



State of the Industry: Retail

Digital Complexity:

Thriving in Unpredictable Times

In collaboration with



Research Overview:

Fluent Commerce, commercetools and Contentstack commissioned Incisiv to assess the state of digital complexity in the retail industry across the U.S., U.K., France and Germany. The survey and analysis were conducted in Q2 and Q3 of 2022.

358

Total no. of respondents

131 US

77 UK

75 France

75 Germany

86%

Respondents were
director and above

41% VP+

46% Director

14% Manager

82%

Respondents represent
companies with over
\$500 million in revenue

61%

Respondents represent
decision makers or
recommenders

What's in the report?



RISING COMPLEXITY

The pace and complexity of managing digital retail businesses will increase over the next 12 months.



UNDERPREPARED BRANDS

Retailers haven't scaled the capabilities required to manage the increase in complexity.



THRIVING IN COMPLEXITY

A sharper execution focus can help retailers thrive during these unpredictable times and outperform their competition.

Chapter 1

Rising Complexity.

The pace and complexity of digital retail operations is rising rapidly.

Operational complexity will continue to rise.

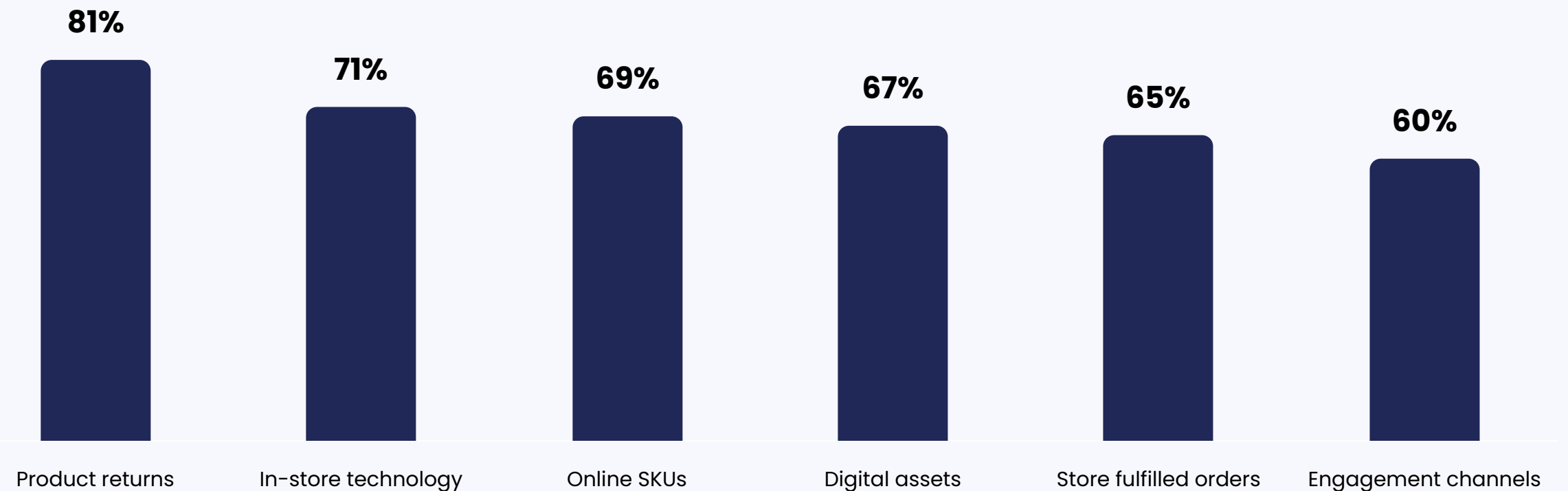
Retailers' digital sales experienced a once-in-a-generation increase due to the pandemic, and digital sales grew 3x-5x across formats.

However, this unpredictable and exponential growth has led to a manifold increase in business complexity. Retailers have been doing their best to manage this increase, but few have been able to scale their capabilities effectively.

Our study looked at multiple capabilities across four dimensions of Digital Commerce, Digital Marketing, Fulfillment, and Store Operations.

Projected Growth

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



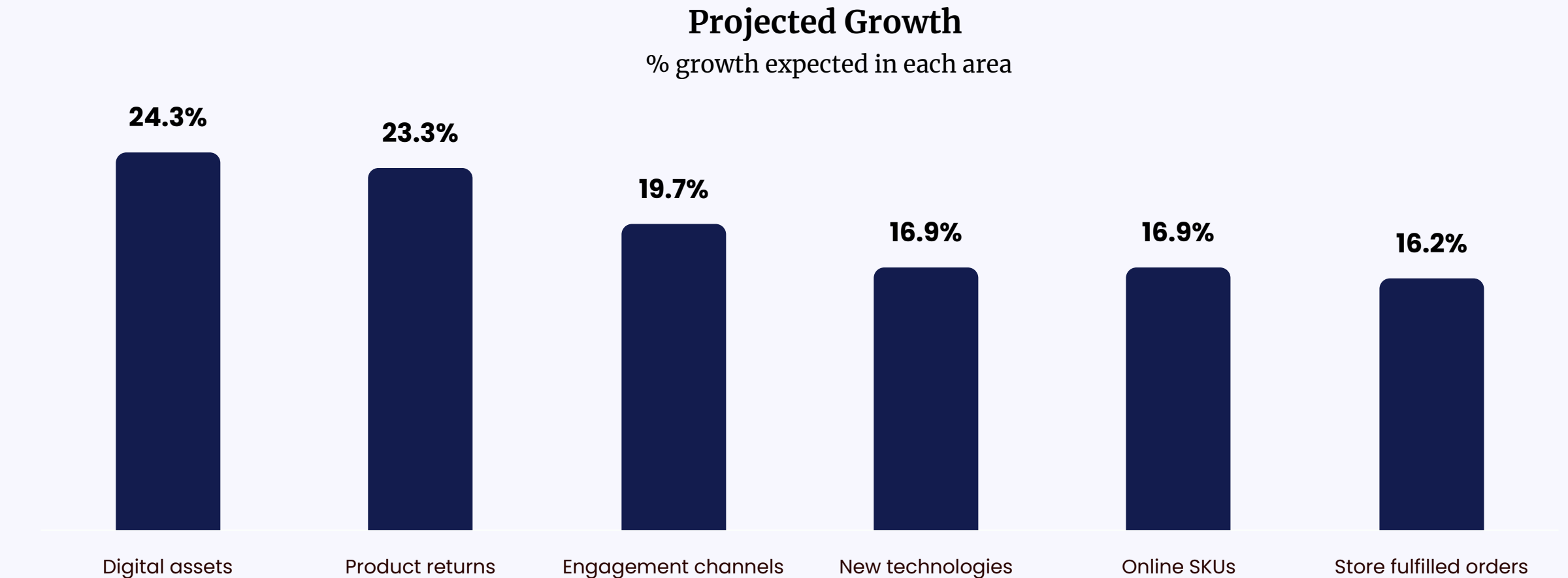
The top areas where most retailers expect an increase in complexity over the next 12 months are:

- 1. Product Returns:** Most retailers expect the volume of product returns to increase. The importance of returns has to rise beyond just the cost of doing business.
- 2. In-Store Technology:** Investment in in-store technology will continue to increase as retailers try to unify their online and offline business.
- 3. Online SKUs:** Retailers will increase the number of SKUs they sell online (increase in drop-ship) even as they face inventory challenges.
- 4. Digital Assets:** The number of digital assets (product images, how-to videos) will rise and brands have to support multiple fidelity options.
- 5. Store Fulfilled Orders:** As retailers try to optimize store-inventory and improve digital margins the volume of store fulfilled orders will continue to grow.
- 6. Engagement Channels:** The channels through which retailers engage with shoppers will rise as shoppers adopt new communication channels.

Digital content and returns will grow significantly.

Not only do retailers expect their business complexity to increase over the next twelve months, they expect the rate of the change to be rapid.

However, the rate of change isn't as secular a trend as the overall increase in business capabilities. Business capabilities that were added to manage the pandemic-driven growth (e.g., curbside pickup, delivery partnerships) will exhibit more steady growth than others.



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 a proven impact on driving engagement and conversion, which presents a significant opportunity and challenge for retailers.

Shopper Engagement / Personalization

Retailers have to meet shoppers where they are. This means having an increased and improved presence (e.g., customer service) across all commerce and engagement channels. Social media presence will be essential for brands targeting a younger cohort of shoppers.

Store Transformation

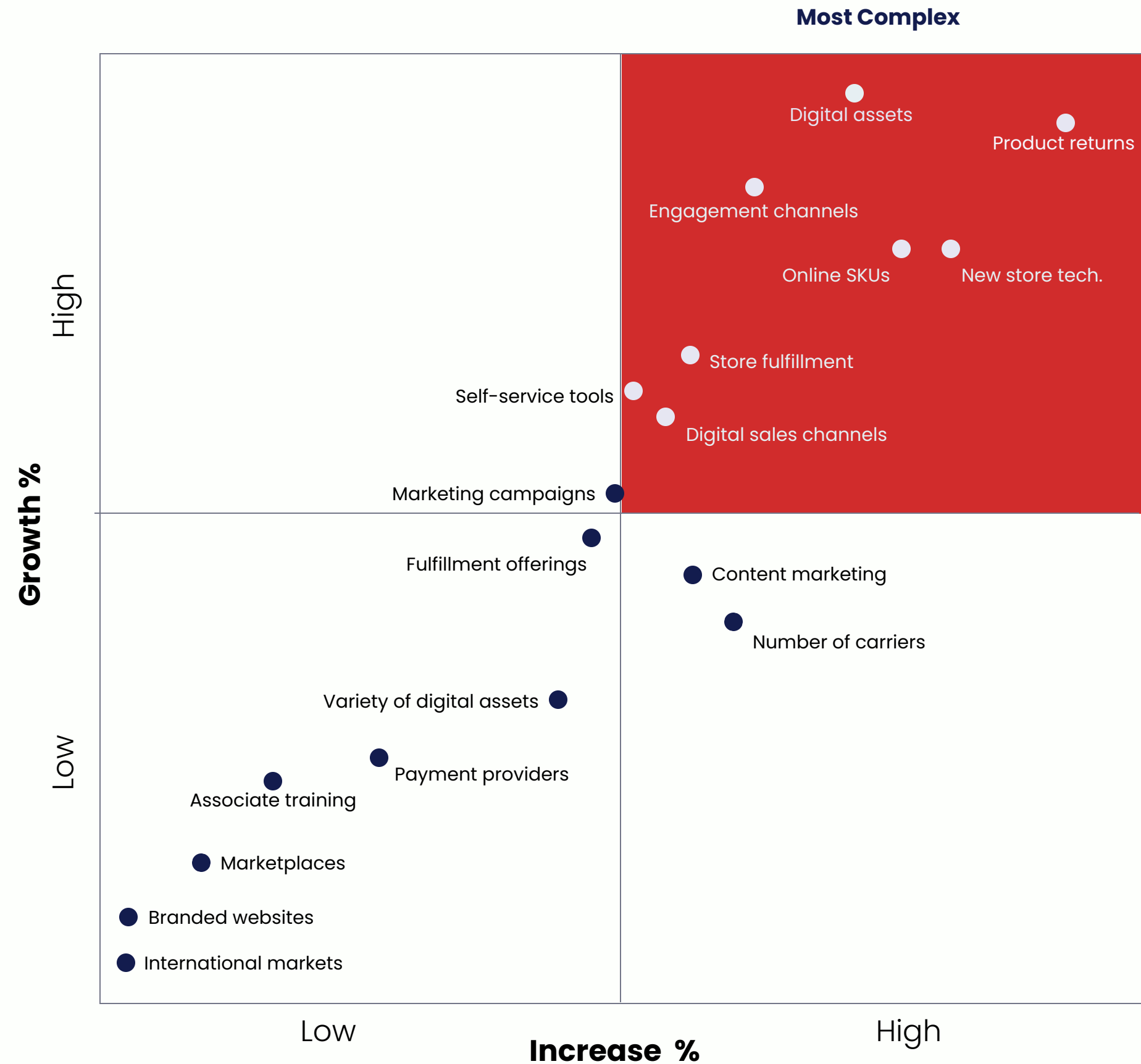
The store experience, operations, and technology must all be rethought as we come closer to unifying the physical and digital shopping experience. Retailers have to prepare their operations and technology to support greater digital volume (e.g. store fulfilled orders, exposing inventory) and a digital shopper experience (e.g., in-store apps, self-service tools).

Digital merchandising, personalization and store transformation are the core drivers of business complexity.

The data in a 2x2 matrix provides highlights where retailers will face the most significant challenge over the next twelve months. The three themes we identified will drive business complexity, and managing these will stretch retailers' budgets and resources.

While digital complexity will go up across most areas, we don't see a significant increase in payment and logistics providers as retailers look to consolidate vendors with a focus on profitability.

The unexpected finding on this chart is associate training. Retailers don't foresee much growth in training, even in the face of increasing store fulfillment and operational complexity.



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

Chapter 2

Underprepared Brands.

Most brands are underprepared to deal with the rise in complexity.

Retailers are underprepared to manage their immediate growth.

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

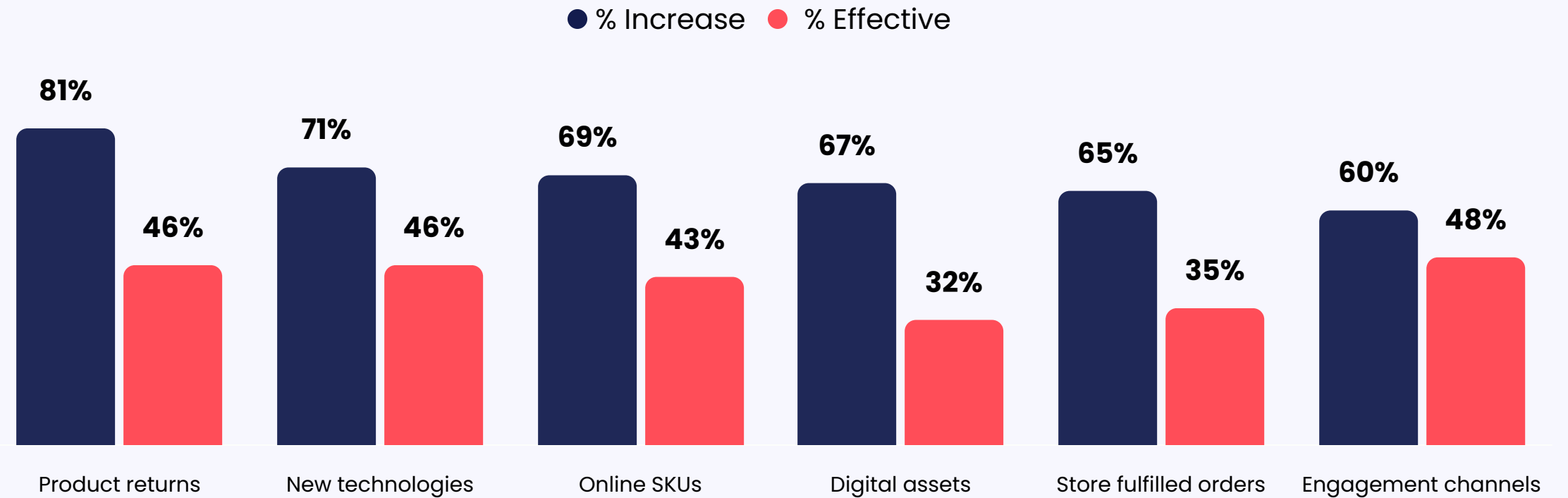
Less than half of retailers believe they can effectively manage all aspects of their digital operations over the next twelve months.

This gap between growth and effectiveness points to areas where retailers have underinvested (e.g., digital assets) or that need to be industrialized and scaled (e.g., store order fulfillment).

Top Growth Areas 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 32% of 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, and retailers believe they don't have the right capabilities to support it.

Fulfilling Online Orders in Store

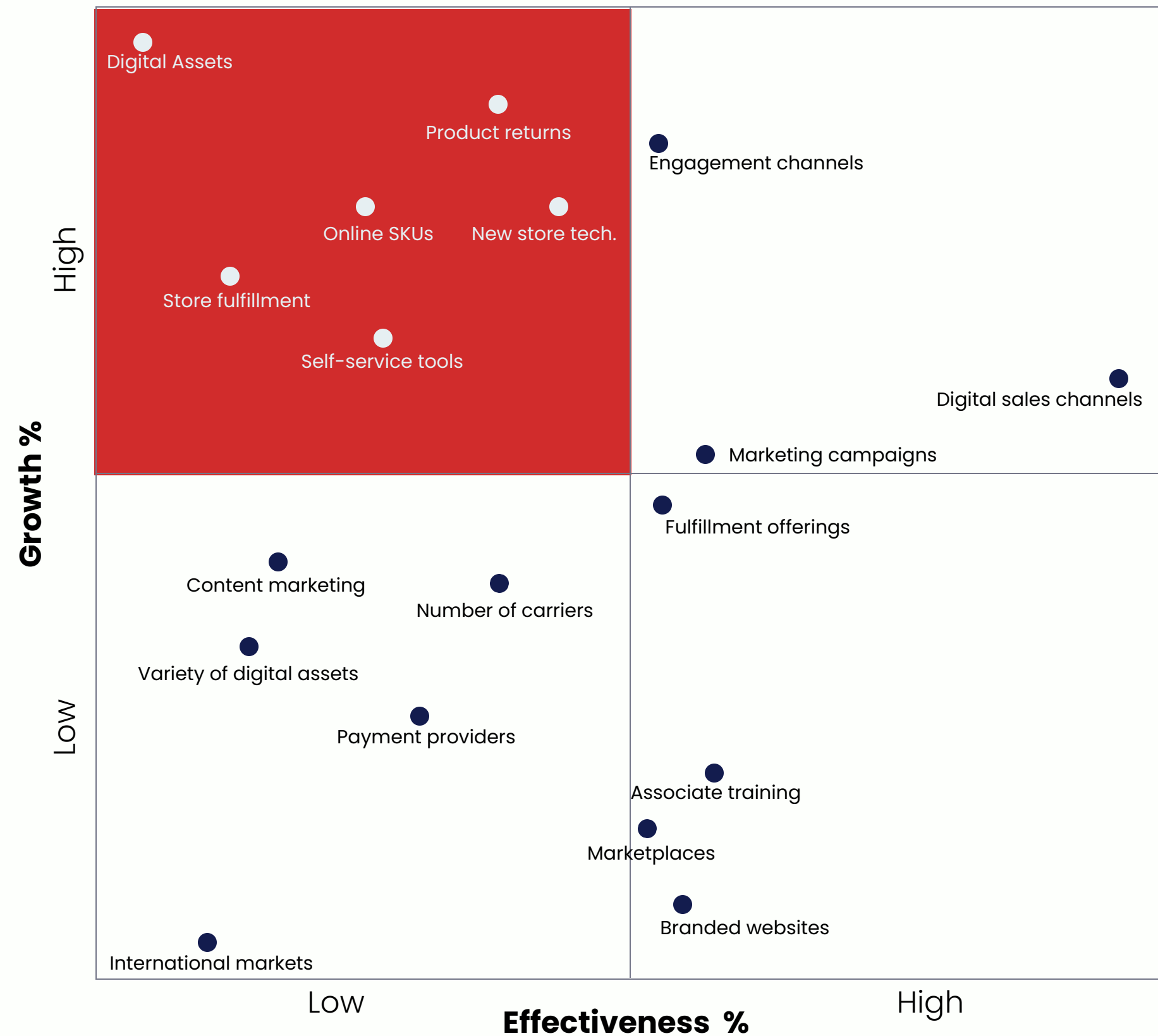
Only 35% of retailers believe they will be effective in managing the volume of their store fulfilled orders.

Most retailers established their store fulfillment operations from scratch during 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).

Retailers struggle with effectiveness when customer and digital experiences intersect.

Retailers believe they can effectively manage their status quo – sales channels, engagement channels, and marketing campaigns. However, they are ineffective in managing the core drivers of future complexity – Digital Merchandising, Personalization, and Store Fulfillment.

Retailers are ineffective at the intersection of customer and digital experiences (online and physical). This is evident from their low effectiveness across the major complexity drivers. In the face of ever-rising customer expectations, the inability to deliver these digital experiences is a significant business risk. Retailers that are unable to improve their performance across these dimensions risk losing their customers to the competition.



X axis – % of retailers that say that they will be effective in manage these areas over the next 12 months

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

Note: This shows the relative effectiveness. and relative growth

Inventory management and customer experience are top challenges facing retailers.

Fulfillment, specifically inventory visibility, is the main challenge facing retailers. Inventory levels were at all-time lows during the pandemic, as retailers struggled to get product on the shelves and demand rose rapidly. Retailers based their new demand projections on these all-time high demand levels and are now stuck with excess inventory. Shedding this excess inventory and becoming better and managing this multi-billion dollar problem requires retailers to have accurate, real-time inventory available across all channels.

The second composite challenge facing retailers is the shopper experience and personalization. There are two parts to this equation. The first is building a frictionless experience that allows consumers to shop easily across channels. The second is personalization, which offers a significant upside for retailers. The ability to personalize the overall digital experience through relevant content (images, ratings & reviews, social media shares) and relevant offers is a big focus area for retailers.

Top Challenges in Managing the Digital Business

Rank	Challenge	Area
1	Store inventory accuracy	Fulfillment
2	Lack of accurate inventory visibility	Fulfillment
3	Mixing content marketing with product listings	Marketing
4	Getting accurate inventory information online	Fulfillment
5	Number of channels to effectively manage	Commerce
6	Reducing cart abandonment	Commerce
7	Increasing cart size through recommendations	Commerce
8	Ability to quickly update content	Marketing
9	Lack of good tech for managing online orders and returns	Store Operations
10	Limited view of operations / poor data visibility	Across Areas

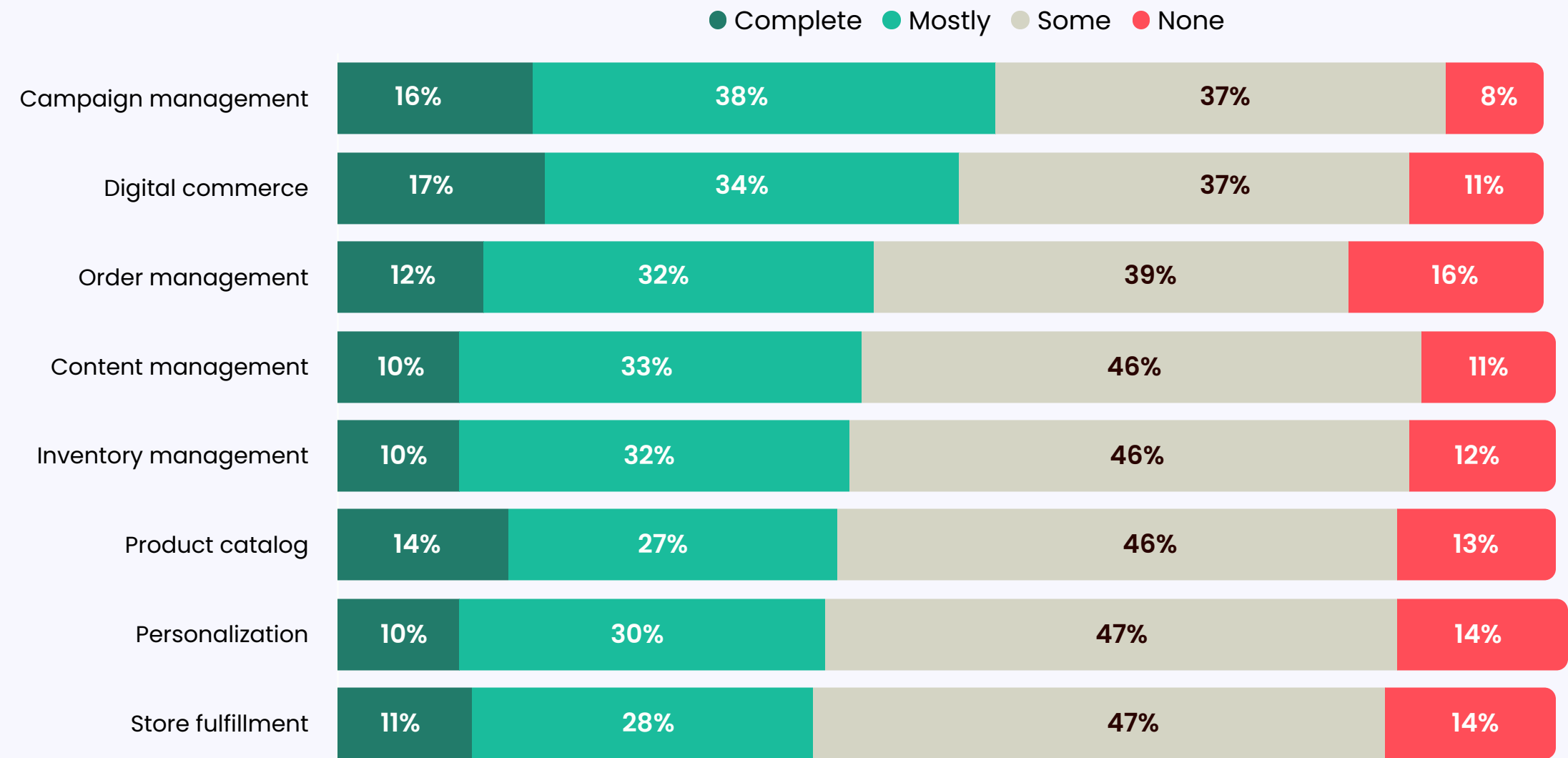
Fulfillment, Content and Personalization platforms need an upgrade.

The inability to orchestrate an end-to-end omnichannel process across dimensions (commerce, marketing, fulfillment, store operations) is the foundation to overcome these challenges.

This orchestration requires retailers to have robust and scalable data and technology infrastructure. More than half of all retailers believe their current technology platforms can't support their business needs over the next year.

The two exceptions to this are the Campaign Management and Digital Commerce platforms, where retailers don't foresee a lot of complexity in the near term.

Technology Platform Support

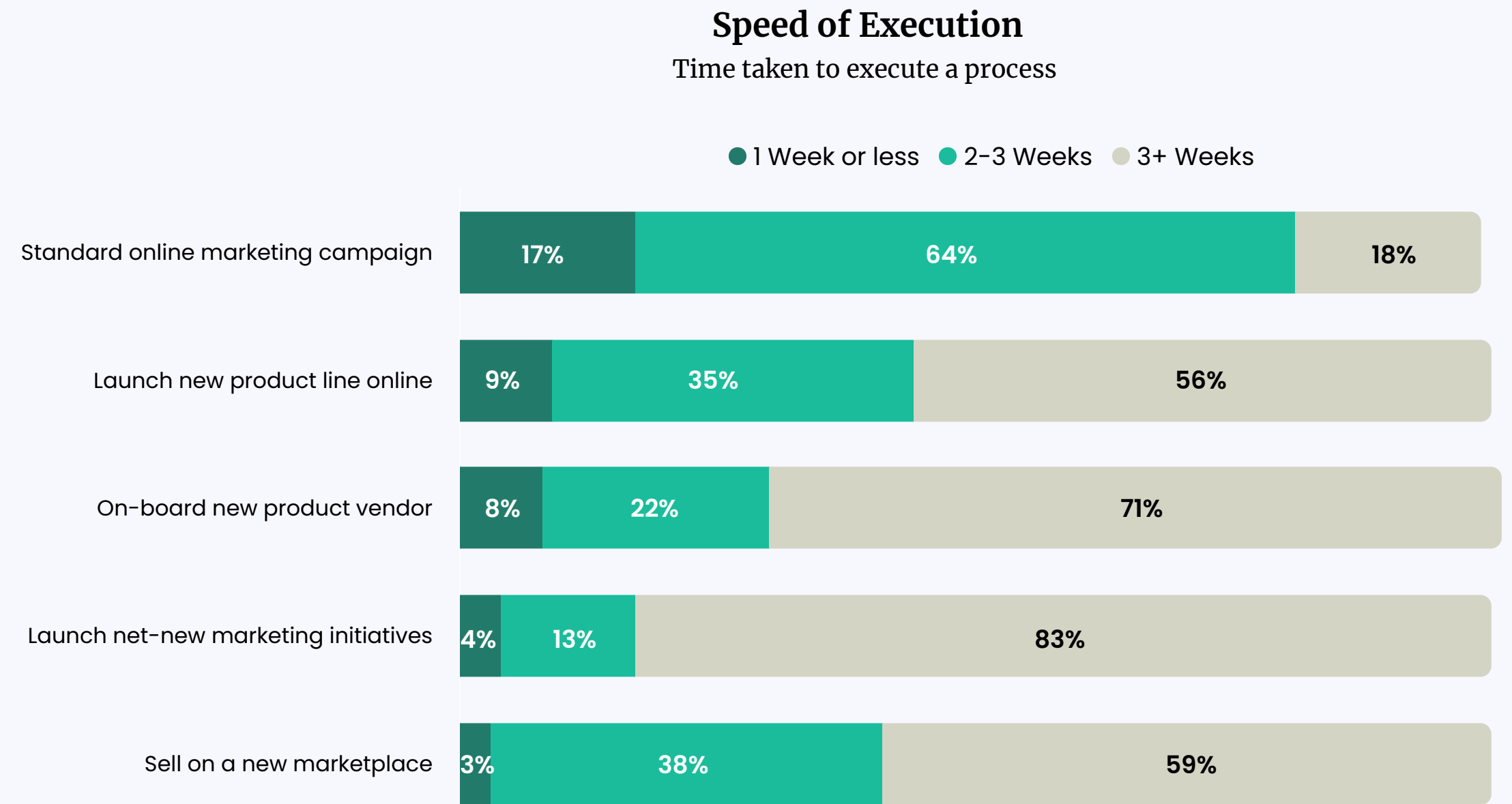


Store Fulfillment, Content Management and Personalization:

Nearly 60% of retailers believe their store fulfillment and personalization platform will support only some of 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 do 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.

Speed to market is impaired by slow processes.

Most retailers are unprepared to handle the increasingly fast-paced world of changing shopper preferences. We evaluated the execution time of some essential business processes (see chart) that are core to the sales and marketing engine to understand the retailers' speed to market.



The results were illuminating. Only 17% of retailers can launch a standard online marketing campaign within a week; this number drops by more than 4x when launching a new marketing campaign. 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, it takes a majority of retailers (70%) more than three weeks to onboard a new vendor to increase their product range.

Business process re-design supported by agile technology can allow retailers to 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., surge in demand for maxi dress because of a sitcom) or having the ability to message to new trends (e.g., tuxedo for the Minions movie) can be very effective strategic differentiators.

Chapter 3

Thriving in Complexity.

How can brands sharpen their execution and grow in the face of rising complexity.

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 profitability 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 twelve 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, inflation, 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.



Nicola Kinsella
SVP Global Marketing
Fluent Commerce

Give staff the right tools, and manage capacity

One customer who implemented Ship from Store managed to reduce both the average time it took to deliver an order and their shipping costs by 50%. But while there are gains, there are also challenges.

Think canceled orders, bounced orders, order errors, and long processing times. How can you manage exceptions? How do you give staff a sense of urgency? And provide them with easy to use tools to manage pick, pack, ship and pickup processes so they can fulfill orders quickly and without errors? It all starts with the right tools. Ones that automate exceptions and let you optimize fulfillment by, say, picking multiple orders at the same time or picking by location. Then there's managing volume. Some customers set a maximum number of open orders for a given location to ensure a single store doesn't get overwhelmed.

How can you turn your store fulfillment strategy into a competitive differentiator? By investing in flexible tools that can be configured and extended (like Fluent Order Management) to fit your business, manage capacity, and provide a great staff experience.



Jamie Cairns
Chief Strategy Officer
Fluent Commerce

Accurate inventory availability and flexible fulfillment logic are key

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. 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 client reduce their canceled order rate by over 50%.

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

IN COLLABORATION WITH



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Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks and prescriptive transformation insights to clients across the consumer and technology industry spectrum.
[incisiv.com](https://www.incisiv.com)



ABOUT FLUENT COMMERCE

Fluent Commerce is a global vendor of a cloud-native, highly flexible, and extensible distributed order management system. Fluent Order Management enables organizations to optimize store fulfillment and provides accurate, near real-time inventory visibility across all systems and locations. Fluent Commerce works with brands such as Aldo, Breitling, JD Sports and L'Oréal. Learn more at [fluentcommerce.com](https://www.fluentcommerce.com).



ABOUT COMMERCETOOLS

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ABOUT CONTENTSTACK

Contentstack is a content experience platform (CXP) category leader empowering marketers and developers to deliver composable digital experiences at the speed of their imagination. Contentstack has the industry's highest customer satisfaction rating and is a founder of the MACH Alliance, helping enterprises adopt microservices-based, API-first, cloud-native SaaS and headless technology.
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