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VIEWPOINT

BACK TO THE FUTURE FOR CONSUMERS IN 2023

Retail, consumer goods, and logistics companies are trying to find their bearings in a constantly shifting environment. Thriving will require an offbeat approach that combines the old and the new.

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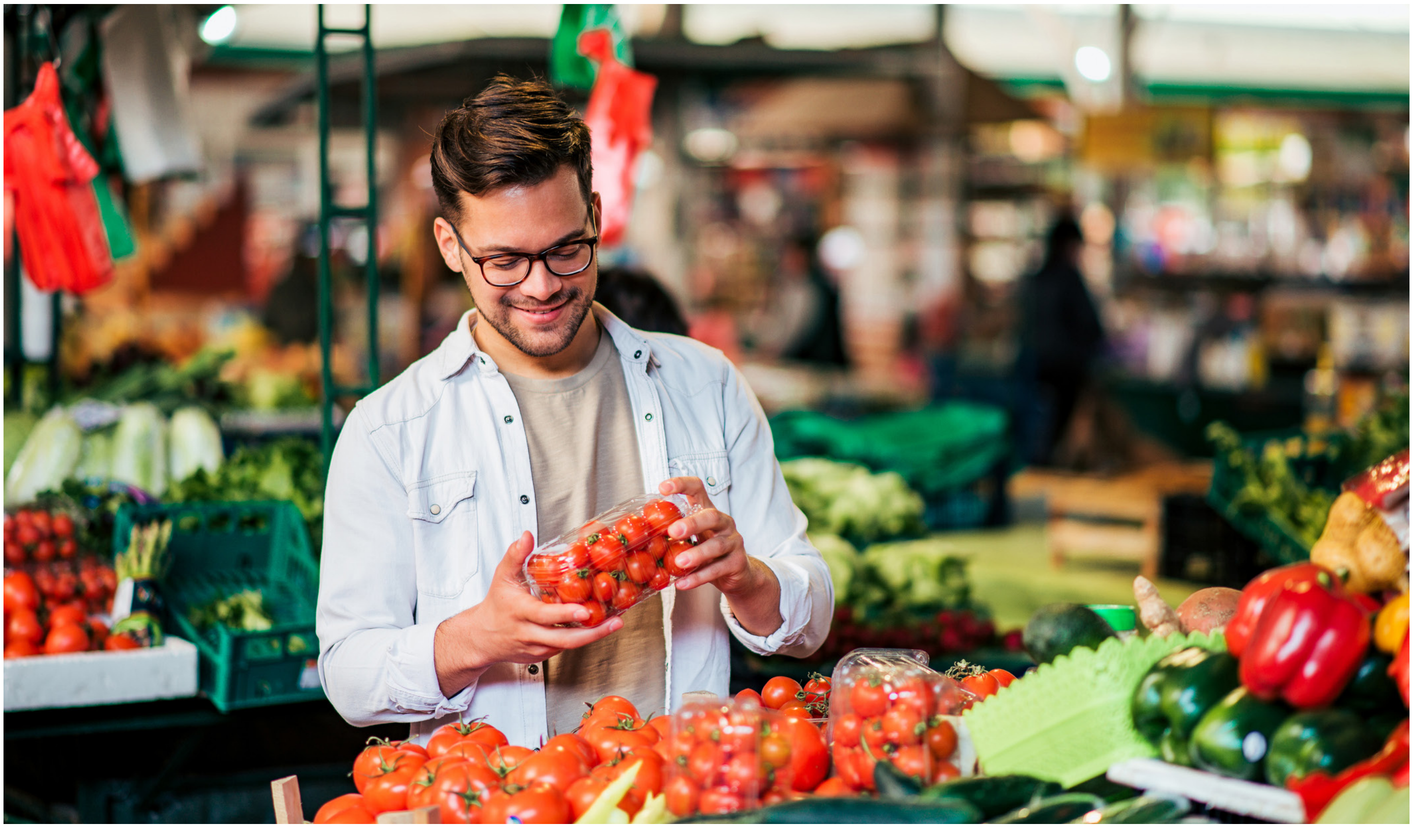


Global economic growth in 2023 does not look good. It could reduce from 3% in 2022 to 2.2% in 2023 amid turbulence surrounding COVID-19, the Ukraine war, climate crisis, inflation, and a possible recession. Many industries, including consumer goods, retail, and logistics, are struggling to cope with fallouts such as talent scarcity, supply chain disruptions, and changing consumer behavior.

"Many different dynamics are fusing, creating the perfect supply chain storm. These are systemic in nature. So, there isn't going to be a great end to this perfect storm. If anything, we're all figuring out how to deal with an ongoing environment comprising changing and challenging conditions," says Paula Natoli, Head of Supply Chain & Logistics Industry Solutions, Americas, Google Cloud, in Consumer Spotlight: Can supply chains be lean, mean, and green?, a virtual panel discussion organized by Infosys.

Retail, consumer goods, and logistics industries are struggling to keep up in this daunting situation. Lack of visibility into consumer behavior has made demand and supply unpredictable; labor shortage has thrown supply chain operations into disarray, and extreme weather has affected delivery lead times. The pandemic saw JCPenney and Aldo file for bankruptcy. Ongoing disruptions continue to affect other big players. Olympia Sports, Escada America, Missguided, and Revlon have also filed for bankruptcy.

Differing here, many businesses have thrived by going back to the basics — low pricing, high loyalty, and physical stores. Walmart delivered strong revenue growth of 8.7% through its Everyday Low Price (EDLP) strategy. By providing quality goods at lower prices, the brand is successfully addressing the economic concerns of customers, and cashing in on their desire to shop for low-cost items. CEO Doug McMillon said in an interview on CNBC that consumers are being more selective about their purchases and prioritizing staples over electronics and luxury products. He added that the most growth in the last few quarters has come from shoppers visiting Walmart to save money.

TJX, another discount retailer, has captured consumer traffic remarkably well by offering branded products at reduced prices. The company has raised its annual same-store sales forecast and surpassed quarterly profit estimates. Offering a daily 'treasure hunt' experience to customers has made TJX more popular than its competitors who run an offer on a designer item every couple of weeks.

Similarly, Ulta Beauty has leaned on its hugely popular loyalty program — Ultamate Rewards — in its time of need. This unique program offers its customers discount codes to purchase Ulta products, unlike its competitors who usually offer gifts or free samples. In 2021, at National Retail Federation's digital conference, Kelly Mahoney, Ulta's VP Customer Marketing, emphasized: "Loyalty is at the heart of our work. Ulta aims to better personalize its communications with its members so their experience across every touchpoint — online, in-store, via social media — is personalized to them." Evidently, the beauty retailer's commitment to customer loyalty is paying off. Its Q3 2022 revenue grew 17.2% on year to reach $2.34 billion, surpassing the consensus estimate of $2.21 billion.

The return of another traditional strategy — brick-and-mortar stores — highlights an inclination towards in-person shopping experience. Ecommerce gained much significance in the past three years, but physical stores are growing in popularity again. As per Meta's Seasonal Holidays Study, 67% of year-end shopper respondents stated that they discover new products in store.

Ricardo Belmar, Director Partner Marketing for Retail & CPG, Microsoft, explains why the physical store experience is making a return, as quoted by Shopify: "The acceleration of ecommerce thought to have been driven by the pandemic hasn't lasted compared to store sales growth. 2021 and 2022 are seeing stores take advantage; partly because consumers want that physical shopping experience they couldn't get during the pandemic, but also because ecommerce just hasn't made product discovery as easy as walking down a store aisle or looking at a store display to see something you want to pick up and buy. And then there's the instant gratification of immediately having the item in your hands."

Brands have been quick to pick up on this and plan brick-and-mortar expansion. Ikea is opening more city center locations to drive footfall by reducing the commute time of customers. Online brands are also opening more physical stores to give customers a seamless and holistic retail experience.

> Businesses may be returning to the 'basics' but are continuing to invest in technologies to drive cost efficiency, quality of service, and predictability.

But this doesn't take away the charm of digital technologies. While companies return to the 'basics' of consumer retail, they are still investing heavily on technologies to drive cost efficiency, quality of service, and predictability. Gartner Research Survey in 2021, which captured the opinions of business leaders from over 30 countries, found that CEOs are placing their growth bets on new segments and increasing investments in digital initiatives.

From a growth strategy perspective, leaders are banking on using technologies to get smarter, faster, cheaper, and more adaptable to succeed in the marketplace.

- **Cashierless checkouts and point of sale (POS) systems:** This feature allows customers to check out their purchases seamlessly without waiting in a queue. They pay for their purchases using mobile phones or at a POS terminal. The number of cashierless stores is expected to rise from around 3,000 currently to over 10,000 by 2024.
- **Endless aisle:** This interactive feature ensures retailers don't lose customers if a product they require is unavailable in-store. It lets customers order an out-of-stock item for home delivery or store pick-up.
- **Product personalization:** McKinsey advises companies to set up a centralized customer data platform (CDP) that houses all the data in one place to better understand customers' psyche and spending patterns. It will help companies align products with customers' needs, and provide a personalized experience through purchase suggestions or customized messages about products. Businesses can bring in huge return on investment (ROI) by focusing on stores, omnichannel, and social for hyper-personalized retail and better customer service.

High-end brands can survive even with lesser flagship stores, given their niche audiences. However, they should still be tech-savvy to fulfill changing customer needs. Low-end brands can rely on low prices to sell but need to make data-driven pricing decisions to win. Brands in the middle can also prosper if they make the right moves. In the end, each brand should ensure to spot and grab opportunities for business growth.

> High-end brands need to be tech-savvy to satisfy changing customer needs. Low-end brands can benefit from offering low prices but require data-driven pricing decisions to succeed.

- **Sense and predict opportunities on the demand side:** Businesses need accurate demand forecasting to gain insights into sought-after products, locations of demand, and customer demographics. This can help businesses efficiently predict related opportunities and plan adequate supply. It also provides crucial information on whether they should open physical stores, the potential number and locations, and new products to invest in. It helps them predict their revenues to make better business decisions.

  Businesses can predict demand and supply better with data-driven decisions. Investing in data strategies can help them access findings specific to their business challenges and take informed actions. Such demand sensing can lead to demand shaping by adopting sales and marketing strategies related to pricing, sales promotions, and product launches that build brand equity. Infosys Knowledge Institute's Data+AI Radar shows that if companies improve in three areas, they can add up to $467 billion in profit growth, collectively, and increase internal satisfaction with data and AI. According to the report, these areas are: developing data practices that encourage sharing, binding explanations into advanced AI, and focusing AI teams on business.
- **Sense and predict challenges on the supply side:** Data integration provides complete visibility into the supply chain, helping businesses in inventory management and storage

planning, and mobilizing stocks as needed for timely supply to areas where there's demand. It also mitigates issues related to delivery timelines and order fulfillment.

- **Adopt a sustainable approach:** Businesses must keep sustainability at the center when planning production and distribution. Not only to be conscious of the environmental impact of their actions, but also due to the consumer becoming conscious of ethical and sustainable retail, and sustainability being a driver in brand loyalty. "For an enterprise, success in the age of sustainability depends upon creating customer-valued products and services through the most efficient means possible," explains Practical Sustainability: Circular Commerce, Smarter Spaces and Happier Humans, a book authored by Corey Glickman, VP – Sustainability & Design, Infosys, and Jeff Kavanaugh, VP – Global Head, Infosys Knowledge Institute.

  Data integration prevents overstocking and destruction of excess stocks, thus increasing the sustainability quotient.

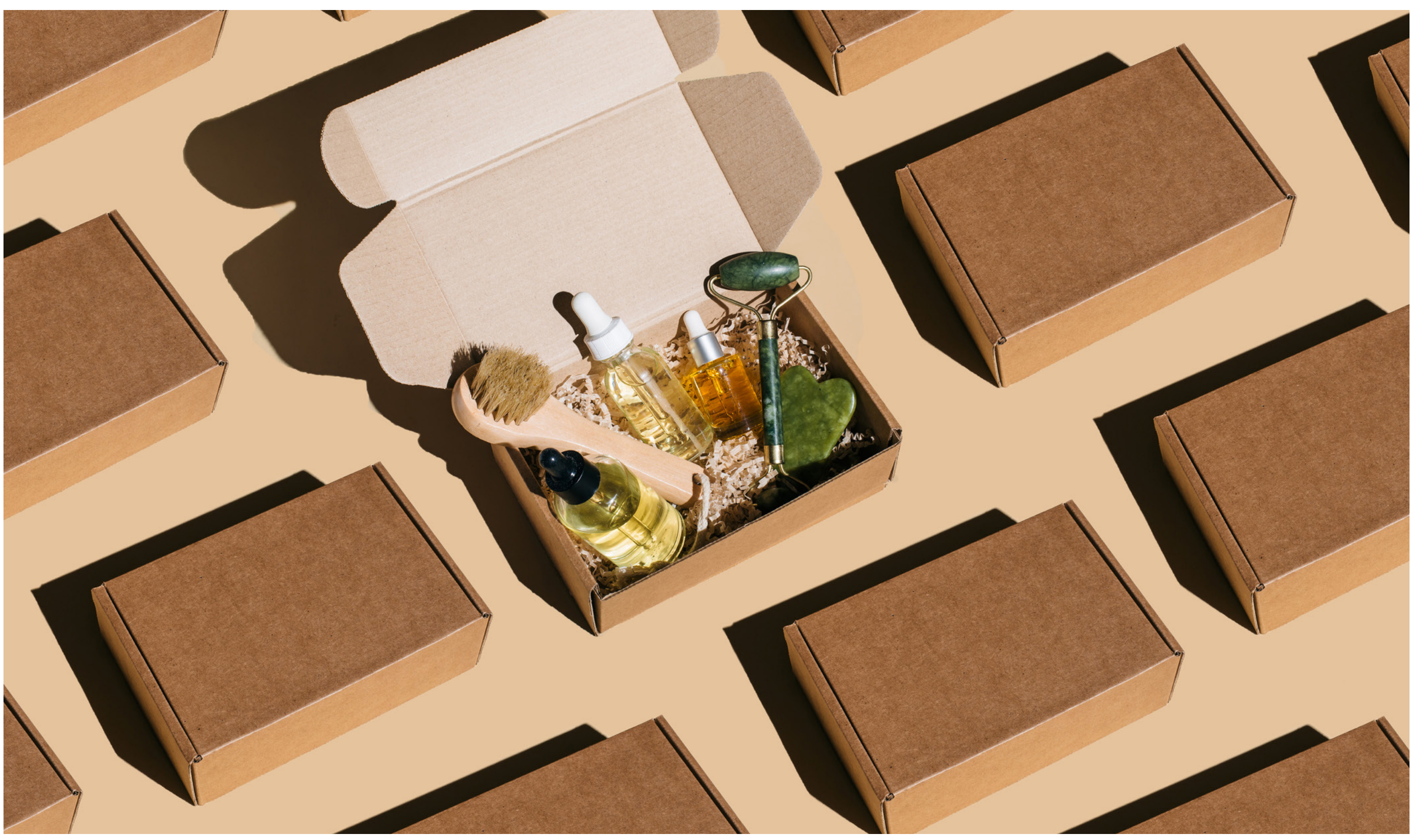
- **Use intelligent automation intelligently:** Automation helps tackle talent shortage by reducing the count of workers required. It helps optimize workers' time and effort. That said, businesses must realize the significance of intelligent automation and reorient their business processes. For instance, Reckitt has thrived from technology investment by modifying its operating model and business processes. Meanwhile, P&G has benefited from reorienting its supply chain around alternate suppliers and reformulating products to deal with inflation and have adequate stocks.

A continuously reassessing mindset

To make the best use of intelligent automation, businesses must develop a mindset or structure that is continuously reassessing their models and decisions in real time. While the consumer industry relies on buying for cheap and selling for more, businesses must evaluate how it all comes together in terms of the supply chain layer. The objective cannot be to simply get the supply chain, which was built years ago, to work smoothly. It must be viewed as a fluid entity that businesses can keep evolving based on data and insights, and intelligent automation. A flexible foundation in operations and technology will help companies pivot to emerging or converging trends, in their evolution into digital native or ability to compete with digital natives that are slowly disrupting the marketplace.

> Digital natives are disrupting the marketplace forcing other businesses to pivot to emerging trends with a flexible foundation in operations and technology.

There's no saying what the tempest of market conditions and geopolitical crises will bring to the retail, consumer goods, and logistics industries in future. However, a back-to-the-basics approach coupled with futuristic technologies and data-driven decisions may be their best shelter, at least for now.



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