Whitepaper

THE PERFECT CUSTOMER RELATIONSHIP

How fashion stores leverage Internet of Things (IoT) technologies to put the customer in focus of all activities

Authors: Dr. Michael Goller, Iris Hofer
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Preface

We’ve heard it many times: “The customer is king”. But in the age of omni-channel retailing, customers crown themselves king. They have developed a new understanding and have significantly changed their shopping behaviour - a fact that retailers have to adapt to. In the fashion retail industry, the new and demanding customer expects digital interaction in the store and wants to experience the brand in a variety of ways. In this new, self-chosen role, customers expect to be the “protagonist”, “brand ambassador”, “partner” and “creator of the future” – all at the same time. Retailers who adapt to these circumstances gain competitive advantage and bring the store back to its traditional strength: The place of great shopping experience, where customers receive individual and highly-competent sales advice. What fashion retailers need to do in order to “connect” with the customer: This is what this whitepaper is all about.
### Executive Summary

Why should fashion retailers deal with the big topic of Internet of Things (IoT)? What is in it for them? Which problems does IoT solve in the store? And does it pay off? Which results can be expected?

Brick-and-mortar retailers know their challenges only too well: While online retail grows, traditional retail stagnates. However, brick-and-mortar retail building a new customer relationship could score even more compared to online retail.

In reality, this potential is often left untapped. This whitepaper compiles relevant insights for decision-makers and sheds light on the triangle between customer, processes and new technologies with regard to the benefits for fashion retailers and ultimately for customers.

This document lays out the formula for the perfect customer relationship considering the customer in four roles: 1. The customer as main protagonist, 2. The customer as brand ambassador, 3. The customer as partner and 4. The customer as the creator of the future. Based on this understanding of customer-roles, it shows how fashion retailers have to adapt their stores to this customer – in terms of in-store processes, use of intelligent technologies and digital support of their sales personnel.

If you want to understand your customers and engage them with new services that other retailers do not offer, if you aim for sales enablement through increased product availability, exact inventories and optimum customer flows, if you want to interact with customers and want to achieve operational excellence within your stores in order to turn your customers into loyal and happy ones – you just cannot get around IoT anymore.1

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2. **Reinventing Retail, 2017 Retail Vision Study**, Zebra: “70% of retail decision makers globally are ready to adopt the Internet of Things to improve customer experiences.” P2
The way to a perfect Customer Relationship

Fashion retailers undergo massive change processes to meet the expectations of their omni-channel customers. Satisfying customers and their high level of expectations requires the right technologies and corresponding processes.

But what is the formula for a perfect customer relationship?

- **Sales personnel**: well-staffed and digitally supported
- **Inventory**: never-out-of-stock, increased availability and unparalleled accuracy for inventory information
- **Shopping experience**: digital and consistent across all channels
- **Interaction**: with the brand over different touchpoints
- **Omnichannel**: reliable and convenient services for the customer

Offering all these success parameters leads to satisfied customers - and consequently ensures the success for retail brands. When the customer stays loyal to the brand across all channels - that's what we call a perfect customer relationship.

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### The quest for more accuracy in a more complicated environment

#### Top Three Operational Challenges You See The Internet Of Things Being Able To Address

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Inventory accuracy</td>
<td>55%</td>
</tr>
<tr>
<td>Speed of fulfillment to meet consumer demand</td>
<td>37%</td>
</tr>
<tr>
<td>Connecting consumers’ online and offline activities</td>
<td>37%</td>
</tr>
<tr>
<td>Visibility into in-store customer service activities / performance</td>
<td>32%</td>
</tr>
<tr>
<td>Inventory visibility</td>
<td>30%</td>
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<tr>
<td>Visibility into customers’ digital shopping behaviours</td>
<td>25%</td>
</tr>
<tr>
<td>Inventory availability for omni-channel demand</td>
<td>25%</td>
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<tr>
<td>Visibility into customers’ physical shopping behaviours</td>
<td>24%</td>
</tr>
<tr>
<td>Visibility into employee in-store activity performance</td>
<td>18%</td>
</tr>
<tr>
<td>Equipment outages and repair</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: RSR Research, September 2017

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*3. Reinventing Retail, 2017 Retail Vision Study, Zebra* 78% of retailers say it is important or business-critical to integrate e-commerce and in-store experiences, so an omni-channel experience is delivered to every customer. P.16

*4. The Internet of Things: Identifying REAL Benefits, Benchmark Report, Brian Kilcourse and Paula Rosenblum, Retail Systems Research, 2017, P.4*

“Customer engagement is a plus, but the crying need as evidenced in study after study is keeping inventory accurate and visible in an Omnichannel world.” P.4
Self-services in the Store: 
**The customer as protagonist**

Enable your customers to engage with your store and brand.

Consumers are connected to the outside world over their smartphones 24/7 and expect reliable and accurate information on article availability in stores and in the webshop via “self-service” inquiry options. Of course, the query should also consider wholesale and franchise stores – as the difference between them and brand-owned stores is rarely transparent to consumers, nor do they really want to deal with it.

If the desired article is found in any of the locations, retailers should provide an offer for different delivery options, e.g. reservation in a store (click & reserve), delivery from a distant to a nearer store or even directly to the customers’ home (ship-from-store).

In addition, the perfect service should also contain means to exchange or return articles purchased online in every store, including concession and franchise locations (return-to-store).

The required base for that is highly accurate stock information - no matter on which sales location.

**Digital communication in the store**

The interaction with the consumer includes communication with sales personnel via wearable-devices. Chat, support and styling tips work the same way in the store as they do in the webshop but on the next and more personal level.

Digitally displaying further information on an article can also be implemented on the sales floor using interactive info screens. These touchscreen solutions use RFID readers to identify the articles that the customer is interested in and provide further information and recommendations. Waiting times for individual service can thereby be shortened – an elegant way for customer self-service.

The Smart Fitting Room, interactive info screens or mobile devices used by the sales personnel take consumer engagement to the next level and provide an experience that today’s consumers expect.

**Smart Fitting Room as a win-win-concept for retailers and consumers**

The fitting room is one of the most important areas in the store. Traditionally, it is where buying decisions are made. Therefore, the fashion retail industry needs to pay special attention to its digitalisation, since there is a lot of untapped potential. The Smart Fitting Room is an IoT-based concept that provides benefits for both consumers and retailers.

A consumer enters the fitting room with – let’s say – three articles to try-on. The Smart Fitting Room identifies the items and provides additional information. The consumer can easily access availability information on all sizes and variants of the articles or recommended matching products. The fitting room displays videos of fashion shows to excite and inspire or provides manufacturing information to highlight that the brand is focused on sustainable textile production. A search function allows customers to browse through the full product range.

These powerful moments of virtual interaction with the brand are supplemented by a “call-for-assistance” service. This enables customers to order a particular article directly into the fitting room – without the need of actually leaving it as the sales personnel are promptly notified via their mobile devices. The hassle of the traditional fitting room experience is thereby transformed into a pleasing and inspiring moment – with positive impact on conversion rates and consumer satisfaction.

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Having an accurate, up-to-date view of inventory makes effective interaction with consumers possible and allows you to create an entirely new customer experience in the store.

Exclusive and innovative

The Smart Fitting Room activates cross- and up-selling potential for fashion retailers by presenting product recommendations based on the customers’ selection of articles. In exclusive “sneak previews”, retailers can give a preview of the next collection and thereby make the customer curious and offer an appealing form of exclusivity.

Apart from consumer engagement, retailers can use the Smart Fitting Room not only to get to know their customers better in order to enable more personalised recommendations, but also to provide meaningful insights that help to manage the flow of articles in the supply chain in a more efficient way. Retailers get valuable insights into articles that are tried-on but rarely or never bought at all.
Today’s consumers perceive themselves as brand ambassadors. It is no longer just models and celebrities that carry the image of a fashion brand. If consumers identify themselves with the style and image of the brand, they become the most important multipliers.

Social Media portals in the fashion sector serve as incredibly powerful communication platforms where opinions are shaped and amplified. Access to these platforms is as ubiquitous as never before - „anytime, anywhere“ using tablets and smartphones - sometimes even while still being in the store. This mere fact should be motivation enough for brands and retailers to utilize this “brand commitment” to their advantage - but how?

From informed customers to brand ambassadors

Give customers the opportunity to check article availability online and to reserve specific items (click & reserve) before entering the store. The expectations of the digital natives are: full product availability, exact and reliable data, right here, right now.

This implies that in-store processes need to run like clockwork. The reservation request must appear as an alert on a wearable device of the sales personnel to be put aside and adjusted in the available inventory. This is the only way to avoid disappointed customers when they pick up the reserved item.

The positive experience of an online-offline-journey transforms customers (and in particular millennials) into so-called influencers and advocates for the brand. They share their positive shopping experience, are extremely credible within their communities and thus advertise your brand within a very wide audience.

Social media channels can also be optimally integrated into the concept of the Smart Fitting Room to offer customers their familiar digital environment for interaction, e.g. via Facebook, Snapchat or Instagram.

The successful ones listen and learn

Retailers should not be afraid of direct customer feedback or even criticism because it always offers a chance for improvement. If customers share their frustration that the advertised collection items are not widely available, immediate action should follow to streamline the replenishment process.

It just doesn’t get more explicit than this. If article replenishment is automated and based on accurate inventory data, shelf-gaps do not arise in the first place. Web-based services provide a very cost effective way to collect customer feedback. “How satisfied are you with your click & collect order?”, “Was your desired article in the store reserved for you on time?” These are questions that can help to identify gaps and unlocked potential. Customer feedback and supportive software help retailers to keep their store performance high.

At eye level with the customer

Within the young fashion segment, customers take digital touchpoints in the store for granted. They push new developments and provide decisive impulses for retailers.

The interaction between these customers and their favourite brands can go even further: Product recommendations can be shared within social networks directly at the store. Posting a photo and recommending a particular store for the good service conveys the “zeitgeist” of the brand and the target group. The snowball effect of word-of-mouth is also the cheapest form of advertising for the retailer and strengthens his position in the competitive fashion retail industry.

Obviously, customer demographics play a key role, and the experience needs to be different for example when it comes to customers of the 50+ generation. Even if they occasionally buy clothing online, this group of customers has not grown up with digital media and traditionally prefers to shop in the store with individual service from the sales personnel.
In today's digital age, customers have power over brands. This is a strong reason why retailers should consider bringing IoT into their stores.
Co-Value Creation:

The customer as partner

Offer your customers the role of a designer, personal shopper or trend scout.

The personalisation of articles is on the rise in the fashion retail industry. Customers express their individuality by designing their own sport shoes, T-shirts or even entire outfits - which they proudly share on their social media networks.

Turn your customers into partners and offer them an active role. Customers usually like to be asked for their opinion and they value being involved. This shows that you take their needs as well as feedback seriously.

Offer customers different touchpoints in the store: via the Smart Fitting Room, interactive info screens on the sales floor, the customer’s smartphone using WIFI, beacons or live chat options and, of course, by offering individual service through the sales personnel. Evaluate customer feedback automatically and optimise your product range, placements and campaigns.

The customer as a designer

Give customers in your stores the option to leave their favourite article combinations as a recommendation for other consumers and to create their own outfits. Gathering “likes” creates a close connection to the brand and the store offering this option.

The customer owns the story

Engage customers in advertising as well as social media campaigns in order to get more insights into their experiences with articles. Why are the top sellers so popular? Why are slow movers so unpopular? What are the reactions to an outfit in everyday life? Let customers tell their story... they do it anyway on social media networks.

Successful fashion brands have been inspired by famous and upcoming fashion bloggers for a long time. This way, they become strong influencers who set the stage for the brand and other customers by sharing their ideas and setting trends. Smart retailers leverage and amplify this potential by involving them in the collection and product development.

Fashion inspires creative stories - that are no longer limited to marketing teams. The customer plays a crucial part in telling these stories.

You may also offer the opportunity for personalisation or individual design for specific items such as T-shirts or jackets - so the customer becomes a designer who can simply share his creations with others and thus create positive effects.

IoT for co-value creation

- RFID tagged items
- Touchpoints for customers
- Smart Fitting Room
- Info-Touchpoint
- WLAN and Beacons
- Smartphone
- Wearables for sales personnel
- Tablets, RFID-Handhelds, Smartwatches

The Internet of Things in Retail, Getting Beyond the Hype, Benchmark Report 2016, Brian Kilcourse and Steve Rowan: “To have to find new ways to connect with consumers”, p.21
4. Predictive Analytics: The customer as the creator of the future

Use data to look ahead and not to look back.

Pushing the entire new collection into all stores in large volumes and an undifferentiated manner is simply not economical. When articles are not successfully sold within the desired campaign period, they are ultimately marked down or transferred to discount outlets. IoT technologies enable targeted predictions of where and how much merchandise can be sold. The basis for a fast and meaningful distribution of merchandise is a complete and accurate inventory view and the combination of different data sources coupled with intelligent analysis.

Self-learning and highly accurate

Clever analysis and planning software using predictive analytics advises retailers on specific actions and prevents mistakes before they arise. Taking a replenishment recommendation as an example, this means if the proposed articles are refilled and then sold immediately, the system considers this as a positive input and uses this information for future recommendations.

Coupled with the ability to incorporate feedback from store personnel, this results in a closed loop in which systems and employees complement each other and benefit from each other. This can also be used to make purchasing decisions about the merchandise of a new collection on the basis of comprehensive, up-to-date data.

The customer as creator of the future

The customers’ shopping behaviour decides about top sellers and slow movers. They ultimately determine the success of a product range across the store fleet. Having visibility through accurate data that is transformed into actionable insights is crucial for the success of brick-and-mortar. After all, the wrong or overstocked merchandise will lead to logistical and economic challenges in the store.

Store management based on accurate data

By bringing together customer footfall data, their time spent in store, article dwell-time on the sales floor, merchandise flow per zone, and conversion rate per article, retailers are able to make decisions based on data rather than subjective interpretations – or more widely known as the store managers’ gut feeling.

Understand which articles are brought into the fitting room but are rarely or never bought at all and investigate on the reasons why. Evaluate top seller and cross-selling items and present them to your customers as “popular items”, including other customer reviews.

IoT for Predictive Analytics

- RFID tagged items
- Single-Point-of-Truth
- Accurate inventory in real-time
- Analytics for store managers
- RFID ceiling readers (Fixed Reader Infrastructure) for zoning the store
- Mapping merchandise flow and customer movements
- Real-time analytics as decision support for the purchase of new merchandise
A-B Testing: Market research in the store

The Internet of Things sensor technology offers retailers an excellent opportunity to test product placements in the store. In a test setup, the retailer places certain articles in position “X” in store “A” and places the same articles in a different position “Y” in a second store “B”. Via RFID ceiling readers (Fixed Reader Infrastructure), retailers can now measure very precisely in which store the articles were moved more frequently - e.g. to find matching items - which articles are being tried on more often and ultimately which articles are being bought more often.

The attractiveness of a placement determines the rate of stock turn in the store. If retailers still receive valid decision support during the season, they are able to quickly relocate articles and thus reach sales at the planned margin. Retailers can specifically use the customer as the protagonist and plan campaigns, but also the logistics processes according to the market’s requirements.

Measuring advertising success at the POS

The advertising effect of the collection can also be determined by the conversion rate in the fitting room - in more simple terms: the relation between the number of purchased items and the number of items being brought into the fitting room.

With the help of RFID-based article management and corresponding analysis, the retailer knows on a daily basis which items have been tried-on, which ones have been bought or put back on the shelf. The evaluation of this conversion rate, cumulated over the campaign period and all stores gives the retailer valuable insights into customer preferences.

So it’s easy to determine which articles are obviously attractive enough to go to the fitting room, but ultimately remain on the shelf. Is it because of the fit? or the quality of the fabric? or was it the individual taste of the customer? The data will tell.

Decision support

Retailers, from small to large simply can no longer make sales-relevant decisions based on gut feeling. With valid data gained via IoT devices in the store, specific evaluations can be run, e.g. comparing different stores over a defined period of days, weeks or months based on predefined metrics.

Intelligent analytics software shows the retailer which measures work best, which articles turn faster and which stores are outperforming others. The retailer decides on merchandise placements and flows based on current data.
The term “IoT” fits in seamlessly with a range of abstract concepts around digitalisation - from “big data” to “cognitive systems” to “artificial intelligence”. But what exactly is behind the term IoT, which benefits can be derived from it and what do retailers need to profit from IoT?

IoT is a technological concept that gives real-world objects a digital presence, a digital alter ego, and makes it possible to recognize the state of this objects automatically.

Source: Detego. Retailers get more insights on their customers with IoT

Capturing and recognising

With IoT technology, every article gets its unique “digital ID” which enables an easy and largely automated merchandise management - the basis for sales enablement. The combination with other technologies like WiFi, Bluetooth or camera systems build the bridge between customer and merchandise.

In the fashion retail industry, this mainly affects two aspects:

1. **The merchandise**, which flows through the supply chain, through different channels and ends up in the store
2. **The customers**, who interacts with merchandise and the sales personnel in the store

"IoT connects merchandise and customer movements."

Capturing and recognising

With the technologies to “detect and recognize”, it is now possible to measure KPIs in the store that are currently only evaluated in web-shops. “How many customers are currently in the store and what is the level of article availability?”; “Are there queues at the fitting rooms or at the cash register?”; “Are there enough sales personnel on the sales floor or are they busy with administrative processes?” All these questions can usually only be answered based on gut feeling - but rarely by means of solid and accurate data.
The optimal infrastructure in the store

The prerequisites for IoT applications in the store include, on the one hand, a suitable technical infrastructure and on the other hand, appropriate processes in order to be able to fully exploit the benefits. The classic store is usually divided into one or more sales floors, a fitting room area and a backroom. From a data capture perspective, these individual areas and touchpoints need to be covered with the appropriate technology in order to identify and track the RFID-enabled merchandise. The infrastructure for a store usually consists of fixed RFID ceiling readers (“Fixed Reader Infrastructure”) and mobile devices for data capture and the execution of individual processes.

Fixed Reader Infrastructure provides a constant data stream from which accurate stock information can be derived at any moment in time. In combination with other reading points, for example, at the point-of-sale or at the transition between the backroom and the sales floor, this gives an accurate overall picture of the stock and article movements. This information is available to sales personnel quickly and easily via smartphones, tablets or other wearables such as smart watches in order to enable them to provide reliable information to the customer.

Smart recommendations for sales personnel

Collecting data itself is – obviously – just the starting point. Targeted processing, drawing the right conclusions and an immediate feedback to the sales personnel are crucial for establishing a functioning feedback loop. The processing of the ever-increasing amounts of data is technically feasible through an appropriate system architecture and the almost unlimited computational power in the cloud. The challenge here is to define the right metrics and derive simple and understandable recommendations for the sales personnel.

Another crucial point is to consider the customer from the very beginning – as early as the design phase of the system. While in the past, sales personnel were kind of “in between” the customer and the (more or less accurate) data on inventory or article availability, etc., the customer is now accustomed to interacting directly with the systems via apps, web portals or chatbots. This opens up completely new possibilities and services – especially in brick-and-mortar retailing. Making stock information available to the customer and providing simple and elegant ways of interaction are important steps that can only succeed with an accurate data foundation and a system landscape that is built to handle the customer requests at scale.

Leading the IoT, Gartner Insights on How to Lead in a Connected World, Mark Hung, Gartner Research Vice President, 2017, “To create business value, this data must be converted into decisions and actions. Some of the most sophisticated IoT solutions go beyond analytics.” P.21

Customers demand first hand information regarding stock availability in stores and webshops. This is only possible if an accurate data foundation is in place.
Getting to know your customers better

In order to integrate the customer into this picture, there are numerous technologies available: From simple footfall counters to camera-based systems, WiFi or Bluetooth tracking - the main objective is to get more insights on customers and their behaviour in the store to align customer service and ultimately adjust the product range accordingly. So-called "opt-in" models - where consumers have to activate these features - ensure the explicit consent of the consumer in all these forms of interaction.

Chatbots and Smart Fitting Room

How individual components and technologies interact becomes clear when taking a typical customer journey through the store: Customers who participate in a retailer’s extensive loyalty program and enter the store, are automatically recognised using their smartphones12 – followed by a chatbot’s welcome. The chatbot, a digital assistant running on the consumer’s phone, introduces them to the latest collection as “New Arrivals”.

Through the use of storewide RFID-based inventory management, the chatbot also knows exactly which items are available in which colours and sizes, and recommends exactly the right thing for the customer according to fashion preference and individual size.

Once in the fitting room, the system automatically recognises which articles the customer has brought to try on - the ideal time to show additional information and provide enhanced customer service. If consumers want a specific article in a different colour or size, they can easily request it through the Smart Fitting Room application – sales personnel will be notified directly on their smartphones or wearables and can bring the article to the fitting room thereby providing an unforgettable and convenient shopping experience.

This non-binding and yet direct channel brings completely new possibilities: While notifying the sales personnel, the system is able to suggest additional, matching articles that the customer might like, e.g. “Would you be interested in this matching blouse?”. This is what successful customer service in the store looks like - an aspect that reflects on commercial success as well as customer loyalty.

At the Point-of-Sale, the chatbot serves digitally-oriented target groups on their smartphones and passes them on to the sales personnel for individual service whenever the sales process requires it.

Watch and learn

Along the outlined customer journey a lot of interesting datapoints have been generated:

- Which articles are enquired about with the chatbot and are subsequently tried-on in the fitting room?
- Which articles did she/he buy in the end?
- Do product recommendations in the store work as well as in the web shop?
- Are there certain patterns when customers request articles?

Sharing this information with the sales personnel can be used for face-to-face conversations to leverage cross- and up-selling potential.

12 The agreement of the customer provided via opt-in confirmation
Expert advice for your store:

- RFID-based article management
- Fixed Reader infrastructure for merchandise identifications in store zones in combination with mobile data capture
- Chatbots and Smart Fitting Rooms to interact with the customer
- Insights and recommendations derived from obtained data

Perfect Set-up: all areas in the store are geared towards the customer.
Conclusion

The great benefit of IoT technologies results from being seamlessly integrated into everyday processes without dominating them. After all, it’s not technology for the sake of technology. Through a broad data collection as well as targeted communication and feedback mechanisms with employees and customers, new use cases and services enable a completely new shopping experience. The formula for the perfect customer relationship seems to be found already. Now it is time to implement it. Gartner predicts that most companies will have done that by 202013.

13. Leading the IoT, Gartner Insights on How to Lead in a Connected World, Mark Hung, Gartner Research Vice President, 2017 “By 2020, more than 65% of enterprises (up from 30% today) will adopt IoT products.” P.10
About the authors

Dr. Michael Goller, CTO

Dr. Michael Goller is responsible for the development and implementation of the Detego Suite. Together with the Detego Team, he has been successfully implementing projects for the fashion retail industry with excellent results for more than 10 years. With the expansion of Detego’s product range to include IoT-based solutions for fashion stores, Michael meets retailers’ needs for operational excellence and customer centricity. Detego’s customers are sure to benefit from his comprehensive knowledge of retail processes in stores and logistics, as well as his technical visions on the future of the “digital store”.

Iris Hofer, Director Marketing

Iris Hofer brings experience from over 25 years of B2B technology marketing, combined with in-depth knowledge in fashion retail and digital business models. Iris considers consumer expectations in the omnichannel fashion retail as well as the urgent need to gear strategies and stores consistently to the customer as a driving force for digitalisation in the retail industry. In various sales and marketing positions, she actively attended the evolution from RFID technology to the Internet of Things. As Director of Marketing at Detego, Iris is responsible to market and promote the Detego Suite jointly with her team.

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DETEGO, the leader in real-time business intelligence for the fashion retail industry, has already digitalised more than 1.6 billion garments by the end of 2017. The company’s software has been deployed successfully in more than 1,500 stores. Customers include well-known, international fashion brands, retailers and department stores.

Headquartered in London with the development and R&D center in Graz, Austria, the innovative software provider develops and distributes standard software products for the fashion retail industry since 2011. The Detego Suite provides inventory accuracy, article availability, predictive real-time analytics and active consumer engagement.

Detego supports the omnichannel and digital strategies of fashion retailers. This enables retailers to offer a consistently positive shopping experience across all channels and actively manage their store network. The Detego Suite is complemented by managed services, including Software as a Service (SaaS), and flexible pricing models.

CONTACT

DETEGO GmbH
Hans-Resel-Gasse 17a, 8020 Graz, Austria
Tel: +43 (0)316 711 111,
Mail: office@detego.com

DETEGO Ltd
1 Fore Street, London, EC2Y 9DT, United Kingdom
Tel: +44 (0)203 501 1821
Mail: london@detego.com

www.detego.com