

Future-proofing your retail business

Balancing the art and science of advanced analytics in customer experience

Introduction

For Canadian retailers, the future is here. Artificial intelligence (AI), big data, and exponential technologies have moved from the fringes firmly to the centre, fundamentally altering the retail landscape and expanding the toolset available for retailers to respond.

With these developments, retail now has access to a new category of inquiry in the form of advanced analytics, which uses sophisticated techniques and tools to gather, organize, and analyze data and content to uncover deeper insights, craft predictions, and generate recommendations. Advanced analytics allows retailers unprecedented potential to understand customer preferences and behaviours, and to create integrated and responsive ecosystems—including through partnerships and mergers and acquisitions (M&A)—to best position themselves for success in a rapidly evolving world.

In contemplating the prospects for new approaches and technologies, however, retailers need to be clear about both the potential of these new tools and the risks that can arise when implementing an analytics approach. Stated simply: analytics without insight risks producing a black hole of data, from which no opportunities emerge.

To reap the promise of advanced analytics, retail businesses need to build the functional capabilities that will allow them to operate as Insight Driven Organizations, or IDOs. An IDO iteratively embeds analysis, data, and reasoning into the daily decision-making process. A partnership between technology and the business will be a critical ingredient to winning in the market.

The strategic question facing the retail sector is not “What shiny AI object can I add to my tool belt today?” but “What are the foundational capabilities I need to develop for my business to function as an IDO?” Do you have the answer?



An ever-changing landscape

The world of retail is now overwhelmingly characterized by change.

As new technologies enable channel-agnostic consumers, the need for retailers and brands to evolve in order to stay competitive is greater than ever.

The path to purchase has been dramatically reconfigured, with consumers now engaging across all channels—online, mobile, and in-store—to make their purchase and transition decisions. Brands increasingly interact directly with customers, and e-commerce growth continues to outpace conventional retail sales growth. Meanwhile, new and pervasive technologies take hold across the retail space.

Against this backdrop, the local mall needs to reorient. Consumer shopping behaviours and preferences have evolved, resulting in declines in mall foot traffic and retail construction, and increases in bankruptcies and store closures. The mall of the future will need to encompass AI, virtual reality, and personalized concierge services across all stages of the customer experience lifecycle.

Today's retailers are struggling to win in delivering extraordinary customer experience. But as the Canadian market continues to bifurcate and polarize,

the number of casualties will increase. The retailer that endures will need to compete with e-commerce and the ascendancy of marketplaces, while automation serves up yet another battleground to conquer—supply chain and logistics analytics—that new competitors are already deploying effectively.

In order to survive, retail must respond effectively to these challenges.

Responding effectively doesn't mean a singular focus on building analytics capabilities. Instead, it means identifying compelling business problems to which advanced analytics can be applied, integrating analytics capabilities within the organization to gain novel insights into those problems, and then using those insights to produce business results.



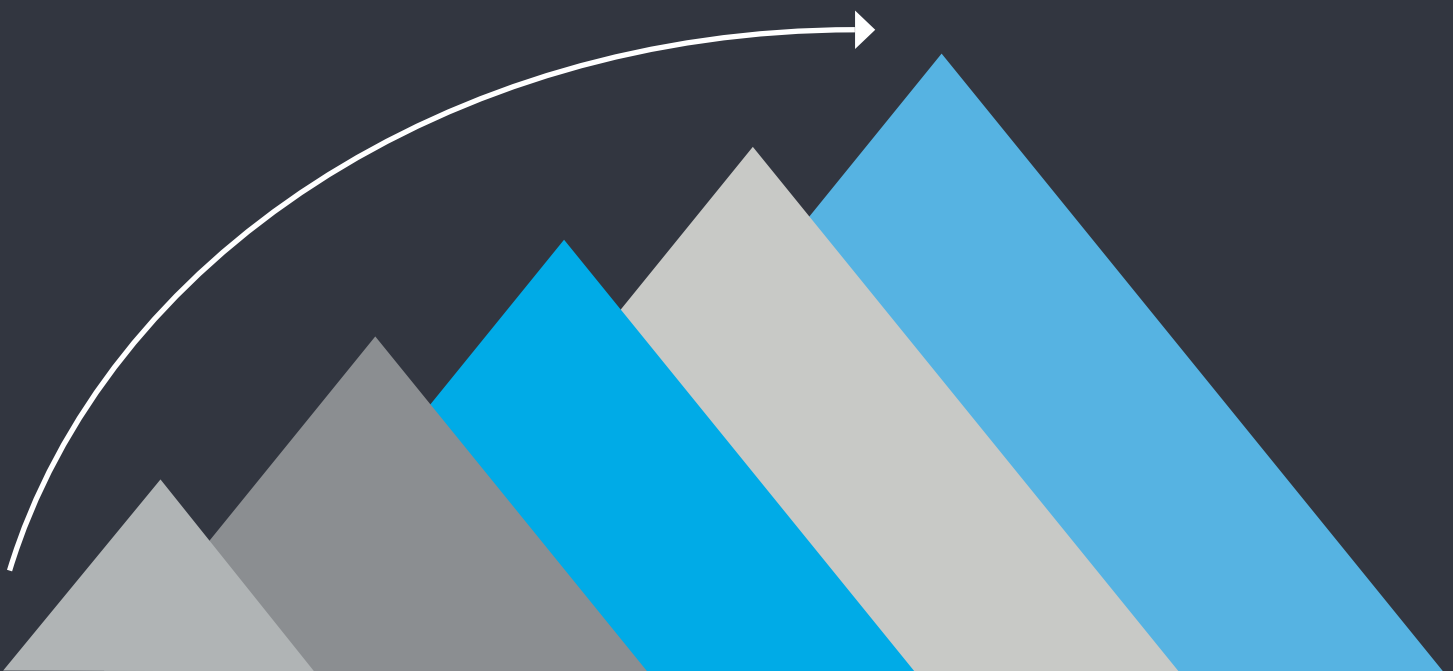
Are you prepared to shift to the next generation of retail?

- Are you nimble? Do you have an analytics platform that can monitor competitive shifts in the market?
- Do you have the right ecosystem model? Have you defined your target operating model, and do you know who your competitors are?
- What is your IDO strategy? Do you know where you sit on the IDO maturity curve?

BUILDING CAPABILITIES:

The IDO maturity curve

The journey to becoming an IDO passes through multiple stages. Our framework defines five levels of maturity:



01

AD-HOC ANALYTICS

Aware of analytics, but little to no infrastructure and a poorly defined analytics strategy

02

LOCALIZED ANALYTICS

Adopting analytics, building capability, and articulating an analytics strategy in silos

03

ANALYTICS ASPIRATIONS

Expanding ad-hoc analytical capabilities beyond silos and into mainstream business functions

04

ANALYTICAL COMPANIES

Industrializing analytics to combine data from broad sources into meaningful content and new ideas

05

INSIGHT DRIVEN ORGANIZATIONS

Transforming analytics to streamline decision-making across all business functions

This maturity curve can help you benchmark your own company's analytic progress against others in your industry across North America, and identify where your strengths and gaps lie.

RETAIL OF THE FUTURE:

Understanding how advanced analytics can help

Tools such as AI, computational analysis of large data sets, and accelerating technologies are transforming retail.

Until recently—even within the past half-decade—the tools of AI, computational analysis of extremely large data sets, and rapidly accelerating technologies in retail were relatively primitive compared to how they're transforming retail today. The approaches made possible by the most recent advances in analytics can produce many benefits for retailers, such as:

Creating an ownable customer experience and delivering it profitably

The evolution in consumer behaviours and expectations has reshaped the ways in which retailers and brands operate. They're now investing in e-commerce, mobile, social media, and in-store digital analytics, all to define and deliver to customers a unified, persuasive omnichannel experience.

Brands and retailers have also moved to reformulate their internal structures and practices to reflect the changing demands of this omnichannel world.

The imperative to create an ownable customer experience and deliver it profitably sounds simple enough but is challenging to execute. How do you know where to start, how you stack up relative to competitors in the field, and how you compare to the overall landscape?

The Deloitte Customer Engagement Index helps make sense of the current and developing retail universe, scoping the work retailers must undertake to fulfill the shopping experience consumers want and have come to expect. The index also suggests where retailers should invest to extend niches and drive differentiation to capture market share. Do you know how you measure up?

Driving competitive advantage using analytics as a fundamental capacity

The retail executive who plans to survive will approach analytics as an enabler along the road to becoming an IDO. The power of this enabler is not to be underestimated. Practical applications of AI today allow businesses to identify, analyze, and monitor emerging risks to a company's business model, long-term viability, and ability to create value, as well as build the symbiotic relationship between customers and organizations through lifestyle and behavioural segmentation. However, the opportunity to take full advantage of AI is ever-evolving and positioned for boundless applications.

Enabling execution precision

The way in which retailers use and execute analytics is critical in their success. Strategies can include building complex, cross-channel capabilities, and responding to micro-moment and micro-market niches and opportunities.

The new execution model is defined not by five-year plans but by eight-week sprints, delivering proof-of-concepts within an ecosystem model of strategic partnerships. It is not a model to be used in isolation: retailers must identify, locate, and employ the mission-critical additional expertise that will propel and sustain their growth.



ANALYTICS FOR RETAIL:

Demystifying the shiny objects

How does advanced analytics produce results in retail? Here are three examples:

01 By uncovering deeper relationships that would otherwise go undetected

Complex basket analysis can reveal insights about customer purchasing patterns that could have once gone undetected, especially when data sets are large and many variables are at play. These insights often reveal that what customers say about their preferences differs from what their interactions and behaviours are observed to be, allowing retailers to more precisely shape and tailor their customer-experience offerings in response—all the way to one-to-one personalization.

02 By implementing updated and accelerated approaches to segmentation

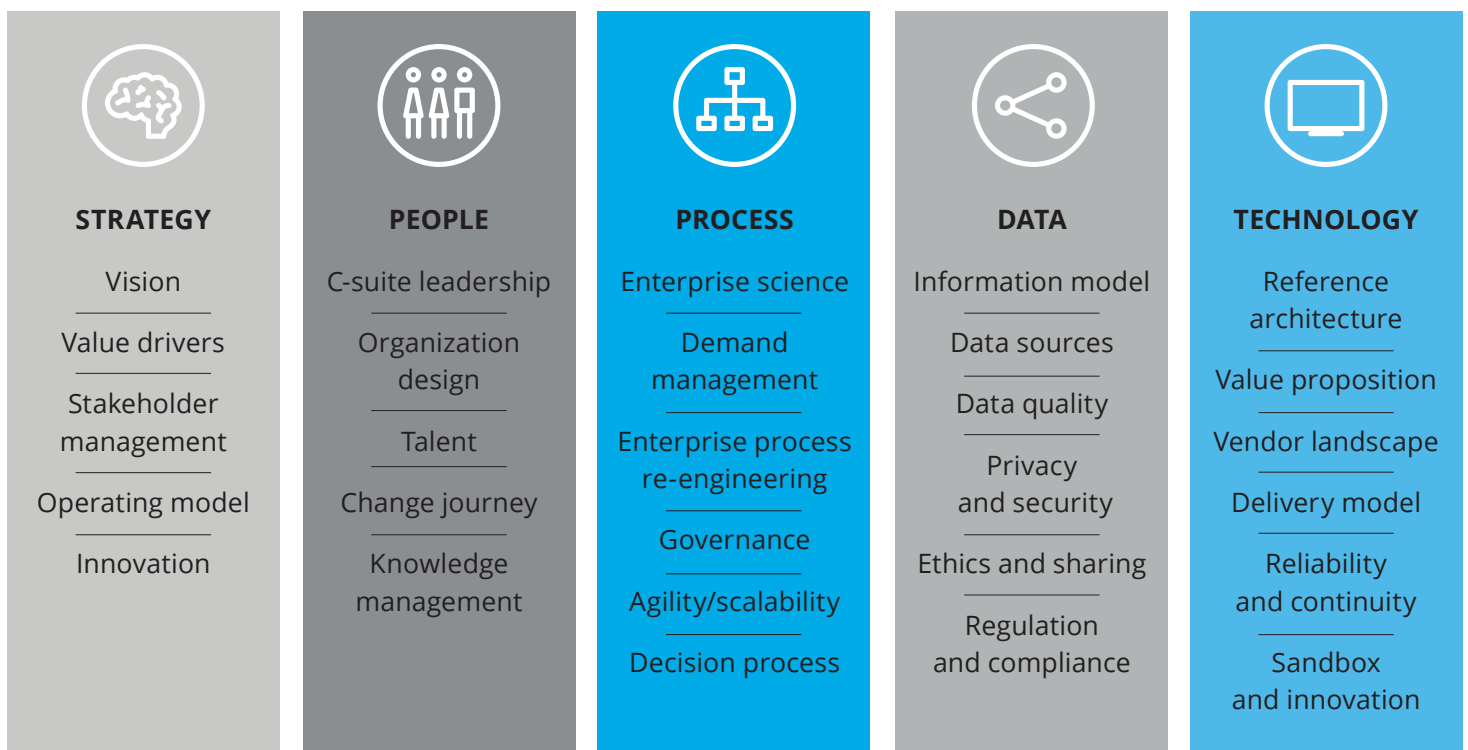
Traditional customer segmentation is based on demographics and inferences. While this approach is still valuable, analytics-enabled segmentation allows retailers to work with immense volumes of data to identify more refined customer sentiments, lifestyle preferences, social values, and relationships. The leap forward that enabled this outcome is in machine-learning capability, which uses algorithms to autonomously sift through millions of stock-keeping units (SKUs) and billions of lines of data (including external and unstructured data) at a scale that was unimaginable even a decade ago. The result? Retailers and brands have new ways to connect with customers across the purchasing lifecycle.

03 By enabling brands with risk-sensing capacities

The intersection of analytical technologies and data sources offers the capability to analyze and monitor strategic risks. Risk-sensing capabilities may include real-time reporting, monitoring big data, and integrating operational insights into a company's daily business processes—which all have the ability to enhance an organization's understanding of the risk/reward trade-offs inherent in value creation. Risk-sensing practices can help brands move more quickly and decisively, make more targeted investment decisions, and better allocate their resources.

Locating analytics on the journey toward becoming an IDO

An IDO is built on a foundation of five pillars, which include data along with strategy, people, process, and technology.



Eighty-five percent of analytically mature organizations exceeded their corporate goals, compared to 67 percent of less mature organizations. The retail winners of the future will be those who use analytics to its full capabilities, executed and embodied within the context of an IDO—not as a shiny talisman—to define the way forward.

Omnichannel opportunities await

Establishing the right foundation is the critical first step on the path forward. There are several key components to creating a strong base.

Taking full advantage of analytics

It's essential that you build—or ensure you have access to—top notch predictive, advanced analytics capabilities to help you form key customer insights, identify growth opportunities, determine the smartest omnichannel investments for your company, and even expand into new markets globally. Analytics is vital to successfully making the huge shift to becoming an insight-driven, customer-centric organization.

Reviewing what competitors offer along the path to purchase

Examine your competitors' omnichannel services from product discovery to purchase to post-purchase fulfillment and follow-up. What do they do well? Where do they stumble? What's lacking? Use this knowledge to shape your own path forward.

Challenging the 'old ways' of understanding the customer

The old model looks at demographic segmentation and working backward from data points to try to discern customer preferences. The analytics-enabled method, in contrast, takes democratized approaches to data sets and data analytics capabilities, only recently made available, to produce

predictive insights about customer activities and inclinations. It builds forward from data points to create a future-oriented omnichannel world.

Reviewing the potential of acquiring capabilities

If there are capabilities you can't develop organically to stay competitive, you could consider strategic partnerships or M&A to obtain them. Partnerships, including with those in other sectors of the economy, are increasingly seen as critical for success. How developed is your cooperation muscle?

Creating an ecosystem model of strategic partners

External advisors and analytics firms can bring you best-in-class tools, knowledge, and insights to help you better understand your customers' needs, preferences, and behaviours so you can make the right decisions about omnichannel. They can also bring you their knowledge of relevant best practices, both in and outside your industry, to help you ensure that you focus your limited resources on the omnichannel investments with the best possible return.





Core components of a future-proofing playbook

Look outside your category and industry for inspiration and use these questions to get you started.

- What do you know about your customer experience? Where do you stand on the Deloitte Customer Engagement Index?
- Are you willing to make game-changing bets? Will you develop through M&A or do you plan to rely on organic growth? Do you have the right partnerships or acquisition plan in place to fill any gaps in your capabilities or ecosystem model?
- Canadian retailers are dividing their focus between long-term analytics infrastructure and short-term wins. Where do you stand?
- Global retail commerce is now a given since consumers operate in a borderless world even if the companies they engage with don't. Have you adopted a global mentality?

The next step: Develop a playbook that works for your business—defining processes, operating procedures, and cultural values that will shape your plays.

As AI, big data, and exponential technologies continue to move toward the mainstream, the impact and transformation facing just about every business and industry, including retail, is no longer in the future. It is today. If they haven't started already, retailers must take immediate action to adapt to the rapid and changing landscape or risk getting left behind.

Along the way, they'll need the courage to make bold bets and big moves, using all the resources at their disposal—advanced analytics, AI, strategic partnerships, and M&A—to create a competitive experience and remain profitable through changing times. The challenge for the winning omnichannel retailer is to overcome the lure of shiny objects in favour of the multidimensional strengths and opportunities made available by moving toward becoming an IDO.

The reward? Retailers who adapt will be able to manage the volatility of the omnichannel retail environment with the advantage of continuously generated insights. It's the only way to future-proof a rewarding path forward in the new retail environment.

Contact us

Jennifer Lee

Partner,
Retail Consumer Analytics
jenniferlee@deloitte.ca

Alexandra Genest

Quebec Consumer and
Industrial Products Leader
agenest@deloitte.ca

Rick Kohn

British Columbia
Retail Leader
rkohn@deloitte.ca

David Lam

National Consumer and
Industrial Products Leader,
Financial Advisory
davidlam@deloitte.ca

Tom Quinn

National Retail and
Wholesale Distribution Leader
toquinn@deloitte.ca

Ian Scott

Chief Data Scientist
iscott@deloitte.ca

Yohan Gaumont

Digital Transformation Leader,
Deloitte Digital
ygaumont@deloitte.ca

Andrea Ng

Senior Manager,
Customer Advisory
andreang@deloitte.ca



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