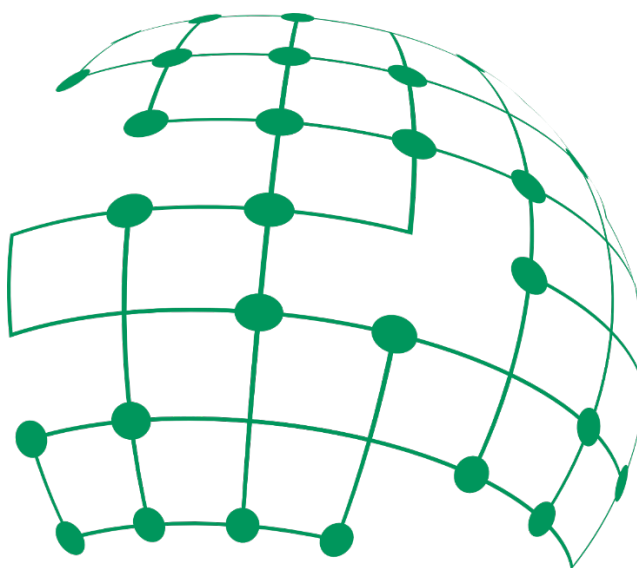


TRANSNATIONAL EXPLORATIVE RESEARCH- SUMMARY

DIGITALIZATION IN RETAIL SECTOR - CHALLENGES, SHORTCOMINGS, NEEDS AND
DEMANDS FROM COMPANIES.



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DATE: SEPTEMBER 2022

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THE EUROPEAN RETAIL SECTOR IS IN THE MIDDLE OF A DIGITAL TRANSFORMATION. THIS WAS DRASTICALLY ACCELERATED BY THE COVID-19 PANDEMIC. NUMEROUS CONSUMERS HAD TO BUY THEIR NON-FOOD PRODUCTS ONLINE BECAUSE STORES WERE CLOSED. FOOD STORES WERE OFTEN ABLE TO REMAIN OPEN, BUT WERE SUBJECT TO TIGHT RESTRICTIONS, GENERATING HIGH COSTS BECAUSE OF THE NEED TO KEEP CONSUMERS AND EMPLOYEES SAFE. MANY RETAILERS THAT DID NOT PREVIOUSLY HAVE AN ONLINE WEB SHOP HAD TO START OFFERING THEIR PRODUCTS ONLINE TO BE ABLE TO REACH CUSTOMERS AGAIN WHILE IN LOCKDOWN. OFTEN, ONLINE MARKETPLACES WERE THE ONLY WAY FOR SMEs TO GO ONLINE QUICKLY AND THIS IS EXPECTED TO INCREASE IN THE NEAR FUTURE.³ AT THE SAME TIME, THE GREEN TRANSITION IS AN OPPORTUNITY FOR RETAIL, AS IT ALLOWS THE SECTOR TO RETHINK BUSINESS MODELS, OFFER ALTERNATIVE PRODUCTS AND SUPPORT AND NUDGE PEOPLE IN THE DIRECTION OF A MORE SUSTAINABLE LIFESTYLE. IT IS BOTH RESPONDING AND LEADING TO SOCIETAL CHANGE. NEXT TO THE INCREASING DEMAND FROM CONSUMERS AND REGULATORS FOR MORE SUSTAINABLE ALTERNATIVES, THE GREEN TRANSITION IS AN OPPORTUNITY TO RETHINK THE WAY SOCIETY PRODUCES, SELLS, USES AND DISCARDS PRODUCTS. (DIGITAL TRANSFORMATION OPPORTUNITIES FOR RETAIL COMPANIES AND ITS ADVANTAGES FOR EUROPEAN CONSUMERS, 2021)
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INTRODUCTION TO THE DIGITAIL TRANSNATIONAL RESEARCH

The European retail sector is in the middle of a digital transformation. This was drastically accelerated by the COVID-19 pandemic. Numerous consumers had to buy their non-food products online because stores were closed. Food stores were often able to remain open, but were subject to tight restrictions, generating high costs because of the need to keep consumers and employees safe. Many retailers that did not previously have an online web shop had to start offering their products online to be able to reach customers again while in lockdown. Often, online marketplaces were the only way for SMEs to go online quickly and this is expected to increase in the near future.

At the same time, the green transition is an opportunity for retail, as it allows the sector to rethink business models, offer alternative products and support and nudge people in the direction of a more sustainable lifestyle. It is both responding and leading to societal change. Next to the increasing demand from consumers and regulators for more sustainable alternatives, the green transition is an opportunity to rethink the way society produces, sells, uses and discards products. (Digital transformation opportunities for retail companies and its advantages for European consumers, 2021)

In the past two years, retailers have gained a lot of experience in digitalization. This acceleration was significantly pushed by the Covid-19 pandemic, during which e-commerce and retail played an essential role for both the economy and society. These developments are reflected in this year's findings, which show that in 2021, total European e-commerce grew to €718bn with a growth rate of 13%. This is up from €633bn in 2020. In 2022, growth rates are forecast to continue their upward trend. However, we can notice that the growth is slightly stabilising, with an expected growth rate of 11% and a turnover of €797bn

The Commission's proposal consisted of four main topics:

- Capabilities
- Business,
- Public services,
- Infrastructures.

DIGITAIL presents a vision for Europe's digital transformation with specific targets and milestones to be achieved by 2030. (Europe's Digital Decade: digital targets for 2030 (European Commission) EU Member States recognize the need to strengthen, modernize and clarify the rules on digital services in order to:

- ensure the safety of online users,
- enable the growth of innovative digital companies.

The Commission proposes ambitious new rules to better regulate the digital space and digital services, in particular social media platforms. The main goals are: ensure that digital users have access to safe products and protect the fundamental rights of such users, and allow free and fair competition in digital sectors to drive innovation and growth. It is known to all that since March 2020 the global pandemic situation has completely changed the economy and the uses and customs of consumers. The pandemic has resulted in a rapid maturation of electronic commerce. During the worst months of contagion, consumers substantially increased the use of online purchases and companies have been forced to adapt to this new reality. Confinement and fear of face-to-face contact have led to a boost in the digitization of consumer channels and the increase in e-commerce. For a few months, specialists have warned of the acquisition of new consumer habits hand in hand with the increase in electronic commerce. The situation has changed from one day to the next. This includes what we buy, when and how. Linked to this adaptation, the profiles of these professionals require adaptation to new times. Therefore, the commercial profile, which until now has been required, has had to adapt and re-qualify to become a commercial profile more linked to digitization

Therefore, the aim of DIGITAIL project is to work to identify, describe and develop the Professional Profile that will be necessary to convert the commercial profile into of a digitized commercial profile with the aim of promoting the digitization of the retail sector.

This report presents the findings from this extensive research process undertaken by project partners in Spain, Slovenia, Portugal and The Netherlands. The full research report is available on the project website in all the partners countries languages.

AIMS OF THE EXPLORATIVE RESEARCH REPORT

This transnational report is a result of the first Project result of the DIGITAIL project and provide the main finding of the national forums and interviews made to the target group, responsible for the businesses of the retail sector in the 4 countries of the partnership.

With this report the partnership of the DIGITAIL project wanted to defines the Status quo of the companies of the retail sector related with the digitalization. Their challenges, difficulties and actual reality which they are facing.

Having a digital presence is becoming a matter of survival for many companies. Prior to the pandemic, 70% of retailers, especially micro businesses, had no e-commerce offering or online presence. Supporting SME digitalization will require dedicated support, technical advice and awareness of the various tools to facilitate such an online presence without the need to invest in an elaborate operation. For this reason the DIGITAIL PR1 aims to provide a contemporary business reality in EU from the companies point of view and give answers to the needs to face the new digitalization challenges.

The outcomes of this Transnational Research process implemented according to the guidelines have been summarised and collated by all partners and the findings from our collective research activities will inform the future development work of, namely:

1. PR2 – Digitail training program and training curriculum
2. PR3 –Handbook- "Digitalization of Retail sector - concepts, methods, practical application"

The DIGITAIL training program and training curriculum (PR2) will be the core output of the project and it will be a flexible modular course for the people of retail companies. The DIGITAIL training programme will be aimed at giving retail sector's companies responsables the necessary competences, knowledge and practical experiences to be able to digitalize them businesses and the Marketing strategies..

The Final Project Result (PR3) of the project will be a comprehensive handbook, extensive guideline for sector mangers, how digitalization processes in companies could be planned, implemented, evaluated etc. It is aimed to be a comprehensive reference book for retail company owners, HR staff, managers, KAMs etc. to support them in their tasks to plan and implement digitalization in their entity. The language used in the handbook is the one used and preferred by companies of the retail sector. Moreover, it is very important that the handbook refers to the standard activities and processes in companies and fully reflects the business realities. The final content and terminology during its development will be created building on the findings of this Explorative Research Report and recommendations of the target group shared during the Focus Group Sessions.

OVERVIEW OF THE EXPLORATIVE RESEARCH PROCESS: METHODOLOGY

The working research methodology implemented in each partner country comprised the hosting of two *focus group meetings* across the partner countries. The participants in the focus group sessions included people within companies that of the retail sector and included company owners. Some of the partners due some time and mobility restrictions, organized some focus group meetings online.

Why Focus Groups? Focus Groups are generally used to gather people's opinions, ideas, and beliefs on a certain topic or product. While surveys or questionnaires can be useful, they can not capture what a person is thinking or feeling. This is where a focus group will come into play. Responses in a focus group are open ended, broad, and qualitative. They provide more depth and get closer to what people are really thinking and feeling even though their responses may be harder or even impossible to record on a scale. The main purpose of focus group research is to draw upon respondents' attitudes, feelings, beliefs, experiences and reactions in a way where other methods are not applicable.

Questions identified by the partners were aimed at gaining a better understanding and knowledge of the Digitalization of retail sector in all the partner countries, what is the legislation framework of this process, what are the procedures and processes applied in the partner countries.

In addition, the partners also explored the current challenges faced by retail sector responsables in their companies; captured their situation in the digitalization process by an online questionnaire sent by the partners.

The finalisation of the exploration research process was decisive as partners were able to plan and design an effective training plan, by identifying the skills and attitudes expected from the retail sector's companies responsables, to improve the digilitazion skills and competences.

The data from both focus group sessions in each country were analysed and summarised by the project partners with the main findings provided in short Country Research Report which are also available on the project website.

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FINDINGS FROM EXPLORATIVE RESEARCH PROCESS

This transnational report was carried out by partners from Spain, Slovenia, Portugal and The Netherlands in May/June of 2022, with 1 facilitator from each country and representatives of the sector of different positions that took part in different Focus groups and data collection.

For the planification of the Focus Groups in the different countries, it is important to bear in mind the following 3 characteristics which govern this research methodology. These characteristics have been considered in the initial planning phase, as these are what set Focus Groups apart from other, more formal, research practices:

1. Selection of the participants
2. Facilitators
3. Environment

The attendees at the different Focus Groups were the following in the different countries of the partnership:

- In Spain: Representatives of the Retail Sector (32 companies engaged in the sectors targeted (food, Textile, ...) also a Retail Committee of the Chamber to validate and refine them. The commission is made up of 7 representative companies from the board of the Chamber and from the sector.
- In Portugal: Fifteen people from key areas of the retail sector in Portugal completed the survey and participants in the focus group are representants of the following companies:
 - Insurance company
 - Large company
 - Food distribution and specialised retail
 - HR Consultant
 - Retail, financial services, shopping centre management, software and information systems, media and telecommunications.
- In The Netherlands: 26 relevant stakeholders - retail companies' owners, entrepreneurs and coworkers from different areas of the retail sector completed the survey.
- In Slovenia: With the participation of 24 of companies that are involved in retail sector

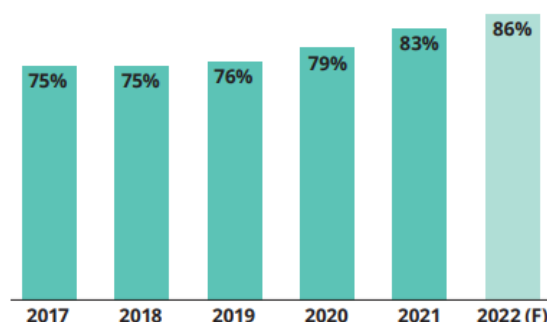
STATUS QUO

In order to find out what the situation and trends are in the different countries of the partnership of the retail's digitalization, the partners facilitated a Focus Group and online questionnaire depending on the situation and the availability of the organizations contacted.

PORTUGAL

Internet usage

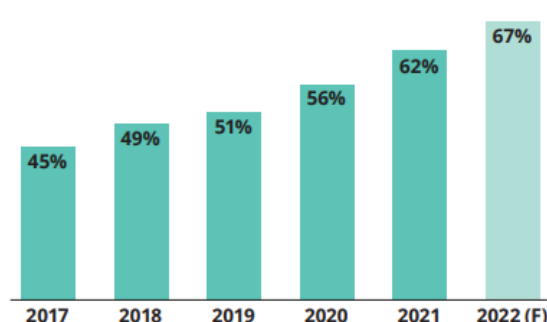
Percentage of the population accessing the internet



SOURCE: EUROSTAT

E-Shoppers

Percentage of internet users that bought goods or services online



SOURCE: EUROSTAT

According to Eurostat data, Portugal is still lagging behind the European average, since only 45% of people who used the Internet last year (79%) ordered online. The national steps in this quest are small, but it is certain that the transformation of retail is underway.

Status Quo (questions):

1. *Why do you think that is important to involve your company in a digitalization process?*
2. *Is there any training course that you have already participate on it, related with the digitalization process?*
3. *What supports, if any, do you receive from public administration to get your organization involve in this digitalization process?*

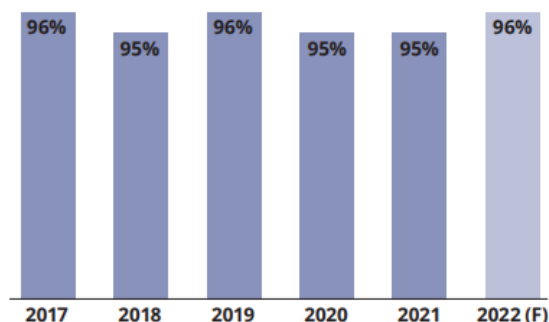
Regarding the questions related to the companies status quo, covering the digitalization process topic in retail companies' participants highlighted the following:

There are **different digitalization processes and levels of maturity** between companies and even within the same company. And this is much dictated by the different innovation process in course. A good example of that was brought by participant from MC Sonae, the retail leader in Portugal, mentioning the challenges experienced in two distinct fronts: i) digitalization processes addressing the company internal staff (internal processes) and ii) digitalization processes oriented to the customer (external processes). This question is a common issue faced by all the other companies, and the majority of the participants highlighted the need for a standard so that companies can be at the same pace. Participants also said that internal and external digitalization processes were much accelerated by the pandemic situation and the need of having, for example, workers in remote work, adapt the challenges and the demands of e-commerce and the also to respond to the new challenges of the new trends like "Phigital" and "Omnichannel". Even though being big players in the retail sector, much of the companies realised they weren't fully prepared to the abrupt changes caused by COVID 19, and all the challenges it brought to the relation between companies and their customers.

THE NETHERLANDS

Internet usage

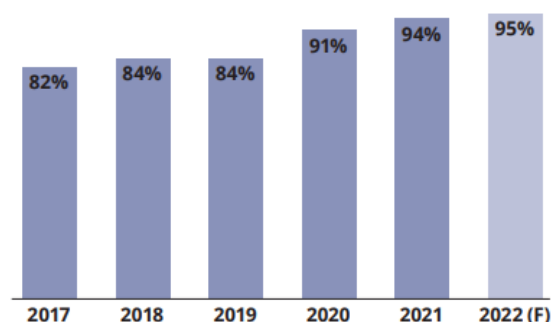
Percentage of the population accessing the internet



SOURCE: EUROSTAT

E-Shoppers

Percentage of internet users that bought goods or services online



SOURCE: EUROSTAT

The digital age presents opportunities for retailers to bring in greater levels of operational efficiency and customer centricity in their business models. Working digitally provides opportunities for retailers to acquire new customers, engage better with existing customers, reduce the cost of operations, and improve employee motivation along with various other benefits that have a positive influence from a revenue and margin perspective.

Retailers must prepare for a hybrid future, with consumers seeking the best of both worlds between physical and online shopping. Adopting emerging technologies will help them transform their value propositions in line with the three I's:

- Invisibility: Making consumer's lives easier through predictive and real-time operations, and pre-emptive ordering.
- Indispensability: Solving customer's needs through bundling products and services into personalized packages.
- Intimacy: Creating rich consumer experiences through unique digital and in-store support and advice based on a 360-degree view of a customer.

The right technology will be key to unlocking the full power of these value propositions — past approaches to technology implementation will no longer be enough. The pace and scale of the transformation that's now required — and the role that will be played by emerging technologies, where skills are at a premium — demand new approaches to solution and talent development. Success will require retailers to collaborate closely across their technology ecosystems, a significant break from the more transactional relationships of the past.

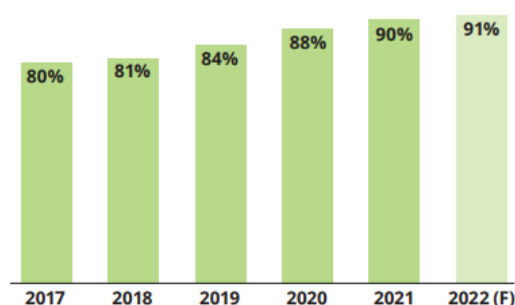
Across the globe, the COVID-19 pandemic disrupted supply chains and accelerated already rapidly shifting consumer behavior — made all the less predictable by ever-changing political rhetoric and government advice as the crisis unfolded. In the Netherlands, the combination of these factors has forced retailers to find salvation in digital technologies and there are various examples of technological collaborations and solutions that will improve vital business areas, such as supply chain and customer experience.

SLOVENIA

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Internet usage

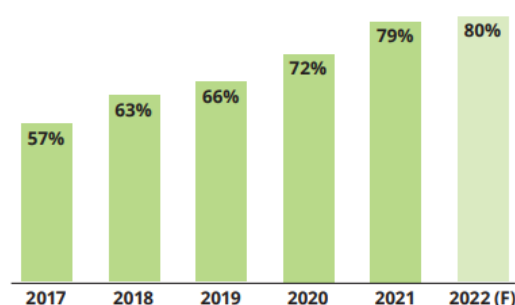
Percentage of the population accessing the internet



SOURCE: EUROSTAT

E-Shoppers

Percentage of internet users that bought goods or services online



SOURCE: EUROSTAT

Retail is one the most diversified economic sectors that range from small business to big conglomerate corporations that deal with specialized goods, wholesaling, or wide variety of products. Even though online shopping was pioneering concepts of digitalisation in the late 90s and early 2000s, most of the sector is still grasping the implantation of digital technologies and especially digital transformation that not only include usage of digital tools, but changing whole company structure from top to bottom, work processes, new services, communication between parties and connectivity in whole values chains from manufacturing of goods to end user.

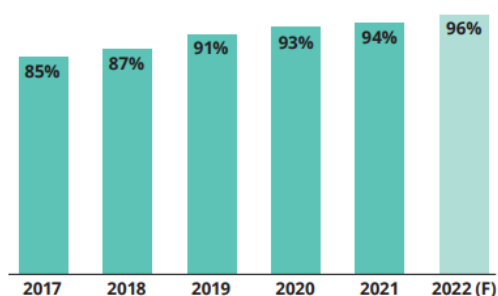
Even before COVID 19 pandemic there were signs of disruption in supply chains which are crucial for retail sector. Global pandemic additionally exacerbated ongoing problems in the sectors. Due to raising infections rates there was lack of needed workforce and costumers. Restrictions implemented by the national and European governments greatly affect how and when business could be conducted, which put many companies out of business.

Customers habits are constantly changing where more and more decided to rather purchase goods on-line, due to easier process of searching the desired produced and with less hassle than to visit physical stores.

SPAIN

Internet usage

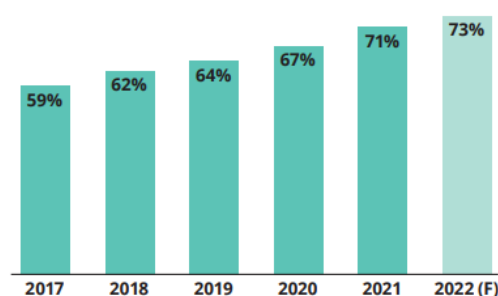
Percentage of the population accessing the internet



SOURCE: EUROSTAT

E-Shoppers

Percentage of internet users that bought goods or services online



SOURCE: EUROSTAT

The new technologies, in constant evolution, the political, cultural, social and economic changes that affect our societies, the modifications in the behaviour of consumers, the changes in urban mobility and in general in the ways of using the city, along with other factors, are having a disruptive impact on retail.

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The retail trade will respond to change by developing an integrated offer that will combine a physical store with a process of deep digitalization, not only in the sales channels.

In the past, retail could trust that most consumers make purchasing decisions based on one or a combination of these traditional value factors: product, price and convenience.

These traditional value drivers remain critical to making the sale. But, according to some studies 51% of consumers now base their purchasing decisions on other values: Safety, Social impact, Health & wellness, Transparency, Experience, Ethical issues, Sustainability.

Technological drivers: Internet of things (IoT) and sensors, RFID technologies, smart tagging , Smart checkout , RPA technologies, NLP technologies, Big Data Analytics, Artificial Intelligence, Chatbots, Mobile technology and wearable devices, Selling smart products, Checkout-less stores, APPs, etc.

In the years to come companies will digitalize or die. In the next 15 years 90% of Jobs will require DIGITAL SKILLS among others soft skills.

CHALLENGES

The rapid acceleration in the digitalization processes brought to all the companies major challenges:

How to reskill the staff? As this also implies different levels of knowledge and commitment from the collaborators. Which brings companies to other tasks

- **to identify the level and maturity of their collaborator digital skills (identify the existing digital skills).**
- **to identify and map the digital professional profile of the future (hoping to cover the current gaps)**

With the digitalization processes there are some jobs and tasks that will disappear, but there are other that will be created and more digital. And for that collaborators and workers need to be prepared

New and customized training needs and the skills of the digitalization process and in soft skills

Effective change of management strategies: the digitalisation to modify the supply chain, as well as the manner in which customer contact takes place and customer relationships are maintained.

Need of rapid change: Digital services variety, number, and opportunities are expanding exponentially, and many of them shape consumer preferences and change requirements to retail. The speed of technological development and changes in consumer behavior is constantly growing.

Lack of skills: Challenges for the companies include a lack of skill sets in cybersecurity, application architecture, software integrations, data analytics, and data migration. Companies sees as possible solution to combat this challenge by outsourcing this work to outside consultants and digital transformation experts.

Reskilling the staff, including reuse/repurpose, applied to the retention or the mentorship of workers that are considering leaving the company for new roles; thereby leveraging and developing their skill set.

FINDINGS TO INFORM THE DEVELOPMENT RECOMMENDATIONS

Further recommendation and suggestions of the participants related to the improvement of the digitalization in the retail sector:

1. Internal customer satisfaction enhances service quality, so digitalisation must take into account not only the needs of consumers but also those of the internal customer
2. It is necessary to take into account not only the aversion to change on the part of workers, but also on the part of trainers. To overcome this, it is necessary to include them in the process of identifying the benefits and challenges of digitalisation processes
3. It is essential to provide workers with the means to use IT (hardware, software and training)
4. Training of workers must be specific and geared to the work performed
5. Solving problems in the digitalisation process in a comprehensive and practical way requires the involvement of workers
6. Carry out an awareness campaign among VET providers and companies in the retail sector on the need to adopt digitalisation processes
7. Putting the focus on soft skills development as a means to keep updated in the digitalization process
8. **Customer engagement** is at the heart of everything the retail industry does, and businesses depend upon a satisfied customer base to increase their bottom line
9. The digitalisation of retail should focus on a narrative that provides **customizable and flexible proposition**, including product and marketing.
10. Investing in technologies.
11. Implementing **customised training** of both technological and soft skills development needed for the digitalization process.
12. Implementation of digital marketing strategies to reach as many new potential customers as possible
13. Collecting and analysis of customers habits data to improve overall user experience and help companies adapt according to the constant changes
14. Development of new digital services around existing goods that will improve customer experience and provide new stream of revenue for the businesses.

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15. There needs to be a comprehensive learning plan and process of existing workers to constantly improve their digital competencies according to company's digital strategy.

CONCLUSION

Retailers now are under pressure not to remain mired in the existing state of multi- or omnichannel distribution. The lesson both from the past and the evolution theory is that the sole option is transform or die.

Digitization is the driving force behind growth in the retail evolution. Since the turn of the millennium, digitization (technology and data) has substantially impacted the retail business.

New customer behavior and requirements are boosting a growing demand for individuality and personalization, sustainability and traceability as well as faster and more diverse delivery options.

Transformation is a major challenge in the retail business. Other than in nature, retailers can choose their own path and not stand idly by as the evolution gathers pace. They must be aware of their core strengths and the services they offer to customers.

Many retailers must catch up with decades of digital evolution. With a technological backbone often dating back to the 90s, their infrastructure is often not ripe for digitization of their DNA. In such cases, transformation will necessitate an extensive and disruptive greenfield approach.

As retailers rarely possess inherent transformative abilities, their digital transformation requires competent partners. They need partners that can orchestrate and impart the new (digital) skills to others. The new world is an open ecosystem – so demolish your internal and external silos and create a new winning team.