of retailers say their digital and e-commerce capabilities need to improve

While the sector has invested heavily in IT to support the growth of online in recent years, 89% of retailers say their digital and e-commerce capabilities have failed to keep pace with the recent surge in demand. More than half (53%) specifically say their e-commerce platform was not built for the recent increase in online sales (25% strongly agree).

Creating a stronger digital sales platform is a key priority, with a third (33%) of retailers looking to improve their e-commerce website. Similar proportions are looking to launch or improve social media sales (32%) and an e-commerce app (31%), reflecting the pan-digital nature of customer journeys and the need to deliver a seamless omnichannel experience.





Online marketplaces – where a retailer sells multiple brands on a single platform – are also emerging as a key strategic priority for a significant minority of retailers (13%). Perran Jervis, head of retail and consumer goods at TLT, says: *"We have seen a significant amount of retail M&A during the pandemic as businesses with capital take the opportunity to acquire strong customer-facing brands that have struggled within their existing infrastructure.*

"One result of this is the creation of digital marketplaces that allow people to shop for multiple brands in one place that they trust, similar to the Amazon model. For brands this creates an interesting dilemma – to join someone else's marketplace or try to create their own?"

38% of retailers say their warehousing, distribution and logistics system needs to improve – rising to 46% of food and grocery retailers

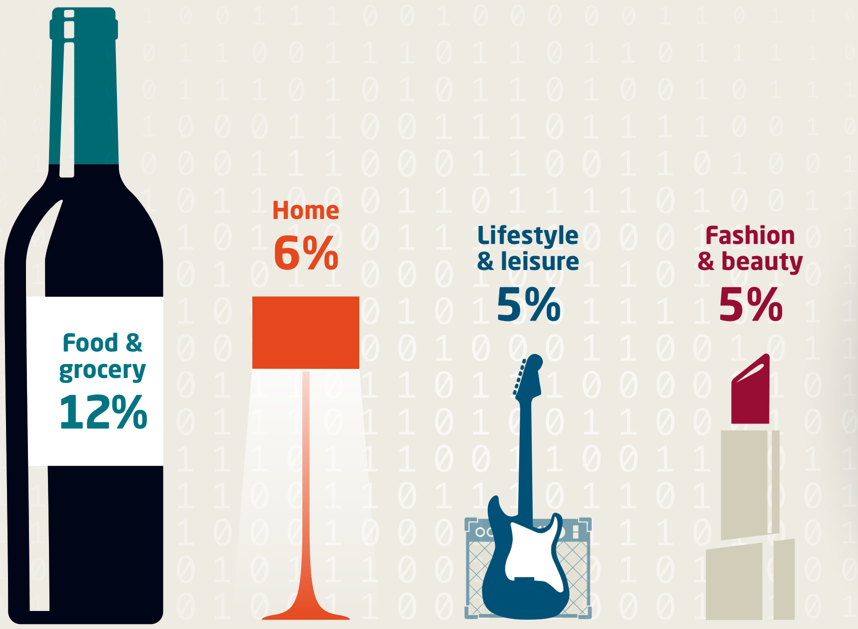
Beyond customer-facing platforms, 38% of retailers are dissatisfied with their warehousing, distribution and logistics systems – more than any other IT system. This is closely followed by IT infrastructure (34%), other inventory management (30%) and CRM (28%).

Jervis continues: *"Customers increasingly expect products to be delivered quickly, and this is becoming one of the most important factors in the buying decision. They expect websites to perform at high speed, depleted stock to be replaced, easy access to customer service and a personalised retail experience. Being able to deliver high performance, responsiveness and omnichannel personalisation consistently and reliably will require continued investment in IT, and more retailers will be looking for technologies like AI and automation to support this."*

On the money

As digital platforms strain to keep pace with demand, further investment in the right kinds of technologies is vital. Retailers will need to consider who's involved in making decisions and what they are based on if they are to remain agile.

A recent report by Gartner predicts that global IT spend will rise by 8.4% in 2021. According to UK retailers, IT budgets have grown by an average of 6% since the pandemic, with food and grocery (12%) understandably seeing substantially larger growth than home (6%), lifestyle and leisure (5%) and fashion and beauty (5%). Meanwhile, 12% of retailers have not increased their IT budget at all.



Growth in IT budgets since the pandemic

12% of retailers have not increased their IT budget at all since the pandemic

70% of retailers blame their IT budget for a lack of systems integration

A lack of budget was cited as the main reason (by 70% of retailers) for a lack of harmonisation between systems that support e-commerce activities. At a time when retailers are competing harder than ever for online sales, this lack of harmonisation is going to become increasingly difficult to ignore.

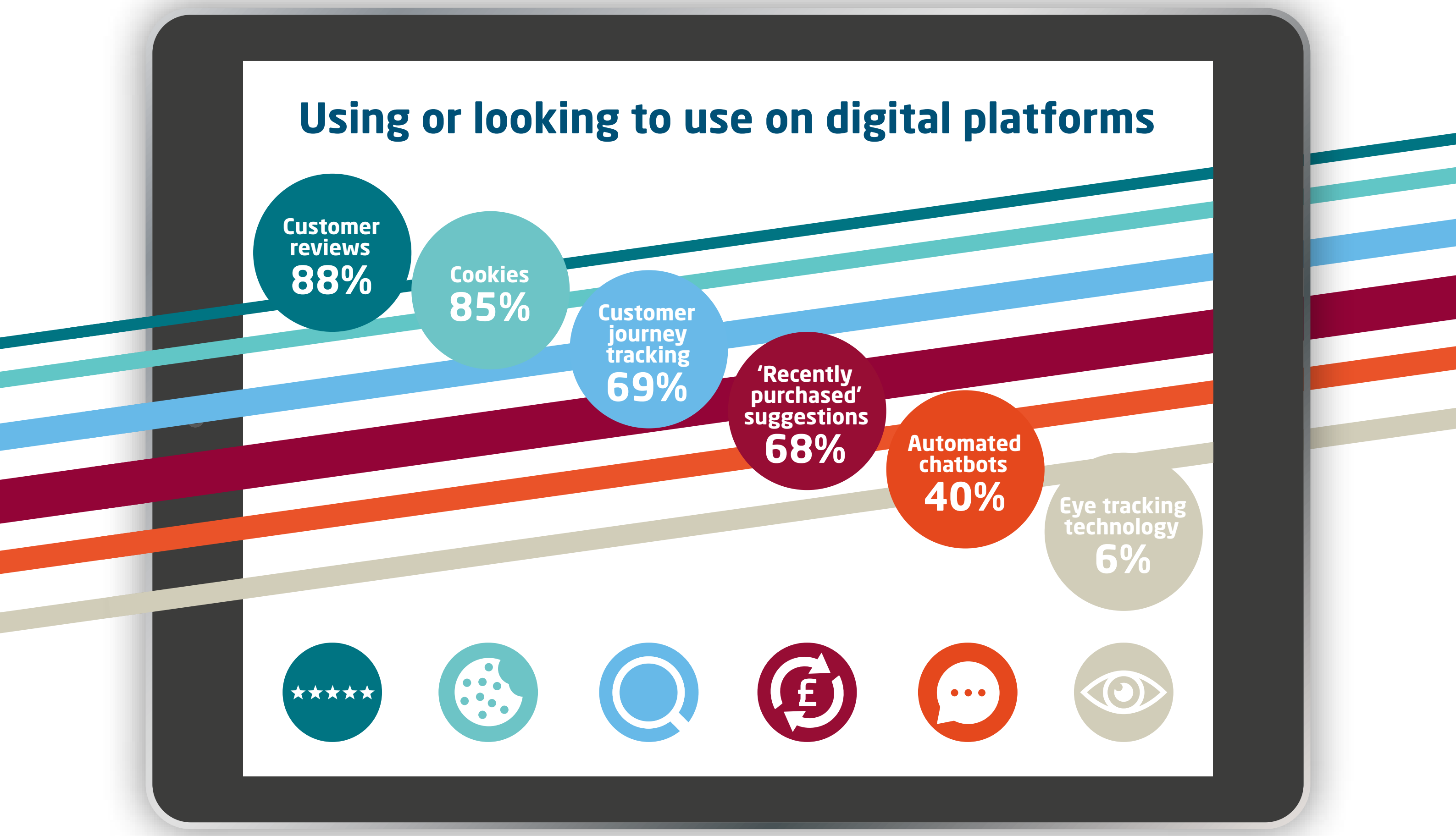
28% of IT leaders do not have board-level support for IT improvements

Of those IT leaders who say their company's IT and digital capabilities need to improve, 60% say they have board-level support, while more than a quarter (28%) do not.

Dan Read, technology and IP partner at TLT, explains: *"There are many competing priorities in retail, but the evidence suggests there is a growing and urgent need to invest in IT. If boards can understand the requirement and IT directors can justify the spend – using data to demonstrate ROI, for example – then there are significant gains to be had from harmonising and modernising your IT platforms. In the long run, this will save cost and provide the business with a strong and resilient basis for future growth."*

Platforms and pitfalls

The digital experience has become even more important now that more customers are shopping online. Expanding digital and data capabilities can open up a world of opportunities, but it also comes with significant risks.

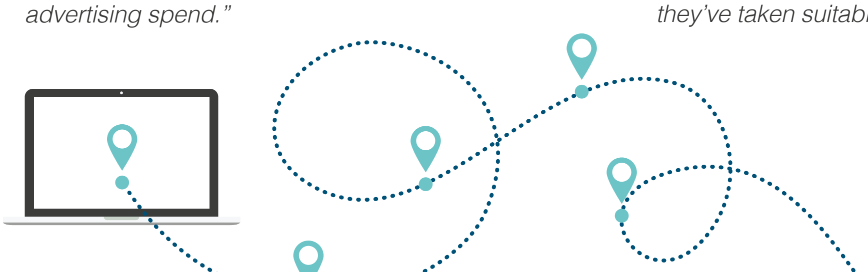


Retailers are actively looking into a wide range of digital solutions and emerging technologies to help drive improvements in the front-end customer experience. The majority (88%) are using or looking to use customer reviews on their digital platforms, but customer journey tracking (69%) and AI solutions like chatbots (40%) are also being explored by many.

85% of retailers use or are looking to use cookies on their digital platforms, despite Google's announcement in 2020 that it will no longer be allowing third party cookies on its ad networks or Chrome browser after a two-year wind down period. Dan Read says: *"While this may have an impact on established use of cookies as a means of tracking customers, new technologies are emerging such as eye tracking pixels and real time automated bidding for impressions. These are likely to give businesses greater insight into customers and return on advertising spend."*

While these features can be low-cost ways of enhancing the customer experience and increasing sales, they each come with risks that need to be managed. Fake online reviews, for example, have become so common that the Competition and Markets Authority has begun an investigation into several major retailers' websites on their practices in this area.

Ed Hayes, data, privacy and cybersecurity partner at TLT, says: *"Automated decision-making, like AI more generally, is getting focused regulatory attention, so its use can be a compliance minefield for retailers. New guidance from regulators is regularly being released, with particular concern on things like the possible discriminatory effects of dynamic pricing. Retail really is at the cutting-edge of using this technology, but businesses need to be taking account of all the potential issues by conducting data protection impact assessments before deployment and making sure they've taken suitable steps to manage those risks."*



Legacy issues and the need for integration

Legacy IT is a more significant worry for retailers post-pandemic, given their increasing reliance on digital infrastructure and optimal digital performance. A quarter (23%) admit they are currently operating legacy or out-of-support systems, while retailers say their IT systems are on average 3 years behind where they need to be to cope with the current level of demand.

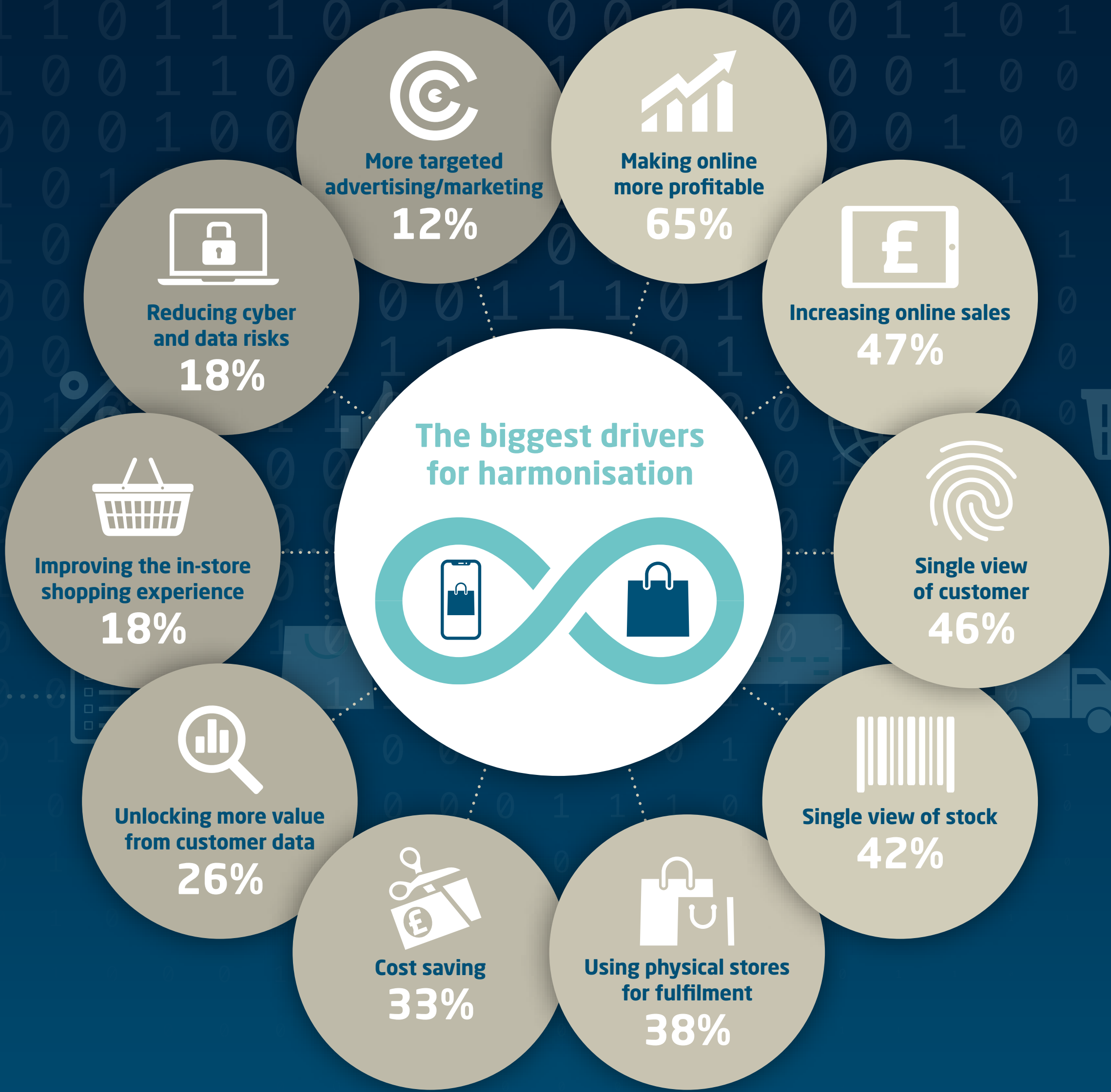
23%

of retailers are operating legacy or out-of-support systems

Meanwhile, at least a third (32%) of retailers are using systems to support their e-commerce activities that don't interact or integrate with any of their other core systems. Of those, at least 31% currently have no plans to integrate these important systems with their core infrastructure.

This represents a significant challenge. Without the ability to share data efficiently in real-time between e-commerce platforms and other business systems, such as marketing or logistics, retailers will find creating effective omnichannel experiences a greater challenge. Ed Hayes explains: *"Many businesses continue to take a gamble on operating legacy systems that have fallen out of support and are no longer being patched or updated. This makes them a prime target for cyberattacks, increases the possibility of data breaches or losses, and will be treated as an aggravating factor in regulatory investigations."*

More than half (56%) of retailers agree it's becoming increasingly important to harmonise their IT and data systems. The biggest drivers for this are making online sales more profitable (65%), the growth of online retail (47%) and the quest for a single view of the customer (46%) and stock (42%). 38% of retailers also say this is a key part of using their physical stores for online fulfilment.



Barriers to system integration

70%
Lack of budget

49%
Lack of time

42%
Too complex

A lack of budget is however holding retailers back. 70% of retailers say this is the biggest barrier to achieving the necessary levels of systems integration, followed by a lack of time (49%) and the sheer complexity of the task (42%).

Contracts with existing suppliers can be another barrier to harmonisation, but Dan Read notes that 29% of retailers have exited a supplier contract early to address this, and 42% have renegotiated a contract as a way of approaching shortcomings in their legacy systems.

He says: *"Silos are not only a barrier to harmonisation – they are also a continued source of cost and budget issues. Overhauling the entire infrastructure might not be feasible over the next twelve months, but there are always actions that can be taken to improve performance.*

"When it comes to contracts, retailers need to take a critical view as to what should be their core systems and look to exit contracts that provide limited value or where they are experiencing poor service. When entering into new arrangements, retailers need to push for meaningful and measurable performance metrics and be brave enough to exit a contract if they are not getting the right level of service. A silo mentality can also be driven by suppliers as much as the customer's organisation so retailers should increasingly look to suppliers who will collaborate with them and their other core partners on their digital transformation journey."

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The power of data

Data is one of the most valuable assets of the digital age, but famously difficult to harness in a meaningful way, especially in retail. The pandemic could be a catalyst for change – incentivising retailers to find new ways of analysing and making best use of their data.

Despite the ubiquity and potential value of data, a quarter (25%) of retailers say it isn't important to their business, rising to 29% for lifestyle and leisure.

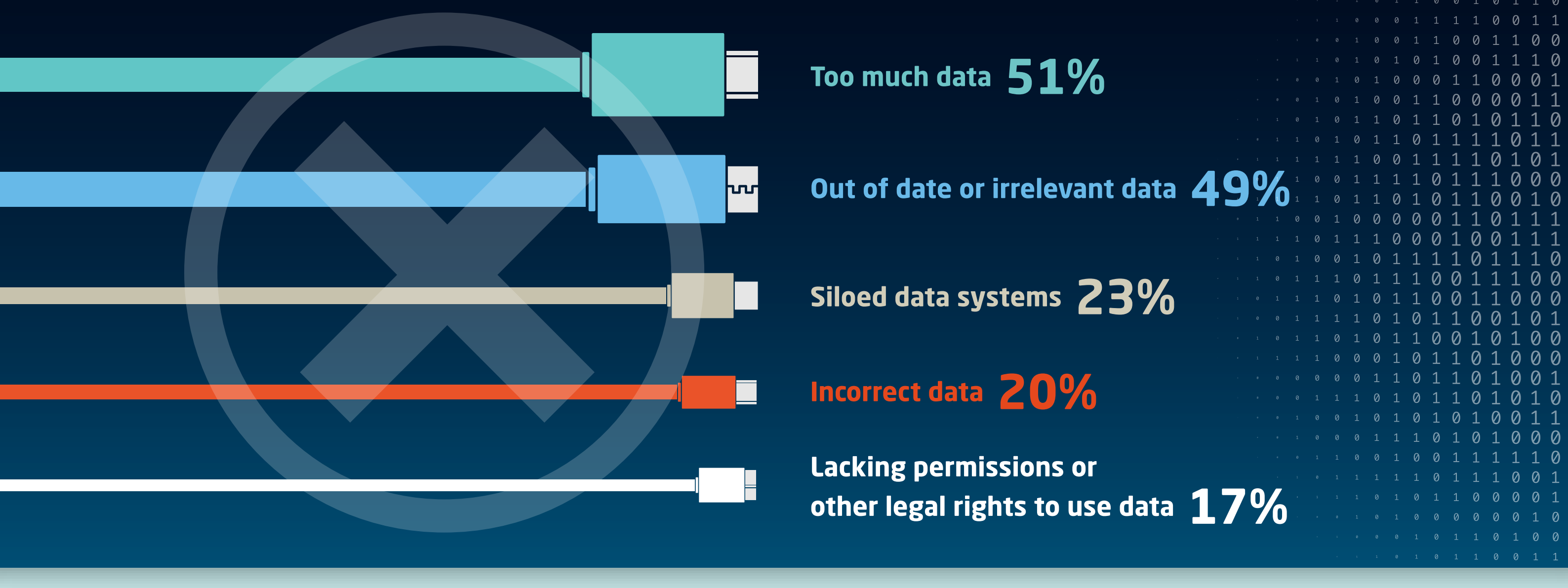
More than half (55%) of retailers do believe it is important, rising to 64% for food and grocery.

This reflects the challenges with making best of use of data, and suggests that these difficulties have made it less of a priority for retailers. A mere 10% say they realise the full value of their customer data, while only 12% say the same about their non-customer data.

The biggest barriers to making best use of data are having too much (51%) and data being out of date or irrelevant (49%) (which itself raises compliance issues under data protection law if personal data is being held longer than necessary).

10% of retailers are realising the full value of their customer data

The biggest challenges with getting value out of data



Security is an increasingly important part of every retailer's budget, with Accenture showing that global cybersecurity spend makes up an average of 11% of IT budgets. Two thirds (63%) of retailers are generally willing to spend money in order to reduce cybersecurity and data risks.

However, retailers need to make sure they are giving due attention to security risks following the rapid increase in online activity and a commensurate increase in online scams and cyberattacks. While half (52%) of retailers are just as willing to spend money to reduce cyber and data risks now as they were before the pandemic, 20% are less willing and only 19% are more willing.

Ed Hayes says: *"People don't tend to take much interest in data policies, but getting them right can mean retailers have the ability to use data in the most beneficial way while remaining compliant with the law.*

"Getting policies right depends on retailers understanding exactly what kinds of data they intend to gather or generate and how they want to use it. The way to do that is by carrying out data protection impact assessments when implementing any new system or tool. With input from the right people, they're rarely as complex as they first appear.

"Apart from helping retailers to give consumers the detail they increasingly want to know about how their data is handled, impact assessments can also be key to enabling IT teams to use data to demonstrate ROI on tech investments."

Conclusion

There are always going to be questions for retailers about where to place precious funds for investment. With many seeing a distinct rise in online sales, and consumer confidence in using online for a broader range of products, this is the right time for IT teams to push the idea of improving both their front-end experiences and supporting infrastructures.

When a retailer decides to open a new physical store, they are making a big investment but that risk is justified by assumptions about potential long-term benefits, which were easier to measure in sales per square foot when that was the only or dominant channel. Retailers need to start applying that same logic but with new metrics to their e-commerce and digital capabilities and think about the omnichannel experience.

Online gives retailers the opportunity to be agile and respond to customer demand in a completely new way. More than that, it allows retailers to better understand the people that interact with brands.

Although investing in enhanced data capabilities is likely to involve large costs, it can lead to more efficiency, better productivity, higher customer satisfaction and increased brand awareness. Legacy systems are an ongoing challenge for retailers, but this has to be addressed at some point. Why not be an early mover?

As the economy begins to reopen, there is an opportunity for retailers to level up how they gather and use data. This will not only help improve customer service but provide enhanced business intelligence and allow retailers to be more proactive with identifying and managing risk.

This is an important moment for the retail industry. For businesses that have spent the last year focusing on survival, now is the time to put in place the skills and infrastructure they need to thrive in a digital marketplace.

About TLT

TLT advises many of the UK's leading retailers and consumer goods businesses. Our clients represent over 15,000 stores, one million employees and £100 billion of retail sales.

Our national retail team has an in-depth understanding of the industry, offering advice in context and solutions that work. We provide strategic advice on major projects, as well as support for in-house teams on day-to-day matters.

We are ranked among the very best law firms in Chambers UK 2020 for Retail (UK-wide), an independent guide to the legal profession. We also support retailers through our retail-specific training programme, seminars, e-alerts, industry reports, risk reports and are actively involved in retail industry groups.

To find out more visit **www.tltsolicitors.com/retail**

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Research methodology

To gain a sector and category view of the retail sector, independent research was conducted by GlobalData on behalf of TLT LLP.

GlobalData interviewed 100 leading UK retailers in March and April 2021. In all cases, interviews were carried out with senior IT management. The sample was representative of sectors within the retail space including: food and grocery; fashion and beauty; home sectors; and lifestyle and leisure.

All charts, data and statistics featured in this report are the product of the research. May 2021.

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