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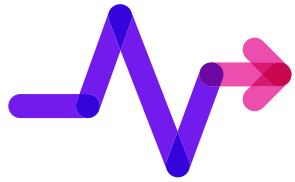
London Tech Week 2020

# IBM Digital Leadership Consumer Retail Executive Summary

In partnership with



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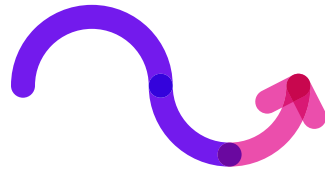


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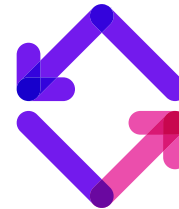


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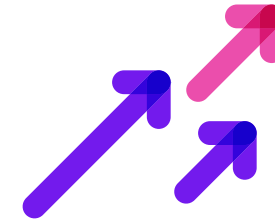


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# Introduction

**The experience of lockdown during the COVID-19 pandemic has emphasised the criticality of areas including remote working, business agility, digital customer engagement, and supply chain continuity.** In the new post-pandemic reality, these aspects of business are permanently changed, and if enterprises are to prosper then they must focus on accelerating their digital transformation programs, strengthening their business and technology platforms, and empowering their remote workforces, while reducing operational costs in response to budget pressures and managing risk.

Omdia has conducted a research project and survey on behalf of IBM, which examines UK enterprise attitudes to the impact of COVID-19 on digital innovation and business transformation, and provides thought

leadership on how enterprise decision makers can succeed in the post-pandemic world. The survey seeks to identify how organisations across five key vertical sectors are planning to move beyond lockdown, the lessons learned during this period, and the perceived opportunities for accelerating transformation with technologies including cloud platforms, remote working, online commerce and the cognitive enterprise.

The survey also investigates the key pain points and challenges that organisations face in this renewal phase, including the importance of cybersecurity and the demand for increased resilience, and will examine the perceived criteria for selecting trusted technology vendors to partner with in this process.

# Research methodology

For this study Omdia ran an online quantitative survey of decision-makers from 306 UK companies. The questionnaire was designed to examine enterprise attitudes to the impact of COVID-19 on digital innovation and business transformation, and provide thought leadership on how enterprise decision makers can succeed in the post-pandemic world.

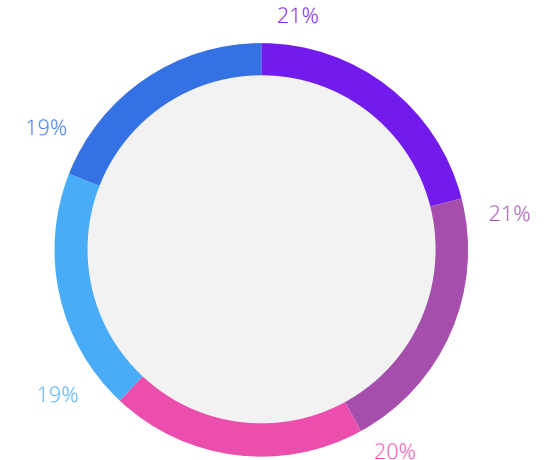
Fieldwork took place during June and July 2020.

## Respondent breakdown

Total respondents – 306

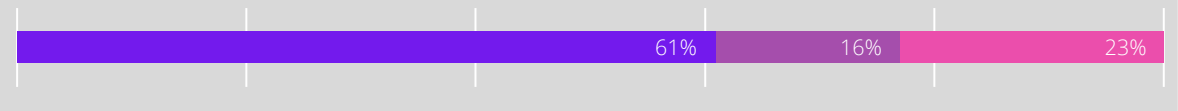
Respondents by industry

- Public Sector
- Telecoms & Media
- Consumer: CPG, Wholesale & Retail
- Banking/Financial Markets
- Healthcare



## Respondent companies by size (number of employees)

- 250 to 1000
- 1001 to 5000
- 5001 or more



## Departmental breakdown

40% of respondents came from IT roles, 60% from lines of business, including operations, finance/accounting, sales / customer support and strategy.

# Summary Recommendations

1

**Consumer demand may not return in full until the second half of 2021 or beyond.** CFOs and treasury functions should therefore forecast frequently to determine the company's ability to accelerate DX programs through the various stages of the recession and recovery.

2

**Companies need to determine what business functions can operate remotely for the long term and whether it makes sense to keep WFH in place indefinitely.** This will require assessing the impact of lockdowns on productivity and, crucially, on collaboration within the company and with regard to DX projects in particular. Customer call centres are of particular significance as they were massively impacted in 2020, preventing businesses from communicating with and servicing their customers. Chatbots and other AI tools can solve this particular pain point.

3

**A period of "rightsizing" of the store portfolio to strike the optimum balance between physical versus digital will be necessary to improve margins and ensure future growth.** Smaller cities and towns with high local footfall may continue to justify a physical presence, whereas large metropolitan areas that previously relied upon high-volume public transport networks may see limited potential for physical sales going forward. For those stores that remain open, is the existing customer experience (queuing systems, product collection, interaction) still relevant or does this need to be adapted in the post-COVID context?

4

**Businesses should review how they can convert or enhance their product/service offering and delivery through digital means and what the current crisis and changing consumption habits mean for the company's strategic relevance in the short, medium and long term.** Agility will be key to pivoting the business model or customer offering. This pivot will be stymied by established systems and processes that may have served the company well in the past. An existential review of the strategy and an enterprise-wide review of the operational changes required to enable the revised strategy are a must.

5

**As part of their revival and growth, consumer companies must balance the priorities of harnessing data for customer insights and to fuel AI applications with the need to maintain the highest security standards.** Protecting personal data will protect the brand.

6

**The consumer organizations that will thrive through the pandemic have already laid the digital groundwork.** Those that will prosper once the crisis abates are already considering how digital capabilities can enhance their strategic relevance and agility, their capacity to innovate and their resilience to future crises.

# The four stages of the Survive to Thrive journey

The Covid-19 pandemic has crisis pushed almost every business into survival mode. There is now a four-stage journey to be undertaken to move from merely surviving to thriving. Strategies, objectives, and actions must fit each stage.



## Survive

Stage One

The COVID-19 pandemic causes hard lockdown. Companies try to survive by protecting their revenue streams, maintaining their capabilities and capacity to produce, hanging on to their customers, and securing their supply chains. Second waves and future lockdowns may push companies back into survive mode.



## Revive

Stage Two

When hard lockdown is eased, companies try to rebuild their operations toward pre-lockdown performance. They examine options to strengthen their digital offerings and connect to customers digitally. Part of the revive stage is a review of what they did during the hard lockdown to assess whether it should be continued, accelerated, or stopped.



## Renew

Stage Three

While the pandemic continues, and after they have secured their ongoing continuity, companies rethink their digital and business models. They factor in changes in customer behaviours, stability (or not) of the supply chain, ongoing operational conditions, the possibility of further crises, and so on.



## Thrive

Stage Four

There is little chance of circumstances returning to pre-pandemic conditions. If a company is to prosper during the in-pandemic, and post-pandemic period, it needs to implement its revised and improved digital and business model.

# Survive Stage One

The pandemic is a wake-up  
call for digital capability



# Digital has been key to retail survival

The COVID-19 pandemic has been particularly punishing for most physical retail due to social distancing measures, with e-commerce activity ballooning under lockdown conditions. Retail and consumer businesses that were further along the digital curve were better adapted to maintaining, and even growing, their sales during the crisis as well as ensuring higher levels of operational continuity. This is clear evidence of digital growth and customer expectations within the sector.

**93%** of respondents in the consumer industry experienced a decline in business activity and/or revenue; a full 44% reported a significant decline, the highest rate of any sector

**86%** agree that investment into technology can help to mitigate the effects of a crisis

Yet only 36% of consumer/retail organizations had completed or were well advanced in their DX programs prior to the pandemic, behind all industries except for telecoms and media (31%)







## The importance of customer access

**Many consumer businesses with already well-advanced digital channels and business models have flourished in the pandemic given their accessibility to customers.** Digital laggards meanwhile have been hit hard by lockdown strictures. This bifurcation within the sector is resulting in clear winners and losers.

**33%** of companies in the sector were fully prepared for engaging customers anywhere, above the average across sectors (30%)

But 21% were unprepared for such universal customer engagement compared with 17% across sectors

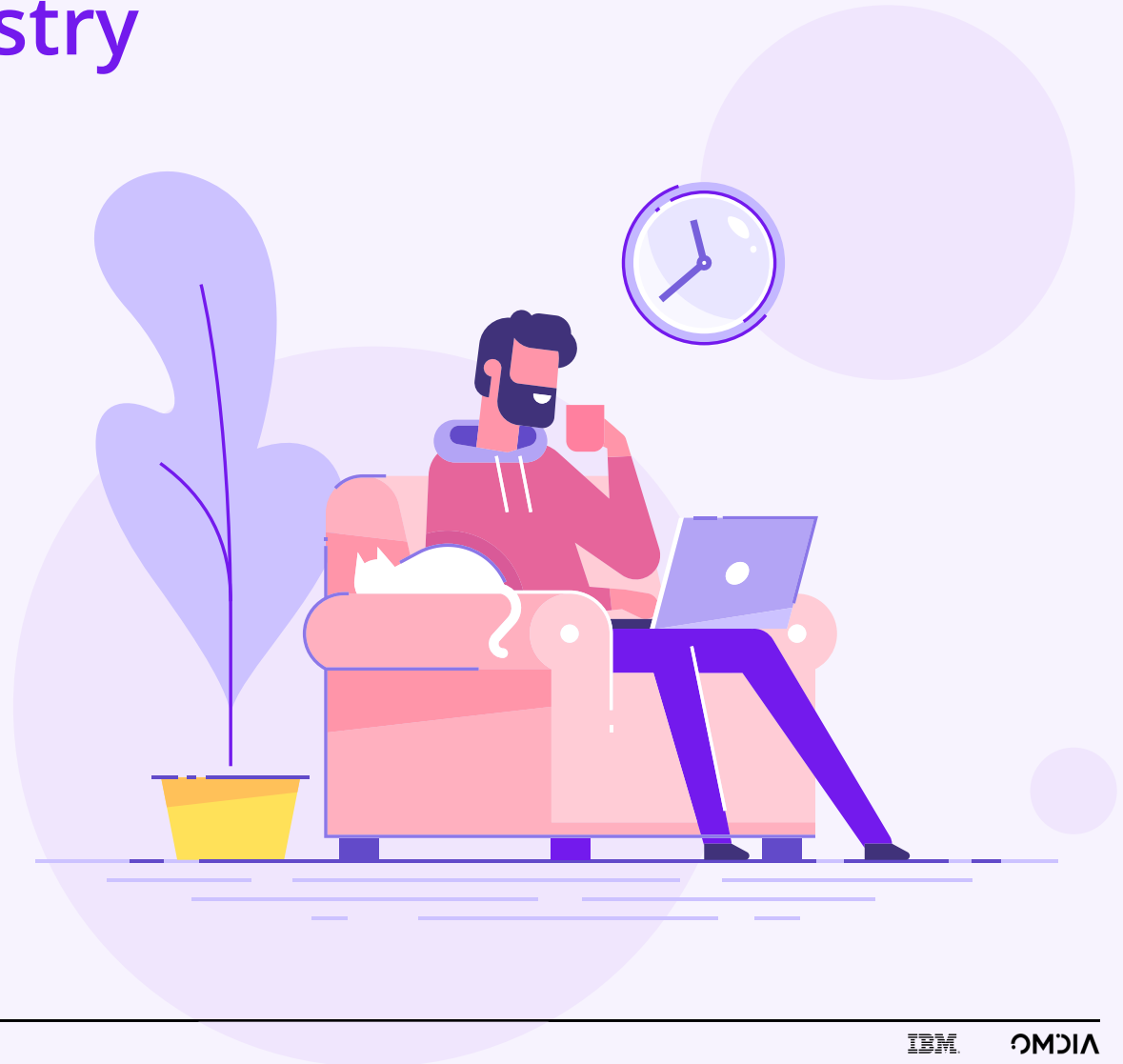
# WFH works for consumer industry

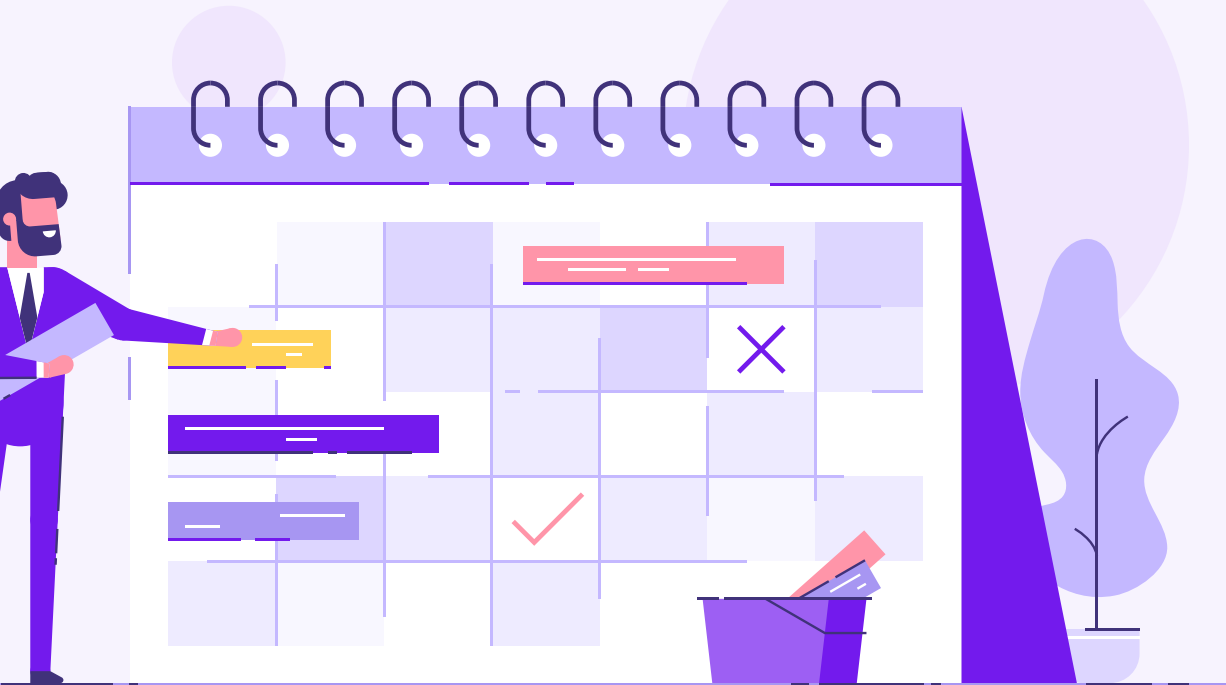
Bricks and mortar retailing and proprietary logistics activity has limited potential for homeworking, meaning consumer as a whole has historically had lower rates of remote staffing compared with some other industries, which have also made further progress in their digital transformations. In spite of these limitations the sector managed to transition to remote conditions as the pandemic escalated by relocating suitable business functions.

## 11%

of companies had upwards of 60% of their staff working remotely prior to lockdowns compared with 17% across sectors

This more than doubled to 25% of organizations that had in excess of 60% of their employees working from home during the in-pandemic phase; this compares with a cross-sector average of 32%





## Coping with the crisis and preparing for a second wave

**Consumer companies and retailers are highly pessimistic about the fourth quarter, a critical period for sales volumes in the sector.** 71% expect turnover to be below average (59% across sectors) and it is only in H2 2021 that a recovery is anticipated, with 80% forecasting normal or increased sales by then. Efforts are now being made during this down-period to improve digital operations to survive the pandemic and defend against further waves.

**75%** are investing in accelerating agility and efficiency

**62%** are improving their engagement with customers anywhere, ahead of every sector except telecoms and media

**74%** are enhancing their IT resiliency and business continuity

# Recommendations in the Survive phase:

Enhancing customer engagement and access is critical



**Organizations should consider the extent to which a lack of progress in digital transformation hindered its pandemic response and agility** – and what digital investments can be made to improve responsiveness to future crises.



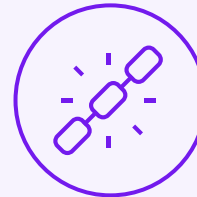
**Consumer demand may not return in full until the second half of 2021 or beyond.** CFOs and treasury functions should therefore forecast frequently to determine the company's ability to accelerate DX programs through the various stages of the recession and recovery.



**Consumer/retail businesses have made less progress with their digital initiatives than their peers in other sectors.** Make the most of this period of reduced activity to reprioritize any delayed digitalization programs and press ahead. Don't get left behind.



**As brands and retailers mitigate the immediate term challenges, their needs will shift to managing the rest of the year, focusing on trying to run businesses, while the economy is partially shut down.**



**Supply chains have come under pressure amid border closures and financial stress.** Companies should review the ongoing viability of key suppliers and any concentration risk that exists in their supply chain to improve their agility. Financing solutions to bolster the financial position of core suppliers may be a necessary step to fortify the chain and ensure continuity. Digital and AI tools improve stock visibility through the supply chain and can help companies to forward plan, particularly useful for product categories that are in high demand but where supplies have been disrupted.



**Customer access is an absolute priority as B2C typically relies on high volumes of individual sales.** Companies should think carefully about how they can enhance their engagement with customers. For consumer businesses this may involve establishing direct sales channels rather than relying solely on third party retail networks. Retailers should also review their mobile strategies to improve not only engagement but also the potential for data analytics.

# Revive Stage Two

Applying lessons learnt to a  
post-lockdown world



# It is never too early to digitalize

**Some of the greatest performance divergence between companies amid the pandemic has been in the retail and consumer sector.** Those that invested in digital early have held a significant advantage over their peers – and recognize this fact. However, regardless of their digital progress to date, companies in the industry acknowledge the benefits of making such investments.

67% of organizations in the early stages of their digital transformation definitely agree that they should have invested earlier in digital, data-driven and cloud technologies, above the cross-industry average (56%)

This is matched by 67% of those who already completed their DX initiatives agreeing that digitalization efforts should have been initiated at an earlier stage, significantly above the cross-industry average (44%)





## Digital capabilities positioned companies for the pandemic

Companies who have already finalized digitalization programs were in a far stronger position to weather the effects of the pandemic and keep their operations online. Those that invested in digital capabilities were significantly better prepared for new cyber threats and enhanced IT resiliency. They were also twice as likely to have been fully prepared for remote working arrangements.

0%

of companies at the earliest stages of their digital journey were fully prepared for new cybersecurity risks and enhancing their IT resiliency

67% of organizations that have completed their digital programs were fully prepared for WFH

# Remote working here to stay – where possible

**National lockdowns forced workers into their homes to stop the spread of the virus.** For many business functions in the retail and consumer sectors this is not possible given their physical nature (e.g. in-store roles, transport/logistics). Other functions (customer services, web development, back office) are well suited to these arrangements and the success of the shift to homeworking means it could be here to stay where it is possible to keep such arrangements in place.

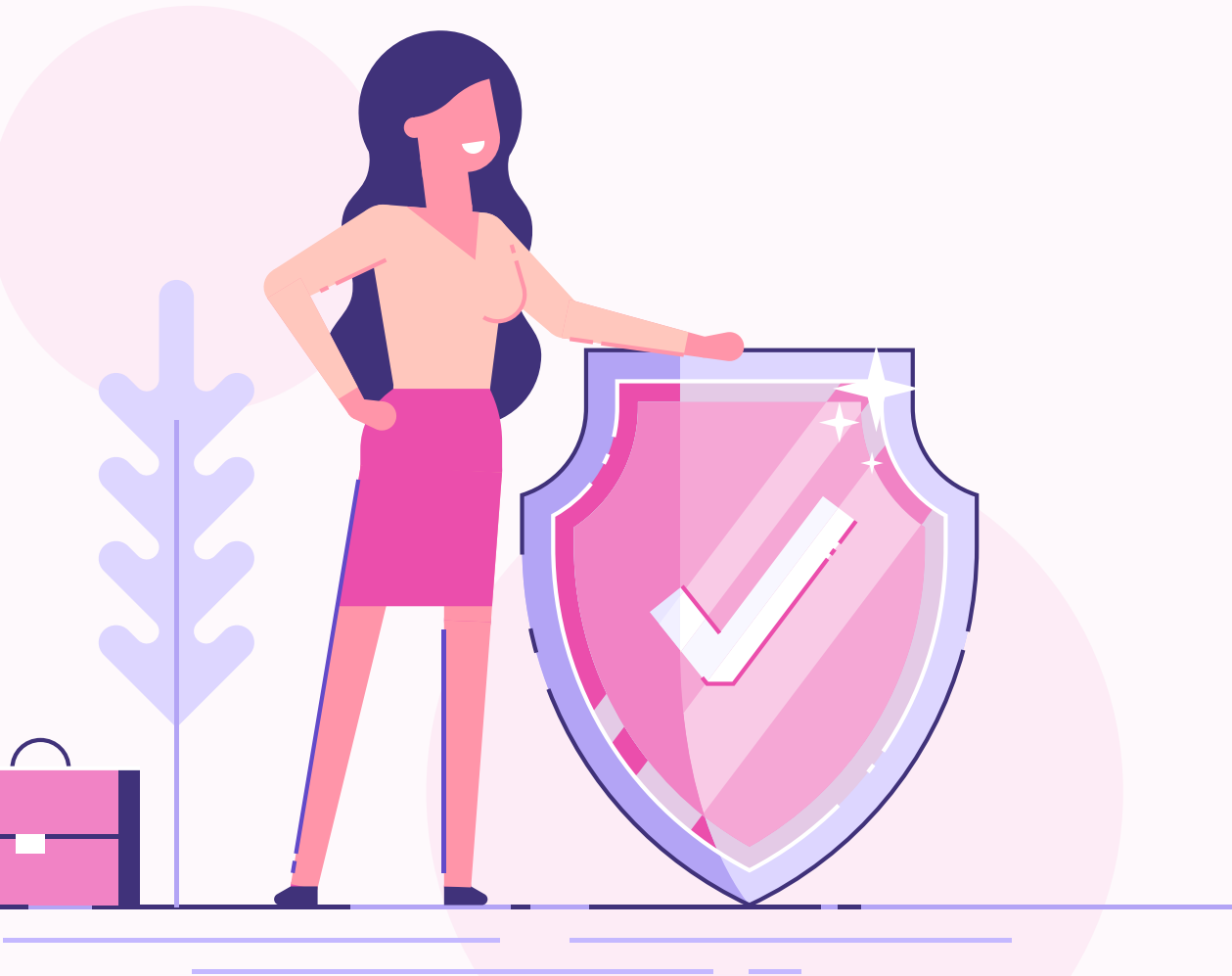
## 85%

of consumer/retail respondents agreed that many of their business processes could operate remotely

More than half (56%) said that upwards of 40% of their staff will continue to work from home in the post-pandemic phase; 64% of respondents across industries said the same







## Investing in cyber defences now

**Inevitably the surge in WFH has coincided with a spike in cybersecurity activity.** The relocation of personnel on to home networks and in some cases using personal devices has increased the attack surface of companies and fragmented their IT defences. With a degree of homeworking expected to persist post pandemic, cybersecurity defences are a matter of priority.

**95%** of companies in the sector agree that cybersecurity must be strengthened because the crisis represents an opportunity for hackers

**64%** Of consumer/retail companies have made investments to protect against new cybersecurity risks, behind the cross-sector average of 72%

# Recommendations in the Revive phase:

Review what has worked and what has not



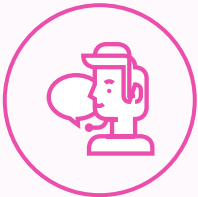
**Those organizations that have made greater progress in their digitalization efforts are reaping the benefits now.** Review competitors' digital strategies and those of companies in adjacent industries to establish what is working and what can be adopted from them, with particular regard to enabling more robust digital selling and service platforms.



**Successful digital transformation requires a cultural shift.** Senior management need to define clearly articulated and explainable digital goals to achieve buy-in for change from all levels of the organization.



**Companies need to determine what business functions can operate remotely for the long term and whether it makes sense to keep WFH in place indefinitely.** This will require assessing the impact of lockdowns on productivity and, crucially, on collaboration within the company, especially with regard to DX projects. So far companies have largely relied upon email and videoconferencing. Is investment into digital tools necessary to facilitate the close collaboration required to pivot and reposition the business?



**Customer call centres are of particular significance when reviewing WFH arrangements as they were massively impacted in 2020, preventing businesses from communicating with and servicing their customers.** Chatbots and other AI tools can solve this particular pain point.



**Cybersecurity risk is now heightened and steps should be taken to improve defenses for the long term.** This will require increased investment into cyber resiliency, which is not isolated to securing networks and data assets with technical defenses but also fostering a culture and awareness around cyber threats and data security risks.



**All companies should review their organizational resiliency – disaster recovery and business continuity plans – and conduct lessons learned exercises.** This not only applies to the immediate response to the pandemic but the role the company's digital dexterity (or lack thereof) has played in its ability to continue as a going concern over the coming months.



**A period of “rightsizing” of the store portfolio to strike the optimum balance between physical versus digital will be necessary to improve margins and ensure future growth.** Smaller cities and towns with high local footfall may continue to justify a physical presence, whereas large metropolitan areas that previously relied upon high-volume public transport networks may see limited potential for physical sales going forward. For those stores that remain open, is the existing customer experience (queuing systems, product collection, interaction) still relevant or does this need to be adapted in the post-COVID context?

# Renew Stage Three

Resetting digital strategy for  
the post-pandemic world



# Digital transformation schedules vary by size

**Consumer is sensitive to the ongoing crisis, especially discretionary segments as the recessionary environment puts pressure on household expenditure.** This will mean that companies in the sector may be forced to delay the resumption of their DX initiatives as their revenues and capex budgets come under pressure.

51% of companies intend to resume their digital transformation in 2021, while 82% expect this to come in 2022

44% of this cohort of larger businesses expect digital transformation will not only be resumed but accelerated in 2022 in direct response to the pandemic

Larger organizations, typically with more capital resources, anticipate reinitiating these programs sooner than SMEs - 67% of large consumer companies see these programs going live again as early as 2021





## Putting the digital consumer at the centre of focus

Consumption habits continue to digitize, prompting organizations to rethink their strategies, business models and how best to reach their customers and meet their changing needs. These challenges are of particular focus for consumer/retail and will need to be addressed as the sector moves beyond lockdown.

# 33%

of businesses believe converting offerings to digital or part-digital will be a foremost business challenge

No other sector is prioritizing these challenges to the same degree

This is followed by 28% who say adapting to changing customer requirements / buying patterns is their primary challenge

# Digitizing operations to make the most of data

**Like companies in other sectors, retail/consumer organizations see the digitization of operations as an area of urgent focus.**

Operational transformations through the roll out of business platforms consequently creates opportunities to gain new insights from internal, proprietary data that in turn can lead to actionable commercial strategy-making.

Based on lessons learned from the pandemic, 56% of retail companies will prioritize deploying a digital business application platform

54% will prioritize exploiting the value of data across the business, versus 45% of businesses across sectors who will also home in on data





# Overcoming collaboration hurdles

**Future success will depend on having cogent and clearly articulated digital strategies and transformation plans that will make those strategies a reality.** This will require various business functions and project teams, and their goals, to be aligned. Any breakdown in communication or misalignment of objectives or incentives will prove a burden to achieving vital DX goals.

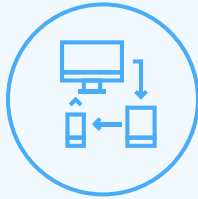
## 46%

of organizations in consumer/retail see a lack of alignment (internal structures and siloed behavior) as a top pain point for digital progress (cross-sector 36%)

Large businesses find collaboration more difficult than SMEs, with 56% citing a lack of alignment as a challenge compared with 38% of companies with fewer than 1,000 employees

# Recommendations in the Renew phase:

## Digitalize offerings to meet changing consumption



In addition to improving their engagement with customers through omnichannel, consumer companies must pay attention to changing digital consumption trends, which may be accelerated by the pandemic and influenced by the ensuing recessionary environment.



Businesses should review how they can convert or enhance their product/service offering and delivery through digital means and what the current crisis and changing consumption habits mean for the company's strategic relevance in the short, medium and long term. Agility will be key to pivoting the business model or customer offering. This pivot will be stymied by established systems and processes that may have served the company well in the past. An existential review of the strategy and an enterprise-wide review of the operational changes required to enable the revised strategy are a must.



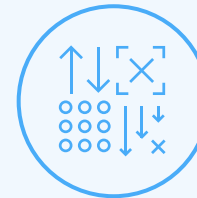
Understanding customers will hinge upon data gathering and analytics. Businesses should set out a clear data strategy that aligns with the DX program and overarching corporate strategy.



The success of DX initiatives is predicated on close collaboration and effective decision-making governance. WFH has made collaboration more challenging. Businesses will need to identify any challenges to collaboration that are hindering digital progress – and how to overcome them.



Review existing data analytics efforts to determine whether they are delivering sufficient actionable insights into not only existing customers but the addressable market. How does the business understand its customer pool and how best to reach and serve its customers? What role does data play in this and can this program be renewed and enhanced in response to the pandemic?



Appropriately seek to generate demand & sales, and leverage new innovative routes to market.



# Thrive Stage Four

Accelerating transformation  
with digital technologies



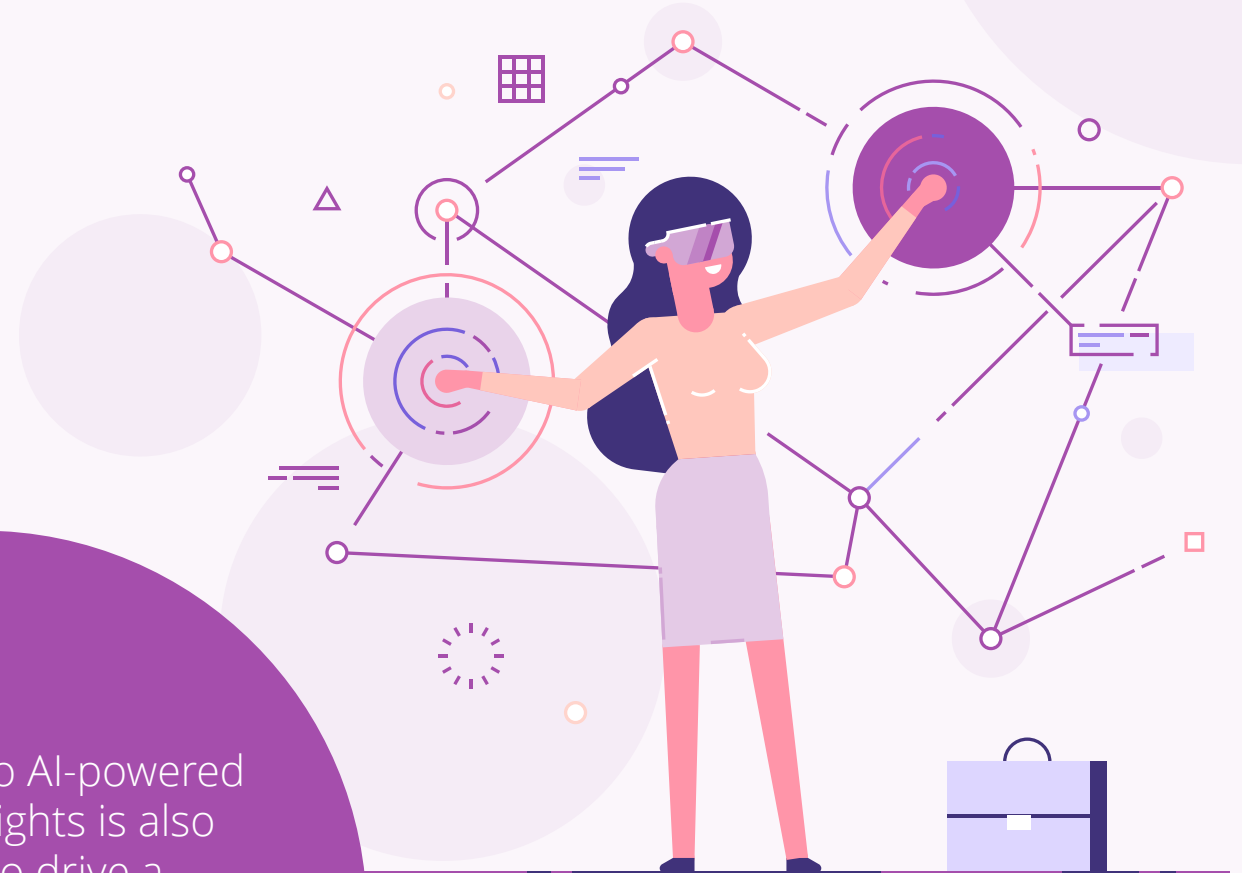
# AI for supply chain insights

The transition to the post-pandemic phase will see the deployment of artificial intelligence – 95% of consumer businesses agree that investing in operationalizing AI throughout the business will accelerate their recovery. The disruption to vendors and their ongoing viability caused by the pandemic will ensure that the primary application of this technology will be to gain insights into logistics and supply chains.

## 95%

of consumer companies anticipate increased investment in AI specifically to gain better supply chain insights (57% agree, 36% slightly agree)

Investment into AI-powered customer insights is also expected to drive a recovery in the sector (49% agree, 48% slightly agree)





# Keeping data under lock and key

**Data is an indispensable asset and digital processes are nothing without it.** Exploiting data well can give companies the competitive edge to successfully innovate products and services, reach customers and ultimately grow revenues and take market share coming out of the crisis. Protecting this data in the sustained remote working environment and amid elevated cybersecurity risks will be absolutely paramount.

## 92%

of consumer organizations anticipate further investment in data protection and privacy technologies to help accelerate their recovery

This is supported by 93% of respondents who see a need to increase their investment in threat detection and core security in order to thrive



## Budgeting for growth

**As a cyclical sector, accurate budgeting and the cost efficiency of DX programs will be especially significant for consumer organizations over the next 12-18 months.** If organizations are to successfully accelerate their growth out of the pandemic through the adoption of AI and other technologies they will have to allocate budgets with precision.

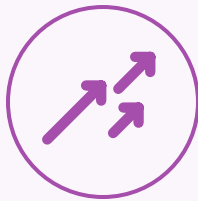
# 64%

expect an increase in budgets for AI post pandemic, behind every industry apart from banking (62%) which is a sector leader with regard to the adoption of such intelligent technologies. This result may therefore be because consumer has already made progress in this area pre-pandemic, a function of funding constraints as earnings fall, or a combination of the two.

Indeed, 44% of consumer organizations say that budgetary pressures will be the biggest hindrance to DX progress, whether for adoption of AI or other digitalization purposes.

# Recommendations in the Thrive phase:

Prioritize goals and align them with investment



**Business continuity and liquidity have been clear priorities for organizations in 2020 in their Survive and Revive phases.** They will need to look beyond these as they Renew their DX strategies and determine how they can Thrive in a post-crisis world.



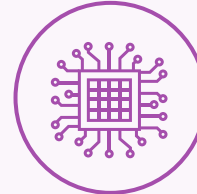
**Customer satisfaction is central to the growth of consumer organizations.** This does not only apply to the quality of products and services. Protecting customer data is critical to building trust in the brand.



**Defensive IT security functions and offensive digital development functions will need to balance their agendas so that their efforts are not conflicting.** Companies must remain secure to breaches while better harnessing data and leveling up their digitalization progress.



**Budgets are likely to remain under pressure through 2021 in the face of economic headwinds.** This will require judicious prioritization of digital programs. Choose a small number of high-value digital initiatives and focus financial and personnel resources on those.



**DX covers numerous technologies and types of initiatives with various aims, from revenue generation to operational agility and efficiency to security.** Organizations need to think carefully about how all of these goals align to their benefit. Does the business understand why it is investing in these various areas and does it have ongoing key performance indicators (KPIs) that show the value they are delivering?

# Summary Methodology & About



# About

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## IBM

**IBM is a leading cloud and cognitive solutions company, and the largest technology and consulting employer in the world.**

Trusted by thousands of enterprises across 20 industries, IBM Cloud provides the essential tools clients need to get all the benefits of cloud, but with control and flexibility. Companies can build mission-critical applications once and run them on all leading public clouds or private clouds with IBM's next-generation hybrid multicloud platform, built on Red Hat technologies. With Watson, the AI platform for business, powered by data, we are building industry-based solutions to real-world problems.

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## OMDIA

**Omdia is a global technology research powerhouse, established following the merger of the research division of Informa Tech (Ovum, Heavy Reading, and Tractica) and the acquired IHS Markit technology research portfolio\*.**

We combine the expertise of more than 400 analysts across the entire technology spectrum, covering 150 markets. We publish over 3,000 research reports annually, reaching more than 14,000 subscribers, and cover thousands of technology, media, and telecommunications companies.

Our exhaustive intelligence and deep technology expertise enable us to uncover actionable insights that help our customers connect the dots in today's constantly evolving technology environment and empower them to improve their businesses – today and tomorrow.

\* The majority of IHS Markit technology research products and solutions were acquired by Informa in August 2019 and are now part of Omdia.



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The Omdia team of 400+ analysts and consultants are located across the globe

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## Omdia

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