

BRAVE NEW WORLD:

LEADING THROUGH DIGITAL TRANSFORMATION

EXCLUSIVE INSIGHT

Retail leaders and managers on the skills required to thrive in the digital economy



RETAIL WEEK FOREWORD



JAMES KNOWLES
HEAD OF COMMERCIAL CONTENT

Digital transformation is one of the most vital considerations for any retailer today. In order to succeed, retailers have to place continuing digital evolution at the heart of their business, predict the unknown and weigh up the best technology investments for future growth.

This transformation requires courage, commitment and cultural adjustment on behalf of retailers during the greatest period of change in the sector's history.

Brave new world: leading through digital transformation, a flagship report from Retail Week and PwC, takes a step inside the minds of today's retail c-suite to find out what leadership needs to look like today and in the future for retailers to thrive in the digital economy.

To do this, we have interviewed 15 chief executives and directors leading

on digital transformation within retail businesses with a turnover of more than £50m. We then conducted a wide-ranging survey with a further 30 retail leaders and compared their opinions with those of 30 retail managers – the generation that will lead those businesses in the future – to find out if they support the strategy of their boards.

The findings illustrate the depth and pace of change taking place within the industry. Seventy-five per cent of retailers surveyed agree digital transformation requires a new leadership mindset, while the five-year plan is now a thing of the past; 75% plan ahead just three years or less.

In a tumultuous market, the pace of change will only accelerate, and strong leadership that drives digital transformation throughout businesses will be the strategic blueprint for long-term success.



This transformation requires courage, commitment and cultural adjustment on behalf of retailers



RETAIL WEEK CONNECT: BRAVE NEW WORLD

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PwC

VIEWPOINT



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A brave new world requires brave new thinking and the subject of digital transformation is a case in point. It is top of mind for retailers currently – and if it isn't then it should be.

But how many retailers are actually being courageous enough to move from thought to action to ensure they have the right people, skills and structure in place in order to compete effectively? This report highlights that the pace of change is only going to speed up.

The majority of retailers say the pressure to digitally transform has increased in the past three years and they believe it will continue to affect structure and roles over the next five years too.

New entrants to the market are setting up house with flexible, agile, smart infrastructures built for the demands of modern retail. Traditional retailers, meanwhile, are stuck in the equivalent of a 1970s house. They have made renovations

along the way but their infrastructures are starting to show age and aren't as compelling or efficient as their new-build rivals.

With digital transformation in retail do you continue to renovate or do you rebuild? Or, to complement the 1970s property, do you build a modern house in the garden that may one day replace the old one when the time is right?

It's a decision that requires leadership bold enough to make such radical change and mitigate risks along the way. It's about blending new blood that has digital at its heart with existing talent that understands traditional retail but is open to how it complements and is enhanced by digital.

Doing nothing is simply not an option. Incrementality is not going to work. Nor is one-off change. Instead, digital transformation has to be a continuous process that must be nurtured to grow and evolve as the market does. Are you brave enough for the brave new world?



It's about blending new blood that has digital at its heart with existing talent that understands traditional retail



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EXECUTIVE SUMMARY

The digital revolution has blurred the line between retailers and technology companies. Asos calls itself a technology company; Amazon provides cloud services and has won rights to broadcast live sport; and tech firm Apple is revered for its global retail store portfolio.

Retail as it once was no longer exists, and that means a new style of leadership and strategy is required; one that embraces newly available technologies.

In-depth research from Retail Week and PwC shines a light on the tactics, techniques and technologies retail's c-suite are using to navigate their way through this new world. We surveyed 30 c-level retail leaders, compared the responses with those from 30 manager-level retail employees and conducted 15 in-depth c-suite interviews.

Key findings

Voice and visual search are the most popular investment areas, with a relatively even split between power technologies including artificial intelligence (AI), robotics and blockchain.

Both leaders and managers agree the pace of change and the pressure to digitally transform have increased over the past three years.

Three quarters of all retailers surveyed believe that digital transformation requires a new leadership mindset, and just over half say this movement will impact structure and jobs over the next five years.

C-suite and management level are in agreement on what is required to drive success, and that the battle for digital talent will intensify. Retail leaders plan to recruit externally, but there is only a finite resource.

This could lead to a sharp increase in an already growing trend for retailers to collaborate with technology suppliers in full-scale partnership form, such as Marks & Spencer and Microsoft, compared with the traditional paid-for service model. It is certainly something management level

want to see more of – with only a third agreeing that supplier–retailer relationships are at the true partnership stage.

The study reveals that retailers from all sectors – from furniture to fashion, and grocery to gifting – are taking digital transformation seriously. The 15 in-depth c-suite interviews make it clear there are ambitious strategies being undertaken.

One chief information officer of a grocery retailer offers a vivid picture of how today's retail c-suite are setting up their operations and what they think is important.

“The interesting thing about this type of transformation is we are not sure there is a start and a finish,” he says.

“We'll never finish transforming our customer experience. But now we are looking to augment it with better data so we can personalise more effectively and then we will put new forms of payment in there to make that frictionless – it's progressive transformation.”

Tech vs culture

The chief digital and technology officer of another grocery retailer echoes this. “When you talk about digital transformation, most people jump to the assumption that it's about technology, but actually, a digital transformation is 30% technology, 70% culture,” he says.

“You're taking your business on a cultural transformation and moving from a fixed mindset to a digital mindset, and from very traditional, rigid projects and programmes, to a tested, learned iterative roadmap. All that is changing the way businesses think, for example how finance thinks about justified business cases. Retailers have got to change all of that, alongside what we need to do from a technology perspective.”

This report will show how some of the UK's largest retailers are managing this change and what those leading these businesses expect to be the best routes to success.

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METHODOLOGY

To produce this report, Retail Week conducted interviews with

75

retailers

with an annual turnover of more than £50m

15 in-depth CEO interviews



30 c-suite retailers across all functions surveyed ...



30 ...and their views contrasted with those of retail managers



Which sectors did we speak to?



What do their business models look like?



SURVEY SNAPSHOT



75%
of retailers are planning
no more than three years ahead for
their digital transformation initiatives

Difficulty in ensuring new approaches and technology are **adopted by all staff** through the entire supply chain down to stores is another substantial **challenge**



38%
of retailers agree

87% OF RETAILERS



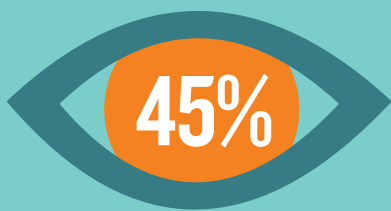
that the pace of change and the **pressure** their business is under to digitally transform have **increased** over the past three years



56% of retail leaders believe their company's third-party supplier relationships now resemble **true partnerships** to support digital transformation

75%

of retailers
agree digital
transformation requires
a new leadership mindset



of retailers say their business is
currently investing in **visual search**



79%

of retail
managers are

POSITIVE

about the c-suite's
capability to deliver
successful digital
transformation

37% of retailers

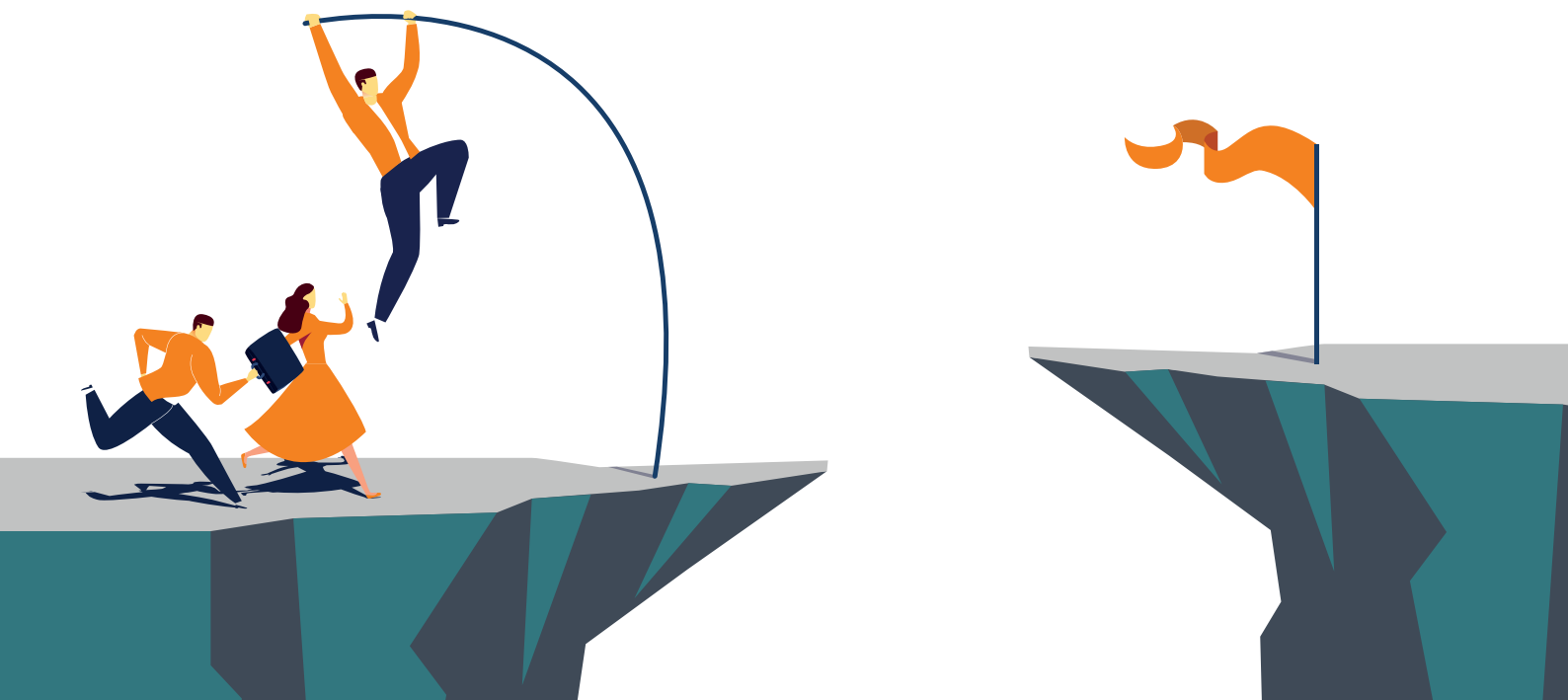


say a lack of skills internally
represents a key challenge

CHAPTER I

LEADING THE CHARGE

- >> Today's retailers must be pioneers
- >> Ensuring buy-in from supply chain through to stores is a challenge
- >> Retailers will recruit outside of the sector to plug skills gap



The new face of retail will be exemplified by forward-thinking business leaders who are not only able to react to market changes, but have the foresight to lead the changes today that will shape the future of their sectors.

They won't just be leaders, they will be pioneers and digital transformation will sit at the very heart of their strategy. Those in charge of retailers, both big and small, will in some ways be leading their organisations into the unknown, needing to gamble on unproven technologies as well as consistently read the market with acumen.

Power technologies such as AI, machine learning, robotics, visual search, voice-enabled systems, virtual reality, augmented reality and blockchain are touted by the tech community as key to unlocking the doors to digital transformation. But not all are affordable, nor are they all relevant to every retailer, and few can be implemented until additional infrastructure changes have been made.

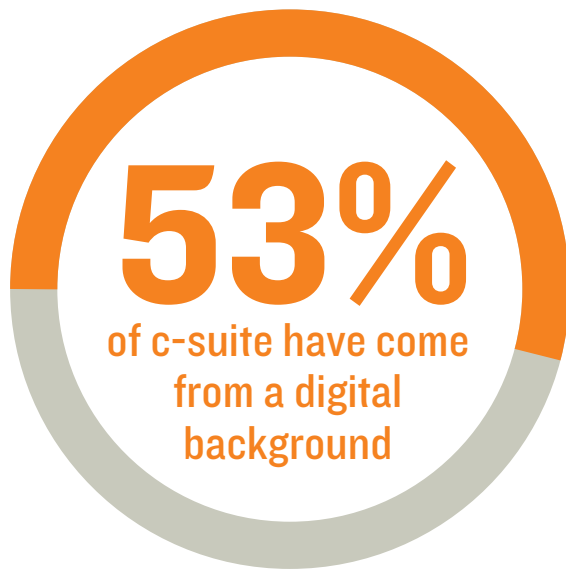
How do leaders map the correct path?

Leaders require a suitably prepared team – and they are going to have to invest in training and external expertise rapidly to avoid any further increase in the skills gap. This Retail Week study, carried out in association with PwC, shows that, although 53% of today's c-suite say they have built their careers on a digital background, just 36% of management level – arguably those who expect to be the retail leaders of tomorrow – have built their careers in such a way because a high percentage have been focused on stores.

Some 97% of respondents believe digital transformation will continue to affect their organisations in terms of structure and job roles over the next five years, highlighting the urgency at which retailers need to prepare their workforces accordingly.

A further 38% of retailers say the key challenge in implementing their digital strategy is the difficulty in ensuring new approaches and technology are adopted by all staff through the entire supply chain down to stores. The next most significant challenge is a lack of skills internally (37%), according to the survey.

There will, of course, be new methods of management required for a digitally fuelled retail environment and businesses from all



sectors are shaping their organisations to prepare for this emerging landscape.

The chief executive of a fashion retailer says: “I think that you have to be customer-centric. If you’re a chief executive who’s only focused on driving efficiency, your business is going to falter.”

She adds that the two areas often go hand in hand, meaning the c-suite must know how to find the right balance between driving customer service and internal efficiencies, because one fuels the other.

“You have to find ways to be efficient because you can’t afford to power costs into your customer service and be inefficient elsewhere.”

Other common leadership challenges across retail are those that have been the same for decades – it’s just now they have a very digital flavour to them, according to some of the retailers questioned for the research.

The chief executive of a furniture retailer says: “I think if you’re going to lead a business or lead anything in the right way you’ve got to be constantly open to change.

“You’ve got to keep reminding yourself you’re not good enough, the business isn’t good enough, things need to improve. If you think you’ve won, then you’ve lost. I think you’ve just got to continue to innovate.”

He adds: “I think if you genuinely are

interested in your consumer and your colleagues, you will progress and do OK. If you’re not and you’re arrogant – and you think that you’re brilliant and your company is brilliant – you’re going to fail.”

Pretenders to the throne

If the management-level retailers are not generally from a digital background, what is it they are looking for from the c-suite to ensure digital transformation is achieved?

Some 75% of all retailers agree that it requires a new leadership mindset, although interestingly the c-suite themselves more strongly agree with this statement than their potential successors. In addition, 53% of all respondents believe digital transformation will continue to affect their organisations in terms of structure and job roles over the next five years.

A stark difference of opinion can be seen between the two layers of management in relation to training, as illustrated on page 13. While only 13% of c-suite say they plan to retrain existing staff if their business does not currently have people with all of the right skills, 46% of retail managers say they would retrain existing employees. Nearly 40% of c-suite say they would recruit from outside the retail industry to fill the skills gap.

At the dawn of the digital age, several



You have to be customer-centric. If you're only focused on efficiency you will falter



**CHIEF EXECUTIVE
OF A FASHION ETAILER**

industry commentators predicted the pretenders to the throne in retail – those who would be the chief executives and managing directors of the future – would be the leaders operating in the ecommerce space at the time.

Aside from the etail pureplays, there are few examples where that has happened. Jeremy Fennell rose from Dixons Retail ecommerce boss to Carphone Warehouse managing director but this accession process is still to become commonplace.

Retail Week spoke to the multichannel director of a general merchandise retailer, who himself is an example of a digital native in retail who has climbed up to the top team. He cites ex-Tesco multichannel director Robin Terrell and ex-Shop Direct now Dixons Carphone chief executive Alex Baldock as prime examples of those who have climbed the ranks from digital to decision-maker execs.

“I remember reading an article about 15 years ago from some consultants on internet retailing, saying that the ecommerce directors of now will absolutely be the chief executives of tomorrow,” he notes.

“Obviously being an ecommerce guy myself, it has laid out the succession plans for my career and it totally resonates. The representation of digital on any board is





The representation of digital on any board is just becoming more and more important



**MULTICHANNEL DIRECTOR OF A
GENERAL MERCHANDISE RETAILER**



just becoming more and more important.” He adds that when presenting directional change projects within the business, he requires the support of others and looks to digitally led colleagues on the board first and foremost.

Keeping your head

With a plethora of technology to choose from – which this report will look at in detail in chapter 3 – there are contrasting strategies within retail in selection methods. The famous Rudyard Kipling poem, ‘If’, spoke of keeping one’s head while all those around lose theirs, and that is effectively how the managing director of a big footwear retailer advises other leaders to operate. He says those who make educated retail technology investment decisions tailored to their specific business needs will prevail.

Digital transformation strategy has to generate more sales, make the retailer a little bit more efficient or make the customer have a better experience, he argues.

“The winners are going to be the organisations and the leaders that can keep focused on that,” he says.

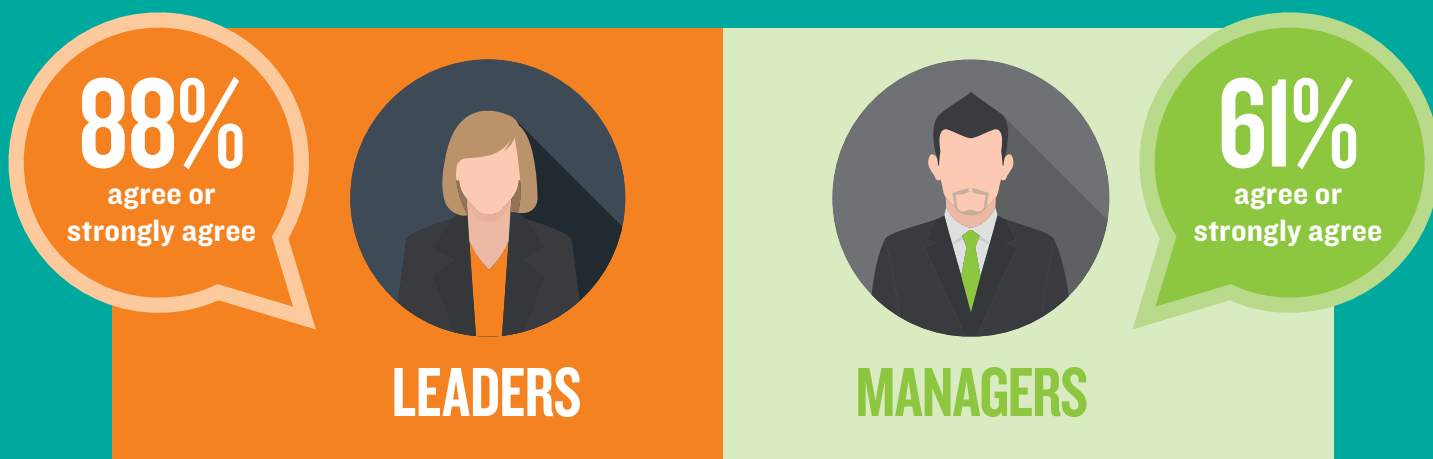
“I think you might find lots of people who jump from the latest thing to the newest thing and they never end up doing anything – they are the people making a land grab on the latest technology and not understanding how best to play it in their organisations.”

The managing director adds: “I think the winners of this transformation are those who keep a level head and identify something, see the worth of it – not because it is headline-grabbing but because it is going to do something specific for their business.”

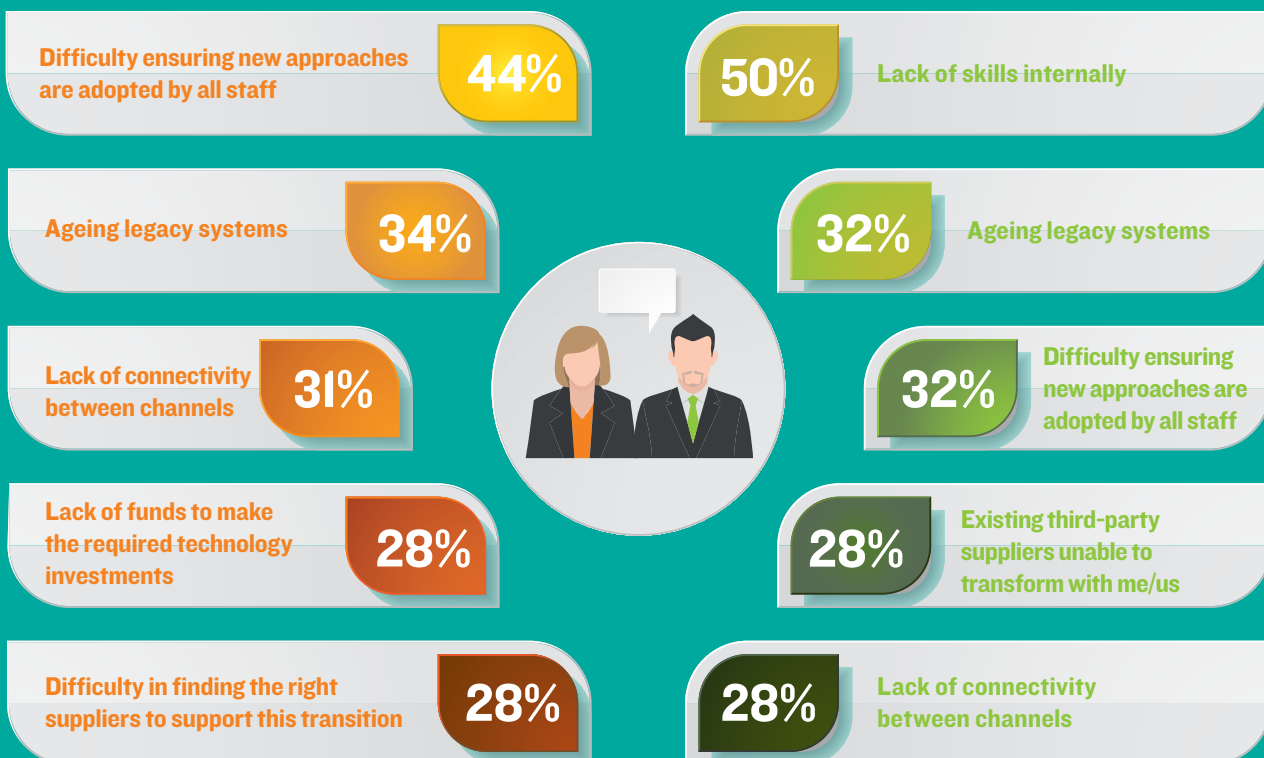
ACTION POINTS

- Educate the entire board to think digitally – don’t just rely on the digital representative.
- Include store colleagues on the digital journey, as there is fantastic talent out there.
- Balance driving customer experience and process efficiencies, integrating front and back ends.
- Remember that now retail is technology enabled constant innovation is needed.

Does digital transformation require a new leadership mindset?



What are the key challenges facing your digital transformation strategy?



CHAPTER 2

STRUCTURING FOR SUCCESS

- >> Agile decision-making has replaced five-year plans
- >> Chief digital or information officer is now central role
- >> The inner workings of a retailer must adapt



T rue digital transformation requires fresh thinking and new approaches. The common theory is that this comes more naturally to younger businesses, but for retailers even just a few years old this necessitates a significant step-change in the way they operate.

Even digital-first Asos, one of UK retail's great growth stories since its inception in 2000, talks of embarking on its own digital transformation. If Asos has to reinvent the way it operates, using a raft of new technologies and talented engineers, surely decades-old organisations with wide store portfolios and entrenched legacy systems need to act similarly.

And they are. Our research finds 87% of retail c-suite and other senior managers agree the pace of change and the pressure their business is under to digitally transform have increased over the past three years. Forty per cent of respondents strongly agree with that statement, suggesting the burden is on retailers to make their move now.

Given the constant evolution of retail, time scales are shifting too. The traditional five-year plan leaders of the past typically used for mapping strategy is on the wane.

According to the survey, half of retailers planning their digital transformation initiatives are thinking three years in advance, while 25% now plan with an 18-month outlook, seemingly due to the fact it is now more difficult to know what is on the immediate horizon.

As the chief digital and technology officer of a grocery retailer says: "Do I have a five-year, richly defined strategy? No, I don't because it'll probably be out of date in about three months because technology's changing so fast.

"Your strategy needs to be a living, breathing thing that you are evolving and changing on a regular basis."



Your strategy needs to be a living, breathing thing that you are evolving on a regular basis



**CHIEF DIGITAL AND TECHNOLOGY
OFFICER OF A GROCERY RETAILER**

Change is coming

Big structural changes are being made across the sector – from smaller specialist retailers to the largest organisations operating in grocery and fashion.

The chief executive of a footwear retailer says in the past year the company has embedded a data analysis and insights team within its ecommerce and marketing division. The team of four is working on data projects in a way the retailer never has before.

He acknowledges “it’s a huge, huge challenge” to embed the necessary cultural change to support this technological evolution.

“We took a decision to invest heavily in technology seven years ago, and that was quite new at the time as our ecommerce sales weren’t even as big as our largest store. So, we’ve been on a digital transformation journey, and that journey at its outset recognised we’re going to need some

big cultural changes encouraged across our business.”

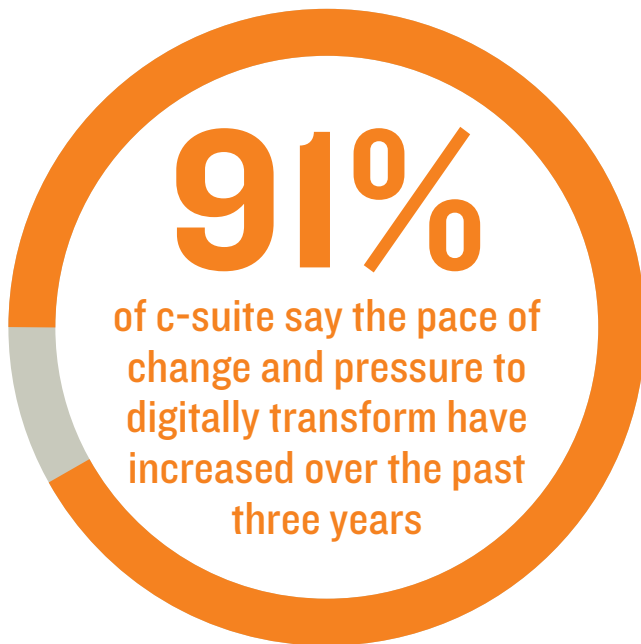
In doing so, he believes digital transformation has fewer barriers. Employees still in the business have been on that journey and understand it, he notes, and those inducted in are recruited partly on the basis they recognise what digital transformation means.

Whether it is new roles or new departments, digital transformation is changing the shape of retail and breaking down what has been normal practice for the best part of a century.

Some of the larger organisations are employing chief digital officers, a trend that has picked up considerably in the past five years. The group chief information officer at a grocery retailer describes it as a board-level position due to its underlying importance to future business direction.

He says: “We recognise we are much more coherently and consistently installing our digital strategy across all our businesses – I think the other thing to say is we have all got to be careful not to make digital purely about how the customer will interact with us.

“If you look at how retailers work, whether that is in the supply chain or logistics or elsewhere, going through and making all of these processes real time and automated is what it takes to be truly end-to-end digital.”





It is an absolutely profound organisational transformation as well as a technology one



**GROUP CHIEF INFORMATION OFFICER
AT A GROCERY RETAILER**

Such work has to change what people do, he argues, meaning it has to change the structure. “I think it is an absolutely profound organisational transformation as well as a technology one.”

The group technology director of a furniture retailer goes a step further. He cites the unusual partnerships and new operating models cropping up across retail, including the recent supply chain collaboration between Tesco and Carrefour, which is unprecedented at such a high retail level. “I think we’re going to see a massive shift in retail here in the UK.”

In light of the collapse of retailers including Maplin and Toys R Us in recent times, he adds: “Some household names have been around for a long time and now they don’t exist any more, and that’s a changing social landscape.”

Belief in leadership

Managers within retail are confident in their leaders’ ability to push through their companies’ objectives in the next 12 to 18 months. Some 79% are positive about the c-suite’s capability to deliver the goods in the near term, suggesting harmonious relationships in general between key stakeholders as these strategies are rolled out.

But there are areas of concern. Half of the managers interviewed for the research say that a lack of skills internally is a key challenge faced in the digital transformation of their business, yet it is not among the key list of concerns for the c-suite.

The greatest challenge identified by those

at the top of retail was difficulty in ensuring new approaches and technology are adopted by all staff through the entire supply chain from head office to warehouses and stores.

Some retailers have created dedicated roles to ensure these potential blockers do not get in the way of their organisation’s progress.

The chief operating officer of a lingerie retailer explains: “As sponsor of the programme and chief operating officer, I am there making sure that, at government level, everything is progressing according to plan on budget.

“I am there to unblock any blockers, to influence the rest of the business, to engage and make sure the transformation is successful, and to socialise it around the business as much as possible so people understand what we are doing and why we are doing it.”

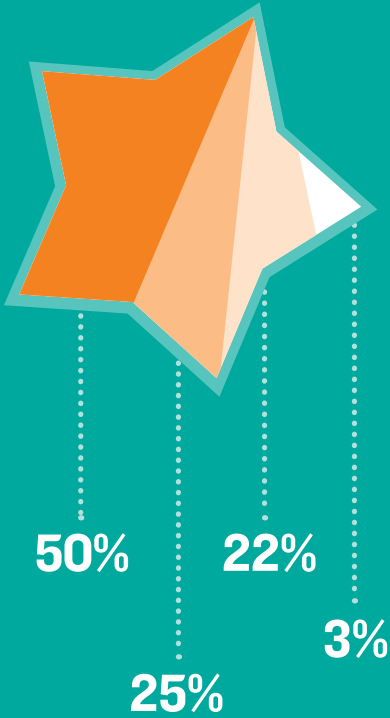
ACTION POINTS

- Strategy needs to adapt and evolve – it should be reviewed and renewed on a regular basis.
- Embedding the necessary cultural change within the business is key to technological evolution.
- Digital is not just about customer-facing technology – it needs to permeate through the business.
- Executive sponsorship and leadership are key to removing blockers and ensuring progress.

How far are you planning ahead for your digital transformation strategy?

- ★ 3 years
- ★ 1.5 years
- ★ 5 years
- ★ 10 years

79%
of managers feel positive or very positive about the ability of their leaders to deliver on company objectives in the next 18 months



CHAPTER 3

UNDERSTANDING THE POWER OF DISRUPTIVE TECHNOLOGIES

- >> Retailers lack understanding in new technologies
- >> Visual search is a key investment area
- >> Greater efficiency in digital and mobile are key focuses



A plethora of new technologies is shaking up the retail industry. Some of these have proven benefits, thanks to early adopters such as Asos and online grocer Ocado, which have been keen to gain an advantage over competitors.

For example, Asos is perceived to be a leader in visual search having launched its in-app visual search tool last year, which allows users to find similar products to those they have photographed or seen elsewhere. And Ocado's warehouse-based robotics systems offer a compelling case for automation in the supply chain.

Whether it is AI, voice-enabled technology, robotics, the emergence of blockchain or other innovations, retailers have been presented with a world of seemingly never-ending tech-driven possibility. However, for the vast majority there is still a lot to learn about these solutions.

Understanding tech

Our research shows that although 45%, 37% and 23% of retailers respectively are investing in visual search, voice search and augmented reality/virtual reality, there is only a rudimentary level of understanding of them. These technologies were chosen from a list of six, which also included AI, blockchain and robotics.

Retailers were asked to rate these six technologies from one to five, with one indicating poor knowledge and five signifying advanced understanding, and none received an average score higher than visual search's 3.28 (see page 23). This illustrates the lack of knowledge around digital transformation in retail.

Intriguingly, the c-suite and management level respondents to the survey both agreed the top digital transformation priority for their business was greater operational efficiencies through digital, suggesting widescale alignment on this overarching matter.

However, the study uncovered large discrepancies in focus when it comes to more specific areas of investment. For example, personalising individual consumers' experience, achieving a single view of the customer and investing in new delivery capabilities were all deemed significantly more important by management level retail staff than the c-suite.

On the flipside, senior executives were much more likely to prioritise holistic goals such as creating a truly omnichannel consumer journey, investment in ecommerce

platforms, or investment in internal systems. The group chief information officer of a grocery retailer says that an understanding of AI, for example, and the potential of it within future retailing, comes down to the importance the c-suite within an organisation attaches to data capture and management.

"We have a chief executive who is absolutely passionate about the opportunity of data, so I don't think that is an issue for us. But whether it is more broadly recognised, I don't know," he notes.

"I would be surprised now if they really don't understand, particularly the two super impact areas of AI – security and privacy. How you deal with machine learning and AI and keeping your business secure must be at the top of the agenda for any board in the country, if they are not then there's a problem."

Technology for marginal gains

The switch from systems, hardware and software that in some cases have been in place for decades, to a world where retailers can introduce new tech and then benefit from it is not straightforward.

Some retailers are still very much in the middle of such projects, so the so-called power technologies are low down the priority list.

This could explain why, despite the hype, only 18%, 13% and 12% of retailers respectively say they are already using AI, robotics or blockchain technology.

"I consider most investment in terms of its customer-facing impact, so we are doing all the back-office work in order to improve





Machine learning and AI must be at the top of the agenda for any board



**GROUP CHIEF INFORMATION
OFFICER OF A GROCERY RETAILER**

the customer experience because all our systems were quite poor,” explains the chief operating officer of a lingerie retailer.

The chief executive of a gifts retailer is in a similar situation and is one of several respondents to the survey that suggested leading investment in robotics, AI and the other power technologies will be left to other organisations, not his.

For so many retailers, the restructuring that may ultimately lead to these technologies being implemented is, relatively speaking, only just getting under way.

“We’ve just invested in a company-wide ERP [enterprise resource planning] system, so that’s where I’ve actually prioritised and ensured that we can operate efficiently and effectively across all channels,” says the gifts retailer chief.

“That’s enabled us to implement the endless aisle, the new click-and-collect processes, new ticketing, all these things are being driven by the ERP system, so you invest in the back-office system and it does deliver tangible results to the front end, to the consumer.”

He also suggests the important technologies to invest in are the ones customers are mostly not even aware of – “they’re just there”.

“There’s no silver bullet and I think we have to do a lot of things well at the same time to achieve what we want to achieve. Everything we do is about marginal gains – it’s what we talk about now in the business the whole time.”

Looking at the research it is clear larger retailers – grocers in particular – understand such marginal gains can be achieved through the use of AI, robotics and the like. There is an acknowledgement that usage of this tech can lead to customer satisfaction.

Making strides

The chief digital and technology director of a grocery retailer says his company has already made significant strides with voice technology, and he believes his board and the wider industry are fully aware of the potential impact transformative technologies will have on their businesses.

“My theory on this is that we humans are innately lazy creatures and if we can find a way of doing things that uses even less energy than we will do it,” he notes.

“We began by having to start up a computer to get online, then you had laptops, then you had tablets and you now have mobile phones. It’s all getting progressively easier, because all I have to do now is tap a touchscreen. What is even easier than having to tap a touchscreen, is you go and say, ‘OK Google, add bananas to my basket’.”

Discussing AI, machine learning and big data, he says he is confident they all have a role to play in retail but “the IT industry sometimes has a tendency to oversell the capabilities of this”.

“They undoubtedly are going to be a force and they are going to have an impact. The pace at which, I’m not sure.”

ACTION POINTS

- Be passionate about the opportunities that data gives you.
- Drive intellectual curiosity around the capabilities that the technology can deliver.
- Ensure a solid foundation upon which transformational technology can be leveraged.

Quick view: what the technologies do



VISUAL SEARCH

An in-app technology that allows users to upload a photo of a product in order to search the retailer's catalogue for similar items



VOICE SEARCH

Allows consumers to use their voice to search the internet via a virtual assistant



AR

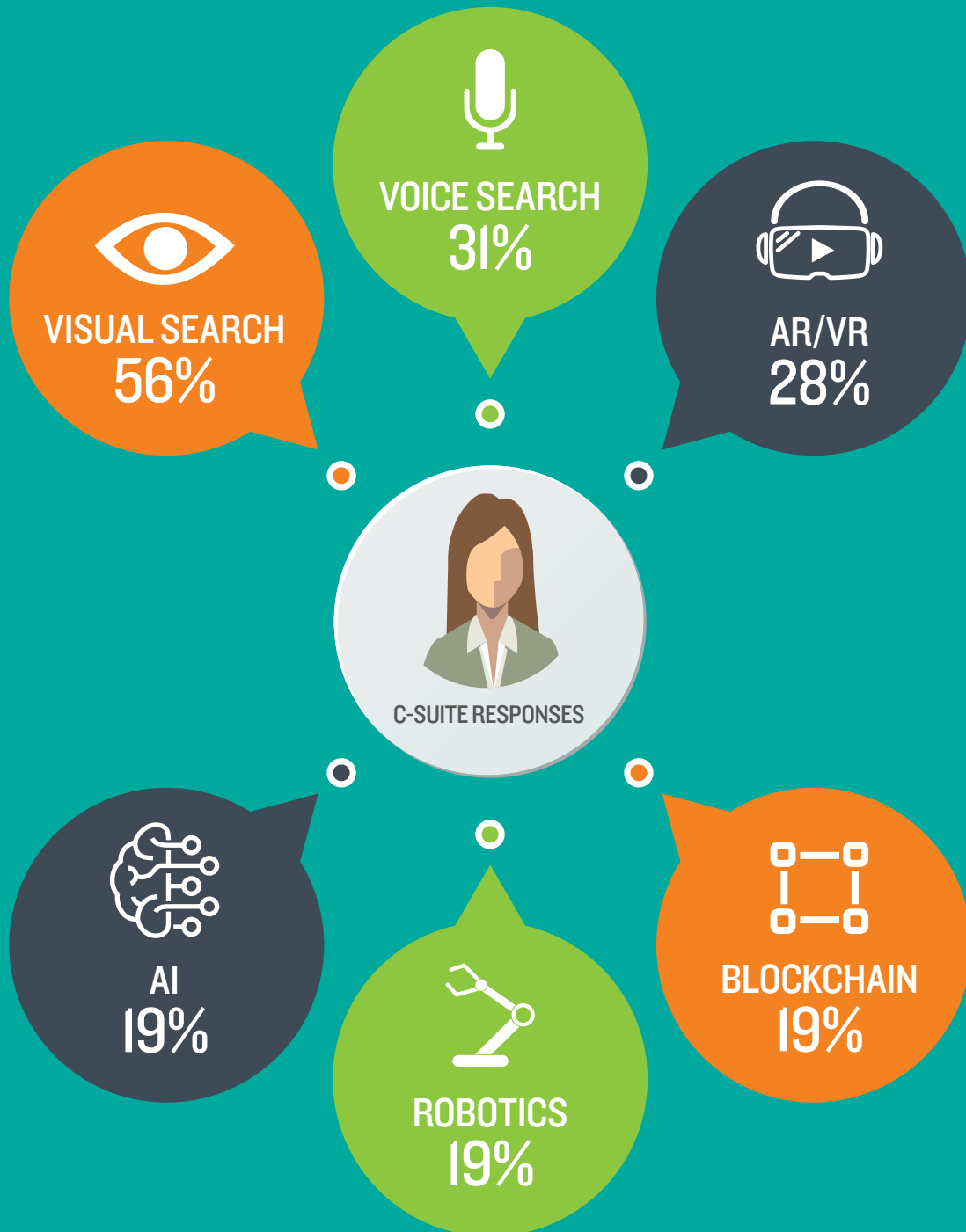
Superimposes computer-generated images into a real-world setting



VR

Customers wear a headset to inhabit an entirely virtual environment

Which technologies are you currently using?





AI
Systems that are able to sense and observe the environment around them, and then act and learn.



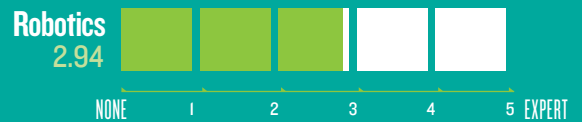
ROBOTICS
Autonomous machines that fulfil tasks traditionally carried out by humans.



BLOCKCHAIN
An encrypted digital ledger that tracks transactions between – and can be shared across – multiple users and organisations.

How well would you rate your understanding of these technologies?

C-suite responses



Which top three investment areas are you prioritising?

01

• IMPROVED OPERATIONAL EFFICIENCIES THROUGH DIGITAL

02

- MOBILE WEBSITE
- INVESTMENT IN OTHER INTERNAL SYSTEMS
- MOBILE APP

03

- BETTER LEVERAGING OF BIG DATA/AI
- INVESTMENT IN NEW DELIVERY CAPABILITIES



31%



25%



22%

CHAPTER 4

THE RISE OF NEW PARTNERSHIPS

- >> Retailers acknowledge they can't do it alone
- >> A focus on true partnerships with suppliers
- >> Management level think there is work to be done



A major theme to emerge in retail during the first half of 2018 is the development of strategic partnerships between retailers and technology companies. This is arguably a result of the mistrust in technology companies, referenced in chapter 3.

Since the dawn of the first till systems in the late 19th century, retailers have built working relationships with tech suppliers. But there is a growing sense that suppliers must become true partners in a world where new technology is ever-more sophisticated.

At a time when retailers face the threat of a select few tech-led players – such as Amazon, Alibaba and JD.com – dominating global market share, there is an argument for a change in supplier strategy.

Indeed, the majority of retailers interviewed for our research say their partnerships with vendors have shifted in recent times, with the chief executive of a gifts retailer saying expectations from these relationships are now greater than ever. Many retailers believe that suppliers need to step up and make their voices heard in a more consultative approach.

Retail-tech tie-ups

The trend is a few years in the making – with retailers such as Shop Direct announcing a long-term explorative tech and AI partnership with IBM in 2015. But it has gained momentum in 2018, exemplified by Marks & Spencer's collaboration with

Microsoft, which will involve Microsoft AI engineers and M&S digital development team Retail Labs working together to explore and test how technologies such as AI can be embedded in stores and operations to improve customer experience and processes.

In addition, M&S' deal with Tata Consultancy Services (TCS) gives TCS the green light to drive the retailer's innovation agenda, and Carrefour recently announced a tie-up with Google Cloud. Most of these partnerships are different to traditional big retailer-big tech deals of the past, whereby a retailer buys a complete off-the-shelf package and relies on that vendor to run its entire infrastructure. Retailers demand much more flexibility to compete in today's market and that is achieved in several ways.

In the case of M&S, the TCS arrangement does actually have echoes of the past, with Sainsbury's outsourcing its IT to Accenture in 2000, only for it to bring it back in house five years earlier than planned in 2005 in what was deemed a costly exercise.



M&S plans to succeed where others have arguably failed and TCS is now its principal technology partner, running day-to-day relationship and project management of specialist suppliers, while a technical and commercial in-house team oversees the wider IT work.

What the retailers say

According to both c-suite and management-level retailers, their companies' relationships with suppliers are evolving.

The group technology director of a furniture retailer says: "There are very few systems where you take it from a big vendor and you can customise the thing, that's just not what retailers do.

"And I think with the digital landscape changing so fast and consumers changing so fast, we're seeing more and more cases where a small tech company might have an idea or a product and the adaptation of it to our environment will make the difference."

The chief executive of a footwear retailer adds: "I think there are key strategic relationships, particularly around some of the underlying platforms that support our business, that are long-established and we work hard to make those productive and positive partnerships.

"At the same time, there are lots of new entrants coming in with tools that will help our vision. So, it's definitely a blend of the two – old and the new."

The desire to find a balance between long-term technology partnerships, in-house talent and a continuous stream of innovation through start-up labs and working with suppliers on an ad-hoc basis, is representative of most survey respondents.

Paul Clarke, chief technology officer of Ocado, has spoken publicly in the past about the need to retain talented tech staff and keep them happy by offering them a challenging but rewarding environment to work in. Engineers and the data scientists required to support successful businesses today, he argues, are motivated by more than money – they are puzzle-solvers and they have a thirst to keep learning new skills in their field.

It's an argument illustrated by several executives and retail leaders in the survey and it can have an impact on how retailers forge partnerships with technology companies.

"If you look at data scientists, you'll end up having a lot of churn unless you have what they would describe as 'sexy problems', and you're continually challenging them," explains the group technology director of a grocery retailer.

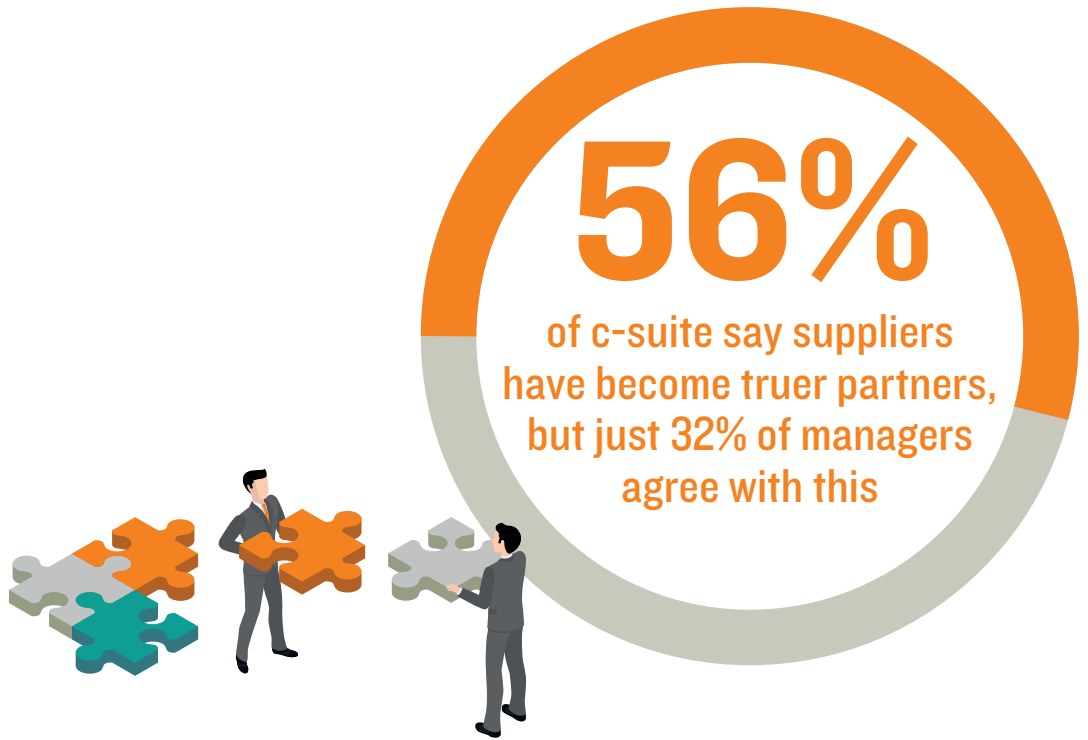
"We have lots of challenges to overcome and we can use data to see them. But I don't think we're an organisation where we get people staying for three, four, five years. So we will work with partners to tap into their skillsets and their experiences. It might not be the same industry; it might be different industries to bring fresh thinking."



We have a very rigorous process to make sure we partner with the right people



MULTICHANNEL DIRECTOR OF A
GENERAL MERCHANDISE RETAILER



Talking about an evolution

While 56% of c-level retail representatives interviewed for the research say they believe their company's third-party supplier relationships now resemble true partnerships to support digital transformation, the wider survey suggests otherwise.

Just 32% of manager-level retail staff agree with the statement. In fact, as shown on page 13, existing third-parties being unable to transform with a retailer was the fourth biggest challenge to digital transformation identified by managers, at 28%.

This dichotomy between the retail leaders of today and the potential industry leaders of tomorrow suggests there is much more work to be done if suppliers are going to be elevated to true partner status within retail organisations. Often, the 'foot soldiers' on the ground, who are in charge of day-to-day operations in their departments, can offer a truer representation of project progress than their boardroom seniors.

There does appear to be more aligned thinking in terms of the input technology companies offer retailers. The research indicates that 55% of total respondents would like to see suppliers make themselves heard and become more equal partners in digital transformation strategies.

With this in mind, perhaps the type of partnerships unveiled by M&S and Carrefour will become more mainstream. Each of these deals is unique, but their commonality comes in their potential for co-creation between retailer and technology company.

Carrefour and Google will come together to see how emerging technologies such as

Google Assistant, Google Home and a new Google Shopping website in real-world retail. But the entire partnership will be supported by an innovation lab where Carrefour engineers and Google Cloud AI experts work in tandem to drive new customer experience models.

For M&S, the Microsoft deal will give the technology company a high-profile user case for its AI solutions, which will be developed in association with the retailer's existing IT team and tailored to its customer service and digital transformation goals.

The multichannel director of a general merchandise retailer says: "Finding the right partner that fits the profile is very important. We have a very rigorous process to make sure we partner with the right people."

The future has the potential to be marked by the rise of true retailer/supplier relationships. The research reveals growing demand from retailers, so suppliers should now step up and make their voices heard.

ACTION POINTS

- The appetite for strategic partnerships is stronger than ever.
- Partnerships are evolving to a state where digital transformation is co-created.
- The digital landscape and customer expectations are changing fast – a blend of strengthening old relationships and creating new partnerships ensures a continuous stream of innovation.

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