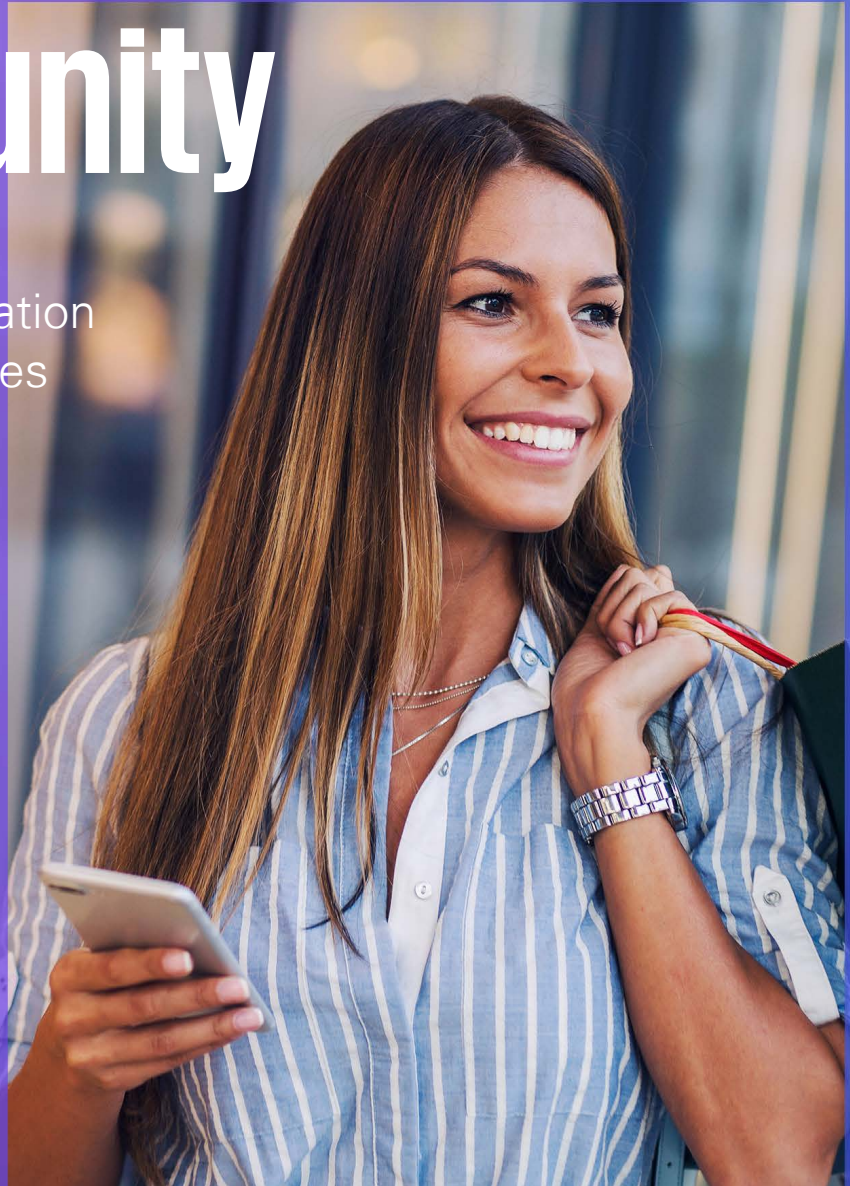KPMG

Seizing the seamless opportunity

Advancing next-generation omnichannel capabilities aligned to customer journeys

kpmg.com

Moving seamlessly into the future

Many retailers are making big strides in advancing seamless commerce strategies and capabilities, as they seek to differentiate and become the future leaders of retail. While omnichannel has been a long time coming, the full-throttle acceleration of e-commerce during the pandemic shocked retailers into action. The mandate was clear: meet customers where they are and provide seamless experiences regardless of channel.

Retailers have spent more than three years adapting to rapid changes and have transformed overall strategy in response. During this time, several trends have emerged that continue to shape retail operations.

Key trends that have emerged

Specific sectors and consumer segments drive e-commerce momentum
The pandemic accelerated e-commerce growth across most categories. Yet, some subsectors that had not been heavily invested in e-commerce before the pandemic, such as grocery and home improvement, have sustained higher growth levels. Two consumer groups—Millennials and Gen Z—have been the largest drivers of e-commerce growth across categories and are expected to continue to do so in the future.

Omnichannel shoppers are the most valuable customer segment in retail
Consumers who buy online have become more critical to retailers since the start of the pandemic—and not just because of their online behavior. A greater share of brick-and-mortar sales are coming from individuals who shop online; individuals who shop online and in-store spend more overall; and consumers who prefer to shop online have larger basket sizes across channels.

Stores offer exploration and can now win at convenience
Based on the product category or shopping occasion, consumers continue to favor the convenience and assortment offered by shopping online while also enjoying the exploration and immediacy of the in-store experience. But through different purchasing methods like buy online, and pick up in-store (BOPIS), stores can provide products conveniently.
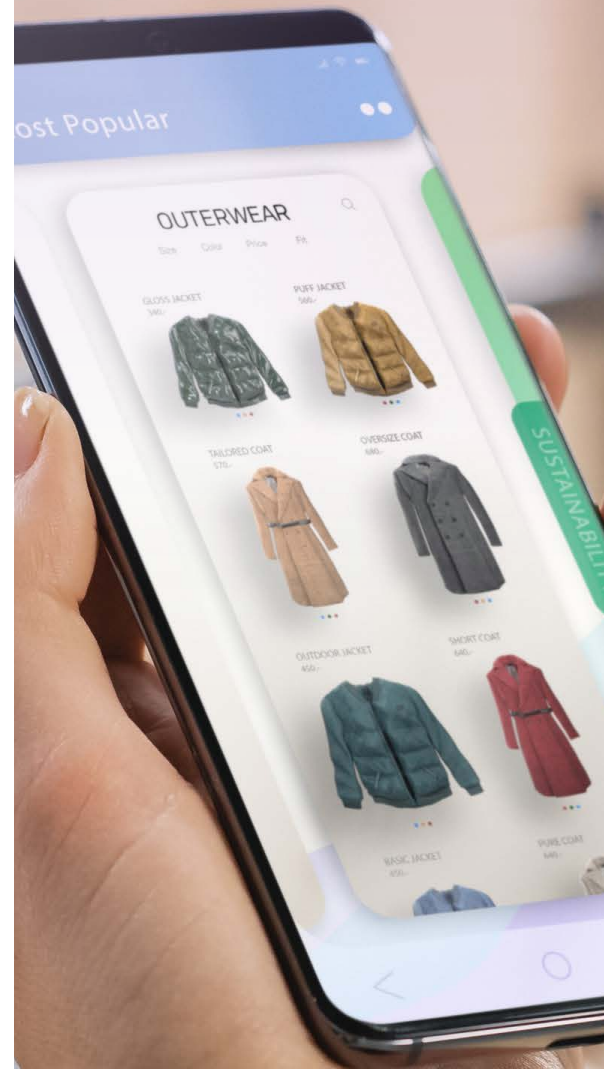
How retailers are responding

Retailers have responded to the rise of e-commerce in different ways, including how they have reorganized and adapted their operations to deliver on evolving consumer demands:

The store is at the center of e-commerce
E-commerce has progressed from an adjunct and distinct channel to being dependent on and integrated with the store. The store can reduce customer acquisition costs by serving as a showroom, providing first-line customer service, and reducing distribution center and logistics costs while enabling third-party fulfillment partnerships and serving as a fulfillment node. In addition, the store can facilitate lower cost, more convenient in-store returns processes, which bring shoppers in and creates another traffic and conversion opportunity for retailers.

Retailers reorient from channel to customer
Leading retailers are reorganizing teams and capabilities to align with the customer journey rather than focusing solely on channel or function. They are also balancing their measure of profit to go beyond channel-level profit and loss (P&L) statements to financial metrics organized around the customer, such as customer lifetime value.

Retailers are cracking the code on how to unify data across channels and occasions
The key to achieving seamless capabilities lies in unifying data and integrating it across the organization to enable a holistic view of the customer and the business. Today, data is maintained in channel and system silos, providing limited visibility to operators and decision makers. The future of seamless commerce will require a common data model that supports a customer's journey across channels. It will be the foundation for using tools such as generative AI to explore new business models and selling opportunities, and to improve efficiencies.

In this paper, we explore how leading retailers are advancing the next generation of seamless commerce to enable evolving customer journeys while delivering profitable and sustainable experiences. We pay particular attention to the shift from channel-specific to customer-centric economics and the role of the store in augmenting customer lifetime value while limiting costs to serve.

Methodology

KPMG and the National Retail Federation partnered together on this report to gain a deeper understanding of the current and future trends across the omnichannel retail landscape. We conducted extensive qualitative and quantitative research, including interviews with C-Suite executives at leading retailers; surveying over 2,000 consumers about their shopping habits, preferences, and analyzing over four years of credit and debit card transaction data, provided by our partner Affinity Solutions, and conducting secondary research to gain additional omnichannel insights across the retail sector.

In late 2023, we conducted in-depth interviews with seven prominent retail executives:

Mary Ellen Adcock
Senior Vice President of Operations, The Kroger Company

Greg Cathey
Senior Vice President of Transformation and Platform Support, Walmart

Brian Cornell
Chief Executive Officer, Target Corporation

Samir Desai
Executive Vice President, Chief Digital and Technology Officer, Abercrombie & Fitch Co.

Mary Dillon
Chief Executive Officer, Foot Locker, Inc.

Seemantini Godbole
Executive Vice President, Chief Digital and Information Officer, Lowe's Companies, Inc.

Adrian Mitchell
Chief Operating Officer, and Chief Financial Officer, Macy's

affinitysolutions

E-commerce: Driving the future of retail

Despite two years of relatively flat growth in retail, e-commerce has returned to a steady pace of growth after achieving record highs during the pandemic. Even as consumers returned to physical stores, digital sales have grown at a faster rate than brick-and-mortar in-store sales over the past three years.

While online growth for most retail categories spiked during the pandemic, sales in categories such as grocery and home improvement grew faster and have continued to grow rapidly. Other categories such as auto supply and clothing and accessories have stabilized at or slightly above pre-pandemic levels.
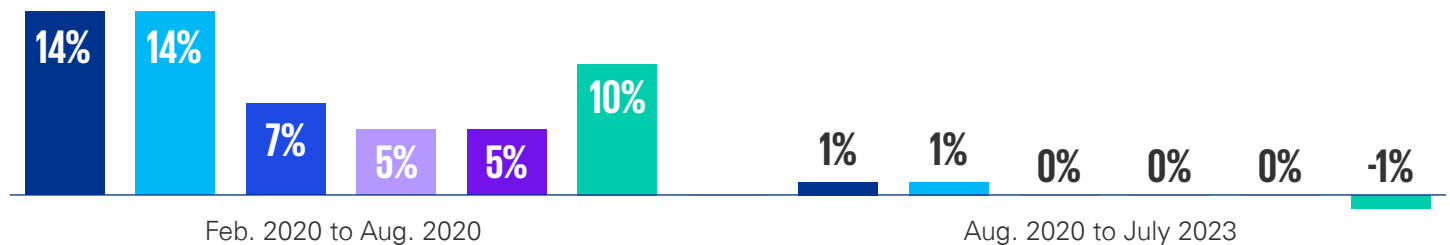
Online grocery sales have been particularly strong. with online sales reaching approximately four times their pre-pandemic levels. From February to August 2020, online grocery sales and home improvement categories both climbed 14 percent. This was driven predominately by increased transaction volume as consumers continued to appreciate the ease and convenience of buying groceries online and had more time to make home improvements.

Indexed retail sales growth, January 2019 to November 2023

Feb '20-Aug '20

Aug '20-Nov '23

Annualized growth rate for period

+77%

+10%

201

(3%)

+9%

132

100

— Online sales   — In-store sales

Jan 2019 Jan 2020 Jan 2021 Jan 2022 Jan 2023 Nov 2023

Notes: (a) In-store retail sales are defined as total retail sales (excluding motor vehicles and parts, gas stations), seasonally adjusted, less non-store retail sales, seasonally adjusted
Source: US Census Monthly Retail Trade Report

Annualized growth rate for observed online sales, by category

Feb. 2020 to Aug. 2020						Aug. 2020 to July 2023					
14%	14%	7%	5%	5%	10%	1%	1%	0%	0%	0%	-1%

■ Home improvement   ■ Grocery and supermarkets   ■ Auto supply   ■ Clothing and accessories
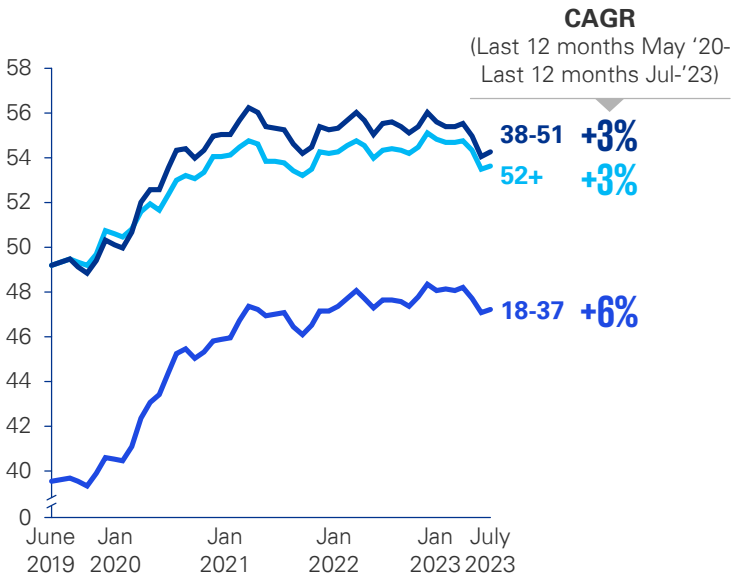■ Health, beauty, and drug   ■ Furniture and home decor

Notes: (a) Total sample population "Online" sales per category used; (b) Wholesale Club sales are not reflected in any of the above categories.
Sources: Affinity Solutions, Consumer Purchase Insights, All Spend

Younger generations lead the charge

During the pandemic, e-commerce adoption was nearly even across generations—from Gen Z (44 percent) to Millennials (39 percent), to Gen X (39 percent), and Baby Boomers (35 percent). However, online spending per card increased at twice the rate for Millennials as it did for older generations. Similarly, Millennials and Gen Z are twice as likely as Baby Boomers to be expected to dedicate a greater share of their spend to online shopping over the next three years.

With their increasing purchasing power and growing share of the overall population, younger generations will continue to drive the adoption of online shopping. Therefore, e-commerce is well positioned for more growth as the digital behaviors of younger generations are already a natural part of their life experience.
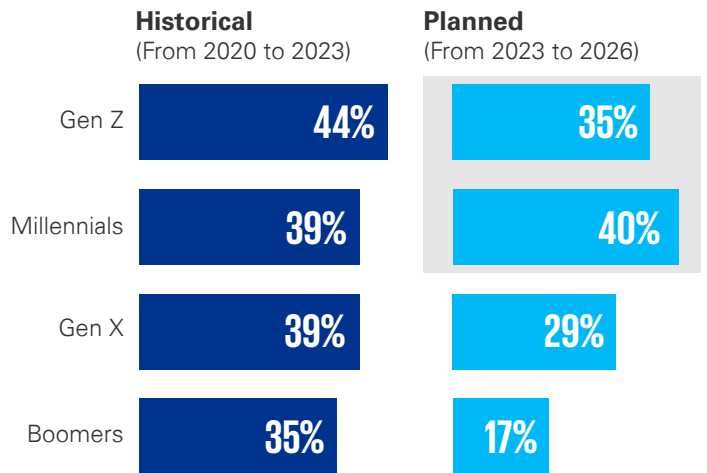
Observed monthly online spend per card by age, ($)

CAGR
(Last 12 months May '20- Last 12 months Jul-'23)

38-51 **+3%**
52+ **+3%**
18-37 **+6%**

June 2019 | Jan 2020 | Jan 2021 | Jan 2022 | Jan 2023 | July 2023

Notes: (a) Total sales data excludes spend identified as "REST" demographic group instead of a defined demographic segment; (b) Spend per card is calculated as a 6-month moving average.
Sources: Affinity Solutions, Consumer Purchase Insights, All Spend

Percent of respondents increasing online share of spend, by generation

	Historical (From 2020 to 2023)	Planned (From 2023 to 2026)
Gen Z	44%	35%
Millennials	39%	40%
Gen X	39%	29%
Boomers	35%	17%

Younger generations are more likely to expand share of online spend in the future

Sources: KPMG Consumer Survey, fielded August 2023

Social media is on the rise

Consumers increasingly turn to social media influencers for product recommendations, tutorials, and informative content, which can lead to online purchases. According to Pew Research, 40 percent of adult social media users say they follow influencers or content creators (of these, 72 percent fall in the 18- to 29-year-old age range). Three in ten adult social media users admit purchasing something after seeing an influencer or content creator post about it on social media.[1]

Retailers recognize the value of social media and the role of influencers as an integral component of their marketing strategies. Yet, many retailers are still cautiously evaluating social as a commerce channel, opting to use it to advertise and market their products and offer incentives and discounts to drive traffic back to their websites. As social commerce evolves, retailers will likely explore the tradeoffs between losing a potential sale and executing the transaction on a social media platform where they are not the merchant of record.

Consumers will continue to drive social commerce. Consider the shopper on Pinterest that saw something she loved and wanted to buy it right there. Or the person inspired by watching a do-it-yourself home improvement video that wanted to buy the featured products right on the platform.

"Shopping is going to become even more integrated into our life," said Seemantini Godbole, Executive Vice President, Chief Digital and Information Officer at Lowe's. "We will always have a great presence across our retail ecosystem… things like Lowes.com, our app, and our store properties, but we absolutely want to meet customers where they are. If they are getting inspired on other platforms and wish to transact there, we are more than open to learning through that and understanding what that looks like."

In our August 2023 consumer survey, shoppers on certain online marketplaces were more likely to have purchased on social media. For example, approximately one-third (34 percent) of Amazon customers have made a purchase on a social media platform while approximately two-thirds (72 percent) of Wish and more than half (65 percent) of AliExpress customers reported making a purchase via a social media platform.

[1] Pew Research Center, "For shopping, Americans turn to mobile phones while influencers become a factor" (May 19, 2023)

Moving digital journeys forward

The rapid acceleration of digital over the past three years has modernized retail customer journeys and elevated expectations for speed, convenience, and satisfaction. While every customer journey is unique, consumers all expect seamless, consistent, convenient, and personalized experiences across the various touchpoints.

Convenience tops the list. Almost half (49 percent) of consumers surveyed cite convenience as the primary factor for shopping online. The convenience factor jumps to 56 percent for those consumers who made at least half of their purchases online in the past year. Product availability (37 percent) and delivery speed (30 percent) are also key factors of convenience.

Our research also shows that convenience can be the deciding factor in how consumers choose to shop. For example, when price and selection are equal, shopper preferences are similarly split into thirds between online, in-store, and whatever is the most convenient channel for the consumer at the time. This finding illustrates that consumers place a high value on convenience and highlights opportunities for retailers to meet customers where they are by offering convenient, flexible in-store and online capabilities in all priority markets.
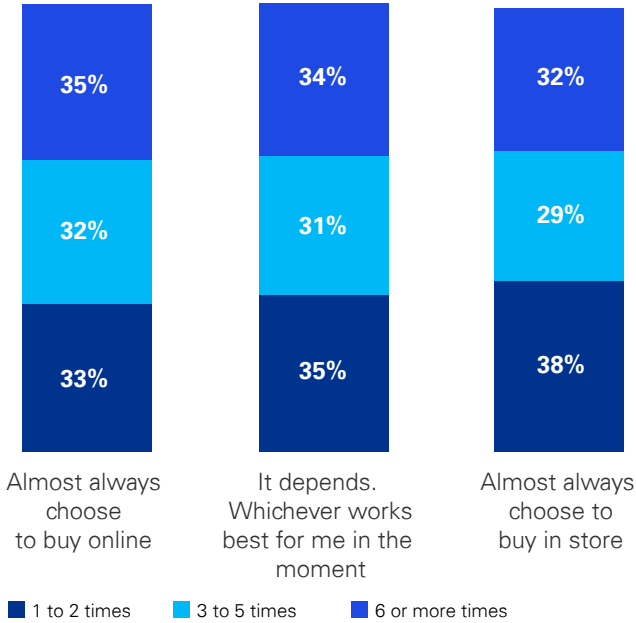
Factors that drive customers to online channel

Convenience
49%

Product availability
37%

Delivery speed
30%

Ability to compare prices
29%

Product variety
25%

Product quality
20%

Product info availability
19%

Simple return process
16%

Shopping experience
13%

Customer service
10%

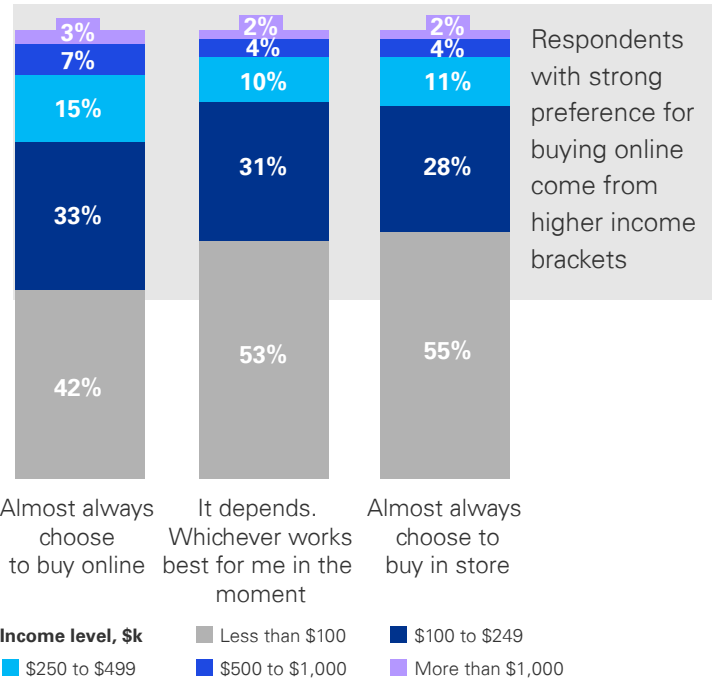Opportunity to "try out" items
6%

Source: KPMG Consumer Survey, fielded August 2023. Respondents identify the top 3 factors in making you more likely to purchase online.

Consumer preference for online or in-store shopping when price and selection is equal, by purchase frequency

Purchase frequency over past 6 months

	6 or more times	3 to 5 times	1 to 2 times
Almost always choose to buy online	35%	32%	33%
It depends. Whichever works best for me in the moment	34%	31%	35%
Almost always choose to buy in store	32%	29%	38%

■ 1 to 2 times   ■ 3 to 5 times   ■ 6 or more times

Consumer preference for online or in-store shopping when price and selection is equal, by income level

	Almost always choose to buy online	It depends. Whichever works best for me in the moment	Almost always choose to buy in store
More than $1,000	3%	2%	2%
$500 to $1,000	7%	4%	4%
$250 to $499	15%	10%	11%
$100 to $249	33%	31%	28%
Less than $100	42%	53%	55%

Respondents with strong preference for buying online come from higher income brackets

Income level, $k   ■ Less than $100   ■ $100 to $249   ■ $250 to $499   ■ $500 to $1,000   ■ More than $1,000

Sources: KPMG Consumer Survey, fielded August 2023. Totals may not equal 100 percent due to rounding.

Easy and flexible fulfillment

Convenience is also driving preferences in the ways consumers want to receive their online orders. Parcel delivery is a popular option across most categories, as consumers favor having their purchases delivered to their doorstep, a trend anticipated to keep growing in the future. Parcel delivery is used half of the time or more by 30 percent of survey respondents and is also the fulfillment option with the greatest expected growth, with nearly 70 percent of consumers surveyed expecting to use it the same amount or more over the next three years.

Other fulfillment options are also growing, such as BOPIS, which is now being used by about one-third of consumers surveyed.

Grocery retail is an exception to disproportionate expectations of parcel delivery growth, where consumers are more likely to expect to expand purchases in-store, via same day delivery, or via BOPIS over the next three years. This is a nod to the importance of the fresh product category to grocery retail shoppers.

Kroger understands this all too well. "Freshness and convenience are at the heart of our seamless strategy," said Mary Ellen Adcock, Senior Vice President of Operations at Kroger. She added that 70 percent of consumers choose where to shop based on their perception of fresh products, which was a key insight into Kroger scaling out its end-to-end fresh initiative. With an increased frequency of smaller baskets, immediacy in delivery soon became an evolving customer need, so Kroger added delivery within 30 minutes to its fulfillment options.

"Our customers know that they can rely on us for fresh and affordable products with added convenience, including faster delivery," said Adcock. "And we know the one constant is that the customer is going to change, and their needs will evolve, and we're going to be there to evolve and change with them."
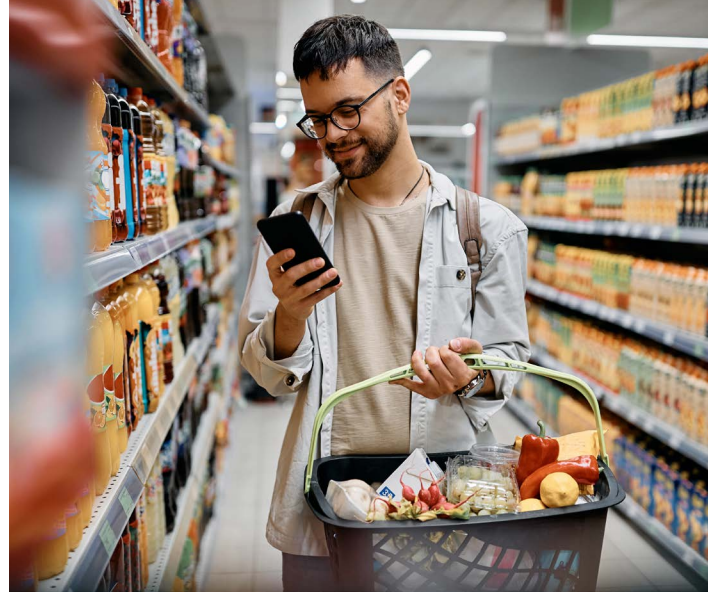
Small details make a big difference at Kroger

When the pandemic hit, Kroger found itself well positioned for growth with the infrastructure in place from its merger with Harris Teeter. This allowed the company to scale its Kroger Pickup service in days, not weeks or months. And, it enabled the company to focus on innovation to enhance customer experience.

"In many ways, Covid served as our chief innovation officer," said Mary Ellen Adcock, Senior Vice President of Operations at Kroger. "Now we continue to challenge ourselves to innovate at a faster pace and keep looking to enhance customer experience in every way possible."

One example illustrates how small innovations can make a big difference. After launching an in-store mode on its mobile app, consumers barely used it because it needed to be more intuitive with fewer friction points, such as having to navigate multiple screens. With a few quick fixes and an automatic opt-in, the app immediately saw higher engagement, with users enjoying more than just the in-store mode but accessing digital coupons and other features such as scheduling vaccine appointments.

"They were small details that meant a lot," said Adcock. "It's important to remember, especially in customer experience, and even more so in omnichannel, it's the details that matter to the customer."

Target delivers convenience with coffee and a smile

It's not easy to make running errands a crowd-pleasing experience, especially with kids in tow. However, Target has found a way to make it so with its curbside Drive Up pick-up and return services complete with Starbucks ordering capabilities.

Consumers can purchase items or initiate a return on the Target app and then pick up or return items without ever leaving their cars. And now, as they tell Target they're on their way to the store, they can place a Starbucks order and pay right on the app, to have it delivered to their vehicle with their purchase.

"We're always thinking about how we can make things easier for families, innovating on guest-favorite services like Drive Up to create an even more convenient, joyful experience," said Brian Cornell, Chief Executive Officer at Target. "Think of a busy mom: As a Target team member processes her return, places her order in her trunk, and waves to her kids in their car seats, she can look forward to enjoying her favorite Starbucks drink on the drive home, because our team brought that to her too."
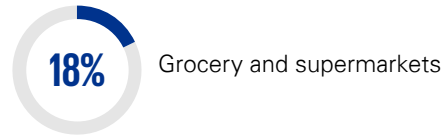
Drive Up with Starbucks is available in 1,700 Target stores. Target is the first retailer to offer this service at this scale.
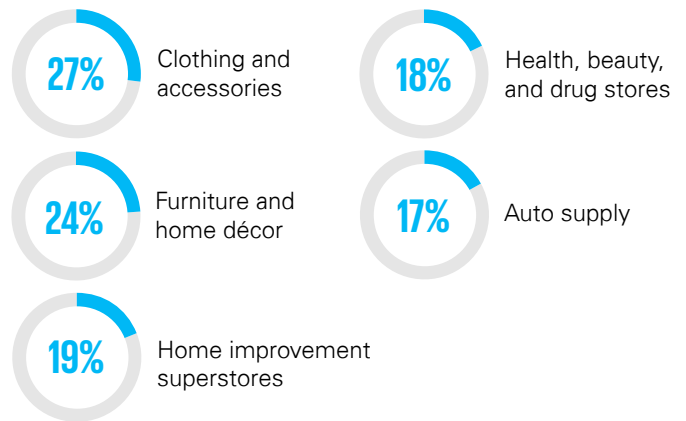
Primary channel for delivery, by category

Percent of consumers expecting to use fulfillment channel more frequently over next 3 years, by category

Buy in store

18% Grocery and supermarkets

Parcel delivery to home

27% Clothing and accessories

24% Furniture and home décor

19% Home improvement superstores

18% Health, beauty, and drug stores

17% Auto supply

Outside of grocery, **parcel delivery to home** is the fulfillment option with the **highest expected growth over the next 3 years**

Sources: KPMG Consumer Survey, fielded August 2023

Favoring free and fast

Consumers expect free shipping and returns, which puts continued pressure on retailers to find cost-efficient reverse logistics, like returning items in stores. More than three-quarters (76 percent) of consumers cite free shipping, followed by free returns (46 percent) and speed of delivery (42 percent) as determining factors in their selection of which retailer they will buy from online.

Consumer tolerance for delivery times varies by retail category. For example, more than a third of furniture and home décor consumers will accept more than a week delivery time with 10 percent tolerating more than two weeks, while nearly a quarter of grocery and supermarket consumers surveyed expect same-day delivery.

Free, fast shipping and free, simple returns both have the potential to add significant costs to retailers.

Some retailers are leveraging their physical footprint as a consolidation point to encourage exchanges and consolidate reverse logistics. Others are altering policies to limit free returns within a specific timeframe, issuing store credit rather than refunds, or passing the cost on to consumers by charging a small fee for returns. The goal is to strike a balance between taking positive steps to reduce returns without alienating customers.

Top factors influencing where to make an online purchase

Free shipping
76%

Free returns
46%

Speed of delivery
42%

Easy returns process
40%

Same day delivery
23%

Live shipping updates
17%

Receiving multiple items in a single package
15%

Other
5%

Sources: KPMG Consumer Survey, fielded August 2023

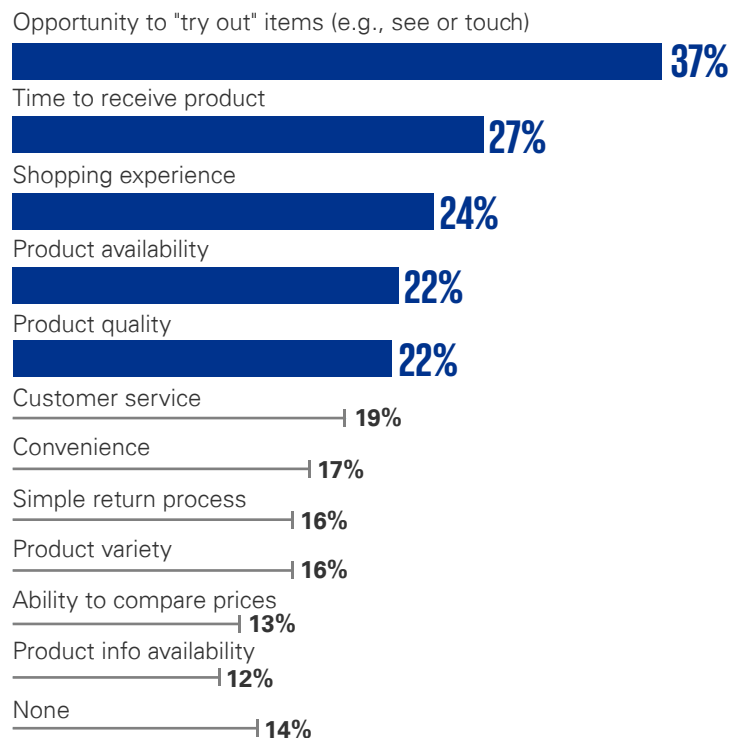# Anchoring e-commerce with brick-and-mortar

Undeniably, the convenience of digital shopping is hard to beat. But so is the ability to touch, feel, and try on a product, according to more than a third (37 percent) of consumers who attributed it as the main reason they shop in stores. The immediacy of receiving the product in store was a key factor for 27 percent of survey respondents. Consumers also value the social and emotional experience of in-store shopping, as indicated by 24 percent of consumers who cite the shopping experience as a top factor.

In fact, according to NRF data, brick-and-mortar stores remain the primary point of purchase for consumers, accounting for approximately 70 percent of total retail sales.[2]

"The rumors of the death of brick-and-mortar have been highly exaggerated. It's never going away," said Mary Dillon, Chief Executive Officer at Foot Locker. "The vast majority of sales for many companies and industries still flow through the stores. And there's a reason because people still like, and sometimes need to buy things in person."

While in-store shopping is a favorite pastime, the role of brick-and-mortar locations continues to evolve store form and function.

Factors that drive customers to shop in-store channel

Factor	%
Opportunity to "try out" items (e.g., see or touch)	37%
Time to receive product	27%
Shopping experience	24%
Product availability	22%
Product quality	22%
Customer service	19%
Convenience	17%
Simple return process	16%
Product variety	16%
Ability to compare prices	13%
Product info availability	12%
None	14%

Source: KPMG Consumer Survey, fielded August 2023. Respondents identify the top 3 factors in making you more likely to make a purchase online.

[2] NRF Retail Sales Forecast 2023. March 29, 2023.

Equipped with advanced data and analytics, relevant consumer insights, and vast new technology potential, retailers are rethinking their brick-and-mortar strategies and linking online and in-store activity to improve profitability and meet new--and anticipate future-- consumer expectations. For example, this includes greater personalization across interactions, including 360-degree service—from in-store assistance to call centers, and social media support to live agents on websites or text on mobile apps. The key is offering seamless continuity, consistent quality, and always-on availability across a retailer's entire service portfolio.[3]

Foot Locker goes big with brick-and-mortar

While some stores are reducing their store footprints, others are reimagining their store concepts. Foot Locker is transforming its real estate approach by opening new store formats, reducing on-mall locations, and closing underperforming stores. In the next few years, the company is also focusing on building its square footage penetration of new concept doors closer to 20% up from 13% today.

One concept includes the Kids Foot Locker "House of Play" store, which focuses on delivering a kid-friendly family experience. Spanning over 7,500 square feet, these stores include interactive playscapes, activity areas, and footwear and apparel. The store center offers space for in-store activities and community-based events.

Other concepts include community and power store formats ranging from 10,000 to 15,000 in square footage. Community stores target areas with a strong affinity for sneakers carrying localized product assortments and community events, while power stores provide elevated customer experiences enhanced by technology.

"If you're in the brick-and-mortar business, you have to give people a reason to shop by making it more experiential," said Mary Dillon, Chief Executive Officer at Foot Locker. "In markets where it makes sense, we are deploying new concepts that allow people in the community to come together and have better experiences around kids or around basketball. By doing so, we're able to build better connections and deepen our relationships with customers."

[3] Google Cloud, Manhattan Associates, Zebra Technologies and Incisiv, "2023 Benchmark, Unified commerce for specialty retail" (May 2023)

Changing store shapes and sizes

More retailers are using data to guide decisions, ranging from store footprint, format, function, location, and more. Many, like Macy's and Abercrombie & Fitch Co. are deciding to reduce the number of mall stores in favor of smaller footprint stores. Others like Foot Locker are reducing the number of its mall stores and focusing on greater experiential concepts.

For example, Foot Locker is implementing various large footprint stores with more experiential themes to cater to its consumer base in different locations. This includes concepts highlighting its sneakers and apparel with a special focus on kids, community, and technology-based themes.

Abercrombie & Fitch Co. is using data to amplify digital demand by opening smaller footprint stores. "We're using data in a much more powerful way than we had previously to help us determine how we think about our physical presence in stores. We've leveraged this data to figure out what the right format, location, and overall role that the store is going to play," noted Samir Desai, Executive Vice President, Chief Digital and Technology Officer at Abercrombie & Fitch Co.

Through data analysis, the company found that customers coming into the store were often looking to return or exchange what they bought online. "Having a store presence creates this digital halo for us, where people in a certain radius are more inclined to buy from us because they have the confidence and comfort of going to a store quickly to buy, exchange, or return without friction," said Desai. "The flagship stores that Abercrombie was known for over a decade ago are more in our past. Now, the store is a little bit more about utility, function, and speed."

This integration can have the added benefit of defraying the cost of return shipments and encouraging exchanges. As such, Abercrombie & Fitch Co. offers QR codes that consumers can pull up on their mobile app and associates can quickly scan to facilitate quick and easy, no wait-in-line returns. Target entices people to make returns in person with an easy drive-up return process.

Macy's, Inc. expands omnichannel approach with smaller stores

Macy's, Inc. omnichannel strategy has a win-by-market approach, which considers the economics of each market location, shopping habits of the local customer and which of its nameplates is most suited for the different available centers.

"Our customer is at the center of every decision we make. They are savvy and educated, and demand an easy, seamless and convenient omnichannel experience regardless of where they transact with us. Their time is valuable, and we must meet them where they are," said Adrian Mitchell, Macy's Chief Operating Officer and Chief Financial Officer.

Macy's and Bloomie's small-format stores play a pivotal role in Macy's, Inc.'s omnichannel strategy to expand presence in existing markets, enter new markets, and maintain a presence in markets by replacing larger underperforming stores that may be in malls that are not as relevant with its customer base as it once was.

"Our small-format stores, which are roughly one fifth the size of our full-line locations, are efficient to operate, provide the customer with a new and exciting shopping alternative within our omnichannel ecosystem, and present a unique opportunity to target high-traffic shopping centers . Landlords are excited by what we are offering," Mitchell said.

Macy's. Inc. plans to open up to an additional 30 new Macy's small-store formats nationwide over the next two years, bringing its total to at least 42, and is committed to expanding its small-format Bloomie's from its current base of three. The retailer is choosing strategic off-mall locations to get closer to customers with convenient locations to encourage more shopping visits. Smaller stores also allow it to cater to key audiences, localize product assortment, and offer more experiential possibilities.
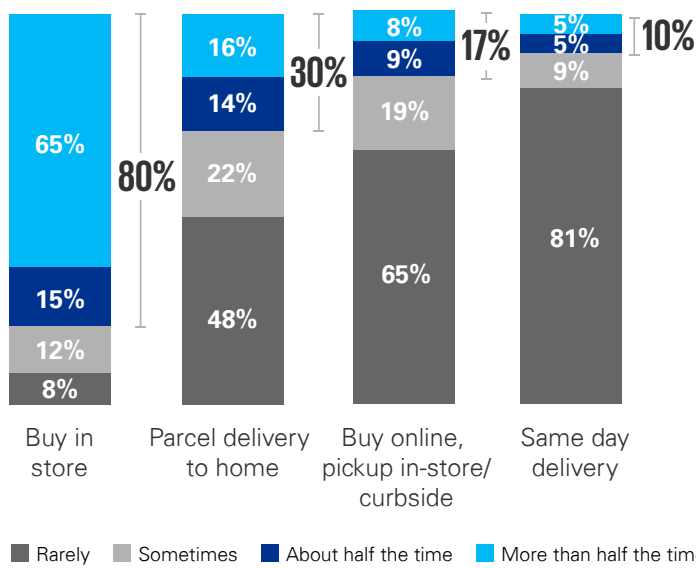
Evolving store services

As customer journeys evolve and continue to move back and forth between more channels, the physical store continues to serve as both a purchase point and fulfillment point for products purchased digitally. For example, 80 percent of consumers surveyed use the store as a fulfillment channel half the time or more versus parcel delivery (30 percent), BOPIS (17 percent), and same-day delivery (10 percent.)

This is a trend anticipated to continue over the next three years. While 66 percent of consumers surveyed expect to buy in-store about the same amount as they do now,

15 percent plan to use it more frequently. Meanwhile, 20 percent of consumers expect to increase parcel delivery, followed by 16 percent, who plan to increase their use of BOPIS, and 11 percent, who anticipate using same-day delivery via an outside partner such as Instacart or DoorDash more frequently over the next three years.
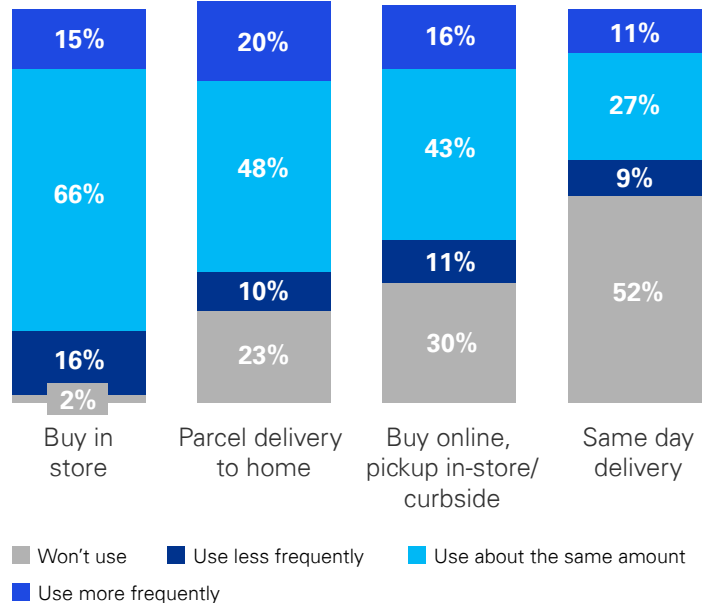
Regardless of the fulfillment channel mix, investments in making these channels more efficient are likely to improve processes in general (e.g., improved picking and staging infrastructure is likely to benefit all channels.)

Frequency of fulfillment channel use across all categories

Buy in store: 8% Rarely, 12% Sometimes, 15% About half the time, 65% More than half the time — 80%
Parcel delivery to home: 48% Rarely, 22% Sometimes, 14% About half the time, 16% More than half the time — 30%
Buy online, pickup in-store/curbside: 65% Rarely, 19% Sometimes, 9% About half the time, 8% More than half the time — 17%
Same day delivery: 81% Rarely, 9% Sometimes, 5% About half the time, 5% More than half the time — 10%

Legend: Rarely | Sometimes | About half the time | More than half the time

Source: KPMG Consumer Survey, fielded August 2023. Total may not equal 100 percent due to rounding.

Top factors when selecting where to make an online purchase

Buy in store: 2% Won't use, 16% Use less frequently, 66% Use about the same amount, 15% Use more frequently
Parcel delivery to home: 23% Won't use, 10% Use less frequently, 48% Use about the same amount, 20% Use more frequently
Buy online, pickup in-store/curbside: 30% Won't use, 11% Use less frequently, 43% Use about the same amount, 16% Use more frequently
Same day delivery: 52% Won't use, 9% Use less frequently, 27% Use about the same amount, 11% Use more frequently

Legend: Won't use | Use less frequently | Use about the same amount | Use more frequently

Sources: KPMG Consumer Survey, fielded August 2023. Total may not equal 100 percent due to rounding.

Enhancing store-based fulfillment for e-commerce

Having multiple fulfillment options rises in importance as e-commerce continues to grow and retailers increasingly rely on stores for fulfillment.

By leveraging different fulfillment options such as distribution centers and stores, including BOPIS, retailers can select the most cost-effective location for e-commerce fulfillment. The key is to have inventory visibility by each location – with insight into the availability to ship, sell, and allocate. Fulfillment tools can provide retailers with the most cost-effective decision to fulfill a particular order.

Store-based fulfillment can provide an opportunity to improve inventory management across channels and locations, reducing overstocks and offering the potential to move slow-moving inventory from the store, freeing up space for more profitable items. In addition, store-based fulfillment offers easy coordination with third parties, including gig economy platforms, which offer access to flexible labor as needed.

To accommodate in-store fulfillment, certain retailers are redesigning their stores, investing in technologies, and adapting operations to allocate space for equipment, training staff on picking, packing, and shipping online orders, and ensuring system integration with real-time inventory management capabilities. While cost efficiency is a benefit, retailer success depends on the ability to provide an easy, convenient, and satisfying fulfillment experience for consumers.

Lowe's upgrades enable seamless capabilities

Lowe's has invested in modernizing its technology infrastructure to enable omnichannel capabilities to support seamless, and sometimes complex, customer journeys. For example, the purchase of an item, such as a major appliance, can include many interactions bouncing back and forth between stores, social media, and mobile apps emphasizing the need to provide consistent and frictionless experiences across all touchpoints.

"We are focusing on what we call everywhere commerce—meeting customers where they are," said Seemantini Godbole, Executive Vice President, Chief Digital and Information Officer at Lowe's. "We have built our technology stack and developed our products in a way that positions us to continue to enhance that everywhere commerce opportunity."

The company has unified its data and implemented foundational technology that "connects all the dots" to enable omnichannel capabilities. For example, the Lowe's app personalizes content for customers based on their registration as PRO or DIY customers. It also implemented self-checkouts as part of its front-end transformation, which created room for fulfillment of the growing volume of BOPIS orders.

Moreover, Lowe's now offers seamless same-day delivery increasing convenience to its customers by partnering with Instacart and OneRail for delivery. "We're keeping all the fun elements of home improvement and taking out all the friction," said Godbole.

Looking ahead, the company is also exploring ways generative AI and other technologies can improve customer and associate experiences in the future. "Some people are comfortable with DIY and others may be intimidated by it," said Godbole. "With Gen AI and other advanced technology tools, people may have more courage and enthusiasm to try some projects on their own."
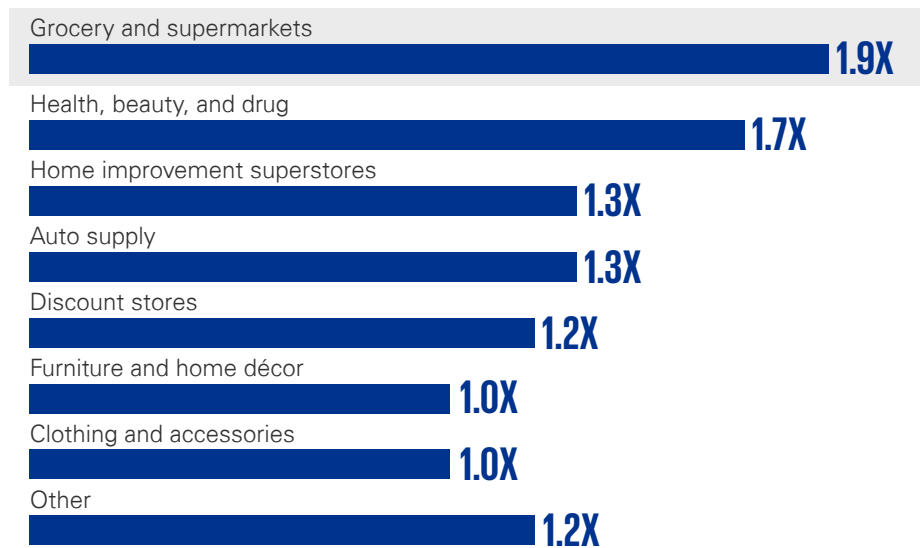
Benefitting from cross-channel shoppers

Retailers benefit from providing good online experiences as consumers who buy online are important to retail success across the enterprise. Cross-shoppers (those who shop both online and in-store in a specific category) generated a greater percentage of in-store sales in 2022 than in 2019. For example, the share of brick-and-mortar sales driven by customers who also buy online in grocery and health and beauty nearly doubled over this time.

Growth in share of total in-store sales from cross-shoppers, 2019 to 2022

Category	Growth
Grocery and supermarkets	1.9X
Health, beauty, and drug	1.7X
Home improvement superstores	1.3X
Auto supply	1.3X
Discount stores	1.2X
Furniture and home décor	1.0X
Clothing and accessories	1.0X
Other	1.2X

The share of brick-and-mortar sales driven by customers who also buy online has nearly **doubled in grocery**

Notes: a) Total sales data excludes spend identified as "All" channel instead of either "B&M" or "Online"; (b) Amazon.com sales excluded from all analyses as sales cannot be attributed to specific category and it is an online only retailer; (c) 2019 is the top bar of each cluster and 2022 is the bottom bar.
Sources: Affinity Solutions, Consumer Purchase Insights, 5-Year Constant Panel

Across categories, cross-shoppers similarly had higher spending per card compared to brick-and-mortar only consumers, and their spending per card grew at a faster rate. Consumers stating a preference for almost always preferring to buy online were approximately 50 percent more likely to have an average basket size over $250 compared to those preferring to buy in brick and mortar. Finally, online sales were drawn more heavily from higher income groups for each category.

Combining each of these factors, cross shoppers are valuable to retailers, and make up an increasingly critical portion of the consumer base, even in non-online channels.

"What's very clear from the data is if you only have a single presence, only stores or only digital, you're less productive per capita than when you have both," said Adrian Mitchell, Chief Operating Officer and Chief Financial Officer at Macy's, "We are committed to providing our customers the best omnichannel experience through ongoing updates to our existing base, more small format locations and an improved digital experience."

Operating in an omnichannel world

Consumers expect to shop seamlessly with one brand across touchpoints, regardless of channel. Yet, making it happen from an operational standpoint remains a big challenge for many retailers. To meet consumers where they are, retailers are focusing on improving operations in some key areas including unifying data and integrating systems, aligning organizational structures to the customer journey, driving efficiencies by leveraging existing assets and embracing automation, and moving beyond short-term channel economic measures to embrace the longer-term perspective of customer lifetime value.

Unifying data and integrating systems

Achieving omnichannel success requires integrating systems and unifying customer data to enable reliable, consistent, seamless experiences. The goal is to bridge any gap between channels by integrating internal systems and dismantling departmental silos to enable real-time, accurate, and consistent data and insights. This includes ensuring the use of consistent data that drives a seamless customer journey—spanning internal customer relationship management (CRM) systems as well as robust integration and master data management for other systems across data and analytics, supply chain, inventory, order management, fulfillment, point of sale (POS) through to post-purchase customer support.

It's no secret that modernizing systems and unifying data is easier said than done. Especially considering that, for many retailers, it may involve transforming outdated legacy systems to more agile modern approaches like cloud-based platforms, modular applications, and new potential from advancing technologies, like artificial intelligence and machine learning.

Consider the 30-year-old point-of-sale operating system that Lowe's is updating with a modern omnichannel architecture. Labeled as 'Myredvest,' this intuitive system enables a seamless experience for customers, while simplifying processes for associates.

To enable successful omnichannel transformation and democratize data and digital tools, retailers need to invest in technology infrastructure or work with third-party providers to create modern, flexible technology platforms and a data architecture that provides access to clean, reliable, and timely data in secure ways. Siloed data and inflexible legacy systems that don't easily accommodate new applications or enable the ability to incorporate artificial intelligence and machine learning potential will prevent progress. Retailers need to consider whether to build, buy, or partner to establish integrated technology and data systems they will need to compete by aligning technology and transformation roadmaps to their omnichannel goals.

Optimizing organizational structures

Several retailers are implementing organizational changes and incorporating capabilities to better reflect the integrated way consumers now shop. Leading retailers have adopted horizontal organizational structures to break down operational silos across channels and facilitate better collaboration and coordination between functions. Such changes are designed to provide a holistic approach to making better decisions to optimize the customer experience.

For example, Walmart has implemented a horizontal organizational structure combining its operating functions into a central Chief Operations Officer (COO). This COO has responsibility for all business operations, store operations, supply chain operations, and transportation operations. There is a platform service layer underneath for end-to-end focus on key areas such as transformation, asset protection, automation, real estate, etc. By organizing this way, Walmart is eliminating vertical silos and aligning its operations with the customer journey.

Walmart leans into transformation

Taking a people-led, tech-powered approach, Walmart is investing heavily in data and technology and prioritizing automation as a key component of its strategy to improve customer and associate experiences, boost productivity, and reduce costs. For example, it has automation that builds pallets to be specific to each aisle on the floor. This means that store associates in the backroom can unload trucks and take pallets directly to the floor as soon as inventory arrives at the store, freeing up associates from physical labor so they can spend more valuable time on the sales floor serving customers.

The company is also applying data in ways that blend the physical and digital experiences. For example, customers can scan a QR code in-store to easily purchase everything seen in a display. Endless aisle technologies enable customers to shop a broader product selection beyond what is on the shelves in stores. Digital shelf labels (DSLs) use sensors to enable store associates to easily locate an item on the shelf.

Walmart is also leaning into innovation across the supply chain. The supply chain will be enabled by increased automation, data insights, and enhanced software that will improve in-stock, inventory accuracy, and flow wherever consumers shop -- in stores, pickup, or home delivery.

"We listen when customers tell us how they want to shop, and we need to serve them. For example, pickup became a real advantage for us during and after the pandemic, having 4,600 forward fulfillment centers called Walmarts located within 10 miles of 90 percent of the United States population," said Greg Cathey, Walmart Senior Vice President Transformation and Platform Support. "Customers told us that they like pickup, they want pickup, and they want more of it. And they also told us they like and want delivery, and so could we just bring it to their house? The answer is yes."

Other retailers are following similar paths, including creating new C-level roles to help ensure they meet customers where they are. For example, Target created its first Chief Guest Experience Officer role, focused on the strategic development of the brand's customer experience both in-store and online with a special emphasis on deepening guest engagement and attracting new shoppers.

By incorporating new roles in support of seamless strategies, retailers are realizing the critical importance of staying in step with consumer expectations. Moving forward, retailers will benefit by assessing their current organizational structures to see where any gaps exist and where realignment may be beneficial, while also considering the need for new roles to help facilitate omnichannel goals and differentiate customer experiences.

Driving greater efficiencies

Managing inventory and order fulfillment efficiently and cost-effectively are key challenges in delivering seamless experiences. As such, retailers are helping solve the issue by leveraging their stores as fulfillment centers and using automation to drive efficiencies, save costs, and optimize resources. As a result, retailers can provide better, faster, and more convenient fulfillment options.

Retailers are leaning into automation in their stores and across their organizations to gain efficiencies, lower operational costs, reduce human errors, and increase speed and scale. Automation is also being used to replace mundane repetitive tasks, giving employees more time to take on higher-value, more impactful roles, including providing consumers with more personalized in-store service.

From self-checkouts to helpful robots to smart devices and sensors that help optimize inventory and pricing strategies, companies are embracing automation and artificial intelligence in innovative new ways. Walmart uses robots to sort items in warehouses and implements digital shelf labels in stores to help store associates easily locate products for customers. Meanwhile, Kroger has worked with Ocado to operate automated warehouses and delivery vans for online grocery orders. By identifying

areas of opportunity, retailers can enjoy many benefits. These include enhancing the customer experience while improving productivity, increasing speed, lowering costs, and expanding the potential to enhance the skill sets of human employees.

Creating loyalty that lasts

Moving from a channel-specific model to customer-centric strategies makes measuring the customer lifetime value (CLV) of a customer increasingly important. It is a key metric for retailers to understand their customers better and tailor their marketing strategies to help build brand loyalty.

Leading retailers are realizing the benefits of rethinking their performance metrics and incentives to better align with customer-centric journeys. By balancing the short-term focus on store-level profit and loss with a longer-term view emphasizing CLV, these companies are enhancing and strengthening their relationships with customers.

Target understands the value of considering the entire relationship with a customer over zeroing in on individual transactions. Its Target Circle loyalty program has amassed 100 million members since its 2019 launch. "We look at total engagement of a guest over time, rather than focusing only on individual transactions. Target Circle shows the power of serving up personalized value and deepening connection with guests, who reward us by shopping across our multi-category assortment, making more trips to our stores and taking advantage of the ease and convenience that our digital channels provide," said Brian Cornell, Chief Executive Officer at Target.

Moreover, as subscription models and fee-based membership programs continue to gain traction, revenue and cost streams don't fit neatly into one customer visit or in one channel. These models cross boundaries of time and location, increasing the value of a customer and creating a pipeline for more consistent, repeat sales. At the same time, they provide consumers with convenience and continuity offering special discounts and rewards as incentives, which further strengthen the bond between brand and consumer.

CLV enables organizations to track their investments in customer experience, gaining data insight on customer behaviors and which touchpoints are most profitable. It can also be used to improve customer acquisition strategies by personalizing offers for the right products at the right times and can inform decision-making about where to prioritize investments. Meanwhile, advances in artificial intelligence and machine learning enable even deeper CLV analysis through predictive insights that offer the potential for forward-looking, highly targeted data strategies. Digging deeper into CLV data can help organizations identify successful programs to further enhance customer loyalty.

## Behavioral data benefits Abercrombie & Fitch Co.

Better experiences rely on better data. And more retailers are expanding their analyses to include behavioral data to increase personalization, enhance experiences, and build loyalty. Behavioral data identifies patterns in a consumer's actions and provides context around their decision-making. It offers insight into the why and how of a consumer's actions.

Abercrombie & Fitch Co. is one retailer leaning into the benefits of behavioral data. With advanced customer data and analytics, the retailer can gain insight into shopper behaviors at a granular level. Detailing the what, when, where, and how consumers like to browse, search, and transact online, purchase or return in-store, as well as frequency of visits and quality of experience will enable retailers to personalize marketing and create incentives to keep them coming back.

"We're finding an ability to create more tangible actions based on behavioral data. So, we're looking at what the customer is telling us directly, and we're using that to craft the right experiences for them," said Samir Desai, Executive Vice President, Chief Digital and Technology Officer at Abercrombie & Fitch Co. "In the past, when we acquired a new customer, they were largely treated one and the same. Now, based on behavioral segmentation and the first-party customer data we're capturing, we've been able to build a model that allows us to predict what we think the lifetime value of that new customer is going to be, enabling us to build more targeted journeys."

Looking ahead

The pandemic forced retailers to accelerate development of their digital capabilities. Now, consumer demand for seamless experiences drives the need for true omnichannel operations. E-commerce will continue to drive the future of retail and physical stores will remain a vital and evolving component of retail strategies. Retailers that modernize their systems infrastructure, align their organizational structures, seek greater operational efficiencies, and implement a customer-centric approach will be well positioned as the future leaders of retail.
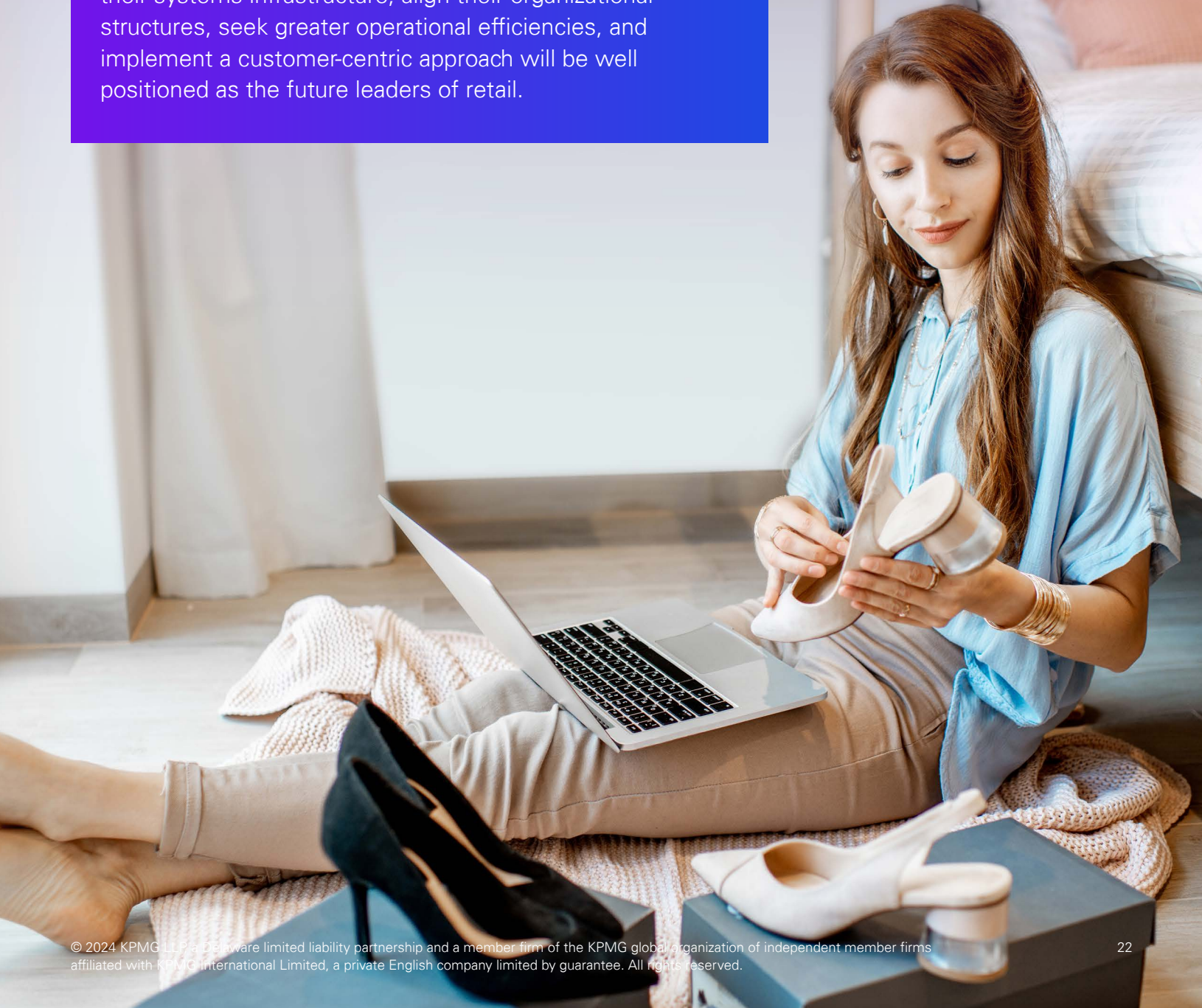
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About National Retail Federation (NRF)

The National Retail Federation passionately advocates for the people, brands, policies, and ideas that help retail succeed. From its headquarters in Washington, D.C., NRF empowers the industry that powers the economy. Retail is the nation's largest private-sector employer, contributing $3.9 trillion to annual GDP and supporting one in four U.S. jobs—52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring, and communicating the powerful impact retail has on local communities and global economies.

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