

A brighter future in store

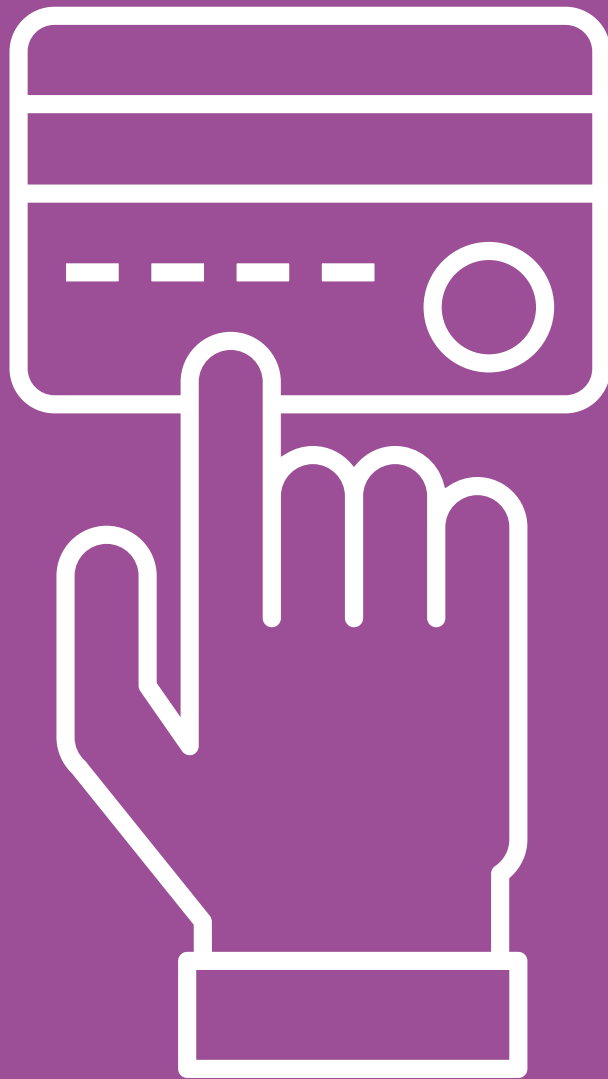
The digital transformation of Australian retail



Contents

Executive summary	3
Introduction	8
What's coming next?	10
Achieving digital transformation	14
Engaging customers	16
Empowering employees	25
Optimising operations	30
Transforming products	35
Learn more	38

Executive summary



The world of retail is changing fast. The sheer dominance of the internet and smartphones is creating a new 'digital first' era in which savvy and impatient customers expect to click their way to new products and receive deliveries in record time.

'Pure-play' online retailers are being joined by a growing number of boutiques and chains in developing multichannel strategies that allow customers to shop where and when they want. Combined with the enormous pressure being exerted by major international brands with scale advantages and agile supply chains, this means Australian retailers are increasingly vulnerable. The sector, both here and in the US, has experienced a difficult start to 2017.

What's coming next?

The basic facts are undeniable – the share of online retail sales in Australia is on the rise. Australians are making fewer trips to stores. At the same time, while a growing number of customers' purchasing decisions may be researched and shaped online, physical stores remain an intrinsic part of the typical customer journey. (Studies from the US indicate that more than 90 per cent of sales still occur in stores.) A pressing concern for many Australian retailers is the news that Amazon will be opening a local physical presence – with some sectors, particularly electronics, likely to be affected. In the US, Amazon's vast product selection and efficient network of distribution centres allow it to deliver heavily discounted online orders within days. Intriguingly, however – and in a nod to the continuing power of the in-store model – the retail titan is now taking the frictionless retail experience to physical locations such as its Amazon Go supermarket in Seattle. Here, sensors detect when shoppers grab items and automatically deduct money from their accounts as they walk out.

Other disruptors

In reality, Australian retailers face potential disruptors everywhere. Google and Facebook have deep insights into customers' identities, interests and purchasing habits. Uber already delivers items to people's homes. Social media platforms such as Twitter and Pinterest are becoming instantly 'shoppable' – allowing consumers to snap up items without visiting the product's homepage. Technologies such as voice-enabled personal assistants, automated chatbots, and mixed reality gear such as Microsoft HoloLens headsets are seeping into retail. Finally, the Internet of Things will convert stores into digital environments, allowing retailers to monitor customer movements and manage inventory in real time.

Achieving digital transformation

The rapid growth of technological capabilities means that Australian retailers have vastly more to gain than lose from disruption. Far from being intimidated by potential threats, retailers should see digital transformation as an opportunity to become data-driven enterprises that give empowered customers what they want. Above all, as technology eliminates much of the burden from shopping, Microsoft believes Australian retailers should differentiate their offerings in a way that pure-play competitors cannot replicate. For many, this will mean taking the best of Amazon – the frictionless online experience – and supporting it with unique innovative, interactive and tactile experiences for customers in store.

Aided by a dynamic ecosystem of partners, Microsoft is already helping many Australian retail enterprises undertake the cultural and strategic change needed to make digital investments of this nature. Our solutions span the following four areas: engaging customers, empowering employees, optimising operations and differentiating products.

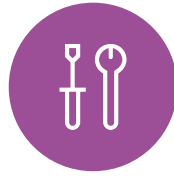
“There's still time. Get in place the innovations and messaging that an Amazon would bring. Strengthen your digital offering. Start experimenting with the Internet of Things. Be the first to get in there and create some noise.”

Darren Younger, Chief Executive Officer, Shelfie



Engaging customers

The fundamental goal of digital transformation is to help retailers build a data-driven enterprise – amassing information about customers from every touchpoint in order to personalise their service. This is best achieved by pursuing a multichannel strategy in which retailers create a seamless physical and online presence. Retailers can track a customer’s journey with the brand as they move from attraction to engagement and transaction. With each swipe of a mobile app, chatbot conversation, social media post or webpage click, information can be accumulated about a customer’s unique ‘DNA’. These insights can then be applied at the peak point of influence – usually inside the store. Deploying digital touchpoints such as interactive kiosks, screens, WiFi sniffers and beacons can also help retailers quickly identify customers, better target promotions and influence sales.



Empowering employees

Digital transformation is liberating sales staff from their position behind the cash registers and elevating them into key players in the retail enterprise. Armed with tablets and other devices, they must be technologically literate and a dynamic shop-floor presence, ready with tailored product recommendations for every customer. Microsoft’s cloud-enabled mobile tools such as Office 365, Yammer and Skype for Business are designed to make the workplace more collaborative and rewarding. Automated technologies are also helping to improve labour efficiency. For example, Shelfie is a world-first robot created by an Australian Microsoft partner that allows retailers to conduct rapid store evaluations and ensure merchandise is correctly stocked. Given the personal touch is likely to remain important within retail, the real benefit of automation will be in allowing in-store employees to reallocate their time away from menial tasks and towards directly serving customers.



Optimising operations

Digital transformation invites retailers to re-architect their IT infrastructure and business processes for the new era of multichannel commerce. Cloud-based solutions such as Microsoft Azure enable enterprises to precisely manage their customers, employees, assets and inventory. These solutions also come with a comprehensive library of capabilities – from customer relationship management systems such as Dynamics 365 to analytics tools such as the Cortana Intelligence Suite and Power BI. This helps to facilitate smarter procurement and predictive asset maintenance – for example, by using sensors deployed within a store to warn of potential equipment malfunctions. Of particular importance, retailers can use real-time analytics and visualisation platforms to forecast inventory demand and ensure the correct distribution of stock. Retailers can also spread their online inventory across their physical stores in a bid to strategically undercut players such as Amazon.



Transforming products

Finally, digital transformation offers retailers the opportunity to immerse customers and involve them in product co-creation activities. This is all part of providing an experience that pure-play competitors cannot replicate. Microsoft is a leader in interactive mixed reality technologies such as HoloLens, which revolutionise the experience of trying on clothes, planning home renovations and even buying cars. Windows 10 is democratising this technology with affordable solutions via partnerships with global PC manufacturers. In a similar vein, the advent of frictionless stores such as Amazon Go and Hointer's 'microwarehouse' model has the potential to open new vistas in retail. Customers who value their time above all else can grab their preferred product and go, while others can find new ways to linger and enjoy the shopping experience – perhaps discovering a special new destination for community and fun.

Introduction



Retail is changing rapidly and customers' expectations are high.

Shopping in Australia has come a long way from the time when people used to amble down the high street, stopping in for a chat at the butcher, the baker and the greengrocer. The rise of shopping centres and major retail chains swallowed much of this pedestrian traffic, allowing families to complete their purchases under one roof. Today, the ubiquity of the internet and smartphones is creating a 'digital first' era and upending the retail environment again. The new generation of savvy, impatient and empowered customers expects seamless and personalised service and the ability to control their own engagement with brands. This means being able to click their way to new products and receive deliveries in record time.

'Pure-play' online retailers such as Amazon, Alibaba, Spotify and Netflix are the obvious beneficiaries of evolving expectations and transaction habits. Joining them are a growing number of brands who are developing flexible multichannel strategies that allow customers to shop and collect items however they want. Australians' taste for online shopping has accelerated in the aftermath of the 2008–09 global financial crisis when the high Australian dollar gave people greater purchasing power to source products from overseas. At the same time, severe pressure is being exerted on the domestic market by international megastores such as Zara, Topshop and H&M (potentially soon to be joined by Kaufland, in the supermarket sector), whose scale advantages and agile supply chains enable them to keep pace with changing trends. This is helping to erode local retailers' margins and leave them vulnerable to even minor shifts in consumer sentiment.

The challenging environment for Australian retailers has been reflected in the loss of more than 3,000 jobs in 2017 and the collapse of several local clothing brands. Meanwhile, in the US, major retailers such as Macy's and Sears Holdings (owner of Kmart) are closing hundreds of stores. By contrast, Amazon had its best Christmas holiday season ever in 2016–17, with that period accounting for 38 per cent of its annual online retail sales.¹

As a strong supporter of Australia's retail sector, Microsoft remains optimistic about the future. The challenges facing traditional bricks-and-mortar retailers may be great. However, the technological tools at their disposal are unprecedented. Digital transformation provides an opportunity for retailers to become data-driven enterprises that give empowered customers what they want. This means much more than Australian retailers improving their website or offering sporadic and underused apps. Rather they should aim to differentiate their offerings in a way that pure-play online competitors cannot replicate. For many, this will mean taking the best of Amazon – the frictionless online experience – and supporting it with innovative, interactive and tactile experiences for customers in store.

Microsoft's trusted cloud services and curated retail solutions – developed in collaboration with our partners – are already helping many Australian retailers reposition and begin a fresh relationship with their customers. In this paper, we encourage local retailers to reassess not merely their technology, but all aspects of their strategy, talent, culture, supply chain and physical presence. They can create offerings that inspire – and step with confidence and agility into a brighter future.

¹ Sarah Halzack, "Online shopping grows robustly during the holiday season", *Washington Post*, January 5, 2017. Source: https://www.washingtonpost.com/news/business/wp/2017/01/05/online-shopping-grows-robustly-during-the-holiday-season/?utm_term=.722c52994437

What's coming next?



New business models and technologies are disrupting Australian retail.

Australian retailers today face an unpredictable and competitive landscape. The share of online retail sales in Australia is on the rise. In 2015–16, Australians spent \$41.3 billion shopping online (out of \$222 billion spent overall), up 9.75 per cent on the previous year.² Despite population growth, they also made 100 million fewer trips to department stores; newsagents; and hardware, homewares, clothing, music and discount stores compared with five years ago.³

However, while a growing number of customers' purchasing decisions may be researched and shaped online, studies from the US indicate that as much as 93 per cent of sales still occur in physical stores.⁴ This is prompting a growing number of online retailers to move into bricks-and-mortar territory to give people the ability to experience their brand. Examples include Amazon in the US and Alibaba in China, as well as smaller boutiques such as Bonobos, Warby Parker, Birchbox and Rent the Runway.⁵

The Amazon incursion

Today, most Australian retailers would consider the biggest disruptor on the horizon to be Amazon. Amazon's business model is based on founder Jeff Bezos' vision to offer 'Earth's biggest selection'. Implemented with particularly devastating effect in the US, this involves using the company's vast purchasing scale, efficient network of distribution centres (which are stocked based on predictive algorithms) and ability to cross-subsidise from other profitable parts of its business to offer heavily discounted products and services. Having more than 130 centres in North America alone allows Amazon to deliver more than 100 million unique products within three days, while operating with far less overhead per item.

Amazon's total sales in the US have more than doubled from US\$61 billion in 2012 to US\$136 billion in 2016⁶, and the company now accounts for 60 per cent of the nation's online retail sales growth.⁷ About 63 million US households have an Amazon Prime membership, which offers free two-day home delivery.⁸ AmazonFresh, the company's grocery home-delivery service, operates in five major US cities and will shortly be trialled in London.

Intriguingly however – and in recognition of the continuing power of the in-store model – Amazon is now taking the frictionless retail experience to physical stores such as its Amazon Go supermarket in Seattle. Here, sensors allow shoppers to grab items off shelves and walk out while the bill is automatically settled via their bank account or credit card. The company is also moving to open new drive-through 'click and collect' supermarkets in the US and has already branched out into physical bookstores.⁹

² Roy Morgan Research, *State of the Nation: Spotlight on Retail*, November 22, 2016, p. 60.

³ Roy Morgan Research, *State of the Nation: Spotlight on Retail*, November 22, 2016, p. 58.

⁴ In the US, as much as 93 per cent of sales are made instore. A 2016 survey of US consumers showed that 72 per cent planned to shop in stores as much as they did the previous year, and 18 per cent expected to frequent them even more. *State of Retail*, TimeTrade, 2016.

⁵ Peter Wells and Louise Lucas, "Alibaba aims to transform shopping experience with China deal", *Financial Times*, January 10, 2017. Source: <https://www.ft.com/content/246dc430-d6ec-11e6-944b-e7eb37a6aa8e>

⁶ MarketWatch, Annual Financials for Amazon.com Inc. Source: www.marketwatch.com/investing/stock/amzn/financials

⁷ Forrester Research Online Retail Forecast, 2015 to 2020 (US), January 6, 2016. Source: <https://www.forrester.com/report/Forrester+Research+Online+Retail+Forecast+2015+To+2020+US+Q4+2015+Update/-/E-RES131055>

⁸ Consumer Intelligence Research Partners. Source: <https://www.cirplc.com>

⁹ Brad Tuttle, "Amazon Wants to Sell You Booze Out of a Drive-Thru", *Time*, February 23, 2017. Source: time.com/money/4680029/amazon-grocery-store-drive-thru-seattle-alcohol-supermarket/

What's coming next?

Australians already spend an estimated \$700 million a year ordering items through Amazon overseas. However, the company has now confirmed plans to open a local physical presence, potentially as soon as late 2017 or early 2018.¹⁰ If Amazon establishes local distribution centres – most likely beginning in high-density cities such as Sydney and Melbourne – it has the potential to undercut domestic retailers on price while offering fast delivery. Nonetheless, Australia's large geographic size and relatively small population will make entry challenging. Some retail categories are likely to be more threatened than others (see page 13). Labour costs are also higher in Australia than the US, potentially eroding the company's margins.

Other creatures in the jungle

Amazon is far from the only potential source of disruption. In an age of near-universal attachment to smartphones, search engines and social media, the next imaginative use of technology could be just around the corner.

Google, for example, has unparalleled insights into its customers' identities, interests and purchasing habits. Apple could broaden its offerings from movies and music downloads to anything from whitegoods to fashion accessories. Social media platforms such as Instagram also have the potential to make any digital experience 'shoppable'. Already, Facebook has launched an online Marketplace, and along with Twitter and Pinterest, offers 'buy now' buttons, allowing consumers to snap up anything they see on-screen without needing to visit the product's homepage. Very soon, cinema-goers will be able to order the suit that Ryan Gosling is wearing with a simple tap on their device while in the theatre – and have it perfectly tailored and delivered to their home within hours.

"Amazon Go has removed the friction. You grab a product and then walk out."

Marty Ramos, Chief Technology Officer, Retail, Consumer Products and Services, Microsoft

"The next disruptor could come from anywhere. Facebook knows a lot about consumers and could enter in a big way. Uber is delivering items and meals to people's homes."

Marcy Larsen, Retail Industry Development Executive, Microsoft

Other technologies that will be vital to the future of retail include voice-enabled digital personal assistants. Here, Microsoft Cortana and Amazon's Alexa app are leading the way, enabling people to search for products or dictate shopping lists from the comfort of their own home. Online messaging apps are quickly gaining acceptance as a method of interaction between customers and stores, and automated chatbots (powered by artificial intelligence) are becoming a way to continue personalised conversations during non-business hours. Rapid advances in mixed reality gear, such as Microsoft HoloLens headsets, will soon allow everyday shoppers to view avatars of themselves and gain a complete 3D view of the clothes – or other showroom products – they wish to buy.

¹⁰ It's official: Amazon is taking on retail in Australia with a vast selection and fast delivery", April 20, 2017. Source: <https://www.businessinsider.com.au/its-official-amazon-is-taking-on-retailing-in-australia-with-a-vast-selection-and-fast-delivery-2017-4>

What's coming next?

Finally, the Internet of Things looms as yet another gamechanger. Stores could become fully digital environments, connected by a myriad of beacons, sensors, screens and devices. As this occurs, retailers will be able to gather real-time data showing how different areas of the store are performing and use this to make better decisions. They can also more efficiently perform maintenance and monitor the movement of stock. Zara, for example, is using radio frequency identification (RFID) technology to track clothing items and gain a live view of each store's inventory – the number one priority for any retailer seeking to optimise its selection against online competitors.¹¹

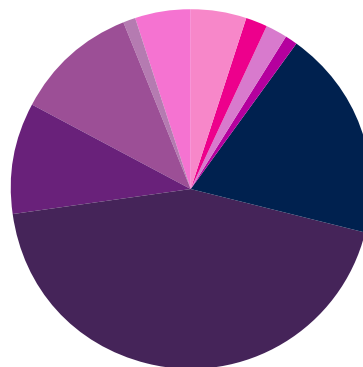
"I don't want our people working harder. They have to work smarter. People understand that our job is to see around corners and think about what's next. All of us have to be asking, 'What if Amazon and Apple get into the shirt and shoe business?'"

Kevin Plank, Chief Executive Officer, Under Armour

Which sectors are most at risk?

Amazon is likely to pose the biggest risk to Australian retailers that sell commoditised products that are easy to buy online. These include electronics, household appliances, books and other media, sports goods, toys and office supplies. The markets for clothing and shoes are also vulnerable. An anomaly is Australia's grocery sector, which has long featured intense competition between the large supermarket chains and proven relatively immune to online entrants. Nonetheless, Amazon Go and AmazonFresh have the potential to offer alternative models, as does the aggressive expansion of warehouse retailers such as Kaufland and Costco.

Amazon Australia – category share estimate



- Electronics: 44%
- Physical & Electronic Media: 19%
- Spots & Outdoors: 11%
- Clothing & Apparel: 10%
- Shoes & Accessories: 5%
- Tools & Garden: 5%
- Pharmacy: 2%
- Office Supplies: 2%
- Health & Beauty: 1%
- Auto Parts: 1%

Source: Citi Research estimates

¹¹ Catie Low, "Stitched up: How the global giants are squeezing out Australian fashion", *Sydney Morning Herald*, February 10, 2017. Source: www.smh.com.au/business/retail/stitched-up-how-the-global-giants-are-squeezing-out-australian-fashion-20170209-gu9arc.html

Achieving digital transformation



The prospect of disruption is spurring Australian retailers to embrace digital technology.

The Australian retail sector has infinitely more to gain than lose from disruption. As technology eliminates much of the burden from shopping, retailers can address key pain points and sources of friction for their customers – while maximising differentiation and brand appeal through their physical stores.

Many Australian retailers have been slow to invest in digital technology compared with their international counterparts, instead relying on legacy IT assets [that are] well past their use-by dates. The ruthless nature of retail also mitigates a culture of ‘test and learn’ – and being prepared to fail. However, retailers such as Telstra, AMF Bowling and many more mentioned in this paper have committed to a digital transformation journey with Microsoft – one that involves a strategic organisational reassessment as much as technology upgrades.

Microsoft helps enterprises understand the digital investments that will have the greatest impact as well as the cultural change needed to accompany them. In doing so, we are aided by a dynamic ecosystem of partners and independent software vendors offering state-of-the-art industry solutions. Our eight solution sets are organised around four key pillars that are central to every retail business:

- engaging customers
- empowering employees
- optimising operations
- transforming products

Engaging customers



Retailers use data from multiple channels to personalise the customer experience.

Overview of Microsoft solutions

Personalisation

Microsoft offers a comprehensive suite of solutions to help retailers collect and understand information about customer behaviours and respond with offers and experiences that are personal, engaging and relevant.

Unified commerce/multichannel content management

Microsoft and its partners enable retailers to use a mix of digital channels and methods to proactively listen, learn and engage. This helps retailers influence customers' purchasing behaviour and improve customer satisfaction. Our solutions help businesses maximise consumer listening, learning, messaging and interaction to gain insights that will help them anticipate and meet customers' needs.

Summary

The primary goal of digital transformation is to help retailers build a data-driven enterprise – amassing information about customers from every touchpoint to deliver highly personalised service. This is achieved by pursuing a multichannel strategy involving a seamless physical and online presence.

Every shopper has a unique DNA, identified by their demographic profile; their shopping history; the websites and stores they visit; how long they hover over particular pages and displays; and the feedback they provide across social media, messaging and call centre platforms. Analysing these sources of data using analytics capabilities – backed by machine learning and artificial intelligence – can help retailers gain a window into customers' innermost desires.

“Every customer leaves a data trail. It can be captured, like breadcrumbs thrown on the ground.”

Jon Stine, Global Director, Retail Sales, Intel Corporation

Attracting the customer

Above all, retailers need to recognise that the customer journey is no longer linear. Buying an item is not an isolated event, but part of an integrated shopping experience. This might begin with a prospective shopper conducting a Google search or viewing an online pop-up advertisement or social media endorsement. These cues could then be used to reach the retailer's website and eventually complete the purchase in a physical store. A second possibility is that the purchase is completed online, but collection occurs in the store. Alternatively, the shopping experience could begin in-store and be completed online.

By establishing a multichannel strategy, retailers can track a customer's journey with the brand as they move from attraction to engagement and transaction. With each swipe on a mobile app, chatbot conversation, social media post or webpage click, more customer data can be accumulated. These insights can then be applied at the peak point of influence, which for the overwhelming majority of transactions is still inside the store.

Mapping the customer

Personalising the retail experience requires the customer journey to be mapped at the start of the visit – from the moment shoppers enter the doors – as well as afterwards. Store owners need to know the most alluring parts of their floor, in the same way that online retailers monitor the popularity of specific webpages. One reason that the Amazon Go model is potentially so disruptive in Australia is its reliance on wall-to-wall customer tracking using capabilities such as RFID sensors and image-recognition monitoring analytics. By contrast, many Australian retailers are encumbered by legacy technology and lack understanding of the numbers and flow of customers in their stores – including where and in what order they browse. These retailers are also usually unable to track the details of customers, such as age, gender and name.

In future, retailers that gain a competitive edge are likely to be those that pursue an aggressive approach to in-store analytics. Microsoft's Sydney-based partner Engagis is a leader in deploying digital touchpoints across retail environments, including kiosks, screens, cameras, WiFi sniffers, micro-switches, product RFID tags and beacons. These enable loyalty card chips in shoppers' wallets or phones to be matched with the store's customer relationship management system. Supported by the analytics capabilities of Microsoft Power BI, retailers can quickly identify who enters the store and formulate a personalised response based on the customer's behaviour, in order to influence sales.



ENGAGIS
creating connections

Ingenious ways to engage

Anyone who has ever searched for a mobile phone at Telstra, picked up a product at an Apple Store, checked out the latest interest rates at a Westpac display, self-ordered a meal at a Noodle Box kiosk, browsed Sheridan's newest range on a screen at Myer, or viewed homes on an LJ Hooker digital display has sampled an Engagis solution.

The Sydney-based Microsoft partner aims to provide immersive digital experiences that deliver tangible business outcomes by tracking the movement and engagement patterns of customers. Depending on a retailer's needs, these solutions could include a digital display in a showroom revealing current deals; a digital menu board showing what's fresh and available; or interactive kiosks allowing customers to serve themselves.

"You can influence digitally in the last three foot of sale. We call it proximity marketing," says Engagis CEO Leon Condon.

These strategies are far more engaging than, say, simply having a printed poster on the wall of the showroom, and Engagis is always looking for what's next. "How do we turn the retail footprint into a theme park? Digital interactivity – specifically when we start to embrace things like augmented reality through HoloLens and the voice interface via Cortana – it's pretty exciting," Condon adds.

Four levels of customer personalisation

Level 1 The customer remains anonymous, yet retailers can start to personalise store-based messaging and offers based on circumstantial factors. For example, if the weather is particularly hot in one part of a city, cold drinks at a convenience store could be discounted in that region instead of the same promotion being offered on a static basis in every location.

Level 2 Camera analytics is available to gain information about customers' ages and genders. Using the convenience store example again, this could allow for promotions to sell raspberry Slurpee drinks at 4pm once school has finished and the location is overrun by children.

Level 3 A unique customer identifier such as a WiFi signal from a smartphone allows a retailer to record information such as dwell time and propensity to visit, even if the customer's identity remains unknown. This can be used to improve service. For example, if a car dealership detects that a customer is making their fourth visit in a week, this customer should be given immediate priority in the store as a very likely buyer.

Level 4 A unique customer identifier such as a mobile phone number or loyalty card beacon allows a retailer to know exactly who the customer is. This enables ultimate personalisation through one-to-one marketing, backed by intelligence and algorithms that allow the store to predict the customer's needs in advance.

Providing better service in-store

A major benefit for retailers of knowing their customers is the ability to tailor live offers and promotions. For example, a customer using a retailer's mobile app could receive predictive shopping lists or dynamic discounts while in-store – potentially in the form of a text message as they pass a particular shelf. While many people are becoming wary of overly obtrusive marketing, few are likely to resist an offer that is timely and relevant.

The key for multichannel retailers is ensuring a seamless customer journey from the online channel to the store. At present, an estimated 80 per cent of US retailers are unable to track purchases that have been initiated on customers' mobile devices and are completed in-store. Failing to unite their data in this way means that they are missing crucial insights. Ideally, shop assistants should have all necessary information acquired from web and mobile channels at their fingertips – such as the customer's waist measurement or shoe size – without having to begin the sales conversation from square one. A good employee will use this information to personalise the customer experience, suggest particular products and strengthen brand loyalty.

“A retailer may put their data in the hands of Amazon Web Services, which then helps Amazon learn from their data and disrupt them. Microsoft's policy is that we don't have any access to our customers' data.”

Marcy Larsen, Retail Industry Development Executive, Microsoft



Aussie bowling giant goes digital



Challenge

AMF Bowling, which also includes the Kingpin and Playtime brands, wanted to work with Microsoft to improve the customer experience across its 54 bowling centres in Australia, which currently attract six million visitors every year. “Everybody’s time-poor so when they pay for an experience now, they have a much higher expectation,” says CEO Nicole Noye. Recreational bowling, she adds, has come a long way from the days of offering “30 lanes in a row plus a cheap hotdog”. The company now seeks to create an integrated entertainment venue that also offers laser tag, arcade games, karaoke and premium dining.



Solution

So far, the company has revamped its websites to offer a seamless booking engine and messaging chat service. It has also created a call centre to ease the pressure on counter staff members who were overwhelmed during peak periods such as weekends. Microsoft Dynamics is being used to analyse customer data submitted into AMF Bowling’s booking engine. The company is also installing beacons in its centres that connect to the WiFi signals on customers’ smartphones. This allows their physical movements to be tracked with the goal of providing faster and more personalised service.



Results

The initial improvement in the experience for customers and employees has been very positive. Previously, for example, visitors to a bowling centre used to face huge waits for shoes at the counter. Now, the plan is that pre-booked customers will have shoes in the right size waiting for them by the bowling lane. Customers can also now order food and beverages from a digital console right where they bowl. “What we’re trying to do is put in systems that streamline the pain points, but if you do want service, there are people there to look after you,” Noye says. “If the customer has a good experience, they’ll come back, which will improve the bottom line. By contrast, the old-style retailer is thinking about how much money is this going to cost – rather than how happy they’re making the customer.”



Riding the wave of disruption



Challenge

To Australian retailer City Beach, fast-moving trends, the emergence of online competitors and its own young sales staff are constant reminders of the fashion sector's flux.

Established in 1985, the brand operates 62 physical sites and e-commerce outlet, and manages 60,000 products. It also adds between 300 and 400 new clothing lines each week. When the company decided to overhaul its point-of-sale and customer relationship management systems, it wanted to create a seamless customer experience in-store and online, as well as a more agile and efficient back office.



Solution

Working with Microsoft partner and Dynamics 365 specialist Sable37, City Beach conducted a lengthy needs analysis and prototyping to prioritise the needs of customers. "We wanted to understand the customer journey and achieve a single view of the customer – to gain more agility around promotions and loyalty programs. That was what drove the decision to go front-to-back rather than back-to-front," says COO Anita Dorwald.

As part of the solution, Microsoft Azure has been introduced as part of a hybrid cloud environment (though City Beach has long-term plans to move all its data and IT infrastructure to the cloud). Meanwhile, Dynamics 365 collects information about what customers are buying, how they shop and their interaction preferences. City Beach uses this to more accurately curate its collection, fine-tune its website and better target its electronic direct mail and social media interactions.



Results

With its front-facing systems now operational, City Beach plans further in-store innovations – for example, deploying handheld scanners to replace labour-intensive stock management and inventory checks. Its young employees are fully on board. "Dynamics's user interface was so intuitive that there was barely any change management required – staff just started to use the system," Dorwald says. "The reality was the teams in-store logged on and largely found their own way around. That ease of adoption bodes well for other changes we're looking to make."

A modern retail scenario

Sam is a 32-year-old travel blogger planning her next big trip – climbing Mount Kilimanjaro in Africa. She needs new hiking boots so she asks Cortana, the smart assistant on her mobile phone, to suggest some ideas. Using artificial intelligence, Cortana analyses images of Kilimanjaro's terrain and checks for relevant stores near Sam. Cortana suggests three options, and Sam taps an image of the pair she likes from one of her favourite retailers. The retailer then pops up via a chatbot on Sam's phone to ask if she would like to try on a pair at a store nearby. The store is holding an interactive Mount Kilimanjaro experience, where Sam can try the boots on and get a great discount.

When Sam arrives, a sales assistant has already retrieved boots in the right size based on her purchase history. Using his tablet and Sam's detailed customer profile, the sales assistant can show Sam other products that might be relevant for her holiday plans – including a new tent, as their records show she hasn't bought one in the last five years. The assistant recommends options, and then processes Sam's payment then and there on his tablet using mobile point-of-sale technology. Sam leaves the store happy, without having to spend any time waiting for her items or get out her credit card.

After serving Sam, the sales assistant uses his tablet to check how many pairs of boots are in the stockroom. Cortana alerts him that there is a big sale soon, so he knows to mark the boots and other popular items for restocking from the warehouse. As the store gets busier, the assistant sends a request to the manager's portable device to temporarily reassign staff to the shop floor. With all this functionality on Cortana, the assistant can spend less time on administration and more time serving customers.

Empowering employees



Retailers are giving staff new mobile capabilities to better serve customers.

Overview of Microsoft solutions

Employee productivity and collaboration

Microsoft is digitally empowering employees and managers to help them better serve customers and improve communication between store locations and corporate headquarters. Having access to productivity and collaboration tools, as well as the latest customer and product information, will help employees do their best work and spend more time driving revenue, whether on the shop floor or out in the field.

Mobility as a service

Microsoft's mobility-as-a-service solutions enable retailers to empower their employees with mobile point-of-sale, assisted selling and rich clienteling capabilities to provide excellent customer service.

Retail execution

Microsoft solutions help mobile sales teams optimise retail monitoring and execution activities, ensuring that products sell faster and at higher margins than competitive brands.

Summary

Digital transformation is changing the role of in-store employees – and helping to make the working environment more productive and rewarding. For employers, this offers the prospect of attracting talent, reducing staff attrition rates and minimising the costs associated with transition and retraining. This is a particular challenge in retail. In Australia, a survey found that 22 per cent of retail employees had worked with their current employer for less than 12 months compared to the industry average of 18 per cent.¹² Younger and occasional workers are over-represented, with 38 per cent of staff employed on a casual basis, compared with 26 per cent for all industries.¹³ Across the Australian workforce, the cost of staff turnover has been estimated at \$3.8 billion in lost productivity and \$385 million in avoidable recruitment costs.¹⁴

¹² Australian Workforce and Productivity Agency, and Service Skills Australia, *Retail Workforce Study*, March 2014, p. 40. Source: www.serviceskills.com.au/sites/default/files/files/Publications/Retail%20workforce%20study_1.pdf

¹³ Australian Workforce and Productivity Agency, and Service Skills Australia, *Retail Workforce Study*, March 2014, p.14. Source: www.serviceskills.com.au/sites/default/files/files/Publications/Retail%20workforce%20study_1.pdf

¹⁴ PwC, "Poor talent alignment costing Australian businesses AUD\$3.8 billion in lost productivity", April 8, 2014. Source: www.pwc.com.au/press-room/2014/poor-talent-alignment-apr14.html

Supporting the new retail workforce

Introducing greater levels of technology within stores has the potential to liberate shop assistants from behind the cash register. Increasingly, they need to be digitally literate and possess advanced problem-solving skills. They must also grow into a dynamic interpersonal presence on the shop floor, advising customers and performing mobile check-out transactions (or supervising self-service check-outs).

Today, Microsoft is helping Australian retailers provide their workers with cloud-enabled mobile productivity and collaboration tools to make this vision a reality. Beyond modernising legacy IT and point-of-sale infrastructure, retailers must also be prepared to embrace the cultural change that elevates sales staff members into custodians of valuable client relationships and key players in the business. This helps improve employees' morale and job satisfaction.

Armed with tablets and other devices, deskless employees can access a deeper level of inventory knowledge and be ready with tailored product recommendations based on intelligence about every customer. Using simplified point-of-sale graphical user interfaces, they can gain real-time visibility into how customers are responding to merchandise layouts on a given day and the effectiveness of in-store promotions.

Finally, enterprise social messaging capabilities such as Yammer and Skype for Business provide a vibrant way for shop assistants to collaborate with supervisors, as well as back-office workers such as design and marketing teams.

Improving labour efficiency

Retailers increasingly have access to a range of automated technologies that can support productivity and efficiency in the workplace. One compelling example is the ability for stores to conduct faster stock evaluations. Enormous sales opportunities can go begging at a clothing outlet if items haven't been placed on hangers properly, or entire tables of merchandise are in disarray. Lakeba, a Microsoft partner, has developed Shelfie, a roving robot that takes photographs of inventory. This allows employees to immediately refill shelves or move around stock, instead of spending time diagnosing the problems (see page 28).

In the years to come, robots are likely to play an even greater role in the retail environment. American chain Lowe, has introduced LoweBot, a customer service robot that speaks several languages, helps shoppers find items and provides product information. One of Best Buy's stores in New York uses a robot named Chloe to grab hard-to-reach CDs and DVDs from shelves.

Nonetheless, it is a safe assumption that most customers will continue to prefer being served by humans when buying everything from shoes to their morning cup of coffee. This means the role of robots in retail will likely be limited to menial activities. Rather than eliminate jobs, intelligent automation will allow in-store employees to reallocate their time to high-value strategic activities and the mission of personally serving customers.

“People want to be served by other people. If a robot told you to have soft-boiled eggs with hollandaise sauce, you wouldn't be anywhere near as attracted to it.”

Leon Condon, Chief Executive Officer, Engagis

SHELFIE

Shelfie robot takes on the world

Shelfie is a pioneering Australian-designed robot that moves around a store taking photos of inventory. This helps address one of the biggest challenges for any retailer – identifying when shelves are in disarray or out of stock, and replenishing them without the need for expensive labour or shelf-based technologies. Launched in January 2017 at the US National Retail Federation’s annual trade fair in New York – and due to be rolled out commercially across Britain – it runs on the Microsoft Azure cloud platform and leverages the analytics capabilities of Microsoft Power BI.

Available in robot, drone or handheld form, Shelfie connects to WiFi, mapping store conditions, scanning shelves, identifying stock levels and capturing pricing information. Its operating premise is that each store has an optimum layout. On each of its image-capturing missions, Shelfie compares the actual condition of a store with this ideal state and feeds the insights back to the retailer via a dashboard that can be viewed on a computer or tablet. “If the perfect store means that I need all my bread on the shelf, but there’s only two loaves instead of 12, that needs to be fixed,” says Shelfie CEO Darren Younger. “That lets the guys know in the bread section – go fill that shelf, or we need to order more.”

By using Shelfie, employees’ time can be spent more productively on revenue-generating activities instead of trying to understand what is happening in the store. Shelfie’s makers estimate potential savings for supermarket retailers of up to \$300,000 per store each year.

SCENTRE GROUP

More agility for Scentre Group employees



Challenge

Scentre Group – which runs Westfield shopping centres and oversees 12,000 retailers across Australia and New Zealand – wanted to help its employees become more agile and mobile. Retail customers have grown increasingly sophisticated in the way they shop and expect highly personalised service, both online and in-store. Scentre Group wanted a flexible solution that would help its people gather real-time insights on customer behaviour, whether they were working out in the field or back at the office.



Solution

Working with Microsoft, Scentre Group transitioned its core IT operating system to Windows 10 and adopted Office 365, including its range of cloud-based messaging and collaboration tools. Employees were also given Surface Pros so they could have mobile access to information they needed in the field, while also connecting seamlessly with retailers in their outlets and customers in the mall.



Results

Since implementing the new solution, Scentre Group's employees have become more efficient and productive. The suite of tools are supporting a more flexible workplace culture. The IT team's workload has also reduced, giving it more time to spend on strategic initiatives instead of overseeing functions such as identity and access management. "Once you've got those building blocks in place, it allows you to take the next step," says CFO Mark Bloom. "What we've done with the Microsoft suite of products is build another piece of that technology stack, which allows us to continue to innovate and move forward."

Optimising operations



Retailers are taking new steps to manage business processes and inventory.

Overview of Microsoft solutions

Retail management system

Microsoft's cloud-based solutions help retailers connect with customers and empower employees across all channels. Microsoft provides customer engagement technology for store operations, channel management, order management, and marketing and care, as well as for back-office functions such as procurement and financials.

Advanced planning (demand forecasting)

Microsoft's Advanced Planning solution provides an analytics and visualisation platform that allows buyers to make optimal purchasing decisions that drive product profitability. This complements existing inventory control systems while delivering near – real-time data.

Predictive maintenance

Microsoft solutions enable retailers to best determine the condition of equipment and predict when maintenance should be performed or when failure is imminent. This saves money because workers are engaged only when attention is required, and unexpected service disruptions are minimised.

Summary

The new era of multichannel commerce requires highly precise management of customers, employees, assets and inventory. As such, a growing number of retailers are recognising the need to re-architect their entire IT infrastructure and business processes. In particular, the market for cloud-based retail management software is exploding. These solutions – hosted by providers such as Microsoft within robust locally-based data centres – allow retailers to integrate business processes while transferring their security burden to an experienced provider off-premises.

New store management capabilities

The benefit of migrating to a cloud solution such as Microsoft Azure is that it comes with a comprehensive library of capabilities – from customer relationship management systems such as Dynamics 365 to analytics tools such as the Cortana Intelligence Suite and Power BI. Dynamics 365 connects the entire retail store, inventory and supply chain by capturing leads from point-of-sale equipment, and customers' and employees' mobile devices. Seamless collaboration also becomes possible across different business functions such as product planning, procurement, merchandising, marketing and human resources. Everyday paper-based transactions involving pay slips, warranties and order sheets can all be migrated online.

Another benefit of the cloud is that it enables the aggregation of information about physical in-store conditions. This paves the way for smarter procurement and predictive asset maintenance. For example, if sensors are deployed across a department store, managers can identify warning signs of a potential air-conditioning or lighting malfunction and fix the problem before retail operations are disrupted.

Smarter inventory management

Maintaining sound inventory health is a fundamental issue for any retailer – and an area where up-to-the-minute business intelligence is vital. Supermarkets can lose money quickly – and without even noticing – if a brand of yoghurt, for example, runs out mid-morning and is not restocked until mid-afternoon.

The purpose of demand forecasting, using real-time analytics and visualisation platforms such as Power BI, is to ensure that high-demand items are stocked in the right quantities at the right time, and in the right location. This avoids the nightmare scenario of a product selling out on one side of the country but languishing on shelves and in warehouses on the other, creating the need for steep price markdowns.

Using the new analytics capabilities on offer, retailers can predict demand fluctuations and stock shortages not merely on the basis of previous sales data but also external factors such as the weather or even the scheduling of a Justin Bieber concert. Equipped with a data-driven understanding of what will sell, they can move items from warehouses to stores. They can also identify slow-moving inventory and create promotions targeted at specific customers based on their purchasing patterns.

Using the online channel as a hedge

A particularly urgent challenge for multichannel retailers is knowing where to spread their inventory based on the rapid growth – yet unpredictable origin – of online purchases. In a bid to compete with Amazon, many American retailers have accepted they must consolidate their management of online and offline purchases. Accordingly, they are filling their bricks-and-mortar stores with enough stock to use them as mini-distribution centres – instead of housing their online inventory in one location.

Spreading the online inventory out in this way also allows retailers to hedge against stock shortages in a particular store. For example, Target, one of Amazon's fiercest competitors in the US, regards its 1,800 stores as a strategic asset for placing its brand in close geographic proximity to 95 per cent of the nation's population. Having a shorter last leg for deliveries enables it to undercut Amazon – provided it has the items where it needs them.

“Amazon is a distributor trying to become a retailer – whereas many retailers are trying to become more like distributors.”

**Marty Ramos, Chief Technology Officer, Retail,
Consumer Products and Services, Microsoft**



A better deal for Cash Converters



Challenge

Cash Converters wanted to standardise the IT across its 350 worldwide stores, including its point-of-sale system. Until now, when Cash Converters has acquired a new store, it had to set up a unique point of sale system from scratch. This forced the company to create a network in the store and redeploy applications individually. Systems back-up was sporadic, leading to data management inconsistencies.



Solution

Working with Microsoft and its partner Readify, Cash Converters migrated the point-of-sale system within its Australian stores to Azure in less than six months.



Results

The virtue of a cloud-based point-of-sale system is that no physical work is needed at the store level to implement changes and upgrades. "We originally commenced rolling out point-of-sale systems on the individual store servers, but we calculated that at the rate we were going, it was going to take many years," says CIO Glen Fee. "However, once we explored Azure, we worked out that we could deploy across all Australian corporate stores in a matter of months, with the UK stores over a similar timeframe."



Microsoft delivers for Domino's Pizza



Challenge

Domino's Pizza sees itself as a digital business. Already, its customers can order using any device they want and more than 60 per cent of orders come through its online channel. Having a digital capability allows it to get close to its customers. For example, its Pizza Tracker keeps customers in the loop as their pizza is baked and delivered. Customers also provide feedback that the company uses to fine-tune its services. In recent years, Domino's Pizza has been gradually transitioning to the cloud. As a global operation, it needed a highly scalable, robust and reliable platform that could reach customers at any time, anywhere in the world.



Solution

In 2017, Domino's Pizza is transitioning its core online pizza ordering system, known as OneDigital, out of Amazon Web Services to the Microsoft Azure cloud. This will allow the pizza chain to align its IT offer across servers, storage and networking, as well as development, business intelligence, middleware and database management tools. "Microsoft provides us with the development platform, the cloud platform, the tool and databases we use, and the enterprise resource planning software that allows our finance people to run the business – so Microsoft is critical to us. It means we can take digital solutions and distribute them around the world," says Wayne McMahon, Domino's GCI Officer.



Coming soon

Once the transition to Azure is complete, each Domino's region's ordering system will be hosted centrally. Australia and New Zealand are the first to move to Azure. Japan will shift in the next few months, with European markets to follow. The company is aiming to be fully migrated by the middle of 2017.¹⁵

¹⁵ Microsoft, "Azure's platform as a service is the pepperoni on the pizza for Domino's", February 14, 2017.

Transforming products



Retailers can delight customers through immersive experiences.

Summary

In the era of Amazon and other disruptors, the Australian retailers most likely to succeed will be those that can differentiate their brand by leveraging unique opportunities in their stores. More than ever before, physical stores are providing a platform for brands to emphasise their authentic and artisan qualities, and convince customers of the ethos behind the brand – whether their customers are hunting for craft beers, organic foods or ethically sourced wool. The ability of a customer to feel their favourite fabric before ordering a shirt, or peer through glass to witness the crafting of handmade chocolates, is all part of affirming their values as a prospective buyer.

Other customers cherish the process of co-creating their purchases, whether they wish to precisely tailor their suits or mix and match pieces of hardwood furniture. Retailers who diversify into highly specialised products – potentially involving a strong service or expertise component – are well on the way to differentiating their experience in a way that a pure-play online competitor cannot replicate.

New realms of immersion

Today, digital transformation has exciting potential to support customer empowerment. One of Microsoft's top priorities is helping retailers use interactive, mixed reality technologies to deliver compelling virtual shopping experiences. As we have already seen, tracking the digital footprint of customers within the store can help retailers isolate each shopper's DNA and learn how to serve them better. Yet, in-store capabilities including augmented and virtual reality headsets, digital kiosks and touch-screens, and voice-activated displays can also be a source of information, immersion and delight for customers in their own right.

Already, virtual dressing rooms such as that created by FaceCake, built on the Microsoft Azure platform, allow customers to click on a dress featured on a website and add it to their digital closet. Taking advantage of 3D cameras and 360-degree video capabilities, customers can 'try on' the garment in their bedroom and even see whether an accompanying handbag enhances or ruins the look.

In addition, Microsoft mixed reality technology has the potential to revolutionise the showroom experience – and bring the showroom to the lounge room. In Australia, interior decorator Laminex allows customers to use Microsoft HoloLens and Surface Pro tablets to view different 3D plans and colour swatches – and even take a memory stick home to share the experience with their families. Very soon, a prospective car buyer will be able to perform virtual test drives and order a custom-made vehicle without leaving their house.

The frictionless store

Amazon Go has popularised the notion of the frictionless store – a high-tech utopia with the potential to eliminate friction from the supermarket experience and allow people in a hurry to pop in and out. Another example is Hointer, which originally launched as a jeans store in Seattle and is now bringing its 'microwarehouse' technology platform to a variety of retail environments. The basic concept involves downsizing floor displays to one example of each product – and allowing customers to use their smartphones as 'remote controls'. If a customer wishes to try on a pair of jeans, they can swipe their phone alongside the model in the storefront and have a version in their size automatically delivered to a fitting room via a chute out the back. With a click of a button, customers can also obtain additional items while in the fitting room, or even seek the advice of a human sales assistant.

More time for pleasure

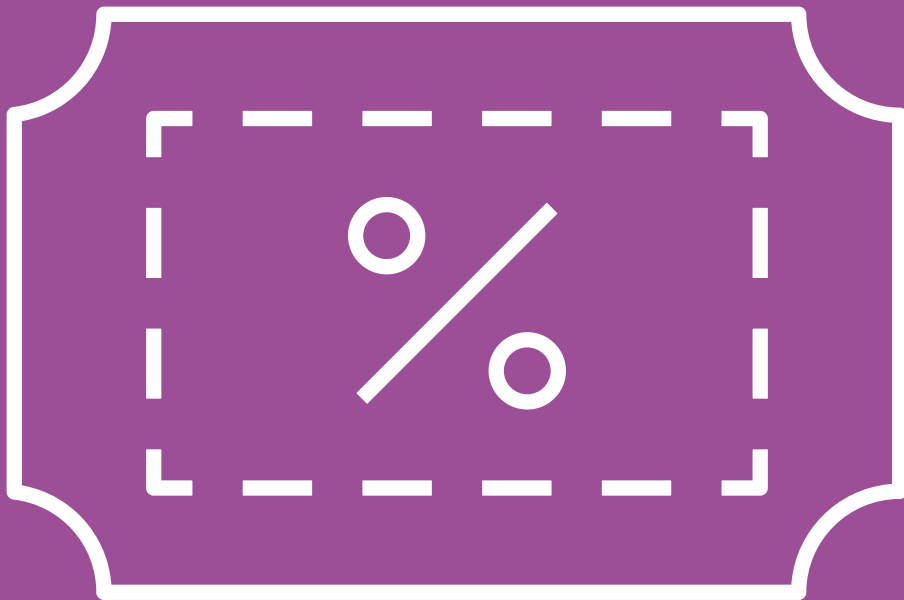
The paradox of the frictionless store is that it can reduce shopping time – or create *additional* time for customers to linger and relax. This opens the potential for whole new vistas in retail. For example, supermarkets could be reconfigured so that their main shopfloor is dominated by fresh produce and meats, while other replenishable items such as shampoo, nappies and toilet paper are stored in bulk out the back. Customers can meticulously select their fresh items and then use their time in the store to enjoy social and recreational opportunities – such as live music, cooking demonstrations or a cappuccino with friends. Meanwhile, the other 20 or so products that they typically buy can be pre-ordered from home – or quickly selected from a 'digital aisle' in the store and automatically delivered to their car.

By building children's playgrounds on its premises, even a fast-food chain like McDonald's has shown that retailers can boost food and beverage consumption and visit frequency by increasing dwell times – not reducing them. It is easy to imagine Australian supermarkets – or indeed any number of retail environments – thinking outside the square with such a strategy.

"The real world has so much more to offer. But if the high street's dull, people will order online."

Howard Saunders, Futurist

Learn more



Microsoft is in a unique position to help Australian retailers transform.

Australian retailers are used to making technology investments that balance short-term costs and long-term benefits. Today, digital solutions have never been more viable thanks to rapidly improving broadband connectivity, better mobile coverage and the reduced cost of sensors and other devices. Technology capabilities could soon exist to solve every conceivable retail challenge.

Microsoft recommends that for most retailers, the process of digital transformation begin by mapping the customer's service journey and identifying key sources of friction and pain points that, if successfully addressed, have the potential to become new sources of opportunity. We also believe that Australian retailers should not be afraid to assert their unique brand strengths and points of difference.

Our commitment to digital transformation begins with our trusted, flexible and open cloud platform. This is hosted within our locally-based data centres and features higher levels of security, privacy and regulatory compliance than most customers can achieve on their own. Our services span the full spectrum of retailers' needs, including big data and advanced analytics tools, greater mobility for employees, and enhanced productivity and collaboration capabilities. In addition, we are constantly working with leading systems integrators and independent software vendors with domain knowledge in retail to bring the most innovative solutions to market.

By hosting regular collaborative workshops and brainstorming sessions, we encourage our customers to understand their strengths and the digital investments that will have the greatest impact. And our focus is always on helping our customers not only absorb new technologies, but the cultural change needed to accompany them.

[For more information](#)

Australia : 13 20 58

International: 612 9870 2200