Retail's economic model is breaking: can stores still cover their fixed costs in 2024?

Richard Clarke, Head of Global Sales, Consumer Industries, Fujitsu

Stores are retail's problem child, says Richard Clarke, Head of Global Sales, Consumer Industries at Fujitsu. It seems many retailers can't live with them or without them.

Numerous segments can't function well without physical outlets. Personal commerce is a fact of life in clothing, fresh food, and even electricals: think Apple stores – people want to touch and feel high-value purchases and a geek squad to fix them.

But all those fixed costs have to be covered. Continent-wide or global behemoths like Primark and Schwartz Group have engineered massive volumes to fund their costs. But most others are not in that fortunate position.

It's getting hard for retailers. Without massive scale, the standalone retail model is almost unsupportable now. The only viable option is to drive enough profit online to support your store estate.

Hence, the onward march of e-commerce is predicted to reach 40% of global retail sales volume by 2027.

How retailers can remain relevant

But even that is not enough. Here are two things that retailers have to be delivering in 2024 to remain relevant:

1. Intimately entwine your online and offline offers. This approach is crucial for creating a seamless customer experience across channels, using stores as distribution hubs to enable services like click-and-collect, curbside pickup, or same-day delivery. Retailers must also incentivize online customers to visit their stores, where they sell more – and increase customer loyalty, retention, and lifetime value.

    - Omnichannel inventory management gives retailers a single inventory system to track products across all channels, including online, brick-and-mortar stores and warehouses. That way, products are always available, regardless of how customers shop.

    - With personalized marketing, they can collect data on customer behavior and preferences from all channels. This data can be used for AI-powered personal shoppers in physical stores, location-based notifications for relevant offers, and more personalized and engaging customer experiences.

    - Click-and-collect is a convenient — probably now mandatory — option for customers who want to avoid shipping costs or need their products immediately.

    - Retailers can partner with delivery services to offer same-day delivery on online orders.

    - In-store returns mean customers can return online orders to brick-and-mortar stores, offering greater convenience and reduced costs.

2. Cut operating costs by making stores more productive and efficient. We're talking about the big three costs here products, properties, and people. Modern inventory analytics and smarter distribution can reduce product costs. Property is expensive as it consumes a lot of energy for lighting, heating, cooling, and refrigeration. Smart technologies optimize consumption and reduce carbon footprints. Behavioral analytics and frictionless retail can reduce the amount of floor space needed. Improving employee well-being contributes to cost reductions by building a workforce that is more likely to engage positively with customers and has less potential to churn.

Other options include:

- Behavioral analytics can optimize store layouts and merchandising, identifying which products are most popular and placing them in high-traffic areas of the store.
- Augmented reality and virtual reality enhance the customer experience in-store. For example, customers could see how a piece of furniture would look in their home before they buy it.
- Self-service is already increasing throughput and efficiency, but shrinkage remains a challenge. Anti-shrinkage self-service kiosks use image analytics to monitor what's going through self-checkout scanning to match the products in a customer's basket.
- Frictionless systems can potentially eliminate shrinkage by automatically charging customers for anything they take with them.
- Robotics automates stocking shelves and picking orders, improving efficiency and reducing labor costs.

Not much room for hesitation

Implementing these changes poses challenges. Investing in new technologies and training staff on using them can be expensive. Some customers may hesitate to adopt new technologies, such as frictionless systems. And it can be challenging to integrate new technologies into complex supply chains.

But is there any choice, as consumers gravitate to online offers from the mega-brands sweeping all before them?

Online and offline are not a zero-sum game. As one grows or declines, it does not necessarily have an equal and opposite impact on the other. But the idea of 100% online or offline commerce is — and will remain— an outlier retail model.

Find out more about how Fujitsu builds MACH architectures for retailers. I'll be beaming down to NRF 2024 in New York, so come and meet me between January 14-16 at the Javits Center, New York, Booth # 5203.

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Richard is responsible for bringing the best of Fujitsu's industry vision, consulting capabilities and solutions and services to its customers in the consumer industries across the world. Reporting into Fujitsu's global leadership in Japan, Richard and his team develop and execute compelling and relevant strategies to expand key markets and define differentiated propositions to meet the needs of existing and new customers.