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# CEO Viewpoint 2017: The Transformation of Retail



**pwc**

# PwC Survey finds that Retailers Are Making Digital Transformation Their Highest Investment Priority

Since JDA first commissioned a global survey of retail and consumer goods CEOs in 2014, we have witnessed unprecedented change sweeping across the retail industry as it transforms itself to meet the needs of the modern shopper. Narratives around omni-channel are set to change, as both the demands of the modern shopper and advances in technology become ever greater catalysts.

In the fourth annual survey prepared for JDA Software Group Inc. by PwC, retailers expressed greater confidence in future revenue, with 52 percent of executives saying they are very confident about their organization's prospects for revenue growth.

Results from the survey also show that compared to 2014 there has been a decline in retailers' ability to manage omni-channel execution that can meet the demands of the modern shopper, who are expecting a seamless blend between the physical and digital store. In fact, only 10 percent of CEOs say they have refined their offerings and are now able to make a profit while fulfilling omni-channel demand. These retailers are less likely to implement increased charges for online orders.

Retailers who struggle to meet customers' omni-channel fulfillment demands are more likely to implement increased charges for online orders. Research also noted that retailers who have distinct channels operating as silos to meet customer demand have experienced the highest increase in online operating costs as a percentage to sales over the last 12 months of any group surveyed.

The survey was conducted in late 2016 with 351 responses from executives in the United States, Mexico, the United Kingdom, Germany, China, and Japan. Thirty-two percent of responses were from top 250 retailers (> \$5 billion revenue), with another 53 percent from top 1,000 retailers. Respondents identified themselves as coming from hard goods, soft lines, grocery, ecommerce, and CPG verticals, and from related retail and consumer goods sectors.



# Investment Priorities

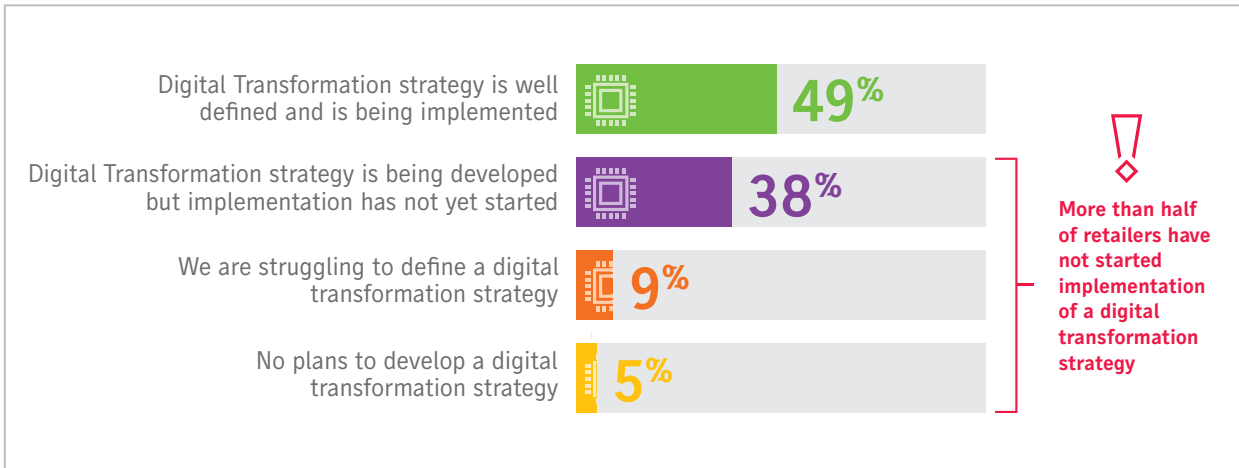
The retail landscape is on the verge of experiencing a major paradigm shift. The needs of the modern shopper, advancing technology, and increased competition are compelling retail CEOs to reevaluate where they choose to invest their capital. IoT, Big Data, Robotics and augmented reality are some of the ways CEOs are choosing to invest their capital in the coming year.

Sixty-nine percent of executives say they plan to increase their investment in digital transformation over the next year. Surprisingly, more than half of respondents – 52 percent – have not defined or started implementing a digital transformation strategy, as shown in Figure 1.

Interestingly, those retailers who have a well-defined digital transformation strategy already being implemented have a higher proportion of online revenues and are naturally investing more in digital transformation than those who have no plans to develop a strategy. They also experienced higher same-store sales growth in the most recent fiscal year.

Insights garnered from the research show that Chinese retailers are more likely to be implementing a defined digital transformation strategy (58 percent) than the US (40 percent), with 19 percent of US retailers struggling to or choosing not to define this strategy. Likewise, hard goods retailers are lagging in implementation (41 percent vs 49 percent overall), with 21 percent struggling to or not choosing to define a digital strategy (versus 14 percent).

Figure 1 – Digital Transformation Strategy Implementation

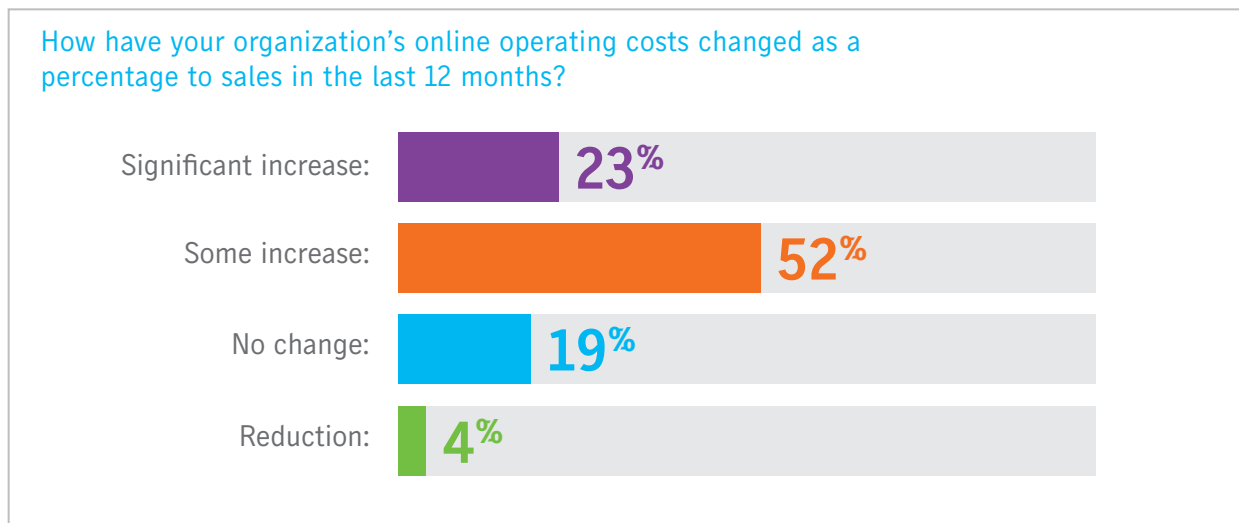


# Profitability

Profitability continues to be a key performance indicator. Sixty-two percent of CEOs believe their online business is making a profit, up 7 percent from the previous year. Those who report a higher percentage of online revenues say they are more confident about their prospects for total business profit growth over the next 12 months. The rapid growth of online shopping, however, is creating fundamental changes in retail.

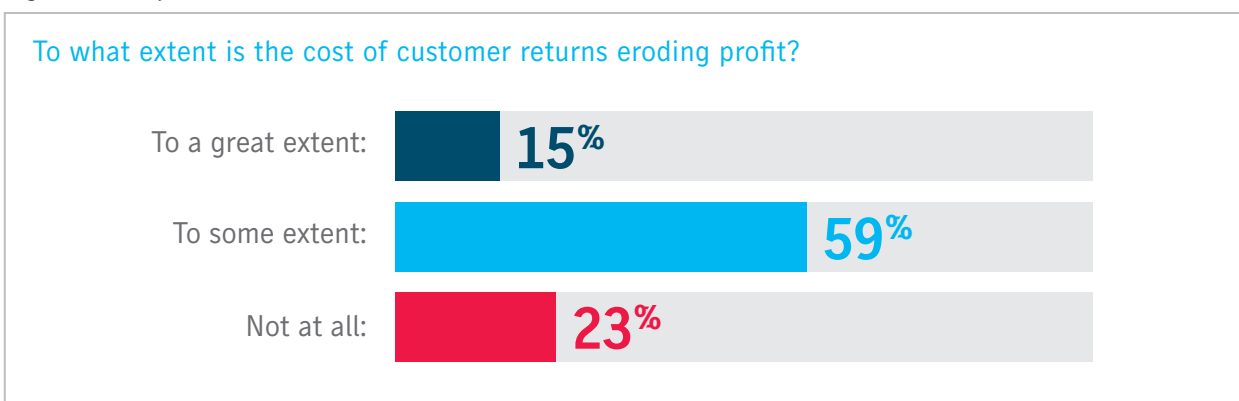
Many retailers are weighing the costs associated with going online as some supply chain issues are eating away at their profitability. When asked how their organization's online operating costs have changed as a percentage to sales in the last 12 months, 75 percent reported an increase, as shown in Figure 2. Those with distinct operating channels (35 percent of respondents) are more likely to have seen a significant increase in online operating costs as a percentage to sales in the last 12 months.

Figure 2 – Growth of Online Operating Costs



Particularly notable are the impact of costs for omni-channel fulfillment and returns. As seen in Figure 3, 74 percent of respondents believe that the cost of customer returns is eroding profits to at least some extent. Retailers in the U.S. are less likely to experience profit erosion from customer returns than others markets (36 percent US vs 23 percent overall).

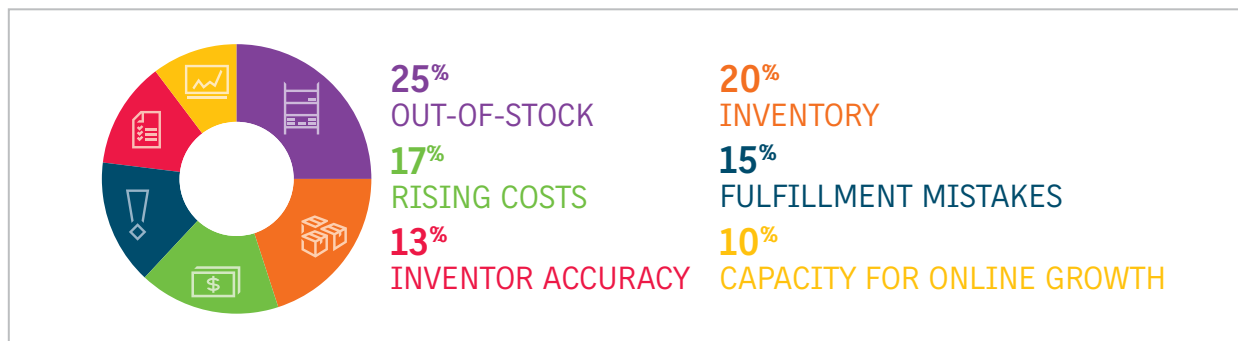
Figure 3 – Impact of Customer Returns



Although those with a profitable omni-channel operation are also less affected by the cost of customer returns (41 percent vs 23 percent overall), 59 percent of those retailers are still impacted by it to some degree.

Retail CEOs report rising out of stock levels as the top area of concern in the supply chain, with 25 percent ranking it as their biggest issue, as seen in Figure 4. On a regional level, 31 percent of respondents in China and 37 percent in the UK reported out of stocks as their top concern. When looking at results according to industry verticals, soft lines and hard goods retailers were more likely to rank rising out of stock levels first.

Figure 4 – Percentage of CEOs who ranked the following as #1 priority:



Although improved technology allows retailers to know what inventory is in the store and the warehouse, grocers ranked rising inventory levels as their top concern. In fact, 29 percent of retailers in the US named rising inventory as the top concern for their businesses. In Mexico, 26 percent of retailers were most concerned with capacity to support online growth (vs. 10 percent overall).

There is a marked difference in responses between companies with revenues more than \$10B and those in the \$5-\$10B range. Those retailers in the

higher tier commonly reported rising supply chain costs as their top concern (23 percent vs. 9 percent respectively).

Also, those retailers in the \$10B+ tier were more likely to report failing customer service in order fulfillment as top concern less frequently than those in the \$5-\$10B revenue tier (14 percent vs 24 percent respectively). This is not surprising, considering that only 38 percent reported that while they have the ability to offer their customers a seamless shopping experience, they still struggle to meet customers' omni-channel fulfillment demands.

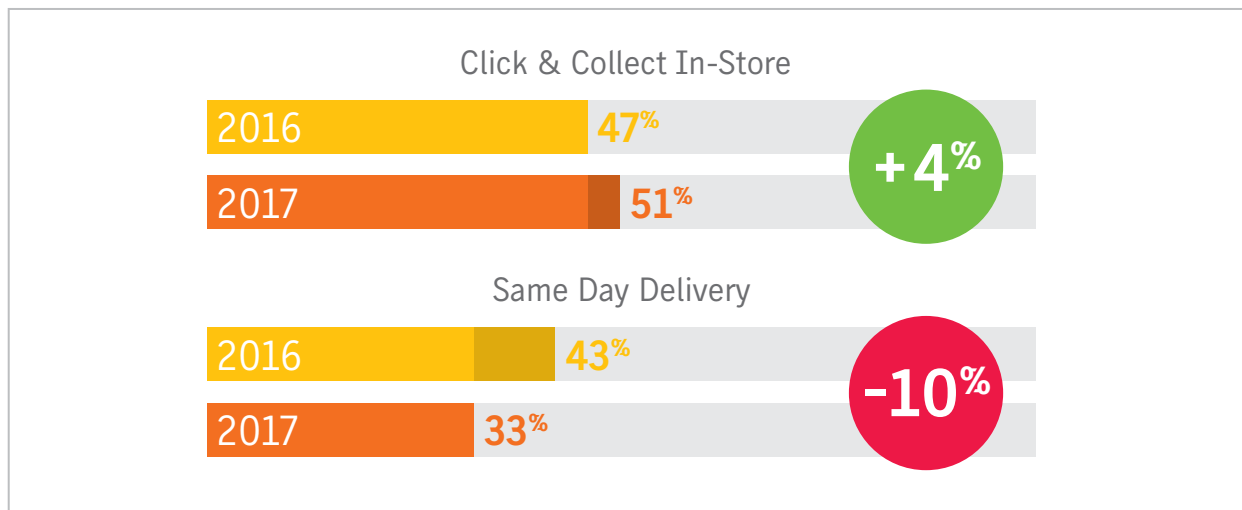


# Omni-channel Fulfillment

Where CEOs choose to invest their capital is an indicator of their actual priorities for omni-channel fulfillment. So, it is not surprising that CEOs in the survey responded that they are upping their investment this year in such collection offerings. When it comes to getting products into the hands of their customers, retailers are seeing growth in the buy online, pick up in-store (BOPIS) area, with 51 percent of survey respondents saying they offer – or plan to offer in the next 12 months – this option (up from 47 percent in 2016).

While collecting online orders in-store is the top collection offering, more challenging options are being scaled back. For instance, same day delivery offerings have been reduced to 33 percent, down from 43 percent in 2016, as shown in Figure 5. And providing specific delivery time slots have dropped to 27 percent (48 percent in 2016). Soft line retailers are more likely to offer a buy online, return to store option (64 percent vs. 44 percent overall).

Figure 5 – Customer Order Fulfillment Investment



Despite the proliferation of online sales, 58 percent of retailers surveyed said they have no plans to reduce their store investment. In fact, respondents believe that online sales are additional sales, and are not cannibalizing store sales. Also noteworthy are retailers' changes to their order fulfillment strategies. Thirty-five percent of survey respondents said that they have increased customer charges for online orders. Another 33 percent have plans to raise the minimum order value to qualify for free shipping.

# The Digital Transformation Strategy

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The digital transformation currently underway is significantly impacting retailers by allowing them to utilize the latest technologies in their operations. Customers are now relying on digital channels in ways never seen before. Mobile capabilities and big data insights are the top technologies survey respondents are currently investing in. Automation and IoT are lower on the list for investment currently, but gaining momentum as they are perceived as true game changers.

But digital transformation means more than just having an online presence. As omni-channel retailing continues to mature and retailers have blurred the lines between online and store, their attention has shifted to execution and profitability. Connected consumers, who shop 24/7, have come to expect a seamless buying experience. They're also empowering themselves through comparison shopping and using social media to influence their purchasing decisions. As such, it's not surprising that retailers are upping their investment in social media data. Digital retail winners are also using these digital capabilities to gather unique customer insights – big data – to think and plan as their customers' shop.

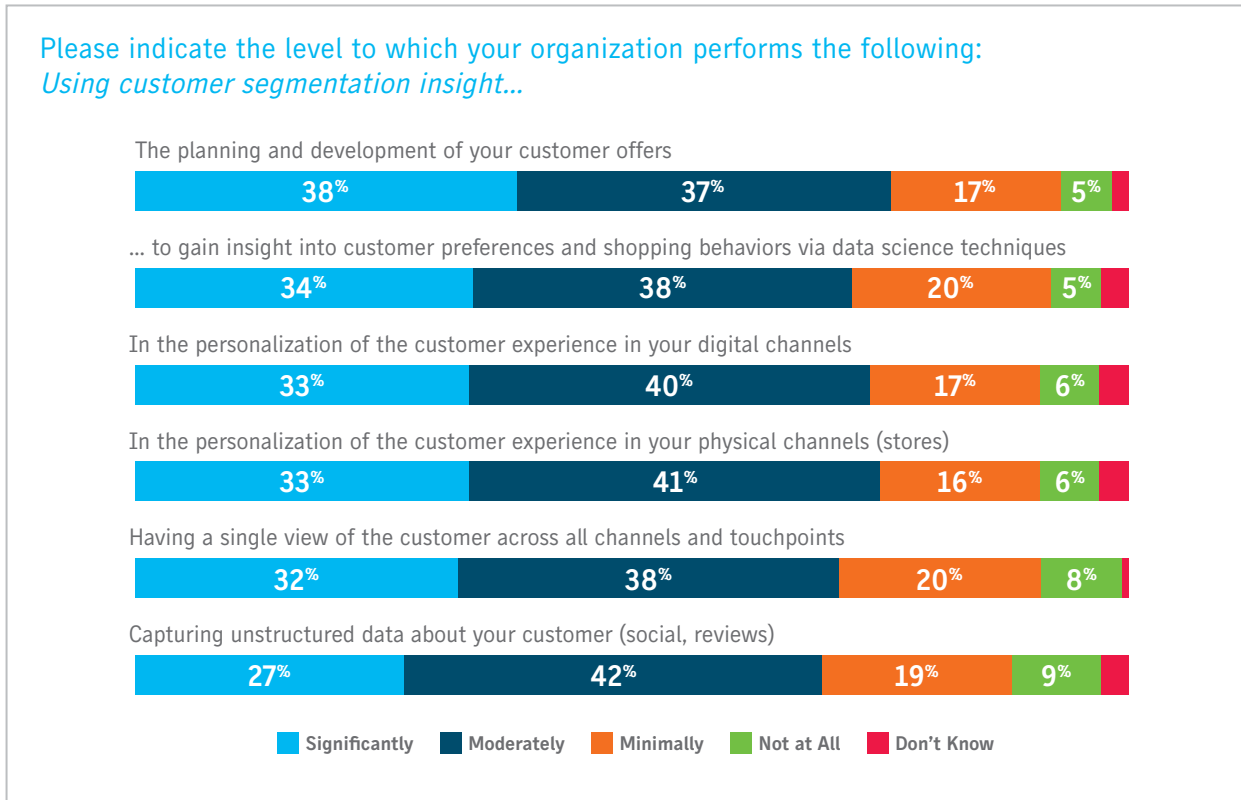


# Leveraging Customer Data

Rich sources of customer data and advances in technology are allowing for deep insights and rich customer engagement. The foundation layer is all about creating highly credible customer segments, essentially defining customers into similar groups that share the same characteristics in needs and likes.

As shown in Figure 6, 38 percent of retailers say they are currently best at using their customer data for planning and developing offers. Thirty-four percent report that their strengths lie in gaining insight into customer preferences and shopping techniques, and 33 percent say they're best at using data for customer experience personalization.

Figure 6 – Strengths in Leveraging Customer Data



# Retail Transformation in the Digital Age

Today's retail story is all about digital transformation, the journey towards a truly customer-centric business. Using all sources of data, structured and unstructured, and also leveraging new technology, forms two of the most significant pillars of this digital era. It will see customer experience transformed, personalization transitioning to a new level and the enterprise reorienting around the needs of the modern shopper. This change ushers in risks and rewards and its pace will flush out winners and losers.

So what's the prize? Data. Understanding the customer, what they want, where they want it, and when they want it is crucial to understanding and competing in today's retail market. Supply chain complexities and cost will continue to challenge retailers and the difference between winners and non-winners will be how much, or how little, retailers understand their customers.





### About JDA Software Group, Inc.

At JDA, we're fearless leaders. We're the leading provider of end-to-end, integrated retail and supply chain planning and execution solutions for more than 4,000 customers worldwide. Our unique solutions empower our clients to achieve more by optimizing costs, increasing revenue and reducing time to value so they can always deliver on their customer promises.

**Using JDA, you can plan to deliver.**

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