

# Why and How Retailers Must Become an Intelligent Enterprise

As the retail landscape broadens and shoppers demand exceptional experiences, retailers must transform rapidly and execute flawlessly or risk becoming irrelevant. To succeed, retailers will need to become an “Intelligent Enterprise” through a rare mix of **foresight**, **agility** and **ingenuity**.



PREPARED FOR



# Retailers no longer compete with their next door neighbor, but with the best experiences across industries.

Customer expectations are defined by the best experiences they have, irrespective of industry. They expect the personalization of Netflix, convenience of Uber, speed of Amazon and so on.



Further, today's extraordinary is tomorrow's expected. Uber was magical in 2012. Today it's just how shoppers wish all checkout interactions worked. Retailers have to constantly keep up (if not keep ahead) of changing expectations.

# Shoppers value different things at different times, and expect retailers to deliver.

Shoppers' expectations are both **fleeting** (in that some change from experience to experience, or even time to time) and **persistent** (in that some do not). Retailers' toughest challenge is understanding themselves and their shoppers well enough to know what to focus on, and what to ignore.



## Efficiency

Save me time by reducing friction across the customer experience - from research to checkout to fulfillment.



## Transparency

Be more open with me - about what's in my product to how it was made to where my order is to why it is priced as such.



## Seamlessness

Embrace my platforms of choice and be where I am - on social media, delivery services or marketplaces.



## Empowerment

Let me manage my relationship and interactions with you at my pace, my time.



## Immersion

Entertain me. Engage all my senses to create a more emotional bond with your brand.



## Curation

Learn from my engagement with you to personalize the experience to better suit my needs.



## Expression

Stand for the values that matter to me. Help me stand out in the sea of sameness.



## Belonging

Help connect and surround me with other like-minded people.

# Retailers are experimenting with new products, services and business models.

Retailers, no matter how established or new, have to evolve (strategically and technologically) to offer innovative propositions that attract the new-age shopper.

## New Products & Services

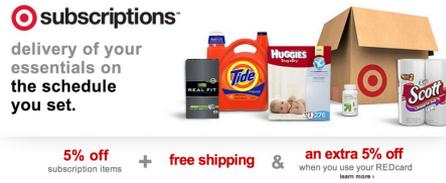
One out of every three consumers want the ability to personalize a product, and are willing to pay a 20% premium.<sup>1</sup>



**Lancome** set up booths in department stores (Harrods, Nordstrom, etc) to provide skin consultation and create a personalized foundation for each customer.

## New Business Models

The subscription e-commerce market has doubled each year for the past five years.<sup>2</sup>



**Target** allows customers (and incentivizes them with a 5% discount and free shipping) to subscribe to a list of household essentials which will be automatically replenished at a chosen frequency.

## New Store Formats

Retailers are redefining the value of brick and mortar stores by experimenting with new formats such as inventory-less showrooms, pop-up stores and brand flagships.



**Tsutaya Book Apartment** in Tokyo is a 24-hour bookstore and hotel with unique spaces such as lockers, a cafe, sake bar and quiet reading nooks.

# Balancing experimentation with consistent execution is a tightrope not many can walk.

Brands who have been too rigid or slow to react to changing market conditions, or those that have fumbled execution of their plans, have lost relevance, margin and market share.

## Retailers are flying blind in the face of digital transformation

**55%**

of retailers do not have a single view of inventory. 78% don't have a real-time view.<sup>3</sup>

A retailer with \$1B in annual revenue loses between **\$40MM to \$75MM** annually due to out-of-stock.<sup>4</sup>

## Flawed execution of digital experiences leads to margin erosion

**7 in 10**

retailers are uncertain whether they turn a profit from their click & collect orders.<sup>5</sup>

A retailer with #1B in annual revenue loses **~\$110MM annually** through inadequate enablement of its frontline workforce through modern tools and training.<sup>6</sup>

## The retail C-suite is growing tired of long-drawn transformation

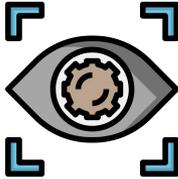
Balancing short term financial goals against long term transformation roadmaps is

**retail CXO's top challenge.**<sup>7</sup>

# Intelligent Enterprise: The blueprint of the future.

Retailers need to evolve from efficient enterprises to intelligent enterprises. They need the right capabilities to sense and predict, to act rapidly or change course quickly, and to amplify the valuable power of their human capital.

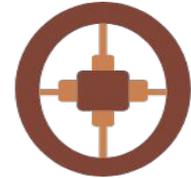
## Three foundational capabilities of an Intelligent Enterprise:



**Foresight** to sense change, prescribe action and predict outcomes.



**Agility** to act rapidly, course-correct frequently and transform incrementally.



**Ingenuity** to amplify human capital, codify competitive advantage and unlock creative solutions.



## Data is currency in the digital age.

While data is unanimously considered the biggest asset of today's business, less than 30% are able to convert data into actionable insights to impact future performance.

**64%**

of CEOs believe how their firm manages data will be their key differentiating factor in the future.<sup>9</sup>

Organizations that leverage customer behavioral insights outperform peers by

**85%** in sales growth and more than 25% in gross margin.<sup>10</sup>

**35%**

of Amazon's sales are generated through their recommendation engine.

### Top challenges that prevent retail CXOs from using data more strategically:<sup>11</sup>



**#1**

Data is siloed



**#2**

Poor data quality



**#3**

Limited resources who can interpret the output of analytics tools



**#4**

Absence of a clearly articulated analytics strategy



**#5**

Limited software toolset





## Going from “what is happening” to “what will happen”.

Technologies such as artificial intelligence, predictive modeling and automation can help retailers digitize their strategies, learn from the past to predict the future, and accelerate autonomous decision making. But, there is no silver bullet, and investments must be sharply focused and expected outcomes clearly defined.

### Key characteristics of a retailer’s data and analytics capabilities to enable foresight:



#### Artificial Intelligence

Leverage vast stores of data to identify trends and codify algorithms to improve customer experience while protecting margin. E.g.

- ✓ Personalized product recommendations based on customer profile, browsing behavior, etc.
- ✓ Optimized allocation based on sales patterns, browsing history and competitor activity by region.



#### Predictive Modeling

Build fact-based simulations and models to understand future implications of alternative approaches. E.g.

- ✓ Forecasting demand based on historical data and current economic and demographic conditions.
- ✓ Identifying effective promotions for different customer segments at different times.



#### Automation

Automated conversion of insights into action for repetitive activities. E.g.

- ✓ Auto-replenishment is initiated based on inventory levels and projected future demand.
- ✓ Dynamic Pricing models that adjust prices automatically based on demand, weather, local events and competitors’ promotions.

Retail CXOs are planning a **5X increase** in artificial intelligence adoption over the next 2 years.<sup>12</sup>

Up to **45%** of the activities individuals are paid to perform can be automated in the US economy, equalling \$2 trillion in wages and freeing up time for more strategic work.<sup>13</sup>



## Agility is valued but elusive.

Executives acknowledge the need for agile, dynamic business processes and systems, but struggle to achieve the same due to challenges through the value chain.

Companies risk losing  
**10 - 20% revenue growth**  
without digital operating models that support agility at speed.<sup>14</sup>

**75%**  
acknowledge that digital operating models must be flexible, dynamic and customer centered.<sup>15</sup>

**Less than 25%**  
of incumbent executives think their operating model can respond to changing market conditions and drive value.<sup>16</sup>

### Challenges faced:





## Agility is a multi-faceted business capability.

Retailers, often saddled with technology debt, must embrace agility for all its multifaceted glory, and not just focus on speed-to-market. Technologies such as cloud, mobility and microservices, especially when applied to enterprise retail software, are central to rebuilding organizational muscle.

### Key characteristics of a retailers' technology architecture to enable agility:



#### Speed & Scalability

- ✓ Scalable capacity.
- ✓ Pay-per-use flexibility.
- ✓ Anywhere availability.
- ✓ Outsourced maintenance frees up time.



#### Configurability & Flexibility

- ✓ Highly configurable so systems are modeled on the business rather than the other way around.
- ✓ Single source of truth for all data.
- ✓ Flexibility to integrate new data sources (IOT, sensors).
- ✓ Automated reports and insights.



#### Openness & Incrementality

- ✓ Faster integration with third party applications.
- ✓ Loosely coupled, modular applications allow for individual updates, minimizing impact of changes on customers.
- ✓ Reduced complexity- easier to update, upgrade, adapt and debug.

Retail CXOs believe the **cloud has more than 2X** the impact on business agility compared to any other technology.<sup>17</sup>

**91% companies** are using or have plans to use microservices. Agility (82%) and scalability (78%) are the top motivators.<sup>18</sup>



## People, not systems, drive or stall digital experiences.

However, unlocking this potential is easier said than done. Lack of talent is among the top 3 challenges for CXOs executing a digital transformation.

**Developing talent and skills** is one of the most important factors for success in a digital change effort.<sup>19</sup>

Store associates' in-store recommendations are **25x** more effective than personalized emails.<sup>20</sup>

Transformation success is **more than 3 times** likelier when organizations have invested the right amount in digital talent.<sup>21</sup>

However, only **25%** executives feel that they have the skills needed to deploy digital technologies. Some key concerns for preparing employees for a digital transformation are:



**Attracting and Retaining Talent** in the face of changing demographics (millennial workforce, preference for gig economy, rising wages).



Strengthening the organisation's **soft skills** to sit alongside digital skills.



**Adopting digital tools** to make information more accessible across the organization.



# Amplifying insight with intuition is the ultimate growth hack.

From the warehouse to the store back-room, the “Intelligent Enterprise” differentiates via its ability to activate its frontline workforce through the right tools, training and incentives.

## Key characteristics of a retailer’s workforce empowerment to enable ingenuity:



### Tools

- ✓ Mobile-enabled, easy-to-use store systems with consumer-grade UI.
- ✓ Integrated apps for all customer information including CRM, Inventory and POS to allow for increased interaction with customers.



### Training

- ✓ Re-defined processes and Standard Operating Procedures (SOPs) to accompany in-store initiatives, and collaboration tools to aid seamless execution.
- ✓ Ergonomics training for store associates to use in-store technology more effectively without creating a barrier with customers.



### Incentives

- ✓ Additional payroll hours for fulfilling different types of online orders at the store (e.g. BOPIS, curbside etc.)
- ✓ Include customer feedback or experience score as part of incentive plan for store associates.

Organizations that empower associates with digital tools and data have **twice** the likelihood of a successful transformation.<sup>22</sup>

Transformations are **1.5 times** more likely to succeed if there is clarity of roles and processes that tie in with the goals of the transformation.<sup>23</sup>

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