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Convenience is competitive advantage as differentiation depends on service: Deloitte

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Consumers are craving convenience. Image credit: Neiman Marcus

By SARAH JONES

The current retail environment revolves around convenience, as the consumer is more focused on the ownership of a product than the experience of purchasing it.

Deloitte's 2020 Retail Industry Outlook notes that beyond price and product, retailers today are differentiated based on the marketing of their services, such as shipping speed and buy online pickup in store. A key opportunity for luxury retailers is consumers' willingness to pay more for convenience.

"Today's consumer is presented with what seems like endless options," said Rod Sides, vice chairman, Deloitte and U.S. retail and distribution sector leader. "Therefore, it's most important for retailers to offer up convenience in a way that is relevant to the consumer.

"More than just wanting products fast, consumers want to buy from companies that integrate into the fabric of their lives," he said. "For some this can mean rental programs or subscriptions and for others it can be curated or early access to new products. Convenience is truly key."

Convenience factor

The outlook for the coming year in economically appears gloomy.

Between the first and third quarters of 2019, real GDP growth fell from 3.1 percent to 1.9 percent. Deloitte projects that compared to 2019's 2.3 percent real GDP growth, 2020 will see just a 1.6 percent growth.

Despite low unemployment and continued positive consumer spending so far, this year holds the potential for a downturn. Deloitte predicts that consumer spending growth will slow from 2.5 percent in 2019 to 2.2 percent, as consumers have less disposable income without the benefit of the 2017 tax cuts.

Other causes of slower spending include weak wage growth and a potential hit to the equity market from the trade war.

In the face of a potential economic decline threatening to impact retail this year, Deloitte suggests that brands plan

ahead and maintain flexibility to ride out a potential financial storm.

Amid a possible recession and the potential for further tariff escalation, the consultancy says companies may want to create a "war chest" to enable them to invest even in harder times. Collaborations with outside brands, a fortified positioning and technology enhancements are a few of the other suggestions for preparing for the worst.

Deloitte also suggests that companies make shrewd choices when investing.

According to the consultancy's holiday study, 85 percent of consumers would choose free shipping over speedy delivery. However, retailers are spending big to make two-day, one-day or even same-day delivery available.

Brands are seeking to keep up with Amazon's speedy delivery. Image credit: Amazon

One opportunity for retailers is urban fulfillment, which can make expedited shipping in metro areas more scalable. Companies can offset the higher expenditure of having a warehouse in a city with cost reduction from smaller trucks.

In general, retailers should be making additions that enable greater convenience for customers.

One aspect of convenience is product availability. Since ecommerce has accustomed shoppers to being able to get whatever they want with the click of a button, bricks-and-mortar stores are attempting to achieve the same seamless endless aisle approach by ramping up their inventory.

This leads to overstock, which can create a financial burden as stores try to get rid of product. Instead, Deloitte suggests creating new brands targeted towards shopper personas, leveraging resale to grow inventory options and using artificial intelligence and machine learning to manage inventory to better identify demand and speed fulfillment.

In the bricks-and-mortar environment, convenience partly hinges on the efficacy of sales associate interactions. Arming employees with technology and using automation to enable them to focus on higher-level tasks can create a more engaging and easier shopping experience.

Clicks and bricks

Consumers across all income levels are time poor, leading to a rise in services that help them simplify and speed up tasks such as shopping.

According to a webinar from Euromonitor, premiumization is taking hold of the retail and payment industries as consumers prioritize buying fewer, better things. In retail, this trend is manifesting in offerings such as expedited shipping and subscription replenishment, as shoppers shell out to make their lives easier (see story).

While ecommerce is often winning out when it comes to convenience, the retail store is far from dead.

Generation Z and millennial consumers are the age groups most likely to shop at bricks-and-mortar stores, but they are also the most interested in retail stores incorporating emerging technology.

According to a study conducted by Oracle NetSuite, Wakefield Research and The Retail Doctor, baby boomers are both the least likely to shop in-store and the most likely to describe the retail environment as less inviting. They are also the least apt to be influenced by in-store technology such as virtual reality, while Gen Z shoppers are the most likely to have purchase decisions impacted by such tools (see story).

"Brick and mortar sales still represent the majority of retail sales within the U.S.," Mr. Sides said. "These stores are also a key part of the consumer engagement and brand effort.

"Aside from sales, stores represent an irreplaceable node in the order fulfillment journey, an avenue for discovery, an opportunity for new sources of consumer data and the chance to focus on the human aspect of the consumer experience," he said.

"Retailers can reconfigure by integrating aspects of the digital experience like extended assortment, product reviews, product information, videos, augmented reality experiences, etc. into the store format. As retailers enhance their supply chain, some may consider decreasing in-store inventory to allow for more room to experience and order the product, as well."