Perceptive Retail

Home improvement and hardware retailers build an AI advantage

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Execution under pressure

Home improvement and hardware retailers are using AI to strengthen customer assistance, forecasting, and operational control as they navigate inflation, supply volatility, labor constraints, and rising expectations for speed.

Home improvement and hardware retailers are approaching AI less as a speculative bet than as a practical tool for improving retail execution. Their leading priorities center on customer assistance, supply chain performance, inventory and demand forecasting, personalization, and workforce planning. That reflects the realities of a subsector where profitable growth still matters most, but where success also depends on better resilience, faster decisions, and tighter coordination across stores, channels, and supply networks.

The data suggests a sector trying to do several things at once: protect margins, maintain customer loyalty, respond faster to changing conditions, and modernize operations without losing control of day-to-day performance. Yet most retailers acknowledge they are still in the middle of the maturity curve when it comes to agility and resiliency. Few describe their capabilities as fully advanced, even as they prioritize predictive analytics, risk planning, and more flexible technology infrastructure.

That tension defines the agenda ahead. The biggest opportunities lie in connecting AI and data investments to the places where this subsector feels the most pressure: workforce effectiveness, supply continuity, inventory visibility, and more responsive customer experiences.

54%

cite AI-powered chatbots and virtual assistants as a top initiative

37%

name profitable growth as a top mission-critical objective

5.5%

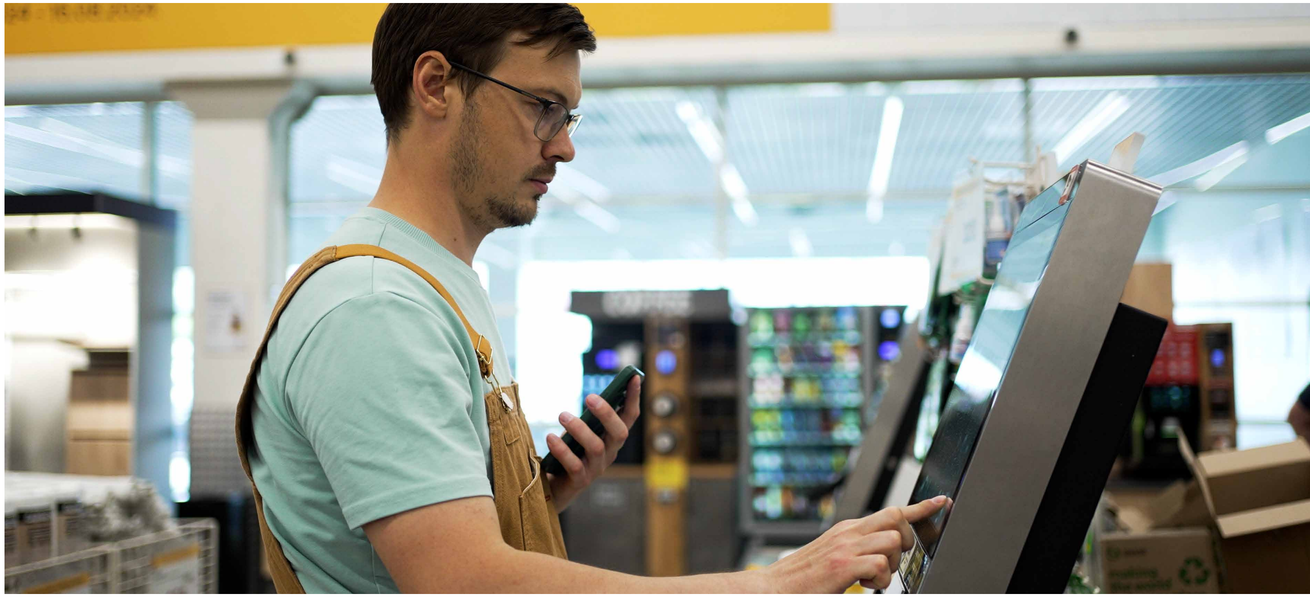
say their agility and resiliency capabilities are fully advanced

36.6%

rank inflation and rising prices among the top 2026 challenges

AI with a practical edge

Home improvement and hardware retailers are investing in AI where it can make a practical difference quickly. Their top priorities span customer assistance, supply chain optimization, inventory forecasting, personalization, and workforce planning, showing a clear preference for applied use cases over more experimental ones. Open-ended responses reinforce that pattern: respondents most often point to product discovery, stock visibility, demand prediction, routine task automation, and better coordination across the retail operation. In this subsector, AI is emerging primarily as a tool for better execution.



Top AI-led initiatives currently being prioritized

Other answers in order of frequency:

- Hyper-personalized customer experience and recommendations
- Workforce planning and scheduling
- Fraud detection and prevention
- Dynamic pricing and promotions
- Marketplace or supply chain disruption
- Sustainability and environmental impact reduction
- Visual search or image recognition tools*
- Automated checkout and cashierless stores

*equivalent frequency to the preceding answer

What are the top AI-led initiatives currently being prioritized within your organization? n=164

Ambition outpaces readiness

Home improvement and hardware retailers want AI to do more than automate isolated tasks. Their priorities point to a broader ambition: sensing changes in demand and market conditions earlier, moving faster from insight to action, and embedding more intelligence into day-to-day decision-making. In the ranking of the most critical capabilities for the future, respondents place the greatest value on real-time sensing of market and competitive shifts, faster time-to-market for new products and services, and adaptive AI decision-making.

But the readiness data shows that many organizations are still building the foundations needed to make those ambitions real at scale. Capabilities related to customer insight and decision support appear further along than those tied to more advanced operating-model change, such as multi-agent AI systems, capturing unwritten employee knowledge, and managing the human side of AI adoption. The result is a familiar tension: retailers increasingly need speed and adaptability, but many still lack the organizational maturity to deliver them at scale.

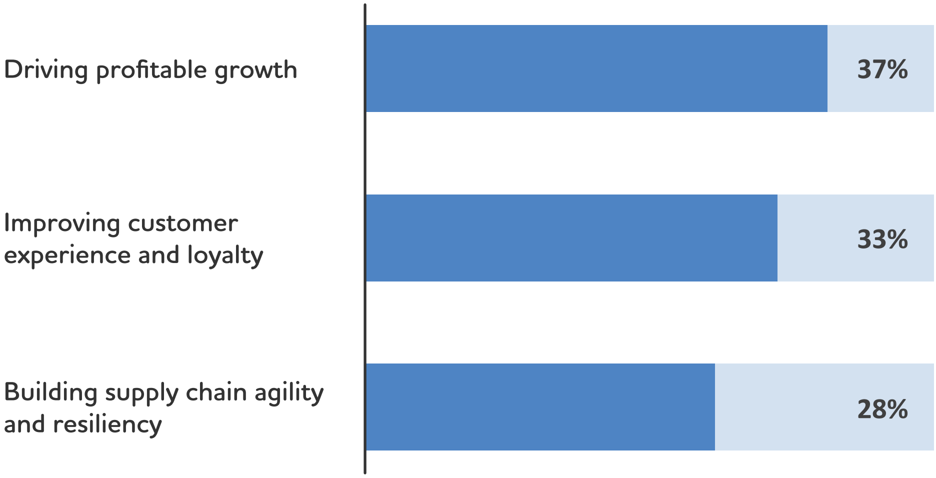
Current AI readiness

Rate your organization's current readiness in the following areas. "Fully implemented and operational" and "piloting, testing" shown.
(Not shown: "Have begun implementing," "planned but not started," "not planned," and "don't know.") n=164

Growth, loyalty, resilience, and speed

Compared with other retail subsectors, home improvement retailers place relatively greater emphasis on execution speed, digital enablement, and supply-side resilience. That helps explain why AI priorities elsewhere in the report center so heavily on forecasting, planning, and operational coordination. It also helps explain the divide between Pacesetters and Followers: stronger-performing retailers are more likely to prioritize customer experience, resilience, digital transformation, cybersecurity, and workforce transformation, while Followers are more concentrated on profitable growth and cost control. The Pacesetters appear to be widening the agenda, not narrowing it.

Top mission-critical objectives



Out of this list, which are your top 3 mission-critical organizational objectives for the next 12-18 months? n=164

Pacesetters vs. Followers

"Pacesetters" are the financially strongest companies in this subsector, based on a combination of revenue growth and profit growth over a three-year period. In home improvement and hardware, Pacesetters account for 68 of the 164 companies surveyed; their counterparts, "Followers," account for 54.

Other answers in order of frequency:

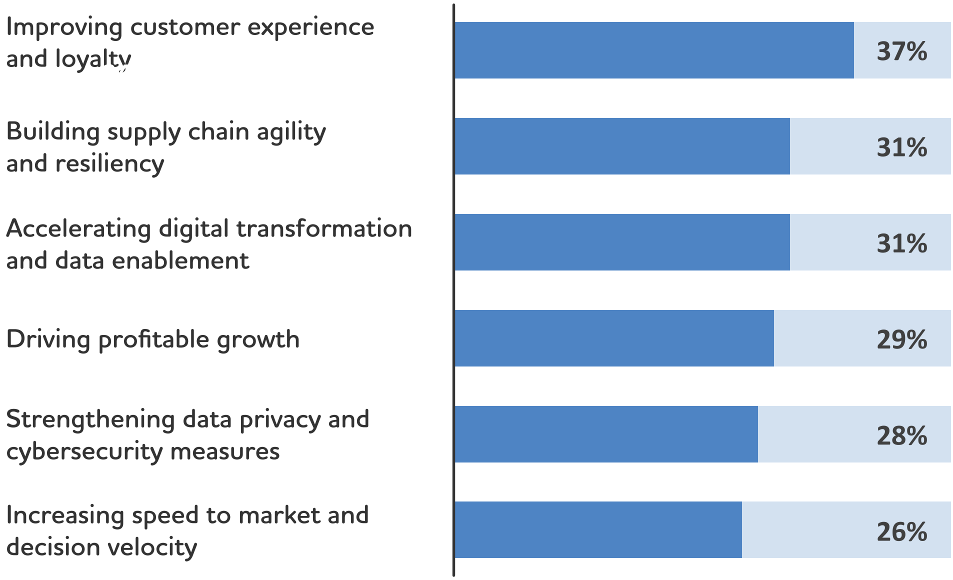
- Cost optimization and operational efficiency
- Increasing speed to market and decision velocity*
- Accelerating digital transformation and data enablement*
- Optimizing inventory and working capital
- Strengthening data privacy and cybersecurity measures
- Modernizing planning and forecasting capabilities
- Enhancing personalization and customer engagement
- Workforce transformation and talent upskilling*
- Integrating sustainability and ESG into operations
- Expanding into new markets, channels, or categories

*equivalent frequency to the preceding answer

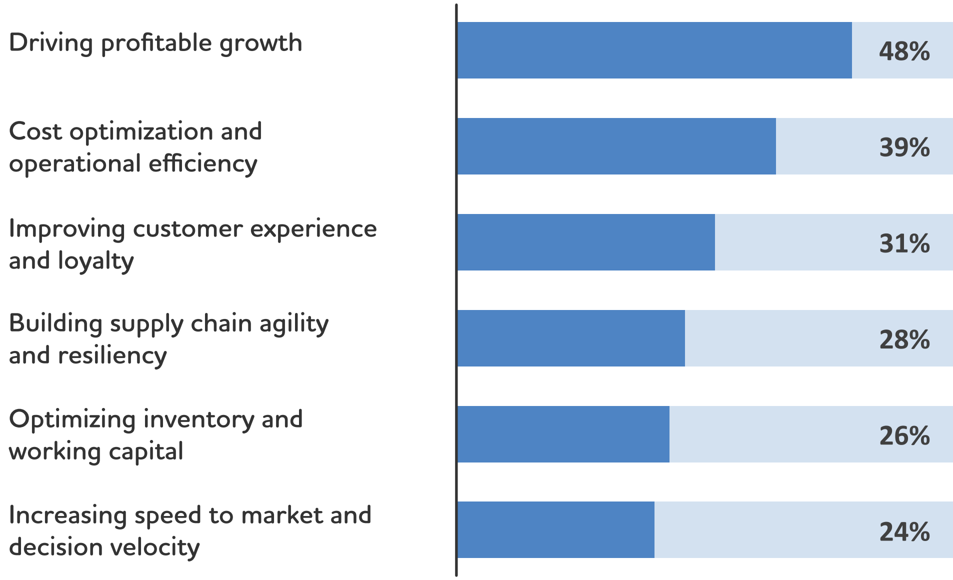
Growth, loyalty, resilience, and speed

Mission-critical objectives

Pacesetters



Followers



Out of this list, which are your top 3 mission-critical organizational objectives for the next 12-18 months? (Less frequent answers not shown.) Pacesetters n=68; Followers n=54

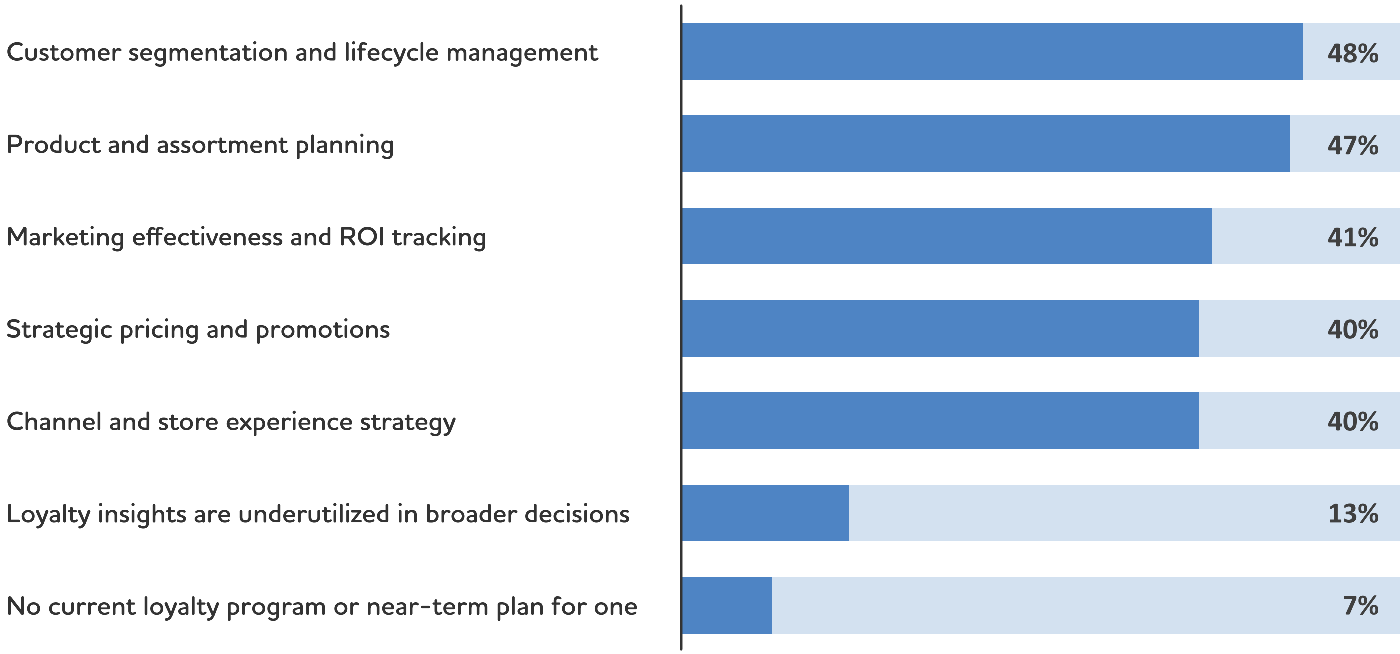
Among hardware-sector Pacesetters, 37% say improving customer experience and loyalty is a top priority, versus 31% of Followers. Followers are far more likely to prioritize profitable growth and cost optimization. The contrast suggests that stronger performers are broadening the agenda, treating growth as the outcome of deeper customer relationships, greater resilience, and more digitally enabled operations.

Loyalty with a broader role

For home improvement and hardware retailers, loyalty is becoming more than a promotional tool. The strongest influence of loyalty data is on customer segmentation and lifecycle management and product and assortment planning, followed by marketing effectiveness and ROI tracking, strategic pricing and promotions, and channel and store experience strategy. That pattern suggests retailers are using loyalty insights not just to drive transactions, but to shape how they understand customers, plan assortments, and improve decision-making across the business.

The broader role also helps explain how retailers now view loyalty strategically. The largest share of respondents describe it as a critical enabler of long-term customer value and retention, with others emphasizing its role as a first-party data channel and a competitive differentiator. Even so, the model is under pressure: in the ranking of key loyalty challenges, retailers place the greatest weight on balancing customer expectations and rewards with margin requirements., followed by improving program ROI. In other words, loyalty is becoming more central to strategy just as retailers face greater pressure to prove its economic value.

Decisions most influenced by loyalty insights



Which enterprise-level decisions are most influenced by insights from your loyalty program? n=164

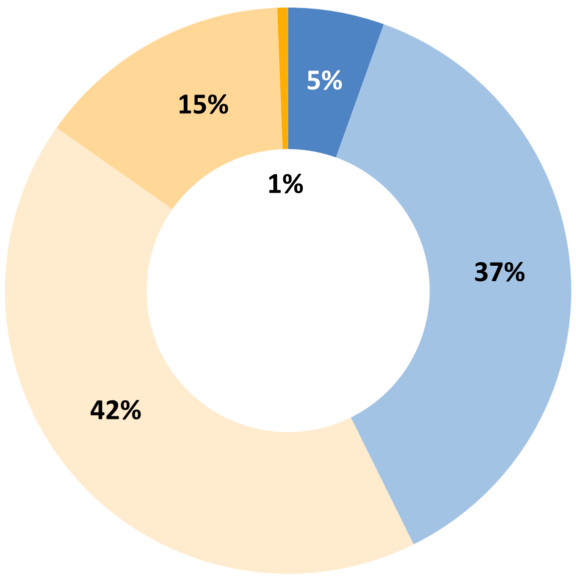
Top loyalty challenges

1. Balancing growing customer reward expectations with margin requirements
2. Optimizing program costs and improving ROI
3. Differentiating program benefits from competition

Rank the top three challenges your company faces with its customer loyalty programs. n=153

Resilience a work in progress for hardware chains

Agility and resiliency maturity



- Advanced: Agility and resiliency are embedded into operations, powered by data, tech, and empowered teams
- Established: Key areas (e.g., planning, supply chain) have adopted agile practices and adaptive capabilities
- Developing: Some progress made, but inconsistent across functions or geographies
- Early-stage: Acknowledged as a priority, but limited progress beyond strategy or pilot efforts
- Not yet prioritized: No structured approach in place currently

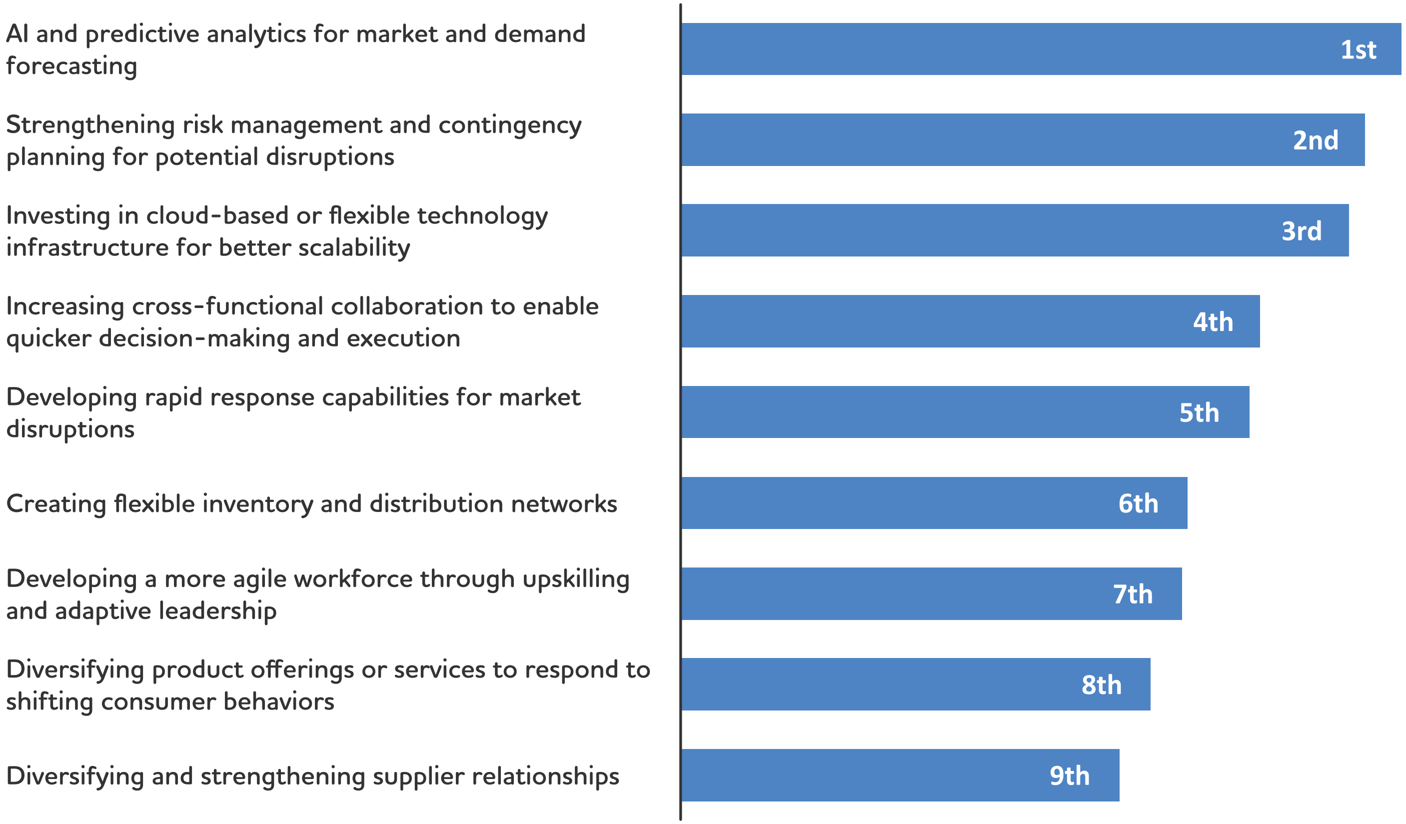
How would you rate your organization's overall agility and resiliency maturity? n=164

Retailers in this subsector widely recognize that agility and resilience are now essential. But most remain in the middle stages of maturity, with the largest shares describing their capabilities as developing or established, and only a small minority saying they are fully advanced. In a subsector facing persistent supply, cost, labor, and customer pressures, that gap matters. Resilience is becoming more formalized, but for most home improvement and hardware retailers it is still a capability being built, not one already mastered.

How hardware retailers plan to get more resilient

When home improvement and hardware retailers look at how to improve agility and resilience, they focus first on forecasting, risk planning, and more flexible technology infrastructure. Those priorities point to a practical, technology-enabled model of resilience, built on better visibility, faster decisions, and more adaptable operations. The Pacesetter/Follower split reinforces that direction: stronger-performing retailers place greater emphasis on forecasting and flexible infrastructure, while Followers lean more heavily on cross-functional collaboration.

Priorities most critical for increasing agility and resiliency



Rank the top three priorities most critical for increasing agility and resiliency to meet rapidly changing market conditions and potential disruptions. n=164

Pacesetter priorities

1. AI and predictive analytics for market and demand forecasting
2. Investing in cloud-based or flexible technology infrastructure for better scalability
3. Strengthening risk management and contingency planning for potential disruptions

Follower priorities

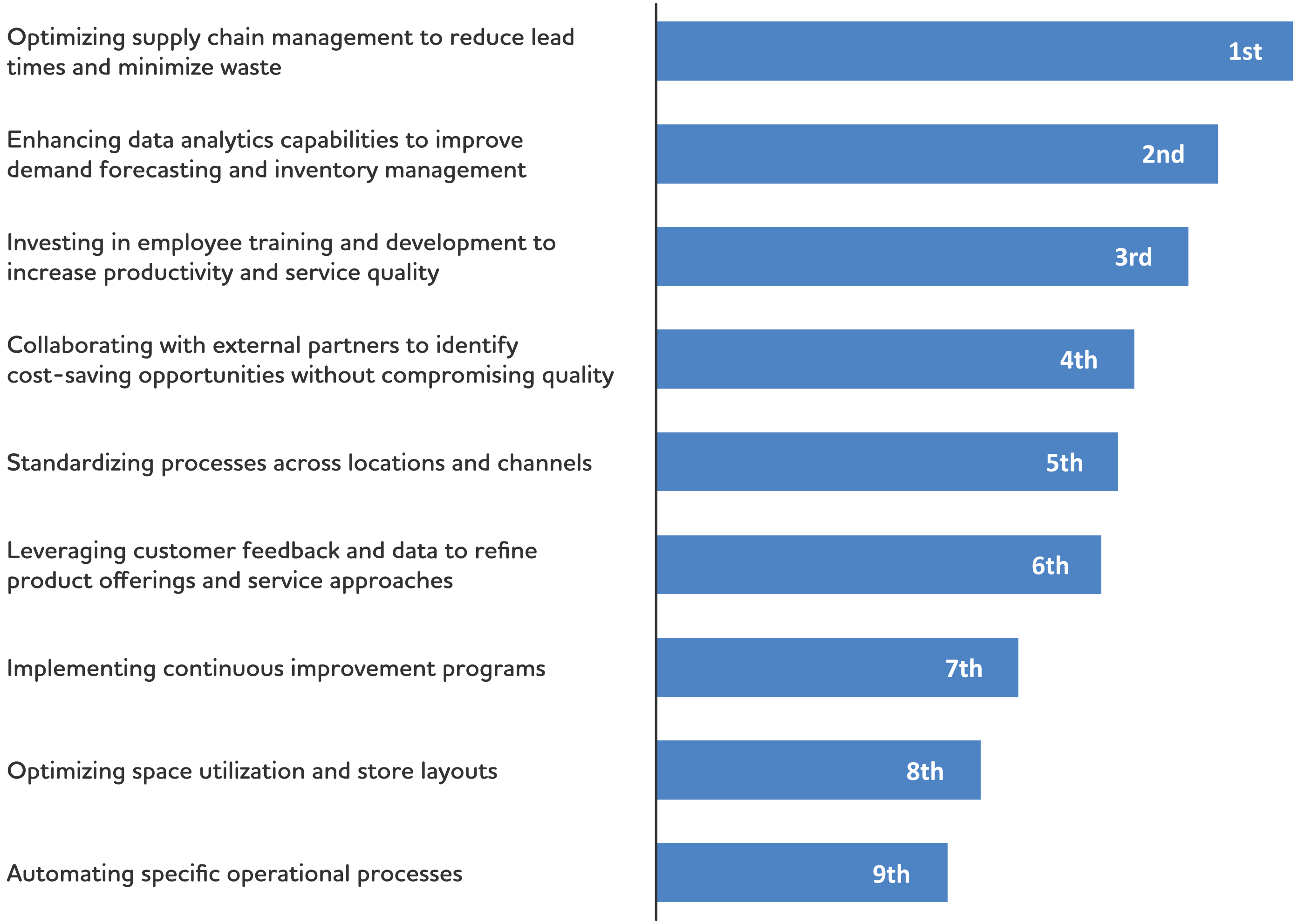
1. Increasing cross-functional collaboration to enable quicker decision-making and execution
2. AI and predictive analytics for market and demand forecasting
3. Diversifying and strengthening supplier relationships

Optimization gets more data-driven

For home improvement and hardware retailers, optimization is no longer just about cutting cost or tightening controls. The top priorities point to a broader operating-model agenda: improving supply chain management to reduce lead times and waste, strengthening data analytics for forecasting and inventory management, and investing in employee training and development to improve productivity and service quality. Together, those priorities suggest that retailers want more than incremental efficiency. They are trying to make operations more responsive, better informed, and more consistent across the business.

The Pacesetter/Follower split sharpens that point. Pacesetters rank data analytics for forecasting and inventory management first, while Followers put supply chain management to reduce lead times and waste at the top. That difference suggests that stronger-performing retailers are moving further toward data-led optimization, while Followers remain more concentrated on traditional operational discipline. Both matter, but the contrast hints at where the next competitive advantage may lie.

Top approaches for improving efficiency and reducing costs

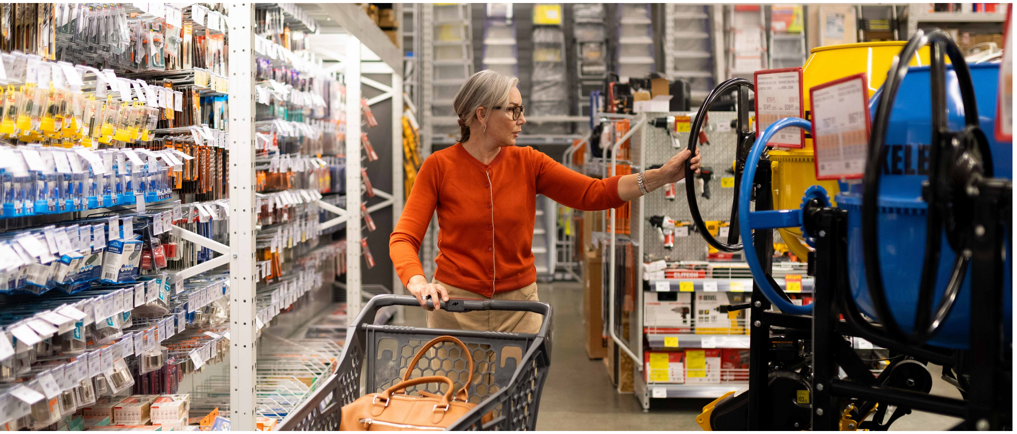


Rank the top three approaches most important for improving efficiency and reducing costs while maintaining (or enhancing) the quality of products and customer service. n=164

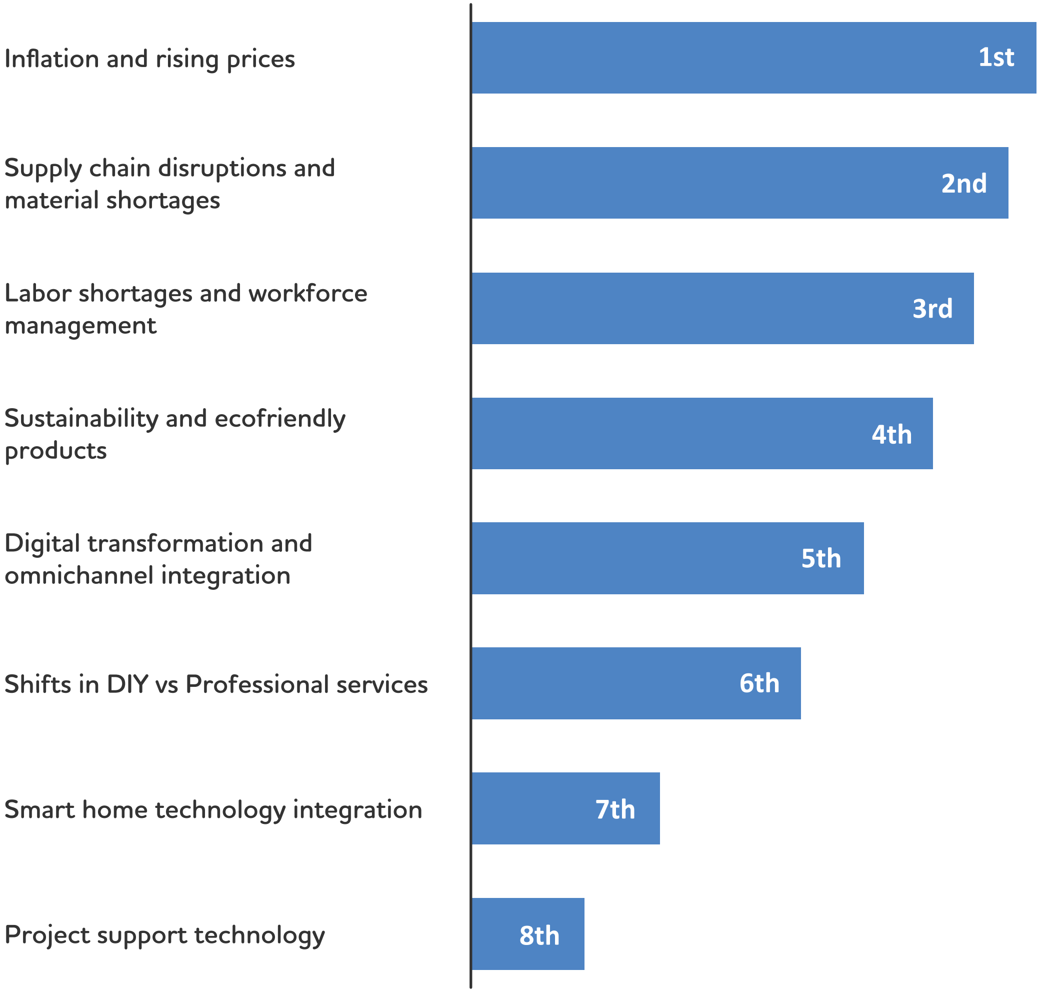
The pressure map for 2026

The home improvement and hardware subsector headed into 2026 under pressure from both broad economic strain and more category-specific operating challenges. Inflation and rising prices rank as the top expected challenge, followed by supply chain disruptions and material shortages and labor shortages and workforce management. These are not new concerns, but their continued prominence shows how tightly margin, product availability, and labor capacity remain linked in this sector.

The rest of the ranking adds a second layer to the story. Retailers also place significant weight on sustainability and eco-friendly products and digital transformation and omnichannel integration, showing that the next phase is not only about managing cost and disruption. It is also about adapting to changing customer expectations and modernizing the business model. Lower-ranked but still notable issues, such as shifts in DIY versus professional services, smart home technology integration, and project support technology, show that this subsector's future will be shaped by shifting demand patterns as well as operating pressure.



Biggest challenges for home improvement and hardware stores



Rank the top three approaches most important for improving efficiency and reducing costs while maintaining (or enhancing) the quality of products and customer service. n=164

Action agenda: three moves to turn pressure into performance

The study findings point to a practical agenda for home improvement and hardware retailers: strengthen the operating core, use customer and commercial data more strategically, and build faster, more adaptive responses to disruption.

Strategy	Execution: strengthen the core	Commercial intelligence: make data more useful	Resilience: build faster response
Tactics	• Cut lead times and waste in the supply chain • Improve forecasting and inventory discipline • Build productivity through training and development	• Use loyalty data for segmentation, assortment, and lifecycle decisions • Apply AI to customer assistance, personalization, and discovery • Treat customer insight as an operating asset, not just a marketing input	• Strengthen risk planning and contingency readiness • Invest in more flexible technology infrastructure • Connect workforce, supply, and channel decisions more tightly
Proof points	• Top optimization priorities are supply chain management, forecasting and inventory analytics, and employee training • AI priorities also emphasize supply chain optimization and demand forecasting	• Loyalty most influences segmentation/lifecycle management and assortment planning • Top AI priorities include chatbots/virtual assistants and personalization	• Top resilience priorities are forecasting, risk planning, and flexible infrastructure • Top 2026 pressures are inflation, supply disruption, and labor shortages
Pacesetters' edge	• In optimization priorities, Pacesetters rank forecasting and inventory analytics first; Followers put supply chain management first.	• In mission-critical objectives, Pacesetters place more emphasis on customer experience and loyalty; they also appear more focused on loyalty ROI under tighter margin pressure.	• In resilience priorities, Pacesetters put more weight on forecasting and flexible infrastructure, while Followers lean more on cross-functional coordination.

About the study

The TCS Global Retail Outlook is designed to provide insights into how retail leaders can leverage generative and agentic AI technologies to enhance customer experiences, drive revenue growth, address disruption, and anticipate market changes by enabling more adaptive operations.

The study was conducted in late 2025 and surveyed more than 800 senior retail executives across 18 countries and five key retail subsectors. Some data presented may not add up to one hundred percent due to rounding or ranking factors.Since 2009, the TCS Thought Leadership Institute has initiated conversations by and for executives to advance the purpose-driven enterprise. Led by Serge Perignon, the Thought Leadership Institute conducts primary research to deliver forward-looking and practical insights around key business issues to help organizations achieve long-term, sustainable growth. For more information, visit **tcs.com/insights/global-studies**

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