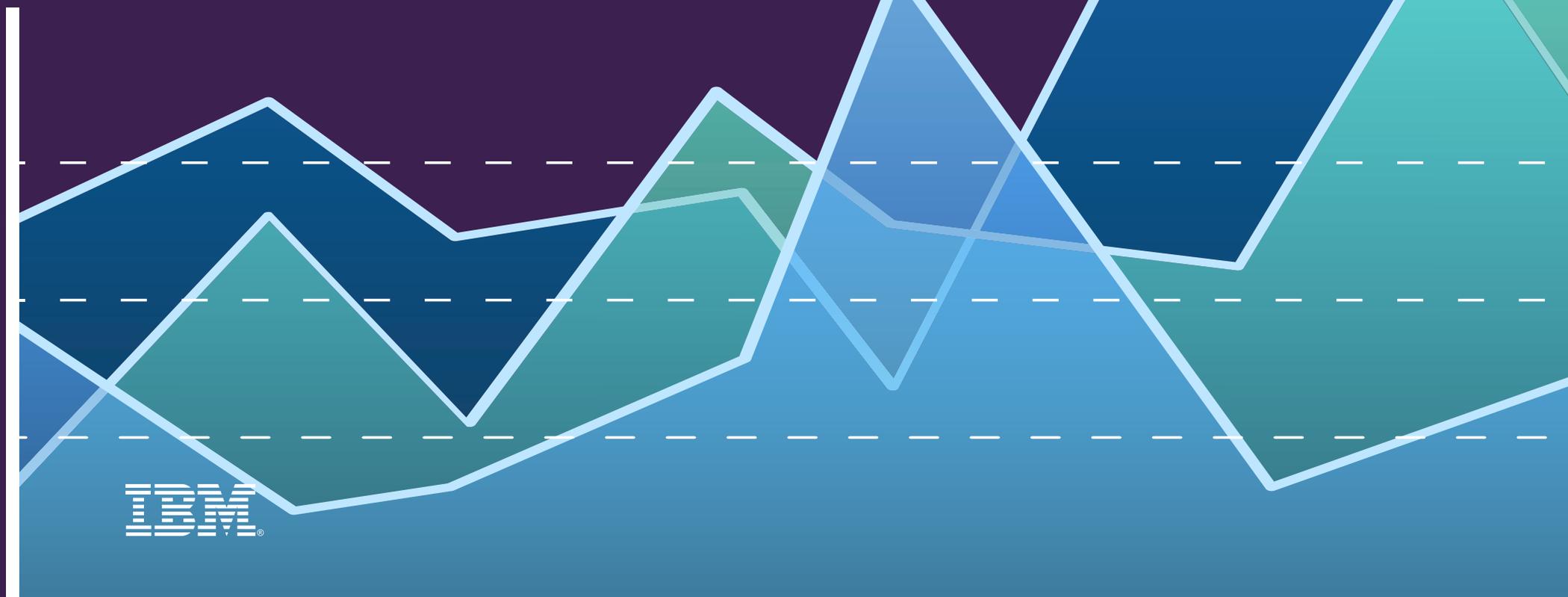


6 Key Commercial Trends for 2017



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The wave of disruption will continue: Are you ready?



Lori Webber,
Director of Marketing,
Watson Commerce

Uber. It strikes both fear and awe in the hearts and minds of many business leaders. It seemed to come out of nowhere and quickly became a household name. In business today, if you're not expecting – and ready to react to – unannounced change, you might just be the one changed ... and it may not be for the better.

Businesses must *be* agents of change.

In our 2017 Commerce Trends report, you'll read a lot about disruptive change – and there is an upside here as disruption can lead to innovation, breaking from “the way we've always done it,” to providing a whole new perspective on something we thought we knew so well — our customers, our business process, our priorities.

The trends in the pages ahead speak to how business today must deepen customer engagement through personalization and innovation, which in turn, drives brand loyalty and fuels growth. It's no longer a one-way street

where a business decides what's relevant; it's a conversation where it's incumbent on firms to build and maintain evolving relationships, not simply assume they exist. But creating relevant and intuitive experiences for customers — throughout the buying journey — means that firms must capture all the data created at various customer touch-points, using it to create even *better* experiences. The cycle never ends.

Then there's the challenge of dealing with the burgeoning amount of data. This is where businesses who are using cognitive are leading the pack. They understand that it is not the data that is important, but the insights and the ability to act quickly that really counts. With cognitive illuminating the opportunities and risks, merchandisers, content creators, field sales, fulfillment teams and store associates can all easily understand market changes as they occur, and optimize actions in real time to deepen customer engagement, drive customer loyalty and increase revenues.

I hope you find this read as interesting and thought provoking as I do. Most of all, I hope you can put some of this insight to use in creating a strategy and action plan to address these powerful forces in the marketplace.

Trend #1: The conversation is just getting started – but who are you talking to? (The rise of chatbots)



Peter Wharton,
Watson Commerce
WW Portfolio Marketing
Leader

Recently I was introduced to GWYN, Gifts When You Need, from 1-800-Flowers. GWYN is a personal gift concierge, designed to intuitively guide a customer through the process of selecting a gift from across their multiple brands. It changes how I interact with the brand by enabling me to ask for help as if I was speaking with a store associate. For example, GWYN asks me who the gift is for and remembers this context when asking further qualifying questions about the occasion, the sentiment, and the type of gift. She does this to ensure she shares the appropriate, tailored gift suggestion for me – and any other customers.

Here's the big shift. I now expect this type of customer experience from market-leading, innovative brands, starting with the ordering process, all the way to delivery and interactions like GWYN that provide a “conversational” approach to commerce. This is what it takes to get a share of my wallet. I expect I am like many

consumers – I predominantly shop online using either my phone or tablet, I shop at a small group of brands that both match my lifestyle and make the experience fun and easy to navigate — from purchase to fulfillment.

GWYN is a type of application called a chatbot, which uses artificial intelligence (AI) to enable brands to communicate with customers in powerful ways. Driven by advances in Natural Language Processing (NLP) and increased computer processing capabilities, chatbots, powered by technology like Watson, can create conversations that provide the illusion that you are speaking with a human. What's really exciting is where I can envision this technology going. Imagine being able to embed a chatbot wherever the customer wants to engage. No longer do I need to drive customers to my website, I can engage with them where they want based on their lifestyle - directly in their social networks, embedded in a process or application at work.

My expectation for the technology doesn't stop there! As a buyer in business, I want to buy when and where I want, and frequently, I want to do it from a mobile device when I am out of the office. The smaller mobile screen doesn't lend itself to creating an ideal experience to quickly search for

the right widget that meets the exact technical specifications required to keep the production line operating. What if a chatbot could learn from and maintain my buying history, understand the subtle differences between similar specifications and serve up only those that match my requirements? Now further enrich the experience and take into account the terms of my contract, entitlements and items that are stock or can meet my delivery expectations. Suddenly the buying experience has become so much easier.

Conversational Commerce, driven by AI and NLP, delivers the experience with the convenience and speed that I desire – and the brands that make it easier for me to buy from them will be the ones where I will choose to spend my money. And I am willing to bet that I am not alone, that there are many other consumers and buyers in the B2B world who think the same way and want the same type of experience. For me, this is the future of commerce, whether it's B2C or B2B. I love the idea of the interaction turning into a conversation, one that helps me identify what I am looking for and makes recommendations that opens my eyes to all my options.

As a customer, I want it all! And to win my loyalty you need to speak my language.

Trend #2: Cognitive technologies are bringing back the personal retail experiences of the past



Stephen Mello,
VP, Strategy & Offering
Management,
Watson Commerce

The use of multiple channels in one transaction is now business as usual for consumers, and this “new normal” offers retailers a great opportunity to differentiate themselves. In a recent IBM consumer expectation study, 74% of consumers surveyed said that in-store pickup of an online or mobile purchase is important for them in choosing to shop one retailer over another. However, the ability to offer this capability is just half of the battle in winning consumer loyalty; once the consumer enters the store, it’s the store associate who represents the brand and has the real power to make or break the relationship. New technologies are making it easier than ever for these professionals to truly help customers on a personal level and build a relationship with them one on one – just as they might have done 50 years ago, before retail became much more transactional.

Today’s store associate does a lot more than just stock the shelves and manage the cash register. As retailers try to set themselves apart, associates are becoming both Omni-channel

brand ambassadors as well as fulfillment professionals. They need to know information about every item in the store, but also much more about each individual customer and their buying preferences, as they would have done years ago.

On top of that, associates are becoming critical to giving customers what they want, where and when they want it. Many are now required to pick and pack orders to be picked up in the store or shipped from the store. As customers shop across channels and take advantage of a variety of fulfillment options, associates become critical to meeting customer expectations and “making things right” if an item is out of stock or not the right configuration once they visit the store. This is a lot to ask of a position with traditionally high turnover.

The good news for the store associate is that, as their value in the store increases, there are solutions available that put all of the information needed to provide a more personalized shopping experience right at their fingertips. Store associates can now see what a customer has purchased in the past, what’s in their online cart, and item availability across all locations. They can execute a credit card sale on behalf of the customer or process returns in-store, regardless of the channel the customer used to

purchase the item. These kinds of capabilities, coupled with the ability to provide individualized promotions within the store based on what an associate knows from a customer’s history, create a much more personalized interaction with the consumer.

Gone are the days of having to go back to a terminal to look for an item in another store, or to complete a transaction with a customer. These mobile solutions help the store associate efficiently engage the consumer anywhere in the store and provide the type of service that will help maintain loyal customers. What’s more, as store associates fulfill online orders that will either be picked up in the store or shipped from the store with store stock, these same mobile solutions also have the ability to guide them through the process of picking and packing items for pickup or shipping. This guidance ensures that the process is as efficient as possible, so as not to take the associate away too long from their main task of supporting the consumer.

As store associates take on a much more pivotal role supporting a retailer’s Omni-channel strategy, it is critical to provide them with the appropriate mobile solutions that help them give customers the most personalized, exceptional experiences—ones that will keep your brand on the top of your customers’ shopping lists.

Trend #3: Cognitive insights for better business user decision making is becoming a competitive advantage



Melody Dunn,
Director, Watson
Commerce Insights

Some stark facts. 82% {of businesses} are looking for Business Intelligence (BI)/Analytical tools that improve the quality of business decisions, but only 3% (of the respondents in this report) find their current analytic solutions are good at helping them make meaningful business decisions¹.

What's this mean? Companies need BI/Analytic solutions (referred to as "BI" from this point on) that provide users with recommended actions to improve decision making, versus simply reporting facts graphically and leaving it to the professional to derive insights and appropriate actions.

The three "must-have" components for today's BI solutions are:

- Insights that provide context to every data point.
- Capabilities that provide insights that can be understood and acted upon by business users, versus BI solutions that require data analyst skill sets.
- Improved user experience through the consolidation of insights, recommendations, and actions into a single user work center.

Let's examine what this could mean to you.

Insights that provide context

Most of today's BI tools simply report the facts in beautiful graphs. To determine whether these "reports" are truly valuable, take this test. Without training or instructions, put your most junior employee in front of the tool and ask him to tell you what's good or bad, and what actions he'd take based on the information presented. If he can't tell you something that would significantly improve business results, then the BI capability isn't putting the information into context. To provide context to data, use one of these approaches: 1) Provide a business plan against which to measure actuals or 2) Have business users set their own metrics/KPIs and measure actuals against those. Even better – combine these methods, plus benchmarking against industry standards. If industry standards aren't available, then use the best performing area within your company and have all other areas strive to reach this level.

Capabilities that provide insights that business users can act upon

According to IDG, in the next 12 – 18 months, organizations plan to invest in skill sets necessary for Big Data developments, including Data Scientists, Data Architects, Data Analysts, Data Visualizers, Research Analysts, and Business Analysts². However, in a survey by Knowledge, over 55% of respondents have identified that finding these resources proves

to be either very or extremely challenging. There is a better way. You need tools that to provide business users *insights*, not analytic *tools* that require you hire a specialized skill set. Insights should be easily understood, with recommended actions that the user takes. Cognitive capabilities play an important role in this by learning, over time, what insights are good or not so good. The cognitive "assistant" does this by using ratings from experienced business users, as well as the measured evidence that the actions these users take result in higher than average results.

Companies need to move to BI tools that provide insights and recommendations and eliminate complex interpretation. Consider how many tools your business users need to do their jobs? If is more than three per user, perhaps they aren't using their tools to their fullest potential — or in some cases — using them at all.

Improved user experience

The last imperative is simplifying the users experience so that they have a single user work space that delivers insights, makes recommendations, and seamlessly enables them to make the right actions at the right time. The best insights capability is one that requires minimal training, continuously learns, and is a pleasure for users to use. It's that simple.

¹ 2015 Statista, Harvard Business Review

² December 2015 IDG Enterprise Big Data Research

Trend #4: Increased number of digital touch points drive the need for a smarter, more flexible content management approach



Brian Chaput,
Director, Offering
Management, Digital
Experience Software
Watson Commerce

I don't know about you, but when I am shopping with my favorite store, no matter where I am or what device I am using, I expect the store to know who I am and what my preferences are — and I'm not the only one. Customers everywhere expect personalized experiences no matter where they are or what device they are on. This means brands need to be able to quickly and easily push out content to customers that is relevant to them. And not just any content, I expect the content to be engaging and appropriate for the channel I'm using.

In the past, when websites were the only digital interaction point between a customer and a brand, predetermined presentation templates in a traditional content management solution were an easy way for brands to deliver content. However, these days, digital interactions between consumers and brands expand well beyond websites. There are mobile phones, tablets, smart watches, and even connected cars and appliances. How do brands reach customers on each of these channels and make sure the message they are sending is

contextually relevant? By creating several versions of the same piece of content that is specific for each channel. That's a lot of extra work and content!

To meet my expectations (and those of people like me), many brands are shifting to a more flexible content management approach, where content is stored in one place and deployed to several channels with the use of APIs. This centrally located content makes it easy for all parties to access and distribute the content for their specific need. Perhaps it's the channel owner who is trying to change the promotion on the webpage, or the marketer who needs to update the email marketing campaign. These Content-as-a Service offerings provide businesses with the opportunity to deliver in-context experiences for their customers on all channels, whether that's the e-nurture email, smart watch or connected car.

As we all know, content also needs to be easy to find so it serves the customer right when they need it. Emerging cognitive capabilities can enhance the function of the central repository by understanding what type of content is stored in the system and providing tags. This cognitive tagging makes it easy to quickly search and retrieve content, which saves a tremendous amount of time.

In addition, cognitive capabilities can also increase efficiency among teams and empower

better decision making by providing content recommendations.

As the number of channels increase, so do the number of people who need to collaborate. The cognitive element of the system begins to understand each unique user and the steps of their workflow, including who they work with and when they collaborate with others. It uses this information and makes recommendations based on history and roles to promote and facilitate collaboration among team members.

By leveraging cognitive technology, your content management system will be able to understand what content works and what doesn't for specific job functions. For example, a cognitive content management system understands that the online merchandiser is in charge of promotions, and it can provide recommendations for the next promotion based on past performance. It takes what it knows about job roles and empowers the users by identifying problem areas and making adjustments *before* they impact the business.

With so many customer touch points, it's essential to have a central hub for content that you can use from mobile to tablet to desktop and back again. That flexibility, coupled with cognitive capabilities, makes providing personalized experiences much easier. The need for flexible and efficient content management will dominate 2017 and beyond.

Trend #5: Branded payments are helping mobile checkout go mainstream



Chris Shaw,
Sr. Portfolio Marketing
Manager, Retail
& Mobile Payments,
Watson Commerce

Mobile payments are back – again. Of course they never really left, most of us just never felt compelled enough to use them in the first place. To support early iterations of mobile payments, merchants usually had to invest in new hardware and they still faced disintermediation from their customers at checkout. For consumers, the initial NFC-based mobile payments were fast when done right, but they almost never offered integrated rewards and loyalty, leaving us to keep on fumbling with a bunch of keychain tags or flipping between apps.

Once only the domain of device fanboys and the tech lovers, mobile payments are finally making the shift to the masses. 72% of us in the US now say we use smartphones¹, a little less across Europe. 75% of smartphone users in the US also report using their phones while shopping in stores², and the number of mobile users in the US who have made a payment with their device was up to 39% in 2015 and expected to hit 70% by 2017³.

With the continued march toward smartphone ubiquity, the mobile payments market is now evolving, looking for that perfect combination of flexibility, benefits and security that encourages consumers to finally buy in. Device

manufacturers, banks and many others offer digital payments in various forms for consumers today, but perhaps the most compelling mobile payments solutions to emerge recently are the options offered by the merchants themselves.

A combined loyalty and payment solution is not an entirely new concept, actually. Starbucks has been perfecting a variation over the past 5 years and it now does over 20% of its entire business via its mobile application⁴. However, the migration of larger retailers with brand equity toward ‘brand’ pay in 2016 has been significant, including Walmart, Kohl’s, CVS and Tesco. They’ve all integrated payments into their existing mobile shopping applications in the past year. So what would make these large merchants want to take on a mobile payments initiative when there are already so many mobile payments options out there? Increased engagement and reduced costs, the two primary margin growth drivers for every retailer.

Merchants are able to incent customers to use lower cost payment methods like private-label cards or even Automated Clearing House-based immediate payments⁵ based on new faster payments standards in the US and Europe. Even moving a small amount of customers to these preferred payment types can mean hundreds of millions of dollars to large merchants⁶. Then there is the ability to cognitively create personalized offers that are contextual to the situation the shopper is currently experiencing, which can provide significant improvements to the customer

buying journey. By combining payments with existing rewards and loyalty all in a single shopping app, merchants are able to increase participation in those programs and opportunities for engagement. And by using a QR-code based mechanism for payments, merchants do not have to buy any new point of sale hardware or worry about the type of consumer device being used.

Of course merchants are evolving along with consumers when it comes to mobile payments. They have moved beyond engaging your tech-savvy millennial cousin. Now they’re trying to speak your mom’s language. That’s right, your coupon-clipping, super-shopping and completely loyal mother is finally ready for mobile payments – and merchants should be overjoyed.

¹ [Pew Research Center, Smartphone Ownership and Internet Usage Continues to Climb in Emerging Economies](#)

² [InternetRetailer, Mobile performance index: December 2016](#)

³ [The Federal Reserve, Consumers and Mobile Financial Services 2015, March 2015](#)

⁴ [Bloomberg Technology, Starbucks Takes Its Pioneering Mobile-Phone App to Grande Level](#)

⁵ [IBM, IBM Provides Real-Time Payment Processing for Banks with new Financial Transaction Manager for Immediate Payments](#)

⁶ [PYMNTS.com, Private-Label Cards Giving Retailers A Boost](#)

Trend #6: Making flexibility in the “last mile” profitable: A reality in 2017



Alberto Jimenez,
OMS and Payments
Leader, Watson
Commerce

Customers expect flexibility in how and when they receive their orders – two-day delivery regardless of channel, low to no cost for at-home delivery, and easy returns. These demands will continue to increase. Where free two-day shipping was once a delightful novelty, it is now the norm, and buyers like me are clamoring for even faster delivery options. New, customer-driven Omni-channel fulfillment options are popping up as brands try to get ahead of the demand curve. Consider [Uber's Corner Store pilot](#) that promises “The Everyday Items You Need in 10-Minutes or Less.” The challenge for retailers is delivering on these expectations profitably, *especially during peak operations*.

Early adopters who rushed to deploy Omni-channel initiatives such as Buy Online Pick Up in Store or Ship from Store, did so with a limited view of the costs and found [a 300% increase in cost-to-serve the Omni-channel customer](#). Today, retailers understand that simply enabling stores for these services isn't enough. Indeed, CEOs from the top 250 Retailers Worldwide¹ reported that “failing to manage the costs of fulfilling Omni-channel expectations” is one of their top three Omni-channel challenges. It's a

complex problem to solve because of constantly shifting variables: customer service levels, promotions, shipping costs, inventory positions, and others. Attempts to give customers what they want without optimizing for these variables puts profitability at risk.

Omni-channel commerce is changing how products flow through the supply chain, making it more difficult to balance competing business objectives of service, cost, and demand with so many variables in play. The traditional supply chain is set up to ship products in bulk to stores or distribution centers. Order flows from online and mobile commerce channels are different (small and many) and require additional flexibility in the ‘last-mile’ to manage:

- Shifting customer expectations
- Peak eCommerce order volumes
- Expanded numbers of shipping locations
- Smaller order quantities
- Cost models associated with operating from different types of locations

Mastering these cost-to-serve complexities requires systems that learn from previous sales, demand forecasts, and inventory allocations. With this sophistication, brands can maintain clarity around the true costs of eCommerce order fulfillment. They can respond in real-time or even anticipate changes to fulfillment preferences, product demand, and market conditions, all while meeting the buy anytime, anywhere expectations.

With order management alone, basic distance-based sourcing logic might route orders from the nearest Distribution Center (DC) to minimize shipping costs, avoid split orders, and ensure on-time delivery. This approach works well when there is enough available inventory and the DC has the capacity to fulfill on time. This is where the ability to optimize sourcing against competing business objectives — such as shipping costs, capacity, and service levels based on all available inventory across the fulfillment network for all orders in play — makes a big margin difference. To put this into context, best-in-class retailers have 59% lower total shipping costs as a percent of sales revenue because they are able to leverage a wider mix of service and delivery options as part of their fulfillment network¹.

In 2017 and beyond, cognitive capabilities will be progressively integrated with order management to help make the best fulfillment decisions through machine learning and combinatorial optimization. This will determine the lowest total cost-to-serve option and continuously improve operational efficiency and customer satisfaction. Empowered with a multi-objective sourcing model that intelligently explores billions of options for each order, along with Big Data extracts to compute predictive costs for multiple objectives, satisfying customers — whenever, wherever, and however they expect their order — at the minimal cost-to-serve is not only possible, it's profitable, and it's an imperative.

¹Source: Aberdeen: How BIC Solve the Omni-channel Cost-to-Serve Challenge

Partner Perspectives

Growing focus on implementing solutions that help organizations more effectively use data



Matt Rogers,
Director of Marketing,
BlueSky Technology
Partners

It's no secret that the collection of data is important to business today. Just as critical, however, is how companies actually harvest the data to effectively use in their business. We anticipate that B2C and B2B businesses will accelerate their efforts to consolidate data from multiple sources (omni-channel, social media, environment, etc.) and put that data in the hands of teams that can best leverage it to reach process efficiencies and/or revenue generation objectives.

To aid in synthesizing the data will be the use of cognitive analytics applications. Cognitive solutions enable marketers and merchandisers to not only automate the processing of big and small data sets from multiple sources (online/offline), but also provide recommendations based on customers' past behaviors and business inputted rules. This is important because it then allows marketing and merchandising teams more time to strategize on how to best target their customers in both advertising and personalized experience both on their website and in store.

Before embarking on any investment, organizations will want to spend time reviewing their processes and true data needs to identify challenges and opportunities. Consumers' shopping habits are constantly evolving and are more dynamic than ever, so how you collect and use data to reach them should reflect the same evolution.

Next-gen customer engagement will require cognitive assistance



Ron Gerace,
Senior Vice President,
Product and Marketing,
Exchange Solutions

Today's consumer wants their retailer to "know me, show me, delight me... make my experience so exciting that I tell my friends!"

This expectation for top-shelf customer engagement and personalization will continue to skyrocket in 2017 and beyond. 2017 will see a shift towards truly individualized, one-to-one customer engagement capability – one that not only enriches the customer experience, but also addresses key financial KPIs for firms such as conversion, increased average order value, frequency of repeat purchase, and category penetration.

Individual customer demands will drive the need for firms to optimize promotions and incentives, nudging the customer to buy while delivering critical financial benefits to businesses.

For example:

Driving registrations

Firms will *individually* incent customers to register an account, unlocking valuable data that the retailer can leverage to craft a more personalized shopping experience.

Increasing average order value

Smart businesses will use in-session behavior data to tailor a customer's unique shopping experience, delighting them to buy an incremental item.

Increasing share of wallet

The new "winners in customer engagement" will use one-to-one, personalized offers to drive category penetration to increase frequency of purchase. For example, an office supplies store may incent customers who do not normally buy a consumable product category, like Cleaning and Breakroom, to do so. This will build cart value and drive frequency of repeat purchase.

In 2017, online shoppers will have more choice than ever. Tailoring a truly individualized experience that builds loyalty and customer lifetime value will be key to any successful ecommerce strategy.

Merchants seeking fast and flexible growth turn to online marketplaces



Barry Murphy,
Director of Content and
Product Marketing,
Mirakl

Online commerce merchants are always looking to grow and the traditional approach is to source more products. Expanding assortments requires investing in inventory, fulfillment, and service — and as a result — the process is slow, disappointing customers used to the speed of the digital world. And it's not without risk either.

Creative merchants, looking for more agility and speed to market, are turning to online

marketplaces. The efficiency of the online Marketplace model, pioneered by Amazon, allows merchants to expand assortment quickly, optimize assortment by testing products in the marketplace, and the ability to offer unique goods from across the globe.

This trend is everywhere — Walmart, Uber, and AirBnB, to name a few. Brands of all types, manufacturers, CPG companies, media companies, services companies and social networks are starting to create direct relationships with customers online. For example:

- Conde Nast monetizes content on Style.com so that its readers can buy featured products directly within articles.
- Insurance companies invest in ride-sharing services.
- Facebook monetizes its huge user base with its own marketplace.

To capitalize on the Marketplace trend, merchants need three main things:

- A large audience of traffic/users (or ability to acquire a large audience). Sellers are looking for those eyeballs.
- A framework for governance that sets quality levels to which sellers must adhere.
- A scalable technology platform that automates marketplace processes, speeds seller onboarding, and enforces quality of service.

With the right technology, product mix, and governance in place, every online merchant has the opportunity for growth by capitalizing on the agility that the Marketplace trend can deliver.

Understanding the key trends that are shaping commerce today is key.

Understanding how you can address them is critical.

[Click here to access the Omni-channel Report Card Self Assessment today to see how you stack up against the top 100 retailers in North America.](#)

About Watson Commerce

Watson Commerce offers campaign automation, marketing insights and real-time personalization embedded with cognitive capabilities. With Watson Commerce, marketers can uncover new levels of actionable insights, deliver powerful and personalized experiences that customers want and value, and discover innovative ideas that provide a competitive edge.

