



Scaling New Heights?

Data Reveals Retailers' Challenges, Opportunities in Scaling Their Businesses



Radial
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EXECUTIVE SUMMARY

The retail industry is witnessing significant changes in consumer behavior, driven by a desire for increased digital and omnichannel experiences. What hasn't changed is that consumers' expectations for secure, frictionless, personalized shopping experiences remains high. These high expectations extend across the purchase journey, from discovery through to post-purchase support. Furthermore, consumers expect that the shopping experience is consistent no matter how and when they choose to interact with a retailer, including both peak and nonpeak seasons.

Given this dynamic, retailers must be able to scale their businesses across channels for both peak and nonpeak periods, meeting customer demand and doing so profitably. While there's significant opportunity and benefit in doing this effectively — e.g., increased customer satisfaction, sales and profit gains, cost savings — there are also inherent challenges, such as staffing, data, and technology.

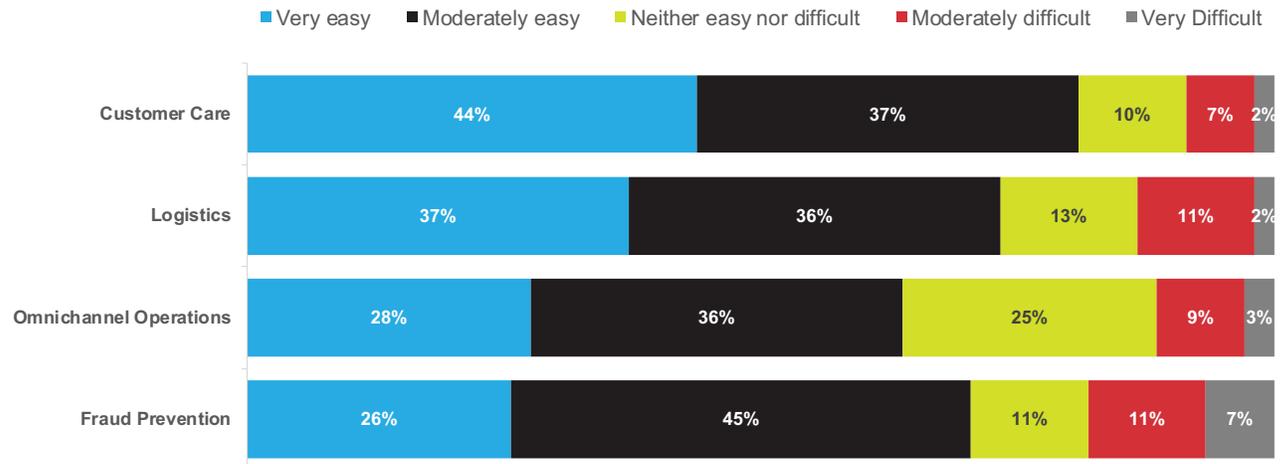
To better understand the challenges and opportunities associated with scaling operations for both peak and nonpeak seasons, NAPCO Research, in conjunction with Radial, a leader in e-commerce solutions, recently surveyed 105 retail executives. The survey questions specifically addressed four functional areas related to retailers' operations: customer care, fraud prevention, logistics, and omnichannel.

The online survey was conducted in July 2021. Respondents represented the following company types: multichannel retailer (58 percent); wholesaler (19 percent); CPG (12 percent); online-only retailer (8 percent); and brick-and-mortar-only retailer (3 percent). The annual revenue for the companies of the respondents ranged from \$10 million to less than \$25 million, up to \$1 billion or greater.

This report features the data from that survey as well as analysis of it. An overarching theme seen throughout the data is that there's a gap between what retailers think and what consumers think when it comes to ease of scaling operations and the impact it has on customer experience. Retailers believe they're doing a good to great job of scaling operations to optimize CX (see chart below), but consumers don't agree with them. For example, many retailers are falling short of meeting customers' expectations when it comes to things such as timely answers to customer service queries, on-time deliveries, inventory transparency and availability, among other things during the customer journey.

“Consumers expect that the shopping experience is consistent no matter how and when they choose to interact with a retailer, including both peak and nonpeak seasons.”

Ease of Scaling Operations



Q. How easy is it for your organization to scale operations, either up or down, in the following functional areas of the business?
n=105

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Retailers need to do a better job of scaling operations (e.g., inventory transparency, order delivery, customer service response time, etc.) based upon the level of traffic to their business, both up and down and across online and offline channels, to meet consumers' ever-increasing expectations. The good news is there's technology in the market that can help with this goal. However, many retailers are partnering with multiple service providers, and thus implementing multiple platforms, for each piece of the customer journey, leading to disparate systems that can't be integrated. The result is a siloed view of the customer, leading to disjointed customer experiences.

And, of course, if the customer isn't satisfied with their experience, they will simply move on to another retailer that can satisfy their needs. That's why getting it right the first time — and every other time after that — is critical to winning customer loyalty. A single technology platform that can easily scale operations up and down as the business dictates, while also enabling the holistic customer view necessary for personalized experiences, is a start to winning customer loyalty.



SURVEY DATA AND INSIGHTS

Here’s a look at the survey data, segmented by the respondents’ four business functions.

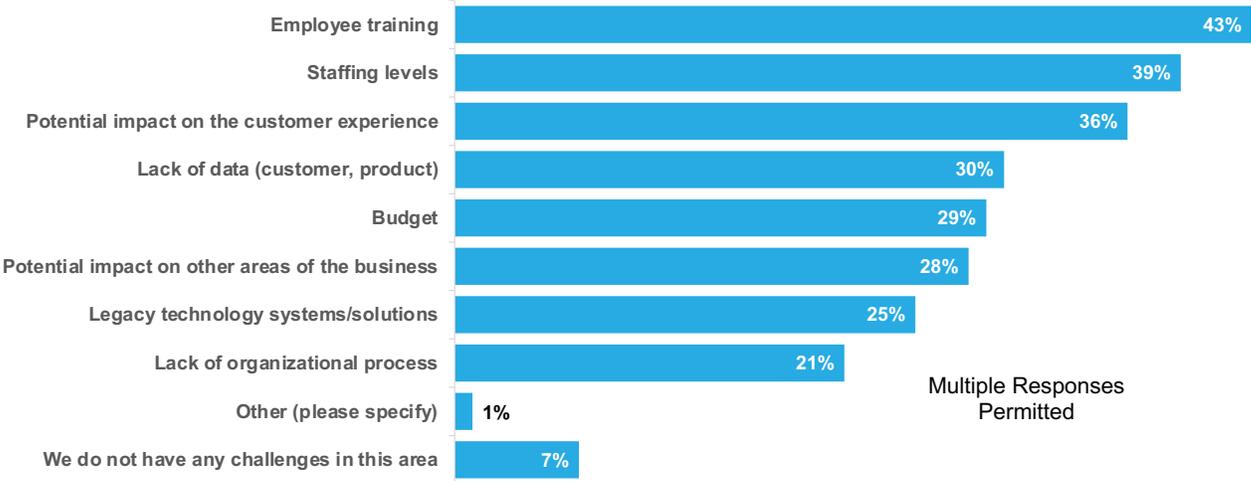
Customer Care

The top challenges cited by respondents for this business function were less technology related, and more specific to staffing and training. According to the survey, employee training is the top challenge for retail organizations in scaling customer care operations, cited by 43 percent of respondents. This is followed by staffing levels — i.e., ensuring that you have enough staff on-hand to minimize wait times during peak seasons, while not overstaffing during nonpeak periods — which was selected by 39 percent of respondents. The right technology partner can become an extension of an organization’s customer care team, responsible for the training and staffing of agents, helping to alleviate this pain point for retailers.

Just one-quarter of respondents cited legacy technology systems/solutions as a challenge for their organizations in scaling customer care operations. Perhaps this number is lower than other business functions because retailers have rolled out self-service customer service options (e.g., chatbots, live chat), allowing customers to bypass having to engage with a human customer service agent. These self-service options help reduce friction, especially when response times are higher during peak events, as they enable customers to find the information or answer they’re looking for themselves.

Which leads us back to the customer experience. One-third of respondents cited the potential negative impact on CX as a challenge in scaling customer care operations. This aligns with the next most popular answer choice, lack of data, as an inhibitor to providing a better experience for customers contacting retailers’ support teams. Without a holistic view of the customer, including their purchase and browsing history, the agent (human or digital) won’t be able to provide as good of a level of service.

Challenges in Scaling Customer Care Operations



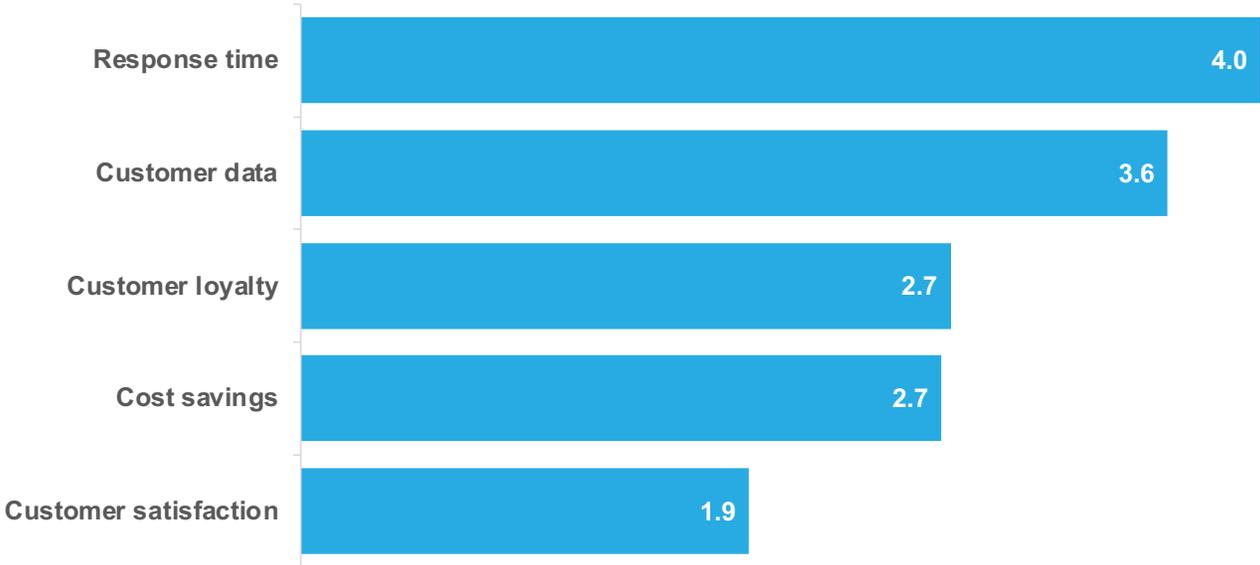
Q. What are the challenges for your organization in scaling customer care operations, either up or down? (Choose all that apply)
n=105



Conversely, there are significant business benefits that retailers can realize if they're able to successfully scale customer care operations. At the top of that list, according to the retailers surveyed, is improved response time, enabled by optimized staffing levels. This ties into the customer experience — e.g., not leaving customers on hold during periods of peak demand for customer service. As for the second-highest ranked benefit, customer data, it stands to reason that if agents have a better understanding of the person they are trying to help, the better the level of service they will be able to give to them. A customer profile that includes valuable information such as purchase history, return history, payment history, etc., can be leveraged by the agent to provide the personalized service customers expect and want.

Agent enablement is another benefit associated with being able to scale customer care operations. Rather than replacing human jobs, and any cost savings that such measures may yield, providing agents with the tools and technologies they need to make their jobs easier as well as better serve customers can result in more efficient and productive agents, mitigating the need to hire additional customer care staff during peak seasons. And for nonpeak seasons, these employees can be valuable assets throughout the company. The idea is in reducing the number of calls to an agent, through technology and data, not reducing the number of agents.

Benefits of Successfully Scaling Customer Care Operations



Q. If your company were able to successfully scale customer care operations up or down, how important would the resulting business opportunities/benefits be? Please rank the importance of the following opportunities/benefits from 1 to 5 (1 being most important, 5 being least important). n=105



Fraud Prevention

Nearly one-fifth of respondents (18 percent) said they didn't have any challenges in scaling fraud prevention operations; however, retail fraud rates continue to rise, particularly as more purchases are made online and card-not-present (CNP) fraud becomes a bigger issue for merchants. CNP fraud is forecast to increase 16.4 percent this year, [according to Aite Group](#).

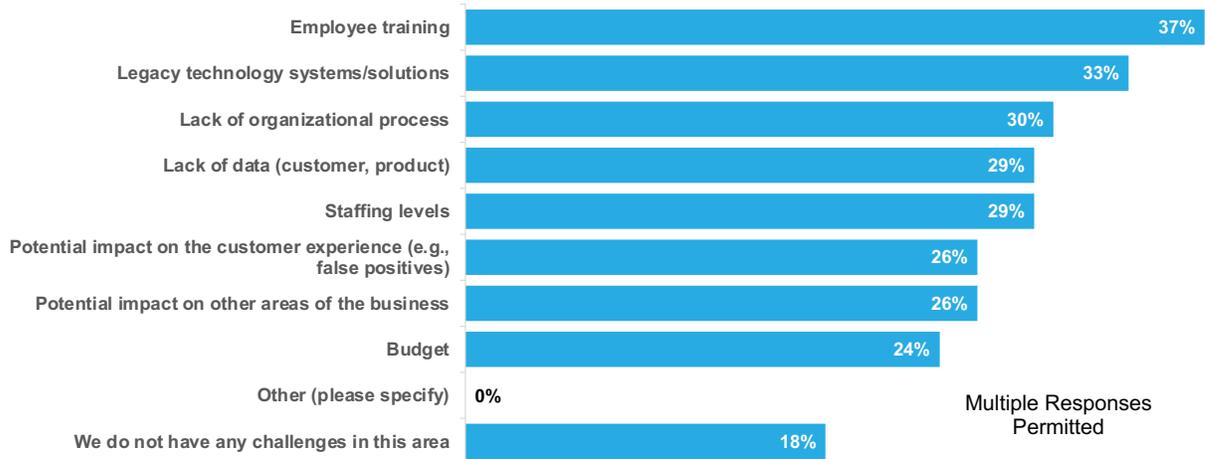
Furthermore, the growth of buy now, pay later (BNPL) payment options, which help to increase conversion rates, have become a target for fraudsters. Leading BNPL providers such as Klarna and Afterpay aren't held responsible for fraudulent loans and defaults; it's the bank that pays the merchant upfront. With BNPL, fraud rates could rise because merchants loosen their fraud countermeasures for the sake of completing the sale. Criminals will gravitate toward merchants that have less fraud protection to find the path with the least resistance.

With this in mind, retailers should be investing resources into fraud prevention efforts. For those that already are, they're experiencing some challenges. The most common among the retailers we surveyed was, much like customer care, related to employee training. More than one-third (37 percent) said they deal with this challenge in scaling operations for fraud prevention. The next most common challenge, legacy technology systems and solutions (33 percent), aligns with employee training. Giving your employees, whether in customer care or fraud prevention, technology to help them do their job is only effective if you train them on how to use that technology to its full capabilities. Retailers need to be paring technology with training to optimize fraud prevention efforts.



Lastly, just more than a quarter of respondents identified false positives (i.e., flagging an order from a legitimate customer as fraudulent) as a challenge that comes with scaling fraud prevention operations. This can be looked at one of two ways: The optimistic viewpoint is that retailers have implemented rules and systems for both manual and automated review of orders that are proving effective at identifying fraudsters and allowing legitimate customers' orders to pass through. The pessimistic viewpoint is that retailers aren't being stringent enough in their fraud prevention efforts, opting instead to accept orders — and the upfront revenue — without doing the required investigation. Unfortunately, false positives are often a necessary cost of fraud prevention.

Challenges in Scaling Fraud Prevention



Q. What are the challenges for your organization in scaling fraud prevention operations, either up or down? (Choose all that apply)
n=105



When asked what the benefits are of being able to successfully scale fraud prevention efforts, retailers chose time savings as their top answer. The use of technology to automate order review processes allows staff to no longer have to manually review them, freeing them up for more time-sensitive and/or important tasks. In addition, by automating the order review process, less staff is needed, leading to a cost savings for the retailer.

In addition, the collection of valuable customer data is a recognized benefit of scaling fraud prevention operations. This information can be used to refine and improve future efforts, such as flagging fraudsters more easily and quickly, negating costly chargebacks and returns fraud. At the same time, the data can be leveraged to mitigate instances of false positives, identifying legitimate customers as such, and making their transactions frictionless.

Benefits of Successfully Scaling Fraud Prevention Operations



Q. If your company were able to successfully scale fraud prevention operations up or down, how important would the resulting business opportunities/benefits be? Please rank the importance of the following opportunities/benefits from 1 to 5 (1 being most important, 5 being least important).
n=105



Logistics

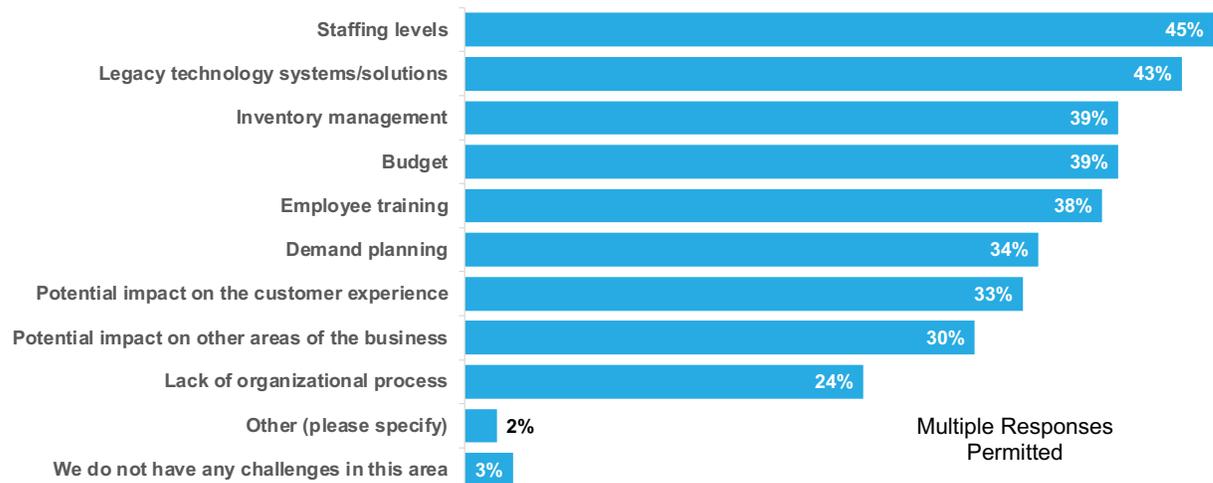
There might not be another area where customers' expectations have increased quite as much as they have related to logistics, and in particular the speedy fulfillment and delivery of online orders, both to homes and stores (e.g., buy online, pick up in-store; curbside pickup). Consumers are increasingly unwilling to have patience with late and/or slow delivery. This expectation has put the pressure on retailers to deliver, both literally and figuratively, no matter peak or nonpeak period.

Therefore, retailers are investing more time and resources into improving logistics operations to keep pace with both consumers' expectations and leaders in the space such as Amazon.com, Walmart, Target, and others. But with that comes challenges. In fact, only 3 percent of our survey respondents said they had no logistics challenges.

According to our survey, the No. 1 challenge for retailers in scaling logistics is optimizing staffing levels, a problem that figures to only be exacerbated in today's tight labor market. With more consumers opting for online and omnichannel purchases, the need for logistics staffing continues to increase, even rising during nonpeak periods compared to historical levels.

Following closely behind staffing levels is the No. 2 challenge for retailers, legacy technology systems and solutions, selected by 43 percent of respondents. With more complex supply chains, the result of omnichannel fulfillment options that have grown in popularity with consumers, it's critical that retailers have technology systems in place that are able to share data (customer, product) across channels to facilitate these multichannel transactions in a seamless, safe, fast, and easy manner. As this data shows, many do not.

Challenges in Scaling Logistics



Q. What are the challenges for your organization in scaling logistics, either up or down?
(Choose all that apply)
n=105

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In today's hypercompetitive retail landscape, customer loyalty is both rare and extremely valuable for retailers that can attain it. Therefore, it's not surprising that the survey respondents ranked customer loyalty as the top benefit if they were able to successfully scale logistics up or down, even ahead of sales gains. Considering the profitability of a long-term customer to a retail organization vs. the short-term revenue boost from sales gains, many from first-time customers that won't come back to purchase again, it's easy to see why the retailers value loyalty most.

Brand loyalty has been on the decline for some time, a trend that has been accelerated during the pandemic, particularly online. And, of course, one of the ways to develop customer loyalty is to provide exceptional customer experiences, the types which make consumers want to come back and purchase again. One key to such experiences is logistics, ensuring that once customers click that "Buy" button, they receive their order, no matter how they choose, when and where you promised it to them. That goes for peak seasons when you're dealing with volume capacity and taxed supply chains, as well as nonpeak seasons when your labor pool may be depleted. Having a technology platform that can easily scale for both scenarios is a step toward better customer experiences and, ultimately, the brand loyalty that it begets.

Benefits of Successfully Scaling Logistics



Q. If your company were able to successfully scale logistics up or down, how important would the resulting business opportunities/benefits be? Please rank the importance of the following opportunities/benefits from 1 to 5 (1 being most important, 5 being least important).
n=105



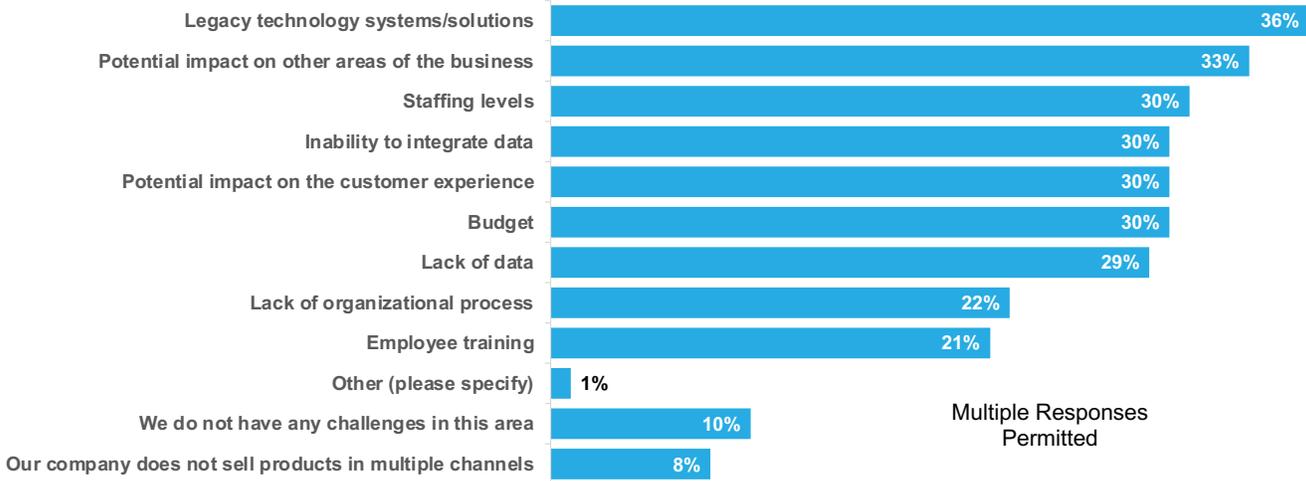
Omnichannel Operations

Rising consumer adoption of omnichannel shopping behaviors has forced retailers to evolve their businesses. This extends from marketing to order fulfillment to customer service, among other functions. Consumers dictate to retailers how they want to engage, and often it crosses multiple channels (store, web, mobile) in the same purchase journey. Retailers must be ready to provide seamless experiences across channels that satisfy customers' expectations. To do that, they're relying on technology to give them a better understanding of each individual customer as well as how their operations are syncing together. Yet there are challenges, as you can imagine, in tracking consumers from one channel to another, all the while trying to personalize their experience.

When asked to choose the challenges for their organization in scaling omnichannel operations, the most common answer choice was legacy technology systems and solutions, a pain point for 36 percent of respondents. Given that the idea of omnichannel is still a relatively new concept for the retail industry, it's not surprising that many retailers are working with technology systems that are unable to operate with this shared experience in mind. Systems are siloed and data is separated, making omnichannel operations near impossible to facilitate. In addition to not being able to share inventory and customer data across order and inventory management systems, for example, another challenge for retailers operating with legacy technology is the inability to integrate with new technology that's supposed to improve efficiencies and processes.

In addition to tech challenges related to scaling omnichannel operations, retailers are also struggling with optimizing staffing levels, both in stores and distribution centers, and properly training those employees that are working. Thirty percent of respondents chose staffing levels as a challenge, while 21 percent selected employee training. Given the new tasks that are being expected of in-store associates, such as picking and packing orders for ship from store, picking and packing items for in-store or curbside pickup of online orders, it's expected that this would create some challenges around employee training, particularly those new to the company, which is common during peak seasons. Furthermore, if the retailer is still working with multiple legacy technology systems, it extends the learning curve for employees, potentially negatively impacting customer experience.

Challenges in Scaling Omnichannel Operations



Q. What are the challenges for your organization in scaling omnichannel operations, either up or down?
 (Choose all that apply)
 n=105



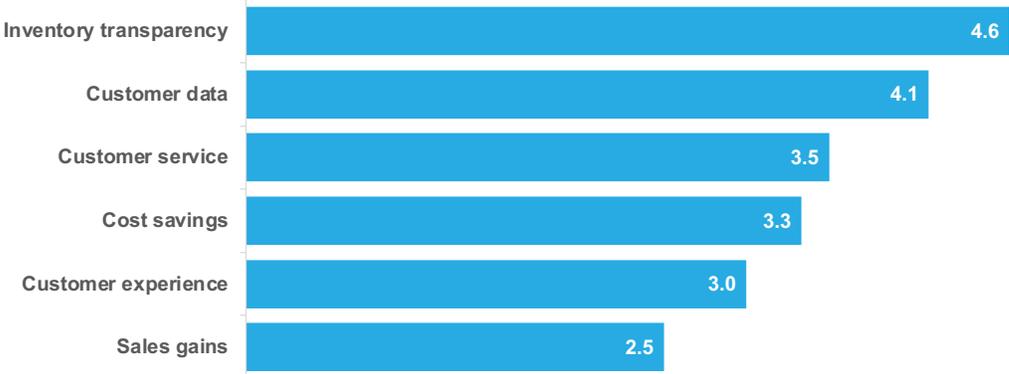
Few retailers, if any, have totally mastered omnichannel operations to the point where there are no hiccups throughout their supply chains. However, there are many that are getting better at this, with the help of technology, and are realizing business benefits as a result. The top benefit/opportunity that retailers foresee from being able to effectively scale omnichannel operations is inventory transparency. Making sure that your business has the right inventory in the right places (stores, DCs) at the right times to avoid overstocks, which lead to increased storage costs as well as margin-eroding discounting, and out-of-stocks, which result in lost sales, both in the short and long term from frustrated consumers that won't come back, is critical to facilitating the omnichannel experiences those customers are expecting.

In addition, with increased consumer adoption of BOPIS and curbside pickup, as well as retailers using brick-and-mortar stores as hubs for ship-from-store orders, inventory transparency across channels is necessary to execute on these omnichannel services. Allocating in-store inventory for online orders needs to happen in real time to ensure customers aren't driving to the store to pick up an item that has already been sold to an in-store shopper, or a customer is told the item is available in-store only to be told once they arrive it has been fulfilled for a curbside pickup order. Inventory transparency across the supply chain eliminates these potential problems.

Like the other three business functions covered previously, retailers value customer data that can be obtained and used to improve operations. This applies to omnichannel operations as well. By creating a holistic view of the customer through shared data across channels and systems, retailers can begin to personalize experiences. In the case of omnichannel operations, this could mean personalized marketing messages for special BOPIS orders at the customer's local store, for example. The more you know about a customer and his/her behaviors and preferences, the better experience you're able to provide, which in turn should lead to increased customer loyalty. Customer data is the fuel powering today's personalized shopping experiences.

Lastly, it's interesting that in the ranking of potential benefits, sales gains came last. This reinforces that retailers are seeking customer loyalty (i.e., lifetime value), not one-time transactions that may look good for the top line but don't significantly boost the bottom line.

Benefits of Successfully Scaling Omnichannel Operations



*Q. If your company were able to successfully scale omnichannel operations up or down, how important would the resulting business opportunities/benefits be? Please rank the importance of the following opportunities/benefits from 1 to 6 (1 being most important, 6 being least important).
n=97 respondents that sell products in multiple channels*

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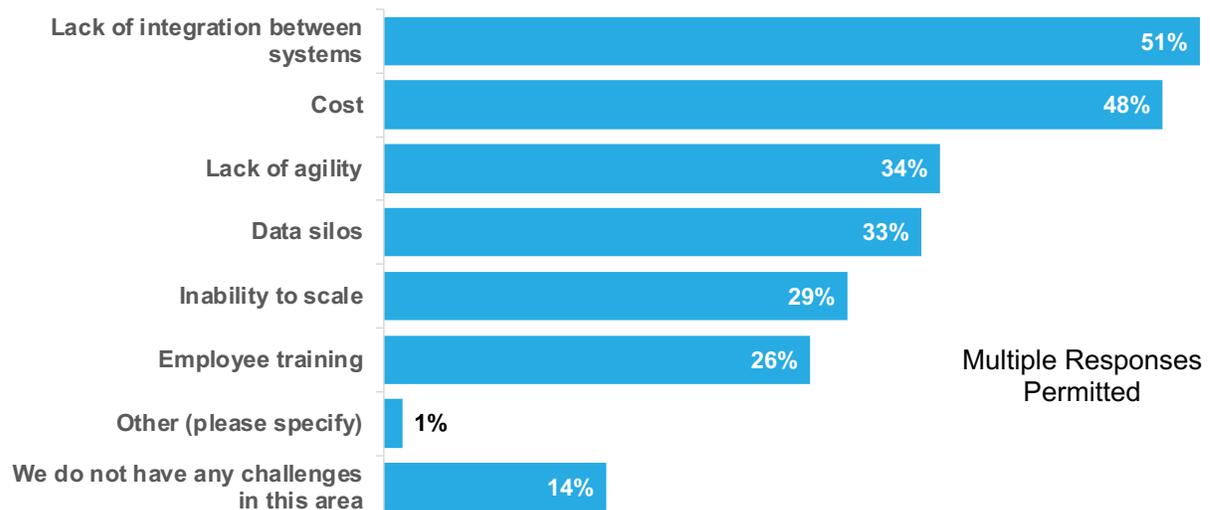
Multiple Providers, Multiple Problems

Of the 105 survey respondents, 82 percent of them are partnering with multiple service providers for customer care, fraud prevention, logistics, and omnichannel operations. In fact, 50 percent of them are partnering with three or more service providers for these business functions. Why is this cause for concern?

The opportunity and likelihood for challenges increases with the more technology platforms/systems/solutions that you implement within your organization. Only 14 percent of respondents reported no issues with having multiple service providers for these business functions. This illustrates the value and need for single providers of multiple solutions, such as customer care, fraud, logistics and omnichannel. Furthermore, having to manage relationships with multiple vendors, including for tech support, is a major time suck for the retailer. The efficiency gained by working with a single provider of multiple functions increases employee productivity, while also eliminating data silos that exist across systems. The latter point is critical for enabling the personalized customer experiences that today's consumers have come to expect. Without a single customer view, personalization is difficult if not impossible to execute upon. Which leads us to our next data point ...

When asked what the challenges are in working with multiple vendors for customer care, fraud prevention, logistics, and omnichannel operations, the No. 1 answer given was a lack of integration between systems, chosen by more than half of respondents (51 percent). Again, a single provider can yield efficiencies in productivity, which can lead to cost savings, as well as set retailers up to provide personalized customer experiences, which drive sales and increased customer loyalty.

Challenges in Working With Multiple Vendors



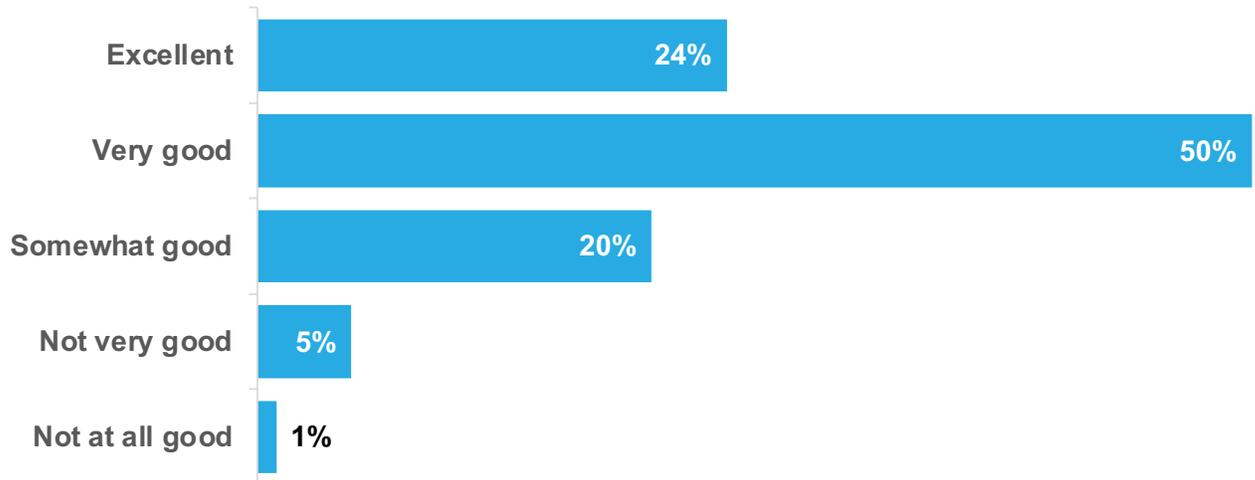
Q. What are the challenges in working with multiple vendors for logistics, omnichannel operations, customer care, and fraud? (Choose all that apply)
n=87 respondents that indicated they work with multiple vendors for logistics, omnichannel operations, customer care, and fraud



The Personalization Gap

Nearly three-quarters of respondents (74 percent) characterize their organization's ability to offer a personalized customer experience as "very good" or "excellent." Good news, right? Not when you learn that according to a Periscope by McKinsey survey, only 23 percent of consumers believe that retailers are doing a good job in their personalization efforts. So why the gap?

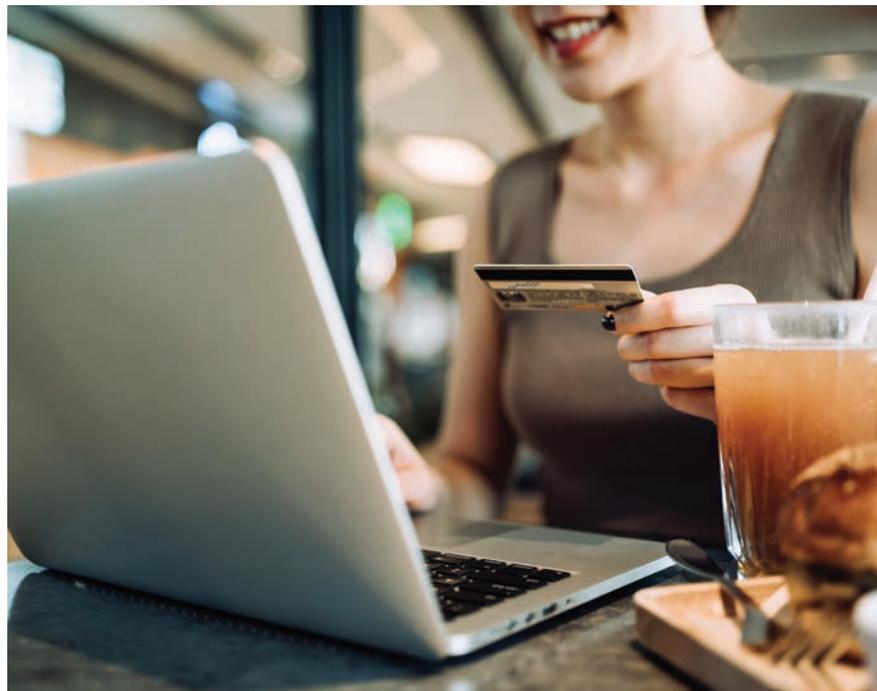
Ability to Offer Personalized Customer Experience



Q. How would you characterize your organization's ability to offer a personalized customer experience?
n=105

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The short answer would be that not enough retailers, despite what they may think, have done enough to invest in the people, processes, and technologies necessary to create truly personalized shopping experiences for their customers. The positive takeaway is that there's still time and solutions in the marketplace that can remedy this problem.



“Retailers currently face several challenges related to scaling operations, most linked to legacy technology systems, a lack of customer data and/or an inability to tie that data together across multiple channels and systems to create a single view of the customer, and a lack of effective employee training.”

CONCLUSION

Evolving consumer behaviors and shifting market conditions necessitate that retailers be able to scale their business operations to serve the needs of their customers no matter peak or nonpeak demand levels. This requirement extends across multiple facets of a retail organization, including customer care, fraud prevention, logistics, and omnichannel operations, to name four critical areas. To do this, retailers will need to have well-trained employees in place, defined processes and protocols for both online and offline operations, and a technology provider that can bring this altogether within a single platform to enable personalized experiences through integrated systems and shared data.

Retailers currently face several challenges related to scaling operations, most linked to legacy technology systems, a lack of customer data and/or an inability to tie that data together across multiple channels and systems to create a single view of the customer, and a lack of effective employee training. However, there is reason for optimism. The benefits of effectively scaling operations across customer care, fraud, logistics, and omnichannel operations, which some retailers have done to a high degree, include efficiency gains, potential cost savings, increased sales, higher customer satisfaction levels and, most importantly in the eyes of our survey respondents, customer loyalty.

Consumers' expectations of retailers and the experiences they provide are understandably high. This won't change given the level of competition in the marketplace. It's incumbent upon retailers to scale their operations to meet those expectations. The reward for doing so is worth it — long-term customer loyalty.

WHO WE ARE



Radial, Inc., a bpost group company, is the leader in omnichannel commerce technology and operations. Premier brands around the world confidently partner with Radial to deliver their brand promises, anticipate and respond to industry disruption, and compete in a rapidly evolving market. Radial's innovative solutions connect retailers and customers through advanced omnichannel technologies; intelligent payments and fraud protection; efficient fulfillment, supply chain services; and insightful customer care services – especially where high-value customer experiences are critical. We are flexible, scalable, and focused on our clients' business objectives.

WHO WE ARE

TotalRetail

Total Retail is the go-to source for retail executives looking for the latest news and analysis on the retail industry. Featuring a daily e-newsletter (Total Retail Report), robust website, virtual and live events, comprehensive research reports, podcast channel, and more, Total Retail offers retail executives the information they need to do their jobs more effectively and grow their professional careers. Visit myTotalRetail.com.

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NAPCO Research crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

Contact research@napco.com to talk with our analysts to find out how we can help you with your research needs.