

# The state of smarter retail

*Smarter Industries Symposium, Barcelona, November 2010*



### **The possibility of smarter industries**

Two years ago, IBM first introduced the concept of a Smarter Planet, a world in which collaboration, systems thinking and data analytics improve the efficiency and effectiveness of the many systems that facilitate life on earth. It was a bold idea, but one that resonated within the business and government communities because it is rooted in a deep understanding of what's possible with today's technologies and capabilities. For this reason, our clients and business partners immediately embraced and echoed the concept.

Two years later, IBM has collaborated with more than 600 different organizations worldwide that are each doing their part in making this vision a reality. In November 2010, we brought many of these world leaders in government and

business to Barcelona to share their stories of a Smarter Planet. We called the event Smarter Industries Symposium because while the notion of a Smarter Planet may be global in scope, the work of building it happens industry by industry, company by company, government by government, and process by process.

Representatives from ten different industries attended the event, including banking, communications, energy and utilities, healthcare, government, insurance, oil and gas, retail, transportation and electronics. And though each of these industries faces unique circumstances in today's economic environment, the most advanced organizations in each field share a common outlook. They are the organizations that have stopped seeing change as a threat and started seeing it as an opportunity. They have changed the conversation from one about problems to one about possibilities.



**IBM** Smarter Industries Symposium

**Smarter Industries. Smarter Business.**

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“We are climbing out of a global downturn in an environment of accelerating complexity and uncertainty, with an explosion of data all around us,” said Frank Kern, Senior Vice President and Managing Partner at IBM Global Business Services. “Yet the question on the mind of global business leaders is shifting from ‘What’s my biggest problem?’ to ‘What’s my greatest opportunity? What are my prospects? What’s available to my enterprise now that wasn’t before?’”

### **Analytics, ROI and the customer**

During the course of the Symposium, attendees saw many examples of how organizations are answering those questions with action. In particular, they saw the power of data and analytics in making smarter industries a reality. “Analytics: The New Path to Value,” a study jointly conducted by IBM and the *MIT Sloan Management Review*, found organizations that utilize analytics outperform those that are just beginning to adopt analytics by a factor of three.<sup>1</sup> They use them to understand historical trends, to model current conditions and to predict the return on investment of different courses of action.

And though the approaches to analytics vary, every organization shared a remarkably consistent design point: the customer. From Fundacio TicSalut, an institution of the regional healthcare administrator in Spain that has built a shared electronic medical records system to improve health services for its citizens, to Best Buy, the electronics retailer that is listening to its customers across multiple channels and engaging them over social networks, smarter industries are being built around serving the needs of the customer.

“Our customers are asking us to know them, empower them, offer them and support them,” said John Thompson, Senior Vice President and General Manager at BestBuy.com. “We’re inclined to listen to them.”

### **A path to possibilities**

Having the design point of the customer is important because without it, all the innovation in the world has no purpose. John Kao, Chairman of the World Economic Forum’s Global Advisory Council on Innovation, explained it to symposium attendees like this: “Creativity and innovation are not the same thing. Creativity is the ability to generate new ideas. But innovation requires a goal to move forward.”

Kao advocates having a plan, or a system, when pursuing any innovation. And smarter industries are no different – which is why IBM has produced more than 30 industry-specific progression paths that identify key transformation milestones, outline the return and benefits of each step, and simplify the journey to getting smarter. The progression paths address specific aspects of various industries, from building a collaborative care model in healthcare to meeting regulatory requirements for municipal water systems.

Not surprisingly, some consistent patterns emerge at each stage of transformation, which Ginni Rometty, Senior Vice President and Group Executive for Sales, Marketing and Strategy at IBM, noted to attendees of the symposium:

- 1. Instrument to manage** – The collection of data to measure, monitor and understand a system
- 2. Integrate to innovate** – The analysis of that data to see patterns and identify opportunity
- 3. Optimize to transform** – The action of reaching system-specific goals and redefining what’s possible.

Throughout this report, you will read about what was shared at the Smarter Industries Symposium and the stories of how many organizations in your industry are applying this progression path. It’s a path that is helping improve the efficiency and operations of hundreds of IBM clients and business partners around the world. It is a path to possibility. And it’s a path to a Smarter Planet, one industry at a time.



### **The state of smarter retail: Listening to the consumer**

Consumers used to be such a predictable lot. So much so that retailers could look at past sales data to reliably plan for the future. But those days are over. Today, consumers are more sophisticated and fickle. They are less susceptible to traditional marketing techniques. They use mobile devices to compare prices in real time. They connect with friends and family over social networks to inform their purchasing decisions. And their trust in retail brands is fragile and fleeting.

Not surprisingly then, gaining and maintaining the trust of customers became the central topic of discussion throughout the two-day retail track at the Smarter Industries Symposium in Barcelona. “Trust is the key for retail companies because there is a direct relationship between consumer trust and consumer performance or spend,” said Sandro Castaldo, Professor of Management, Bocconi University. “Consumers use trust to determine where to buy or where not to buy. So even though a retailer may have two different customers in the same shop, one looking for high-end value and the other a cherry picker, a retailer needs to be able to look at those customers differently, promote differently, create loyalty differently and in the end create trust.”

Indeed, many symposium participants agreed that building trust with customers requires a deep understanding of their wants and needs. Fortunately, retailers have an abundance of data with which to do this. And through the examples of success stories provided at the symposium, three distinct steps toward building a complete customer understanding emerged:

- 1.) Find the most important data
- 2.) Integrate data across the enterprise
- 3.) Analyze and listen to what the data is telling you.

#### **Finding the most important data**

Unlike many other industries that are data starved, retail has an abundance of data. Complaints about having too much information were common at the symposium. The question many participants had was “How do retailers manage all the data?”

The answer that came back was that retailers can no longer expect their data to make sense on its own. They need to first determine the right questions they need the data to answer, based on their overarching corporate strategy. Then they can tag the right data and processes to allow answers to emerge. And the most important information will always come straight from the customers.

“The key is to keep your eye on the customer,” said Russell Harte, Head of Business Development and Delivery of Boots. Com. “The customer will tell you anything that is wrong with your site – model numbers, product descriptions, etc. If you listen to the customer and consistently change, retailers will make massive improvements daily.” In fact, after launching the new boots.com Web site, Harte quickly learned that multi-channel customers are more valuable to the organization and spend more money, both in the store and online.

### **Integrate data across the enterprise**

Once the data is correct and processes are tagged, retailers move onto integration. Integration is the step that gets retailers closer to the customer and solves complex problems. It also paves the way for retailers to use analytics to understand key customer trends.

Only by obtaining this comprehensive view of customer behavior – a view that takes into account in-store, online and mobile browsing and buying – can retailers serve them effectively and open the door for more communication. “Consumers want to be served, and they want you to be relevant,” said Chris McCann, President of 1-800-flowers. “Retailers need to know more about the consumer and their lives. Consumers will share information with each other on social sites that they will not share with retailers. Retailers who are relevant give consumers a reason to share.”

Another retailer explained how collecting and analyzing the right data helped decrease advertising spend and increase sales. The retailer went back to the customer data and analyzed how specific local markets and income groups responded to advertising. It was able to view single customers by looking at individual transactions in the store, on the Web and through social media. Through this process, advertising expense was reduced significantly without an impact on sales. In fact, because the retailer was targeting the right people with the right ads, it increased loyalty and improved sales.

### **Analyze and listen to what the data is telling you**

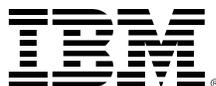
One retail industry executive discussed how after the right data is collected and integrated, it allows a personal relationship with the consumer, enabling a retailer to move from mass customization to mass personalization and get a deeper understanding of local markets.

This executive’s company did this by blending what was known on a personal customer level with listening skills at a local level. In addition to analyzing unstructured data in blogs and social media, the company created a forum for employees to share local trends and market information with headquarters. The sets of data were very revealing. In one instance, the company learned that women didn’t like stores in a specific market. The reason was not because of product selection or store format, but because women who were dropping their kids off at school early in the morning didn’t like waiting until 10 a.m. for the store to open. In response, the company changed its opening hour to 8 a.m., and sales went up.

Throughout the symposium, many different approaches to building smarter retail were discussed. However, they all shared one thing in common: a laser-like focus on meeting the needs of customers. Knowing and serving customers fulfills the brand promise. It builds trust and loyalty. It increases sales. And it is the end game of a smarter retail industry.

## Reference

- 1 LaValle, Steve, Michael Hopkins, Eric Lesser, Rebecca Shockley and Nina Kruschwitz. "Analytics: The new path to value. How the smartest organizations are embedding analytics to transform insights into action." *MIT Sloan Management Review* and IBM Institute for Business Value. October 2010. <ftp://public.dhe.ibm.com/common/ssi/ecm/en/gbe03371usen/GBE03371USEN.PDF>



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