

From Inventory Management to Personalisation:

THE IOT REVOLUTION IN RETAIL

A WNS South Africa PERSPECTIVE



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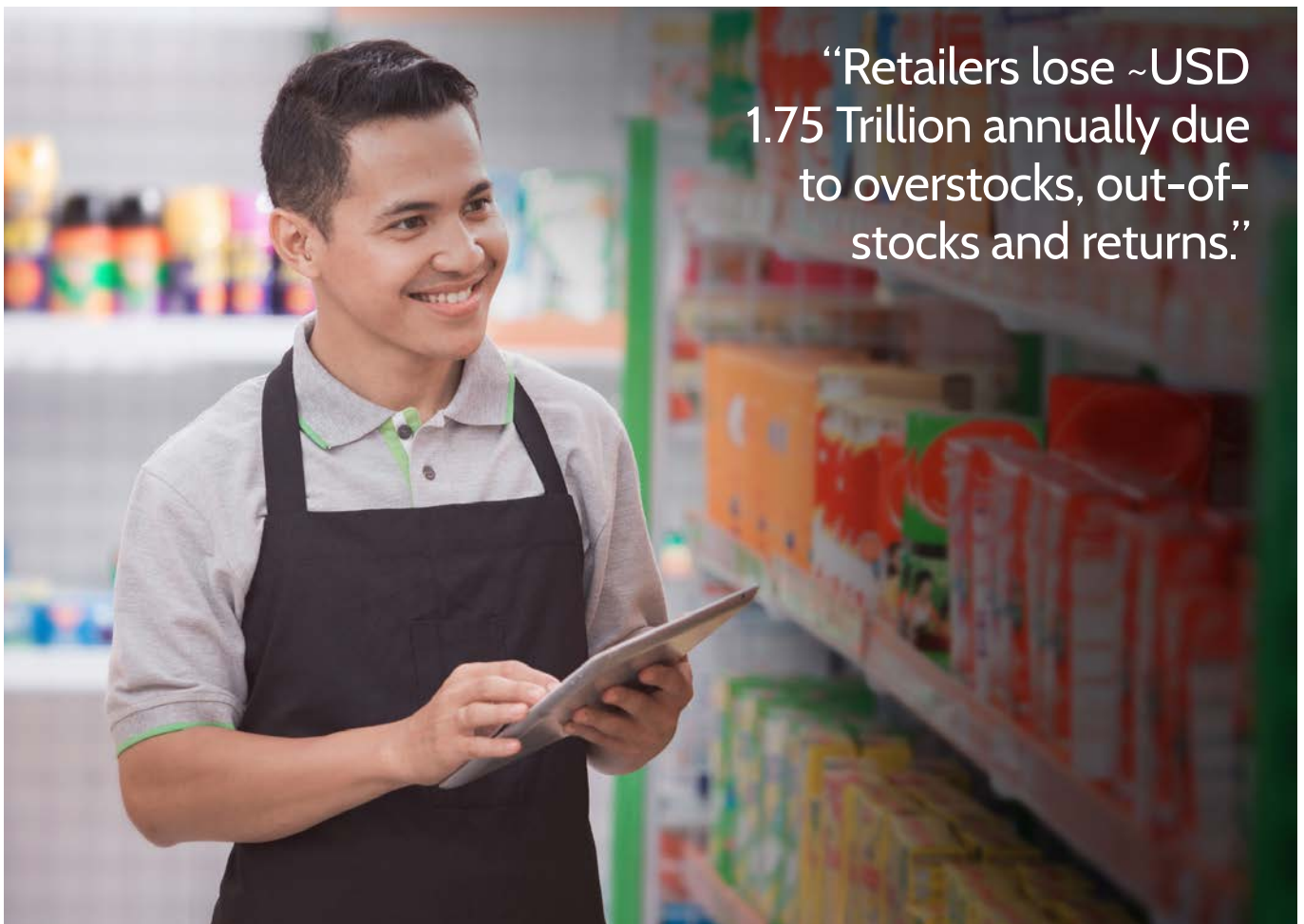
FROM INVENTORY MANAGEMENT TO PERSONALISATION

A few years ago, Walmart experienced a strange dichotomy. On the one hand, its inventory was growing faster than sales. On the other, the company's stores kept reporting frequent stock-outs, leading to billions of dollars in losses. This scenario is not unheard of in the retail industry.

Studies estimate that retailers lose ~USD 1.75 Trillion annually due to overstocks, out-of-stocks and returns. The Internet of Things (IoT), a disruptive technology that has slowly been making inroads across industries, can help retailers offset these losses. Besides inventory management, IoT can transform many

other areas in the retail value chain and help companies re-define the experience of digitally savvy customers.

McKinsey estimates IoT's total economic impact to be up to USD 11.1 Trillion by 2025. Specifically, for retail, IoT is expected to reach a market size of USD 94.44 Billion in the same period.



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Accurate Insights on Customer Behavior

It is critical for retailers to know in advance what products customers want, when they want them and make those products available at the right time and place. In the past, this was achieved by combining human judgement and some amount of luck.

With IoT, retailers need not rely on vague concepts. They can get accurate, granular insights about customer behavior and accordingly personalise all aspects of the customer journey. Along the way, they can also ensure that their inventory is aligned to the actual demand and supply in real time. Let's take a look at an example that demonstrates the potential of IoT in

transforming the customer journey. UK-based coffeehouse chain Costa Coffee has tied up with Intel to set up 'intelligent coffee stations' that allow customers to select individual preferences, choose blends and make cashless payments.

At the back-end, the coffee stations gather analytical insights such as customer choices and time taken to make those choices, which further help the coffee chain measure campaign performance and the impact of advertisements. The insights gleaned from customer behavior also offer the coffee chain opportunities to upsell its premium coffee blends.



A few more areas where retailers can leverage IoT to drive tangible changes:

IN-STORE EXPERIENCES:

Some of the hurdles customers face while shopping in-store are in finding:

The right product

A store assistant

A trial room that is available

These challenges can dampen the shopping experience, especially during weekends and holidays. IoT can help customers check for product information, and related promotions and offers using their mobile phones while they are in the retail store.

Luxury brand Rebecca Minkoff uses 'smart mirrors' in the dressing rooms that can be used by customers to look for different sizes and styles, or summon a store personnel. While on the one hand a connected device like the 'smart mirror' creates a memorable in-store buying experience, on the other, it provides critical 'try versus buy' insights to the retailer.

EASE OF ORDERING AND CHECK-OUT:

IoT can enable customers to place their orders quickly and check out without having to wait in queues. Amazon Dash has enabled customers to order various products from potato chips to detergents at the click of a button. While it may take a while for the Amazon-style cashier-less stores to become more prevalent, retailers are continuously exploring new payment options to make the purchase process a hassle-free experience for customers.



SEAMLESS OMNI-CHANNEL EXPERIENCE:

Customers now expect a seamless, yet unique experience across all channels of a brand. Seventy-eight percent of retailers agree that it is critical to integrate the e-commerce and in-store experience. However, delivering this experience is easier said than done – past studies such as Deloitte's New Digital Divide have shown that retailers struggle with this aspect.

IoT can help retailers bridge this divide by offering a seamless experience across channels. For example, a customer tries on a few outfits, but does not buy them due to lack of time. This data can be tracked and fed back to the customer's profile. The next time when the customer is browsing for clothes of the same brand, the outfits that he / she tried on, but did not buy, can be recommended on the online channel.

Conquering New Frontiers in Supply Chain Management

While IoT is enabling retailers to design personalised customer experiences, it is also helping them manage demand and supply better. McKinsey estimates that IoT could enable 10 percent reduction in inventory carrying costs creating an impact of up to USD 15 Billion per year by 2025.

Let's look at some of the key areas of inventory management that IoT is impacting.

PRODUCT TRACKING: RFID and GPS

technologies are allowing retailers to maintain a clear visibility of where a product is in the supply chain at any given point in time. For example, after implementing RFIDs in its stores to track apparels, Macy's experienced a 200 percent surge in sales volume. Tracking capabilities also enable better fleet management for retailers, improving efficiency in the process.

DEMAND FORECASTING: With IoT, retailers have access to large volumes

of data that can be analysed. Data from connected devices in customers' homes and their Internet browsing behaviors can help retailers predict the demand. For instance, e-commerce giant Alibaba leverages insights from its set top boxes and digital mapping services to further grow its business. Additionally, information from connected devices can help retailers plan production schedules with their suppliers. This helps prevent both extremes of over-production and stock-outs.



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Transformative Power

At present, the problem for the retail industry is that IoT maturity is not uniform across companies. However, a study shows that 79 percent of retailers in the U.S. are already investing in IoT technologies. To leverage IoT as a core strategy, retailers will need the following enablers:

DEFINED SUCCESS METRICS:

Organisations should have measurable goals and defined metrics to make IoT implementations successful. A Gartner CEO survey shows that 53 percent CEOs do not have clearly defined success metrics to assess digital transformation initiatives. Revenue is often used as a proxy metric. The success of IoT as a core strategy will require defining those metrics both at the organisational and C-suite levels.

DATA STRATEGY: IoT cannot succeed without robust data and analytics in place. Unfortunately, this is an area many organisations are grappling with. In a McKinsey survey of enterprise IoT, 48 percent of respondents rated managing data as a gap in IoT capabilities. To bridge this gap, organisations will need to:

- Assess their current state of data and analytics
- Prepare a data roadmap aligned to their IoT strategy
- Map business processes to the strategy

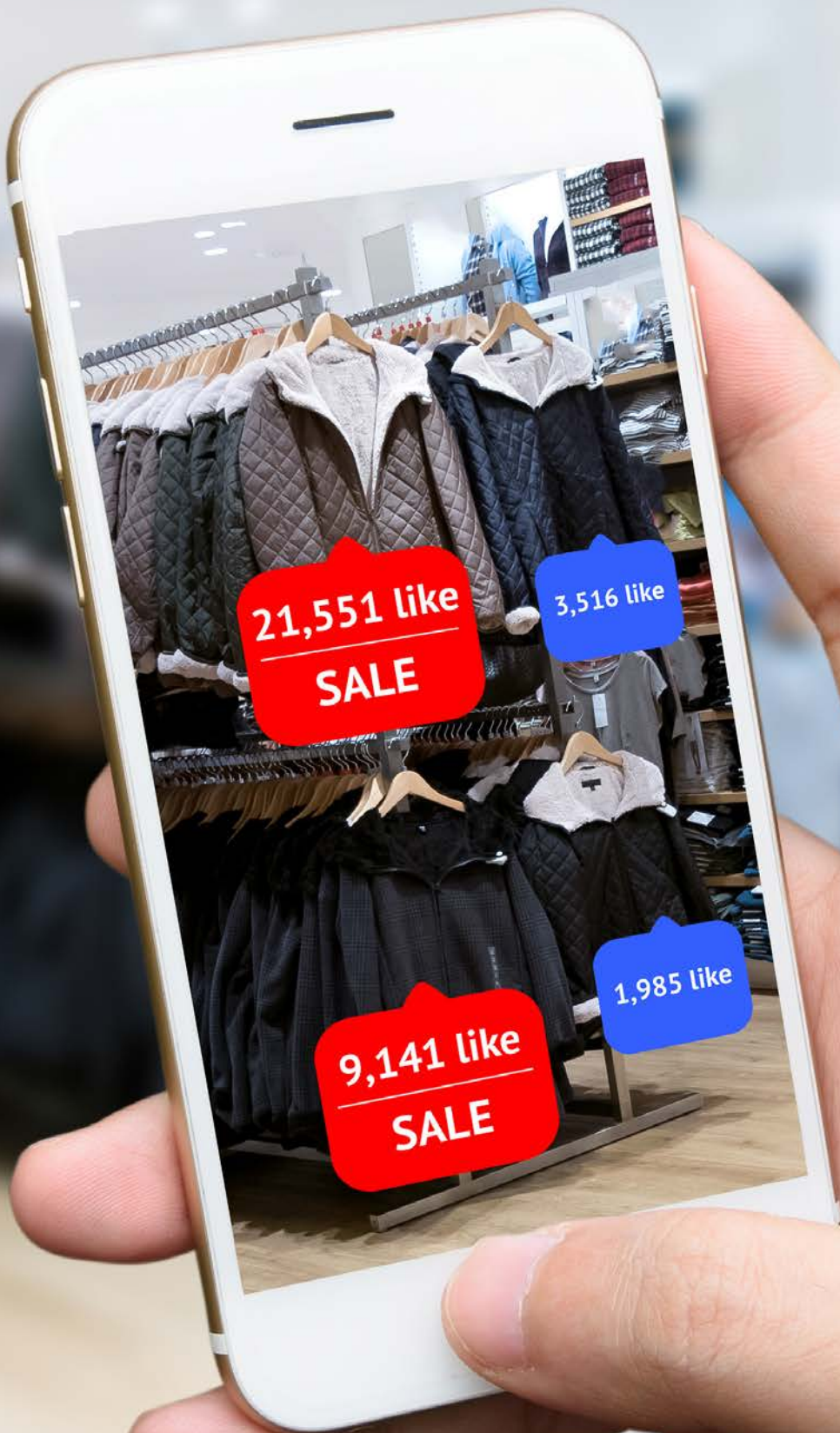
TECHNOLOGY MINDSET: IoT has opened the floodgates of data. For that data to create measurable business impact, retailers will have to consider a shift in mindset. Traditionally, retail is built on the pillars of product, pricing, marketing and supply chain. But the IoT disruption will

shift the centre of the retail gravity to data. Retailers may have to start thinking like technology companies, especially in areas of data-driven decision-making.

Mathematician John Wilder Tukey said, “The greatest value of a picture is when it forces us to notice what we never expected to see.” IoT is like that picture, forcing us to see new possibilities. It has enabled customers to stand in front of a mirror, try out looks without actually having to change clothes, blurring the line between the real and virtual. It has enabled retailers to pre-empt what a customer might need and recommend a purchase, blurring the line between forecasting demand and creating it.

Clearly, IoT is here to stay – not just as a good-to-have technology, but as a core business strategy. ▲





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