



2022 Retail Experience Market Study
Retail's Once-in-a-Generation Tech Reset

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Overview of Study Results

- In spite of all the headwinds of inflation, COVID and staffing issues, among others, the Retail and Hospitality industries demonstrated their resilience in big ways in 2021.
 - **Retail Sales** – Retail sales in 2020 ended on somewhat of a high note, finishing at **+2.3%** vs 2019. This is especially impressive considering COVID-driven sales declines of **-6.2%** for March thru May 2020. Through November 2021, sales were up **+15.5%** (retail was up **+12.8%**, restaurants were up **+32.2%** cumulatively) compared to 2020. Sales for FDCM retailers were up **+13.1%** as a group, with C-Stores (**+38.9%** due to higher gas prices) and Warehouse Clubs/Superstores (**+11.9%**) leading the way. GMS retailers recovered nicely from the hammering they received in 2020, with Softgoods (**+56.8%**) and Department Stores (**+52.1%**) coming back to life.
 - **Stores** – Store counts continue to grow, and foot traffic has been coming back, slowly. Retailers who deployed new customer journeys in 2020 finally had a chance to optimize those journeys in 2021. This included store remodels (which will increase in 2022) to support these new journeys. All told, approximately 80% of all retail revenues still have a store fulfillment component.
- Going forward, respondents are upbeat with their expectations. Retail sales are expected to increase **8.8%** in 2022 (Store sales **+7.4%**, Desktop E-Commerce sales **+13.3%**, Mobile E-Commerce **+13.8%**). Store counts and IT Spend are also expected to be up for 2022.
- As in past years, priorities vary widely based on whether a retailer is growing faster than **+10%** or is simply getting by. The difference is often due to the Leaders having already done the things that the masses are doing now. For instance, Supporting Contactless Payments is not one of the top 10 highest ranked priorities for all respondents, but Leaders rate it **+489%** higher. Personalizing the Customer Experience was last year's highest-ranking priority (third highest this year), but Leaders showed a **-44%** priority for it this year.
- 2022 shows a full technology reset for retailers. The mantra is automate what can be automated as they face labor shortages in all areas. Since the beginning of the pandemic, we have seen a full percentage of revenue increase in IT Spend. More commentary on this specific point can be found on [this blog post](#) by IHL President Greg Buzek that is based on data in this study.
- Respondents to this study comprise some ~300 brands and represent approximately 8.5% of all North American retail revenues.

Study Highlights

For 2020...

2022 Store count up **2.7%**, Remodels up **4.3%**

2021 Enterprise IT Spend up **5.6%**, Store up **5.7%**



2021 Sales up **14.0%**, 2022 forecast up **8.8%**

5G In-store, Edge computing, Robotics/Automation are the greatest emerging spend areas

Inventory Visibility, Refresh POS Infrastructure, Personalizing the Customer Experience are the highest priorities

Winners not only winning in sales, but more than tripling IT spend growth over below average retailers

Retail Growth & IT Spend

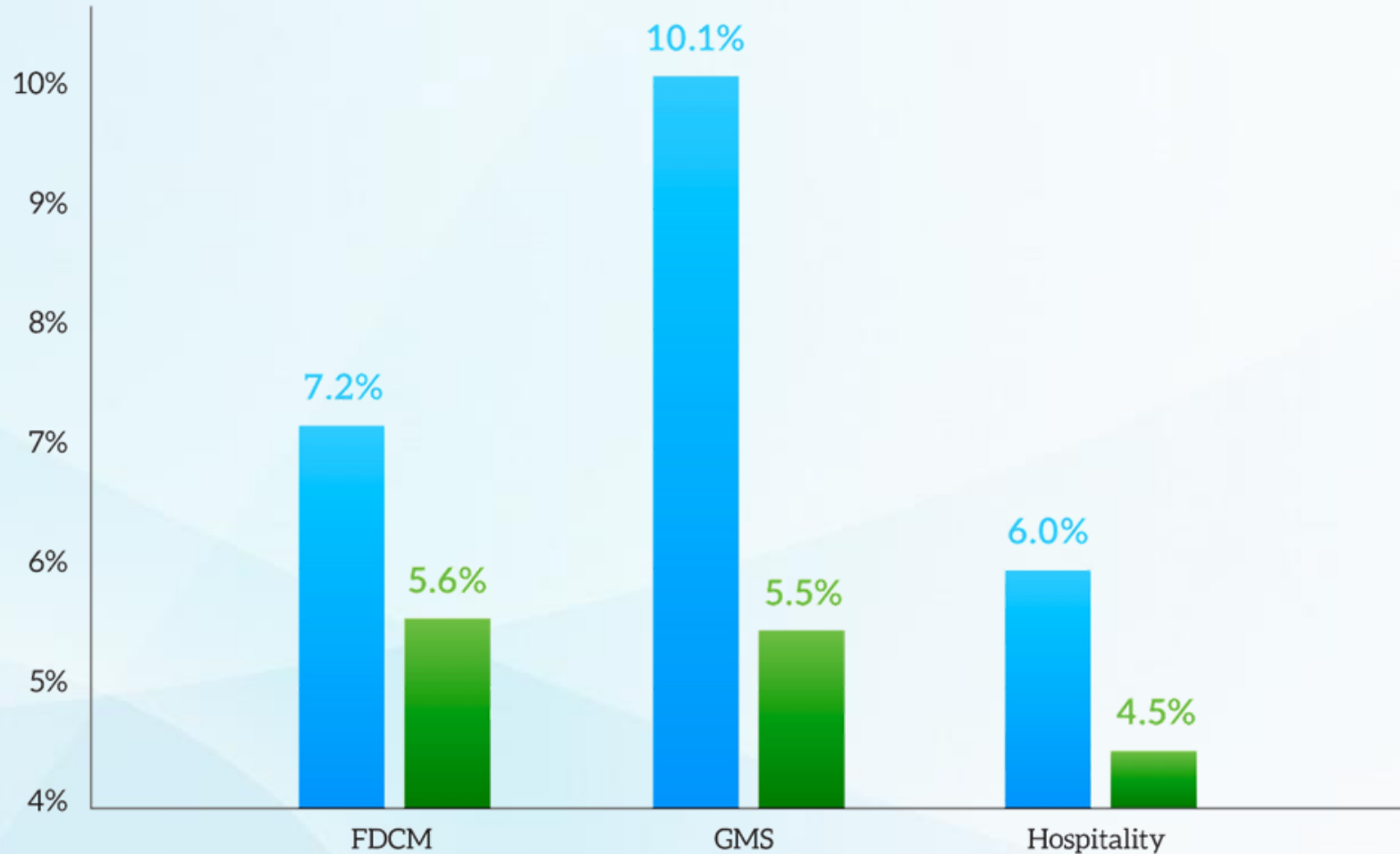
Core review of revenue growth in terms of stores, channels, and IT



Sales Growth by Segment

Source: IHL Group/RIS News

SALES CHANGE 2021 to 2022 PROFITABILITY 2021 to 2022



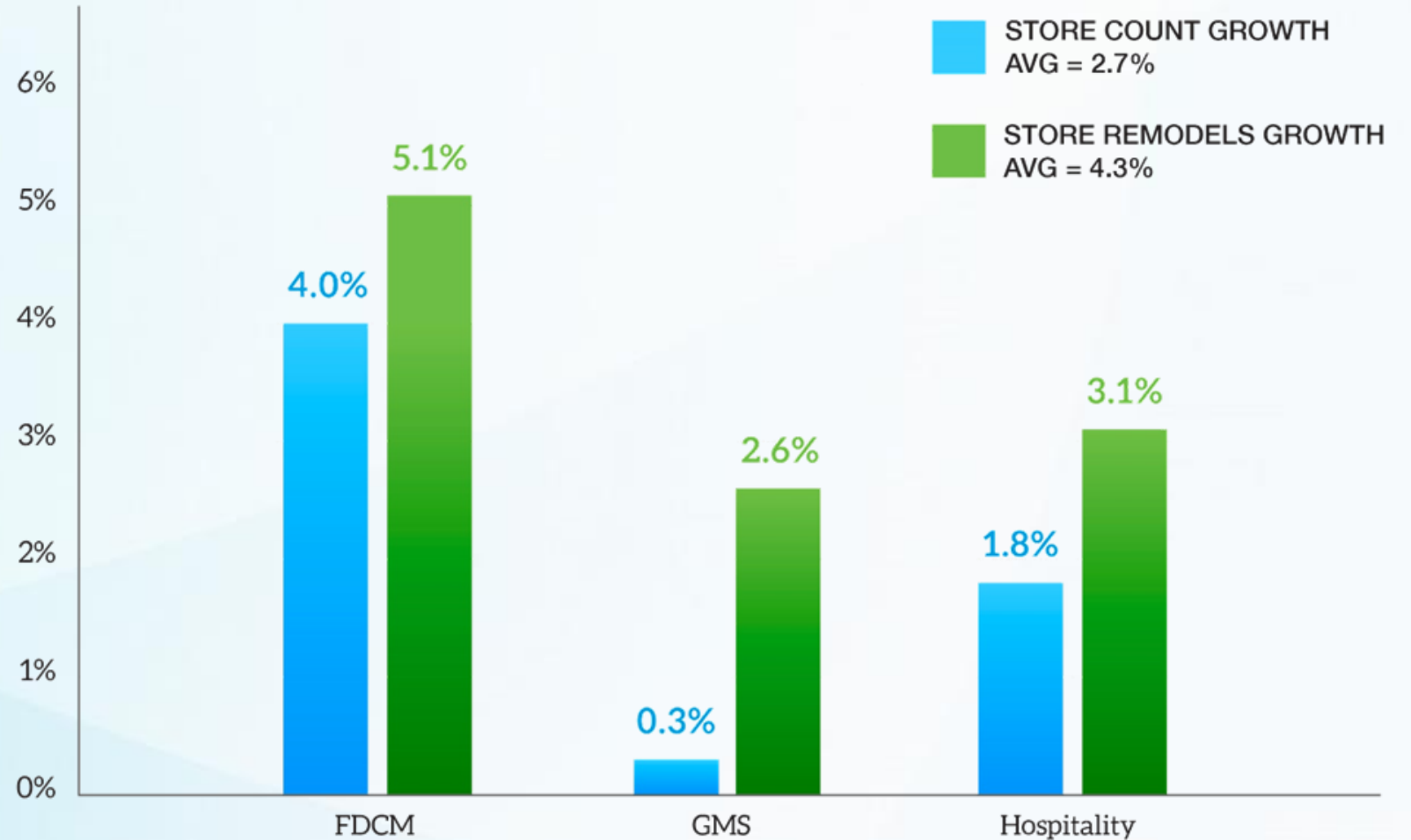
- Survey data shows 2021 sales growth at **+14.0%**, a huge increase from 2020's COVID-deflated numbers. There is good correlation with Census figures through November (**+15.5%**).
- Doing Well: Food / Grocery, Drug Stores, Superstores / Warehouse Clubs and Mass Merchants.
- Doing REALLY Well: Consumer Electronics, Department Stores, Apparel.
- 2022 Outlook: **+8.8%** growth expectations are a robust **28%** increase over last year's 2021 expectations.

2022 Store Growth & Remodels

GROWTH BY SEGMENT

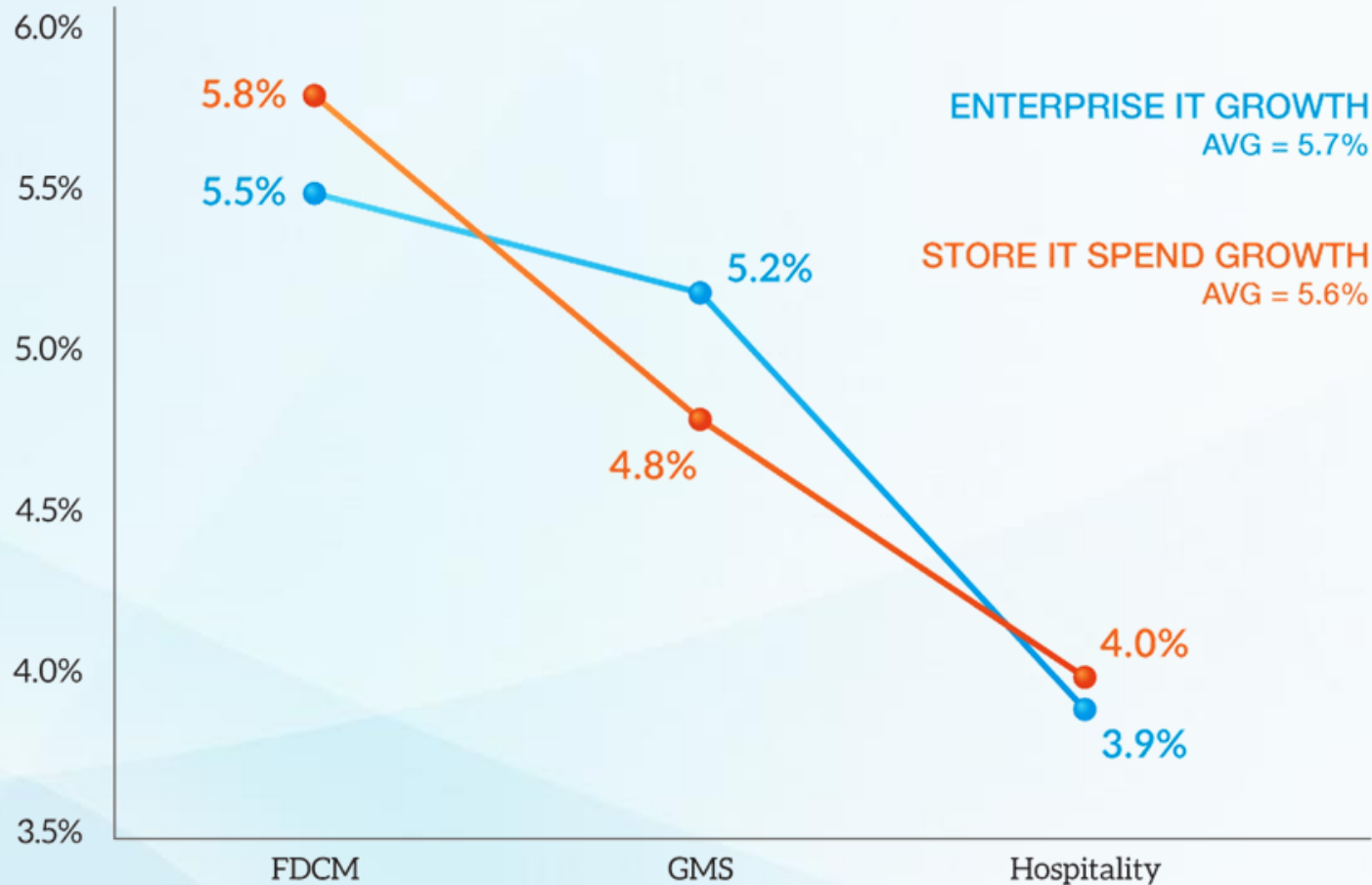
Source: IHL Group/RIS News

- Store counts continue to rise, though at a historically slower rate as retailers focus on remodeling existing stores for new customer journeys.
- FDCM expects the highest store count growth for 2022, after significant sales growth in 2020 and 2021. Hospitality will be up 1.8%. GMS will struggle to get 0.3% growth, but this is after years of decline.
- Retail Leaders expect a +1.8% store count growth for 2022, but their focus is nearly double (+3.4%) for remodels.



2022 IT Spend Growth by Retail Segment

Source: IHL Group/RIS News

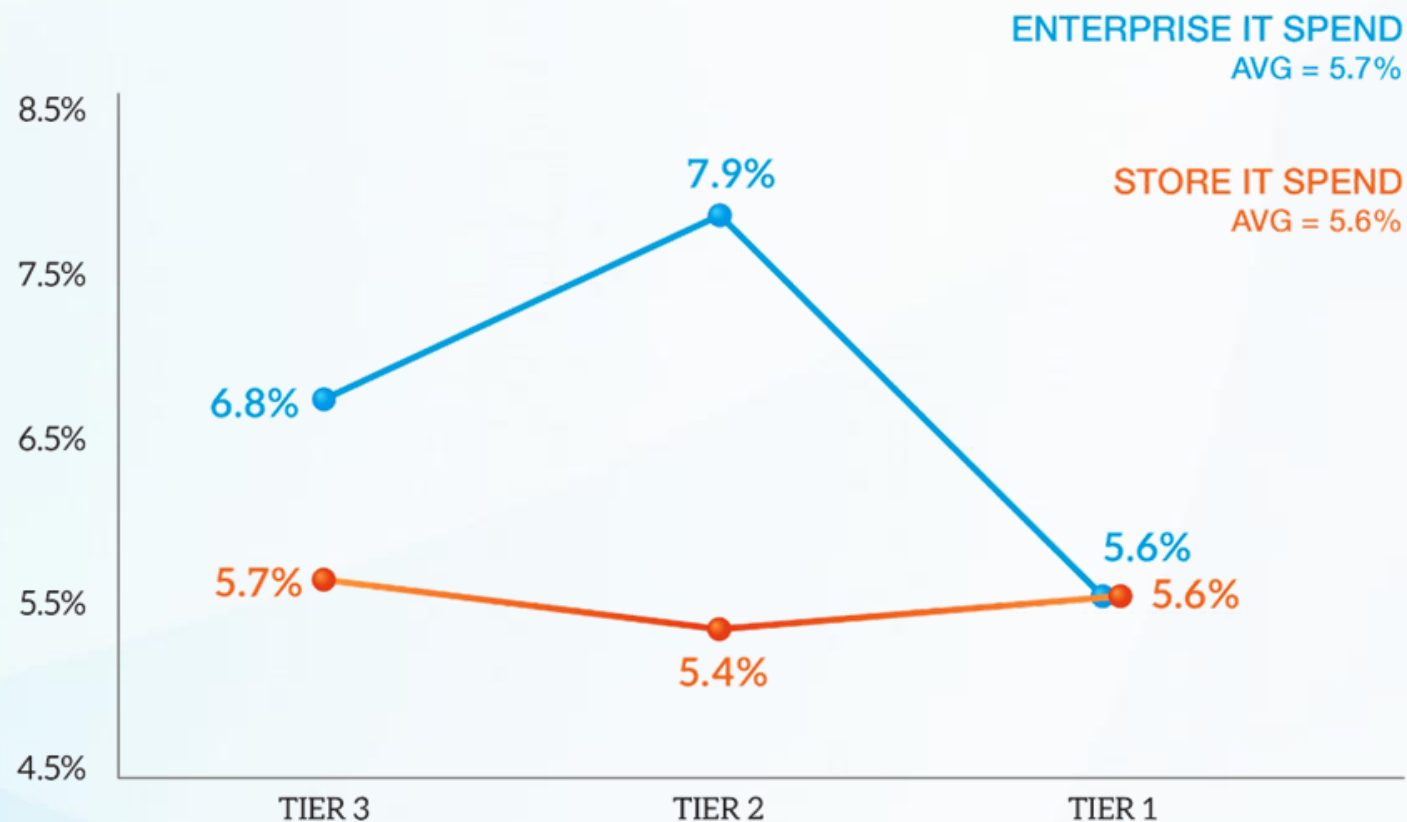


- FDCM retailers are leading the way with store count and remodels growth, and both require new technology. Hence their IT spend (overall and for stores) are going to see lifts, especially with new customer journeys.
- GMS retailers are expecting bumps of 40% and 50% over last year's Enterprise and Store IT Spend growth figures. These retailers are finding their way after a really tough 2020 (not to mention the years leading up to then).
- Hospitality numbers are up 3.9% & 4.0% from last year's Enterprise and Store IT spend, respectively. Delivery options continue to harm margins.
- Overall, there has been a once-in-a-generation increase in IT Spend as a percentage of revenue in last 3 years.

2022 IT Spend Growth by Retail Tier

Source: IHL Group/RIS News

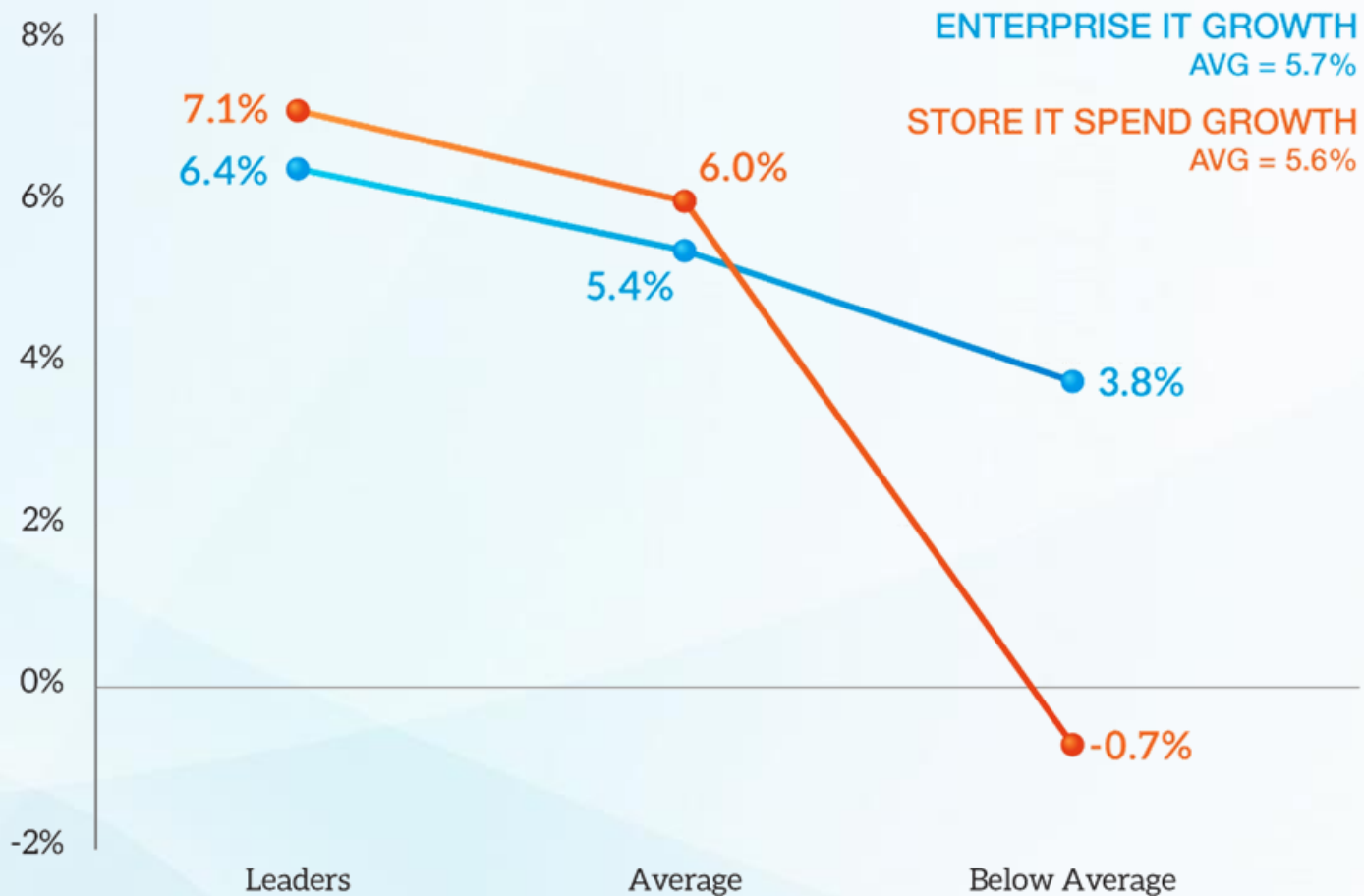
- Enterprise spend at **+5.7%** growth is up **14%** from last year's study. This is a once-in-a-generation increase, and is due in part to retailers getting serious about bringing their IT stack up-to-snuff.
- Tier 2 saw the greatest increase from last year (**+119%** for Enterprise and **+38%** for Store). Tier 1 (**+6%** Enterprise, **+40%** for Store) and Tier 3 (**+36%**, **+39%**) both showed strong growth as well.
- New or remodeled digs require new technology, so the effect on IT Spend is obvious. Those retailers planning an increase in store count for 2022 are expecting their Enterprise and Store IT Spends to be **+230%** and **+7,000%** higher, respectively, than those who do not plan an increase in store count.



Leaders Also Lead in IT Spend Growth

LEADERS, AVERAGE AND BELOW AVERAGE RETAILERS

Source: IHL Group/RIS News



- Clearly, retail leaders continue to increase their Enterprise IT spend; **+19%** more than average and **+68%** more than below average retailers.
- For Store IT spend growth, Leaders show **+18%** higher growth than average retailers, and **+1,114%** higher growth than below average retailers.
- Does increased spend make leaders, or do leaders spend more? We're not sure, but clearly leaders are willing to spend, and data shows some of the same leaders showing up each year. Leaders no longer tie next year's IT spend to last year's revenue. Those retailers that do will fall back.

Digital Customer Journeys

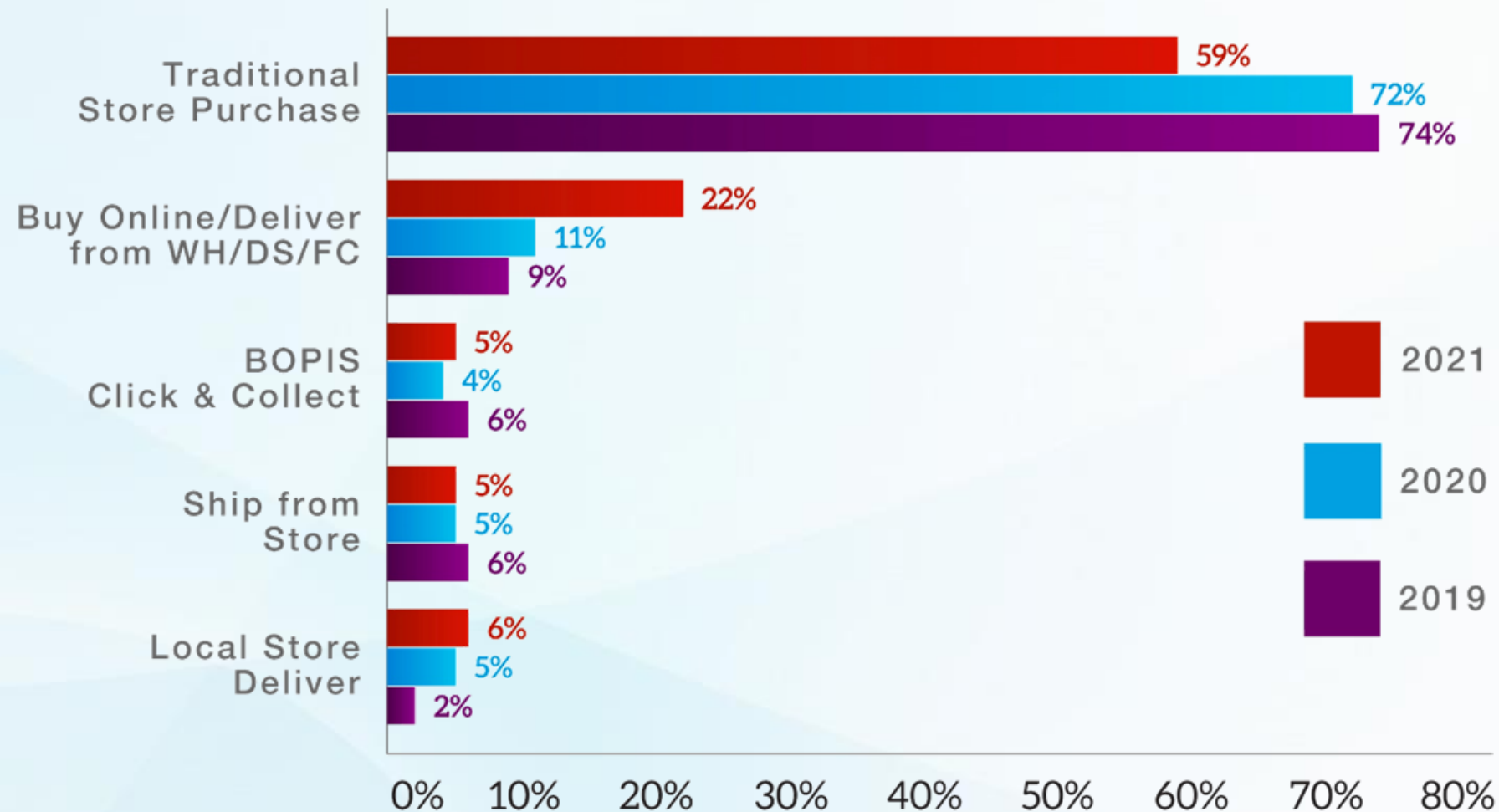
Digital journeys are now the norm, how are retailers adjusting and what does the future look like?



Customer Journey Splits

(ACTUALS)

Source: IHL Group/RIS News



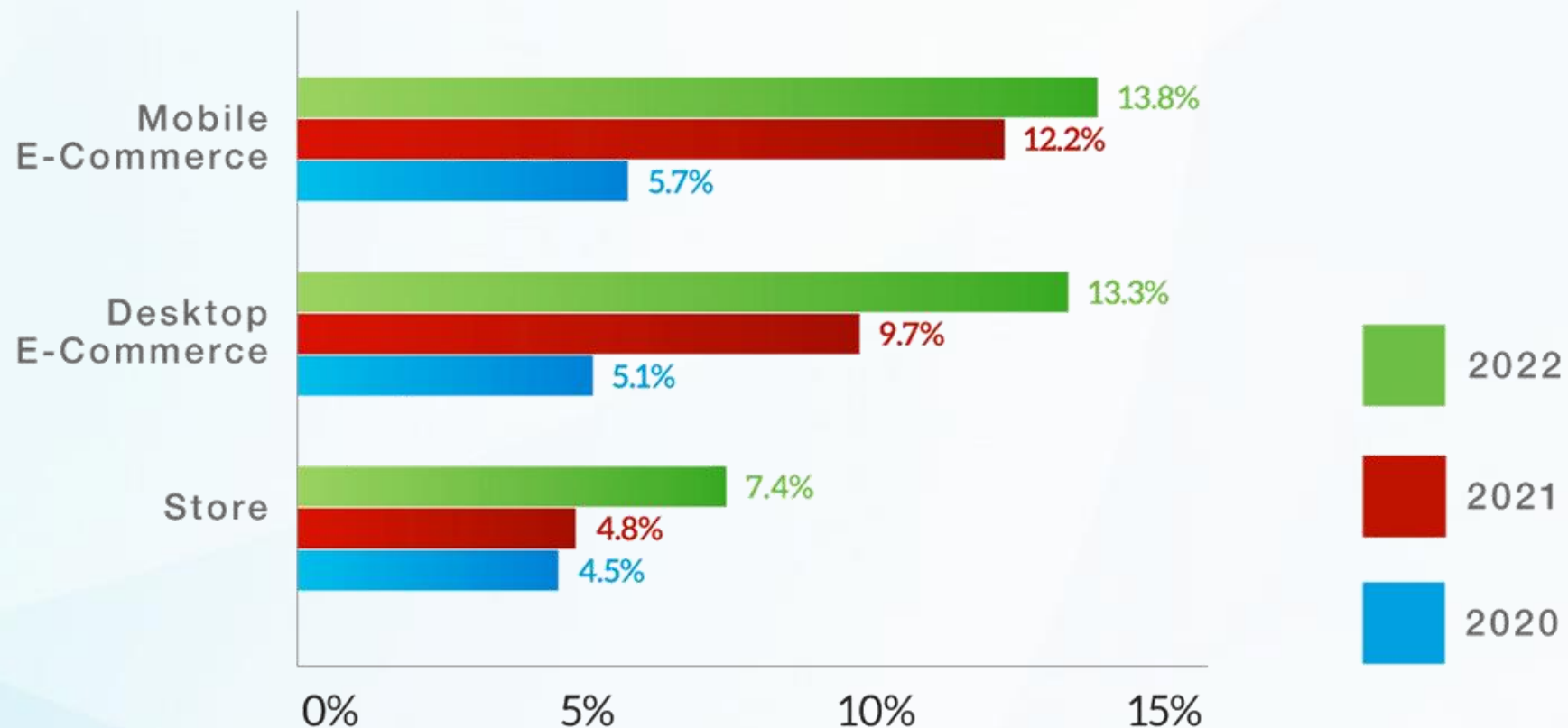
- COVID has had a profound impact upon consumer behavior, and retailers have changed accordingly; some of those changes stuck.
- Traditional store purchases are seeing a decrease, and most of the slack is taken up by traditional E-Commerce.
- Retailers are still in the process of working out the details of their new customer journeys. We expect BOPIS, Ship from Store and Local Store Delivery to grow in coming years.

Sales Growth by Channel

(FORECAST)

Source: IHL Group/RIS News

- Expectations for sales growth going forward are really encouraging. The forecast for Mobile E-Commerce shows a CAGR of 10.5% through 2022. The numbers for Desktop E-Commerce (9.3% CAGR) and Store (5.6%) are also impressive.
- Inflation currently sits at 6.8%, which is nearing a 40-year high. This means that over the course of the past year, consumers are experiencing budget-stretching price increases on just about every product found in retail. This accounts for some, but not all of the growth in sales.



Annual Sales Growth Increase

Source: IHL Group/RIS News



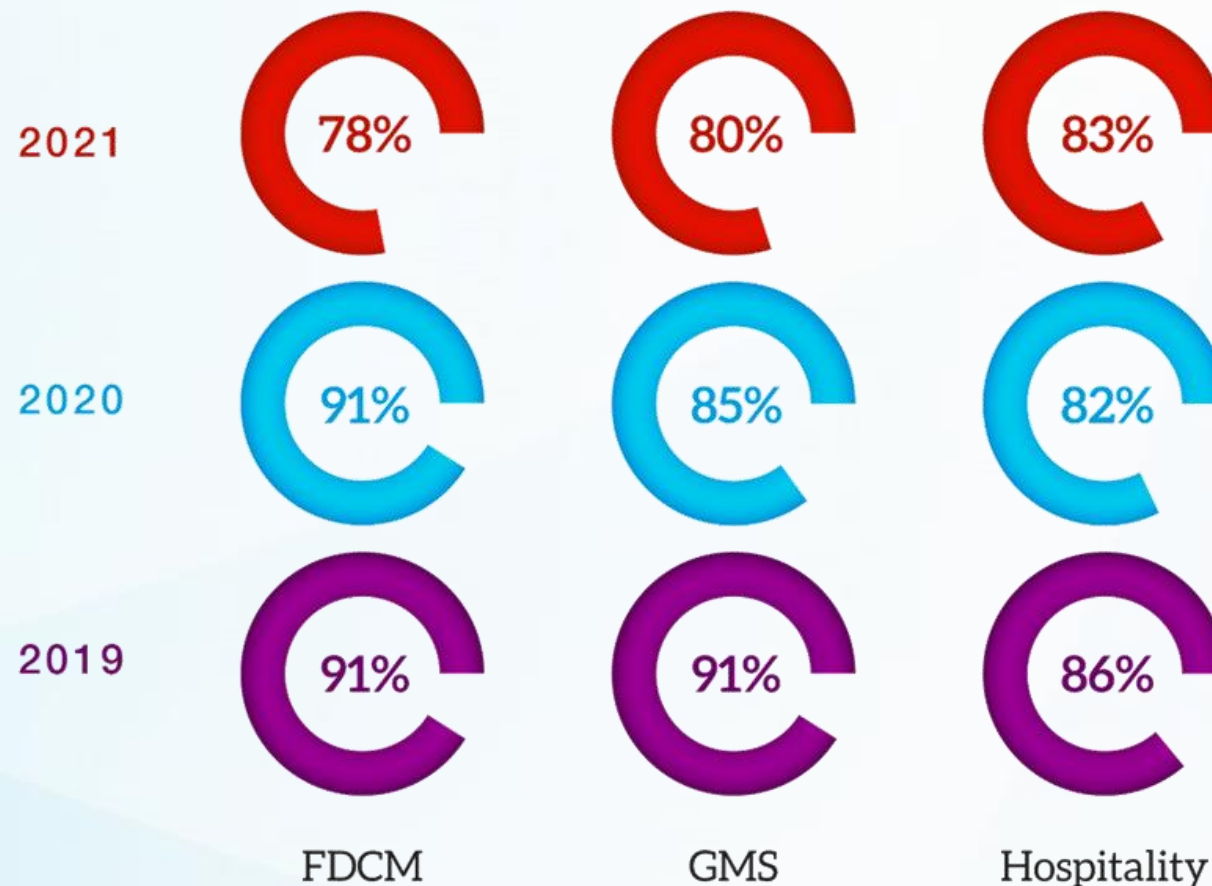
- While the Leaders' Store sales growth is only "middling" compared to the others from the survey, it is still **+7.1%** growth from a massive store footprint.
- Leaders' e-commerce growth outstrips all others. This will continue to be an advantage as they have more resources available for innovative solutions than do the smaller retailers.
- From a digital standpoint, growth expectations for Average retailers look more like Leaders than Below Average retailers.

Store Fulfillment by Segment by Year

% OF REVENUES W/A STORE FULFILLMENT COMPONENT, BY SEGMENT

Source: IHL Group/RIS News

- All told, approximately 80% of all retail sales have a store fulfillment component. COVID caused a significant uptick in online orders for delivery from a warehouse or DC / Fulfillment Center that eroded the store fulfillment share, and it remains to be seen how “sticky” that effect remains.
- Currently, Hospitality shows the most “stickiness” for store fulfillment share (97% of 2019’s value). We expect that share to decline as more restaurants adopt Ghost Kitchens.
- Part of the significant decline for FDCM retailers has to do with the huge surge in online ordering for delivery from a warehouse/DC/FC at the outset of COVID. Store shelves were bare, so consumers went online.

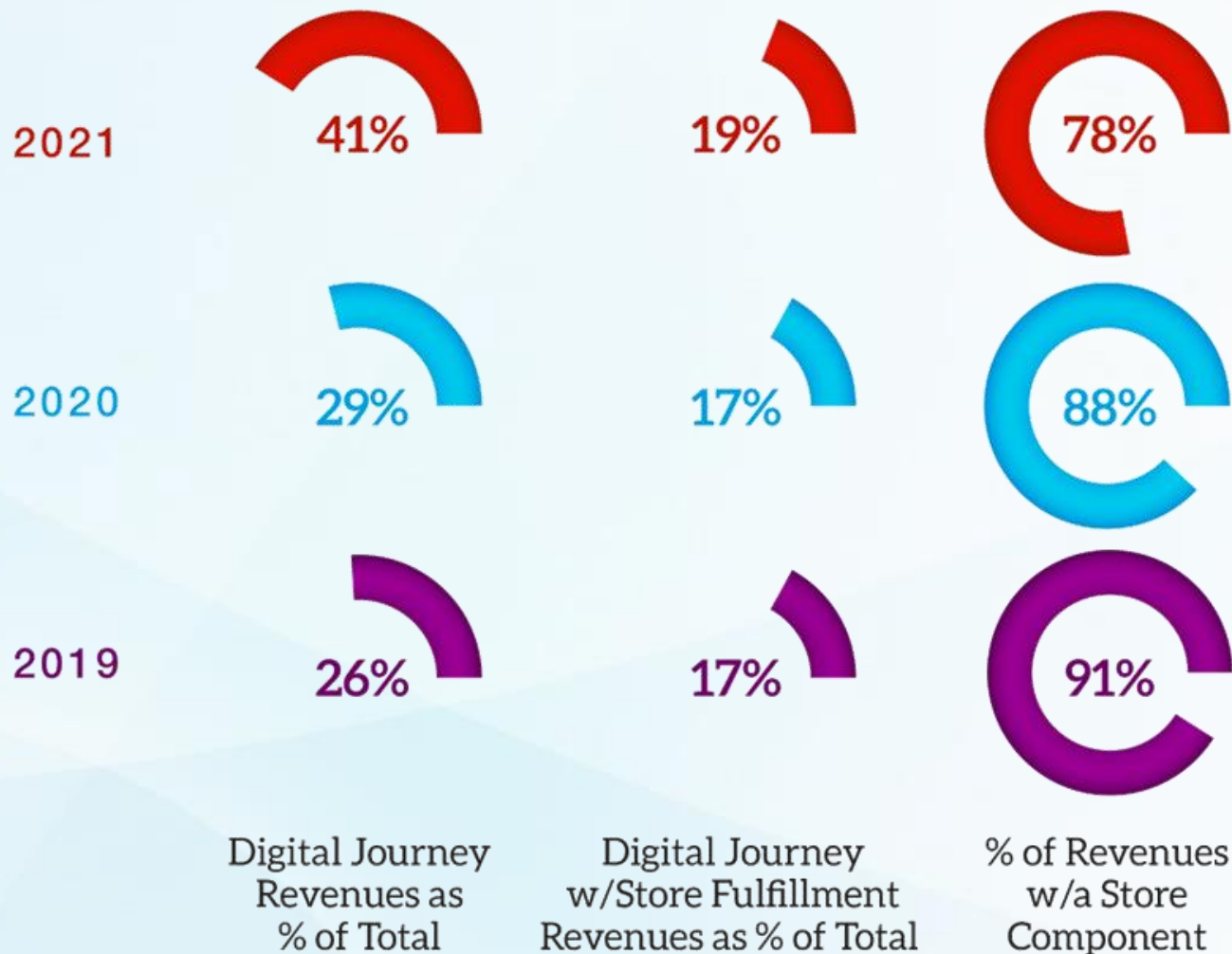


Source: IHL Group

Historical Digital Customer Journeys

% OF REVENUES W/A STORE FULFILLMENT COMPONENT, BY SEGMENT

Source: IHL Group/RIS News



- The trends are apparent here. Retailers are still heavily dependent upon stores, and contrary to the contention of some pundits, Amazon is not going to take over retail anytime soon.
- Digital journeys will continue to grab a significant share of retail revenues, and it is conceivable that figure could eventually approach 50% share. But there will always be consumers who want to touch and inspect products before they purchase.

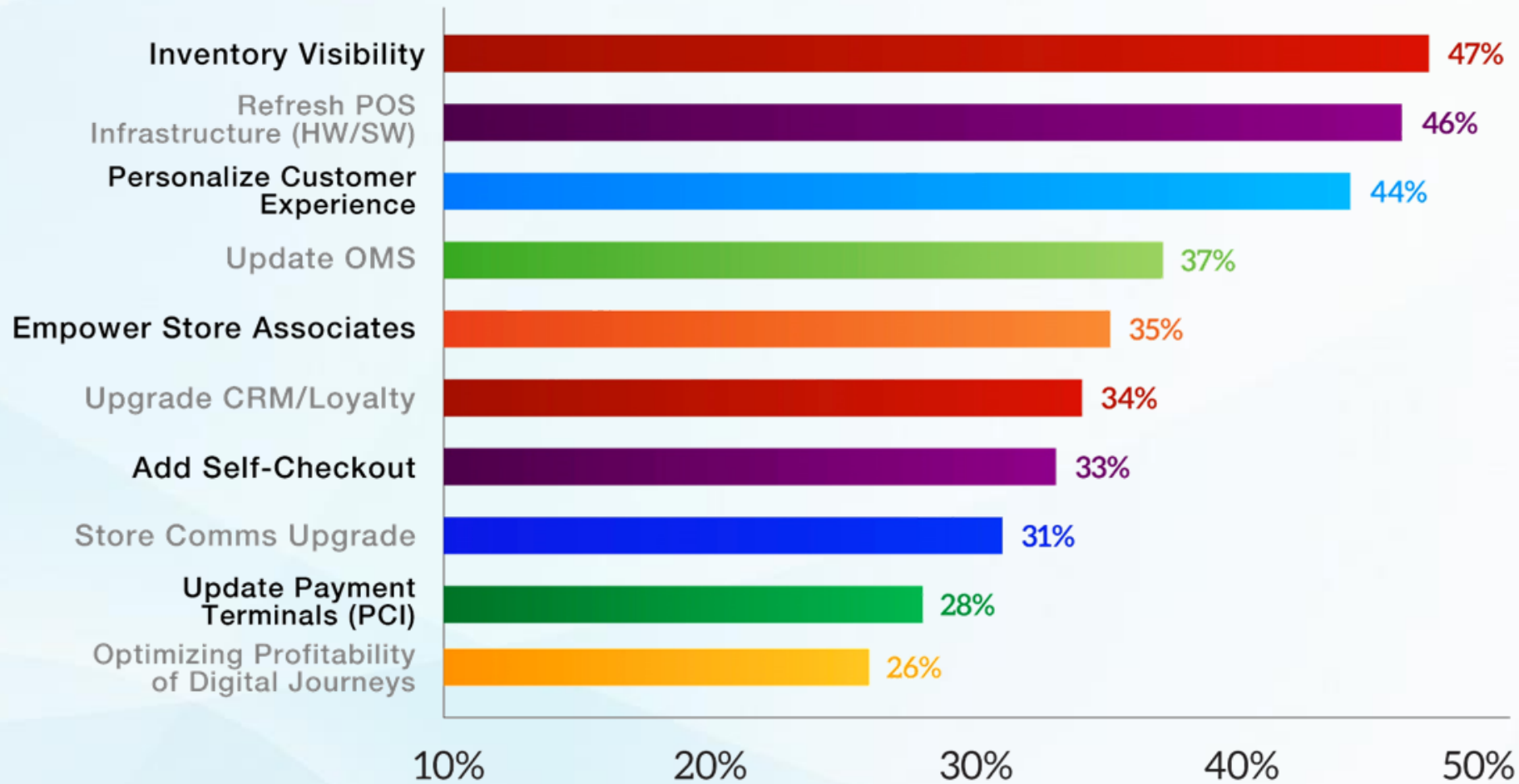
Priorities

Retailers have multiple IT goals with which they must deal. Priorities differ depending upon size, type and culture of retailer.



Top Tech Priorities for 2022

Source: IHL Group/RIS News



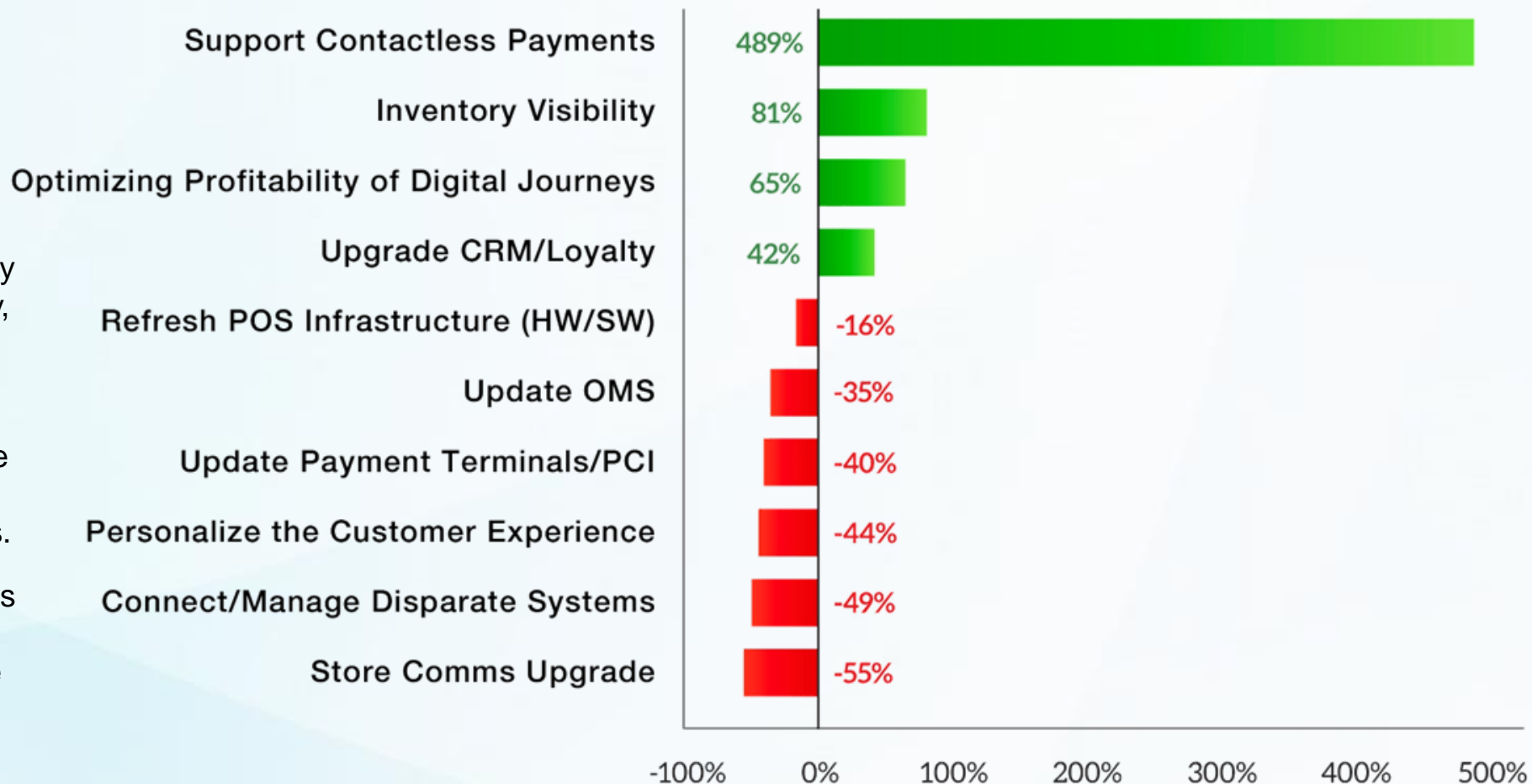
- Inventory Visibility is especially important in times of uncertainty, and those retailers with the best handle on their stock positions prospered best during and after COVID.
- Related to the above, having good communication between POS and supply chain systems means that Refreshing POS Infrastructure has become a significant priority.
- Personalizing the Customer Experience continues to rank near the top, and this is incorporated into some of the remodeling effort that retailers have been conducting.

2022 Leader Priorities

LEADERS AS % **GREATER/LESS** THAN BELOW AVERAGE

Source: IHL Group/RIS News

- The data on this sheet is the same as the previous sheet, only it has been sliced according to the importance that Leaders place upon priorities vs those who are Below Average.
- Often, Leaders will show a lower priority for a technology than other retailers. Typically, this is because the Leaders have already adopted, optimized and moved on to their next priority. Such is the case with OMS, Payment Terminals and Store Comms.
- Contactless Payments shows up as a higher priority for Leaders most likely because the Below Average retailers are more concerned about actually having sufficient transactions to survive.



Traditional Store Technologies

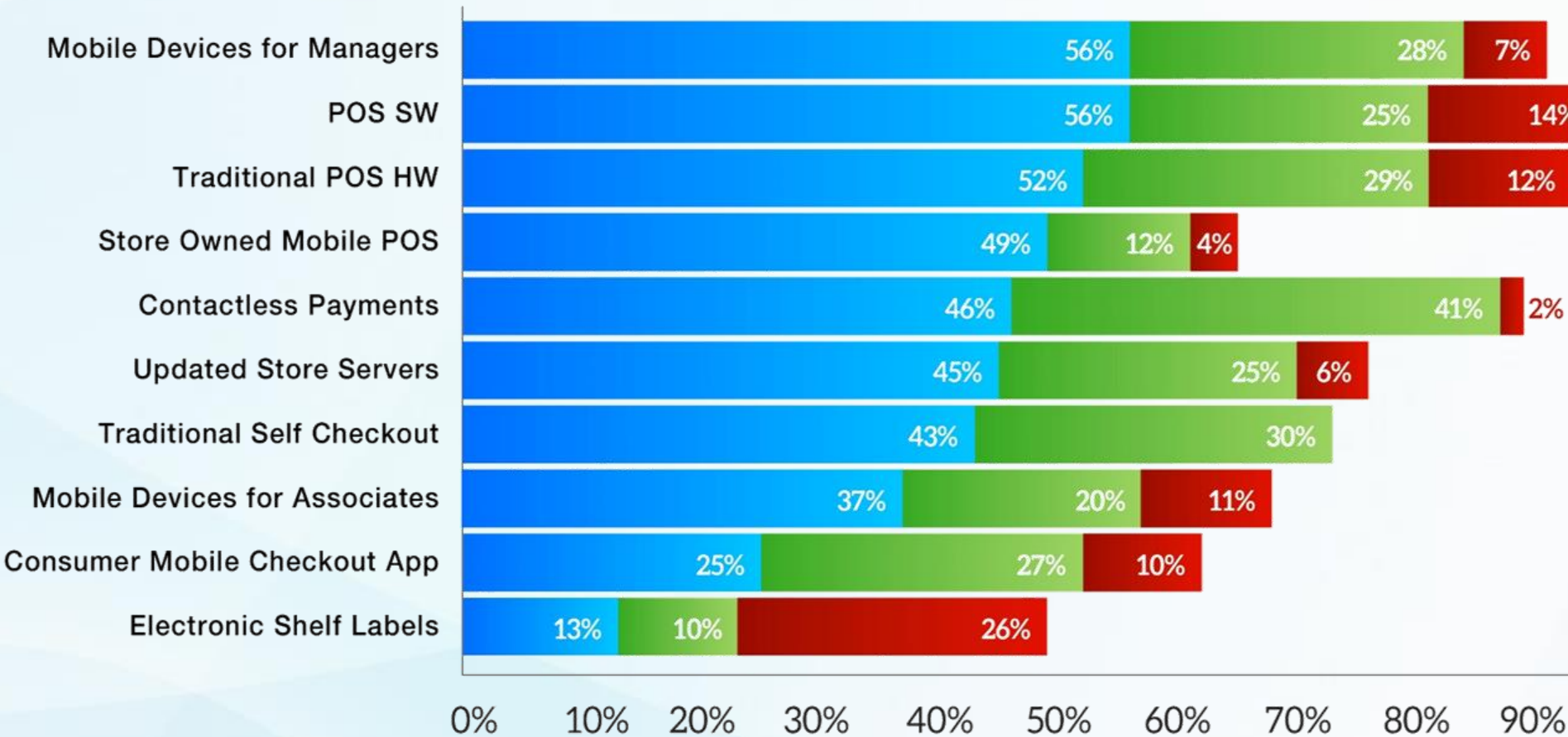
When are the next purchases for traditional technologies such as POS, mPOS and Self-Checkout?



Store Technologies Purchase Intentions

Source: IHL Group/RIS News

■ UP-TO-DATE/
CURRENTLY IN USE
 ■ WITHIN NEXT
12 MONTHS
 ■ 12-24
MONTHS



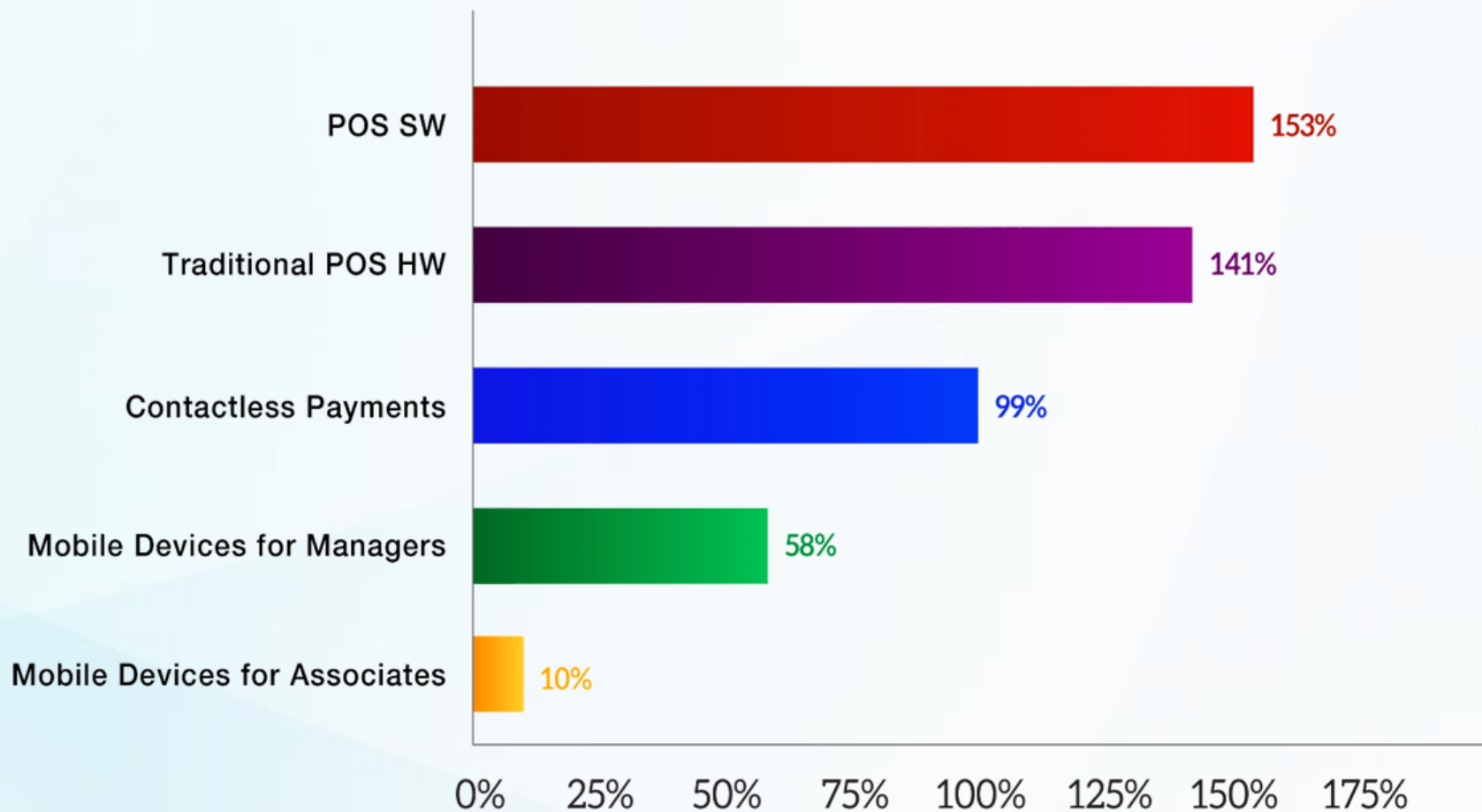
- Mobile technologies continue to make inroads in 2022, with Mobile Devices for Managers and Store-Owned Mobile POS being highest in terms of current adoption.
- POS Hardware and Software continue the trend of the past few years, as retailers increase their refresh rates.
- Retailers are expecting to spend big on Contactless Payments in 2022 (41% expect to make a purchase) and Self Checkout (30%).
- The biggest purchase intent in 2023 is for ESL's, which will go a long way to help the current labor issues in retail.

Leaders Far More Likely to Have Up-to-Date Store Tech

LEADERS AS % OF BELOW AVERAGE RETAILERS

Source: IHL Group/RIS News

- Again, this chart shows the higher priority placed upon certain technologies by Leaders compared to Below Average retailers.
- Leaders are 140%+ more likely than Below Average retailers to have their POS systems already up-to-date, for reasons previously discussed.
- The preference for Contactless Payments mentioned before is confirmed, as Leaders are 99% more likely to be updated.
- Leaders are also more likely to have their Mobile Devices up-to-date, knowing that especially for managers, having the device as they wander the store is effective.



Emerging Technologies

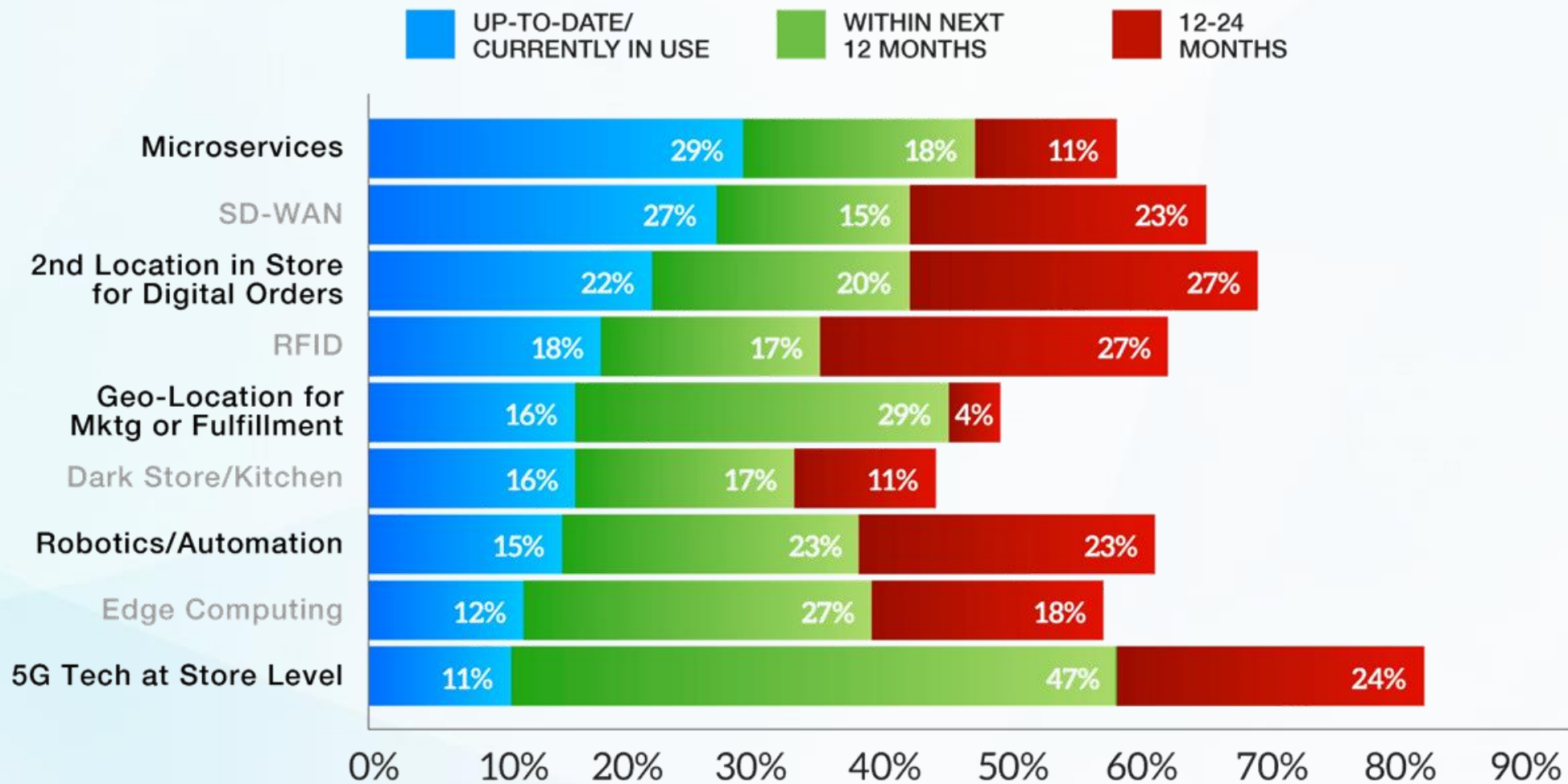
At what speed are retailers adopting emerging technologies like Edge Computing, 5G and Microservices.



Timeframe for Emerging Tech Purchase

Source: IHL Group/RIS News

- 5G at the Store-level is currently the least-adopted of these new initiatives, but it shows the largest expected adoption going forward. Speed, lack of latency, and reliability are the drivers here.
- Microservices shows the largest current adoption, mainly due to the efficiencies involved in developing and deploying new systems.
- Geo-Location for Marketing is interesting in that Leaders are a minimum 193% more likely to have adopted it than all other retailers. More than half of Leaders (54.4%) expect to deploy it by 2024.



Spend for Innovation or Existing Systems

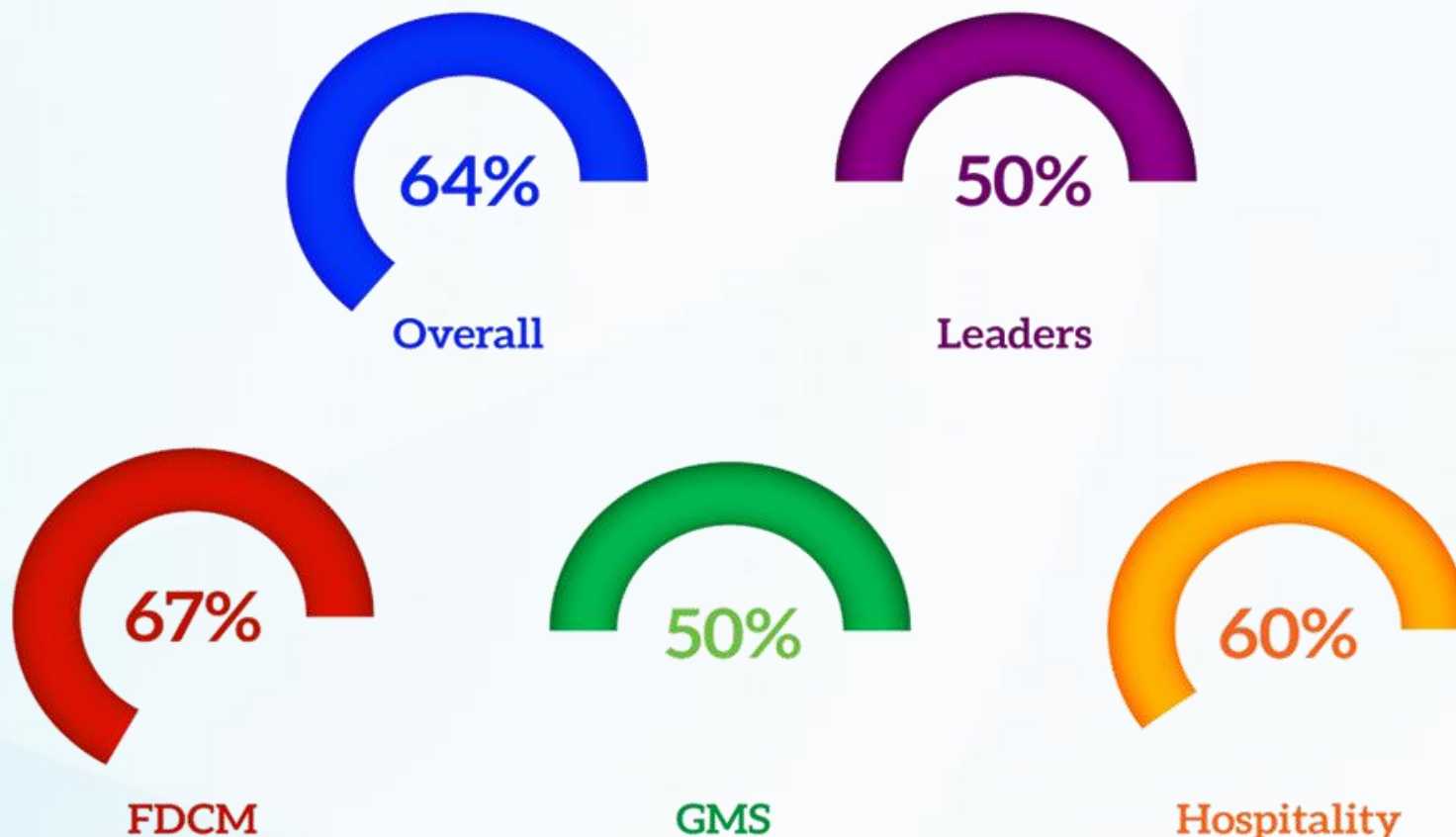
Increased IT spend means that much more of spend is now available for innovation vs just keeping the lights on.



Percent of IT Spend for Managing, Maintaining & Integrating Existing Systems

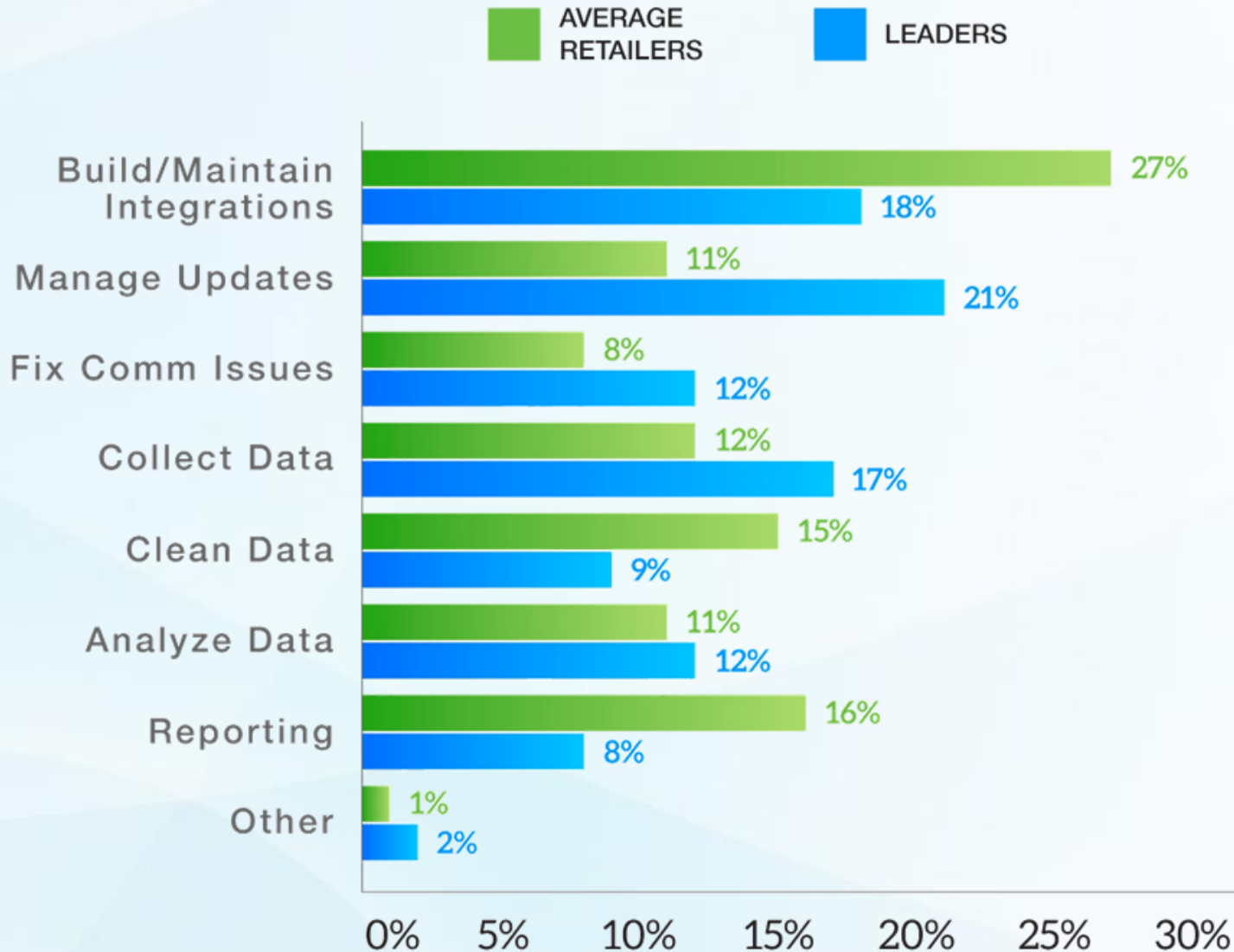
Source: IHL Group/RIS News

- This was the first year we asked detailed questions about support services for IT in the retail enterprise. The disparity between Leaders and the rest of retail is fairly stark; Leaders have figured out how to keep things running more efficiently than other retailers.
- The difference among retail segments is driven more by the type of infrastructure possessed by the members of each segment. FDCM retailers tend to have systems that are expensive and are held for many years, hence higher support costs of aging systems. GMS retailers tend to be just the opposite.



Leaders Spend Much Less on Existing Systems

Source: IHL Group/RIS News



- Leaders spend more than other retailers are in Managing Updates (91% more) and Collecting data (42% more). They make sure their systems are up-to-date, and spend the effort to collect the data pertinent to upkeep.
- Leaders also see the importance of communications, and they spend 50% more to fix issues.
- Speaking of data, the places Leaders spend considerably less are in Cleaning Data (40% less) and Reporting (50%), which likely means that Leaders have better, more refined tools for those tasks.

Demographics

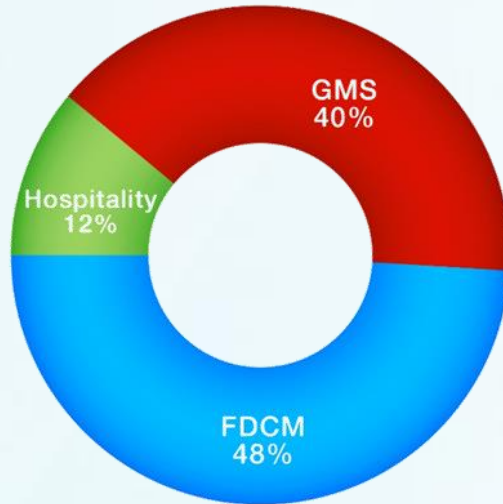
This section includes an overview of the survey respondents from the Store Systems Study. This serves as a framework for understanding how the survey pool reflects the overall retail landscape.



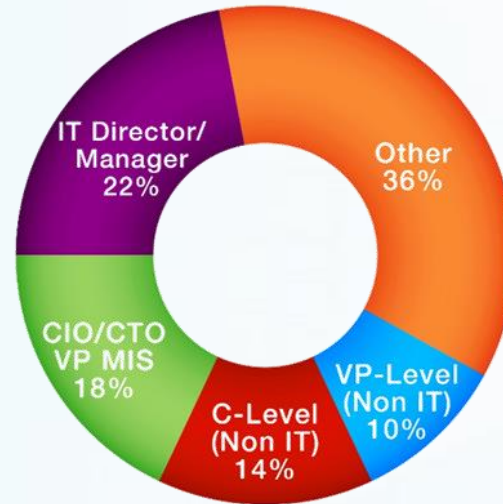
About the Respondents

Source: IHL Group/RIS News

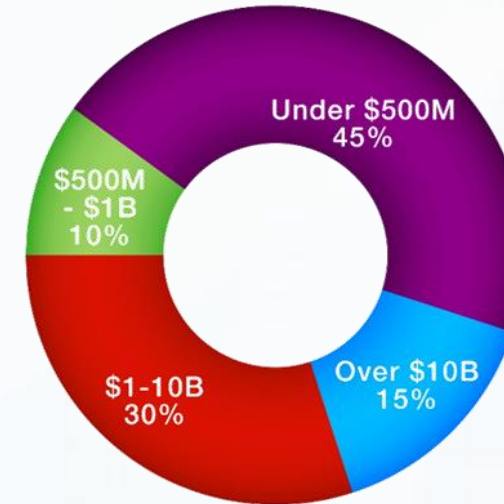
By Retail Segment



By Title/Position



By Annual Revenue



- 129 retailers representing ~300 retail brands and ~8.5% of N. American revenues in 8 segments.
- 45% over \$1b in sales and 15% over \$10b in sales so this really skews towards the customers that move the market and trends because of their volume. The data were weighted by size for certain calculations.
- As with last year, the study is a little heavier on GSM than the overall market. The combination of COVID and the downward pressure on the GSM segments (due to being overstored) has tempered our growth figures. What this means is unlike some other years, the actual results may be even stronger than this survey suggests overall for those vendors and technologies that specialize in FDCM and Hospitality Markets and less for those that focus on GSM.

Source: IHL Group

Methodology

Here we describe how we arrived at the figures included herein.



How We Got Here

The data for this study were obtained by performing a web-based survey, the invitations for which were distributed during the October - November 2021 timeframe. The survey consisted of 18 questions, the topics of which included:

- Demographic Information – Retail segment, title/position, Regions of operation, annual sales, store count, etc.
- Financial Issues – Sales & Profitability changes, Channel splits, Store count growth, spend trends, etc.
- Store System Issues – Store system priorities, purchase timeframes, Service issues, preferred POS hardware and software vendors, etc.
- Retail Transformation – Customer Journeys / optimization, Store transformation, personalizing the shopping experience, last mile fulfillment, etc.
- Other Issues – Emerging technologies, budget split

When the response timeframe expired, we set about cleaning and analyzing the data. Once we obtained the key summary points from the data, we delivered these for a summary publication offered by RIS News, a live presentation at NRF, and a WebEx presentation (which can be found at <http://www.risnews.com> by clicking on the Events link in the navigation bar at the top of the page). After the summary data were delivered, detailed analysis work continued, with the result being this document. We believe the reader will be extremely intrigued by the results that we found.

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