

RACONTEUR

Roadmap to Transformation in Retail



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What does digital transformation really mean for the retail industry?

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CHANGE

Rocky road to retail transformation

The retail sector is embarking on a journey of transformation led by digital-savvy consumers

Gouri Sharma

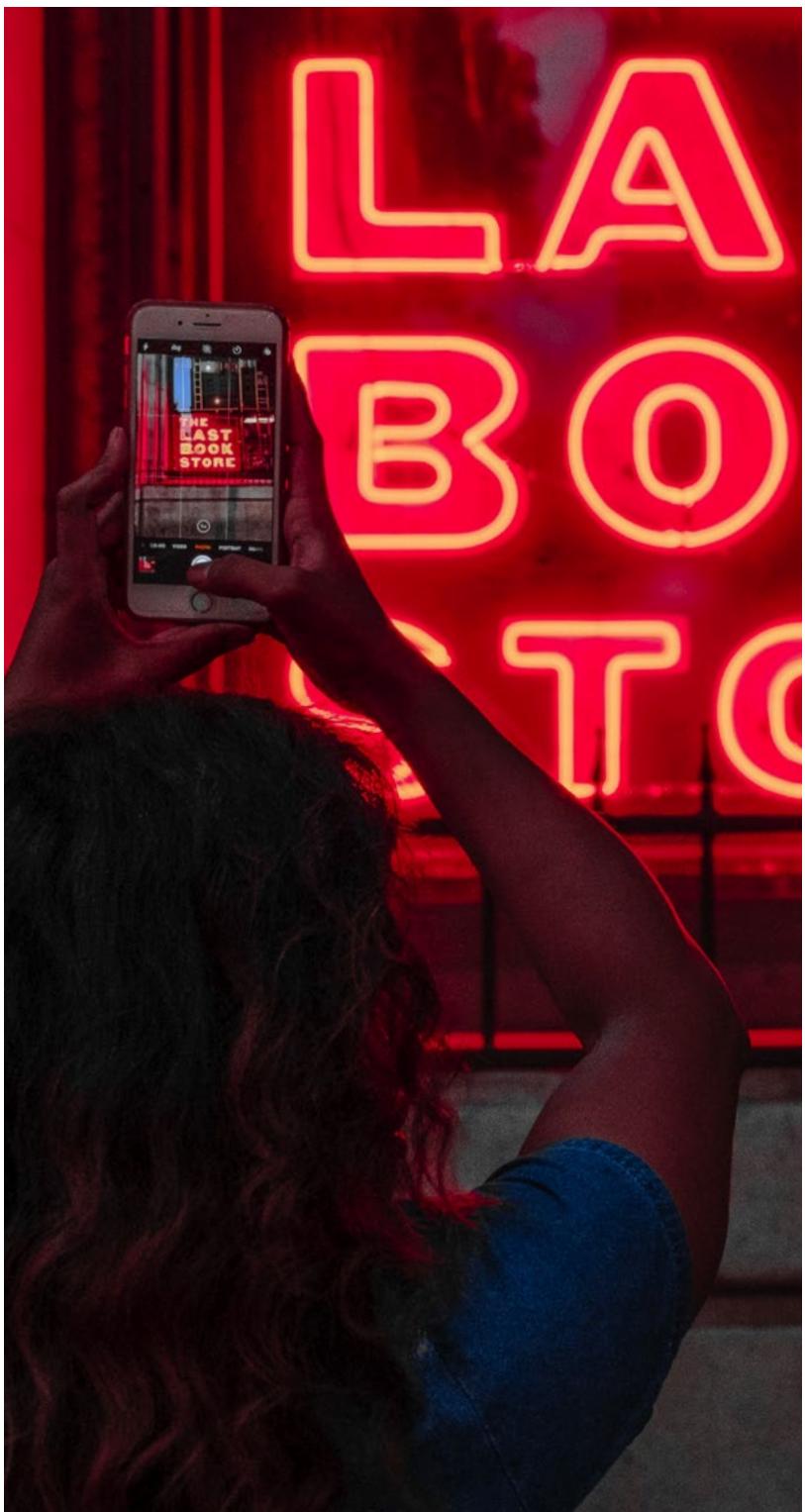
According to Deloitte: “Consumers are becoming far more informed and product choices are proliferating rapidly. Technological advances and public-policy liberalisation are contributing to new flows of information, knowledge and resources. As a result, retailers face new pressures.”

Alongside these new pressures, however, analysts are predicting significant financial returns for companies amid the changing landscape. Statista, a German-based online portal for international statistics, says the transaction value of the global digital commerce segment is expected to show an annual growth rate of 7.7 per cent, amounting to more than \$4 million by 2023.

Oz Ozturk at PwC UK says, as with the majority of transformations, changes are being led by an increasingly demanding consumer.

“Consumers nowadays want a similar experience from whichever brand or website they visit. That becomes the benchmark, so your competitors aren’t your traditional competitors anymore,” he says. “Consumers are also a lot more mobile now and travel more. Therefore, a lot more purchases are driven not by a domestic market, but by an international one.”

As a result, companies must ensure they deliver clear messages to their customers and Mr Ozturk has seen company structures adjust accordingly. “A company’s agenda is now driven by the head of marketing or head of commercial, as opposed to the chief information officer, who had previously led things.



That then drives the type of investments, in other words a business proposition as opposed to a tech proposition," he says.

Harnessing tech

Once considered a necessary evil, retailers are embracing technology's fundamental role in transforming the retail landscape. With getting to know the customer more a central purpose, analysts say harnessing new technologies will give companies an advantage.

Among technological advances being adopted is predictive analytics. Enabling companies to pre-empt future choices with machine intelligence and data-mining of past digital activity and behaviour, it's designed to help companies understand customers and meet their increasing demands.

The tool provides companies with the ability to predict key factors, such as an increase in demand, enabling them to promote specific content to their target audiences, therefore opening the door to further business. It's already used by a host of international companies, including Coca-Cola.

Hyper-personalisation is also emerging as a useful mechanism for retailers. Using technological methods such as artificial intelligence, image recognition and sentiment-based analysis, it allows companies to hear their customers on social media, creating opportunities to provide personal and real-time information suited to each individual's needs and tastes.

While there are valid concerns around internet data security and privacy, plus marketing pressures for companies to avoid a bad online marketing move, more companies, including Netflix and Amazon, are embracing this approach as they embark on their transformative journeys.

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Retail of the future is about holistic experiences, as well as taking the best each shopping channel has to offer and bringing them together



36%

of UK retailers think a lack of digital skills internally is their number one challenge to digital transformation



27%

of UK retailers think a lack of buy-in/cultural adoption of digital transformation strategy is their number one challenge

RetailWeek 2019

Novel approach

Mark Bennigsen, services development director at Columbus UK, says: "Offering to sell more, while a good thing, is unlikely to achieve better customer service. Those companies that can use personalisation in novel ways to strengthen the brand will win against their competitors."

According to the *Customers 2020* study by Walker, a consumer intelligence consulting firm, customer experience will overtake price and product as the key brand differentiator by next year. Retailers appear to be taking note.

Building on a strong brand and value system, analysts say an effective strategy would then centre around responsive innovation and intelligent interaction both on and offline, in a hybrid approach.

Suggestions include creating unique experiences, such as wine bars in shops or creating comfortable spaces for customers to experience products. It's an approach Nike has already embraced; its five-storey New York store includes an indoor basketball court and a shoe bar where customers can personalise their trainers. Similarly, potential shoppers visiting winter clothing brand Canada Goose are able to try on jackets in changing rooms at temperatures as low as 25C.

As Stephen Hewett, vice president, head of retail customer engagement and loyalty at consultancy Capgemini, says: "Retail of the future is about holistic experiences, as well as taking the best each shopping channel has to offer and bringing them together; that is the interesting evolution of omnichannel."

PwC's Mr Ozturk says there are a number of ways companies can successfully navigate the sometimes rocky road towards transformation.

"What we have found is that many companies start a transformation process, but this can be quite expensive and quite vague," he says. "It's not uncommon to walk into a retailer and find 20 transformation projects.

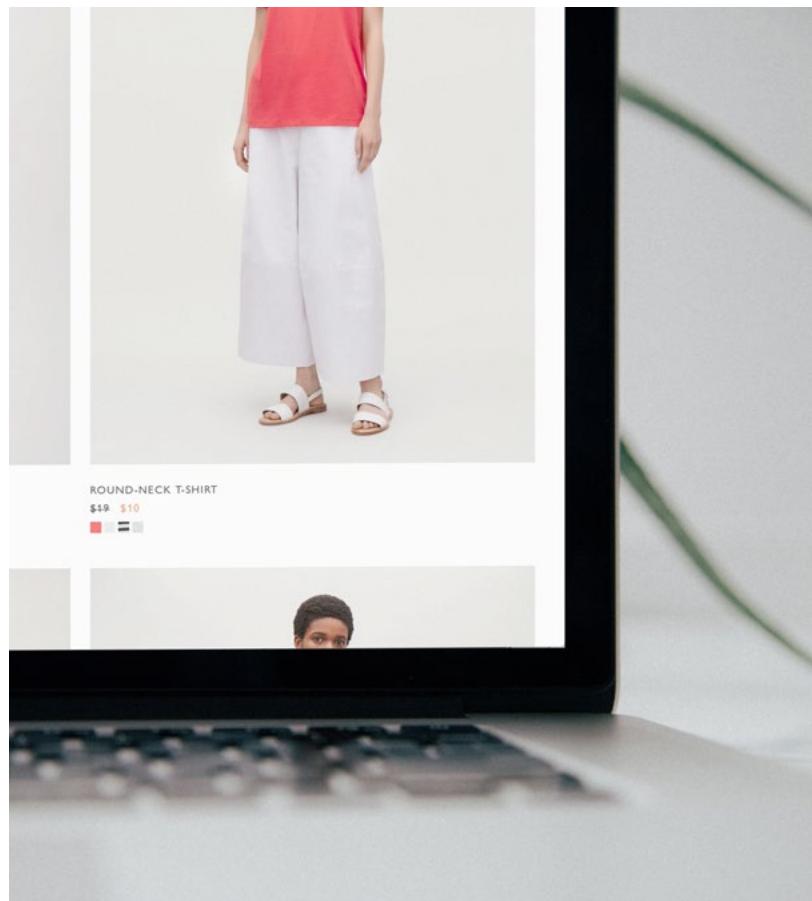
"So my first recommendation would be to prioritise what you're trying to go after, focus on that and make it your anchor for everything else you do. Then you should ensure customer centricity is key, and there needs to be strong governance and realisation transformation frameworks to prevent issues like money leakages."

"Finally, the key word when seeking to transform is 'journey'. We have often seen companies start well, but not finish well. So as you travel down this road, you need to build a level of resilience." ●

DATA INSIGHT

Predictive analytics tools transform customer journey

With consumer expectations evolving too fast for traditional marketing methods to keep up, retail brands are turning to predictive analytics to pre-empt what customers want based on their digital journey



Ben Rossi

With consumer expectations evolving too fast for traditional marketing methods to keep up, retail brands are turning to predictive analytics to pre-empt what customers want based on their digital journey

In the increasingly competitive digital economy, having a good product and an interesting brand narrative are no longer enough to grow a business. Companies must deliver the right message at the right time and on the right channels, and doing that requires an unprecedented understanding of customers' needs and behaviours.

Achieving such insights can only be achieved with predictive analytics tools, which adopt machine intelligence and data mining with modelling capabilities to enable companies to pre-empt future customer preferences based on past behaviour.

By analysing the data at a company's disposal, these kinds of advanced customer analytics tools are increasingly enabling businesses to forecast key business factors such as spikes in demand. Armed with such knowledge, they can more accurately promote content to target audiences to drive repeat business.

Coca-Cola uses an analytics platform to merge, prepare and analyse data from multiple disparate sources and make insights accessible across the organisation. This enables the company to predict which components will require maintenance in the near future and what provides the best product mix across different regions.

"One of my biggest wins of late involves the Coca-Cola Freestyle machine, a touch-screen fountain that allows users to create their own perfect mixture of flavours," says Jay Caplan, senior business analytics manager at Coca-Cola. "Consumers love it because they have the freedom to customise and choose what makes them happy. We love it because we get a level of insight into the Coca-Cola experience that has never been possible."

From mobile devices and apps to the internet of things, machine-learning and artificial intelligence, consumers are now exposed to a vast array of powerful technologies. This has created a new kind of buyer who is constantly connected and expects relevant, convenient and responsive engagement across every interaction with a company.

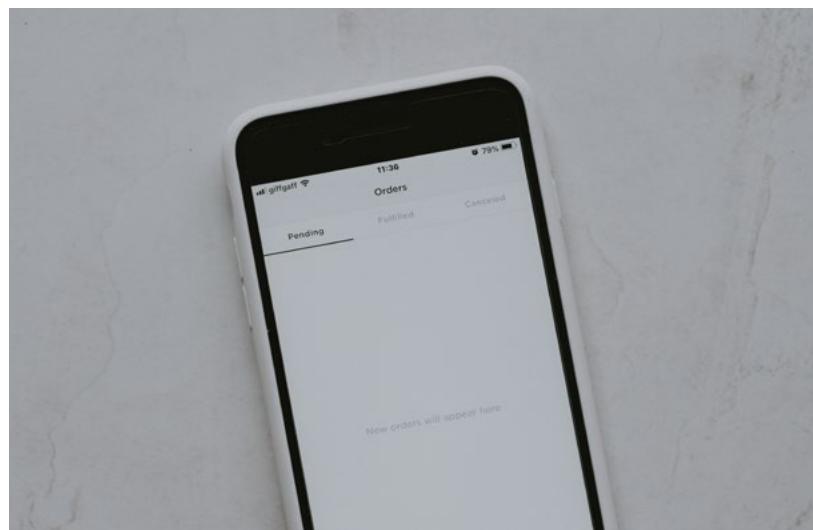
The smartest brands go beyond cookie-based advertising and utilise customer-behaviour tracking to analyse both declared and undeclared user preferences through clicks, mouse movement, inactivity and time spent per page. Customer desires evolve constantly and predictive analytics enables companies to track behavioural changes. In the near future, it is also likely to change how consumers want to pay for products.

“Dynamic pricing, or pricing based on supply, interest or competitor’s availability, is an ageing game,” says Sal Visca, chief technology officer at Elastic Path, which develops an application programming interface-based commerce platform. “Instead brands have a real opportunity with personalised pricing. What is the buyer doing in real time? Are they a loyal customer? Are they highly engaged and have they added a product to their cart without buying? It looks at these factors and more to find a price that’s more attractive to a buyer in an individual moment.”

Digitalisation has both reshaped and extended the customer experience, while putting power in the hands of the consumer. An abundance of information is right at the fingertips of consumers, which means they can research every individual aspect of a product before deciding on a final purchase. This has resulted in a staggering increase in the interactions between the consumer and supplier.

In sectors such as travel and hospitality, and of course retail, the number of interactions behind a single transaction has more than doubled over the last decade to more than 1,000, according to Huw Owen at engagement database company Couchbase.

“Where once holidaymakers browsed brochures in travel agents to book their summer getaway, they now head online to search every combination of destination, flight and hotel to identify what’s right for them,” he says. “In



of respondents said their company was using advanced and predictive analytics to provide greater insights and contextual intelligence into operations

MicroStrategy 2018

the process, they’ll share information about their preferences, which is used to further personalise offerings to secure a sale.”

Data on customer behaviour enables organisations to craft a much more unique customer journey, one tailored to each individual. Such capabilities represent a significant shift in how businesses engage with customers.

Previously, customer experience was transactional; just 15 years ago, simply having a website and the ability to process payments was seen as the pinnacle of customer engagement. By gathering a plethora of data, brands can now build a 360-degree view of the customer to provide more personalised experiences and anticipate customer needs.

“The sheer volume of this data, the increase in interactions, the need for real-time analytics and the momentum as more and more people shop online mean companies must modernise how and where they store and manage data,” says Mr Owen. “Organisations that adopt databases designed to enable customer engagement will be the ones best positioned to build truly fantastic customer journeys.”

Indeed, the opportunities relating to predictive analytics are huge, but with underlying technologies such as artificial intelligence and machine-learning relying heavily on data, it’s crucial accuracy is maintained. Intelligent predictions drive better business outcomes, but when they’re inaccurate because the data they used was insufficient, this can result in biased decision-making. It’s therefore paramount that organisations have their data in a clean, accurate and organised state before embracing advanced analytics tools. ●

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Digitalisation has both reshaped and extended the customer experience, while putting power in the hands of the consumer



CUSTOMER

Hybrid retail experience of the future

Building an effective omnichannel retail strategy, which unites user experiences from high street stores to mobile-browsing and everything in-between, continues to present a challenge for brands and retailers

Heidi Vella

Research shows consumers still value different ways of shopping and brands that do not engage with customers at every opportunity risk losing sales.

A report from retail property specialists Revo, with research by consultancies CACI and GlobalData, found that while sales are growing faster online, 86 per cent of total sales involve a physical store either directly or indirectly, compared with just 14 per cent purely online.

However, most retailers still operate online and offline in completely separate silos, or focus primarily on one or the other. But with a plethora of choice at a customer's fingertips, brands can no longer rely on inertia for sales, and must have an offering on each channel that is unified, exciting and, above all, relevant to customers.

"If you're not relevant, consumers can quickly go elsewhere and some of the big brands are struggling because no one feels passionate about them," says John Zealley, senior managing director and global lead of

the customer insight and growth practice at consultancy Accenture.

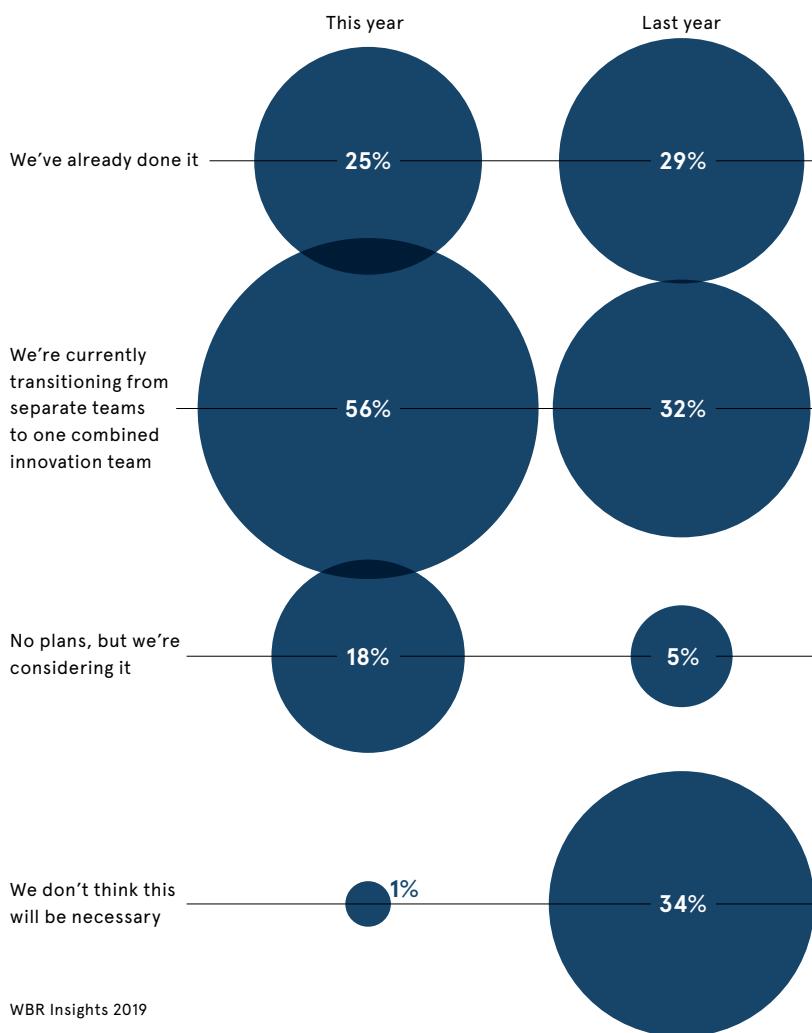
According to Mr Zealley, brands need to embody both purpose and personality to draw in consumers. "The first step is to create a business that fundamentally means something to people and they buy fully into its values," he says.

This is a concept that arguably started with The Body Shop, he notes, but brands such as Nike, which has reinvented itself for consumers serious about sport, now embody well.

Along with a robust value proposition, which offers more than simply many things for sale in one place, retailers need to incorporate responsive innovation and intelligent interaction both on and offline.

UK RETAILERS STILL NEED TO CHANGE THEIR BUSINESS STRUCTURE

Do retailers plan to restructure their organisation to better meet the needs of their omnichannel proposition?



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Retailers can make room for wine bars and places for people to sit and experience the products on offer

"Retail of the future is about holistic experiences, as well as taking the best each shopping channel has to offer and bringing them together; that is the interesting evolution of omnichannel," says Stephen Hewett, vice president, head of retail customer engagement and loyalty at consultancy Capgemini.

Companies can attract customers to stores by offering unique and personalised experiences that showcase their products and can't be had online.

"There is a huge amount of latent engagement with consumers to be had. Retailers can make room for wine bars and places for people to sit and experience the products on offer," says Mr Zealley.

For retailers, this might mean having fewer but better shops, or specially selecting in-store merchandise to display based on ongoing trends or the ability to purchase personalised products.

Many brands are already doing this well. Nike's five-story, 55,000sg-ft store in New York features a mini in-door basketball court and a shoe bar where shoppers can personalise a pair of Nike Air Force trainers. At premium winter clothing brand Canada Goose, customers can try on jackets in specially created changing rooms at temperatures as low as -25C.

In fact, the *Customers 2020* study by Walker, a consumer intelligence consulting firm, says customer experience will overtake price and product as the key brand differentiator by the year 2020.

Good customer experience can also include incorporating the perks of both online and offline shopping in both channels. For example, when customers browse clothes online, an algorithm might make outfit suggestions.

Pete Ballard, chief executive at Foolproof, a global experience design agency, says this service can be replicated in-store using technology such as near-field communication



chips on pricing labels. When scanned on a smartphone, the tech will flag matching items or even enable the shopper to choose a model with a similar body shape to see how the item might look on.

"The benefit of the online experience is brought in-store and coupled with the strength of being in the shop, such as touching and feeling the fabric and seeing its quality," says Mr Ballard.

Retailers can use technology to reduce known in-store-shopping pain points for customers, such as offering home delivery and mobile payment to avoid queues.

In China, mobile payments apps such as WeChat, which operates in physical stores via QR codes, have been a huge success. Transaction volumes via WeChat went up from \$11.6 billion in 2012 to \$1.2 trillion in 2016, according to KPMG.

Conversely, Argos has had success offering a click-and-collect service and last year launched a partnership with Google Home so shoppers could reserve items for in-store pick-up using a voice command.

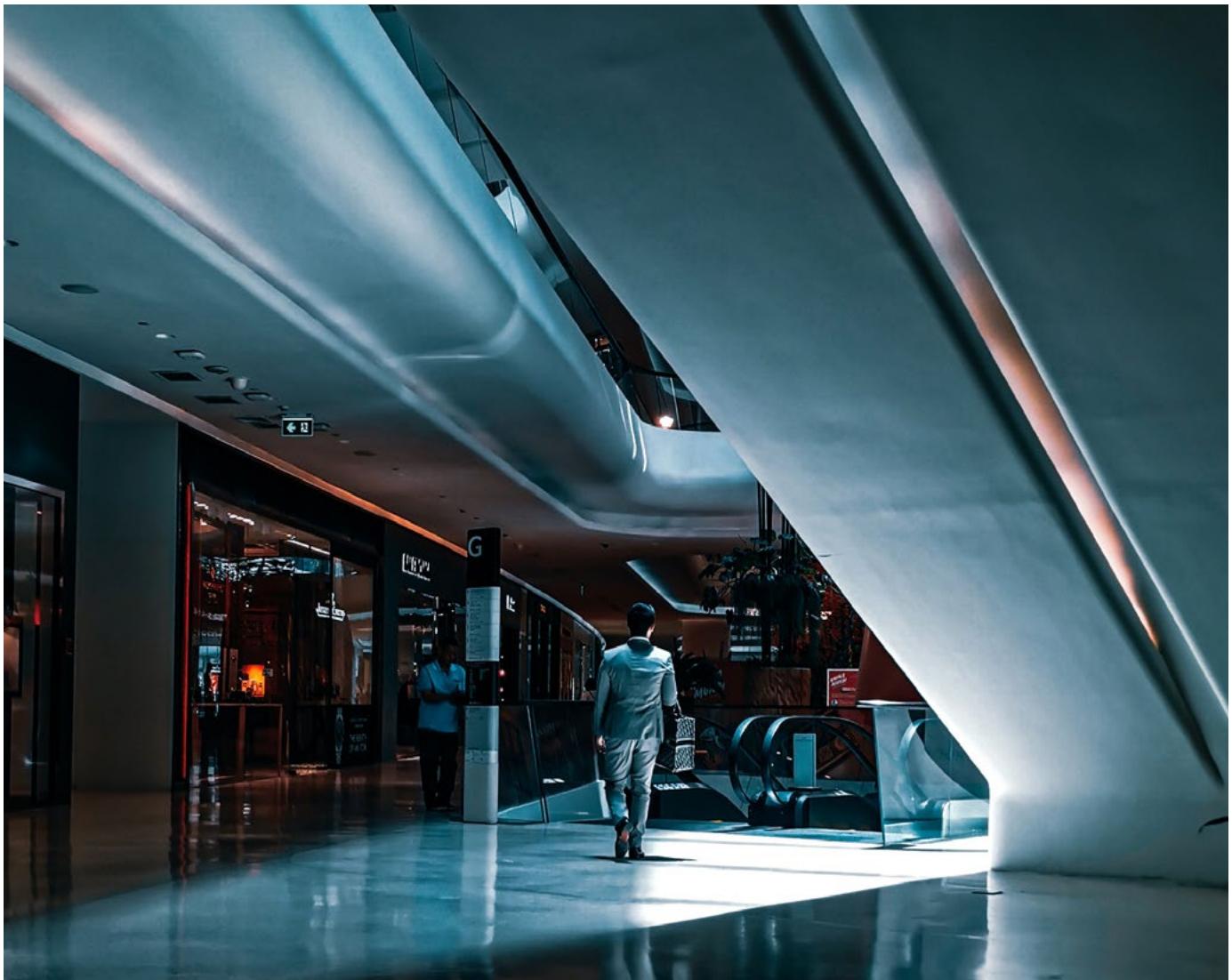
Whenever a customer interacts digitally with a product, whether in-store or online, it can provide retailers with new insights, for example to offer better, more comprehensive loyalty programmes that function both in-store and offline, says Mr Ballard. "This can create a two-way dialogue rather than a piece of static plastic in a purse," he says.

IT network integrator LAN3 install smart wifi for retailers that can alert the store manager if a VIP customer walks in, so they can greet them by name and improve their experience or even create personalised offers.

The future of retail is multichannel and experience driven, yet ultimately it still focuses on understanding what the customer wants and giving it to them, says Martin Newman, founder of The Customer First Group.

"As long as what is being offered is relevant, consumers will be open to it because it provides them with value, whether it is a discount or good content or a useful service," he says.

Capgemini's Mr Hewett agrees. "Retailers need to understand a customer's behaviour and who they are, because real customer insights can transform into real benefits. Cracking this will make the people who shop with you continue to do so," he concludes. ●

**PERSONALISATION**

Retail brands get hyper-personal in the digital age

Technologies such as artificial intelligence are enabling brands to transform customer experience with hyper-personalised recommendations, but numerous pitfalls lie along the road to getting to know your customers

Stephen Armstrong

Hyper-personalisation is an algorithmic or machine-learning based technique which can enhance customer experience by providing dynamic, real-time and tailor-made information on a client-by-client basis. Rather than lumping consumers into groups, as marketers have done traditionally, it allows brands to personalise offers to each individual customer linked to their unique taste, habits and buying behaviour.

Companies are implementing hyper-personalisation tools to gain a deeper understanding of when and what a particular customer is likely to buy through tracking their previous online activities. The technology also allows retailers to "listen" to customers on social media using artificial

intelligence, image recognition and sentiment-based analysis, and then make smarter business decisions.

While some consumers are willing to share a lot of personal data to get hyper-personalised recommendations, others are hesitant due to data privacy and security issues. With a constant flow of stories in the media covering large consumer data breaches, customers increasingly want to know how secure their data will be. Some are concerned about whether humans are giving too much control to technology.

"It may appear that our preferences are shaping our future buying behaviour, but you could also argue that we are getting into a buying reinforcement loop where we are subconsciously driven towards buying more and more," says Shweta Singh, assistant professor of information systems and management at Warwick Business School.

Multichannel

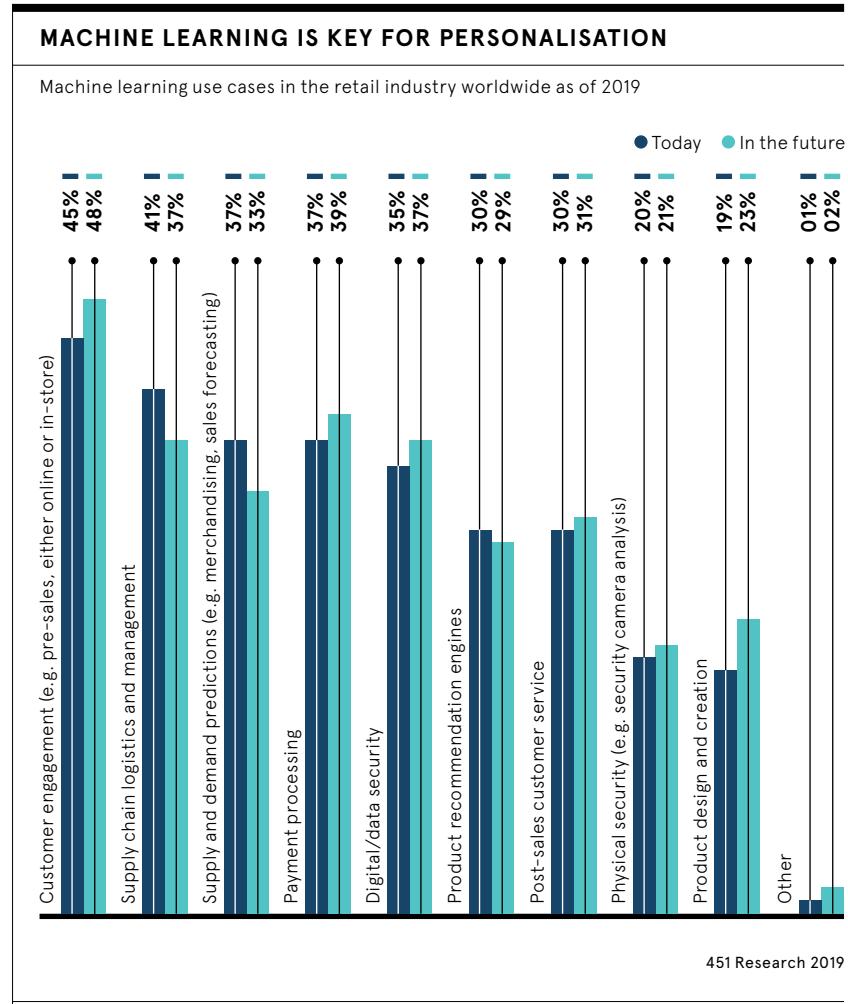
The key to successful hyper-personalisation is doing it in a multichannel way, though this does present challenges. There is the need for a connection between a brand's product design process and its marketing, customer experience, ecommerce sites and stores. To bring all these together, businesses have to throw various different technologies into the mix.

However, hyper-personalisation is only as good as the data you put into it. Consumers may be demanding more from their digital journey, but businesses can't afford for them to have a bad experience as it negatively impacts on their perception of the brand. What happens if customer service isn't aligned to customer delivery?

"Get personalisation wrong and the fallout can be catastrophic, especially in today's realm of social media," says Peter Ruffle, chairman at analytics software firm Zizo. "One misplaced post or lack of interaction becomes a hole in a brand's armour. A brand's delivery needs to be better, faster and smarter."



Those companies that can use personalisation in novel ways to strengthen the brand will win against their competitors



In an age where loyalty comes at a price, it is important to keep your best customers close by delivering them the best experience, one that is personalised to their needs."

While the ubiquity of dominant hyper-personalisation adopters such as Amazon and Netflix may make the technology seen more widespread than it is, recent research from analytics software specialists SAS showed that only 8 per cent of businesses can currently personalise to a segment of one. With enhanced customer engagement and loyalty on offer, it's clear that companies able to leverage this innovation are likely to get ahead.

Novel approach

Companies are steadily getting better at personalising the customer experience. Mark Bennigsen, services development director at Columbus UK, says this goes beyond just giving recommendations for additional purchases. "Offering to sell more, while a good thing, is unlikely to achieve better customer



service. Those companies that can use personalisation in novel ways to strengthen the brand will win against their competitors.”

Nike and adidas, for example, enable customers to create their own trainers. Seeing that people want to do things their own way, they are migrating from mass production and immersing customers in their brand by empowering them to design a bespoke product. Mr Bennigsen poses the question: “If a project can be customised, then why can’t service?”

Another company that has demonstrated the power of hyper-personalisation is online retailer Shop Direct, owner of the Littlewoods and Very brands. Over the last five years, it has evolved from a catalogue retailer to the UK’s largest integrated pure-play retailer,

driven by its ambition to deliver the world’s most personalised shopping experience.

It now has one of the UK’s most advanced real-time recommendation engines, powered by technology from SAS, so customers get instinctive, relevant and personalised suggestions, navigation and pricing. This has enabled Shop Direct to take its business to the next level, and keep up with customer needs and expectations.

“SAS helps Shop Direct convert browsers to buyers more often by providing an industry-leading personalisation platform to encourage order completion,” says Tiffany Carpenter, head of customer intelligence at SAS UK and Ireland. “It has also introduced advanced social targeting, helping to drive traffic from people’s news feeds on to the Shop Direct site.”

With data driving how brands interact with consumers, and in an automated fashion, it’s vital that businesses establish a cross-organisation team that understands how that data is being collected and where it’s coming from. It’s also important that there is always a human eye casting over the automation across marketing platforms. Even with the sophistication of artificial intelligence, the wrong algorithms can be utilised resulting in incorrect information going out which can do great damage to the brand. ●

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