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# RALLYING RETAIL FOR THE FUTURE – 6 STEPS TO IMPROVE RETAIL PRODUCTIVITY



Making bold moves to survive in  
the post-Covid-19 landscape

An Infosys Consulting Perspective

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# TESTING TIMES FOR RETAIL

Retail businesses worldwide are walking on a tightrope in the aftermath of the Covid-19 pandemic.

**\$430 billion**

According to the National Retail Federation, \$430 billion in revenues in the US will disappear over the next three months.

They are being coerced to reset their existing business models to respond to the current crisis, as well as to foresee, re-imagine and re-design for the after-effects.

The Covid-19 pandemic has shaken professional, personal and societal routines and known patterns. The current crisis has given rise to new trends, such as remote working, demand for contactless shopping, restricted mobility, shifts in demand and purchase behavior.

According to the National Retail Federation, \$430 billion in revenues in the US will disappear over the next three months. These are testing times for all retail organizations and brands. Retail stores which were not very recently foreseen as the future community centers and social hubs, are reeling in varying orders, depending on the nature of business.

On one side, grocery stores are dealing with an unprecedented spike in demand due to pantry leading and inventing innovative solutions to manage restricted operations. On the other side, specialty, apparel and footwear stores have taken a heavy blow from store closures and unsold products on shelves.

Retail store traffic has taken a nose dive and it seems uncertain if consumer walk-ins will ever return to normal. As online purchases surge, companies are grappling with capacity shortages, stretched supply chains, shipping disruption, surge in on-demand deliveries and rise in distribution costs. The pandemic crisis has brought to light many fundamental questions on the maturity, flexibility, and resilience of businesses.

Concerns, which may appear new but were hidden in shadows, are now in the public domain, including:

- Concern for hygiene in public and work places
- Participation in societal causes and social upliftment
- Opportunities to produce less and control SKU proliferation
- Ensuring physical and mental health of employees
- Optimizing non-essential economic activity and services
- Fragility of supply chains

Here are some of the constraints that have cropped up coercing retailers to improvise and adapt:

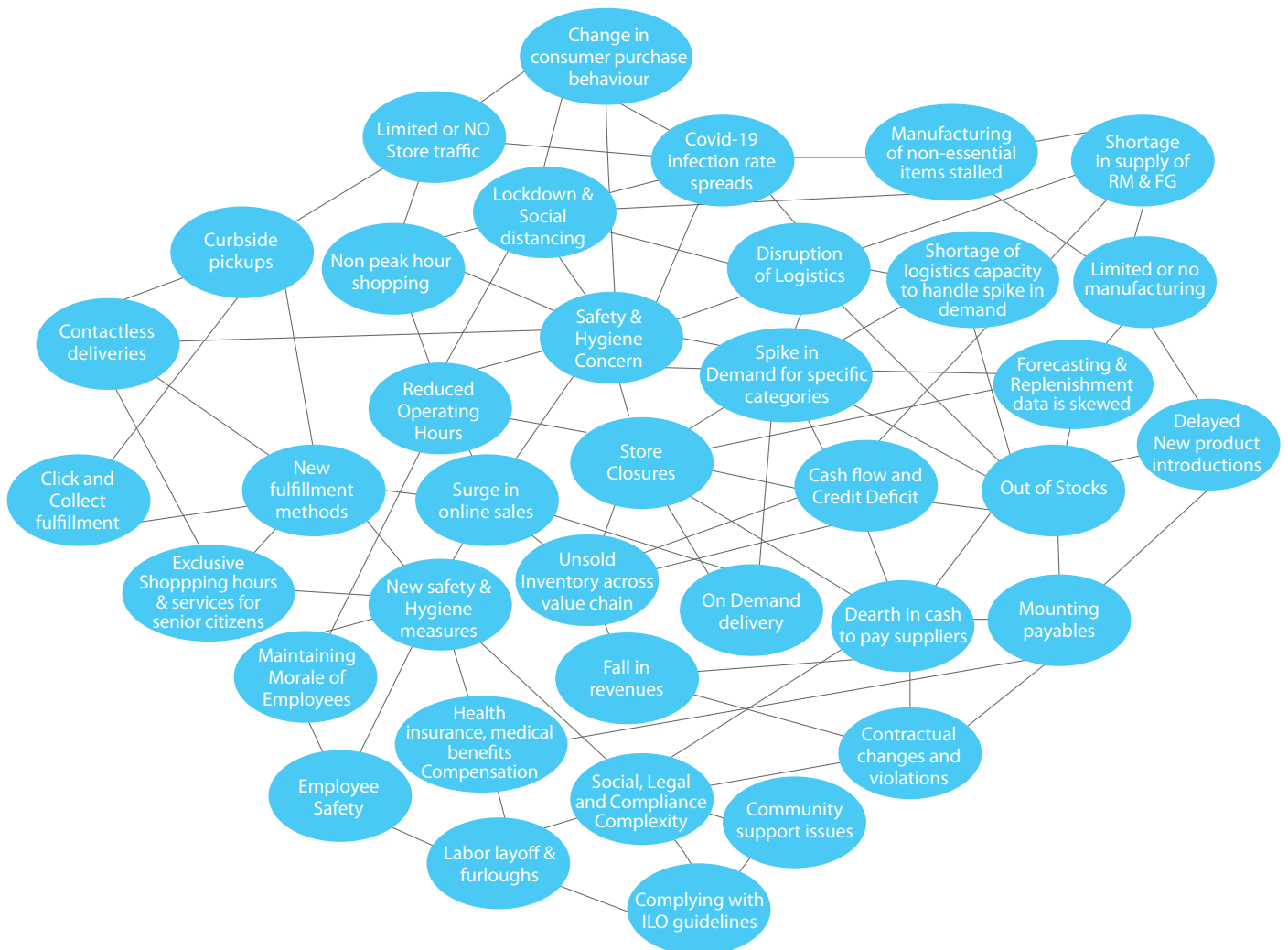


Figure 1: Constraints in the Retail Ecosystem due to Covid-19

# STEPPING UP AND RALLYING FOR THE FUTURE – KEEP THE LIGHTS ON

In this paper, we offer some key considerations for retailers to keep up with the current challenges and how to step-up and rally for the future.

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“Now, more than ever before, our dedicated colleagues, our values, and our long-term view, will play a very important role in how we handle the current circumstances and the rapid development of the situation.

While we are all affected by this and share many of the same concerns, we are also witnessing a strong sense of coming together and supporting of one another as we deal with the situation day-by-day.

Please stay safe and remain positive.”

Source: Helena Helmersson,  
CEO H&M Group

Source: <https://hmgroup.com/media/news/general-news-2020/letter-to-colleagues--customers--partners-and-friends-from-h-m-g.html>

We chose to remain bullish and encourage everyone to look on the bright side. This exemplary statement from H&M chief executive Helena Helmersson stands out amidst the pall of gloom.

## UPGRADE RETAIL PRODUCTIVITY MODELS

Covid-19 has by all means struck a heavy blow to human life and disrupted normal businesses. It has, to a large extent, exposed many deficiencies in retail productivity which has been declining. The trends witnessed in the recent past have become more obvious: changing channel affinity, emergence of non-traditional players, and increasing impact of digital influencing offline sales.

Retail stores worldwide are experiencing negative operating leverage as costs mount, such as employee compensation, improved medical and health insurance benefits, spiraling rents, and increasing merchandise returns. As digital sales look northward, retail stores’ productivity is taking a plunge, a deeper one than ever before.

**Before the ship sails, now is the best time to challenge conventions. It’s imperative that every dimension of retail productivity is scrutinized and new productivity models are designed based on the constraints identified.**

Retail executives have to make decisive moves and redesign their stagnant retail productivity models at a micro level, for various retail formats and individual categories.

The key elements of designing the retail productivity models are:

- Choosing the right model
- Determining the productivity measure such as sales revenue, GMROI, sales/sq. ft etc.
- Determining the output and input constructs of productivity
- Establishing the relative significance of various consumer segments for various output parameters
- Correlating and inferring the optimal combination of input parameters and output parameters that drive retail productivity

In the modern era, what are the key input and output components of retail productivity? Let's consider that the key output for retail productivity is the inventory turnover and sales turnover. Adopting the principles defined by Betancourt and Gautschi (1988, 1993), we consider that output is influenced by the service components or factors, and the target consumer segments and the input is influenced by the productivity of capital investment, workforce, merchandise mix and digital technologies.

## Output parameters

Taking into consideration the constraints mentioned above, we have identified the following retail productivity output parameters:

- **Merchandise mix on various channels:** reviewing the depth and breadth of categories and SKU optimization.
- **On-demand availability and delivery of products at the desired time and place for consumers:** managing storage, distribution and fulfillment of products.
- **Information at all stages of the consumer path to purchase:** price, availability, offers, product details, product reviews and ratings and product recommendations.
- **Ease and convenience of shopping:** planogram, ease of circulation, ease of locating products and faster checkouts.
- **Service responsiveness:** ambience, facilities, safety and hygiene, availability of trained and knowledgeable staff, and service responsiveness.

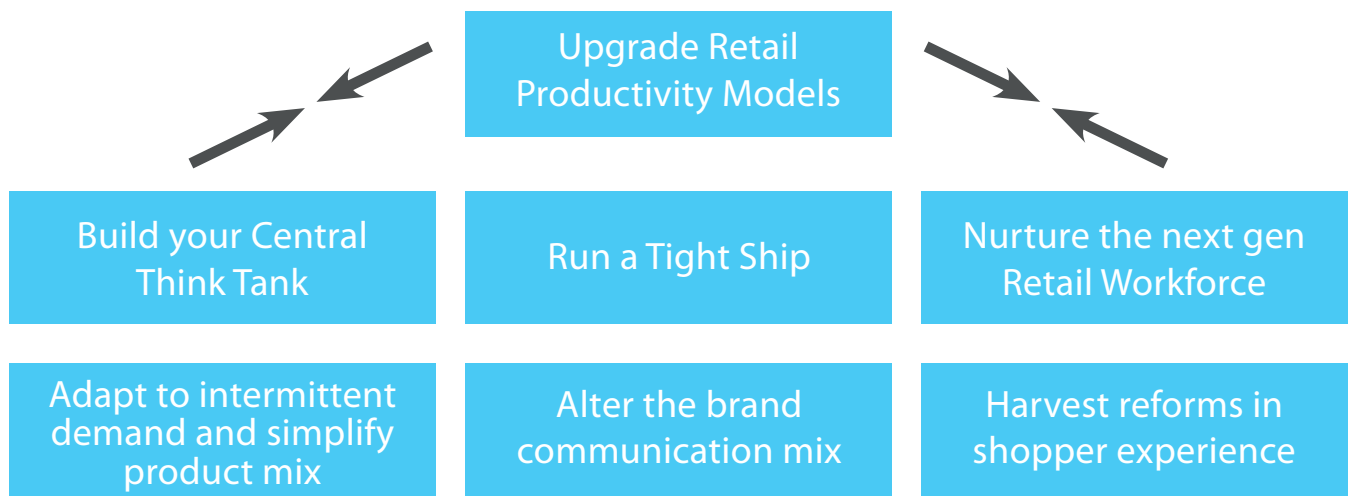
## Input parameters

Taking into consideration the constraints mentioned above, we have identified the following retail productivity input parameters:

- **Trained workforce with digital skills:** hiring and retaining talent and upskilling the workforce.
- **Capital investment:** retail expansion, digital services, store interior infrastructure and design.
- **Merchandise mix:** optimal range planning and procurement, flexible replenishment and allocation.
- **Modern IT infrastructure and digital technologies:** process automation, digital signages, pervasive and predictive analytics.

# 6 STEPS TO IMPROVE THE RETAIL PRODUCTIVITY

Below, we offer 6 key considerations for retailers to keep up with the current challenges and how to step-up and rally for the future.



## 1. Build your central think tank

We recommend setting up a cross-functional retail task force - an institutional mechanism not just to deal with the current crisis, but as an ongoing agile working group to stay ahead of the curve. The task force should review retail productivity from all corners, sense opportunities, identify threats and pitfalls and define the policies, processes and investments that will allow their retail ecosystems to learn and adapt to any situation:

- Monitor and compile global best practices and strategies
- Regularly perform scenario modeling

- Continuously review and redesign the retail productivity model at a local level
- Contingency planning and save for the rainy day
- Prioritize retail productivity measures and critical investments
- Develop the big picture and stay ahead of the curve on consumer trends
- Collaborate with local authorities, competition and suppliers to devise tactical measures on all accounts, including societal care, employee policies and communication, and supplier partnerships.

## 2. Run a tight ship

The current crisis has exposed the inherent deficiencies in managing working capital and maintaining steady cash reserves. Sufficient cash flow is necessary to pay wages, supplier bills invoices and real estate. Cash flow scenario planning is one of our key recommendations to retail improve productivity.

- Review all capital investments and hold off those that contribute less to the productivity. Identify and pursue only those that will help the company to maintain market share.
- Renegotiate with suppliers on trade agreements, inventory terms, lead times and credit periods without impacting service levels.
- Liaise with delivery and distribution partners to move distribution centers closer to the consumer.
- Explore new options of credit with financing partners to maintain liquidity. Audit and act more frequently on receivables.
- Optimize inventory levels focusing on working capital as a key constraint while balancing sales demand and required safety stock levels.
- Rationalize brands and SKUs and eliminate at all stages of the value chain to reduce days of inventory.
- Audit and eliminate non-essential capital investment such as new stores, equipment, store interiors and control discretionary operational spending. Re-negotiate rental contracts.
- Re-design trading areas of large formats. Open up the trading areas for shop in shops, community centers, mini warehouse or pickup hubs.



- Identify means to convert fixed costs in logistics and warehousing to variable by collaborating with competitors to share third party warehouses and transportation fleets.
- Reduce variable costs incrementally – monitor hiring requirements, control spend on travel, entertainment, office expenses, review utilization and hiring of external contractors.
- Improve visibility of spend and reduce time spent in procure to pay processes.

### 3. Adapt to intermittent demand and simplify the product mix

Drops or spikes in demand can cause an adverse effect on retail productivity. The current impasse has led to unpredictable changes in consumer purchase cycles. While the rate of consumption in certain categories have spiked significantly, it has nose-dived in others. Many essential categories which have experienced high demand have also experienced high out of stock percentages. Consumers are also less hesitant to seek out incidental trials of substitute brands and products or purchase from stores or a different channel. This may have led to new category buyers and brand switching.

**Retailers procurement and replenishment systems which seemed to be running on auto pilot, have fallen short. The domino effect of the unanticipated demand has permeated to create supply bottle necks and in unproductive inventory across the value chain.**

We recommend two important steps to manage the contribution of inventory as an input and the product mix as an output to retail productivity:

- Firstly, simplify the product offering through collaborative SKU rationalization exercises.
- Secondly, invest in probabilistic demand forecasting techniques to manage intermittent demand.

Merchandisers  
have to get their act  
together and define  
“how much is too  
many”.

““

“In general, low-volume products experience a higher variation in demand. As the number of low-volume product offerings and variation in demand for these products increase, PCE decreases.”

Source: [www.supplychainquarterly.com](http://www.supplychainquarterly.com),  
Quarter 4, 2019

### Simplifying the product mix

The Covid-19 pandemic has caused the watershed moment for retail merchandising productivity. The competition for the share of the basket has led to SKU proliferation across retail categories.

While a larger number of items on shelf can support market penetration and competitive position, SKU proliferation can prove to be a drag on forecast accuracy, working capital, handling costs, operational cash flow, and overall merchandise financial productivity. Shedding the non-value creators with low demand in the long tail can improve cash flow by improving the process cycle time.

### Adapting to intermittent demand

As the situation normalizes in the next three months, it is imperative to take drastic measures to swing back and improve the productivity of merchandise. This depends on five factors:

1. Predicting the consumer demand
2. Developing the capability to forecast brand switching and cannibalization
3. Ordering the right merchandise at the right quantity
4. Forecasting the velocity of items in each category
5. Restructuring the range plan and determining the sources of supply

### A few steps in the right direction can be the following:

- Switch gradually from deterministic forecasting techniques to probabilistic models that use machine learning to sense and shape demand, correlate multiple demand variables, and generate a near optimal demand forecast for multiple scenarios. Determine probabilistic demand for each SKU for all scenarios.
- Define the intervals and the criteria to switch from one scenario to another.
- Design dynamic replenishment models based on fair share allocation principles.
- For each scenario, restructure the sales growth and the stock phasing plans to re-allocate budgets. Create the range plans.



“A recent report into store WFM practices by analyst house RSR Research found those retailers that had already prioritized their employee work schedules saw store staff were able to spend more time with customers than on administrative tasks.”

Source: [www.retailtechnology.co.uk](http://www.retailtechnology.co.uk)

- Re-select suppliers or re-negotiate the buying cycle, minimum commitment and terms and conditions with suppliers. Book optimal capacities from suppliers.
- Improve supply chain visibility by sharing demand and transit information in real time.

#### 4. Nurture the next generation retail workforce

In the retail workforce (labor), both front line roles and back office roles are often seeing as a negative influencer of retail productivity and are often ignored in the larger scheme of things.

The retail workforce has been the most vulnerable to layoffs and temporary reductions in work hours. This is the ideal time for companies to review their retail workforce policies and make a difference. Digital tools and services notwithstanding, it's time to recognize that the retail associates are every retail brand's ambassadors who can ensure that the brand's promise and the consumer expectations converge.

**Retail organizations that who view organizational agility as a key driver of growth have to urgently review their policies and approaches to workforce development.**

Labor productivity can be enhanced through right hiring, training and monitoring, employe recognition and benefits programs, and digital empowerment to schedule and run operations. We recommend these measures to uplift labor as a positive input to retail productivity and also influence the degree of service responsiveness output:

- Hire the associates from non-traditional talent pools, thus opening opportunities to the wider society and also benefitting from a larger candidate pool.
- Train the associates on digital tools and technologies as per their roles from back-office functions to store operations to serving the consumer along the shopping journey. Transform them into retail experts.
- Collaborate with other players and peers to develop this talent pool and skillsets through low cost training and certification programs.

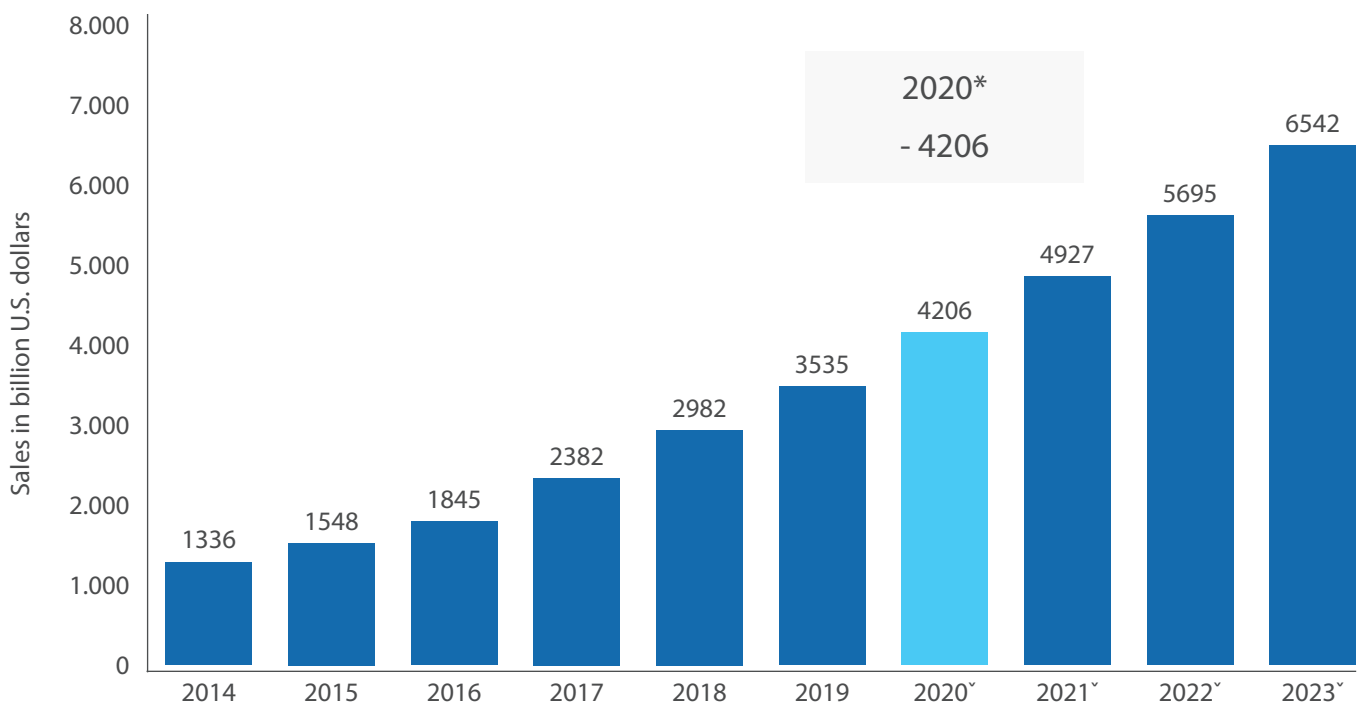
- Reinforce loyalty through consistent recognition, incentives, sufficient wages, medical premiums and benefits
- Foster digital dexterity: “digital dexterity” is the cognitive ability and social practice needed to leverage various types of media, information and technology in unique and highly innovative ways that optimize personal and retailer business value (Gartner, 2017).
- Empower associates and their managers with scheduling tools and virtual assistants.

### 5. Harvest reforms in shopping experience - easier, safer, faster and convenient

Post-Covid-19, shopping trips may become less frequent and the paths to purchase may become shorter. Moreover, ecommerce sales are expected to surge by almost 85% between 2019 and 2023.

**More than ever before, retailers have to work out new propositions for consumers to walk-in, shop conveniently, and receive their deliveries at the place of their choice.**

#### Retail ecommerce sales worldwide from 2014 to 2023



Source: <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>

The level of consumer engagement has changed to new realities:



- Purchase behavior, shopping missions and need states have undergone a huge transformation.
- Mobile, in-store and shopper-facing digital technologies will be a major productivity input variable that will reduce shopping friction and drive service productivity.
- Social distancing is here to stay. De-cluttering is an imperative.
- Shopping trips will need to be shorter. Awareness, information and guidance will play a key role in satisfying consumer expectations.
- Product availability is a must. Whoever can replenish faster and have the right product assortment will attract more consumers and loyalty.

This is the time to harvest reform in the productivity output factors mentioned above.

- **Discover the new universe:** Conduct new consumer household analysis and segmentation studies periodically. Identify new segments of consumers and map the attitudinal and behavioral drivers, product affinity and channel preferences.
- **Model the evolved changing consumer decision tree:** Study shopping missions and need states, occasions for every category. Identify new purchase drivers.
- **Declutter shelf space, ensure product availability and plan reduced local assortments:** Balance product categories across sizes, variants, SKUs, prices, and more. Focus on profitability, turnover and availability. Define acceptable SKU velocity and acceptable service levels for multiple scenarios.
- **Help consumers in product discovery and locating:** Use shelf beacons, indoor positioning systems and hands-free shopping carts to help consumers.
- **Aid clutter-free navigation and circulation:** Re-design store layouts to enable uni-directional multi service navigation, install in-store directional signage at appropriate locations, identify optimal store occupancy rate, and position outdoor signage to communicate ideal store occupancy rate for safety and convenience.

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“The art of communication is the language of leadership.”

*James Humes*

- **Promote awareness:** Develop a content strategy for custom signage to educate customers on commitment to safety and hygiene, health tips, promote awareness to events, service levels and new products.
- **Integrate with online:** Deploy in-store kiosks to publish product availability details, maximum purchase guidelines and enable consumers to order online.
- **Personalize to reduce consideration set:** Track real-time shopper behavior through smartphone data and customer recognition solutions to provide personalized recommendations and offers on smart shelves.
- **Expand contactless solutions:** Design self-service aisles and self-checkouts. Encourage digital and contactless payments.
- **Think faster checkouts:** Invest in queue management solutions for high traffic formats for smart checkout management. Enable faster movement of in-store traffic and open capacity for more consumers.
- **Shorten delivery times:** Introduce direct-to-consumer service for selected categories.
- **Plan multiple fulfillment options:** Convert stores into delivery sites for BOPIS. Partner with competitors to invest in micro fulfillment centers.

## 6. Alter brand communication mix to build salience and trust

There is no one-size-fits all strategy for bouncing back. Retailers are likely to implement a wide spectrum of operational and tactical decisions to get back on track. In this unsettling period of reviewing and plough-back, regaining trust, confidence and loyalty of consumers is vital. Brand perception and imagery are likely to have evolved due to cognitive biases developed due to the current crisis. Consumers may increasingly expect retailer brands to support social causes and be committed to the upliftment of health and well-being. Leadership is of true essence.

**Retailers should study changing consumer attitudes and design new communication and listening strategies on various channels for the current and immediate future with two-way conversations that will reset consumer expectations, regain their confidence and improve brand salience:**

- Address how the company is ensuring safety, health and hygiene in its facilities and deliveries as per guidelines issued by World Health Organization (WHO), the Centers for Disease Control and Prevention (CDC), and local health agencies.
- Inform how store operations have changed, why promotions and events are suspended and convey optimism about scaling back to steady state soon. Communicate when value-added services will be reinstated.
- Provide reliable and real information on store timings, stock availability on websites, social media channels and mobile apps.
- Explain the changes to the store layouts, circulation changes and safety measures in place. Let consumers know the alternative shopping channels, contactless payment modes available, delivery options, return policies and how they can leave their feedback or place requests.
- Setup chatbots on mobile apps and websites to address consumer concerns and requests. Explore video calling options for servicing high involvement categories.
- Be relevant on community-based digital forums



# COLLABORATE TO PROTECT THE RETAIL SECTOR

**Retail industry is one of the largest private sector employers across many countries. In the US alone, the retail industry provides jobs to 29 million people.**

Retail industry is one of the largest private sector employers across many countries. In the US alone, the retail industry provides jobs to 29 million people. Store closures and lean operations can devastate the livelihood of many people. Retailers should arrest this slide quickly. This can be achieved in three ways. First, by optimizing the retail footprint among various formats. Second, by arresting store closures and unemployment. Lastly, by exploring options to reduce losses and permeate cash into the system and most importantly collaborate with competitors, local community, government authorities and trade partners.

## Here are some ideas:

- Collaborate with competitors and work with the government and labor organizations to bridge the skills gap by creating a talent pool trained to work in a digital retailing environment. Together, they can build a permanent shared workforce program that creates jobs across various functions in the value chain.
- Join high street and town center projects of which the retail mix is an integral part. Control the mix of retail businesses and real estate so that spaces are productive, generate employment opportunities and have a captive local consumer base.
- Partner with competitors to share store capacity for deliveries, warehouse spaces, and logistics network and assets.







“Instead of worrying about what you cannot control, shift your energy to what you can create.”

*Source: Roy. T. Benett, The Light in the Heart*

## CONTRIBUTE TO A BETTER ECOSYSTEM

Covid-19 may be nature’s way of warning the human race to re-invent the ways of living. Social media channels now carry pictures of clear skies, clean streets and crystal-clear rivers and lakes – a consequence of restrictions on movement and allowing consumption only on essential items.

In her book ‘Plenitude – The New Economics of True Wealth’ – 2010, best-selling author and economist Juliet B. Schor, presents a revolutionary strategy for transitioning toward a richer, more balanced life. It has four key features: moderation in hours of work, self-provisioning, environmentally aware consumption, and restoring investments in one another and community. In sum, “work and spend less, create and connect more.”

A similar thought along a different dimension is echoed by the theory of ‘Voluntary Simplicity’ (Etzioni, 1998) that advocates a simple life of reduced consumption. Societal aspirations and consumption patterns are more often than not, driven by businesses in their pursuits to maximize their share of the consumer wallet.

Retail businesses and consumer good companies who manufacture, distribute and serve the consumption needs of the society need to harbor this responsibility collectively.

# Conclusion

## MAKE BOLD MOVES

The organized retail sector is a tipping point. It is bearing down upon business managers to redesign the retail productivity model to stand resolute during the shifting realities. This requires transformational changes in organizational cultures to place long term goals, internal collaboration and skilled workforce as pre-requisites for success.

An integrated view of an organization with information flow across the business will be central to taking bold decisions around opportunities. Establishing transparency across supply chains, increasing commitment to spend resources optimally, demand visibility and real-time engagement with suppliers will make the supply chain resilient and ensure free flow of cash and inventory.

The pandemic has provided an opportunity to rethink and reset the mindset.



# MEET THE EXPERTS



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