ZopSmart

THE FUTURE OF RETAIL TECHNOLOGY IN THE DECADE AHEAD

FOUR RETAIL TECH THEMES THAT CAN'T BE NEGLECTED ANYMORE

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While Covid-19 has ensured almost all retailers have an online presence, a new painful realisation awaits.
**The Economics Don t Work!**

The Infinite Game

Retail is an infinite game. There are no permanent winners or losers – there are retailers who are ahead being constantly challenged by new entrants and retailers who are behind.

According to the NRF 2020 consumer report, more than 83% of consumers say convenience while shopping is more important as compared to five years ago. This survey dates back to October 2019, before we even knew the term Coronavirus. Now that shut-downs, and social distancing are becoming a norm, convenience is no longer a "good to have" but a "must have" feature. Covid-19 has accelerated online adoption and recent NRF surveys predict this demand to continue to rise even after the majority of the world is vaccinated.

Most retailers have addressed (at least from the front-end) the convenience of going online. Many went online even before the pandemic started, and Covid-19 has compelled the remaining retailers to have an online presence too.

While an online presence represents the start, for many retailers, a painful realisation awaits: the economics don't work.
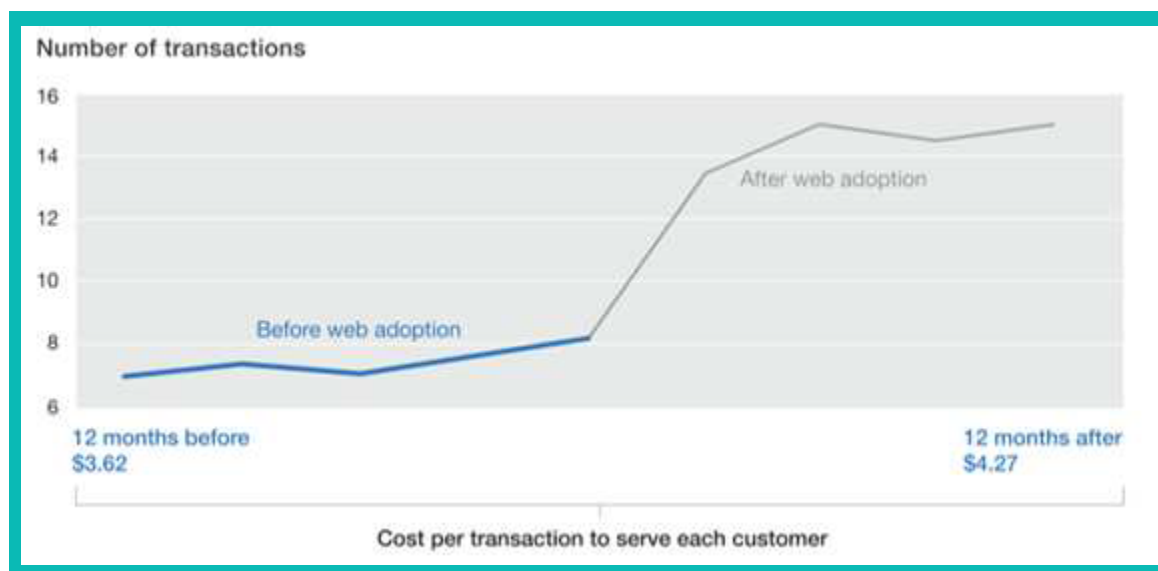
Source: McKinsey based on Harvard Business Research

OVERVIEW

The combination of paying intermediaries (whether it is the online "mall" or to third party logistics providers) and the inefficiency of fulfilment within the store make effective operating margins elusive. This is even before considering the emergence of new customer expectations (e.g. click and collect).

The next generation of retail technology will get to the heart of addressing these problems through a combination of regaining control of the customer, increasing share of wallet, and optimising processes through all steps of the journey.

In this report we discuss the key issues that are challenging the economic sustainability of omnichannel retail and share a case study of how ZopSmart worked with one leading retailer to improve the customer experience, drive up revenues, lower costs and adapt quickly to the balls thrown up by Covid-19. As a result of all these initiatives, the retailer has seen the profitability of their omni-channel stores increase by 5-15%.

The Long Road To Profitability

Having established an online presence, and most likely an omnichannel presence, the problem that invariably all retailers still face is that of unit economics loss. It took Amazon almost 10 years to turn profitable. Most retailers do not have that kind of time luxury to turn profitable.

Many retailers are funding their digital journey from the profit generated by its matured offline arm. Others are outsourcing components of required capability to third parties (such as third-party logistics provider or marketplaces, who are able to fund their losses by raising capital in Private and Public Markets). This latter approach helps retailers to avoid capital expenditure, but comes at a material cost to margins and, just as significantly, potentially to customer loyalty too.

An inefficient last mile delivery can potentially have a 10-15% adverse impact on margins. Retailers have tried to impose a fixed delivery fee or free delivery above certain basket sizes but these strategies have led to erosion of customer loyalty. An alternative strategy is to increase the price of products and give delivery free, but then their product pricing risks being viewed as uncompetitive.

Inefficient last mile delivery can have an adverse 10-15% impact on margins

These risks are accentuated by the fact that many marketplaces and logistics providers are executing a strategy of running loss making operations in the short term, in return for customer acquisition. It's a strategy that seems to be working and investors seem to appreciate it as well, with the market capitalisation of such players sky rocketing, to multi-billion dollar valuations.
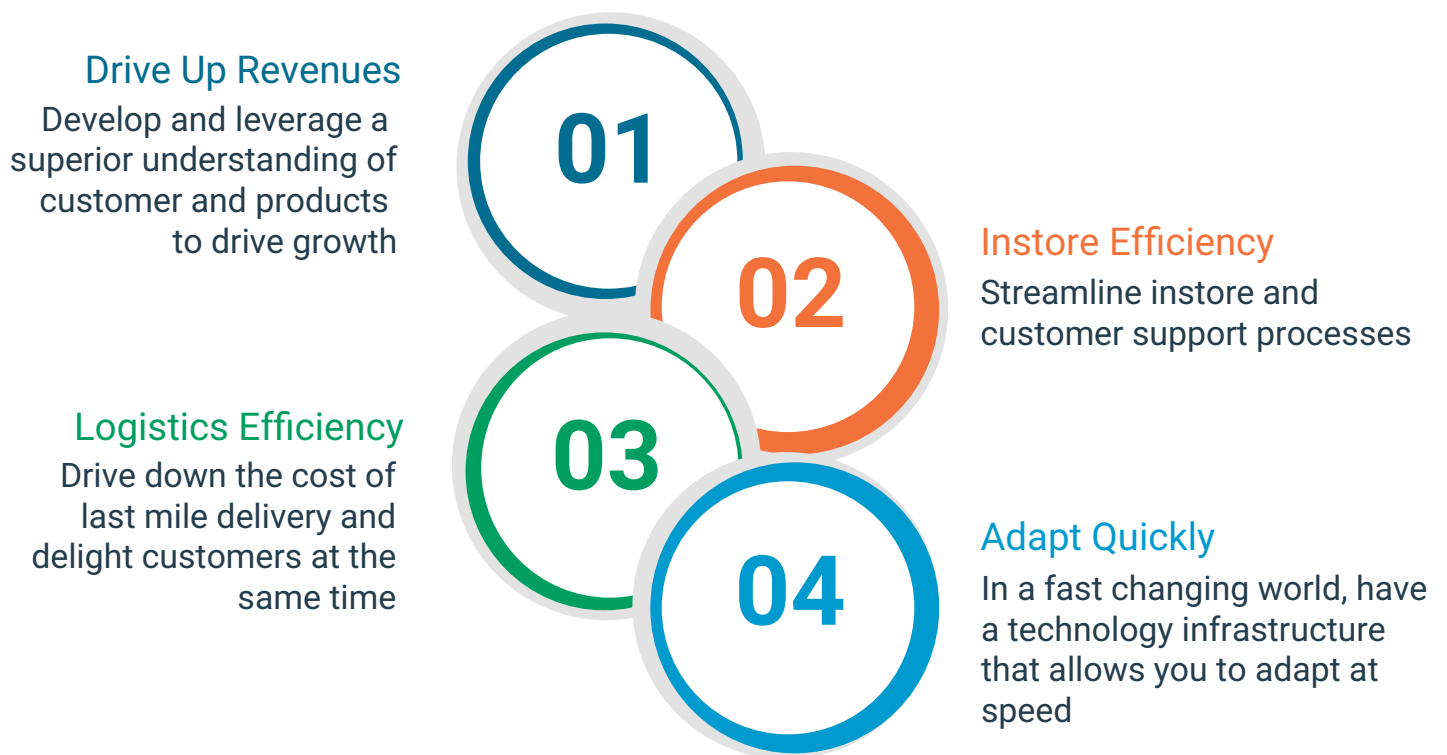
For example, a lot of grocers and restaurants have relied on multi-vendor delivery companies to create an online presence. These multi-vendor companies are able to provide consumers with a wide range of providers and have the financial capacity to operate loss making delivery business models while they acquire customers. It's working!

One leading US retailer, lost over 15% of its premium customers to a multi-vendor delivery company, as customers who initially came to the platform to access the retailer, are now purchasing from other stores, or surrendering the choice of retailer to the intermediary.

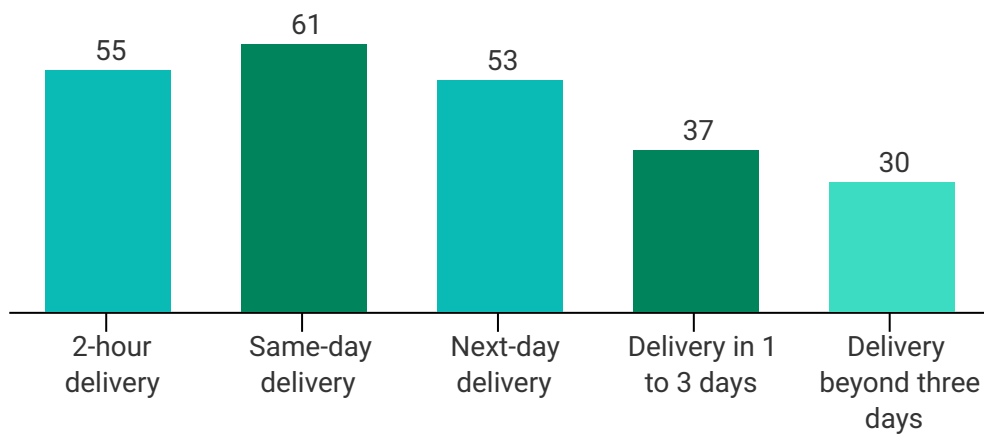# Four Retail Tech Themes That Can't Be Neglected Anymore

Against these headwinds, it is clear that retailers need to urgently identify solutions that:

Drive Up Revenues

Develop and leverage a superior understanding of customer and products to drive growth

01

02

Instore Efficiency

Streamline instore and customer support processes

Logistics Efficiency

Drive down the cost of last mile delivery and delight customers at the same time

03

04

Adapt Quickly

In a fast changing world, have a technology infrastructure that allows you to adapt at speed

The good news is that the related initiatives are likely to create a virtuous circle, as solutions that drive efficiency have the potential to positively impact customer loyalty. For example, 61% of customers state that same day delivery is the primary factor for increasing their loyalty or switching their loyalty to different retailer.

How delivery speeds affect customer loyalty for grocery retailers

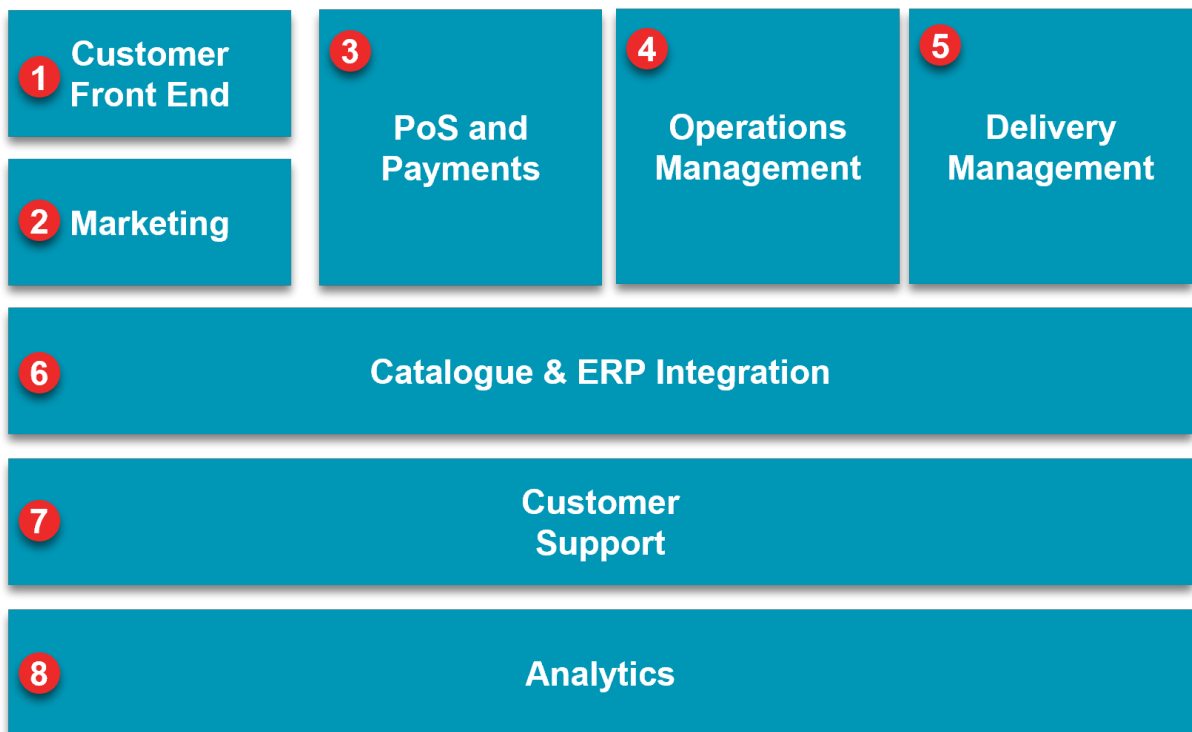**% of consumers who selected "this delivery speed will increase my loyalty"**

2-hour delivery	Same-day delivery	Next-day delivery	Delivery in 1 to 3 days	Delivery beyond three days
55	61	53	37	30

Source: Capgemini Research Institute Consumer Survey, October – November 2018

ABOUT ZOPSMART

Proven over 6 years, ZopSmart are a Best-in-Class eGrocery platform that has global reach, with clients in over 6 countries spanning North America, Middle East & Asia.

We provide end to end coverage of your omni-channel journey with a modular solution that can integrate with your existing ERP and Front End Solutions.

The ZopSmart Modules

1 Customer Front End	**3** PoS and Payments	**4** Operations Management	**5** Delivery Management
2 Marketing			

6 Catalogue & ERP Integration

7 Customer Support

8 Analytics

Key achievements include:

- Going from off-line to digital in **2 - 6 weeks** with low implementation costs

- **100 million+** orders processed on the platform with high NPS scores

- **20%** increase in sales within 18 months of launch

- **3X improvement** in the speed of in-store pick up processes

- Up to **40% reduction** in last mile delivery costs

To discuss how ZopSmart can help your organisation on its omnichannel journey, contact us at:

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CONTEXT

A leading retailer was getting a lot of consumer requests to add an online service. They started with a website which was essentially listing out its products online. The site was not integrated with any of the backend system which meant that the price and the stock information of a SKU was often out of date. The customers were happy with the online presence but frustrated by the incorrect information on the site.

Through a series of modular implementations, ZopSmart has been able to transform the retailers omni-channel capabilities and profitability.

ZopSmart's upsell algorithms helped the retailer grow revenues by 20%

Step 1: Drive Up Revenues

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The ZopSmart platform addressed these pain-points by seamlessly integrating with its backend SAP ERP system.

With more accurate price and stock information, many of the customers frustrations were addressed.

This accurate inventory data was then combined with customer analysis of purchasing behaviour to power ZopSmart's upsell algorithm. which resulted in **online revenues growing by 20%**

Step 2: In-Store Process Efficiency

With an improved frontend experience the online order volume surged by 30% in two months. While the increased volume delighted the retailer, the operational teams were quickly overwhelmed, due to an instore process that was extremely manual.

The operations team were printing out the invoice and a store associate used the printout to pick an order. If an SKU was missing, the associate would call the customer for a substitute. Given increased volumes this process was unsustainable and costly.

ZopSmart collaborated with the retailer to create an instore application for picking and packaging. The smart substitution algorithm by ZopSmart reduced the customer call time by 70% leading to a significant cost benefit. The store associates were happy as well.

The new process streamlined their workflow and eliminated all the chaos in operations, resulting in a **greater than 40% reduction in in-store process costs.**

Step 3: Logistics Efficiency

The next area of collaboration was with the logistics provider. The retailer was using a separate logistics provider who collected the packed orders and delivered them to the customer.

The logistics provider had no software or process integration with the retailer. The entire process was manual with the logistics provider collecting the orders at a slotted time and delivering them to the customer. The process of full (or partial) returns was an operational nightmare and resulted in huge pilferage.

ZopSmart established a three way collaboration with the retailer and the logistics provider. As part of the solution, ZopSmart provided its logistics module to the third party logistics provider and integrated them with the retailers system.

The customer now gets a far more precise delivery time (30 minute delivery window). This itself has **reduced the volume of full order returns by almost 30%**, and the optimized last mile delivery has **reduced logistics cost by around 20%** with some of the benefits being passed to the retailer.

Step 4: Adapt Quickly

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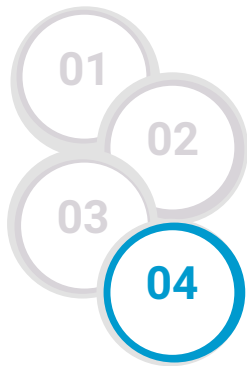
Even with this profitability, COVID-19 surfaced a new requirement for the retailer. The need to Adapt Quickly.

Last year, with COVID cases rising rapidly, the retailer saw increased demand for "Click and Collect". ZopSmart quickly understood the retailer's requirement and in a matter of 6 weeks launched the "Click and Collect" feature.

It was a saviour with the majority of sales during the pandemic leveraging this feature. The smooth process of customer notification and workflow management for the operations team has helped reduce crowding and helped in social distancing.

As a result of all these initiatives Omni-channel store profitability has increased by 5 - 15%

The Infinite Game Continues

As stated at the outset, retail is an infinite game. A lack of constant innovation can derail a retailers' journey. At ZopSmart our goal is to collaborate with retailers across the world and be their technology arm. This helps the retailers to innovate at a rapid pace in a very cost effective manner.

Specifically, on improving the economics, the next wave that we are seeing is related to robotics. ZopSmart is already innovating on this front with its partnership in North America with a robotics warehouse automation and with drone delivery.

We also believe that the offline store experience will be enhanced significantly with technology. Features like self-checkout, in-store product finders, are cost-effective innovative solutions pioneered by "Amazon Go" and likely to go mainstream, giving retailers new opportunities to further improve customer loyalty and operating margins.

A Brief History Of Omnichannel Retail

1994

Amazon starts as an online bookstore, forcing companies to start addressing their online journey. Only the largest of retailers could afford to develop these capabilities, and would typically run it as a separate business line to their offline business.
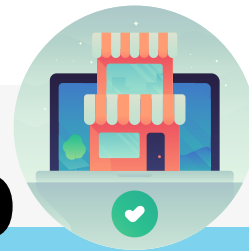
2010

The term "omnichannel" is coined, identifying the need for continuity of the consumer shopping experience across channels. Retailers utilising multi-channel strategies saw a 15-35% increase in average transaction size and a 5-10% increase in the profitability of loyal customers

2015

Shopify is listed on the New York Stock Exchange,. Along with players such as eBay and Amazon have lowered the barriers to online entry for retailers of all sizes

2017

Less than a year after launching "Amazon Go" as a store concept, Amazon acquires Wholefoods. Retailers know the largest online retailer has ambitions to become an offline retailer, and the boundaries between the two are likely to be erased

2020

Covid-19 forces retail stragglers to at least start their online journey. For those who are omnichannel, the benefits have increased, with omnichannel retailers reporting 50% increases in wallet share and 10% increases in the profitability of loyal customers

Source: IDC Retail Insights, 2018