AVOIDING THE SHINY DIGITAL OBJECT

How retailers can move past the hype and make digital transformation a reality

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The stakes for retailers are higher than ever to get digital right

In the U.S., for the year to date 2019, nearly 6,000 retail store closures have been announced, which exceeds the entire store closure total for the prior year. Online sales continue to outpace traditional brick and mortar growth by three to four times and are projected to do so for the next several years. Many retail categories have reached tipping points, where over 40 to 50 percent of category sales are now online (e.g. consumer electronics).

The debate over whether a traditional brick and mortar store retailer needs to have a digital presence are now over. Without a clear digital strategy, a store retailer might as well put up the white flag.

But what does it mean to “get digital right”?

We believe that a clear, concise and focused definition of digital transformation should help retailers start to understand what it is – without jargon and buzzwords.

Digital in retail is fundamentally about embracing digital technologies, personalized data and insights to both predict, and serve consumer needs one on one, at scale, and radically transform the value chains that serve them.

This can happen in several ways, for example by creating a better customer experience, online AND offline, accelerating physical and transaction speed, and removing friction from all consumer, customer, and company stakeholder touchpoints.

It is broad, by definition, and at its most mature stage, should touch every aspect of the retailer’s business and operations, and will quite possibly, result in the disruption of the retailer’s current business model, require multiple new external partnerships, and potentially create spin-offs of new capabilities.

While a top priority for retail executives, 70 percent of digital transformations still fail. Why?

Last year, $1.3 trillion were invested by retailers on digital transformation initiatives. Of this, it was estimated that $900 billion went to waste. Why do some digital efforts succeed while others fail?

We believe there are three primary root causes:

Digital cannot fix broken retailer fundamentals

While digital technologies offer tremendous promise to understand consumers in a deeper and more holistic way, and gain significant operating efficiency, they cannot fundamentally turn a poorly operated retailer into a world class organization. In fact, digital investments often expose fatal flaws in organizational models, lack of leadership alignment, cultural and mindset issues, and a lack of clear vision, mission and priorities.

At a leading global apparel retailer, the CIO set up a separate and parallel IT organization to purely support digital growth. It was believed that the new organization would attract top programming talent and avoid capacity bottlenecks in ramping up eCommerce application infrastructure. However, the two IT organizations ended up creating confusion, competing investments and resources, and delayed mission critical projects to deliver an enhanced consumer experience.

Digital cannot cover for poor understanding of the consumer or category and market dynamics

Digital tools like a 360-degree consumer sensing capability, social media analytics, and A/B testing platforms can provide interesting insights into how consumers interact with a retail brand. However, they cannot substitute for the fundamentals of consumer insight: understanding their likes, dislikes, wants, and needs, willingness to pay for new services (e.g. fast shipping), willingness to recommend a product to a friend etc.

The digital experience needs to be tailored to the specific consumer needs of a category. For example, a consumer paying thousands of dollars for a Louis Vuitton handbag is unlikely to want free next day shipping but will care about having a concierge service deliver their bag to the luxury hotel they are staying at. A working mom who is shopping for groceries online may care less about value-added services, and just wants reliable delivery within a specified day and time window.

Too many retailers suffer from the “shiny digital object syndrome”

Much has been written about the coming revolution of Artificial Intelligence (AI), Internet of Things, and Industry 4.0 in Retail. However, too many retail executives have chased unclear benefits from initiatives like implementing Augmented Reality / Virtual Reality, A.I., 3D printing, or Blockchain without truly understanding how digital investments drive true top and bottom-line performance improvement, and how much needs to be invested to achieve anything of significance.

It is hard to find a software vendor in the Retail sector today who doesn’t claim an “A.I. driven solution” capability. In a recent study in Europe, 40 percent of A.I. startups didn’t use any A.I. capability in their solutions. From our experience, the U.S. retail software landscape tells a similar tale. This intuitively makes sense given that the actual use cases of A.I. are still relatively narrow and limited to textual analysis (natural language programming), and machine learning (requiring extremely large data sets to be effective).

The bottom line on getting digital right

When there is no clearly articulated end game, investing in digital can very easily add complexity instead of simplifying touchpoints with the consumer, employees and stakeholders

In response to the ‘Amazon effect’, many brands have over-invested in technology, overhead, shipping costs and inventory to capture the digital growth dividend.

However, we believe a financial and operating reckoning is coming. Small, mid-tier and even some larger brands can simply not sustain this level of investment and continue to generate attractive returns for investors.

So, what should retailers do to “avoid the hype”?

Ask yourself: why should I invest in digital (and have a good answer that you, your consumers, employees and investors believe in)?

If the retailer isn’t Amazon, Walmart, Nike or Nordstrom, it is very likely not a digital leader. That means the digital dividend in terms of consumer sentiment, market growth or enterprise value from these investments is likely much smaller.

Get better at retail fundamentals and start with the consumer

Refocus and double down on the things that matter: listening to consumers deeply (which some digital tools are quite useful for), investing in the in-store experience which still matters greatly for many categories, creating a clear and differentiated position in the category whether that is low cost, high touch service, or assortment breadth and depth.

Know where to play and how to win

Many retailers are still too 'product centric' with little thought given to the end-to-end consumer and customer experience across every touchpoint with the brand – in-store, online, through a customer call center or via an in-home delivery. Many generations of retail executives have grown up with the same playbook – open stores, and growth will come. The omnichannel shopper is changing the fundamental rules of retail – using stores as browsing experiences, and completing transactions on their mobile phone, tablet or laptop.

Truly understand the resources, time, and skill level required to execute a world class digital transformation

Many digital efforts stop at hiring a Chief Digital Officer or issuing leadership communication that a digital transformation is a priority. These efforts fall short of truly doing the hard work of understanding what to prioritize, how to create value, and then governing the results and holding people accountable at the highest level. While this may seem like "motherhood and apple pie," digital transformation is a CEO and COO level priority, and nothing less will be enough.

Conclusion

Getting digital right remains a strategic imperative for retailers. The risks of not executing are truly existential. However, at a 70 percent failure rate, many retailers investing heavily in digital initiatives will still fail to survive the retail apocalypse.

To thrive, retailers must fix fundamentals, sharpen their competitive positioning, and have a clear and focused end game for how embracing digital technologies can bring them closer to consumers, while driving top and bottom line performance improvement.

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