

The Transformation Mindset

How Midsize Retailers Can Be Customer Centric and Run a Sustainable and Resilient Business



Midsize retailers are adjusting their approach to business transformation by rethinking traditional organizational priorities, according to a new survey from the SAP Insights research center.

Intensely focused on their customers, retail leaders consider technology-driven transformation and business model innovation to be crucial drivers for growing revenue and efficiency, operating more sustainably, and adapting to new risks. In addition, surveyed business leaders from midsize retail businesses revealed the challenges, opportunities, and priorities that they are considering now and for the near future, as well as their transformation plans for elevating their profitability and competitiveness.

SETTING THEIR SIGHTS ON GROWTH

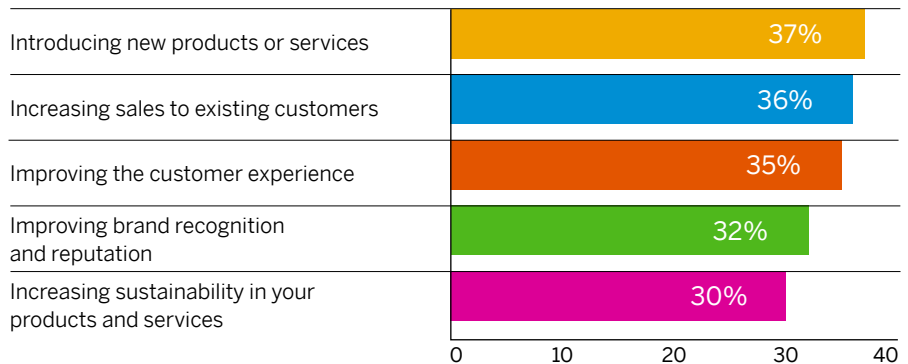
When asked to rank their top three organizational priorities both now and beyond the next 12 months, respondents reported achieving revenue growth as most important, followed by increasing operational efficiency, with mitigating risks as third. And they expect these priorities to remain the same beyond the one-year horizon.

In terms of generating revenue growth, retail leaders identified increasing the sustainability of their products and services as a

top priority. This finding suggests that sustainability is a key, albeit new, strategy for growing revenue, joining the ranks of traditional tactics such as introducing new products and services, increasing sales to existing customers, enhancing the customer experience, and improving brand recognition and reputation. (See *Figure 1* for the top five responses.) Lower on the list were establishing new business partnerships (26%), introducing new business models (26%), and acquiring existing companies (14%).

Figure 1: Top Three Priorities for Improving Revenue Growth

What are your organization's top three priorities to improve revenue growth?



LOOKING AT SUSTAINABILITY AS A KEY TO REVENUE GROWTH

Our survey shows that sustainability has become an important consideration. Across the board, retail organizations are incorporating sustainability directly into their business strategies for driving revenue growth and increasing business efficiency. This represents a significant shift in priorities.

Retail leaders prioritize sustainability measures that can help them increase revenue and efficiency while reducing their company's environmental and social impact. They often rely on strategies such as using suppliers closer to their stores and warehouses, locating distribution centers closer to customers, reducing the distance goods travel around the world, and onboarding vendors that demonstrate ethical labor practices and regulatory compliance.

In addition, retailers connect sustainability to their overall brand recognition and reputation in response to customers' growing preference for purchasing affordable products. And these efforts are helping to limit any impact on the environment and improve people's lives.

The bottom line: Sustainability is now an essential element of the bedrock activities of growing revenue and improving customer satisfaction.

TAKING ON EFFICIENCY DRIVERS

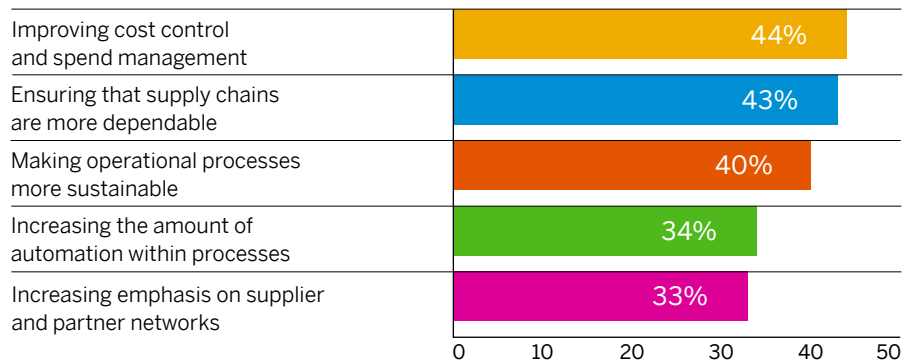
Surveyed midsize retailers cited improving cost control, spend management, and supply chain dependability as their top focus in increasing business efficiency. Making operational processes more sustainable was also considered important. While increasing emphasis on supplier and partner networks is a traditional supply chain strategy, it's increasingly viewed as a top driver for efficiency. Other top priorities include increasing automation (34%), increasing emphasis on supplier and partner networks (33%), and bringing supply chains closer to markets (29%). (See Figure 2 for the top five priorities.)

Retail leaders recognize that many of these high-priority areas are interrelated and can be tackled together if addressed

strategically. For example, some businesses are changing their business models to include interconnected in-store and e-commerce operations to provide the personalized interactions that customers expect. Their stores are now included as part of their distribution network. Warehouses are also relocated closer to storefronts and high customer demand areas to reduce costs and emissions while limiting the number of miles driven throughout the product lifecycle – from raw material to delivery. Furthermore, retailers that embrace the circular economy to curb waste can improve their overall reputation and customer perception.

Figure 2: Top Priorities for Improving Efficiency

What are your organization's top priorities to improve efficiency?



VIEWING RISK IN A NEW LIGHT

It's no longer enough for businesses to think about traditional risk areas, such as thwarting existing competitors and protecting against new market entrants. These factors have been pushed aside by threats rooted in current emergencies, such as supply chain fragility, cyberattacks, and shortage of internal talent, that can significantly erode a company's brand reputation (see Figure 3 for the top five responses).

Because they often hold smaller and more-specialized product inventories, midsize retailers are more vulnerable to risk and revenue loss during supply disruption. In addition, their lower purchasing power, compared to larger competitors, can lead to vendors prioritizing them less in times of constrained supply.

All these risks are signaling that a more diversified supplier landscape and near-shoring may be necessary to maintain a steady flow of goods.

For longer-term global risks, surveyed supply chain retailers still rank the fear of economic stagnation at the top of their list. However, they also consider crises in employment and livelihood, cyberattacks, and global shortages in natural resources as matters that are almost equally urgent (see Figure 4 for the top five responses).

Midsize retailers expect to be impacted by the ripple effects of growing economic and societal concerns, including economic stagnation, crises in employment and livelihood, and cybersecurity breakdowns.

FUELING DIGITAL TRANSFORMATION PROGRESS

Surveyed retail leaders recognize that their organization's digital transformation is critical to help increase business performance today, better respond to future risks, and remain competitive. In fact, approximately 90% see a positive relationship between profitability and competitiveness and their organization's transformation.

Over two-thirds of respondents claim to have made progress, with 46% transforming some planned areas and 21% completing their journey as initially conceived. However, the survey findings do not portend good things for companies that haven't already started transforming – most of them expect to make very little progress two years from now.

The technologies most sought by retail organizations reflect recent hardships in addressing store closures, supply chain disruption, and fluctuating demand. These organizations invest in technologies ranging from cloud computing and employee collaboration tools to cybersecurity infrastructure to transform and safeguard their processes. Other technologies that rank highly include automated business intelligence (BI) dashboards and business process intelligence systems. Application development platforms (60%) are also considered to be important. (See Figure 5 for the top five responses.)

Surveyed retail leaders recognize that their organization's digital transformation is critical to help increase business performance today, better respond to future risks, and remain competitive.

Figure 3: Top Three Priorities for Reducing Risks

What are your organization's top three priorities to reduce risk?

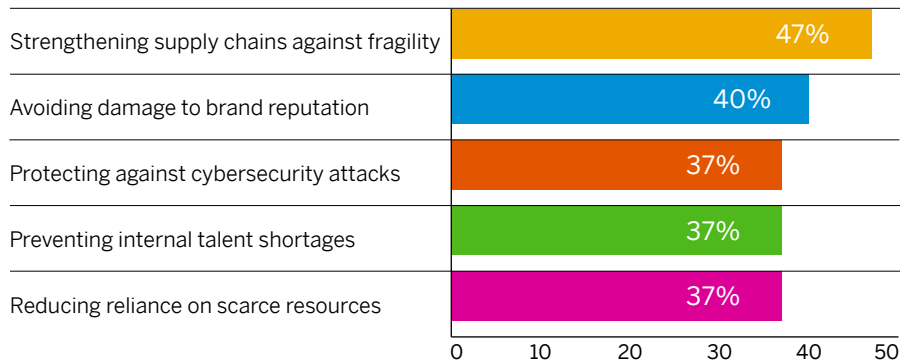


Figure 4: Future Global Risks for Which Organizations Must Prepare

Which of these future global risks will your organization need to prepare for? (Select any that apply.)

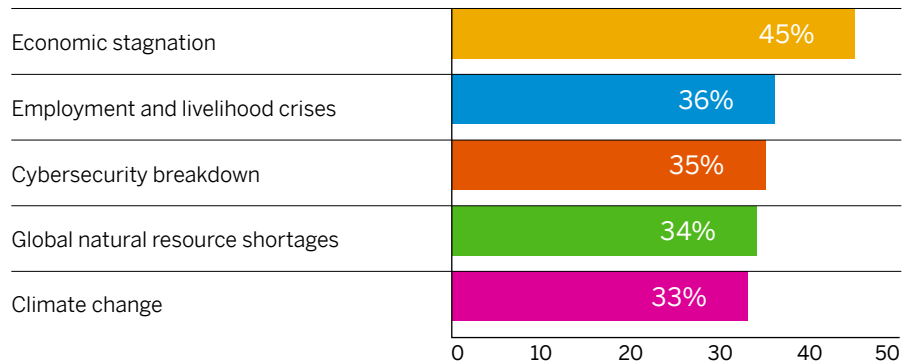
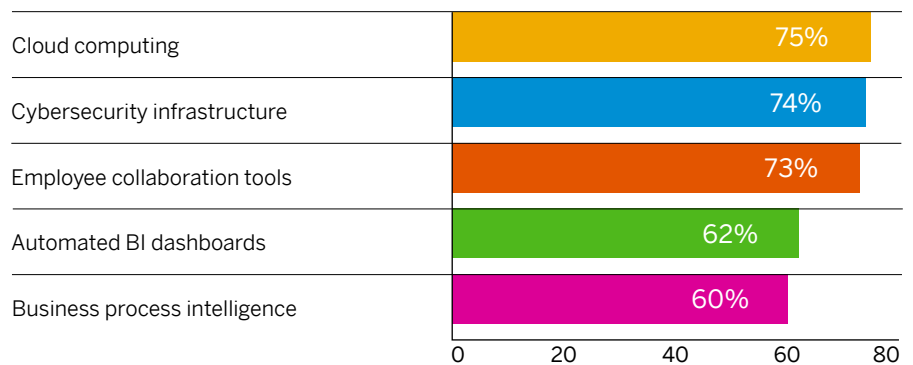


Figure 5: Critical Technologies for Improving Business Processes

Which technologies are important to the improvement of business processes? (Select any that apply.)



RECOMMENDATIONS

Not surprisingly, leaders from midsize retail businesses highlighted resilience as a key driver for growing revenue and increasing efficiency. But an interesting new development has surfaced: sustainability as a high-priority area of focus. In light of this finding, sustainability should be considered by retail leaders when creating strategies for boosting revenue growth, improving operational efficiencies, and building up their brand reputation.

The foundation of every response to today's challenges and opportunities should be a comprehensive platform that supports all retail business processes and provides visibility in all areas of the business. However, since midsize retailers' financial resources are typically more constrained than those of their larger peers, substantial investments in traditional hardware and IT resources are more difficult to make.

The answer to overcoming these digital transformation obstacles is cloud computing. Businesses can use this

subscription-based technology to get the capabilities they need today and scale them as needs change, all while paying for only the data volumes, seats, and applications they actively use. As a result, they can address key business issues faster with process-enabling solutions that drive innovation with less cost of ownership.

With a cloud-based platform in place, midsize retailers can prioritize future process improvements to balance supply risk and run a more resilient and sustainable business. They can also invest in demand and replenishment planning solutions to optimize the flow of goods, avoid waste, and detect early-warning signals of demand shifts. Plus, leveraging transportation management solutions in the cloud helps them lower waste and emissions and respond to unplanned issues with greater flexibility. They can even implement a solution to handle large volumes of returns, which is an ever-growing industry challenge.

THE ROAD AHEAD

In a turbulent period of increased global risk, midsize retailers place high importance on boosting revenue and efficiencies while continuing to mitigate risk and enhance innovation. Underlying these fundamental initiatives is sustainability, a new imperative that will become increasingly essential to core strategies in coming years. To make more progress on transformation, which is seen as critically linked to business performance, business leaders need to further improve processes to increase flexibility and interconnectedness.

With an open, cloud-based platform that integrates multiple solutions and technologies from various providers, midsize retailers can gain the speed and flexibility required to respond to new customer expectations and future market dynamics – even ones that we can't possibly begin to imagine today.

Please contact your SAP partner to learn how SAP solutions can help your business transform.

ABOUT THIS RESEARCH

The SAP Insights Midmarket Senior Executive Priority study collected data from 10,507 executives from companies with annual revenues of less than US\$1 billion across 41 markets and 28 industries. Respondents possessed the highest level of line-of-business responsibility and oversight, with titles ranging from director to chief officer. The surveys were conducted from September 2021 through December 2021, with a 10-minute online survey used to collect the data.