



What Successful Retailers Know about Managed Cloud Services

A Frost & Sullivan Executive Brief
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It's a challenging time for traditional retailers. According to investment firm UBS, nearly 8,000 US retail store closures were announced in 2017—eclipsing the previous record of 6,163 closures during the 2008 recession.¹ According to the National Retail Federation, while total retail sales are expected to grow around 4% in 2018, that number reflects growth of 10-12% in online sales, offset by continued declines in store-based sales.²

Survival calls for innovative thinking and execution. Successful retailers are pivoting their focus from basic sales to customer experience. They are blurring the line between on-line and in-store sales with an integrated “omni-channel” approach. They are leveraging vast quantities of data—related to market trends, individual customer preferences, inventory, even weather—to efficiently target and price merchandise. Among recent technology-enabled innovations being adopted by retailers are:

- **Showrooming**, in which a storefront is used to display merchandise that can be ordered online. This enables customers to touch and try on merchandise samples in a physical setting, while relieving the retailer of the burden of maintaining high levels of inventory.
- **Location-based marketing**, in which retailers offer promotions to nearby customers via mobile alerts. Location-based marketing leverages geolocation functionality and analytics to target customers.
- **Tablet-based point of sale systems**, which replace static checkout counters, enabling sales clerks to ring up orders while circulating among customers.

Challenges Facing the Retail Industry

As they transform to compete in the digital era, retailers are turning to their IT leaders to address a growing number of urgent business challenges. These include:

Enhancing the customer experience



To attract a new generation of consumers that could otherwise shop on the web, retailers must provide an “experience.” This may include in-store entertainment and hospitality; virtual reality-based simulations; or customized products and promotions.

Speed to market



To leverage fickle fashion trends, retailers must move quickly. Consumers want to immediately purchase the styles they see on the runway or worn by influential celebrities—a trend that has given rise to “fast fashion” retailers. Speed to market requires a tightly-managed supply chain.

Inventory management



For retailers with multiple locations, ensuring that the right inventory is available at the right time, in the right store, is critical. Not enough inventory (or wrong sizes) reduces revenue. Too much unsold merchandise leads to deep discounting. Both situations impact profitability.

¹ Yahoo Finance, 2018

² National Retail Federation 2018 economic forecast, available [here](#)

Security/privacy compliance



Retailers collect and manage a lot of data. This includes customer data, whether freely shared (via loyalty programs) or gleaned through tracking customer purchases. It also includes financial data, including payment card data. Retailers must comply with a host of regulatory requirements concerning how customer data is collected, stored, and used. In addition, new laws, including Europe's General Data Protection Regulation (GDPR), require explicit permission from the consumer for data collection and use. Compliance may require retailers to retool their use of location-based marketing or other data-based targeting—or face stiff penalties for non-compliance.

Social/sustainability compliance



Retailers and manufacturers are under increasing pressure to ensure their products meet not only laws, but customer expectations regarding sourcing and manufacturing conditions. More customers demand accountability concerning use of sustainable resources and adherence to safe working conditions during product manufacturing—and they may organize actions against not only the manufacturer, but retailers who carry a product they find unacceptable. Retailers that do not have tight control or visibility into their supply chain may find themselves the target of brand-impacting social campaigns.

Diminished margins



Because the internet makes it easy to do price-comparisons, consumers have become price-sensitive across all categories of products. Under pressure to keep prices low, retailers must find ways to cut operational costs to protect profitability.

Are Managed Cloud Services the Answer?

As with all industries, retail businesses are basing their digital strategies on the cloud. The do-it-yourself hosted cloud offers scalability, infrastructure efficiency, and budget-friendly utility pricing for “cloud-native” applications. But implementing an effective cloud strategy that meets all their needs can be challenging for resource-constrained IT leaders, especially in the high-stakes retail industry.

For many retailers, the answer is managed cloud services; subscription-based services in which a third-party expert hosts and manages cloud infrastructure and/or applications on behalf of clients. Unlike IT outsourcing, managed cloud services creates a partnership between the organization and the service provider: the provider contributes cloud technology, infrastructure, and expertise; and the enterprise retains oversight capabilities to ensure that business goals are met. According to Frost & Sullivan research, 61% of all US businesses have adopted managed cloud services, driven by a need to ensure optimal function of business applications within a secure environment.

However, despite their dependence on the cloud and next-generation technologies, the retail industry slightly lags the market in managed cloud adoption, with just 56% of US retailers currently using managed cloud services. What do they know that the other 44% of retailers do not?

IT Leaders from Retail Firms Find Value in Managed Cloud Services

Among retailers that use managed cloud services, fully 84% consider such services an essential part of their IT strategy. Their reasoning is clear: managed cloud services—especially for critical SAP and Oracle

workloads—address their top business challenges and help them remain competitive. IT leaders from retail firms say managed cloud services enabled them to realize the following benefits:

- **Attract and retain customers**—For IT leaders in the retail industry, responding to fast-changing customer demands is a priority. As a result, they point to enhancements in the customer experience—thanks to simplified, optimized operations—as their top benefit associated with managed cloud services. Among retail IT leaders, 69% said managed cloud services have improved their ability to provide better service to customers.
- **Support agility and speed to market**—The right managed services partner is able to optimize and modernize the complex SAP or Oracle workloads that retailers rely on—including supply chain, inventory, and financial applications—in their clouds; as well as help refactor applications at the pace each customer chooses. By leveraging cloud automation and their own expertise, managed services providers that are strong partners of SAP and Oracle can shorten time to upgrade applications (cited as an important benefit by 66% of retail IT leaders); and increase speed to market for new retail concepts (cited by 56% of respondents).
- **Enhance productivity and availability**—Enterprise resource planning (ERP) platforms such as SAP and Oracle serve as the operations engine of a retail business, supporting a range of mission-critical business workloads—including inventory management, supply chain, and databases. Sixty-six percent of IT leaders in retail firms indicate that managed cloud services allow them to efficiently deliver services and applications (including next-generation technologies) to employees and partners. Fifty-nine percent said managed cloud services enhanced the performance of their SAP and Oracle apps; and 63% said they were able to increase application and data availability through improved business continuity/disaster recovery for SAP and Oracle workloads.
- **Improve security and compliance reporting for SAP and Oracle**—Sixty-three percent of retail IT leaders considered it a top benefit that their managed services provider offers a secure environment, with visibility and tools to support compliance audits.
- **Manage costs, ease budget**—Among IT leaders of retail firms, 56% cite the ability to better manage costs for SAP and Oracle workloads, thanks to predictable, subscription-based pricing. In addition, 50% considered the shift from capex to opex to be a top benefit, as they seek more flexibility in expenditures.
- **Support IT innovation**—The need to continually introduce new products and differentiated customer experiences was cited by 50% of retail IT leaders, who said managed services enable them to refocus staff from IT maintenance activities to higher value work.

Isn't it Time for Your Retail Business to Adopt Managed Cloud Services?

The retail industry is undergoing a rapid transformation. Retailers are rapidly adopting next-generation technologies; implementing new ways of interacting with customers; and customizing the shopping experience. IT organizations must focus on innovative solutions, while driving efficiencies and cost-reduction in critical operations. That's where the right managed cloud services partner can help.

Asked about the value of managed cloud services, an IT director of a major retail chain reeled off a list of tactical and strategic advantages: “Managed cloud services give us the ability to quickly adopt Dev/Ops processes; support agility to scale up IT solutions; save costs and time to market; and provide systems that are mobile-ready and with better/modern user interfaces.”

Perhaps it's time to follow the lead of some of the most successful firms in your industry and engage with an expert managed cloud services provider. Your customers, employees, partners, and shareholders will thank you.

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