Top 5 Business Trends in Retail Merchandising for the 2020s

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By Analysts Robert Hetu

Initiatives: Retail Digital Transformation and Innovation

This research highlights the transformational business trends that will shape the future of merchandising. Retail CIOs can use this research to execute elemental changes in merchandising to meet customer expectations in digital business transformation.

Overview

Opportunities

- Transform merchandising from a product-centric to a customer-centric process that will support consumers’ changing requirements.
- Leverage automation and artificial intelligence (AI) to reach unprecedented levels of insight regarding specificity in merchandise planning and execution.
- Embrace new business models, such as recommerce, by integrating them into the upstream planning processes.

Recommendations

CIOs responsible for retail digital transformation and innovation should:

- Work with the CMO, chief customer officer (CCO) and merchandising leaders to infuse customer behavioral analytics as part of a coordinated approach to build planning segments that are aligned with and support business growth through balanced product selections and customer offers.
- Secure a slot on the regular executive management team meeting to present the business case on how the implementation of algorithmic retailing can unleash the power of AI and automation to achieve profitable growth.
- Set up a working group with the CMO, CCO, COO and the chief information security officer (CISO) to conduct a strategic review. The goal is to identify the impact of major shifts in customer demand, change in sales mix, emerging business models as well as fulfillment processes that are increasingly becoming business as usual.
Strategic Planning Assumption

By 2023, e-commerce will cease to be a differentiator in the retail marketplace.

What You Need to Know

Retail merchandising is on the precipice of the most dramatic changes seen in decades. Touchpoint expansion, shifting consumer tastes, and expanding fulfillment models require precise planning and execution for every inventory location. The change is both complex and monumental. Merchandising must transform from product-centric to customer-centric processes by incorporating changing customer expectations into product and service decisions. This will require increasing levels of automation and machine intelligence to augment human merchandising processes. This transformation aligns with the analytics journey from descriptive, through diagnostic and predictive analytics, leading to prescriptive approaches (see Figure 1).

**Figure 1: The Journey From Descriptive to Prescriptive Analytics**

Over the next several years, the future of merchandising will be defined by specific business and technology trends. These trends encompass dramatic shifts in consumer behavior and well as
technology advancements, each transforming the path. Figure 2 lists the top 10 business and technology trends that will drive the future of merchandising. This research covers the five business trends, while the *Top 5 Technology Trends in Retail Merchandising for the 2020s* are covered in separate research.

**Figure 2: 10 Business and Technology Trends for Merchandising**

### 10 Business and Technology Trends for Merchandising

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*Source: Gartner 745461_C*

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**Trend 1: Merchandising and Marketing Play Team Ball Across Touchpoints**

*Analysis by Robert Hetu*

**Description:**

Shifts in consumer expectations require new approaches that think beyond the “four walls” of the retail store. This requires a departure from the traditional split in operating structure, where merchandising drives procurement of inventory and pricing while marketing manages the messaging, communication
and advertising to consumers. As customers increasingly expect personalized experiences, recommendations and offers, marketing and merchandising must work as a left and right hand to mold the retail experience. Each customer behavioral segment, and each customer, must find that the totality of the retail experience is consistent, brand right and delivers value.

Why Trending:

New and expanded touchpoints are driving customer interactions that follow diverse paths to purchase:

- E-commerce
- Social commerce
- Live commerce
- Conversational commerce
- Recommerce
- Marketplaces
- Showrooms
- Subscription services

Implications:

Customers will experience difficult or unpleasant experiences when retailers fail to live up to marketing messages around availability, offers and prices. These are often exacerbated by silos that also exist between digital and store support teams. For example, to help facilitate change, U.S. retailer Target has created a new C-suite role of chief growth officer (CGO) to position the company for growth. This new position will oversee all merchandising as well as oversight of Target’s product design and global sourcing organizations, enterprise strategy, insights and innovation. The CGO will work across Target’s organization to identify and pursue revenue-generating strategies that deepen the company’s relevancy with current and prospective guests. ¹

Actions:

- Work with the chief marketing office and the chief commercial officer to break down the existing organizational barriers, with the aim of eventually merging digital and physical retail merchandising and marketing teams through colocation of workers and streamlined management.
- Direct your merchandising domain enterprise architect to work with marketing to design and modify workflows in collaborative platforms to make it easier and simpler for merchandising and marketing teams to collaborate more effectively.
Charge your merchandising application architect(s) to work with merchandisers and marketers to develop a merchandising application strategy that is modular, composable and resilient. Composability will require development of merchandise-specific packaged business capabilities (PCBs), which are encapsulated software components that represent a well-defined business capability, recognizable as such by the merchandisers.

Further Reading:

Top 5 Technology Trends in Retail Merchandising for the 2020s

Use Gartner’s Reference Model to Deliver Intelligent Composable Business Applications

Predicts 2019: Delivering Contextualized Customer Experiences Will Be Key for Unified Retail Commerce Success

Trend 2: Store Assortments Get Specifically Aligned With Customers

Analysis by Robert Hetu

SPA:

By 2024, Tier 1 retailers in North America and Europe will reduce inventory-carrying costs by 30%, dramatically improving free cash flow for digital investment while revamping balance sheets.

Description:

Every physical location is, to some degree, unique when it comes to its particular cohort of customer choices and behaviors. As the store must support traditional, in-person shopping as well as fulfill requirements coming through digital channels, in-store product assortments must support every customer interaction.

Why Trending:

In the wake of the COVID-19 pandemic, as well as adjusting store count, retailers are increasingly testing new store concepts, environments, sizes and displays. Growth of in-store fulfillment for demand through digital channels is further impacting the role of assortment planning. In segments with high in-store fulfillment demand, such as grocery and consumables, retailers are implementing microfulfillment centers to automate for efficiency.

Implications:

Past experiences may lead to the conclusion that additional points of distribution necessitate increasing overall inventory-carrying costs. However, technology and efficiency must be leveraged to better utilize
inventory throughout the supply chain. Estimates indicate that dead inventory (that is, inventory of products no longer part of the desired assortment) is costing the U.S. retail industry as much as $50 billion a year. Retailers cannot afford to invest in more inventory; however, they must still ensure adequate on-shelf availability. Assortment planning processes still rely heavily on outdated manual and Excel-based processes that cannot support the level of detailed analysis and differentiation by location.

Tractor Supply Co., the largest operator of rural lifestyle retail stores in the U.S., is implementing a store and channel-clustering initiative that will help it optimize inventory at the store, category, and SKU level across its 1,900-plus fleet. It’s implementing new channel-clustering and assortment optimization tools from Blue Yonder that incorporate a variety of data sources, combining them with overall merchant product strategies to generate product recommendations.

Actions:

- Direct your merchandising application architect(s) to work with the merchandising and store business analyst(s) to:
  - List merchandise planning, allocation and replenishment applications with embedded analytic capabilities, with a view to providing these solutions for business users.
  - Include diverse in-store fulfillment models when building assortment plans and planograms to drive down the potential risk of safety stock or overbuying, and limit exposure to dead inventory.
  - Evaluate investments in store technologies (such as smart shelves and computer vision) to improve real-time visibility of on-shelf store inventory and enable more accurate, store-specific assortment planning processes.

Further Reading:

- Top 5 Technology Trends in Retail Merchandising for the 2020s
- Market Guide for Retail Assortment Optimization Applications in Merchandising
- Market Guide for Retail Assortment Management Applications: Short Life Cycle Products
- Predicts 2020: Consumers Determine Retail Success Well Before the Sale

Trend 3: Consumers Affirm Their Values Through Shopping

*Analysis by Robert Hetu, Mim Burt*

Description:
People are reevaluating and reprioritizing their purchases in line with a steady move away from pure consumerism and toward values-based, purpose-driven spending. Merchandising processes must evaluate all elements of procurement, including the production, sourcing, packaging and distribution of products to ensure that the business meets the values-driven objectives of their customers.

Why Trending:

In Gartner's 2019 Retail Customer Expectations Survey, consumers in the U.S. (27%) and U.K. (29%) ranked "be authentic by being honest and genuine" as fifth in response to a question about the top five basic expectations that would define a good shopping experience. This means they expect retailers to act with honesty, integrity and transparency, delivering products, services and experiences based on consumers' values. The coronavirus pandemic has accelerated this trend. We highlight some of these aspects in our 2020 Retail Scenarios research (see Further Reading section below), which focuses on how changing societal values impact consumerism, purchase behavior and resulting expectations of retail execution.

It's important to note that values-driven purchasing behavior related to sustainability is at an inflection point and signals considerable opportunity for retailers. In the 2019 Gartner Consumer Values and Lifestyle Survey, 61% of consumers in Europe and 59% of consumers in the U.S. voted for sustainability with their wallets by doing one or more of the following:

- Checked packaging labels to ensure that the product or service had positive social or environmental impact.
- Purchased from companies committed to positive social or environmental impact.
- Stopped buying from brands that made false claims about their social or environmental impact.
- Purchased from a company because it cared about the issues the consumer cared about.
- Paid extra for products or services from companies committed to positive social or environmental impact.

Implications:

This trend has wide-ranging implications for merchandising. For example, sustainable production may require sourcing from alternative suppliers with particular focus on staying loyal to "local." Some industry segments, such as apparel, have significant challenges. Fast-fashion companies contribute to 10% of humanity’s overall carbon emissions, according to a recent Business Insider report. Challenges such as this can impact the cost structure and planning horizon for product availability, and have a direct impact on pricing and profitability. One area of impact will be how products are packaged for sale, leveraging sustainable, recyclable packaging versus plastic.

Actions:
Dedicate a “mandatory attendance” briefing session to help everyone in your department to understand your corporate sustainability standards, including how to approach the redesign of downstream processes to support the goals and intents of the same.

Collaborate with product development, marketing and merchandising leaders to enable consumers to easily discover sustainable product features in digital and physical sales environments.

Work with marketing and merchandising to highlight sustainability initiatives in marketing messaging in a transparent manner.

Further Reading:

Top 5 Technology Trends in Retail Merchandising for the 2020s
Top Trends in Retail Digital Transformation and Innovation for 2021
The New Retail Scenarios: Digital Acceleration and Consumer Behavior Change the Mission

Trend 4: Recommerce Models Impact Business Results

Analysis by Robert Hetu, Max Hammond

SPA:

By 2025, at least four of the top 10 global nonfood retailers will establish a recommerce program as part of their global targets for zero carbon and sustainability.

Description:

“Recommerce,” or reverse commerce, is the selling of previously owned products. Ecological awareness is moving to action, growing the popularity of reuse. Many consumers are basing purchase decisions on a retailer’s specific sustainability efforts for both new and previously owned products.

Why Trending:

While millennials and Gen Z are known for their propensity for sustainable practices, all generations of consumers are placing a priority on sustainability. According to Nielsen, a leading global provider of information and insight into what consumers watch and buy, 73% of global consumers surveyed would definitely or probably change a behavior to reduce their impact on the planet. Consumers around the globe have become more deliberate in rewarding retailers with sustainability initiatives that align with their own.
The sharing economy mindset is well-adopted in hospitality and transportation through services like Airbnb, Uber and Lyft. Awareness is also fueling the growth of recommerce in many retail segments. The practice of using or buying previously owned goods has become in vogue, especially for apparel. Furthermore, for segments like luxury and specialty goods, recommerce creates an easier introduction to the brand by offering expensive or rarely used items, like sports equipment, at a much lower cost.

Implications:

Recommerce will cannibalize sales from new products and add complexity to existing retail functions like merchandise planning, pricing (including promotion and markdown strategies) and allocation of preowned merchandise. In some cases, retailers will embrace recommerce, choosing to own their destiny by making it an active sales channel, to retain wallet share of consumers. For example:

- Patagonia Wornwear accepts used Patagonia clothing that functions perfectly and is in good condition. When submitting used gear, it gives credit toward purchases in Patagonia retail stores, on Wornwear.com and Patagonia.com.

- IKEA is opening a secondhand store in Sweden selling IKEA furniture and home furnishings that have been damaged and repaired, conveniently located in the world’s first secondhand shopping center. The initiative is part of IKEA’s efforts to become a fully circular business by 2030.  

Most retailers will face growing competition from large recommerce platforms, with whom they may choose to partner with as part of their growing ecosystem. Recommerce platforms include firms like Poshmark that operate as a platform that does not ever take ownership of inventory. It does so by connecting sellers with buyers of exclusive products. The RealReal operates as a consignment platform for Gucci, and now is in partnership with the brand. thredUP gathers used clothing from consumers, processing and repackaging for consignment. thredUP estimates it has saved 1 billion pounds of CO2 emissions, 2 billion kWh of energy and 4.4 billion gallons of water by helping consumers buy and sell secondhand.  

Retailers must manage the risk of cannibalizing new goods in competing categories, especially those that might have higher margins. Strong digital capabilities for e-commerce will be needed to reach a wider audience, as well as high-accuracy inventory management capabilities since the products will be in much smaller quantities, even at an individual item level, than traditional product collections.

Recommerce will cause significant changes in supply chain operations. Retailers will need to create new capabilities for sourcing products as well as a means for inbound shipping from noncorporate entities. Lastly, especially in the luxury space, technology to validate and authenticate goods will be required prior to receipt and resale.

Actions:
Direct a team made up of, at least, an enterprise architect and business and data analyst who are well-versed in unified commerce execution processes — including supply chain. The team will design recommerce processes and data flows to assist merchandising to categorize and track sales and inventory from recommerce channels.

Mandate incorporation of recommerce data into the merchandise forecasting, assortment planning, financial planning and allocation solutions.

Further Reading:

The New Retail Scenarios: Digital Acceleration and Consumer Behavior Change the Mission

Predicts 2019: Delivering Contextualized Customer Experiences Will Be Key for Unified Retail Commerce Success

Supply Chain Brief: Three Steps to Identify and Communicate Sustainability Values to Customers

Trend 5: Diverse Fulfillment and Subscription Models Change Merchandise Mix

Analysis by Robert Hetu

Description:

As retailers expand fulfillment options and capability to service customer demand, changes are required in order for the in-store merchandise assortment to support many permutations and combinations of ordering and fulfillment models as well as changes in sales mix.

Why Trending:

E-commerce is estimated to have reached 19.6% penetration in 2020 after growing 32.4% year over year. While the pandemic played the role of catalyst, there is no indication that consumers will fully retreat as life enters a new normal. Click and collect has become a widely deployed capability, as has in-store fulfillment of e-commerce orders. Newly developing models include subscription services, home delivery from local stores, and microfulfillment facilities collocated in traditional store formats are further complicating assortment planning and inventory management.

Implications:

Expanded fulfillment schemes carry the risk of disappointing customers, and therefore increase the risk of overinvestment in inventory as safety stock. Microfulfillment centers will carry additional inventory of items that are displayed on the selling floor, further complicating the inventory dilemma. According to a recent article, “Year 2022 will be the cornerstone for the microfulfillment market, touching a billion-dollar mark and setting the base for the future. It is expected that there will be one microfulfillment center for
every 10th of U.S. total 40,000 grocery stores by 2030.” In fact, Walmart recently announced plans to add microfulfillment centers to dozens of stores in 2021. Similarly, Best Buy recently announced expansion of its multiuse store formats that would take almost half of existing floor space to support in-store e-commerce execution in local markets.

As subscriptions and e-commerce home delivery expand for basic, repeat purchase items — for example, paper products, health and beauty aids — required selling floor display space will be reduced. This will require reconfiguration of stores, macrospace analysis and a careful balance to ensure the proper mix of products is retained for sale. Removal of some categories is possible, and since some of these basic categories provide required foot traffic, alternative in-store services and design will be required to ensure the store is a destination for consumers.

**Actions:**

- Direct your in-store enterprise and application architects to work together to:
  - Find out how Internet of Things (IoT) and edge computing technologies can be leveraged to learn about customer behavior in store, to identify new foot traffic patterns as well as shopping behavior, such as shelf dwell times.
  - Develop new key item identification strategies to ensure in-store basket size retention.
  - Consider all demand which will be managed by the store for assortment planning, including in-store microfulfillment processes.
  - Leverage intelligent virtual store design to effect macrospace changes that support new store traffic patterns.

**Further Reading:**

- Top 5 Technology Trends in Retail Merchandising for the 2020s
- Market Guide for Retail Assortment Optimization Applications in Merchandising
- Market Guide for Retail Assortment Management Applications: Short Life Cycle Products
- Market Guide for Advanced Retail Space Management Applications

**Evidence**

2021 Gartner CIO Survey
This survey was conducted online from 14 July 2020 through 14 August 2020 among Gartner Executive Program members and other CIOs. Qualified respondents are each the most senior IT leader (CIO) for their overall organization or a part of their organization (for example, a business unit or region). The total sample is 1,877, with representation from all geographies and industry sectors (public and private), including 76 from the retail industry.

The survey was developed collaboratively by a team of Gartner analysts, and was reviewed, tested and administered by Gartner's Research Data and Analytics team.

Disclaimer: Results do not represent “global” findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

2019 Gartner Retail Customer Expectation Survey

This survey was conducted online between September and October 2019, with 2,006 respondents in the U.S. and the U.K. Respondents ranged from 18 to 74 years in age, with quotas and weights applied within each country for gender, age, region and household income.

Disclaimer: Results of this study do not represent “global” findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

1 Target Shuffles C-Suite for Future Growth, Retail Leader.

2 Tractor Supply Seizing on Soaring Sales With Store Clustering & Remodel Initiatives, RIS News.

3 The Fashion Industry Emits More Carbon Than International Flights and Maritime Shipping Combined. Here Are the Biggest Ways It Impacts the Planet, Business Insider.

4 A 'Natural' Rise in Sustainability Around the World, Nielsen.

5 IKEA Is Opening a Secondhand Store in Sweden, House Beautiful.

6 ThredUp vs. Poshmark vs. RealReal on Wall Street, Yahoo Finance.

7 Pandemic Causes U.S. E-Commerce to Surge North of 32% in Q4, Digital Commerce 360.

8 Study: Market for Micro-Fulfillment Centers to Reach $10B by 2026, Supply & Demand Chain Executive.

9 Walmart Will Add Automated Micro-Fulfillment to Dozens of Stores, Grocery Dive.

10 Best Buy Tests Smaller Shopping Areas to Focus on E-Commerce, BNN Bloomberg.
Acronym Key and Glossary Terms

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<td>Algorithmic business</td>
<td>The “enablement of business value through the action of algorithms on data” and regards algorithms themselves as a way to encapsulate and produce intellectual property, knowledge and insight in a reusable form. Algorithms are defined as a set of rules for solving a problem in a finite number of steps, such as for finding the greatest common divisor.</td>
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<tr>
<td>Algorithmic merchandising</td>
<td>Leveraging big data, advanced analytics and algorithms to make large and small merchandising decisions with greater accuracy and precision.</td>
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<tr>
<td>Algorithmic retailing</td>
<td>The application of big data through advanced analytics across an increasingly complex and detailed multichannel retail structure to provide for customer expectations that are driven higher by consumerization of retail.</td>
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<td>Composable business</td>
<td>A composable business is an organization that delivers business outcomes and adapts to the pace of business change through the assembly and combination of packaged business capabilities.</td>
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Recommended by the Author

Hype Cycle for Retail Technologies, 2020
Top Trends in Retail Digital Transformation and Innovation for 2021
Retail Digital Transformation and Innovation Primer for 2021