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Enterprise Digital Adoption in Retail | Pinnacle Model™ Analysis 2018

Digital Services
Market Report – March 2018: Complimentary Abstract / Table of Contents

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MODEL™

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*   Banking, financial services, and insurance

Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio

- Peer analysis | Scope, sourcing models, locations

- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool

- Tracking services | Service providers, locations, risk

- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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Background and scope of the research

The growing dominance of e-commerce has shaken the traditional retail industry, and offline retailers are finding it difficult to compete with the e-commerce giants. Over 6,000 retail shops shut down in the United States in 2017, the remaining players are now turning to digital technologies to fight for their survival.

Retailers, both online and offline, are adopting digital strategies to improve the in-store experience, gain higher operational efficiency, and provide a personalized customer experience across channels.

As the pace of digital transformation intensifies, we are witnessing a group of leaders emerging from the pack, the Digital Pinnacle Enterprises™. Through this report, we deep dive into these organizations and analyze the factors that set them apart from other retailers and what the industry can do to keep up.

This report offers a deeper look at key capabilities, encompassing 18 key dimensions, in which retailers are making investments for digital transformation, and further evaluation of four key dimensions where Digital Pinnacle Enterprises™ in retail showcase higher maturity.

In this research, we present our findings from a recent study with 33 retail enterprises. We will also look at the challenges, technology trends, and success metrics for retailers in their digital transformation journey. We focus on:

Digital adoption trends

Digital investment themes and growth priorities for retailers

Recommendations for the retail industry

Scope of this report

INDUSTRY
Retail

MARKET SEGMENT
Digital services

GEOGRAPHY
Global

SOURCES
Everest Group's survey of 33 global retailers; previous Everest Group research

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Executive summary: Digital transformation is the key growth driver for Digital Pinnacle Enterprises™ in retail

Digital Pinnacle Enterprises™ in retail are investing in digital transformation initiatives to improve customer experience, operational efficiency, store digitalization, and data security.

They have a focused customer strategy which is built around providing an enhanced customer experience through personalization. This includes recommendations, in-store experience, promotions, and customer service.

Retailers are investing in technology to achieve higher operational efficiency through demand forecast and price optimization, distribution optimization, and assortment planning. Digital Pinnacle Enterprises™ are leading the way with extensive adoption of AI, Big Data, and IoT to drive these initiatives.

Data security has become a priority investment area, as retailers now rely more and more on customer data to drive analytics to deliver personalization and improve efficiency.

Rapid adoption of technology is changing the dynamics of retailer organization design. The industry is witnessing the evolution of leadership roles, such the Chief Data Officer and the Chief Growth Officer, and adoption of innovative retail models such as click-and-collect and subscription services.

Characteristics of Digital Pinnacle Enterprises™ in BFS that set them apart

80% *have developed innovation-focused team structures*

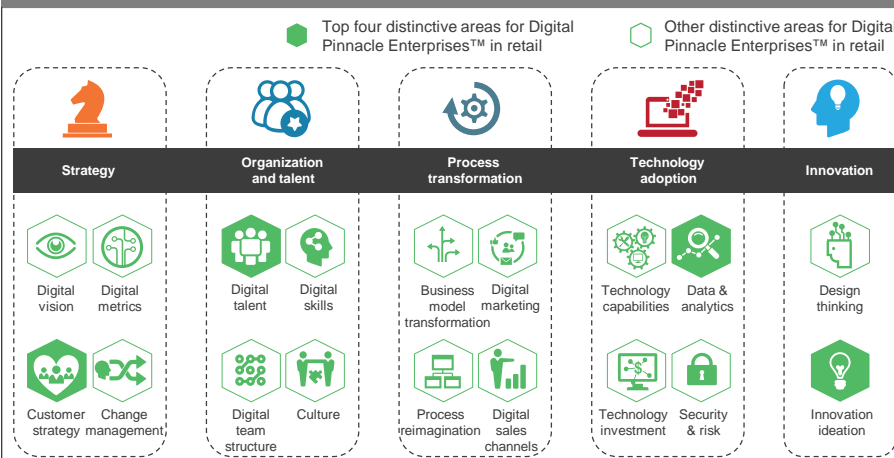**77%** *have a customer-focused digital marketing strategy*

74% *have invested extensively in adopting advanced analytics solutions*

71% *have explored use cases for cognitive and AI technologies*

63% *plan to increase their digital budgets for the next year by more than 10%*
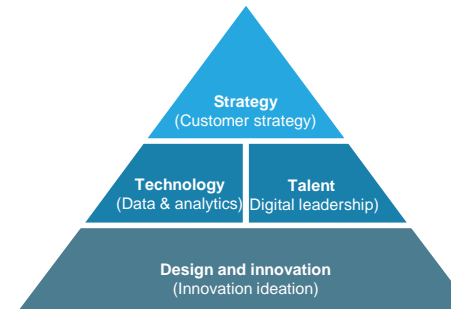
We identified Digital Pinnacle Enterprises™ in retail based on their focus on business outcomes and capability maturity

Key dimensions for Digital Pinnacle Enterprises™ in retail

⬢ Top four distinctive areas for Digital Pinnacle Enterprises™ in retail
⬡ Other distinctive areas for Digital Pinnacle Enterprises™ in retail

Strategy	Organization and talent	Process transformation	Technology adoption	Innovation
Digital vision	Digital talent	Business model transformation	Technology capabilities	Design thinking
Digital metrics	Digital skills	Digital marketing	Data & analytics	
Customer strategy	Digital team structure	Process reimagination	Technology investment	Innovation ideation
Change management	Culture	Digital sales channels	Security & risk	

Key retail market trends

Investments in these key dimensions are driving the market trends

- Strategy (Customer strategy)
- Technology (Data & analytics)
- Talent (Digital leadership)
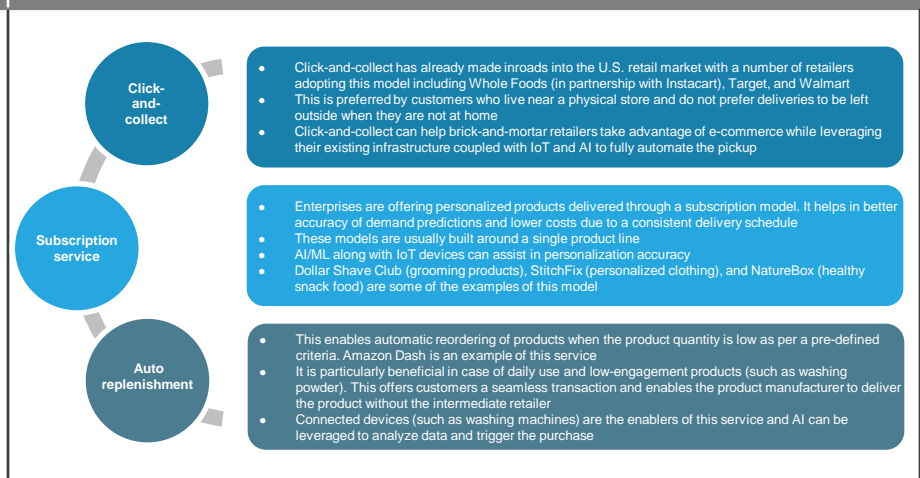- Design and innovation (Innovation ideation)

- Store digitalization
- Operational efficiency
- Personalization of customer experience
- Data security

Top technologies / focus areas and their impact on retail

Top technologies / focus areas and their impact on retail

Impact on retail — Low — High

Big Data
Personalized recommendations and offers; demand forecasting and pricing; inventory optimization

AI/cognitive
Customer service; demand forecasting; advanced recommendations engine

Mobile
Omnichannel customer experience; personalized offers; payments; customer service

Cybersecurity
Maintain long-term growth; deliver secure customer experience

IoT / Blockchain / RPA
Inventory management; warehouse efficiency optimization; payments

Transformative business models in retail

Click-and-collect
- Click-and-collect has already made inroads into the U.S. retail market with a number of retailers adopting this model including Whole Foods (in partnership with Instacart), Target, and Walmart
- This is preferred by customers who live near a physical store and do not prefer deliveries to be left outside when they are not at home
- Click-and-collect can help brick-and-mortar retailers take advantage of e-commerce while leveraging their existing infrastructure coupled with IoT and AI to fully automate the pickup

Subscription service
- Enterprises are offering personalized products delivered through a subscription model. It helps in better accuracy of demand predictions and lower costs due to a consistent delivery schedule
- These models are usually built around a single product line
- AI/ML along with IoT devices can assist in personalization accuracy
- Dollar Shave Club (grooming products), StitchFix (personalized clothing), and NatureBox (healthy snack food) are some of the examples of this model

Auto replenishment
- This enables automatic reordering of products when the product quantity is low as per a pre-defined criteria. Amazon Dash is an example of this service
- It is particularly beneficial in case of daily use and low-engagement products (such as washing powder). This offers customers a seamless transaction and enables the product manufacturer to deliver the product without the intermediate retailer
- Connected devices (such as washing machines) are the enablers of this service and AI can be leveraged to analyze data and trigger the purchase

Research calendar – Digital services

Flagship Digital Services Reports	Release date
IoT Services PEAK Matrix™ Assessment and Market Trends 2017: Have You Taken the Plunge in IoT Yet?	December 2017
Digital Interactive Agencies – Market Report 2018: Digital Marketing in the Cognitive Era	December 2017
**Enterprise Digital Adoption in Retail	Pinnacle Model™ Analysis 2018**	**March 2018**
Enterprise Digital Adoption in Manufacturing	Pinnacle Model™ Analysis 2018	Q1 2018
Digital Services Annual Report 2018	Q1 2018
Digital Interactive Agencies PEAK Matrix™ Assessment and Market Trends 2018	Q2 2018
IoT Services Annual Report 2018	Q2 2018
Customer Experience	Pinnacle Model™ Analysis 2018	Q4 2018

Thematic Digital Services Reports	
Design Thinking: Innovation Catalyst for Digital Transformation	July 2017
Enterprise Bots Adoption	July 2017
AI/Cognitive: Past, Present, and Future	Q2 2018
Big Tech Wars: IoT Platforms	Q3 2018
CX Trailblazers	Q3 2018
Big Tech Wars: Digital Marketing Platforms	Q4 2018

Note: For a list of all Digital services reports published by us, please refer to our website page

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Additional digital services research references

The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **Enterprise Digital Adoption | Pinnacle Model™ Analysis** (EGR-2017-4-R-2402); 2017. In this report, we present key findings from the digital enterprise survey. Everest Group conducted a survey for 328 organizations across North America, Europe, the United Kingdom, and Asia Pacific. We evaluated enterprises on five key capabilities: strategy, organization and talent, process transformation, technology adoption, and innovation. This report identified five key dimensions where Digital Pinnacle Enterprises™ differentiate and reap higher returns than the industry average

2. **Digital Services – PEAK Matrix™ Assessment and Market Trends: Redefining Customer Experience With Digital** (EGR-2017-4-R-2351); 2017. Digital adoption has moved from being an IT agenda to an organization-wide agenda, and enterprises are increasingly investing in digital technologies for achieving organizational goals. This research presents an assessment and detailed profiles of 22 IT service providers featured on Everest Group's PEAK Matrix for digital services for 2017

For more information on this and other research published by Everest Group, please contact us:

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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