Key Success Factors for Digital Transformation in the Retail Industry

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In mid-2015, IDC conducted in-depth interviews with business and IT executives across the retail industry to understand their digital transformation strategies. The research confirmed that retailers no longer question if customers shop differently and that retailers clearly recognize the importance of delivering a seamless experience through any channel.

However, not all retailers are at the same stage of delivering seamless omni-channel experiences. Not all retailers we talked with believe that their companies are doing everything that they need to do to meet omni-channel consumer needs. There is a bifurcation among retailers in a classic story of the "haves" and "have-nots." The "haves" are investing in redesigning their businesses and digitally transforming to meet current and future consumer needs. Frustrated by slow and/or limited or late tactical progress against omni-channel objectives, the "have-nots" fall further and further behind.

Action must be taken soon, as retail continues to evolve quickly, and those retailers that do not clearly define and execute on a digital transformation strategy will find themselves wondering why they suffer sudden declines in customer visits, conversions, profits, and sales. It should be noted that many retailers, even those that we would report are digitally transforming their businesses, have not yet added the phrase "digital transformation" to their lexicon, while "omni-channel" is firmly entrenched in retail strategy.

A complete digital transformation, powered by predictive analytics, is required to rewire the way capabilities are delivered to continually offer the last "best experience" the customer enjoys, driving greater loyalty and performance growth. For a retailer interested in presenting "best experiences," it is no longer sufficient to create and execute on a retail strategy devoid of an individualized customer-centric view of the customer journey and associated patterns that need to be understood, nurtured, and responsively engaged to be successful. Serving an omni-channel customer requires systemic change and technology investments reflecting a significant shift in thinking about how to satisfy and engage customers in "customer-centric journeys" and the role the retailer plays in the commercial ecosystem changes as follows:

- The retailer becomes responsible for orchestrating omni-personalized experiences and is seen as a ubiquitous selling agent and relationship master delivering relevant dialogues and offers to customers.
- Consumer loyalty and profitability are primarily a result of individualized relationship-shaping engagements.
- Enterprise inventory boundaries or constraints give way to unbounded commercial inventory availability information.

- Workforce budget minimization processes give way to workforce productivity-enabling practices.
- "Same" product can be found anywhere and competitively price matched, but product differentiation, product freshness, and product marketing targeted at honoring loyalty and capturing real estate in the customer journey increase purchase frequency and basket size.

As a result, retailers are adapting business models and ramping up investments in technologies that will enable continual alignment with, and even allow retailers to anticipate, customer needs — technologies architected to deliver fast and persistent value over time. Five critical success factors that emerged from our research are:

- Give the customer the "best experience" with every interaction by anticipating needs and meeting the customer on his/her unique shopping journey.
- Achieve a deeper understanding of the customer with every interaction that informs smarter decision processes and engagement tactics to win the battle for the omni-channel customer.
- Focus on individualized engagement to win the battle for the omni-channel customer.
- Engage in activities that support immediate and long-lasting results — architect for the future.
- Take a "revolutionary" approach toward enabling omni-channel and digital business.

Give Customers Their Last "Best Experience" with Every Interaction

Customers are measuring the retailer against their last "best experience," and every retailer that expects to be the first place customers seek to buy a product needs to work to present an engaging and fulfilling experience every time. But this requires a fundamental ability to adapt quickly to competitive pressures, changes, and consumer needs, and this is predicated on listening, understanding, adapting, and delivering disruptive capabilities enabled by well-architected omni-channel platforms.

The business driver for digital transformation in retail is to grow the business through to understand customers' needs in order to increase sales and customer loyalty while optimizing profitability. IDC's 2015 *Global Technology and Industry Research Organization IT Survey* data supports this, with 43% of respondents indicating that increasing revenue is a top priority and 24% of respondents indicating that improving customer acquisition and retention is a top priority for deploying business analytics in retail. As summarized by the president of a regional hardware chain, "A business must know who their customer is, what they buy, how often they buy, and what they want from your specific business. We need ways to collect and analyze this data."

Achieve a Deeper Understanding of the Customer with Every Interaction That Informs Smarter Decision Processes and Engagement Tactics

A radically deeper understanding of the customer informs better decision processes in a variety of analytics-intensive processes, including:

- Personalized marketing and digital pathways
- Identifying, creating, and distributing the best assortments
- Managing price competitively
- Understanding customer demand
- Cross-sell and upsell
- Revenue and profitability optimization/risk reduction
- Identifying new and complementary "journey"-driven offers, which can be delivered organically and with partners

Online retail analytics reveals much more than customer analytics in brick and mortar, and this is a challenge that advanced retailers hope to resolve by applying digital video and location-based analytics to existing customer data to essentially create journey maps of individual customer shopping patterns.

Though customer analytics and customer-facing digital technologies are the investment priority for most retailers, analytics is the backbone of inventory management, financial planning, demand forecasting, and order management. Becoming omni-channel is driving investment in enterprise inventory visibility and distributed order management capabilities. Most chain retailers apply merchandising and warehouse management software to perform inventory planning and execution, but increasingly, retailers are applying more sophisticated forecasting tools to localize inventory assortments and distribution.

According to the chief analytics officer of a large general merchandiser, "The whole industry is now trying to leverage big data and analytics to drive competitive advantage. We have been doing it for a long time in all parts of the business and are considered a leader. We are low cost and use analytics to help keep costs low by looking at the affinities of high-performing stores to change the business and mix of products on the shelves based on what is selling in stores with similar demographics and also what we keep in inventory. Our goal has always been to minimize inventory and be just in time." Even small inventory adjustments based on analytics can make a huge impact. For example, the retailer was able to use inventory analytics along with customer demand data at the store level to re-route bananas to different stores, saving the chain over $130 million a year.

Focus on Individualized Engagement to Win the Battle for the Omni-Channel Customer

For retailers, the specific technology investments underlying digital and omni-channel initiatives or transformation efforts center on creating better customer experiences through interaction and engagement that are increasingly personalized and ultimately contextualized. The path to achieving individualized engagement has been slow, laden with challenges regarding the lack of omni-channel customer data consistency and poorly aligned marketing, pricing, merchandising, commerce, and engagement tactics.

Adoption of digital and omni-channel technologies is sporadic and tactical. Many organizations have not established a single view of the customer, and virtually no one is ready to build a truly complete context-sensitive interaction with a consumer. Contextualization is in its infancy, and personalization is being attempted but is not quite at the individual customer level. Advanced retailers will continue to drive personalization efforts to more granular and impactful levels, ultimately reaching the individual customer.

From a technology perspective, retailers are starting to apply analytics and social business (for data and to perform analytics where possible) to these initiatives. According to IDC's 2015 *Global Technology and Industry Research Organization IT Survey,* retailers have invested the most so far in advancing the customer experience by leveraging social media, but there is appetite to innovate products and services tailored for the customer using social data and applying collective intelligence (wisdom of the crowd) to improve assortments, service, and value. An executive from a large grocery chain explained, "Retailers are shifting from product companies to customer focused. This involves profiling customers based on habits and preferences, but retailers need help with this shift from a process and IT perspective, and across all channels, retailers seem to be struggling with applying online principles of personalization to the store. Generally, the industry is still immature in these areas."

This level of immaturity in moving toward omni-channel retailing is primarily due to data access across silos and the quality of that data. Retailers interviewed agree that companywide integration of data sources will support omni-channel retailing, but integration is a challenge and an inhibitor. According to the CIO of a large apparel retailer, "There are still challenges in combining info across channels. Omni-channel profiles cannot be accessed in real time, and contextualization [is] not possible today. Analytics has made strides in online channels because ecommerce analytics are more advanced."

Engage in Activities That Support Immediate and Long-Lasting Results — Architect for the Future

Retailers have realized the importance of building a foundation for omni-channel commerce and digital business that improves the customer experience today, but they are also architecting systems to support business change and innovation for the longer term. Flexibility, long-term TCO, usability, and supportability are key requirements for new digital technologies.

Interviews with retailers of all sizes revealed a dichotomy between short-term results and long-term planning for digital. The smaller retailers are focused primarily on tactical functional capabilities, while the larger multichain retailers are making omni-channel investments that will enable continued innovation and allow retailers to own the customer journey.

Take a "Revolutionary" Approach Toward Enabling Omni-Channel and Digital Business

Thus far, retailers have taken an evolutionary path toward enabling omni-channel and digital business, but this is giving way to "revolutionary" approaches. Retailers that entered into an omni-channel journey early, in 2010-2013, defined omni-channel processes and business needs that were not yet served very well with off-the-shelf vendor solutions. But just as these retailers worked steadily at defining these new retail reality business processes, technology vendors were ramping up R&D investment and acquisition strategies to meet the new customer-centered, 3rd Platform-enabled business requirements. Others emerged as key innovators and enablers of doing business in mobile-, social-, and cloud-based ways. Meanwhile, well-known integrators and service providers filled a gap to facilitate becoming omni-channel (and in some cases have developed IP to support omni-channel business for the long term).

Retailers embarking on an omni-channel journey today have little tolerance for "science projects," companies that can't tell them what best practices are, and toolsets that will require years to adapt to their business. The current wave of omni-channel retail execution platform implementations should be inherently mobile, social, and cloud based, with big data and analytics applied to drive better decision processes. Retailers expect that they will be able to accelerate implementation timelines, minimize the cost of implementation, and achieve ROI faster, and these expectations are driving revolutionary innovation in omni-channel retail execution platform design and deployment. Managed services are also getting more attention as retailers seek to offload noncore business building responsibility.

Social, cloud, mobile, and analytics initiatives that support providing a better customer experience, and thus growing customer loyalty, revenue, and profitability, are top priorities among leading retailers with advanced strategies for omni-channel and digital transformation. Most retailers have adopted omni-channel strategies, but fewer have added the phrase "digital transformation" to their lexicon; but their understanding is reflected in their actions, if not their words.

Laggards have a much less mature understanding of what they need to do and often seem resource constrained to execute against transformation objectives even when they are clearly defined. However, this second wave of retailers is clearly embarking on a path toward omni-channel and digital transformation, and they will invest more heavily in inherently mobile- and cloud-based omni-channel platforms. Leveraging managed services and outsourcing the support of cloud-based solutions will enable them to meet business objectives faster, continue to innovate to stay competitive, and improve long-term ROI on technology investments.

Essential Guidance for Retailers

Knowing the customer and being able to personalize and contextualize interactions in both the digital realm and the physical realm will be business growth enablers as retailers become more focused on being 1:1 relationship builders and commerce agents. To accomplish this feat, retailers should evaluate whether they have an omni-channel retail execution platform in place that will support today's business growth plans and align innovation to predict and participate in the customer journey. Companies that fail to implement omni-channel congruent architectures and systems will struggle more and more as time goes on, as consumer behaviors become more aligned with best practice retail capabilities, which continually change and disrupt the consumer experience.

Further, digital transformation encompasses more than most retailers' definitions of omni-channel, and while there are many parallels, all retailers need to design their businesses for today and the future. The requisite change requires much more than tactical efforts to market, sell, and fulfill more efficiently today. New business models, strategies, omni-experience engagement, workforce practices, processes, and information management are all subject to change, and companies that don't get ahead of the changing trends will find competitors growing at the expense of their business performance.

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