SURVEY BASED RESEARCH STUDY

How Retailers Win Customer Loyalty in an Omnichannel World

Continued supply chain disruption, rampant inflation, and an increase in selling and fulfillment channels have magnified the complexity of what it takes for a retailer to deliver an outstanding customer experience. Our consumer survey results reveal how smart retailers can not only survive but thrive amid uncertainty to win customer loyalty in an omnichannel world.

Diminishing Store Loyalty Presents Retail Inventory Opportunity

Poor inventory position is presenting a significant challenge, and opportunity, for the physical store retailer.

Inventory distortion (the annual cost of overstocks and out-of-stocks) has risen to $1.9 trillion in losses for retailers across the globe.

To put that into perspective, if inventory distortion was equated to GDP, it would be the ninth-largest country in the world – roughly equivalent to the total economic output of Italy.

Improving inventory position can help retailers secure consumer loyalty and capture impulse spending.

75% of consumers shop in-store due to an urgent need to purchase their items. *Source: IHL Group / ToolsGroup*

IHL's 2022 consumer study confirmed that in a world with increasing online orders, the primary reasons consumers shop in-store are: they need the items now (75%) or they want to touch and feel or try on items before purchasing (57%).

In the last two years, these same consumers suggest that this has become much tougher as they are losing trust in their local retailer to have in stock what they want to buy when they want to buy it.

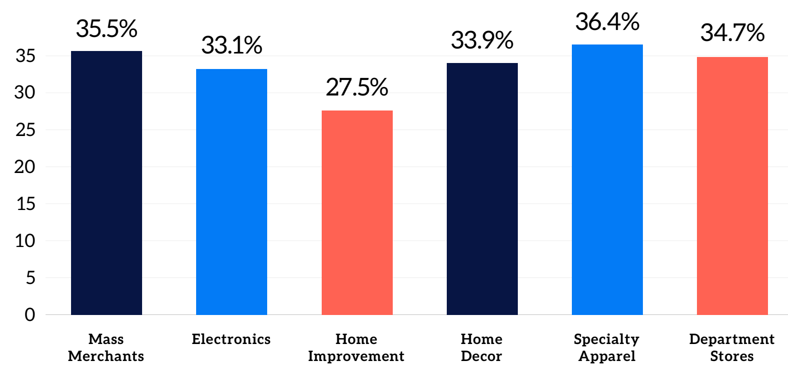
When consumers can't find what they came into the store to buy, it erodes their trust in that retailer. And, that erosion of trust is increasingly driving them to other online retailers and marketplaces — including Amazon.

Across all segments, more than 25% of customers report decreased trust in retailers based on inventory levels.

PERCENT OF US CONSUMERS DECREASING TRUST IN RETAILERS TO BE IN STOCK

Last Two Years (Lower is Better)

Source: IHL Group / ToolsGroup



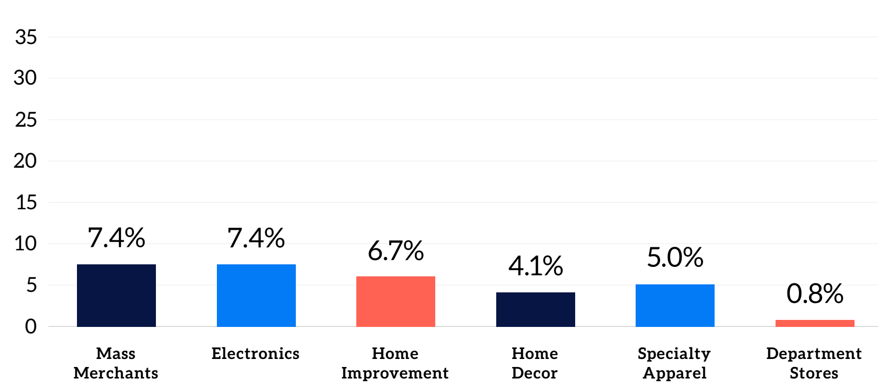
Omnichannel retail has become a critical component to improving shopper experience, but may also play a part in decreasing consumer trust. When utilizing click and collect or BOPIS, almost one-in-three customers (28.7%) report the retailer has been out-of-stock for at least one item.

There is, however, both hope and opportunity for retailers, with trust that items will be in stock increasing among some of their customers:

PERCENT OF US CONSUMERS INCREASING TRUST IN RETAILERS TO BE IN STOCK

Last Two Years (Higher is Better)

Source: IHL Group / ToolsGroup



// INCREASING TRUST IN AMAZON

When assessing how consumer trust in retailers has changed across the past two years, it is important to understand where shopper sentiment lies with Amazon–particularly when the retail giant sells products that compete with all segments included in the report.

When asking consumers if their trust in Amazon has increased or decreased within the past two years, 32.3% reported an increase in trust, and 26.1% reported that their trust in Amazon has declined.

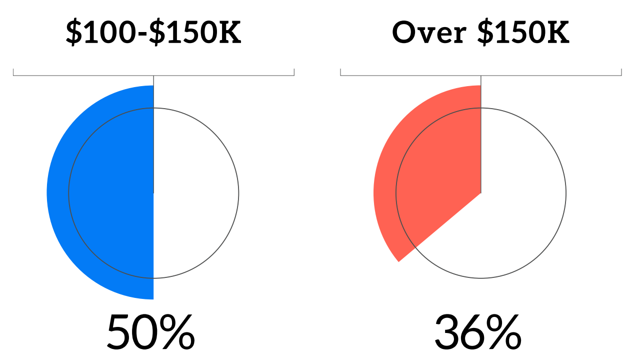
The findings show the most significant shift in trust among the highest earning consumers. For households with incomes between $100,000 – 150,000, 50% increased their trust in Amazon.

In addition, 36% of households with incomes over $150,000 annually increased their trust in Amazon.

HIGHEST INCOMES INCREASINGLY MOVING TO AMAZON

Percent That Increased Trust in Last 2 Years

Source: IHL Group / ToolsGroup



Comparing increases in consumer trust across the past two years, Amazon appears to be the clear winner:

- 26% of customers have increased their trust in Amazon
- 0.8 – 7.4% of customers have increased their trust in inventory availability across other retail segments

Looking at the big picture, consider the difference in selling channels. While Amazon's in-store shopping experience is limited, across other retail segments, 67.7% - 83.6% of sales are made in-store.

Given the need for immediacy that drives 75% of people to buy in-store, it stands to reason that stockouts present a higher risk to in-store purchases.

However, in-store shopping has its advantages. Diminishing customer confidence in physical retailer stock availability presents an opportunity for retailers to optimize inventory to improve product availability as a differentiator that drives consumer loyalty. With healthy inventory levels, retailers can also win profits from Amazon thanks to immediate fulfillment and impulse purchases.

Power of Impulse

We have seen a lot of data regarding the loss of impulse purchases when customers shop online instead of in-store. But just how big is this loss?

Consumers report that between 13-22% of their total bill in stores is made up of impulse items depending on the type of retailer shopped.

The electronics segment has the lowest percentage at 13.6% of the total expenditures per store trip being impulse items. In comparison, impulse purchases make up as much as 22% of the receipt total for mass merchants.

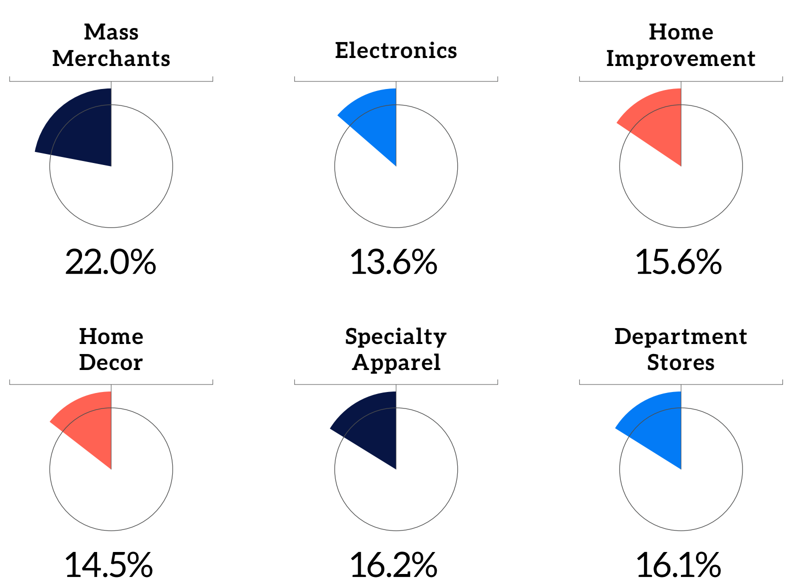
Consumers report up to **22%** of their in-store shopping total being impulse items.

Source: IHL Group / ToolsGroup

With the growth of online shopping over 50% in some categories like fashion, this loss of impulse purchases is a major concern for retailers. And, when added to the erosion of trust in physical retailers, this becomes particularly critical.

AVERAGE PERCENTAGE OF THE TOTAL RECEIPT THAT ARE IMPULSE ITEMS BY SEGMENT

Source: IHL Group / ToolsGroup



// AMAZON PRIME IMPACT

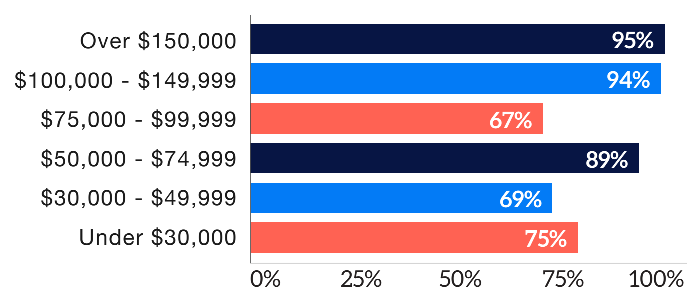
According to a recent IHL survey of US consumers, 80% of US households have an Amazon Prime membership.

The memberships are as low as 70% for household incomes under $50,000, but over 94% of households with annual incomes over $100,000 utilize Amazon Prime.

What is fascinating about Prime members, however, is if you can get them into stores, they make considerably higher percentages of their total sales on impulse items.

PERCENT OF U.S. HOUSEHOLDS WITH AMAZON PRIME BY INCOME RANGE

Source: IHL Group / ToolsGroup



// PRIME MEMBERS BUY MORE IMPULSE ITEMS IN PHYSICAL STORES

While Prime member impulse purchases are limited when shopping on Amazon, retailer opportunity abounds when they enter a physical store. In fact, 30-71% more of Prime member purchases are from impulse items at the store level.

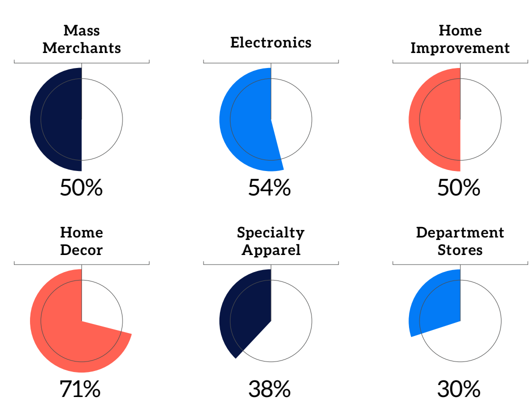
The challenge is that when Prime members go to physical stores, they experience out-of-stocks up on up to 55% more of their shopping trips than non-Prime members. As a result, they're choosing to shop less and less at their local physical stores.

The bottom line is 80% of households have Prime, they spend 30-71% more on impulse items if you can get them to the stores. Yet when they go to the stores for what they actually need, they experience up to 55% more out-of-stocks. So the retailers lose the initial sale, the impulse purchases, and the trust required for customer loyalty and future profits.

PERCENT INCREASE IN IMPULSE ITEMS IN PHYSICAL STORE PURCHASES BY AMAZON PRIME MEMBERS

Compared to Non-Prime Members

Source: IHL Group / ToolsGroup



// HOW DO PRIME MEMBERS ACT WHEN THE LOCAL STORE IS OUT-OF-STOCK?

They take out their phone and purchase online from your competitor at 73% higher rates than non-Prime members. They are also 40% less likely to ask an associate to check other stores or your online site.

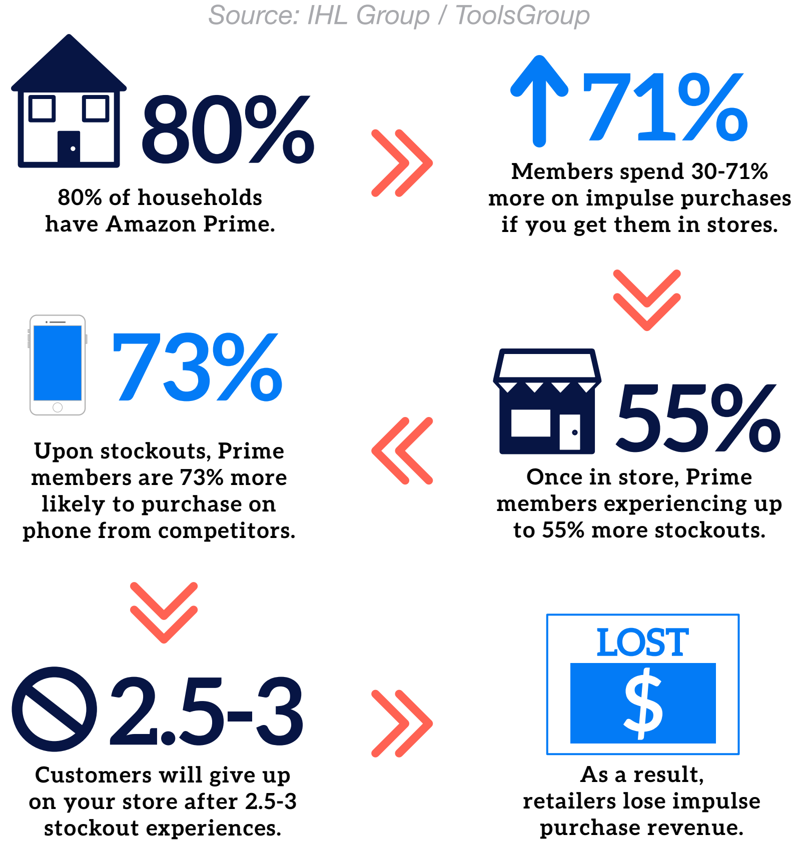
Customers report they will give up on your store after 2.5-3 out-of-stock experiences.

When three strikes is all it takes for Prime members to turn to the competitor, it's clear that stockouts put customer loyalty at risk.

However, it also illustrates an opportunity for retailers to gain a competitive advantage. With healthy stock levels and real-time inventory visibility, retailers can build trust with Amazon Prime members, increase market share, and meet financial targets by seizing the opportunity for increased impulse purchases.

How Prime Members Act when Physical Stores are Out-of-Stock

Source: IHL Group / ToolsGroup



// QUICK-WIN IMPROVEMENTS TO THE SHOPPING EXPERIENCE PAY OFF

In the mind of consumers, an out-of-stock is any time that they visit your store and leave without purchasing what they came in to buy. It's that simple but complex in execution for retailers.

However, there are two specific technologies that can be deployed almost immediately to improve your perceived stock position.

The study reveals, when people leave stores without buying what they intended to purchase, 14.5% of the time it was not due to empty shelves, but because the checkout lines were too long.

North American retailers lose **$27B** a year in sales because lines are too long.

Source: IHL Group / ToolsGroup

To put that into perspective, this means that in North America retailers are losing $27 billion in sales simply because the lines are too long, and consumers walk out the door. Adding items like self-checkout or scan-and-go technologies can convert those shoppers who are already in your stores and want to buy.

Another area where consumers find great disappointment is in the area of pricing disconnects.

Retailers are losing close to $90 billion in sales worldwide at the store level simply because the pricing on the shelves didn't match the price in the promotion or online.

Price discrepancies at the shelf lose retailers **$90 Billion** in sales a year worldwide.

Source: IHL Group / ToolsGroup

Retailers have admitted that the personnel shortages are so acute in some regions of the US, they simply don't have the people to update prices.

Here, electronic shelf labels (ESLs) are a no-brainer. These devices also allow retailers to dynamically price against their competitors and change prices based on cost of last shipment. As a result, retailers not only minimize sales but can recapture the best profit margins.

Further, when factoring the tremendous savings in labor costs, smart retailers are deploying ESLs as fast as possible. Recent IHL research among the fastest growing retailers showed a plan to adopt ESLs at a rate 843% faster than the average retailer in the next two years.

Healthy Inventory Wins Customers and Improves Profitability

When we look at the tremendous $1.9 trillion cost of out-of-stocks and overstocks worldwide, we must first admit that there are many reasons that are out of the direct control of the retailer. However, there are many ways retailers can take action to meet customer demand and drive loyalty.

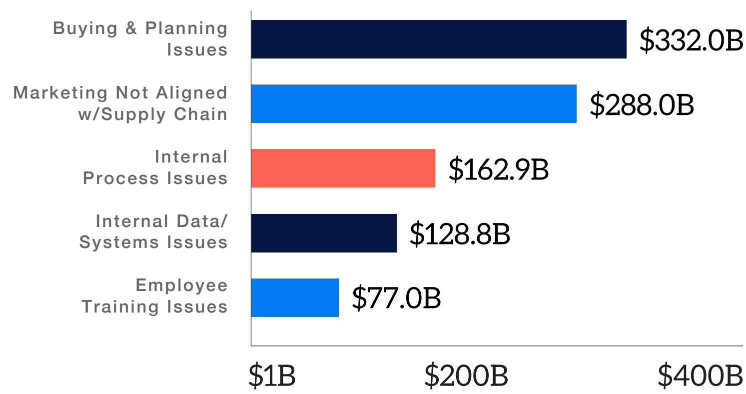
Approximately 50% of the total cost of inventory distortion can be controlled through training, processes, and systems.

Technology can be a great enabler of retail differentiation and the flawless omnichannel execution that wins customers and accelerates retail growth and innovation.

CONTROLLABLES - SYSTEMS, PROCESSES, TRAINING

2022 Costs - $988.7B Controllable by Retailers

Source: IHL Group



// DEMAND FORECASTING

Digital demand planning and forecasting technology takes into consideration the uncertain realities in the market. The latest solutions provide a range of possible outcomes and their likelihood of occurring so you can balance inventory accordingly.

AI-powered solutions further the ability to model customer demand based on promotions, seasonality, and both internal and external factors. A one-number forecast is no longer an option; forecasts need to account for uncertainty and adjust the inventory mix accordingly.

// INVENTORY OPTIMIZATION

To maintain healthy inventory, inventory mix optimization is crucial. Inventory optimization enables you to decrease the amount of working capital by reducing unnecessary inventory buffers and safety stock. Other cost reductions can be seen from a decrease in backorders, overstocks, and stockouts.

// OPTIMIZED ORDER FULFILLMENT AND REAL-TIME INVENTORY VISIBILITY

With increasing selling channels, it's crucial for retailers to capture events across systems to create a real-time record of inventory. This is used for centralized availability and eligibility management and to display accurate and real-time inventory across channels for a consistent customer experience.

Order fulfillment systems evaluate fulfillment options automatically across multiple objectives to select the ideal fulfillment location.

// AUTOMATED REPLENISHMENT AND DEMAND SENSING

For those staple items that are needed to be in stock regardless of the season, automating replenishment is a critical capability of the best-performing retailers. Demand sensing uses external data streams to continually monitor points of sale and fine-tune the forecast in response to demand and supply changes.

In IHL research, we have found that retailers that use demand sensing technology have sales increases that on average are 18% higher than their competitors.

// AI DECISION SUPPORT

From forecasting to assortment planning and allocation, AI takes complex internal and external data to automate micro decisions and uncover insights and opportunities otherwise overlooked. With AI decision support, retail planning tools eliminate time-consuming manual work and provide increased efficiency, while making the most of inventory and product assortments.

Retail's future is a race, and the winner is the first to have clean and unified data, enabling AI and machine learning to enhance the overall operations.

The New Inventory Going Forward

We fully expect the largest of retailers to do their own analyses of their markets, suppliers, and products to decide which investments are essential and which are more discretionary to be better prepared for the next external disruption. They will choose more domestic suppliers and near-shoring for the most critical categories, perhaps even increasing warehouse space.

These discussions of just-in-time and just-in-case are turning into a decision on just enough. It is that healthy inventory balance that will characterize the most successful retailers going forward.

These discussions are being held in executive boardrooms around the world. In doing so, retailers can be better prepared so as to not be caught off-guard due to a lack of raw materials or port shutdowns.

As we look at the entire inventory distortion issue, it is often hard to cut through the news to understand if performance is actually improving on an individual retailer basis when systems are deployed properly.

The most significant challenges to inventory distortion are the availability of workers and the disruptions outside of the immediate control of the retailer.

Nearly **$1 trillion of the $1.9 trillion** inventory distortion issue is the result of a just-in-time inventory system that relied too heavily on production in a small handful of countries.

Source: IHL Group / ToolsGroup

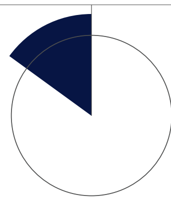
But $1 trillion of the $1.9 trillion inventory distortion issue is the result of inflexible inventory systems and over-reliance on production in a small handful of countries. Add a pandemic, port shutdowns, governments determining who is an essential retailer and who is not, and an unexpected war between two countries controlling raw materials significant to the economies of the world, and the job of getting inventory correct is extremely complex.

And yet, the smartest retailers are not only investing in the improvements necessary, but they are also doubling down on these improvements to create differentiation, win customers, and grow revenue despite protracted disruption.

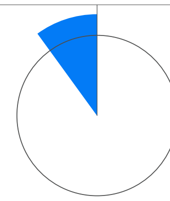
WHAT RETAILERS USING DIGITAL PLANNING SYSTEMS ACHIEVED

Source: Hobson & Company

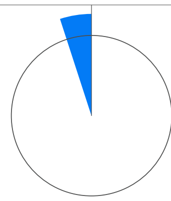
15%
Reduction in Out-of-Stock Allocation Items



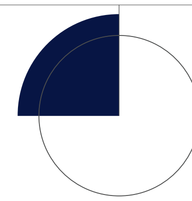
10%
Reduction in Lost Sales On Replenishment Items



5%
Increase in Revenue Growth



25%
Increase in Planning Efficiency



// ABOUT IHL GROUP

IHL Group is a global research and advisory firm specializing in technologies for the retail and hospitality industries. The company, based in Franklin, Tenn., generates timely data reports, offers advisory services and serves as the leading retail technology spokesperson for industry and vendor events. To learn more, visit *IHLservices.com*

// ABOUT toolsgroup

ToolsGroup's innovative AI-powered solutions enable retailers, manufacturers, and distributors to outsmart supply chain uncertainty and deliver inventory performance from source to customer doorstep to maximize revenue and profitability. Our planning suite optimizes and automates supply chains to unlock powerful business improvements in forecast accuracy, service and inventory levels, and financial KPIs, to empower a new level of intelligent, flexible decision-making. To learn more, visit *ToolsGroup.com*