

**RETAILERS,
DIGITAL
WINDOW
DRESSING
IS KILLING YOUR BUSINESS**

It's hard for retail executives not to get caught up in the digital technology groundswell. The urge comes to invest

TOMORROW

NO,
TODAY

NO,
YESTERDAY

just because competitors all over the world are touting their latest digital whistle or bell. **It's a fast race.**

“We do see the movement to the digital world and I think it has been more aggressive than most people had anticipated.”¹—Steven Tamares, CEO, Bed, Bath & Beyond

“Digital isn’t just part of the shopping experience, digital is the foundation of it.”²—Mark Parker, CEO, Nike

At issue are the whistles and bells, sexy as they are. Digital tools like personal shopper apps are great. Consumers generally respond to the initial rollout due to novelty.

But what happens then? For some retailers, personal shopper apps or virtual showrooms make supreme sense, translating into increased consumer spend. For others, they can be a total waste of time.

While most retailers have made forays into the digital realm to better compete, when they invest just to “keep up” in the digital race, their efforts are akin to digital window dressing rather than a core strategic move. With total U.S. sales expected to increase by upwards of 25 percent over the next five years, but earnings less than ten percent over the same time period,³ retailers need to look for long-term solutions.

To remain truly competitive, retailers must instead adopt disruptive technologies across their business—front, middle and back office—and only those that benefit their specific client base and reason for being. These are the investments that can enable growth, profitability and trust.

“For some retailers, personal shopper apps or virtual showrooms make supreme sense, translating into increased consumer spend. For others, they can be a total waste of time.”

Digital window dressing defined

Any digital capability that is a “nice to have” but does not make up for a lack of competitiveness in core areas such as price, assortment, customer service, etc. (and may even distract from these core capabilities). For example:



VIRTUAL SHOWROOMS



SOCIAL NETWORKING PLATFORMS



ONLINE MARKETPLACES



PERSONAL SHOPPER APPS



IN-STORE WIRELESS DEVICES / FREE WI-FI



RESERVE ONLINE, TRY ON AND PAY IN STORE



DIGITAL TOOLS TO CONNECT WITH STORE ASSOCIATES



SOCIAL SHOPPING



“SMART” FITTING ROOMS

These digital tools are not always window dressing. For some firms, they fit well with the overall strategy and customer base. The key is in determining which, if any, dovetail with your firm’s reason for being.

WINDOW DRESSING IS ONLY A SHORT-TERM FIX TO A LONG-TERM EARNINGS GAP

The almost chronic sales-to-earnings gap some retailers are experiencing make quick-fix digital boosts tempting. But, they will not work long term.

Digital enhancements such as virtual showrooms and next-gen social shopping, while in vogue, do not have a transformational effect on a retailer's business model and revenue.

Accenture analysis of several large retailers shows those focused on digital window dressing saw a 36 percent decrease in share price over the past five years, driven by a 17 percent decrease in sales and a 31 percent decrease in Earnings Before Interest & Taxes (EBIT).

These companies touted themselves as going digital, with a flurry of press releases on click-and-collect or social network partnerships. Shoppers tried these programs—but none stuck. At issue is the fact that most of their loyal customers spent money at these retailers for reasons these digital initiatives had nothing to do with: One-stop shopping. Low pricing. Etcetera. It varied by retailer.

With EBIT margins eroding by 65 basis points per year, a many retailer's profits will be negative within the next six years.⁴ No company can afford digital window dressing when facing that scenario.

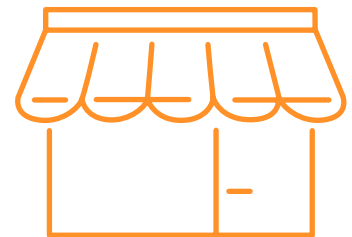
PLAYING THE "ME TOO" GAME CAN BE A RETAILER DEATH SENTENCE

Cutting costs and shifting investments from stores to online because your competitors are? Don't.

While peer pressure from flashier digital counterparts is heavy, wise retailers only invest in a digital strategy that fits their customers' specific needs--rather than one that includes all the latest whistles and bells as a matter of course.

For large multichannel retailers, the brick-and-mortar store will continue to make the largest revenue contribution until at least 2026.⁵ Stores of the future will be smaller, carrying streamlined inventories that mix in-stock product and the ability to manufacture customized products on site, according to Accenture's Future of Retail Insight Report.

For instance, Rebecca Minkoff partnered with eBay and Magento to create a digitally connected store, which uses "connected glass shopping walls" and digital fitting rooms to guide shoppers through the experience, while collecting data about customer preferences and trends. Within six months of implementation, Rebecca Minkoff saw a six to sevenfold increase in ready-to-wear sales, which it attributes to enhanced in-store experiences.⁶ Was the effort digital? Yes. But did it focus on an in-store experience tailored for Minkoff's target market? Absolutely.



For large multichannel retailers, the brick-and-mortar store will continue to make the largest revenue contribution until at least 2026.

THE VARIABLE IN THE DIGITAL PROFITABILITY EQUATION

Many flashier digital investments only cover the customer experience and front office end of the retail equation. Companies who focus solely on customer experience are missing a major part of the digital profitability equation—the back office and remainder of the value chain.

Investing in digital as appropriate across the business, rather than in siloed pockets, is the smart move. For example, Amazon has made investments across its value chain in Artificial Intelligence (AI), robotics and drones to drive operational efficiencies and a consistent customer experience that builds trust and market share. As a result, Amazon has achieved a 14 percent fulfillment cost advantage, a 29-point trust advantage and absorbed 58 percent of online shopping growth in 2016.⁷

Using digital technologies to drive operational efficiencies—while not an exercise that attracts consumer attention—tends to improve a company's competitive position. Accenture analyzed multiple retailers that invested behind the scenes. They saw, on average, a 104 percent increase in share price over the past 5 years, driven by 46 percent revenue growth and a 59 percent increase in EBIT. For these companies, EBIT margin is expanding at a rate of 25 basis points per year.



Investing in digital as appropriate across the business, rather than in siloed pockets, is the smart move.

For instance, one of these retailers invested in digital sampling. Rather than flying buyers to Asia to meet with vendors, they started using digital means to review product samples. Using technologies like 3D imaging provides huge opportunities to improve productivity and shave costs.

Industry frontrunners are competitive because of differentiators enabled by digital investments that span their business, from competitive pricing and hassle-free delivery to broad selection and shopping made simple.

HOW TO KEEP DIGITAL STRATEGIC

A few things to keep in mind as you look at your retail operations and strategy from a strategic digital perspective:

Challenge conventional investments by conducting primary research to understand what matters most to your customers. Determine how well you're performing relative to competitors on key dimensions, in both physical and digital channels. Customers want consistency but their wants may vary online versus in store. Our work has shown that customer needs can vary dramatically by channel, category and trip mission.

If a digital investment does not align with your company's reason for being, avoid it. Only make digital investments that truly serve your customers' needs in a differentiated way. This will vary by retailer. For example, some retailers may need to make operational investments to reduce costs so they can lower prices, rather than spending on showier digital investments.

Invest in technologies across the business, front, middle and back-office. The cost equation is becoming an increasingly critical lever for enabling growth. Our research has shown that a 1-point increase in a retailer's profitability index correlates with a 1.3% increase in revenue.⁸ Without looking across the business, you will struggle to bend your cost curve and create fuel for growth.

JOIN THE CONVERSATION



@AccentureStrat



www.linkedin.com/company/accenture-strategy

CONTACT THE AUTHORS

Chris Donnelly

Chicago, United States

christopher.donnelly@accenture.com

Andrew G. Long

London, United Kingdom

andrew.g.long@accenture.com

Dan Smythe

Boston, United States

daniel.l.smythe@accenture.com

NOTES

- ¹ <http://diginomica.com/2017/04/07/digital-retail-spend-decorative-bed-bath-beyond/>
- ² <https://finance.yahoo.com/news/nike-ceo-digital-is-the-foundation-of-retail-now-153924486.html>
- ³ Kantar Retail; PlanetRetail, CapIQ and Accenture Analysis
- ⁴ Accenture analysis
- ⁵ https://www.accenture.com/t20170116T084454__w__/us-en/_acnmedia/Accenture/Conversion-Assets/WEF/PDF/Accenture-Future-of-Retail-Insight-Report.pdf#zoom=50
- ⁶ Ibid
- ⁷ Accenture analysis, Statista, Fortune.com, Internet Retailer, qz.com, infoscout and company financial reports
- ⁸ Accenture's Competitive Agility Index, March, 2017

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world's largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 401,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

ABOUT ACCENTURE STRATEGY

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise-wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership helps drive both efficiencies and growth. For more information, follow [@AccentureStrat](https://twitter.com/AccentureStrat) or visit www.accenture.com/strategy.

Copyright © 2017 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

This document makes reference to marks owned by third parties. All such third-party marks are the property of their respective owners. No sponsorship, endorsement or approval of this content by the owners of such marks is intended, expressed or implied.