



Digital Transformation in Retail: Ten Trends Accelerating Disruption

Amazon's acquisition of Whole Foods put the world on watch: The Digital Transformation of the largest segment of consumer spending¹ is about to begin. Pundits have been offering their hot takes on this truly disruptive deal — home delivery, big data analytics, robots in stores, or simply a strong demographic alignment between the high income of Whole Foods' shoppers and Amazon Prime. But the real story is one of key trends in retail and how much faster these trends reshape the industry.

While retail was one of the first industry segments to “go online,” to date we have yet to see the industry shifts experienced by Financial Services, Transportation, Hospitality, Energy, and Media. In the United States, only 8.5% of all retail sales were conducted online in the latest quarter². Europe holds the same percentage as a whole (though UK and Germany are well ahead of this pace). Amazon, by the way, accounts for 53% of that share, as well as much of the overall growth of the American retail sector. Alibaba's dominance in China tracks in parallel.

Retail is ripe for digital transformation. The 10 emerging trends presented here will likely define the new state of how we buy and sell. They will no doubt separate leaders from laggards, and those that build even higher levels of loyalty from those that cease to exist.

1 US Census Bureau. Excludes spending on new and used vehicles.

2 US Census Bureau. Q1, 2017.

1 | BEYOND OMNI-CHANNEL, SEAMLESS AND FRICTIONLESS ENGAGEMENT

While it's convenient to measure digital penetration based on simple measures like "online sales," that perspective is no longer a measure of leadership. Instead, digital transformation in retail goes beyond traditional views of channel (ecommerce, physical stores, call centers, apps). Instead, the goal is to remove the walls that exist between and among channels so that consumers can evaluate purchase decisions, pay, and receive goods at anytime, anywhere.

The execution process that moves from adding more diverse channels to essentially eliminating all friction between channels is significantly more challenging. Most retailers remain siloed with respect to channel-based organizations, budgets and the technologies that drive current customer experiences. It is the role of digital transformation leadership to envision customer experience and execute against goals of consistency and convenience while lowering the overall costs to the organization.

2 | AGAFA—NOT MARTECH RESHAPING RETAIL

Financial Services has seen much of its transformation led by FinTech (financial technology, digital native) start-ups. In retail, we will more likely see the largest disruption from a group of established—and massively penetrated—incumbents: Alibaba, Amazon, Apple, Google, Facebook. While the obvious advantages of market share and online experience come to mind, the real advantages these companies have is trust. According to research on consumer loyalty and digital transformation originally co-authored by Razorfish and TIBCO³, trust is the hardest to measure contributor of customer loyalty, but also the one most deeply engrained and emotionally based. In addition, consumer scale, the strongest data analytics, influence over payments, and distribution networks sure add to the case for sustainable leadership.

3 | MOBILE AS THE COMPANION, NOT MERELY THE CHANNEL

Too often the goal of "mobile first" is stated as the guiding principle for investment in digital. As an end goal, what mobile first often gets wrong is the narrow focus on the transactional aspect of smart mobile devices. The real story of mobile-led digital transformation is not how you enable a purchase, but how you put mobile at the core of every aspect of the retail customer journey.

The key to an effective mobile strategy is to first recognize that our phones go wherever we go; they've become highly connected extensions of our brains. Mobile is not just first for shopping, it's first for much of how we go through life. A great way to think about the practical connection of mobile to retail is to prioritize what phones do well (and to some extent deprioritize what they do not). Phones take pictures, they play music, they elicit immediate direct connectivity through messaging, they provide seamless interconnectivity to our friends via social media, they focus repetitive tasks through well-designed apps, they push information to us in real time, they note and share our exact locations. Phones even make phone calls. On the flip side, phones actually don't do such a great job as a browser. Digital leaders should worry more about not merely completing the transaction, but also everything before and after the sale.

³ Razorfish. Liminal: A Razorfish Analysis of Customer Engagement in Transition. 2011. http://liminal.razorfish.com/downloads/Liminal_final_PRINT.pdf

4 | AI - MORE THAN CHATBOTS

Artificial intelligence differs from great algorithms and models in the ways the computer “thinks” about the problems it solves. Where computers traditionally processed on a linear sequential fashion, AI actually mirrors the brain’s ability to process in parallel. A current example is the increasing use of AI chatbots—the intelligent two-way interaction between customers and computerized service representatives—to address increasingly complex (but ultimately knowable) inquiries. But this is merely the beginning for AI in retail. Retail, especially everyday spends like groceries, contributes significantly more consumable data for training AI models. Facial recognition may provide identity in stores the way that cookies recognize us online. Preferences of what we uniquely want, how we shop, how we save, and where or when we want our goods delivered can be pin-pointed in increasingly nuanced and occasion-specific ways.

5 | CONTEXTUAL RELEVANCE AT THE HEART OF PERSONALIZATION

To be clear, personalization is not retargeting or even “people like you also viewed...” The goal of personalization is to deliver through the ideal channel a bundle of messaging, imagery, and value that is tied to your historic behavior. All this content and information is then linked to the quantitatively-derived expectations for what would suit you best and linked to many other people a lot like you who have shown similar propensities for taste and action.

The most challenging aspect of personalization however is the ability to determine and assess deep context almost instantaneously so that elements of personalization can be acted upon when it most matters. Context can be comprised of many variables: location, past behavior, purchase occasion, current browsing (including what you may have dropped into your shopping basket or tried on in a changing room), the weather, time of day, or traffic conditions. Context defines personalization in ways that historic targeting can never hope to achieve on its own.

6 | NEXT BEST EXPERIENCE

Until recently retailers focused on the idea of “next best offer.” Essentially, once an action was taken (a purchase, a cart abandonment, an email click-thru), what would be the deal-focused communication that would come next? The logic is right: use advanced analytics such as product affinity analysis to predict a logical cross sell to accompany a concrete action. The opportunity today is to significantly broaden that capability by more explicitly tying back to the mapped customer journey, relying less on discounting to drive engagement and instead expanding the use of advanced analytics to refine the logic.

In determining Next Best Experience, the retail marketer and data scientist are able to tap into and utilize a much more sophisticated set of data: contextual awareness, real-time segmentation and targeting, lifetime value modeling, and an overlay of customer satisfaction drivers such as available inventory, queue length, and customer loyalty recognition. Data scientists will also jump on the opportunity to vary next best experience systematically to build their knowledge of message strength and short or long term customer value.

7 | CONTINUOUS ADAPTIVE LEARNING

The finish line of personalization is always moving. What may have held true a week ago, often loses its relevance as inventories diminish, as prices adjust, and as competitors read and respond. Additionally, the models we use to determine our “next actions” or define our “next experiences” are merely best estimates of the highest and best outcomes.

By building a culture of continuous learning, we never lose track of our need to iteratively improve. Whether improvement is a function of changing conditions or a better algorithm (or both), building in a process of structure experimentation into every campaign and new initiative allows organizations to learn and adapt.

8 | CUSTOMER JOURNEYS: MORE PLEASURE, LESS PAIN

Regardless of the channel, or even beyond the channel, a top priority for retailers is to focus on defining, refining, and actively measuring multiple customer journeys. Without a firm understanding of the start and destination of change, digital transformation tools cannot effectively drive the disruption that retail leaders hope to attain.

When journey mappers begin, they tend to focus on identification of pain points, of eliminating extra steps, of simplifying processes. Common areas of pain that digital transformation can effectively address include process efficiency and simplicity; lines and wasted time; returns; and broad elements of payments, product, and privacy trust. But retailers should also focus on points of pleasure: surprising and delighting to reward loyalty, making personal connections, anticipating needs, and solving complex purchase decisions.

9 | SPEED, INNOVATION, AND MOVING BEYOND THE FEAR OF FAILURE

While the trend in retail is to shed the hardware components of their business (get out of the on-premises server business), the stronger trend is to invigorate and accelerate the pace of innovation with respect to customer experience. In essence, the most disruptive retailers are now squarely in the software development and deployment space.

To be effective, software companies, and retailers—like their peers in financial services, transportation, and hospitality—must quickly embrace a faster-paced, agile DevOps mode of execution that aligns the business with developers and significantly changes the pace with which new products and applications are brought to market. In addition to a process revolution, this mode of execution represents a significant change in the assessment and measurement of risk. Digital transformation leaders measure the opportunity costs of delay; they have the means of assessing impact and the ability to rapidly pull back and improve if necessary. Retail leadership recognizes and rewards team members who increasingly stretch their own comfort boundaries.

10 | A NEW VISION FOR THE PHYSICAL STORE

A major topic of discussion in retail has been the dramatic down-sizing of store counts and the abandonment of once active malls. While many have pointed to the rise of ecommerce as the cause of this shift, we must instead place the responsibility on an outdated retail customer experience. Simply put, traditional stores (and the locations where retailers placed them) did not keep pace with a different, more experiential set of consumer expectations.

The successful retail store of the future must be compelling to experience, simple to navigate, and ultimately free of the frustrations we often feel. Store designs will reflect the possibilities of discovery and eliminate the need for full-line inventory. Consumers should not care where the product is, but merely how easy and how fast it can be delivered to where they need it.



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