Digital Transformation Wake Up Call

Uncovering where retailers are putting boots on the ground and allocating budget dollars for digital transformation

BY JOE SKORUPA

The term digital transformation in retail refers to a radical rethinking of how to use technology to pursue modernization and improve revenue streams and business models. Retailers that pursue a digital transformation strategy are deploying technology in innovative ways that blur the lines between the physical and digital worlds.

With few exceptions, the most successful retailers today – the ones enjoying the largest revenue gains – are those that have made substantial investments over the last few years in digital transformation. A short list of these booming retailers includes Walmart, Target, Ulta, DSW, Sephora, lululemon, Nike and Kroger.

The volume of activity devoted to digital transformation by these leaders is breathtaking. It includes everything from data-driven stores with curated assortments to cashierless checkout, from cloud-hosted platforms to robots in stores, and from AI-driven personalization to augmented reality mirrors and displays.

However, no single technology or project can

achieve digital transformation. Instead, the radical shift is accomplished through a multi-phased, multi-year plan that redefines traditional retailing and marketplace boundaries. The shift also requires a new level of collaboration and integration across departments, divisions and enterprise technologies.

It is important to note that a common factor in every phase of digital transformation is a focus on customer-first strategies that deliver newfound flexibility and the ability to offer frictionless shopping experiences and roll out new programs at marketplace speed.

In this Targeted Research report we zero in on digital transformation for the first time to get a better understanding of where retailers are putting boots on the ground and allocating budget dollars for investment.

Digital Transformation 2019

The big four digital transformation investment areas for 2019 are: 1. Expanding unified commerce (or ominchannel)

FIGURE 1

Digital transformation strategies having a major impact on financial performance in 2019

Expanding unified commerce/omnichannel capabilities	50%
Cloud software and platforms	47%
Advanced personalized (one-to-one) marketing capabilities	47%
Creating new business models and services	43%
Evolving enterprise architecture approach (i.e. SaaS, PaaS, IaaS, microservices architecture, etc.)	27%
Expanding Internet of Things capabilities	27%

FIGURE 2

Top challenges targeted for significant investment in 2019

Protecting customer data security systems (hacks and thefts of data)	45%
Retiring legacy systems	42%
Pace of competitive developments (external shifts by competitors)	35%
Employee engagement (salaries, training, flexibility, benefits, self-service HR, etc.)	32%
Consolidating databases (CRM, inventory, etc.)	29%
Change management (internal resistance to change)	26%
Turnover and retention in a tight labor market	26%
Fighting security attacks and malware (denial of service, ransomware, etc.)	23%
Enterprise infrastructure/architecture (outdated)	19%
Application integration (too much ongoing maintenance)	16%
WiFi capabilities in stores (need upgrading)	6%

FIGURE 3

Number one emerging tech area for investment in 2019

Cloud software and platforms	40%
Cashierless or grab-and-go stores	20%
Smart machines in warehouses	13%
Voice-activated capabilities	10%
Smart shelves (RFID and/or computer vision)	7%

FIGURE 4

Topline growth opportunities for investment in 2019

Optimizing digital commerce	68%
Expanding in-store mobile capabilities	39%
Expanding omni-commerce capabilities inside the store	35%
Expanding last-mile delivery and fulfillment capabilities	32%
Expanding into new markets	32%
Adding or expanding a loyalty program	29%
Maximizing experiential shopping in stores (retail theater, digital touchpoints, display screens, etc.)	16%

capabilities, 2. Cloud software (SaaS) or cloud platforms (PaaS), 3. Advanced personalized (one-to-one) marketing, and 4. Creating new business models and services. (See Figure 1.)

Expanding unified commerce (or omnichannel) capabilities, which was selected by 50% of retailers, is a good example of an IT strategy that has a decade of history behind it and still has many retailers struggling to achieve it. Lack of vision and underinvestment have been the chief culprits in the long transition to omni-commerce, where customer-facing capabilities are matched with advanced back-end systems.

It makes sense for retailers to offer omni-commerce capabilities such as click and collect or shipping orders from stores, because shoppers get these services from industry leaders and expect them from everyone else. However, it doesn't make sense to offer these services if they are not frictionless to the shopper, efficiently managed, and cost effective. These goals cannot be achieved without modernizing the tech stack, i.e. digital transformation.

Shifting core retail functions to the cloud, using either SaaS or PaaS architecture, is a central feature of every digital transformation program and was selected by 47% of retailers as having a major impact on their company's future financial performance.

Advanced personalization (one-to-one) marketing was selected by 47% of retailers and is a hot topic in retailing today. The phrase "you can't get there from here" applies to retailers attempting one-to-one marketing without a centralized customer

ABOUT WIPRO LIMITED

Wipro Limited (NYSE: WIT, BSE: 507685, NSE: WIPRO) is a leading global information technology, consulting and business process services company. We harness the power of cognitive computing, hyper-automation, robotics, cloud, analytics and emerging technologies to help our clients adapt to the digital world and make them successful. A company recognized globally for its comprehensive portfolio of services, strong commitment to sustainability and good corporate citizenship, we have over 175,000 dedicated employees serving clients across six continents. Together, we discover ideas and connect the dots to build a better and a bold new future.
www.wipro.com

FIGURE 5

Opportunities for investment in 2019 to improve margins and increase the bottom line

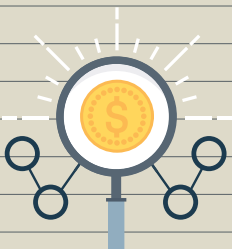|	
Out-of-stock optimization	58%
Proprietary products and brands	55%
In-store task management	29%
Omnichannel order management	26%
Omnichannel supply chain	26%
AI-driven price management	19%
Returns management	13%

FIGURE 6

Is all the expertise you need to achieve digital transformation in-house or will you seek external specialist help?

35%
In-house expertise is sufficient

65%
Will seek external specialist help

database and real-time recommendation automation, which are layered on top of prior digital transformation projects.

Creating new business models and services, which was selected by 43%, is the last of the big four digital transformation areas for 2019. Traditional retailing has expanded into subscription services, one-click ordering on social media, concierge services, voice commerce, one-hour delivery, hyper-local assortments, pop-up stores and more. As retailers assess these new options they often ask, can we do these things? If the answer is "no," it means they have not moved deep enough into their digital transformation plan.

Challenges and Solutions

The list of top challenges cited by retailers in 2019 is headed by reinforcing customer data security systems (45%) and retiring legacy systems (42%). These challenges and several others on the list are frequently cited as problem areas by retailers.

However, two challenges have recently acquired a sense of urgency – employee engagement (associated with salaries, training, flexibility and HR benefits), chosen by 32%, and turnover and retention in a tight labor market, chosen by 26%. Multi-year growth in the economy has produced many benefits for retailers, but it has also present several big challenges in managing their workforce. (See Figure 2.)

Most challenges cited by retailers on the list are perennial problems, however two have a direct impact on digital

transformation and should be singled out for increased attention – retiring legacy systems and replacing outdated enterprise infrastructure/architecture.

Opportunities for Growth

The study examines growth opportunities from both a topline and bottom-line perspective. The number-one topline growth opportunity retailers plan to invest in 2019 is optimizing digital commerce both online and mobile, which was chosen by 68%. (See Figure 4.) Although booming for the last two decades, digital commerce still has strong upside growth for retailers, especially those that have been slow to capture their fair share of online purchasing.

Other topline growth opportunities include expanding in-store mobile (39%), expanding omni-commerce capabilities inside stores (35%), and expanding last-mile delivery and fulfillment capabilities (32%).

All of the major topline growth opportunities cited on the list require support by digital transformation projects that enable the retailer to deliver frictionless shopper experiences that inspire return visits and loyalty.

Two big opportunities head the list when we shift to bottom-line projects that increase margins. (See Figure 5.) These are out-of-stock optimization (58%) and proprietary products and brands (55%).

Other key bottom-line investment opportunities include

FIGURE 7

Areas of in-house expertise with greatest shortage of talent

IT architecture	32%
Data analysts	29%
Customer experience/CRM	29%
Store systems	29%
Marketing	26%
Merchandising	26%
Store operations	23%
Supply chain	23%
Database	13%
Network infrastructure	13%

FIGURE 8

When replacing or upgrading core applications, which will be cloud/SaaS implementations?

	ON-PREMISES	CLOUD
POS	82%	18%
Order management	74%	26%
Supply chain	65%	35%
Merchandising	63%	38%
CRM	60%	40%
ERP/Financials	52%	48%
E-commerce	50%	50%

FIGURE 9

22%

Percent of IT budget planned for digital transformation projects in 2019

FIGURE 10

7.4

Importance of setting digital transformation goals to future future success especially in the areas of enterprise systems and operations.

(Using a 1-10 scale where 1 is completely unimportant and 10 is extremely important.)

in-store task management (29%), omnichannel order management (26%), omnichannel supply chain (26%), and AI-driven price management (19%).

How to Make Digital Transformation Work

A key question every retailer must ask when assessing digital transformation strategy is: Do we have all the expertise needed to achieve our goals in-house or will we need to seek external help from specialists? (See Figure 6.)

An overwhelming majority of retailers (65%) say they will seek external specialist help. Many of today's digital transformation projects are new and unproven, so it makes sense that retailers will not be able to rely on in-house talent alone.

Areas where retailers say they have the greatest shortage of talent are IT architecture (32%), data analysts (29%), customer experience/CRM (29%), and store systems (29%). However, the need for expertise is widespread and includes many other core disciplines. (See Figure 7.) These include marketing (26%), merchandising (26%), store operations (23%) and supply chain (23%).

One area where retailers are likely to seek external expertise is migrating core applications to the cloud. The top applications for this migration are E-commerce (chosen by 50%), ERP/financials (48%), CRM (40%), merchandising (38%) and supply chain (35%).

POS applications, on the other hand, will remain on-premises with perpetual licenses for the foreseeable future. (See Figure 8.). Only 18% of retailers say they plan to migrate POS applications to the cloud, which is a resounding majority.

Finally, we wanted to find out how much of the retailer IT budget will be devoted to digital transformation in 2019 knowing how important the projects are to continued success in the marketplace. We found more than a fifth (22%) of the planned IT budget for 2019 is targeted for digital transformation projects.

Every retailer has different technology needs and budgetary requirements, a fifth of the IT budget should be

viewed as an average and not a guidepost. However, it represents a significant amount of IT dollars and shows how important digital transformation is in retail today.

Methodology

This study was conducted during the month of December and only senior executives from national or large regional retailers were invited to participate. The results do not include any store-level, field-level or regional employees. Only headquarters-level staff responses were included.

Conclusion

With few exceptions, the most successful retailers today – the ones enjoying the largest revenue gains – are those that have made substantial investments over the last few years in digital transformation.

From a 30,000-foot perspective, the four biggest strategic areas where digital transformation investment will occur in 2019 are: **1.** Expanding unified commerce (or ominchannel) capabilities, **2.** Cloud software (SaaS) or cloud platforms (PaaS), **3.** Advanced personalized (one-to-one) marketing, and **4.** Creating new business models and services.

These high-level strategies are being executed through projects that optimize digital commerce (both online and mobile), last-mile delivery and fulfillment capabilities, and out-of-stock optimization. All of these projects are being designed to remove barriers in the purchase process and create a frictionless experience for omnichannel shoppers.

The two biggest takeaways in the report are that retailers believe they will need external expertise to achieve their digital transformation goals and that one fifth of IT budgets for 2019 will be devoted to digital transformation projects.

One fifth is a significant slice of the IT budget pie, but is it the right amount? Every retailer has different technology needs and budgetary requirements, but one thing is certain – the quicker a retailer achieves its digital transformation goals the sooner it will reap the benefits. **RIS**

FIGURE 10

Annual revenue

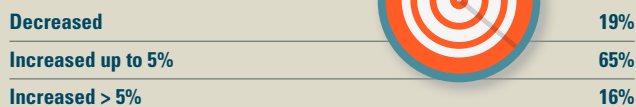|	
Less than $99 million	23%
$100 to $499 million	16%
$500 to $999 million	10%
$1 billion to $5 billion	23%
More than $5 billion	29%

FIGURE 11

Sales Performance YoY

Decreased	19%
Increased up to 5%	65%
Increased > 5%	16%

FIGURE 12

Retail segment

Apparel	10%
Grocery/Convenience/Drug	58%
Specialty	26%
Mass market/General merchandise/Discount	3%