Top 5 Retail Tech Trends for 2022

Staying Ahead of the Pace of Change
Retail Trends — An Expert’s Overview

Whether influenced by digital or the impact of COVID-19, the one irrefutable fact retailers agree on is that the pace of change is accelerating.

The three main drivers of change are not new: changing consumer expectations that necessitate digital transformation to, in turn, enable the evolution of retailer and brand business models and ecosystems. But retailers need to keep pace with these drivers in order to stay ahead.

Although lockdowns contributed to eCommerce growth of 42% from 2019, which now accounts for one in every five retail sales globally, more than half (54%) of shoppers said they find browsing for products more enjoyable online than in-store.

So, rightsizing supply to demand and digitising stores is essential, not least as a result of this shift to online and the increasing influence of digital, but also because of ongoing supply chain disruption. Consider that pre-tax profit margins for European retailers (in France, Germany, Italy, Spain, Switzerland and the UK) are forecast to drop to 3.2% by 2025.

This is where Objectivity’s retail trends guide aims to help retailers and brands navigate this perfect storm and why sustainability should top every organisation’s strategic agenda. Not only because sustainability is as good for the planet as it is a brand, but because it also offers the best means to reduce waste and increase productivity and profitability by doing more with less.

Although sustainable goals top retail strategic agendas into 2022, four other technology-enabled areas of focus cannot be overlooked in reaching them. The first, data management, automation and AI, is now central to increasing store productivity and optimising online-to-offline (O2O) retail execution. Second is inventory planning, which is vital for orchestrating increasingly complex supply chains and to better manage volatile demand.

Personalisation is next, as it continues to grow in importance. Knowing more about customers can create more effective engagement to boost sales. It can also deliver efficiencies when it comes to finding more like them, as well as serving them better. Similarly, our final strategic priority is convenience. Predicting customer demand and balancing it with the cost to deliver could make or break those who have survived the last two years.

The effective application of technology in each of these strategic areas is likely to make the difference for those that thrive this year and beyond. Read on to find out how.

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Changing Customer Expectations

Proliferating digital channels increase influence on every sale and drive higher expectations of convenience and personalisation.

Retail Macro Trends

Evolving Business Models and Ecosystems

Digital Transformation

Increased collaboration and orchestration across supply chains to attract new partners and customers.

Knowing your customer to serve them better and find more like them.
Trend Maturity Matrix

In order to stay ahead of the macro drivers of change, retailers must take account of specific, enabling trends. We’ve analysed these trends according to the maturity of their supporting technologies and selected the ones that retailers should prioritise in order of importance. In this report, we’ll discuss the top five trends retailers should address right now and provide examples of their application that will make a difference.
Sustainability

Why it’s important

Sustainability has been a topic of discussion in the retail industry for some time — now it’s time to put words into action. Modern consumers increasingly expect businesses to implement more sustainable practices. As one of the most impactful aspects of changing consumer expectations, it will also pay to do more with less.

Nearly 1 in 3 consumers claim to have stopped purchasing certain brands or products because they had ethical or sustainability concerns about them.

More than 40% of consumers surveyed in the U.S., more than 50% in Europe, and almost 70% in China say they want access to more information about how their clothes were made to better inform their shopping decisions.

48% of consumers say they would be encouraged to purchase a product with the label claiming the consumer has an impact on the environment (e.g., you purchase, we plant a tree), 47% would be encouraged by environmental impact information (e.g., CO2 emitted), 42% by certifications.

52% of Millennial shoppers claim they would search for background information on the product before purchasing; 45% of Gen Z consumers follow.

64% of consumers list recycling and reusing among their top three concerns. Another 64% list reducing single-use plastics in the top three, and 62% feel strongly about tackling air pollution.

85% of consumers claim they have shifted their purchase behaviours towards being more sustainable within the last 5 years.
Leverage technology to gain a competitive edge

Radio Frequency Identification (RFID)
- RFID technology allows retailers to see exactly what is in stock, granularly track sales, accurately align supply with demand and improve expiration management. All of this leads to reduced waste and lower greenhouse emissions.

- According to McKinsey, RFID solutions can reset store economics, lower costs and boost revenue. The benefits include over 25% improvement in inventory accuracy, up to 3.5% increase in full-price sell-through tied to better management and lower stockouts, 10–15% reductions in inventory-related labour hours, and reductions in shrinkage and theft that can raise the revenue by up to 1.5%.

Blockchain
- Product sustainability is an important factor in the purchase decision-making process. Retailers can use blockchain to let their customers track products from farms to stores. Industry examples include Carrefour, which monitors its groceries with IBM Food Trust. Similar initiatives can help customers better understand the origin of their clothes. Several companies, including H&M Group, New Look and Next have begun blockchain-powered trials to enable transparency and trust around their collections.

Eco-friendly solutions
- Recycling with QR codes. The UK drugstore Boots runs a recycling programme where shoppers scan empty beauty and wellness packaging and receive a QR code to deposit the items for money.

- Digital sampling with the use of 3D printing. Tommy Hilfiger plans to launch 3D technology across its design operations to avoid the use of sample production.
Costa Coffee provides its customers with sustainable alternatives to single-use items and runs a reusable cup scheme utilising near-field communication (NFC). Customers scan the QR code on the cup when purchasing a drink and receive in-store credit when they return it.
O2O Retail — Data and Automation

Why it’s important

Shoppers expect a consistent customer experience, online to offline (O2O), as standard nowadays. But the offline, store-based experience still falls short of the levels of choice, information, convenience and inspiration available online. Digitising the store with the smart use of digital touchpoints, data, and automation brings benefits, not only to shoppers, but also to merchants, who gain new, intelligent ways of integrating O2O processes, such as click & collect, along with cost and performance optimisation.

85% of retail companies surveyed by IBM plan the introduction of smart automation tools in their business.

Data and analytics lead the top 10 list of core priorities for retail executives, while 28% of surveyed European retail professionals consider better data usage as crucial to differentiate their business against an increasingly competitive backdrop.

Return rates in online retail are still growing — in December 2021 the number of returns in online stores in the UK grew by 40% compared to the same period the previous year. The cost of managing returns in retail is estimated at £7 billion.

More than 50% of retail jobs could be automated.

Nearly two-thirds of consumers say they will use retailer apps to meld digital and physical experiences.

Opening a new brick-and-mortar store can result in 37% growth in online traffic.
Leverage technology to gain a competitive edge

**Store-level IoT**
- The Internet of Things (IoT) combines various technologies which help retailers track, monitor, analyse and display store activity through real-time dashboards based on signals and alerts from data touchpoints located within the store. These include traffic counters, cameras, sensors, smart shelves, checkouts, and robots with Wi-Fi, RFID or other connections. Employing these technologies to digitise the store is crucial for retailers to get the best understanding of store performance and improve internal processes. McKinsey estimates that the implementation of such modern solutions can improve store productivity by 10-20%.

**Artificial Intelligence (AI) and Mixed Reality (MR)**
- In eCommerce, MR helps decrease return rates as it enables “best-fit” suggestions. The technology is being leveraged by Zalando, a leader in online fashion retail, which offers its customers personalised size recommendations and a 360-degree product view. In brick-and-mortar stores, smart mirrors allow customers to see detailed information about the outfits they’re trying on and can suggest matching garments. This can influence the conversion rate and improve the store experience.

**Virtual store design**
- Virtual Reality (VR) can be used to augment space planning. While designing their store, retailers can use VR to test planogram concepts before they decide on the most optimised one. Therefore, virtual visual merchandising has the potential to improve customer experience and store operations efficiency, as well as lower the investment costs.
The luxury brand Burberry has fitted its stores with technology that can identify the customer and provide them with personalised recommendations and detailed information about how the items were produced.
Inventory Planning and Management

Why it’s important

Inventory planning and availability information accuracy are more important than ever in driving both online and in-person sales, given the on-shelf availability changes related to the pandemic and supply chain disruption. Better matching supply to demand is essential, not only to establish more sustainable practices, but also to meet customer expectations against a backdrop that is increasingly competitive and convenience-driven.

71% of retailers who responded to McKinsey’s supply chain survey mention the lack of digital tools that would support the sourcing processes as the main obstacle in managing supply chain risk.

The popularity of Replenishment-as-a-Service (RaaS) is growing in the grocery retail sector. It’s predicted to be used by 5% of multichannel grocery retailers by 2026.

Excel is still the most common assortment management tool, used by over 30% of Tier 1 retailers.

1 in 3 apparel companies plan to reduce the number products by 5-10%.

Although many players have already introduced digital solutions into their sourcing and inventory planning, approximately 60% further investments in the fields of virtual sampling or virtual fabric libraries will still be needed.

By 2025, the use of AI and automation will reduce assortments by up to 30% for the majority of global multichannel fashion retailers.
Leverage technology to gain a competitive edge

**Store inventory management (SIM)**
- Digitally enabled tools allow retailers to better control their stock levels and in-store inventory. SIM applications can be integrated with other in-store digital solutions to provide the best possible view of the inventory levels and replenishment needs. The possibilities include IoT solutions, smart shelves or computer vision. Also, Edge Computing has the potential to optimise store data analysis, e.g., by leveraging Machine Learning for image recognition and video analytics.

**Algorithmic merchandising**
- Support legacy systems with algorithmic merchandising to help retailers make more informed decisions. This involves the use of customer behaviour insights and predictive analytics to build optimisation models that can assess the performance of items across touchpoints and customer segments. The overall result is better inventory accuracy, which in turn leads to reduced cost of goods sold (COGS) — up to 30%, according to Gartner.

**Retail assortment management applications (RAMA)**
- RAMA solutions ensure the best possible assortment of products, which is critical to meeting customers’ expectations. AI plays a key role here, as it allows businesses to understand their patterns by analysing vast sets of data from various sources. This improves the decision-making process and enables more accurate planning.
US retailer Walmart utilises the capabilities of AI to monitor their inventories and secure the best substitutes for out-of-stock items. Their solution analyses hundreds of variables (e.g., size, type, brand, price, customer preferences, and store inventory) to optimise stock levels and drive sales.
**Personalisation**

**Why it’s important**

Consumers nowadays expect to quickly find whatever it is they’re looking to buy and expect more than an anonymous experience where the retailer can infer their intent from contextual cues or previous purchase history and/or loyalty activity. Therefore, personalisation can work on different levels, from simplifying store navigation to tailored messaging, product recommendations, promotions and offers.

- **83%** of consumers want **personalised products** within moments or hours.
- **Almost 80%** of consumers who get **personalised offerings** are keen to **recommend the brand** to friends and family, as well as **return to the retailer** in the future.
- **63%** of digital marketing leaders still **struggle to deliver personalised experiences** to their customers, which is mainly related to low usage of advanced technologies, such as AI and ML.

- **Customers are 105% more likely to add additional items** to the basket when the shopping experience is highly personalised.
- **Companies that grow faster drive 40% more of their revenue** from personalisation than their slower-growing counterparts.
- **Over three quarters (76%)** of customers get **frustrated if they don’t receive** their expected level of **personalisation**.
Leverage technology to gain a competitive edge

**Artificial Intelligence/Machine Learning (AI/ML)**

- AI/ML technology will facilitate the future of true personalisation, and data collection is key to exploiting its full potential. Information gathered from loyalty programmes, apps, and online/store behaviour is crucial for retailers to truly understand their customers’ needs and preferences. For instance, UK-based brand Thread uses AI and ML in a fashion quiz, which provides its clients with personalised selection immediately after they arrive at the store’s website. Suggesting the right products can result in a 10% increase in incremental sales and 5% growth of the basket size.

**Smart chatbots and virtual advisors**

- Large product datasets can power product recommendations or “next best products” in the case of out-of-stocks. Such smart advisors can increase conversion rates and decrease churn, whether they are delivered via online messaging, mobile-equipped associates, kiosks or mobile apps in-store.

**Unique customer journey**

- For online shopping, personalised communication and offers can be presented at any stage of the customer journey — from the landing page, which can greet the customer by their name, to adjusted category page view and cart. Other options include a selection of products matching previous purchases, and recommendations based on personal shopping history or the choices of customers from a similar demographic.
Sephora uses GPS technologies combined with its brand app to encourage customers to enter the store when they’re nearby and receive relevant, timely offers. The retailer also personalises its total offering based on a customer’s overall shopping history, as well as similar, previously purchased products.
Convenience

Why it’s important

Consumers already prized the convenience of online before the pandemic. But it has recently become a key differentiator as a result of pandemic-induced shortages and out-of-stocks. Now it is essential to streamline shopping journey search and discovery, all the way through to the transaction and fulfilment, both in-store and online.

Only 11% of consumers are willing to wait until the product becomes available at their chosen retailer, while 33% would rather buy it in a different store.

61% of British consumers claim they have increased the use of self-checkouts in stores, while 53% of them turned to the buy online, pick up in-store style of shopping, which is more flexible and convenient.

46% of German consumers would like to get their orders faster. But only 30-40% would be willing to pay an additional fee for expedited delivery. In the food service area, 92% of the surveyed German consumers expect delivery within an hour.

Almost 50% of British consumers declare that they use the same-day delivery option more often than before the pandemic.

81% of customers expect brands to offer a seamless purchasing process across all devices.

76% of consumers claim convenience is their top priority when buying online.
Leverage technology to gain a competitive edge

Smart checkouts

- Customers’ need for convenience and touchless interactions can be addressed by a range of smart checkout solutions. Depending on the retailer type, they include checkout kiosks, RFID-enabled smart solutions (e.g., Decathlon), or entirely checkout-less stores. The latter, pioneered by Amazon a few years ago, follows the convenience trend and helps to optimise workforce-related costs, customer throughput and shrink.

Fulfilment solutions

- The popularity of quick commerce (qCommerce) often calls for expanding the function of brick-and-mortar stores to serve as fulfilment hubs for online orders. However, more advanced options are on the rise as well. Micro and autofulfilment technologies can increase the efficiency of managing the last mile from stores or smaller, dedicated urban facilities. They leverage automation, AI, real-time data, and robotics to deliver goods rapidly and increase the efficiency of the picking process even further.

Third-party delivery

- Merchants who don’t have their own transactional online presence and delivery network can turn to online delivery services such as Instacart, Deliveroo or Glovo. They present the most benefits to grocers for whom online sales and own delivery usually bring little profit. Utilising third-party delivery and technology reduces retailers’ costs and ensures convenience for their customers.
Amazon Go-style stores combine computer vision, AI, ML, and sensor fusion technologies to recognise selected products, calculate the total basket cost, and manage the payment.
Summary

Analysing current industry trends in terms of how they support the three main drivers of change, i.e., changing consumer expectations, digital transformation and evolving business models and ecosystems, highlights several technologies to help keep pace.

The five trends identified as having the biggest impact on a retailer’s ability to compete were, accordingly (and in order of strategic importance): sustainability, O2O retail, inventory management, personalisation, and convenience. The latest technology innovation in these areas can mean the difference between surviving or thriving over the next year and beyond, irrespective of channel.

Backed by industry research and, in many cases, successful real-world deployments, these technology areas also map onto Objectivity’s industry-specific expertise gained over 30 years of helping retailers better manage complexity, while maximising differentiation, agility and profitability, now and into the future. Find out how we can bring this expertise in helping you not just keep pace with, but stay ahead of the trends.
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