



RETAIL IN 2021:

The impact of COVID-19 on Retail Technology

TOSHIBA



RETAIL DIVE

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RETAIL TECHNOLOGY TOPICS

- Retail tech before and during COVID-19.
- Tech that supports retailers' most urgent priorities today.
- Changes in budgeting and planning for 2021.

HEADING INTO 2020, the National Retail Federation forecast that retail sales would increase between 3.5% and 4.1% to more than \$3.9 trillion.¹ By mid-March, three months later, the World Health Organization declared COVID-19 a global pandemic.² Many brick-and-mortar retailers in the United States and abroad were forced to adapt to the uncertainty of nationwide closures.³ And those that didn't fully close had to quickly adapt and change focus, priorities and investments to meet new rules and guidelines for operating, as well as new customer expectations for standards of safety and convenience. Ever since, retailers have navigated a new landscape of commerce and sought out effective ways to meet the still-evolving needs of retail consumers — a journey that highlights the ongoing relevance of retail technology that reduces friction.

The technology retailers deploy to move toward the store of the future will include capabilities that reduce friction that can solve immediate business challenges in today's COVID-19 impacted retail environment.⁴ Not only does this technology help retailers meet the accelerated consumer demand for a more seamless and convenient experience,⁵ but it also facilitates the urgent new consumer preference for safe, sanitized, and low- or no-contact in-store shopping.

"The first priority and concern for retailers this year was the safety of shoppers and associates as well as enabling value-added experiences for shoppers in this new context," said Kirk Goldman, Vice President of Business Strategy, Toshiba Global Commerce Solutions. "As retailers navigate each subsequent wave of COVID-19, they'll need to consider solutions that utilize advanced technologies, such as Artificial Intelligence and Computer Vision, in order to solve the new business problems like maintaining safe distance between shoppers and store associates."

In Spring 2020, studioID and Toshiba Global Commerce Solutions surveyed 148 retail executives to explore how high-volume retail stores are upgrading their in-store experience to meet the shifting needs of consumers. A second survey of 118 retail executives was deployed in Summer 2020 to assess how retailer priorities around new retail technology investments have changed in a COVID-19 landscape — and how that affects timelines for investing in retail technology.

In this report, we explore three topics and the compelling findings that reveal the state of retail technology before and during COVID-19, how that technology is being organized around one urgent priority, and how the events of 2020 are influencing budgeting and planning for 2021.

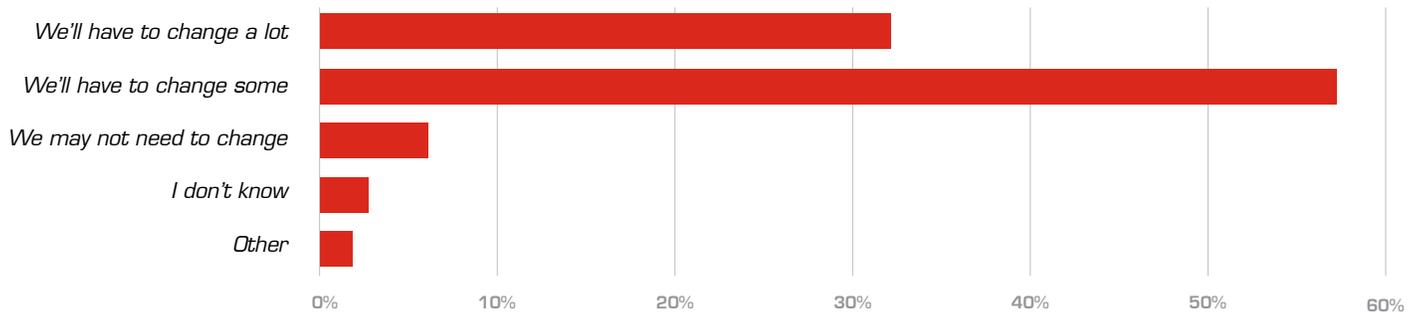
FINDING #1

The Impact of COVID-19

COVID-19 has changed the retail landscape significantly, and 90% of retail executives say that technology strategies and investments must also change due to COVID-19. Although most retailers must shift how and where investments are made, the overall focus of investments in technology will continue to strive for sustainable revenue growth — in the next three years, the

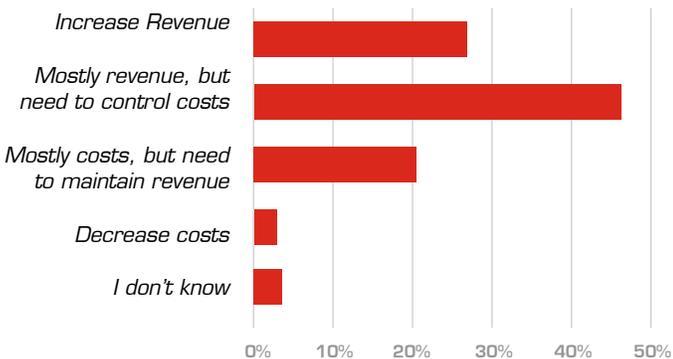
primary motivation for new technology investments in retail will be mostly to increase revenue, but with a simultaneous need to reduce costs. This remains unchanged from the Spring 2020 survey results, perhaps accounting for the fact that retailers experiencing a surge want to maintain it and retailers struggling want and need to uncover new ways to adapt and recoup lost revenue.

Due to COVID-19, how much do you think you will need to change your current retail technology strategy and investments to meet your goals in the next year?



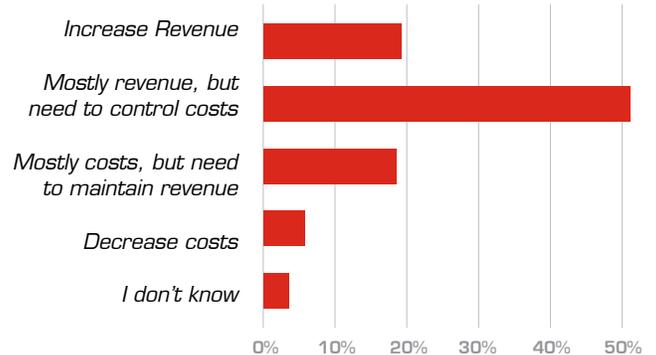
SPRING 2020 RESULTS

What is your primary driver for the new technology investments in the next three years?



SUMMER 2020 RESULTS

Considering the impact of COVID-19, what do you consider to be your primary motivation for new technology investments in the next three years?





One challenge for retailers is to identify which retail technology changes related to COVID-19 drive profit and must continue and which need to be discarded to prioritize options that drive more revenue. This is especially pressing for retailers that may have seen a huge spike in costs of managing and operating their stores in addition to the rise in revenue, leading to a potential flat line, or even shrinkage, in their profit margin.

“While some of the specific tactics in place now are debatable in terms of longevity, retail’s overall shift to greater convenience and safety is likely to stay,” said Fredrik Carlegren, Vice President of Global Marketing, Toshiba Global Commerce Solutions. “In order to make these capabilities cost-effective, retailers must find ways to more tightly integrate them with existing store systems, make them more user friendly, and drive down costs to operate in this new normal and increased level of personalization.”

“Retailers do not need Amazon-like investment budgets to drive innovation in their stores. Many solutions that solve business problems utilize the same emerging technologies. While these solutions may not deliver ‘just walk out’ capability, they can drive tremendous business value by reducing friction for shoppers while minimizing or possibly eliminating direct interaction between associates and shoppers.”

*Kirk Goldman, Vice President of Business Strategy,
Toshiba Global Commerce Solutions*



HOW RETAILERS INTEND TO TAKE ACTION IN RESPONSE TO COVID-19:

- “Becoming tighter with investments and what budget dollars are going toward.”
- “Investing more in technology, reducing investments in stores (rationalizing store operations).”
- “Reducing cost of shipping and fulfillment as online orders will increase and in-store sales decrease.”
- “Planning has become more aggressive on the marketing side, as we feel this is a time, with the correct implementation of relevant technologies, to take market share from our competitors.”
- “Rethinking the way we manage inventory in stores, how we drive traffic to online instead of stores but how to maintain store traffic as well.”

* Source: Summer 2020 studioID survey

Today's Frictionless Retail Technology Priority

In the Summer 2020 survey, just over half of retail executives (53%) said frictionless technology investments would be between 11% and 30% of technology budgets. But it is worth noting that retailers are not only investing in the technology of Artificial Intelligence (AI) and Computer Vision (CV), etc. They are concurrently investing in solutions that will make their operations more effective and efficient to deliver a more seamless and convenient customer experience.

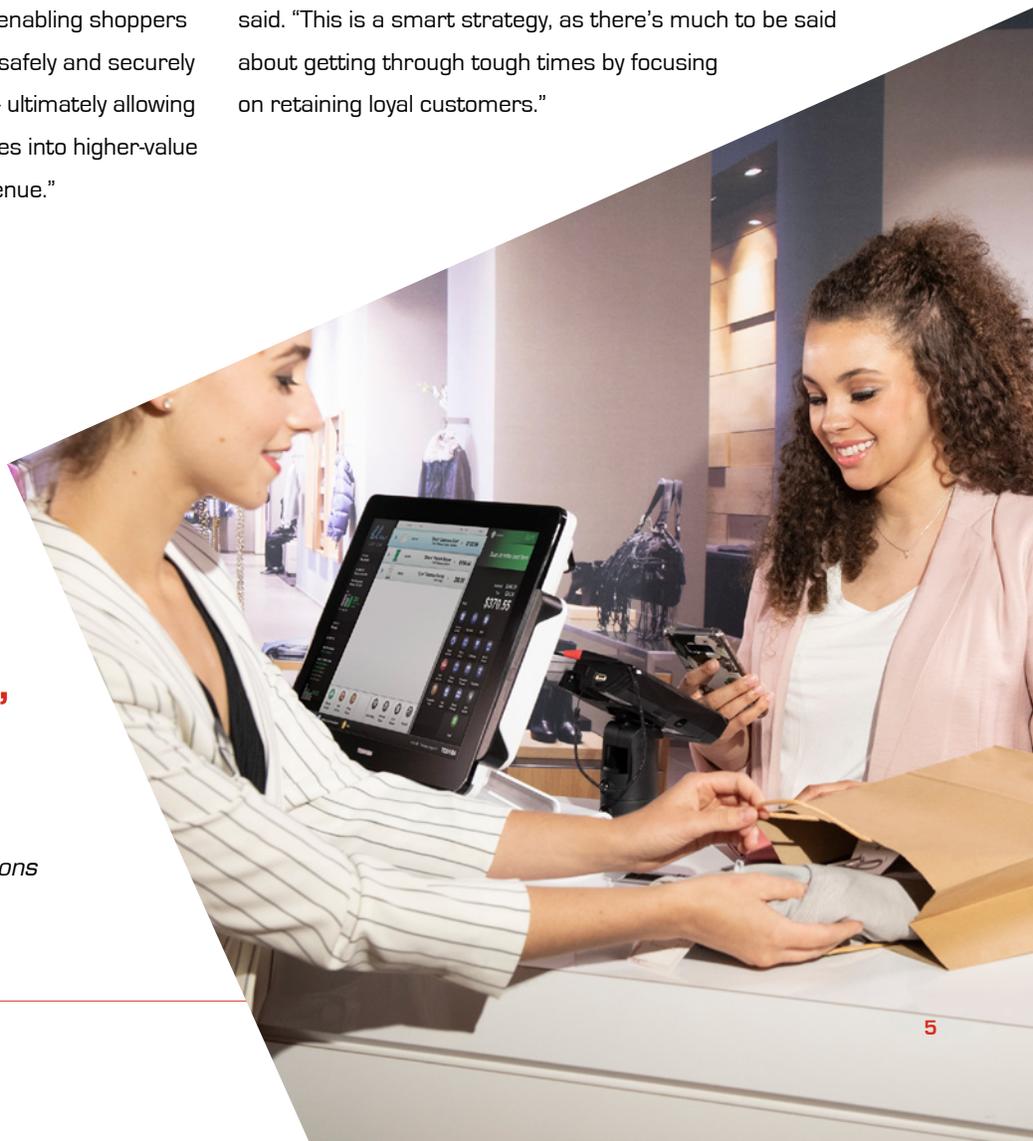
“Retailers will invest in technologies like AI and CV because these tools will ultimately provide fundamental capabilities to make the core store technology more effective,” Goldman said. “Building those capabilities may ultimately get you to a full frictionless ‘just walk out’ capability, but the principal purpose is to take friction out of the front-end experience and make it easier, enabling shoppers to become more independent and letting them safely and securely check out themselves with minimal shrinkage — ultimately allowing a retailer to deploy their limited human resources into higher-value activities that help retailers generate more revenue.”

The data around the most in-demand, friction-reducing retail technology supports this shift to customer centricity, such as alternative payments and alternative fulfillment, and self-service, confirming the ongoing importance of customer behavior in budgeting and planning around retail technology today. This is also true of the data around what retail executives are prioritizing: Seven out of ten retail executives identified increasing customer loyalty (76%), improving customer experience (75%) and attracting new customers (70%) as more important priorities today.

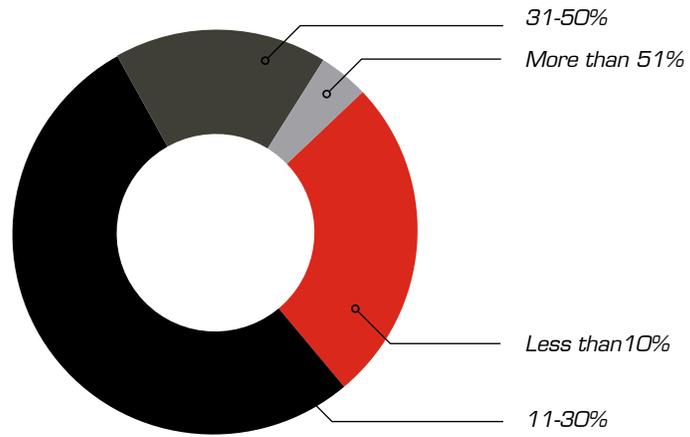
“For many retailers surveyed, several comments focused on keeping customers at the forefront — delighting them, communicating with and engaging them to retain their loyalty or even gain share while the industry is shifting,” Carlegren said. “This is a smart strategy, as there’s much to be said about getting through tough times by focusing on retaining loyal customers.”

“If you want to gain share while the industry is shifting, you can’t take your eye off the customer.”

Fredrik Carlegren, Vice President of Global Marketing, Toshiba Global Commerce Solutions



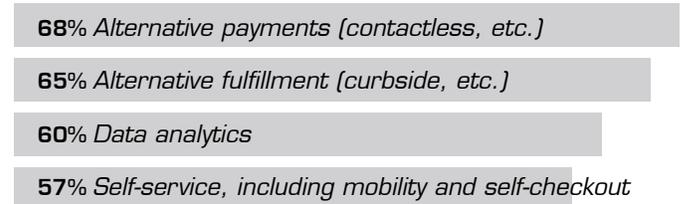
Approximately what percentage of your technology budget do you anticipate using for frictionless technology investments over the next year?



IN THE SPRING 2020 SURVEY, the four most in-demand technologies that retailers were interested in to help them address their business needs were:



IN THE SUMMER 2020 SURVEY, the four most in-demand technologies that retailers were interested in to help them address their business needs were:



How has the priority of the following retail technology investment outcomes changed as a result of COVID-19?

	More important	About the same level of importance	Less important
Increase customer loyalty	76%	23%	1%
Improve customer experience	74%	24%	2%
Attract new customers	70%	28%	2%
Differentiate our brand	64%	29%	7%
Lower cost of managing store	54%	39%	7%
Reduce complexity of IT systems	39%	53%	8%
Increase frequency of shopping in our stores	38%	48%	14%
Increase average basket size	37%	54%	9%
Lower prices to our customers	24%	61%	15%

A photograph showing two men in business suits sitting at a table, looking at documents and holding pens, suggesting a meeting or presentation.

FINDING #3

Budgeting and Planning for 2021

Naturally, increased sensitivity to changes in consumer behavior throughout the COVID-19 pandemic will affect the technology retailers need to deliver the best possible shopping experience, which, in turn, will affect how retailers plan and budget for technology. The biggest changes noted by retailers in the Summer 2020 survey included reducing operating costs/expenses (20%), moving to more online (10%), and spending shifts or reallocations (7%).

How is COVID-19 changing the way you're planning and budgeting for 2021?

20% Reducing operating costs/expenses

10% Moving to more online

7% Spending shifts/reallocations

7% More conservative budgeting

7% More contactless/frictionless

6% Safety

6% More spending on technology

5% More agility/flexibility

4% Bigger budgets

These shifts also reveal changes in decision-making for retailers. The overall sense among retailers is that decision-making is happening on a shorter timeline than before.

“For many retailers, COVID-19 signaled a shift to being more agile in their budgeting,” Carlegren said. “Planning for the next six months instead of the next 12, taking on smaller budgets with shorter durations to build more flexibility around spending, and increasing reserves in order to be prepared for more unexpected shifts. We also see that retailers are more open to the diversification of their revenue base, rationalizing investments to build up new capabilities that help drive revenue, such as online shopping to curbside and contactless pickup.”

Finally, there's an acute awareness that some of the important changes being made today may not be effective in the long term, which leads to even more need for prioritization and assessment on the part of the retailer.

“Whether or not these fulfillment methods will prove durable enough to stay for the long term will depend on the segment,” Carlegren continued. “In grocery, buy online and pick up curbside or in-store is here to stay, but likely not for department or mall stores because it's so costly to manage and prevents in-store discovery. In-store pick up will likely remain and even flourish for department and mall stores, but retailers will need to find new ways to encourage shoppers to explore the store as they pick up these orders.”

Retail executives surveyed felt that many of the investments made during the COVID-19 crisis would become part of the new normal, especially contactless and frictionless transactions. The main themes executives mentioned as part of the new normal included the following:

- 18% Contact/frictionless transactions
- 9% Analytics/AI/Robotics
- 8% Curbside pickup
- 8% E-commerce
- 6% BOPIS
- 6% Video conferencing/Zoom/Teams
- 5% Technology (not further specified)
- 4% Safety

Safety concerns/protocols were mentioned by 6% as a temporary issue that would not be part of the new normal.

“How will retailers react when consumers start to get back to their normal lives – even somewhat – and the distribution of their spending starts to revert back? The retailers who have boomed with 30% to 40% revenue increases will likely see at least some amount of that huge growth go back to where it came from. As a result, those retailers may see year-over-year same-store sales declines after normal operations resume.”

*Kirk Goldman, Vice President of Business Strategy,
Toshiba Global Commerce Solutions*



TECHNOLOGY THAT OUTLASTS COVID-19 WILL HELP RETAILERS ...

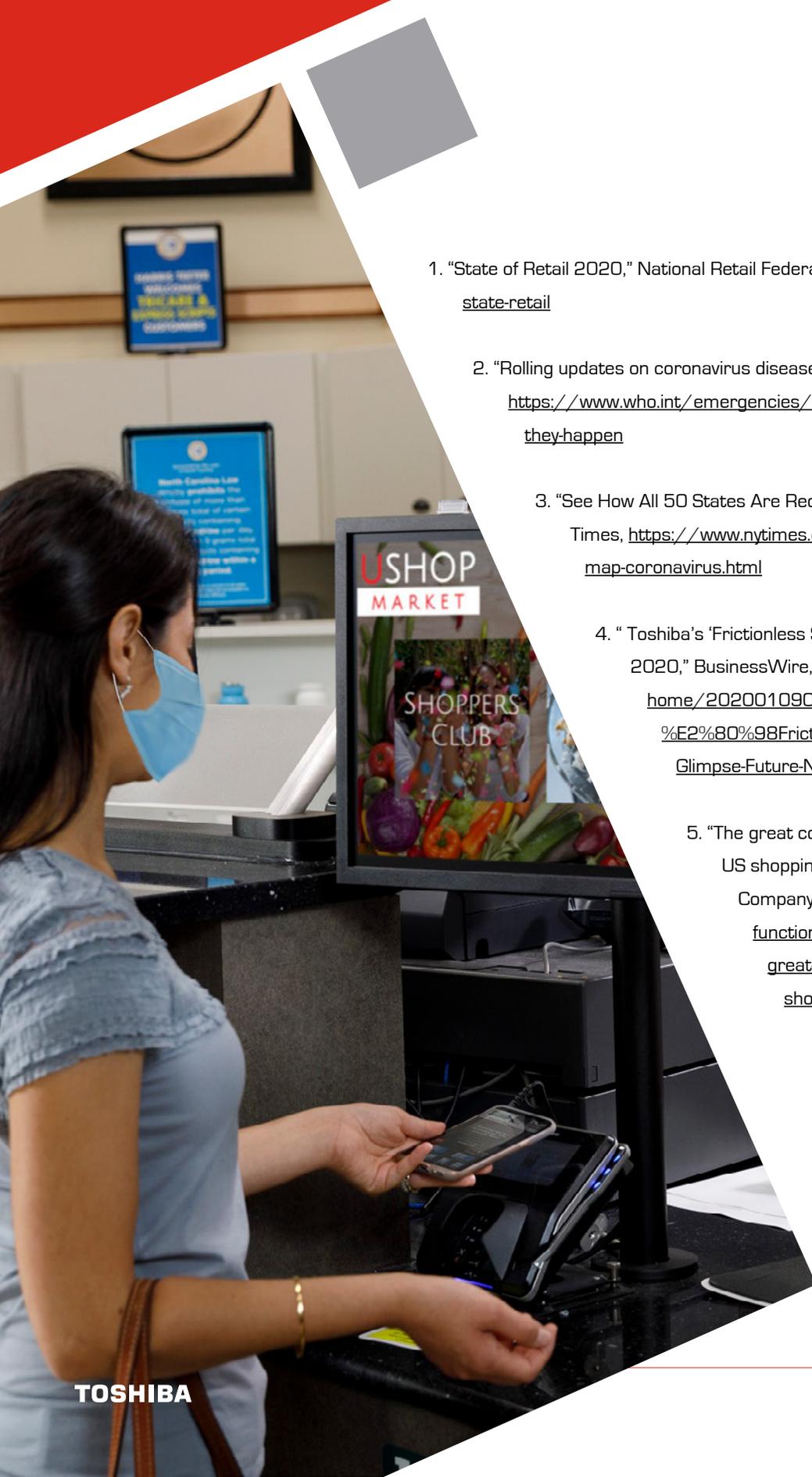
- Reduce friction and person-to-person contact with self-service technology and AI/computer vision enhancements.
- Integrate POS to e-commerce to reduce fulfillment costs for BOPAC/BOPIS.
- Manage inventory risk with analytics and forecasting.
- Organize efficient pick and pack with analytics and automation.



Following Consumer Shopping Habits Into 2021

The events of 2020 shine a bright spotlight on just how quickly consumer preferences can change and new demands can be placed on retailers that change the way they do business overnight. While it remains to be seen which adaptations will outlast the subsequent waves of the COVID-19 pandemic, one thing is certain: The 'emerging' technology that retailers buy today, whether in response to COVID-19 or to improve their every day, business operations will continue to play a starring role in how retailers connect with and meet the needs of today's consumers and the future of our industry.

Sources



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