Retail

Incumbents
Strike Back

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 1,013 CxOs from the Retail industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Retail industry report uses 994 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

Retail CxOs are no exception. They're divided as to whether the focus will be on new or established markets (48 versus 38 percent, in that order). They're also divided on whether open innovation will predominate or shift inward. But there is one critical point on which they broadly agree: how value propositions are altering. A full 71 percent of Retail CxOs expect more emphasis on customer experiences than products over the next few years.

Retail CxOs also say there's been a shift in the external factors most likely to affect their organizations in the near future. Market forces continue to dominate the agenda, with 80 percent of Retail CxOs anticipating a significant impact as competition remains fierce and the digital world merges with physical retail channels. But people skills have become a bigger issue since our 2015 study: 62 percent of respondents now report that talent will be the second biggest influence on their enterprises in the next few years – recognition, perhaps, of the evolving role of the retail worker in an increasingly experiential industry.

Reinventors race ahead

In the course of our research, we identified three distinct organizational "archetypes," each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they're superb at managing change – all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven't yet acquired the capabilities required to realize their ambitions. They're neither as focused nor as agile as Reinventors.

Aspirationals have even further to travel. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

Reading the road signs

So what's actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption

The path to personalization
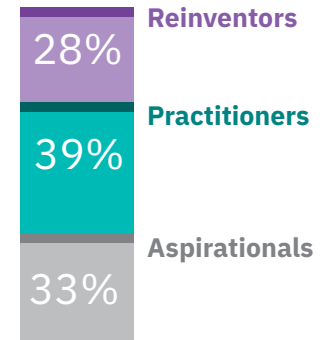
The pull of platforms

Innovation in motion.

"Without innovation, any company's competitive advantage will disappear sooner or later."

Chief Human Resources Officer, Retail, Vietnam

Figure 1

Retail split

Industry archetypes
have distinct characteristics
that lead to differing
vantage points

Reinventors
28%

Practitioners
39%

Aspirationals
33%

Dancing with disruption

Two years ago, CxOs told us they were deeply worried about digital giants and small startups from other industries invading their territory. Retail CxOs still expect that game-changers could steal a chunk of their business: 42 percent of respondents say their sector is experiencing high disruption – more than in any other industry we surveyed. And Retail CxOs are still wary of digital giants, particularly with the uptick in acquisitions by Alibaba and Amazon. But they're no longer as concerned about outsiders; instead, many incumbents are acquiring or investing in nascent disruptors. A full 65 percent say that the *real* disruption is coming from innovative industry peers.

Oddly, less than a third (30 percent) say they urgently need to transform their enterprise in response to disruption. Their potential investments say otherwise: 70 percent of retail organizations are increasing investments in channel and store digitization in the next few years, and 71 percent plan to prioritize supply chains. The race is on to reimagine the physical store, and the Retail Reinventors in our sample are ahead of the curve. They overwhelmingly know where their industry is headed (83 percent, compared to 62 percent of Practitioners and 44 percent of Aspirationals). They're better at encouraging the sharing of knowledge across their enterprises, and rewarding fast failure and successful innovation equally. And they're better prepared for disruption: 80 percent have a strategy in place to fend off disruptive forces (versus 51 percent of Practitioners and just 33 percent of Aspirationals).

The path to personalization

Connecting with the customer on a personal level is essential these days, but designing compelling personalized experiences is extremely difficult; it takes a profound understanding of what makes different people tick. In the "post-channel" world of highly individualized interactions, Retail CxOs have an even sharper focus on the customer experience than their peers in many other industries. Sixty percent of those Retail CxOs who plan to invest in artificial intelligence (AI) intend to use the resulting insights to create personalized customer experiences. Investing in technologies that bridge the digital-physical divide also features high on Retail CxOs' to-do lists: 75 percent plan to increase their investments in mobile, and 72 percent to increase their investments in social media.

Retail Reinventors lead the way once again. They're more effective than Practitioners or Aspirationals at winning customers with consistent, seamless experiences across touchpoints (see Figure 2). As true design thinkers, they recognize the importance of engaging directly with customers and are more willing to co-create new products and services with them. And they're better at incorporating customer feedback into their planning and design processes (73 percent, compared to 54 percent of Practitioners and just 32 percent of Aspirationals).

"If there isn't a warm welcome, there may never be a customer journey."

Chief Information Officer, Retail, Canada

The pull of platforms

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and deliver higher profits. As retailers shift from service providers to platform orchestrators, they're transforming from selling products to creating ecosystems where products are sold. As a platform orchestrator, Poshmark, for example, has created a digital environment that allows individuals to buy and sell clothing and accessories. By hosting frequent in-person social events that connect users – and bridge the digital divide – Poshmark effectively blurs the lines between consumers and suppliers with a social marketplace.[1]

While only 6 percent of Retail CxOs already have platforms, 26 percent are engaging with platforms and another 22 percent are actively considering them. So what makes a platform work? We identified three "rules" for success: creating value from reciprocity, capitalizing on data and committing to innovation. Retail Reinventors fit this profile. They're more likely to be creating ecosystems, turning competitors and customers into collaborators. And they excel at extracting value from data and analytics to fuel product innovation and meet customer demands.

Figure 2

Win them over

Retail Reinventors excel at seamless customer interactions

Reinventors
Practitioners
Aspirationals

85% 68% 60%
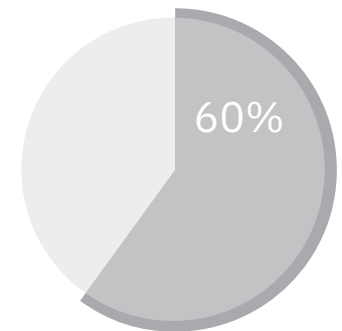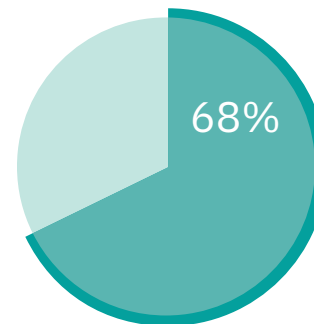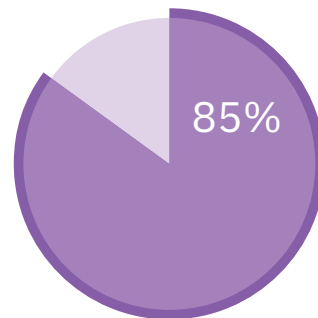
Q. How do you rate your ability to influence your customers' decision to shop with you by providing a seamless experience across channels and touchpoints? (Percentage of respondents selecting "high.")

Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate, and ecosystems replace go-it-alone entities. The smartest C-suites are preparing for the future by creating teams that learn on the fly. With the retail landscape evolving from goods to services and outcomes, Retail CxOs are finding new ways to empower employees and engage partners.

Most of the Reinventors and Practitioners in our Retail sample already foster collaboration and organizational agility. But the Reinventors have gone much further. Seventy-four percent of them actively solicit employee input to stimulate innovation (versus 55 percent of Practitioners and 37 percent of Aspirationals). They also have C-suites that are consistently better than those heading Practitioners and Aspirationals at empowering their teams to decide on the best path forward (see Figure 3).

"We strive to provide an efficient and effective store experience for both customers and store associates. Creating a great experience for your employees is as essential as it is for your customers."
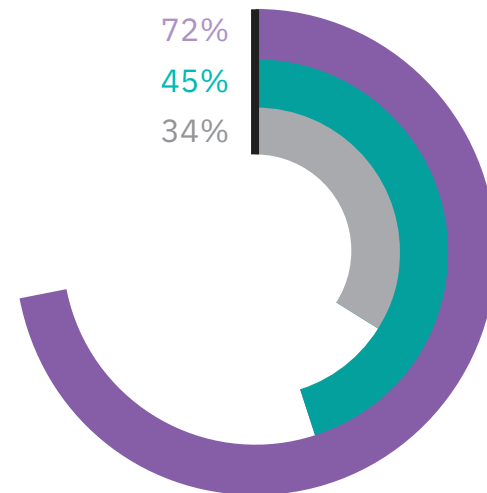
Chief Executive Officer, Retail, France

Figure 3

Reinventors
Practitioners
Aspirationals

Autonomous teams

Reinventors empower their teams to decide on the best course of action

72%
45%
34%

Q: To what extent does your enterprise empower teams to decide on the best course of action? (Percentage of respondents choosing "to a large extent.")

Reinventors are also more committed to optimizing their supply chains for greater efficiency and agility than Practitioners and Aspirationals. In other words, they combine a dynamic vision with an open culture and agile operations – and these, as our research shows, are the three stepping stones to organizational dexterity.

Strengthening advantage: Actions to take now

Operationalize customer centricity. It's no longer enough to personalize digital transactions. Tailor stores and transactions to the individual with hyperlocal products and targeted promotions. Use data and insights to understand individual customer context and determine next-best actions. Co-create innovative products and turn customers into collaborators. Go beyond traditional buy-and-sell models and use consumer engagement to drive strategy and operations.

Reinvent the store experience. Don't just bridge the divide between digital and physical shopping – eliminate it. Go beyond transactions to deliver a unified shopping experience. Embracing platform ownership doesn't have to mean shuttering the store.

Empower employees to be experts. Design an employee experience to foster a culture of brand evangelism – even beyond the confines of the store. Innovate through employee empowerment and collaboration. Build "trusted networks" through shared visibility and transparency. Use partners to rapidly scale capabilities and extend expertise.

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Notes and sources

1 Poshmark website. https://poshmark.com/. Accessed
   on March 19, 2018.

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