An aerial photograph of a coastline with a yellow diagonal line running across the top and bottom of the page. The top part shows a sandy beach meeting the ocean, while the bottom part shows a rocky coastline with a small white building.

# BEACON

NORTH HIGHLAND / 2018

a **RETAIL** industry guide to thinking  
forward for the year ahead

# Retailers are Energized and Nervous about Embracing the New Dynamic Customer

90 Percent of Retail Leaders See Adapting to Changing Customer Needs as Priority One

**NORTH HIGHLAND INSIGHTS:** Survey data that helps guide business decisions.



To explore business leader mindset, North Highland surveyed more than 600 senior level employees in energy, financial services, healthcare, retail, and media, entertainment, and telecom at companies with 2016 revenues in excess of \$1 billion and operations across the globe. This report draws on input from retail leaders from October 2017.

For retail, customer centricity is no longer an idea, it is an imperative. Data, digital, and mobility are driving the evolving omnichannel marketplace. Consumers are increasingly less concerned about where their experiences take place, or what interface they use. They demand the retailer know them and deliver what they want, when and where they choose.

With this truth in mind, it is curious retail respondents ranked supply chain optimization as a middle level priority in our survey with 41 percent calling it a very high priority, and a mere 20 percent saying they are very prepared to address it. Omnichannel retail has inseparably married supply chain scale and efficiency to customer expectations. Consumers expect everything from every retailer: meaningful offers, quick responses, speedy fulfillment, and low/no-cost shipping.

Evolving the supply chain is a massive challenge. Marketplace-grade infrastructure is often the largest retail capital expense and poses the risk of disrupting legacy businesses. And, accordingly, respondents called out budget and lack of clear direction as barriers to achieving top priorities. Nonetheless, retailers who fail to make supply chain optimization the integral aspect of their service design will likely be the next retail casualties.

**KEY INSIGHT**

Retailers report energy and enthusiasm for customer focus, yet **feel unprepared for employee engagement, supply chain optimization, and pressure from new competitors.** The most fabulously conceived consumer experience is **useless without the operations to back it up and engaged employees to deliver it.** Retailers must **keep their employees and operations in order to keep pace with competitors.**

### HIGHLIGHTS AND INSIGHTS

**Adapting to changing customer needs**—is the No. 1 priority for retailers, with 77 percent stating it provides a competitive advantage and 53 percent stating they are very prepared to address it.

Omnichannel retail has taught consumers to shop differently. Retailers that harness data, digital, and mobility to truly know their customers and deliver a seamless, tailored experience will thrive.

**Digital capabilities** and **employee engagement**—are the second and third top priorities respectively:

- **Digital capabilities:** 77 percent ranked as a definite competitive advantage; 42 percent feel very prepared to address it.

As retailers migrate towards digital and mobile omnichannel engagement, they must create a new layer of service design to differentiate the brand experience and offer high personalization.

- **Employee engagement:** 45 percent ranked as a definite competitive advantage; 24 percent feel very prepared to address it.

Employee engagement can happen at any level of retail. When companies have clarity about who they are and what their brand stands for, they can more easily hire talent that shares those values. Investing in employee experience helps grow brand passion, which creates customer enthusiasm and loyalty.

**Cyber security**—ranked below the top five as a high priority overall, with 44 percent citing it as a definite competitive advantage and 28 percent stating they felt very prepared to address it.

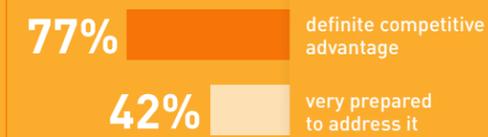
In spite of acute awareness of the financial and reputational impacts of a data breach, many retailers do not have a clear view of potential vulnerabilities across company functions and interactions. Retailers must undertake a comprehensive threat analysis and then work to implement appropriate technologies and business processes, all the while ingraining a security mindset into the company's culture.

### NORTH HIGHLAND INSIGHTS

Retailers do not feel “very prepared” for employee engagement, supply chain optimization, or pressure from new competitors



### DIGITAL CAPABILITIES



### EMPLOYEE ENGAGEMENT



### CYBER SECURITY

ranked below the top five as a high priority overall

<5



### SOCIAL MEDIA/MOBILE STRATEGY



### INTERNET OF THINGS AND ARTIFICIAL INTELLIGENCE

Emerging technologies ranked low in the very high priority hierarchy, at 34% and 20% respectively



**Social media/mobile strategy**—earned the second highest rank as a definite competitive advantage at 76 percent, yet is outside of the top five priorities and ranked at a moderate 45 percent toward being very prepared to address it.

Consumers have fast, real-time access to product and brand information at their fingertips and often know more about products than the store associates. When sales staff have the same or better access via their own devices, they can engage with customers in co-discovery at the point of sale.

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**Internet of things (IoT) and artificial intelligence**—emerging technologies such as IoT and AI ranked low in the very high priority hierarchy, at 34 percent and 20 percent respectively.

- 69 percent ranked IoT as a definite competitive advantage; 45 percent feel very prepared to address it
- 61 percent ranked AI as a definite competitive advantage; 44 percent feel very prepared to address it

This result makes sense if IoT and AI are rolled up under adaptation and digital capabilities. If not, it signals a disconnect. IoT is instrumental in supply chain optimization, as well as in enabling in-store customer sensing and location capabilities that provide vital behavioral data. AI has the potential to be a competitive advantage if retailers explore using it to drive personalization in the path to purchase.

Retailers have the right idea: their purpose is driven by a customer focus. Vision and strategy must be based on how to best serve evolving customer needs, and service design must support that vision operationally. How can retailers calm their nerves around embracing the new dynamic customer and matching or exceeding competition in 2018? Engage consumers by making improvements based on the best opportunities for creating a differentiated experience.

For more information, visit [northhighland.com](http://northhighland.com) or contact:



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