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Essential Retail's Digital Customer Experience Turning Point

How the global grocery, mass merchandise, and personal care sectors have adapted to the new digital-first mandate.



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Catalyst

The COVID-19 pandemic has rapidly accelerated the transition from the physical to digital and self-service commerce and marketing. Across all sectors, essential retail looks to have experienced some of the greatest upheaval.

Omdia and Adobe have partnered to conduct a survey to determine how the post-COVID-19 market will impact the essential retail consumer and to better understand the preparedness of the essential retailer.

More than 300 participants in IT, marketing, operations, digital, sales, and e-commerce, across Asia Pacific (APAC), Europe, Middle East, and Africa (EMEA), and North America completed the survey to offer insights on digital deployments and barriers in a post-COVID-19 environment. They represented the global grocery (sub-sectors include convenience stores, discounters, and supermarkets), mass merchandise (sub-sectors include wholesale clubs, pure-play online retailers, and hypermarkets), and personal care sectors (sub-sectors include nutritional/wellness, drugstores, and beauty.) Some key goals of the survey included:

- Determining the outcome of digital investments (or lack thereof) in the customer experience (CX)
- Identifying the key market disruptors pre- and post-COVID-19
- Highlighting the challenges in meeting customers' expectations
- Identifying key digital investments for 2021

The following thought leadership seeks to highlight some of the key findings from the survey.

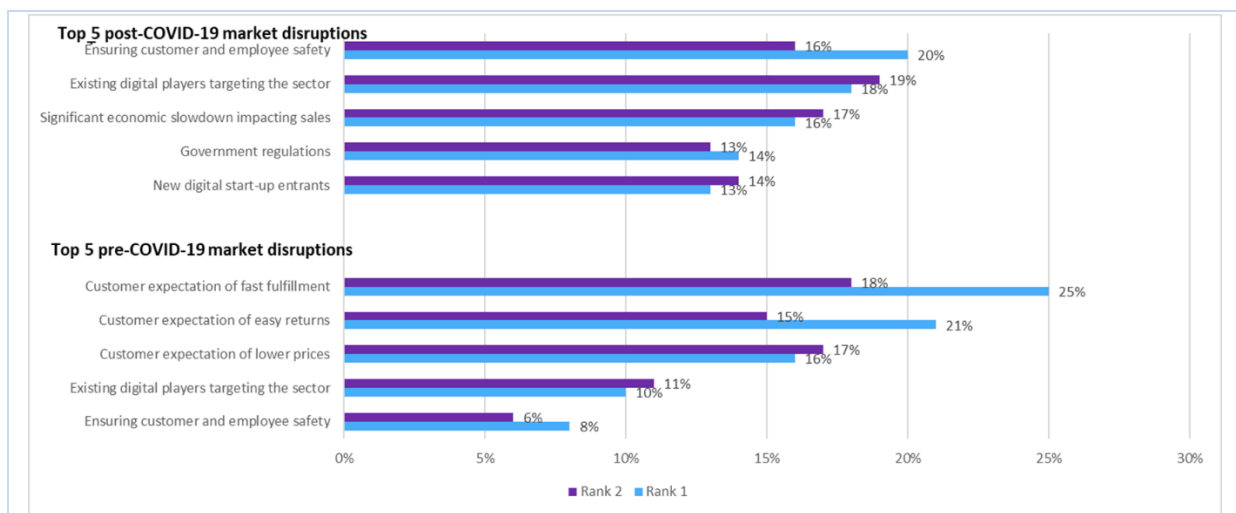
Summary

Meeting the needs of digital-first consumers

Retailers responded well to the crisis, but many remain exposed to economic slowdown

COVID-19 has acted as an accelerant for digital transformation. The pandemic has undoubtedly required digital CX technologies that can meet the needs of digital-anywhere/anytime customers. However, across the global grocery, mass merchandise, and personal care sectors, these essential retailers have faced a unique situation. They have had to quickly adapt to the new digital-first norm while contending with a new set of implications such as ensuring employee safety while working to sustain an economic slowdown, factors that ranked among the bottom-five most disruptive factors pre-COVID-19, but jumped to first place during the pandemic (see **Figure 1.**)

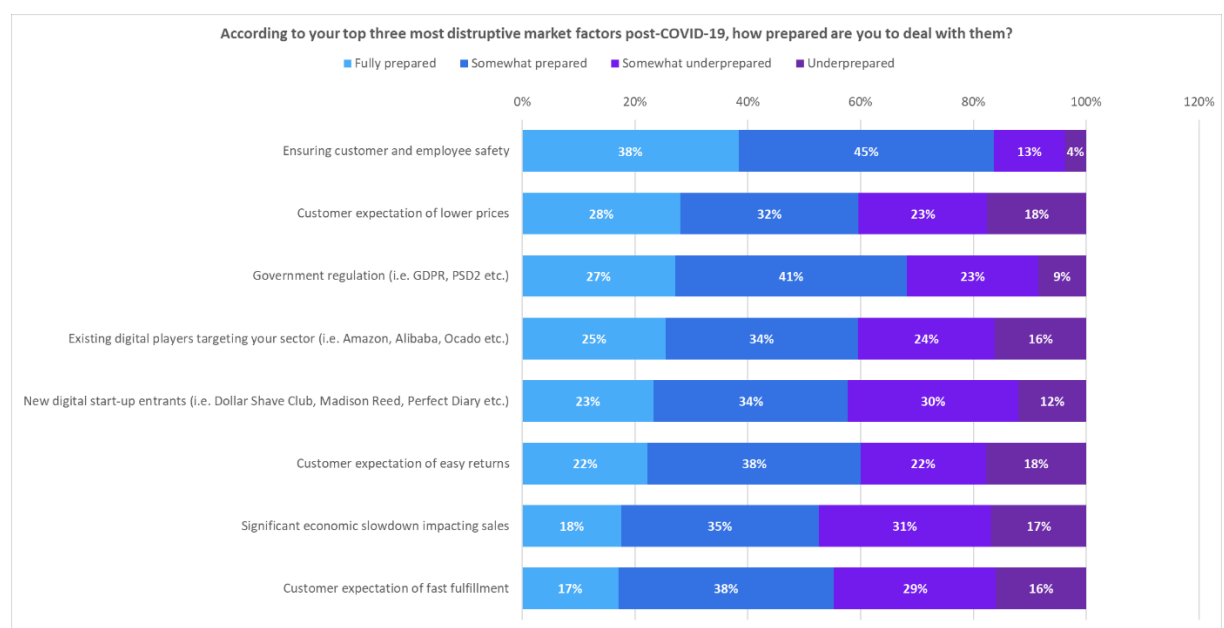
Figure 1: Market disruptions have shifted from pre- to post-COVID-19



Source: Omdia and Adobe's Retail Digital Transformation study

Despite these new challenges, retailers have responded to the immediate shifts reasonably well with the majority feeling they are now prepared and can protect customers and staff (see **Figure 2.**) Many, however, surprisingly anticipate that consumer shopping will return to normal, although general market indicators signal that this will not happen. Retailers should expect to see permanent changes in line with a continued trend of buying online, picking up in-store, shopping online exclusively, and online subscriptions.

Figure 2: Most retailers say they are “fully” or “somewhat prepared” to handle post-COVID-19 disruptions



Source: Omdia and Adobe’s Retail Digital Transformation study

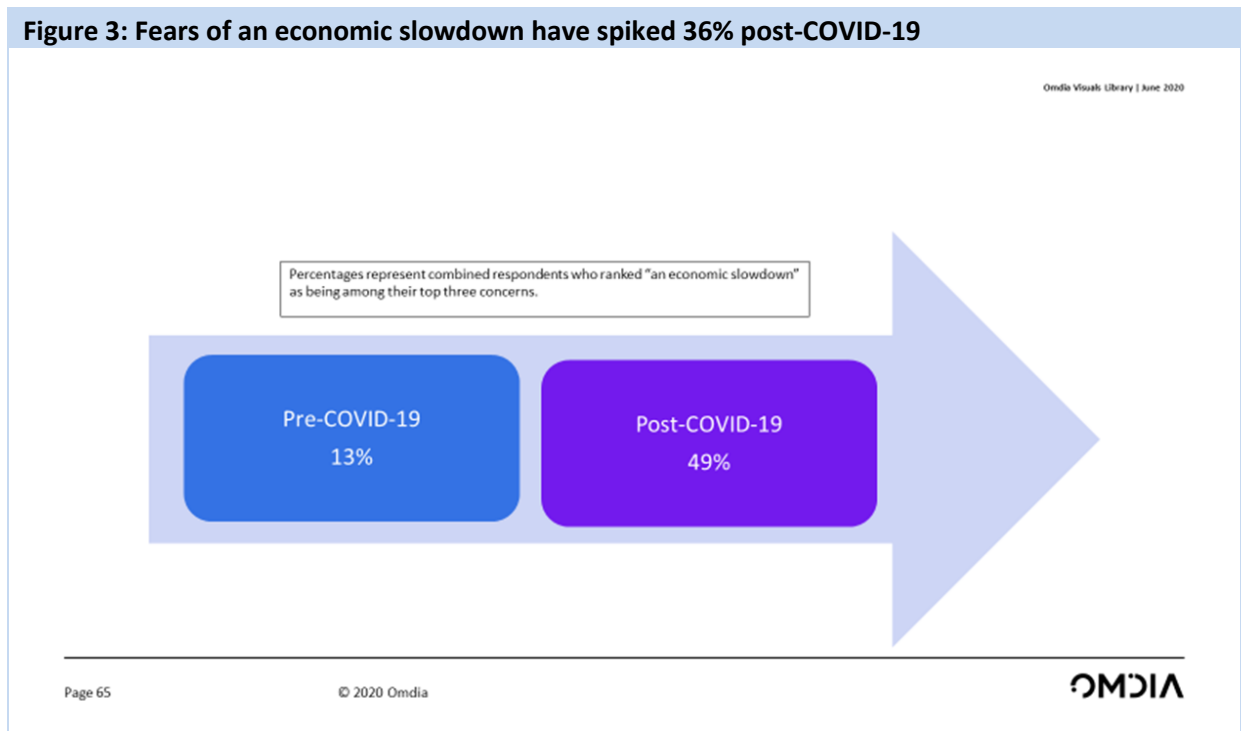
In fact, the survey data reveals a likelihood that the trend of online shopping and picking up in-store will evolve from being reactive to become normal shopping habits and persist long into 2021 and beyond. In the mass merchandise sector, for example, a combined 55% of respondents believe that it is “more likely” or “likely” that customers will buy online and collect in-store post-COVID-19, with 51% of respondents in the global grocery sector and 42% of respondents in the personal care sector saying the same. Some retailers even expect customers to avoid stores altogether, with 28% of respondents in the global grocery sector, 23% of respondents in the mass merchandise sector, and 22% of respondents in the personal care sector saying it will be “more likely” or “likely” for this to occur.

Another post-COVID-19 shift in customer behavior has been an increase in online subscriptions. In fact, 41% of respondents in the mass merchandise and personal care sectors, and 36% of respondents in the global grocery sector expect subscription-based sales to be “more likely” or “likely.” This trend will have profound implications for retailers because a subscription model is conducive to the retail category on account of product replenishment patterns. Ultimately, it will help to simplify the business process, create better cash flow management, and maximize long-term revenue and customer loyalty.

While a significant economic slowdown is the third-placed most disruptive factor overall at 49% (see **Figure 3**), the majority of respondents are “underprepared” or “somewhat underprepared” for a significant economic slowdown with similar levels of unpreparedness across all regions—North America (50%), Europe (47%), and APAC (43%)—despite a significant percentage of respondents who said they are “proficient” or “leading” in digital transformation (see **Figure 4**.) While the

likelihood and extent of an economic slowdown, or even recession, are difficult to predict and mitigate, nearly half of the respondents appear to be at risk from this eventuality.

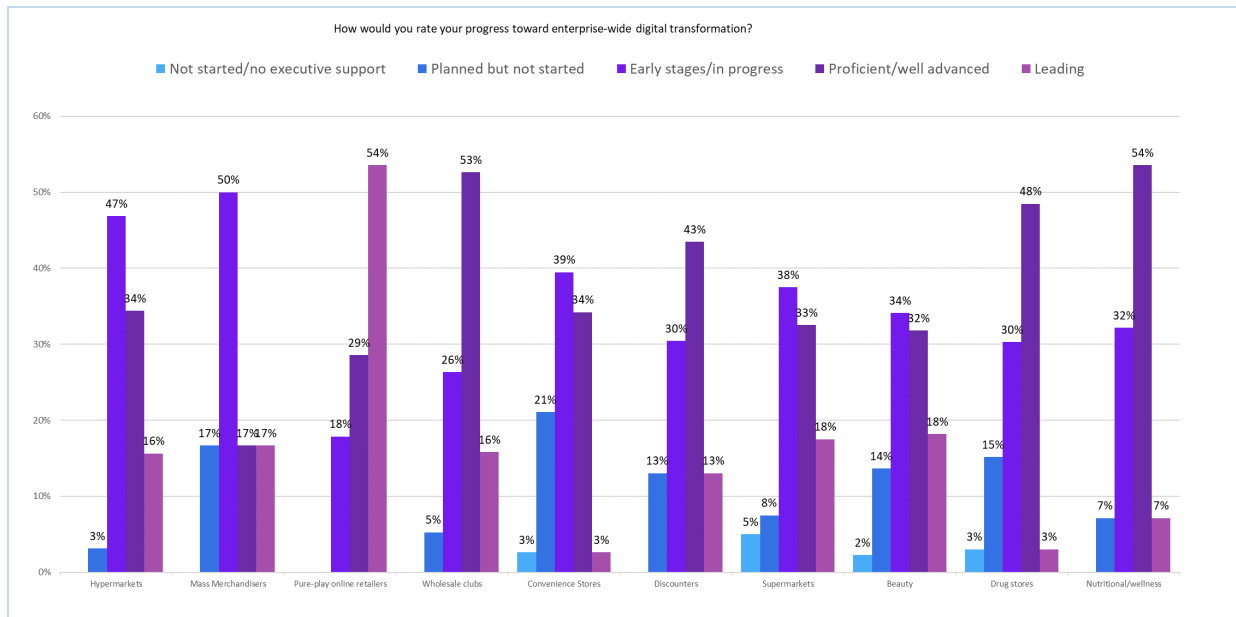
Figure 3: Fears of an economic slowdown have spiked 36% post-COVID-19



Source: Omdia and Adobe's Retail Digital Transformation study

Even if vaccines help to resolve the immediate crisis over the next few months, economic uncertainty and volatility will remain for much of 2021, with national economies unlikely to be back to the pre-COVID-19 levels before 2022 or 2023. Therefore, it is essential for retailers to digitalize gateways to customer engagement, deploy successful revenue streams, solve pain points that obstruct customer loyalty, and build a successful path to profitability in 2021.

Figure 4: Percentages represent retailers that are “proficient” or “leading” in digital transformation



Source: Omdia and Adobe's Retail Digital Transformation study

Implications of economic vulnerability

Retailers will have to make online channels profitable

Many retailers struggle to make online channels profitable. A sobering 51% of respondents in the global grocery sector, 41% of respondents in the mass merchandise sector and 40% of respondents in the personal care sector who conduct the majority of their business via online channels said that achieving online profitability ranks among the top two barriers to digital transformation. Issues such as increased logistics complexity and efficient handling of returns erode margin levels. Investments in analytics and artificial intelligence (AI) will help retailers gain a better understanding of customers' needs and behaviors when they shop online, and automate and streamline logistics and distribution.

Recreating the physical experience may not be the answer

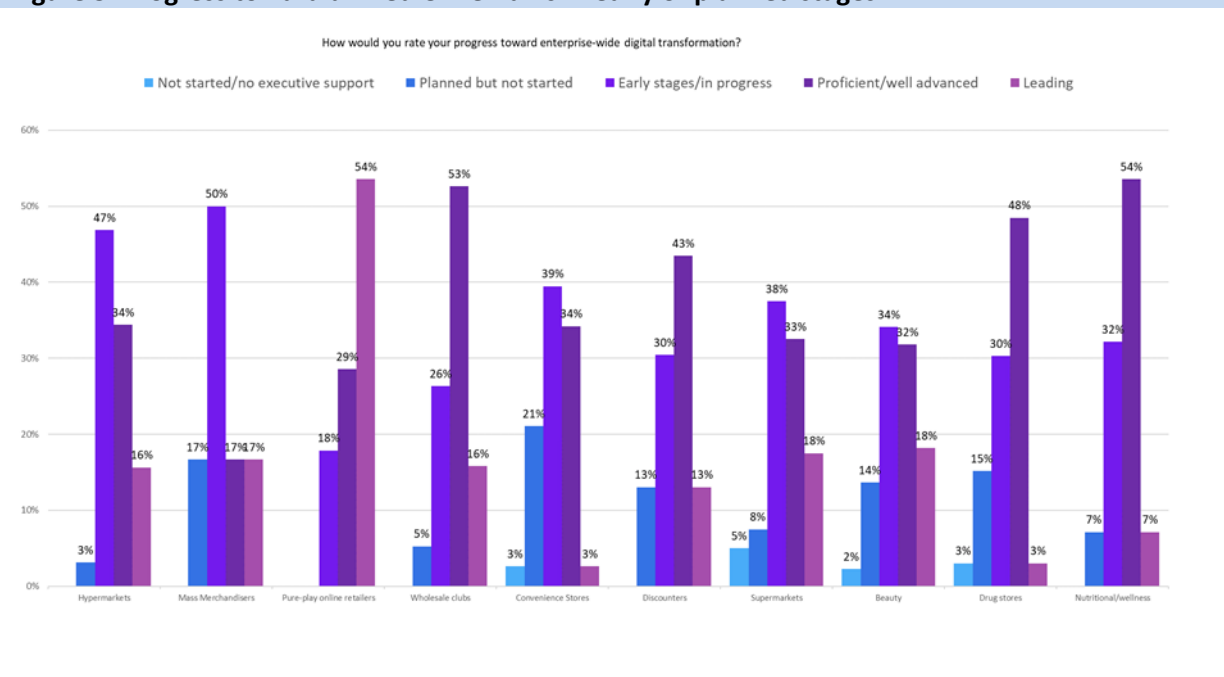
Many retailers struggle to recreate the in-store experience online with 37% of respondents in the global grocery sector, 35% of respondents in the personal care sector, and 31% of respondents in the mass merchandise sector citing it as their top two barriers in meeting customer expectations. This is potentially a fruitless goal, however, because consumers will continue to increase their online shopping habits.

This notion is bolstered by the digital CX leaders who said they do not see recreating the physical experience as a major challenge. Only 10% cited this as the first challenge compared with 23% for the majority (those who are advanced, in early stages, planned, or not started.) This suggests that the leaders are not backward-facing, trying to recreate an outdated physical model but rather, are looking to offer a completely new and distinct online experience.

The struggle to achieve frictionless CX may hinder customer engagement advances

Surprisingly, many retailers are behind in their CX unification efforts (see **Figure 5.**) A combined 44% of respondents in the global grocery sector, 43% of respondents in the mass merchandise sector and 39% of respondents in the personal care sector remain in the early stages of unified CX, have not started, or believe it is irrelevant. These customers are at risk of not meeting customer expectations and ultimately experiencing customer defection.

Figure 5: Progress toward unified CX remains in early or planned stages



Source: Omdia and Adobe's Retail Digital Transformation study

Consequently, frictionless CX is a significant pain point for European mass market respondents, specifically with 17% of retailers in EMEA citing it as a pain point, compared with 7% for APAC respondents, and 6% for North American respondents. In contrast, most North American respondents see frictionless CX as a strong point with 37% stating their capability to support this as "excellent" and 21% stating their capability as "good."

Enabling unified CX today is essential to attracting and retaining customers. Many respondents, however, are still plagued with data silos, an inability to connect the physical and digital worlds, and legacy IT. Until they solve these challenges, enabling tightly unified CX may be a distant reality.

Focusing on customer acquisition is important, but so is customer retention

Many in business follow the Pareto Principle that asserts that 80% of a company's revenue is generated by 20% of its customers. Viewed in this way, it might be advantageous for a company to focus on the 20% of clients who are responsible for 80% of its revenues and market—to help retain those clients and acquire new clients with similar characteristics.

While some sectors and regions are aggressively focused on expanding their customer bases, customer retention seems to be the priority across all sectors. North American mass merchandise respondents are strongly focused on acquiring new customers (26% ranked it first) compared with APAC at 18% and Europe at 12%. North American retailers are also more aggressive in their growth ambitions with 19% seeing growing average order value as a top priority (compared with 12% in APAC, and 8% in Europe.) Additionally, an astounding 72% of personal care digital leaders view customer retention as a “primary objective” compared with 33% of digital leader respondents in the mass merchandise sector while 45% of global grocery digital leader respondents view it as a “top objective.”

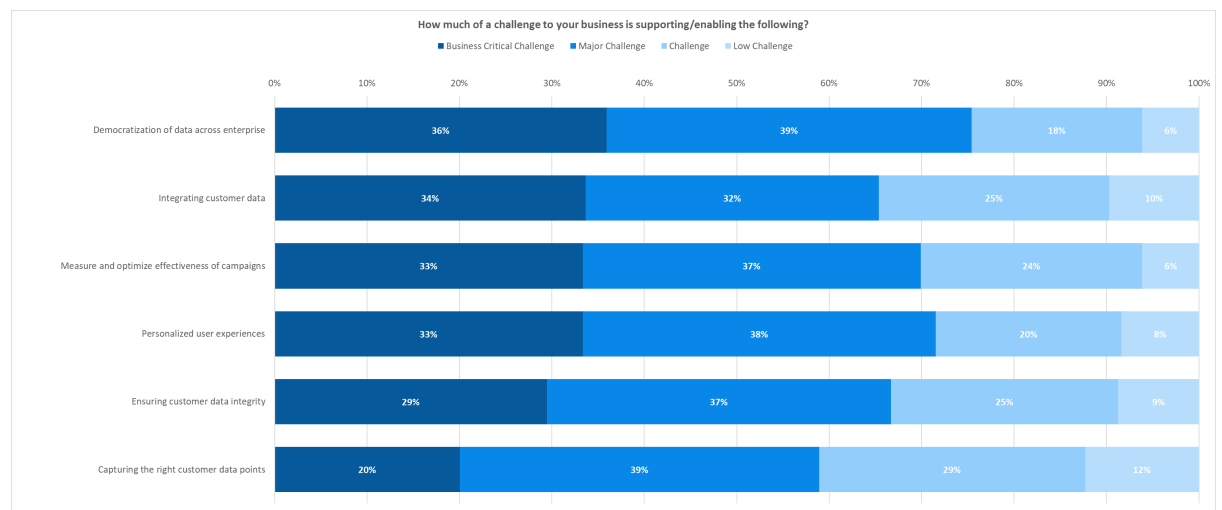
Attracting new customers may boost the bottom line in the short term, but those new customers turn into loyal ones via proactive engagement tactics that include personalized and tailored content and offers, and if doing business is made easier for them. Therefore, retailers must not let their retention efforts take a back seat.

Retailers recognize the need to digitally transform but do not have the technology to enable it

Despite respondents showing that they value personalization and real-time communications, the data reveals that they do not possess the technologies to orchestrate them. Of the factors that enable connected customer journeys, for example, 18% of respondents in the personal care sector, 15% of respondents in the global grocery sector, and 14% of respondents in the mass merchandise sector view customer identity management as “critical.” Similarly, they deemed AI/machine learning (ML) as low in importance with 15% of respondents in the personal care sector, 14% of respondents in the global grocery sector, and 10% of respondents in the mass merchandise sector saying it is not “critical” to enabling connected journeys. Similarly, when asked about the strategic importance of customer data platforms, 18% of mass merchandise sector respondents, 16% of personal care sector respondents, and 12% of global grocery sector respondents ranked it as a “top priority.”

These responses illustrate why retailers across all sectors and maturity levels cite various data management practices such as integrating customer data, personalizing experiences, or democratizing data, as being “business-critical” or “major” challenges. Even digital CX leaders understand the value of integrating data and resolving identities potentially through a customer data platform (CDP.) The data shows that even among the leaders, many cite the foundational practices that enable unified and personalized experiences as being “business-critical” challenges (see **Figure 6.**)

Figure 6: Many retailers cite a range of data management practices as being “critical” challenges



Source: Omdia and Adobe’s Retail Digital Transformation study

Such data could point to retailers not providing a broad cross-functional representation when discussing strategy and technology investments. The data could also be attributed to a lack of communication and transparency from IT or key stakeholders responsible for digital transformation who fail to specify and communicate what outcomes they intend to achieve from their investments.

A three-phased road map for digital investments

Digital CX is not a one-time project but an ongoing process of continuous evolution. Retailers could achieve this through a phased road map. Speed is of the essence as the current environment requires urgency for digital road maps and subsequent implementations. Omdia and Adobe suggest that retailers should plan their digital investments over three stages.

1. Immediate actions are required for short-term viability

- Build a data foundation through data management and CDP deployments

Data serves as the foundation to following and acting on customer behaviors throughout customer journeys. When data is integrated, centralized, and accessible, customer-facing employees will more easily and proactively deliver personalized experiences at key moments throughout the entire customer journey.

However, integrating customer data remains a business-critical challenge for those respondents who make the majority of their revenue online with 48% of respondents in the global grocery sector, and 36% of respondents in the mass merchandise and personal care sectors citing this. This suggests that fundamental data management remains problematic for many respondents.

In comparison, the digital experience leader group appears to be faring better in some areas of data management such as capturing customer data (14% of leaders compared with 21% of the majority of those who are proficient, in early stages, planned, or have not started, who see this as a “business-

critical” challenge) and data integrity (24% of leaders compared with 30% of the majority who see this as a “business-critical” challenge.)

CDP deployments, however, are the top two investment priorities for APAC respondents, with 22% ranking it first, and 20% ranking it second, while European respondents ranked CDPs as the lowest priority with only 6% ranking it first. CDPs are the most important investment for 33% of the digital leaders, compared with only 12% of the majority of those who are proficient, in early stages, planned, or have not started. This point underlines that the digital leader group is further advanced in deploying the foundations required for effective digital experience and is now moving to leverage this in advance of most players.

- Adopt cashless, contactless, frictionless stores to adapt to the new customer mindset

As consumers prefer more mobile and cashless options, retailers must implement technologies and processes to enable such frictionless experiences. To enable such cashless, contactless interactions, retailers must embrace automation and mobile payments, digital wallets, self-checkouts, and curb-side pickups.

Respondents cited mobile wallets and contactless payments as the technology currently most widely deployed in stores across six options with a consistent picture emerging across the three sectors as cited by 74% of respondents in the mass merchandise sector, 70% of respondents in the personal care sector, and 69% of respondents in the global grocery sector. This aligns with the finding that new payment methods are seen as creating the most value in terms of enhancing the in-store experience. The widespread deployment of payments technology across all three sectors signals an insignificant investment focus for the majority of respondents with only late adopters still at the trial stage.

- Recruit digital talent

A surprising takeaway is the reported lack of technology knowledge with 48% of respondents in the mass merchandise sector, 42% of respondents in the personal care sector, and 41% of respondents in the global grocery sector citing “lack of technology knowledge” as the first and second challenge preventing digital transformation.

Knowledge gaps happen in enterprises for various reasons such as groups outside of IT initiating technology projects (shadow IT), and lack of digital talent and skills. CIOs must ensure everyone in the business—not just those within IT—are well informed about the digital skills and technologies they need to succeed. Additionally, HR must commit to hiring people from diverse backgrounds, including young people, minority groups, and those without a college education, to tap into a larger pool of high-potential and underutilized digital talent.

2. Over the next six to twelve months, retailers should consider these urgent technologies

- Invest in real-time marketing communications

Real-time marketing encapsulates marketers’ ability to reach out to people at the same moment they sense their need for a retailer’s offering. The more proactive the communication, the greater

the likelihood of increased revenue and customer loyalty. In the current fast-paced environment, having this capability is essential for digital customer engagement. Real-time marketing also predicts the likelihood of a company's or consumer's spending which helps target marketing activities and determine advertising budgets.

Such a capability bodes well for retailers since real-time marketing and communications are the highest-ranking techniques deemed critical to enabling connected customer journeys as cited by 34% of respondents in the global grocery sector, 31% of respondents in the mass merchandise sector, and 25% of respondents in the personal care sector.

However, real-time communications are ranked the top challenge for 24% of European players compared with 15% of APAC, and 10% of North American players. This may indicate that European respondents are deploying different strategies around digital engagement.

- Speed in deployment is essential with digital assistants

Despite improvements and ease of integration across enterprises, retailers appear to be slow to adopt digital assistants. This could be attributed to many in the global grocery, mass merchandise, and personal care sectors relying more heavily on their physical stores to deliver the human touch for customer and sales support.

Currently, 33% of respondents in the personal care sector, 28% of respondents in the global grocery sector, and 25% of respondents in the mass merchandise sector ranked chatbot technologies first and second as being "in use" and "elevating the customer experience." Virtual agents should not be a long-term road map item. Waiting 12 to 18 months may be too little too late since chatbots and digital assistants are ubiquitous now and customers have come to expect to interact with them. Further into the pandemic, however, retailers will likely speed up their chatbot deployments as they seek new ways to lower costs and deliver more rapid responses while maintaining customer service levels.

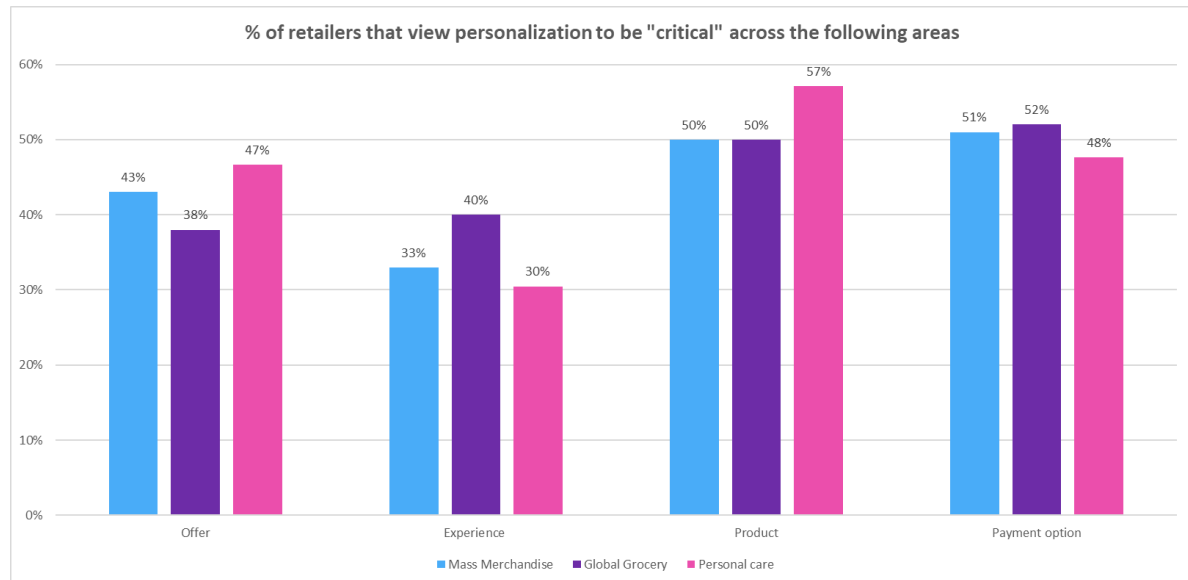
3. For long-term sustainability beyond 2021, these actions must become standard

- Standardize personalization throughout all content, offers, and engagement

As a result of COVID-19, there is an urgent demand to meet customers via digital-first channels and to provide proactive and unified engagement, both of which require a realignment of businesses—both internally and around the customers. Enterprises must understand how customers' intents, behaviors, and preferences are evolving to shape CX digital strategies.

The majority of respondents across sectors view personalization as "critical" in payment options (as cited by 52% of the global grocery sector respondents, and 51% of the mass merchandise sector respondents,) and products (as cited by 57% of the personal care sector respondents and 50% of both the global grocery and mass merchandise sector respondents, see **Figure 7.**) Personalized offers (as cited by 47% of the personal care sector respondents, 43% of the mass merchandise sector respondents, and 38% of the global grocery sector respondents), and experience (as cited by 40% of the global grocery sector respondents, 33% of the mass merchandise sector respondents, and 30% of the personal care sector respondents) are deemed lower in criticality although all sectors still view them as important.

Figure 7: For retailers, personalization is most critical for selling products



Source: Omdia and Adobe's Retail Digital Transformation study

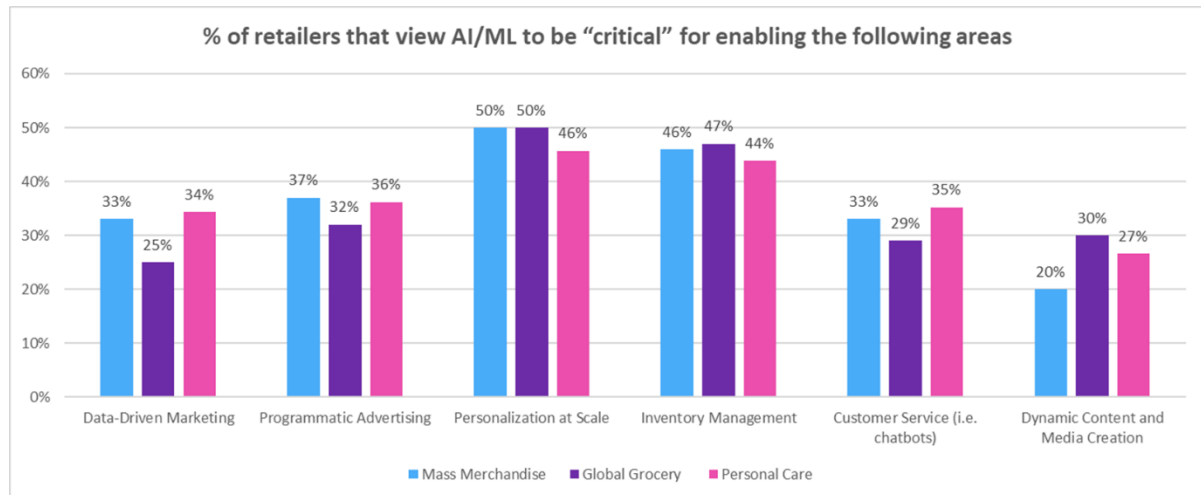
However, only 22% of the global grocery sector respondents, 20% of the personal care respondents, and 19% of the mass merchandise sector respondents said they excel at enabling personalized CX. A combined 36% of the global grocery and mass merchandise sector respondents ranked personalization as the first and second challenge as it pertains to enabling a digital CX while 30% of the personal care sector respondents said personalization is a "top challenge." The personal care sector faces a challenge with communicating in real time with 23% of this group citing this as the "top challenge" compared with 15% of the mass merchandise sector respondents and 12% of the global grocery sector respondents.

- Embed processes and applications with AI and ML to hyper-personalize customer journeys

AI and ML are essential technologies that power and enable an effective CX personalization strategy. Once adoption increases, the gaps between personalization challenges and goals will diminish.

Across the sectors, personalization at scale and inventory management were listed as the key use cases for AI/ML investments (see **Figure 8**) with 50% of the global grocery and mass merchandise sector respondents, and 46% of the personal care sector respondents seeing AI/ML as a "critical" element to enabling personalization at scale. Similarly, 47% of the global grocery sector respondents, 46% of the mass merchandise sector respondents, and 44% of the personal care sector respondents saw AI/ML as a "critical" element in inventory management.

Figure 8: Retailers view AI as “critical” for enabling personalization



Source: Omdia and Adobe’s Retail Digital Transformation study

- Explore the use of augmented reality (AR) across the enterprise

Retailers’ investment plans in AR point to its increased adoption, and therefore, optimization of enterprises. Omdia and Adobe expect to see increases in mobile AR across retailers to enable consumers to visualize products or “try on” apparel.

According to the respondents, 31% of those in the global grocery sector, 30% in the mass merchandise sector, and 29% in the personal care sector said they are either trialing AR to enhance the in-store experience or plan to invest in it over the next 12 months.

However, the data that represents intended AR investments to enhance the digital experience reveals how retailers see the technology as multifaceted. A combined 71% of personal care sector respondents, 70% of mass merchandise sector respondents and 64% of global grocery sector respondents said they are trialing AR to enhance the digital experience or are planning to invest in it within the next 18 months.

As AR-enabled CX moves from a moment in the spotlight to being a value-added enhancement to CX applications, retailers across all sectors must determine long-term strategies for the technology that encompasses all areas of the enterprise, both internally and externally.

- Becoming a digital-first retailer requires more than IT investment

Gaining and retaining executive support is critical in an economic climate that demands rapid innovation and proactive decision-making. However, 22% of the mass merchandise respondents, 20% of the global grocery sector respondents, and 17% of the personal care sector respondents said that lack of executive support is among the top two barriers to digital transformation.

Retailers must find use cases that validate their investment plans to support strategic efforts and share them frequently across the enterprise to help gain executive support. In addition, they must

assign change ambassadors who can communicate the value and benefits of planned technologies with their teams, and throughout the entire enterprise.

Finally, senior leadership also needs to bring about cultural change and drive the need for new ideas and innovative digital retail models. Sharing the top reasons (customer acquisition, cutting costs) for investments in digital transformation with the entire organization should help advance these efforts.

Conclusion

COVID-19 has visibly impacted the shift from the physical to the digital environment. Retailers are doubtless feeling the strain from the rapid changes and unexpected shift in disruptive market factors causing new primary concerns such as employees' safety and customers expecting easy returns.

For retailers that are struggling because of COVID-19, online selling, frictionless interactions, self-service, and AI-enabled automation and personalization are, and will continue to be, ubiquitous tools to enable flexibility and convenience for customers.

However, as they maneuver supply chains and support their stores, it will be equally imperative for retailers to listen to their customers, both in-store and online, and respond proactively. That level of orchestration requires the implementation of thoughtful data management practices, including technology to aggregate and integrate data, and democratize it across the enterprise. Becoming data-driven should be the foundational requirement to becoming digital-first and ultimately creating sustainability in 2021.

Appendix

Methodology

Omdia conducted the survey in partnership with Adobe in September 2020. More than 300 participants in IT, marketing, operations, digital, sales, and e-commerce, across APAC, EMEA, and North America completed the survey to offer insights on digital deployments and barriers in a post-COVID-19 environment. The surveys were conducted in 10 countries across EMEA, APAC, and North America. They represented the global grocery (sub-sectors include convenience stores, discounters, and supermarkets), mass merchandise (sub-sectors include wholesale clubs, pure-play online retailers, and hypermarkets), and personal care sectors (sub-sectors include nutritional/wellness, drugstores, and beauty).

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