

# TCS 2021 Global Leadership Study

## Retail Industry Report



# Key findings at a glance

- For the majority of retailers, competing in the sector requires seeing opportunities and threats both within and across retail to other sectors. A majority of retailers (57%) are planning their strategies, at least in part, with cross-industry digital ecosystems in mind.
- Seven in 10 believe their single-most formidable competitor in four years will not be a traditional retailer, but rather a digital company, a firm from another sector, or perhaps even a retailer that hasn't been launched yet. And fewer than 1 in 10 of the best-performing retailers in the past few years think their toughest competition will come from a traditional retailer in the next few years.
- The best-performing retailers of the second half of the last decade think much differently than the worst performers about how to compete this decade. One of the biggest differences between the retail "Leaders" and "Followers" is the degree to which they believe in a culture of customer centricity. Leaders ranked it the most important out of 11 cultural traits to have by 2025, while Followers ranked it ninth.

# About the study

In the first quarter of 2021, Tata Consultancy Services conducted a survey of 1,206 CEOs, COOs, strategic planners, divisional and business unit general managers and operational heads at Global 2000 companies in North America, the UK and Europe, Asia-Pacific and Latin America. Every company had at least \$1 billion in annual revenue, and the average was \$14 billion.

These companies came from 17 global industries including retail, from which we had 102 executives take the survey. The average revenue of these retailers is \$23.7 billion. The largest proportion of them (44 surveys) had revenue of between \$1 billion and \$5 billion. However, 10 respondents worked for retailers with revenues of \$50 billion or more.

Of the 102 surveys, 45 came from executives at department store and apparel retailers; 36 were from grocery and pharmacy retailers; 9 were from internet retailers; 7 were from mass merchandisers, and 5 were from other retail sectors.

More than half of the executives (55%) work at retailers headquartered in North America. The rest were split fairly equally among retailers based in the UK and Europe, Asia-Pacific and Latin America.

We wanted to know these retailers' strategies for the next four years in an increasingly digital world. Specifically, we wanted to understand where they see the need for radical innovation versus more incremental optimization in these areas:

- **Where to compete:** In a digital world, how they are deciding in which businesses and markets to play (business strategy)
- **What to compete with:** How they plan to digitize what they sell to consumers, as well as new offerings (product/service strategy)
- **How to compete:** How they are digitizing the processes by which they create demand for, and supply of, their offerings (operational strategy)
- **How to lead:** the culture and talent management strategies they believe they need to compete in a far more digital world (talent management strategy)

We also compare how two groups of retailers answered our questions: "Leaders" and "Followers." Leaders were those retailers that had higher-than-average retail sector increases in both revenue and profit between 2015 and 2019. Of the 102 retailers, 37 were Leaders. Followers had lower than average increases on those metrics; 34 retailers were Followers.

## Retail strategy in a decade of accelerating e-commerce

The COVID-19 pandemic accelerated the shift from in-store to online sales, disrupted traditional supply chains, drove new partnerships between retailers and delivery services, and forced traditional retailers to think about creative ways to maximize the utilization of their store real estate.

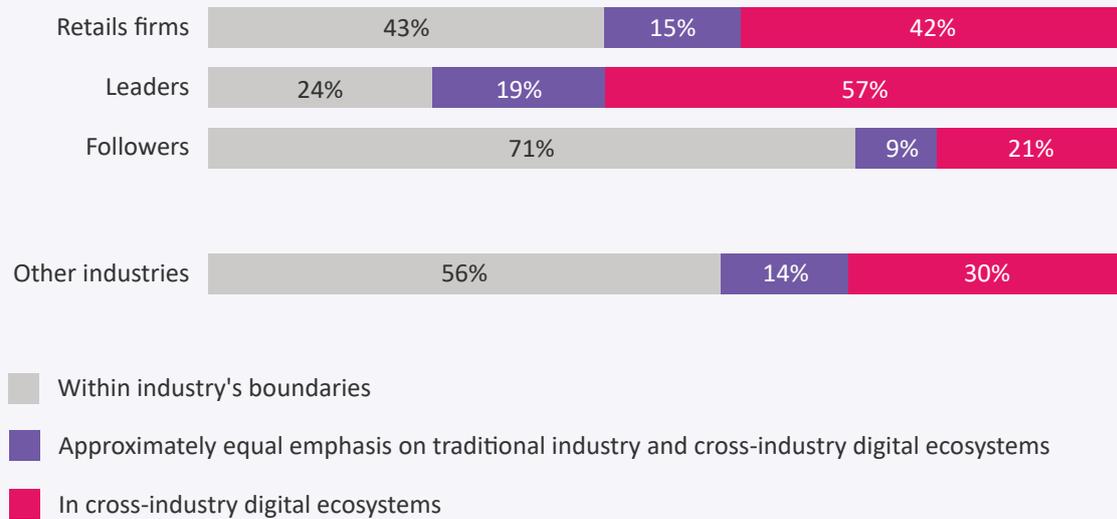
In this context, it's not surprising that retail is more aggressive than other sectors in framing their opportunities across digital ecosystems, rather than settling for growth within the confines of traditional industry boundaries. Digital ecosystems are marketplaces in which companies from several industries provide products and services that help groups of customers (consumer and businesses) accomplish a key process, such as living independently, buying a home, getting a job, moving from one location to another, staying healthy, etc.

The cross-industry, consumer process-driven ecosystems that retailers participate in could include entertaining guests at home (food, cooking, drinks, catering, outdoor furniture, and purchasing and maintaining outdoor cooking equipment), personal and career development (including being physically active as well as "dressed for success") and supplying and supporting a home office (computer and printing, tech support, office furniture, business bookkeeping and accounting and more).

While 56% of top management in all other sectors combined view their companies' strategy from the lens of the historical boundaries of their particular industry, only 43% of retail executives agreed with that approach. Put another way, 42% of retail execs are looking at opportunities and threats primarily through a digital ecosystem lens and another 15% equally combine their industry perspective with an ecosystem lens. So compared to retail (which came in at 57%), only 44% of top executives in other industries surveyed said they employ any kind of cross-industry ecosystem framework for their strategic planning (see Exhibit 1).

The differences in ecosystem-thinking among retail Leaders and Followers is even more pronounced. More than three-quarters of the respondents who work for retail Leader firms plan for their futures in the context of cross-industry digital ecosystems; less than a third of the retail Followers' executives do the same.

**Exhibit 1: How retailers view opportunities in strategic planning exercises**



**Essential takeaway**

When it comes to using cross-industry ecosystem frameworks for strategic planning, retail as an industry comes in higher compared to other industries surveyed. For Leaders and Followers in the retail sector, it is even more pronounced. More than three-quarters of the retail Leader firms plan for their futures in the context of cross-industry digital ecosystems; less than a third of the retail Followers’ executives do the same.

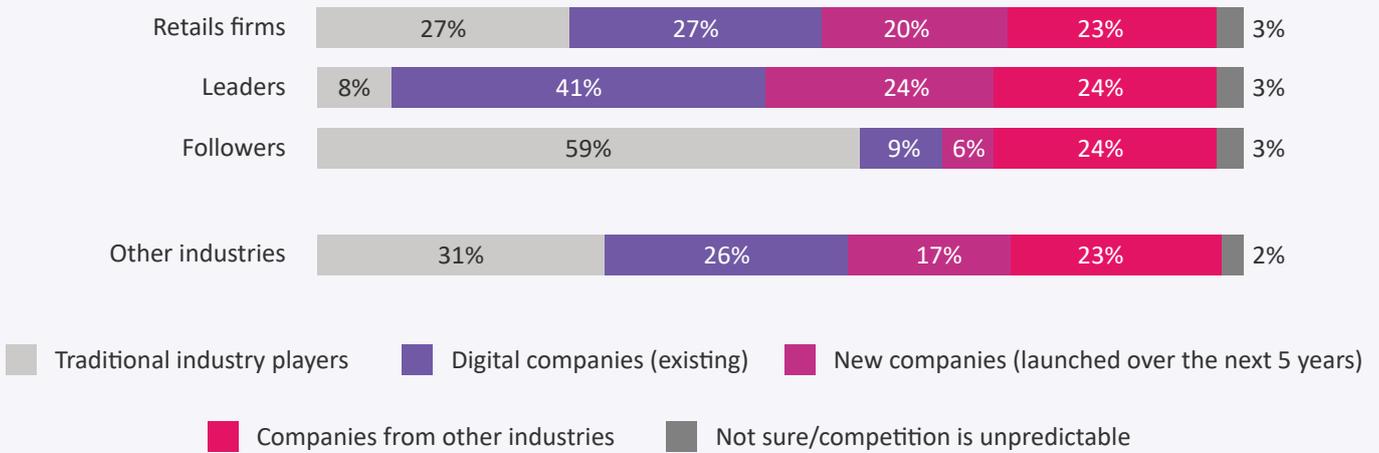
Keeping an eye out for emerging threats would be a prudent stance to take in retail, considering the success of digital native, online-only retailers such as Amazon (founded 27 years ago; 2020 revenue of \$386 billion, up \$100 billion over the previous year<sup>1</sup>), Alibaba in China (founded 22 years ago; 2020 revenue of \$72 billion<sup>2</sup>), Stitch Fix (a 10-year-old online apparel retailer with revenue of \$1.7 billion in 2020<sup>3</sup>), and Shopify (founded 15 years ago; \$2.9 billion in revenue in 2020<sup>4</sup>).

The retail industry has therefore been very focused on the e-tail competition for almost a quarter century. Especially in the last dozen years, every large retailer has been working to expand the proportion of its revenue derived from digital channels, increasingly using brick-and-mortar presences as showrooms, fulfillment, and service centers, beyond the store’s usual sales function. For example, in 2020 14.4% of U.S.-based retailer Home Depot’s \$132.1 billion in sales were via its digital platforms, which represented an 86% increase over the previous year. (Total revenue for the company in 2020 was up 19.9% over fiscal 2019.) And approximately 60% of its customers’ online orders were fulfilled through Home Depot’s existing store locations.

As a result of its established competitive field already including large, successful digital companies and with increasing digital success for some of the more traditional retail players, a majority of retail executives say that they expect the toughest competition in the next four years to come from an equal combination (27% each) of traditional retail companies and the existing crop of digital-only e-tailers (see Exhibit 2).

<sup>1</sup>Forbes, “Amazon’s Net Profit Soars 84% With Sales Hitting \$386 Billion,” Feb. 2, 2021: <https://www.forbes.com/sites/shelleykohan/2021/02/02/amazons-net-profit-soars-84-with-sales-hitting-386-billion/?sh=3612c6d91334>  
<sup>2</sup>Macrotrends, “Alibaba Revenue 2011-2021”: <https://www.macrotrends.net/stocks/charts/BABA/alibaba/revenue>  
<sup>3</sup>Stitch Fix earnings press release, Sept. 22, 2020: <https://investors.stitchfix.com/news-releases/news-release-details/stitch-fix-announces-fourth-quarter-and-full-fiscal-year-2020>  
<sup>4</sup>Shopify press release, Feb. 17, 2021: <https://news.shopify.com/shopify-announces-fourth-quarter-and-full-year-2020-financial-results>

**Exhibit 2: Where retail companies think their most formidable competitor will come from by 2025**

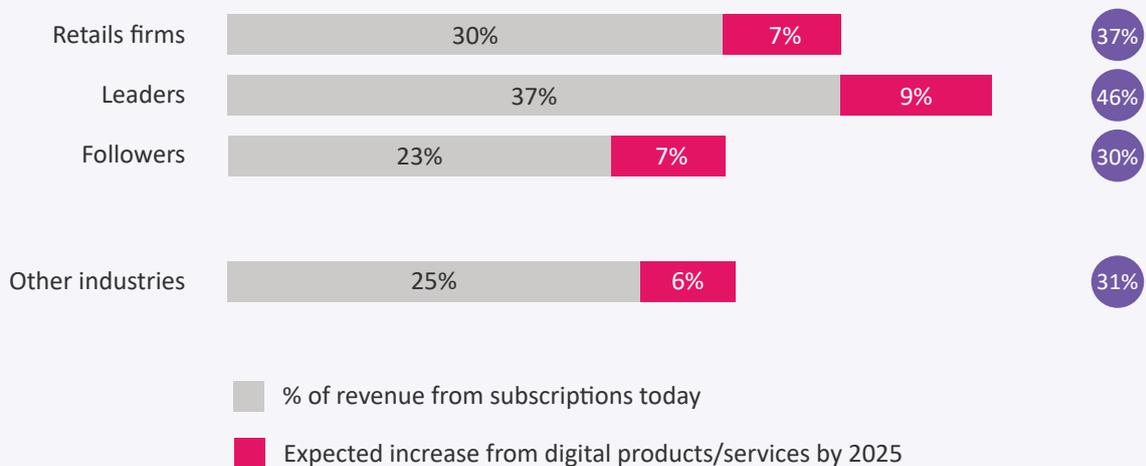


Among the notable differences, retail Leaders are far more focused on competing with these digital behemoths and upstarts, whereas Followers are struggling against their industry’s traditional Leaders. (Worth noting: 9 of the 102 retail companies we surveyed were themselves internet/e-commerce retailers, and 4 of these were among the study’s 37 retail Leader firms while 2 were among the 34 retail Followers.)

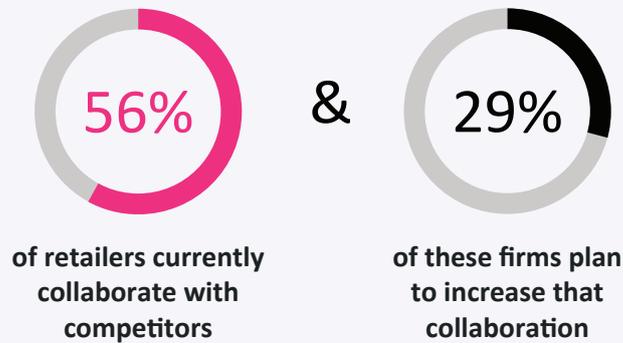
More than two-fifths (43%) of retail executives think their most formidable competition is going to come either from companies that don’t even yet exist or companies from other industries entering the retail market. Similarly, many retail executives expect their own future opportunities may not come from their traditional customer base. On average, they project that 48% of their revenue will come from outside their current industries or digital ecosystems, which is higher than other sectors (the average of which is 44%).

Retailers also believe a growing percentage of their revenue will come from subscriptions. These have already fueled the growth of Amazon (including Amazon Prime and Subscribe & Save, to name just two), Costco, and other merchants, both online and brick and mortar. The retailers we surveyed generate an average of 30% of revenue from subscriptions (see Exhibit 3). For retail Leaders, the percent of revenue from subscriptions today (37%) is already the same as the average that the overall industry is expecting by 2025.

**Exhibit 3: Expected percentage of revenue from subscription-based models by 2025**



To thrive in this new environment, retailers say they must collaborate with competitors more than ever before. Fifty-six percent are already collaborating with competitors to some extent, and of these, 29% said they will be increasing this collaboration between now and 2025. (And of the 44% of retailers who say they currently don't collaborate with competitors, 20% say they plan to start.)



Among retail Leader firms, nearly four in five (79%) already collaborate with competitors today, compared to only about a third of the retail Followers.

### Essential takeaway

Most retail respondents anticipate that of their almost half their revenue (48%) will come from outside their current industries or digital ecosystems. And to compete effectively, all retailers say they will need to focus more on collaborative relationships. Fifty-six percent are already collaborating with competitors to some extent, and of these, 29% said they will be increasing this collaboration between now and 2025.

A great example of retail competitors that collaborate closely are Amazon and Best Buy. This April, Best Buy announced an annual membership program offering free installation of devices, a concierge tech support and more at certain stores. Amazon's Prime membership model appears to be in sight for Best Buy.<sup>5</sup> That came nearly three years to the day that the companies announced a multiyear partnership to sell smart TVs.<sup>7</sup>

<sup>1</sup>CNN Business, "Best Buy launches a new \$200 membership program to fight Amazon," April 7, 2021: <https://www.cnn.com/2021/04/07/business/best-buy-beta-membership/index.html>

<sup>2</sup>The Motley Fool, "Frenemies Amazon and Best Buy Expand Partnerships," April 24, 2018:

<https://www.fool.com/investing/2018/04/24/frenemies-amazon-and-best-buy-show-coopetition-pot.aspx>

## Products and services with a digital flavor

Retailers are awash in customer data; the challenge is determining what to do with it. Retailers most frequently say their top priority is improving existing products and services, followed by improving marketing and sales, providing better customer service and identifying customer needs for new products and services (see Exhibit 4).

**Exhibit 4: Where retail organizations need to make the greatest improvements in how they use customer data**

	Retail firms	Leaders	Followers	Other industries
Making improvements to existing products and services	1	2	1	3
Providing better customer service	2	1	3	1
Improving marketing and sales	2	4	1	4
Creating new products and services	4	2	4	2
Selling additional products and services to current customers	5	5	5	5
Selling insights from our customer data to other companies	6	6	6	6

The priorities of executives at retail Leader firms more closely align with those of senior executives in other industries, ranking customer service first. Nearly two-thirds of retail Leader executives, or 62%, prioritized improving their customer service with customer data, compared to about half, or 49%, of all retail executives who did and only two-fifths, or 41%, of Follower executives. Like their industry peers, improving their existing product and service lines was also a top priority for Leader executives, but of equal value to them was using customer data to create new offerings, which mirrors the value placed on developing new products and services by executives in non-retail industries.

### Essential takeaway

For retail Leaders, providing better customer service ranked highest, but for Followers, it came in third.

# Where retailers are focusing their digital process improvements and innovations

The pandemic significantly accelerated the shop-from-home trend. It shows little signs of slowing down, even with consumers in many regions of the world inching their way back into stores. On average, about a third (32%) of retailers’ sales transactions are automated today, less than other industries report (40%). Retail executives project that number to be 43% by 2025.

We also asked retailers to think ahead to the year 2025 and tell us what set of business capabilities they believed would have the greatest impact on their companies – capabilities that would come into play due to advances in such digital technologies as cloud computing, artificial intelligence, inexpensive IoT RFID sensors that can be embedded in consumer products and 5G telecommunications bandwidth.

**Exhibit 5: Digitally enabled capabilities with the most impact for retail by 2025**

	Retail firms	Leaders	Followers	Other industries
Personalized, automated & higher-value customer experiences	1	1	2	2
Improving employee satisfaction, productivity & team collaboration	2	5	1	3
Mass customization of products & service	3	2	5	4
Highly personalized sales & marketing campaigns	3	3	7	1
Real-time automated analysis of the company’s financial condition	5	8	3	6
Highly trackable & traceable distribution	6	6	9	8
R&D simulations that prove the feasibility of product concepts & engineering designs	7	4	4	5
Production/manufacturing operations that can switch rapidly from global to local supply	8	10	5	9
Sophisticated, automated post-sales support & troubleshooting	9	6	10	7
Manufacturing that can be shifted to customers’ premises (e.g., 3D printing)	10	9	8	10

Advanced AI capabilities are gaining traction in retail because “real time” is no longer fast enough to deliver on consumer expectations in an omnichannel world. Today’s customers demand anticipatory shipping, contextualized and personalized offers, highly flexible assortments, forward positioning of inventory, fluid supply chain networks, and as mentioned earlier, strong ecosystem partnerships. Delivering on this requires an integrated enterprise with decoupled systems that allow deep collaboration between functions and the ability to concurrently optimize key performance indicators (KPIs) across the value chain to achieve shared goals. Having an algorithmic and machine-first approach is key to attain long-term competitive advantage.

With increased digitization comes increased vulnerability to cyberattacks. Retailers reported that they expect to see the greatest number of attacks aimed at finance especially, followed by their product development operations, customer databases and marketing platforms (see Exhibit 6). Notably, the retail Leader executives showed less concern for vulnerabilities in their finance and R&D functions but named attacks on their marketing function as the area of most concern, followed closely by their distribution and supply chain operations, with customer databases a close third, same as the industry overall.

**Exhibit 6: Where retail executives expect to see the greatest number of future cyberattacks**

	Retail firms	Leaders	Followers	Other industries
Finance	1	7	1	1
R&D	2	5	2	3
Customer databases	3	3	4	2
Marketing	3	1	6	6
Distribution/supply chain	5	2	7	7
Legal	6	4	10	4
Ecosystem partners	7	9	3	9
Human resources	8	5	8	8
Sales/ecommerce	9	10	5	5
Plants/production/procurement	10	8	9	10

## Leadership challenges in managing a far more digital retail industry

Retail is an industry with relatively high rate of employee turnover. It is estimated to be 59% in the U.S., compared with 15-19% for all sectors.<sup>7</sup> What strategies are retailers using to decrease that turnover and improve employee satisfaction?

The top three areas where retail leaders believe they need to make the greatest improvements in the employee experience between now and 2025 are health and safety initiatives for their employees, training and career development, and performance management and improvement. Compensation was rated eighth on our list of 11 areas, and even lower by retail Leaders (see Exhibit 7). But Leader executives also rate “creating a sense of belonging” in the top three (in contrast to Followers, especially, where it ranks eighth), while ranking performance management and improvement much lower (sixth) than the industry overall, (where it ranked third) and especially than among retail Follower executives, for whom the need to improve and manage employee performance ranked first.

**Exhibit 7: Retail industry priorities in improving employee experience**

	Retail firms	Leaders	Followers	Other industries
Health & safety initiatives (mind & body)	1	1	6	5
Training & career development	2	2	4	2
Performance management & improvement	3	6	1	1
Promotion	4	4	2	9
Creating a sense of belonging	5	3	8	8
Providing flexibility in work schedule/location	5	5	6	4
Making remote workers highly productive	7	6	2	3
Compensation & benefits	8	9	4	6
Onboarding	9	8	10	11
Recognition & rewards (non-monetary)	10	10	8	7
Recruiting	11	11	11	10

<sup>7</sup>DailyPay, “What Is The Average Employee Retention Rate by Industry?” April 10, 2021: <https://www.dailypay.com/blog/employee-retention-rate> (see also: <https://www.dailypay.com/blog/employee-turnover-rates-in-retail>)

### Essential takeaway

The top three areas where retail Leaders believe they need to make the greatest improvements in the employee experience between now and 2025 are:

- Health and safety initiatives
- Training and career development
- Creating a sense of belonging

Thinking even more broadly about their workforce and operations, what kinds of changes do retailers believe they need to make in their corporate culture by the middle of this decade to compete? It looks like Amazon founder and chairman Jeff Bezos' mantra rings loudly: customer centricity. This was at the top of the list for the retailers we surveyed, followed by innovation and diversity, inclusion and equal opportunity (see Exhibit 8).

How do the Leaders' answers compare with the Followers' answers on this question? Leader executives, like their industry overall, said their number one cultural trait as a company must be customer centricity; executives at Follower firms ranked it ninth. Standing out from both Followers and the general industry, retail Leaders' executives ranked employee experience second; for the industry as a whole, it ranked seventh; at Follower retailers, employee experience ranked eighth.

**Exhibit 8: Most important cultural values perceived for retailers in the years ahead**

	Retail firms	Leaders	Followers	Other industries
Customer centricity	1	1	9	5
Innovation	2	7	2	1
Diversity, inclusion & equal opportunity	3	8	1	3
Purpose driven	4	5	5	10
Learning/upskilling/reskilling	5	10	5	6
Quality driven	6	4	10	2
Employee experience	7	2	8	7
Environmental sustainability	8	3	7	4
Transparency	8	11	3	9
Shareholder value & financial performance	10	6	4	8
Risk tolerant	11	8	11	11

### Essential takeaway

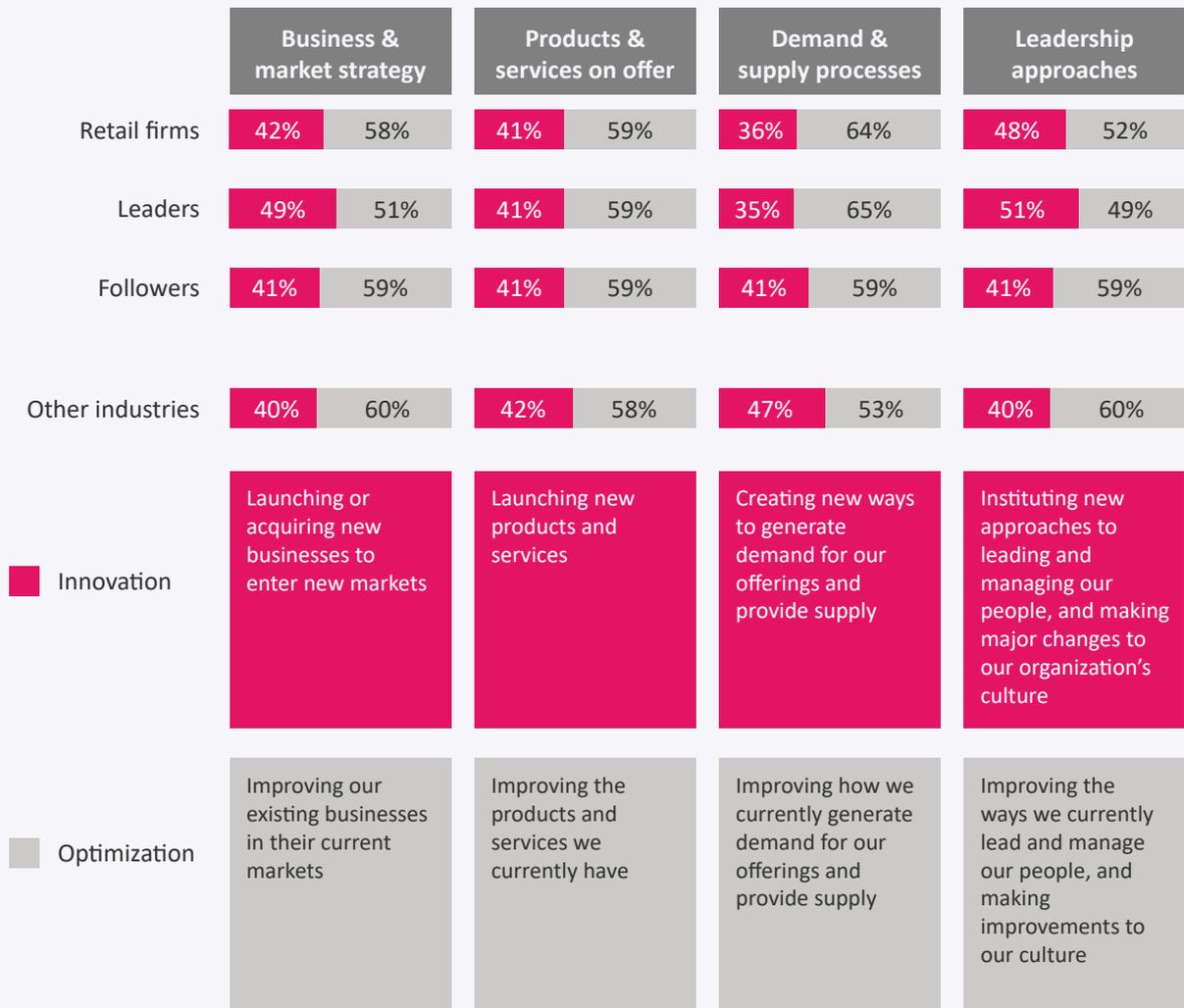
Customer centricity ranks highest with Leaders as the most important cultural value for the next few years, while Followers rank it near the bottom at #9.

# After a year and a half of retail upheaval, stay (and improve) the course

Despite ranking “innovation” as the second-most important cultural priority for their company’s success between now and 2025, retail executives were more likely to choose optimizing rather than innovating as the more important approach to addressing business and market strategy options, determining their offerings, generating demand and providing supply, and leading their employees. This was in line with the general trend of the 1,206 senior executives surveyed across the 17 industries of our study.

Executives at retail Leader firms were only slightly more likely to choose the innovation approach — despite giving it far less priority as a cultural value. For their overall business and market strategies, Leader retail executives were almost evenly split between the two options. (See Exhibit 9).

**Exhibit 9: More important for success between now and 2025: innovation or optimization?**



Whether retailers' executives find themselves focusing on new strategies, product lines, and supply chain and demand generation approaches or on improving on what they think they're already doing right, we believe *how* retailers use digital technology to make their organizations more customer centric this decade will determine which ones dominate their markets. And that, in turn, will require retailers to determine what consumers want more incisively, and where and when they want it, bringing all their human and technical resources to bear in a world in which shopping at multiple retailers and getting detailed and useful information on products is as easy as clicking on web link.

## Demographics

Of the 102 retail executives who completed our 2021 survey, a little over half (55%) work for North American-based retail companies; the remainder were spread across the UK and Europe (16%), Asia-Pacific (14%), and Latin America (16%). (Figures add up to more than 100% due to rounding.)

Half were in strategy roles, either as the VP/SVP or chief strategy officer (24%) or as the director of strategy (26%). Another quarter were charged with operations, either as the COO, VP/SVP, or corporate head of operations (16%) or as the operation director (11%). Another 23% headed up a major division or business unit of the company. In addition, one respondent was the CEO of his or her company.

For more information, read the full TCS 2021 Global Leadership Study Key Findings report [here](#)

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