



Retail Insights Advancing your digital transformation in tough times

Seven recommendations to help you
prioritize digital investments while tackling
near- and long-term uncertainty



Keeping up your digital transformation momentum in uncertain times



Digital transformation in retail has been underway for some time. But now, retailers face a near-perfect storm of challenges that may threaten the pace of transformation.

Global supply chains remain disrupted, worsened by the war in Ukraine. In addition, as a consequence of geopolitical tensions, energy prices have risen to record new levels, with energy shortage forecasts leading headlines. Inflation is the highest it's been in decades, interest rates are rising, stock markets remain volatile, and property prices are plummeting. Climate change has added another dimension of complexity to growing uncertainty.

The result: consumers are tightening their purse strings to save for potentially higher bills and are extremely cautious about what they buy. This, in turn, has led to falling demand for consumer goods and a clear shift toward low-price retailers, especially in the grocery sector.

At the same time, consumers are increasingly looking for more climate change accountability from brands. However, this is yet to translate into paying a premium for more sustainably sourced and manufactured products. The lowest price continues to be the main decision driver.

Amidst the changes in demand, increased competition, store closures and even bankruptcy, retailers are doing their best to keep their heads above the water. Some have already made tough operational decisions to reduce costs; many others will follow. In this period of significant upheaval, can retailers proceed with their digital transformation agendas? Can they afford not to?

Lessons from the pandemic demonstrated that retailers must continue their digital transformation despite the current situation. With today's economic uncertainties, the key is to know where to invest to survive and prepare for the future.

Why digital leaders continue to progress their digital investments



As industry leaders discovered during the pandemic, slowing down or putting digital transformation on hold is a short-sighted approach.

To address today's uncertainty, retailers must look to better inform their digital investment decisions by evaluating their competitive environment and understanding why some players are in a much stronger position to face the current crises.

The [2022 Voice of Our Clients research](#) clearly demonstrates that digital leaders¹ in retail are well ahead in their transformation and have significantly evolved their business models to be more agile. These leaders are not just better equipped to face today's challenges; they are also in a better position to continue to invest to compete in the midterm. This means that if the crisis persists for a few years, they will pull further ahead of those who deprioritize digital transformation.

IT is no longer a discretionary spend—it is essential to accelerate your business transformation. Retailers that emerged successfully from the pandemic had accelerated investments in their digitalization, a lesson in resiliency to help navigate through today's uncertainty.

¹ Digital leaders are those organizations that are producing expected results from their digital strategies.



Furthermore, digital leaders prioritize the omnichannel customer experience and supply chain agility and look to leverage actionable data and automation more than others. In doing so, they continue to shape customer expectations and set the bar even higher for the omnichannel customer experience.

But will demand be sufficient for these leaders to gain the necessary return on their investment? The short answer is yes. Today's modern connected consumers continue to look for attractive deals and demand a high quality of service and accurate information across digital channels.

They will be influenced by innovative approaches that meet their expectations and buy the furniture, garments and groceries they need.

So, while total volumes may be lower, demand will remain at significant levels, and consumers will buy from retailers they trust and who deliver the most relevant experiences. However, with competition rising several notches, capturing a piece of this smaller "demand pie" will be much harder.

The value of staying focused on the customer experience



Consumer expectations today are at an all-time high, and providing a friction-free omnichannel shopping experience is the defacto differentiator to gain and retain customers.

As part of the experience, consumers expect to search or transact using one channel and, if they so desire, complete the action seamlessly using another channel. They also expect the same high quality of service and experience across each channel. For example, if they find an interesting product ad while scrolling through their social media feed, they want to use their mobile devices to compare prices, quality and options to shop and pay. But they may visit a store to try out the product and purchase it and, of course, expect to find it available.

The omnichannel customer experience drives competition. Successful retailers understand that they must be part of this game to survive and thrive.

Consumer demands have risen far above simply expecting the right product at the right price. Now, it's about excellence across the entire customer journey. Consumers expect goods to be delivered to the right place (whether at home, a post office box, a pick-up point, or in-store) at the right time. To meet these expectations, retailers need to have information in real-time from the end-to-end supply chain, including where products are located, whether they are in transit and when they will arrive at the store or distribution centers.

Consumers also expect retailers to provide relevant recommendations based on their previous purchases and preferences. Increasingly, they also want access to accurate environmental, social and governance (ESG) information about the products to make more informed and responsible choices.

Delivering on all of this is critical to meet demand, drive loyalty and reduce costs.

Therefore, to stay on course, retailers need to continue to invest in providing a friction-free experience that delivers on their brand promise across the ever-evolving omnichannel journey.



Identifying the right investments to stay on course



When it comes to making the right investments, where should you start?

What should you prioritize, and how can you fund your identified priorities and accelerate return on investment?

In times of upheaval, prioritizing the most important investments is key because digital transformation in retail is ushering in big changes in customer behaviors and expectations that offer new opportunities and enable higher efficiencies.

As the retail experience becomes more digital and competition intensifies, identifying these opportunities requires a better understanding of customers and their changing behaviors. It starts with reviewing who your customers are, what they want, their level of price sensitivity and where and how they shop. It also requires precise mapping of which products target which customer.

To continue to invest and reap the benefits of digital transformation during uncertain times, prioritization is key, both to manage the short term and to best prepare for the near future.

Personalization and building loyalty offer immense potential. What if you could use customer data to provide relevant and attractive offers to your customers? What results could you expect from a loyalty program and from rewarding your customers as they keep engaging with your brand?

Additional opportunities are rooted in digitizing processes, for instance, to gain total transparency of product availability, stock levels, prices, and delivery and payment options. Today, consumers expect accurate information that supports their end-to-end buying experience. What information can your offer to inspire them to buy more? How can you take advantage of accurate real-time data on the inventory levels of individual products? Will you drive additional sales if customers can order online and pick up and return in-store?

Digitization also enables reaching completely new customer segments, either through owned e-commerce platforms or online retail marketplaces. Exploring new digital channels based on your target audience and competition can bring big opportunities to increase sales. But should you set up your own marketplace or leverage an established marketplace? How can you better utilize social media to inspire consumers and increase sales?

Moreover, optimizing assortment, pricing, margins, and the supply chain will prevent an inventory surplus or being out of stock. Setting up available-to-promise (ATP) levels for online purchases in-store will optimize inventory costs, while managing product returns effectively will help reduce costs and even drive competitive advantage.



But to benefit from these opportunities, investments in digital transformation must progress. Otherwise, you run the risk of being outpaced by digital leaders.

So how can you prioritize in the most strategic manner?

The first step is benchmarking your organization against your peers to inform your priorities and develop a clear roadmap.

Digital leaders excel at mining value from data



Benchmarking your organization with digital leaders

Benchmarking your organization provides a solid foundation to gauge your progress in accelerating digital transformation and to prioritize your objectives.

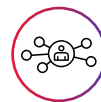
In [the 2022 Voice of Our Clients](#), we analyzed the characteristics of digital leaders who represent 25% of all executives interviewed and found several common attributes:



They have highly agile business models.



They prioritize improving the customer experience, implementing agile supply chains and harnessing the power of data analytics.

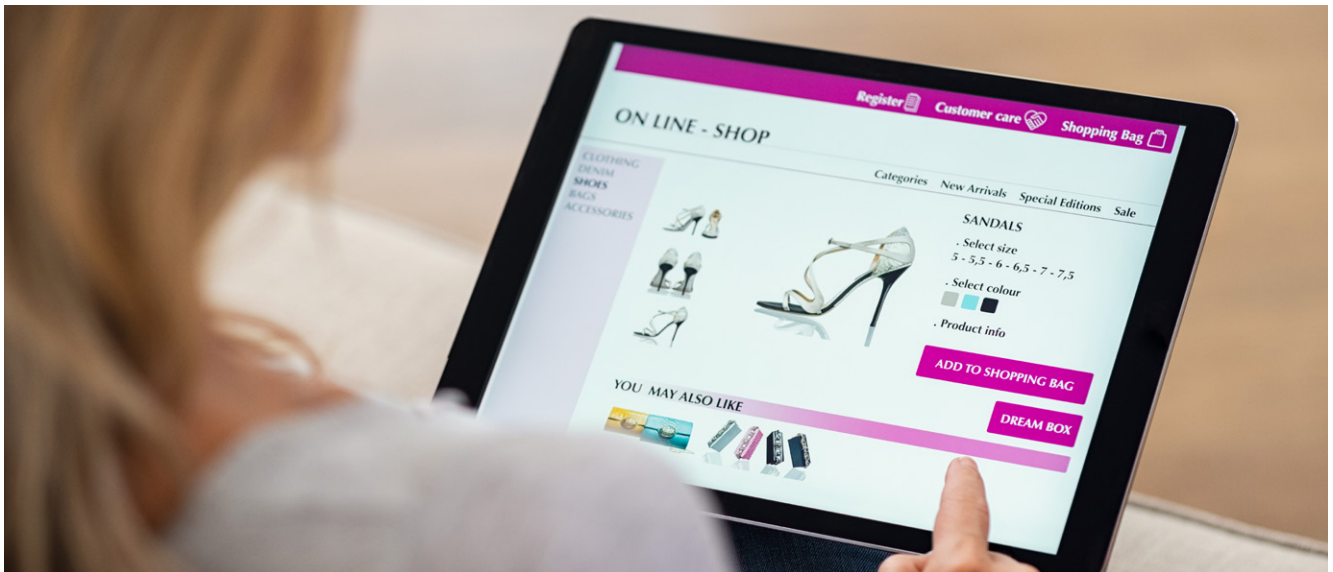


Their digital strategy extends to their wider ecosystem.



They are faster in modernizing their IT environment, including through automation.

From shaping business and IT priorities to building your strategies and business plans, benchmarking provides actionable insights and best practices tailored to your organization's unique journey.



What operational data do you need, and how do you ensure it is timely, relevant and high quality?

A well-managed retail business has good control and insight into data across the value chain, including sales and profit margins per product and channel. Retail leaders allocate cost drivers to activities and products to gain a better understanding of what creates value.

In today's digital world, this is not enough. Visibility of operational data must move to the next level and be managed as a strategic asset.

Lead with customer data

Owning the customer is no longer in focus. Owning the buying patterns and data about your customer will be critical for future success.

Data on customers' online actions and behaviors directly influence retailers' ability to enhance and optimize the omnichannel journey and increase sales. The most valuable customers are those who make purchases both online and in-store. To derive truly actionable insights, data on their purchase history from a physical store must be combined with their online journeys and in-store behaviors.

In addition, loyalty programs provide an invaluable tool for retailers to enhance customer engagement and to better understand and reward them. This entails providing precise product recommendations at the right time for a personalized shopping experience. Some critical success factors include:

- 1 A stronger focus on personal rewards rather than only financial bonuses, and
- 2 Gathering, analyzing and acting on insights from customer data.

The most innovative retail companies use data across the entire customer journey, including while a transaction is underway, applying a “data to intelligence” lifecycle to the sales funnel. At the same time, they place a premium on baking in data protection and privacy measures to maintain customer trust. This requires developing a clear data strategy tied to business value and access to high-quality real-time data. Establishing a single source of truth, like a customer data platform, will be critical to ensure data quality.

But don't overlook supply chain data

Total end-to-end supply chain visibility enables you to keep track of your entire assortment and its journey from suppliers all the way to customers, including transportation, warehouse, distribution points and stores. Across the omnichannel journey, data must include each individual online order's status and delivery to orchestrate the most efficient, timely, and potentially sustainable delivery option.

In-store staff and customer contact center employees must be empowered with real-time data to enhance the customer experience. For instance, if customers want to know about a specific item—either already purchased or on their wish list—staff must be able to readily and transparently share the accurate delivery status of the product. They should also be able to propose relevant offerings based on customer data.



7 recommendations to prepare for uncertainty while continuing your digital investments

Based on our extensive experience and expertise in the retail sector and recent conversations with clients and industry analysts across geographies, we offer seven recommendations to prepare for an uncertain future. Our recommendations are underpinned by appropriate data management strategies to mitigate risks and increase agility to adapt.

1

Secure financial planning and track costs

Base your financial forecasts for the next two years on simulations of continued lower demand volumes and increased supplier, employee and overhead costs. Ensure you allocate all indirect costs to products and channels to better evaluate profitability and agree on the allocation methodology. Focus investments and operations on profitable product categories or channels, ensuring all decisions are based on accurate data.

The key to securing financial planning is focusing on operations and productivity and allocating costs, which help identify the actual cost drivers. For instance, across the various omnichannel options of pick-up, in-store or delivery to home, we recommend understanding the cost drivers and letting customers pay for the service. The time of subsidizing ecommerce operations with free shipments and returns is in the past.



2

Understand your customers better

Customers today seek higher value for money leading them to explore new products and brands to find the best buy. We recommend a deeper analysis of customer data to understand what makes them stay (or leave). How can you address their demands by lowering margins on critical products to keep volumes and stay in business? Which products are less sensitive to demand fluctuations where margins can be maintained or even raised? How can you retain your most loyal customers? Is it time to exit less attractive customer segments?

Answering all these questions boils down to data.

Gaining customer insights from a single source of truth, like a customer data platform (CDP) enables you to target your digital marketing efforts to specific customer groups and offer personalized products and services. You can further enhance the customer experience through simple navigation features, enhanced images and product information and hassle-free check-out procedures, including payment and delivery options.

By analyzing and understanding the customer journey, you can continue to eliminate pain points and improve customer service.



3

Optimize assortment

Reviewing and optimizing product assortment strategies enables you to cater optimally to current demand. Focus on cost control and fast-moving inventories to avoid waste, surplus stocks, or being out of stock. When relevant, introduce a wider assortment of lower-cost products to help customers save money. At the same time, identify the products most in demand and ensure you offer the right assortment. When assessing a product category's profitability, consider all indirect costs per category, including procurement, store fulfillment, unpackaging, sales, etc.

Work closely with your suppliers to help drive volumes together by sharing lower margins on selected products. Reassess suppliers where supply chains are disrupted and consider sourcing locally or from new geographies to secure supply,

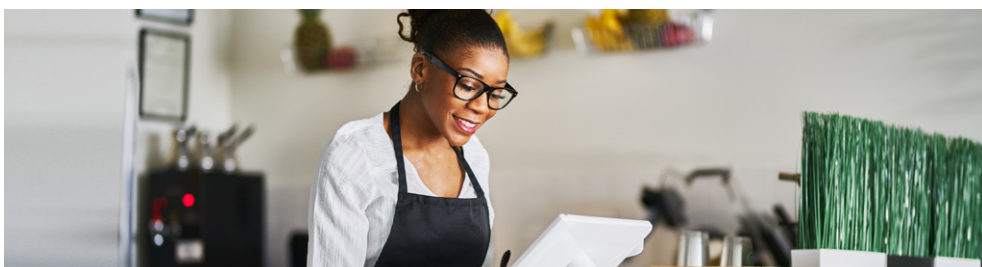
In addition, using modern forecasting tools for store replenishment and collaboration with your suppliers will ensure you receive the right products at the right time in the right volumes, supported by fully digitalized order management tools.



4

Digitize store operations

Digitalization can transform store productivity and customer experience while securing a return on investment. Implementing a digital point-of-sales (POS) solution enables store employees to provide swift, personalized and seamless customer service. The fast POS can provide information on stock availability, help to manage transactions or returns efficiently, and drive memberships and subscriptions.



5

Automate and outsource more

Automating administrative store operations will help you reduce costs while focusing your store employees on best serving your customers with the right training. Real-time digital pricing, automated kiosks or a personal digital shopping assistant are great examples. Tracking customer patterns and movements in-store with AI can provide valuable insights to support the customer experience and optimize product display.

Explore your non-core business processes and assess if specialized partner suppliers can deliver a higher quality of service at a lower cost. Working with a trusted partner to manage your IT functions frees up your organization to focus on strategic business direction, while immediately reducing costs. In addition, using managed IT and business process services will enable reinvestment to successfully execute your digital transformation roadmaps. It will also help increase agility, scalability and resilience; deliver operational efficiencies, innovations and reduced costs while improving service.

For example, we provided managed IT application outsourcing services for a fashion retail client, which helped reduce their IT spend from 5% to under 2.5% of gross sales and enhance IT service quality.



6

Invest in business development and IT

Investing in business development and supporting technologies should be a top priority and integrated into the financial planning process. Start by assessing ongoing projects to prioritize those that provide the most near-term value. Make sure that the targeted savings or increase in sales volume are implemented. Don't underestimate the need for change management to train people in new processes.

Focus your IT investments on enabling a friction-free omnichannel customer experience to drive customer satisfaction, volumes and profitability. Choose best-of-breed solutions and tailor-made applications for your unique business requirement. Make sure you serve your business model and prioritize agility over traditional ways of working.



7

Align and prepare for different scenarios

Digital leaders are better at operating as aligned teams between business and IT. Ensuring business and IT alignment on the way forward is critical, so is involving suppliers and ecosystem partners in the planning process to ensure swift implementation. Prepare for different scenarios to increase agility so previously decided plans can be proactively implemented instead of starting from scratch. Lastly, communicate the plan, enable collaboration across silos and drive change management to support the transformation.



Becoming resilient in turbulent times

As retailers navigate multiple headwinds, staying on course with their digital transformation will be critical to meet heightened customer expectations for personalized and seamless omnichannel experiences. But instead of rushing to expand their omnichannel capabilities, retailers have the opportunity to “double down” and prioritize digital investments that are directly tied to profitability, value and purpose. This requires embracing the use of data to gain strategic and operational insights to guide decision-making and thrive in new market realities.





About CGI

Insights you can act on

Founded in 1976, CGI is among the largest IT and business consulting services firms in the world.

We are insights-driven and outcomes-based to help accelerate returns on your investments. Across 21 industry sectors in 400 locations worldwide, our 90,000 professionals provide comprehensive, scalable and sustainable IT and business consulting services that are informed globally and delivered locally.

cgi.com/retail

© 2023 CGI Inc.

