

COVID-19 has changed the future of retail: there's plenty more automation in store

June 24 2020, by Gary Mortimer, Jana Bowden, Jason Pallant, Louise Grimmer and Martin Grimmer



Credit: AI-generated image ([disclaimer](#))

Australian supermarket giant Woolworths has announced its [single biggest investment](#) in logistics infrastructure, spending A\$780 million to replace up to 1,300 workers with robots.

It plans to build one semi-automated and one fully automated distribution centre in south-west Sydney. About [650 jobs](#) will be created at the new centres, to open in 2024. Three existing centres (two in Sydney, one in Melbourne) will close as a result.

Woolworths' chief supply chain officer, Paul Graham, emphasised [the safety benefits](#) of automation: "Cutting-edge automation will build tailored pallets for specific aisles in individual stores—helping us improve on-shelf product availability with faster restocking, reducing congestion in stores, and enabling a safer work environment for our teams with less manual handling."

In these COVID-conscious times that's the obvious spin.

But it's true this is a response to the changes being wrought on the [retail sector](#) by COVID-19.

The principal change is a matter of pace. COVID-19 has turbocharged the shift to online shopping. Even as social-distancing rules ease, this trend will consolidate. Many bricks-and-mortar shops are in trouble, particularly those in shopping centres.

Retail will also be shaped by how COVID-19 has changed our shopping behaviour, with thrift and value being important.

Shopping online is the new norm

In April, 5.2 million Australians shopped online, according to Australia Post's [2020 eCommerce Industry Report](#). The Australian Bureau of Statistics estimates those sales were worth A\$2.7 billion, [11.1% of all physical retail sales](#), compared with 7.1% in March 2019.

This [sharp hike in demand](#) exposed weaknesses in retailers' [online](#)

[capabilities](#). For example, crushing online demand meant both Woolworths and major rival Coles temporarily [suspended](#) their online shopping services.

More automated fulfilment centres are part of meeting these online demands. Of course, such investments were already on the radar.

In March 2019, Coles announced [an exclusive deal](#) to use the "end-to-end online grocery shopping solution" developed by Ocado, a British online supermarket chain that has no stores, only warehouses. Its technology spans the online shopping experience, automated fulfilment and home delivery.

The Coles plan included two new "highly automated" customer fulfilment centres in Melbourne and Sydney, to be ready in 2023. Coles also announced plans for two new automated distribution centres in Queensland and NSW, costing A\$700 million, [in October 2018](#).

Woolworths itself has already opened the Melbourne South Regional Distribution Centre, whose automated features are hyped in the following promotional video.

So these latest moves are part of a trend, albeit one unexpectedly accelerated by COVID-19. And once consumers try new channels, [studies](#) show, they are likely [to stick with them](#).

The future is dark

At the other end of the supply chain, the shift to online shopping has created demand for "[dark stores](#)"—essentially, stores without customers. These smaller, decentralised facilities, located in suburbs rather than industrial parks, are designed to pick and dispatch online orders quickly.

Woolworths opened its first dark [store in Sydney in 2014](#). [Coles](#) opened its first in Melbourne in 2016. Existing stores are also being repurposed as dark stores. In April 2020, Australia's Kmart temporarily converted three stores to use [as fulfilment centres](#).

Such moves may become permanent, as shoppers demand faster delivery times and physical store assets become less viable as "traditional" retail businesses.

Existing stores are also being adapted to respond to customer demands for faster, more efficient online shopping. In January 2020, Woolworths began building its first "[eStore](#)"—an automated facility adjoining its supermarket in Carrum Downs, Melbourne.

Fewer, smaller stores

As online shopping increasingly provides greater revenue streams for retailers, more physical store closures are also on the cards.

In May, Kmart's owner, Wesfarmers, announced it would shut 75 of its Target stores (and convert the rest to Kmart stores). Also looking to downsize are Australian department store icons [Myer](#) and David Jones, which have accelerated their plans to reduce floor space [20% by 2025](#).

Footwear giant Accent Group—which owns more than a dozen shoe brands and has more than 500 stores in Australia and New Zealand—is planning to close [28 stores](#) and focus more on online sales.

As online revenues grow, expect more "right-sizing" and closures.

Repurposing shopping centres

All these closures will add to the woes of shopping centres.

Though crowds reportedly [surged](#) back to centres when "lockdown" restrictions were eased, growing awareness that the pandemic is not over and social distancing protocols continue to create consumer anxiety.

Until people feel safe shopping, dining and gathering in crowded public places, [consumer aversion](#) will remain.

In response to these COVID-conscious times, shopping centres will endeavour to enhance those aspects of the shopping experience, such as sensory elements and entertainment, which the online [shopping](#) experience can't provide.

The retail mix will change: fewer fashion and general merchandise shops, and more services such as medical centres, offices and childcare centres.

Opportunities for smaller retailers

One bright spot may be for local and independent shops.

Smaller retailers can often adapt faster than larger ones. Smaller community pharmacies, for example, implemented social distancing and hygiene measures more easily than larger retailers, due mainly to their smaller size and having less traffic.

There are opportunities to leverage shoppers' desire to [support](#) local shopkeepers, producers and growers. Locally made goods and services are also less likely to have long supply chains that will impede overseas deliveries while COVID-19 is uncontained.

But they'll still need to sort out their [online shopping](#) experience.

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Provided by The Conversation

Citation: COVID-19 has changed the future of retail: there's plenty more automation in store (2020, June 24) retrieved 16 April 2024 from <https://techxplore.com/news/2020-06-covid-future-retail-plenty-automation.html>

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