Digital Transformations that Prepare Retailers to Delight Customers
How May We Help You?

The retail industry has always been driven by innovation. Creative retail experts have introduced ways to stand apart from the competition by offering exclusive products, memorable shopping experiences, and personalized service. Think of how many innovations were as groundbreaking as the first private-label clothing line introduced by the founder of Brooks Brothers (1818), as entertaining as the holiday windows at Macy’s department store (1874), or as inventive as the first subscription-based product samplers sent direct to a customer’s home (2010).

Fundamentally, the way retailers operate their businesses and the way customers shop haven’t changed, though the playing field has expanded from brick-and-mortar locations to digital, omnichannel experiences. Today’s successful retailers give customers the freedom to browse and purchase the way they prefer, whether that’s shopping in person, comparing items on a mobile device, or checking the status of an online order through a digital virtual assistant.

Yet the stakes for retailers are higher than ever now because of extreme competition and consolidation. Despite what many predicted as rapid shuttering of brick-and-mortar stores, we are instead seeing the slow decline of retailers stuck in technological limbo because they are challenged with serving the needs of modern customers. At the same time, we have seen success from traditional retailers who understand their core business, its strengths, and the role technology should play. SAP retail customers are finding inspiration in the possibilities that technology can bring to their critical day-to-day operations, including the online and in-person experiences designed to delight customers.
A Season of Change in Retail

ASUG and Google Cloud conducted a study in 2019 to better understand how SAP retail customers think about digital transformation, where they are in the transformation process, and the challenges they need to overcome to successfully complete these projects. We wanted to know what kinds of strategies retailers are putting in place to achieve their goals and the resources they are investing in these projects. We included SAP retail customers in the study, along with SAP customers across industries to understand how retailers compared with other sectors. Overall, we learned that technological evolution is picking up steam among retail businesses—particularly among those who realize it’s critical to their survival.

Across all industries, including retail, 75% of SAP customers who participated in our study qualify as digital newcomers. This means they are in the exploratory, planning, or early stages of digital transformation projects (Figure 1). These companies typically need more support than digital veterans when getting their projects off the ground. They often lack the right internal talent to execute transformation projects and depend on external partners for help.

Figure 1: Digital Newcomers Are Just Starting Transformation Projects

![Diagram showing project stages: Exploring (51%), Planning (24%), Executing (22%), Complete (3%). Digital newcomers make up 75% of the digital transformation market, while digital veterans make up 25%.

Source: ASUG research, June 2019

Given that the majority of SAP customers who participated in our study are digital newcomers, it’s not surprising that nearly half are currently spending less than $500,000 annually on digital transformation projects. As these companies become digital veterans during the next few years, we expect to see changes in their spending habits. For example, 75% of those same customers across industries told us they plan to increase their investments during the next two years by at least 10% (Figure 2). Within that group, 1 in 4 say their company plans to increase its investment by 50% or more.
Ordering a New Digital Strategy

For these digital newcomers, building a digital transformation strategy will take more than overhauling their operations and upgrading their technology. Transformation strategies require changing the entire company’s culture and mindset from thinking of IT and digital as cost centers to knowing that they are core competencies interwoven throughout every part of the business.

Though our research found clear evidence that retailers using SAP are committed to making enhancements for their customers, they face some constraints that can make digital projects more difficult. Retail respondents noted a lack of internal skills as their top challenge. Budget challenges came in second, followed by data privacy and security concerns. Security-related issues have left retailers understandably skittish after the many high-profile customer data breaches reported in the media. Tied for fourth place were change management and an immature digital culture. Companies need to be sure that all employees from the C-suite to the IT staff, to the associates on the floor, are adequately prepared and trained for the changes they will encounter as the retailer transforms. Retail company leaders also should choose their external partners wisely to fill in the gaps in digital skills they may currently have within their workforce.

Top Priorities in Retail Transformation Strategies

While retail companies recognize the value of digital transformation and are ready to make long-term investments, extreme competition in this space makes it critical for businesses to build the right foundation to keep up with competitors. This competition is likely why SAP retail customers have made it a priority to invest more heavily in digital transformation than other industries that participated in our study. Even in the face of budget constraints, almost twice as many retail customers are spending $2 million to $5 million or more on these projects compared with their cross-industry peers (67% versus 37%, respectively).

Even in the face of budget constraints, almost twice as many retail customers are spending $2 million to $5 million or more on these projects compared with their cross-industry peers (67% versus 37%, respectively).
Interestingly, we discovered that smaller retailers tend to spend more than their larger peers. These companies recognize that having a strong digital presence can give them advantages over the big, established players in the retail industry that may find it harder to adapt their existing plans to meet consumers where and when they want to shop. They also may be more agile than their bigger competitors.

Another priority retailers from our study identified was improving the customer experience through their digital transformation projects. This process can start by mapping multiple areas of the customer journey such as how shoppers look for products, how they make their purchasing decisions, how they buy, and how to bring them back to purchase more.

When we asked SAP retail customers which business areas they expect to change the most as a result of these projects (Figure 3), they gravitated to omnichannel commerce at almost twice the rate as other factors (61% versus 39%, respectively). And customer acquisition/retention appears again, tied as the second-highest factor above operational concerns such as logistics.

These are not new concepts in retail—they are part of an industry trend of going back to the basics when taking advantage of what digital strategies can do for customers. These strategies should be designed to get products to customers as quickly and as easily as possible while delivering the right product at the right time and at the right price.

The Missing Links Across Customer Channels

Although retail respondents prioritize the customer experience, there are missing links in their strategies for using digital projects to improve it. To achieve goals such as optimizing customer experiences across channels, developing and improving products, and personalizing the customer experience, it’s essential to know your customer base through analytics and reporting.
Yet we found that retail respondents are more motivated to make digital changes to improve customer experience (78%) than they are to add reporting and analytics (63%), respectively. This suggests that retailers that use SAP are aiming to improve the customer experience without fully understanding it. Retailers that can shape and adapt their strategies based on predictive insights will be most effective in making sure customers are getting what they need.

Moving down the list of motivators for digital change, only half (51%) of retail respondents indicated that predicting customer expectations and demand was a driving strategy for their transformations. All three of these priorities—customer experience, analytics, and predictive insights—are tightly connected, so it’s important that retailers account for how they will fit together in their plans.

**Analytics and Machine Learning in the Cloud**

While customers across industries—not just retail—struggle with managing data, working with the right cloud provider means that they won’t need to retool their workforce to include sophisticated data analysts or data scientists to extract value from the information they’ve collected. Choosing cloud solutions that offer easy access to real-time data, plus the ability to cleanse data, generate insights, and visualize results across organizational functions can help break down the silos that could be blocking retail’s quest for an improved customer experience.

Adopting artificial intelligence (AI) and machine learning solutions also can accelerate the process of improving the customer experience. We found that retailers are already starting to implement AI and machine learning solutions to help with tasks such as analyzing data to forecast demand and changing customer expectations. In fact, 29% of retailers that use SAP are taking advantage of these technologies to help them get ahead of the competition, while 45% of SAP customers across industries are doing the same. AI and machine learning offer deep insights into consumer preferences and actions to help companies better understand the customer journey, manage inventory, develop better store layouts, track customer sentiment on social media, and predict sales—among other objectives. Retailers that are slower to adopt these technologies will find it harder to innovate and compete.

The right cloud-based data warehouse can help SAP retail customers adopt technologies like AI, machine learning, predictive analytics, and mobile applications—all of which have the potential to boost the customer experience. For example, a retailer could analyze a customer’s preferences and purchases, then offer a coupon through a mobile app for a product that the customer would most likely buy when they are in or near a store.

3 Digital Moves Retailers Need to Make Now

To prepare for their increasing investments in digital transformation projects, retailers using SAP need to make sure their plans include solutions to the challenges we know their peers are encountering. Here are three moves you can make to gain executive buy-in, navigate change management, and start to incorporate advanced technology like AI and machine learning into your customer experience.
Solidify Your Strategy

Retailers using SAP need to start with documented digital transformation strategies to support their technology investments. This will help make sure they’re spending money on projects that address their most critical business needs. These strategies should account for the flexibility and scalability the business will require, as well as the necessary security standards to safeguard customer information and comply with applicable regulations and industry standards. Keep in mind that the technology you choose to use only enables your strategy; the strategy itself is what will tie your business needs together and make the transformation successful.

ASUG research has found that SAP customers are not focusing on their strategy enough during digital transformations, regardless of their industry. In an industry as competitive as retail, this could prove to be a fatal mistake. Tying digital investments to business outcomes, especially for digital newcomers, will help shift the perception that IT and digital teams are cost centers when they actually play a critical role in driving long-term business value.

Prepare Your Employees to Embrace Digital Solutions

You can never start early enough when preparing your employees at all levels for the changes that new technology will bring to their jobs. To ease the transition, retailers can focus on how the technology will make work faster and easier for employees. For example, you can highlight the advanced reporting that the financial team can pull, or showcase the inventory predictions that will help the merchandising team source the right stock at the right times of the year. If you are in the same situation as the other SAP retail customers who participated in our research, having a clear change management plan in place will help you address two of the top challenges they identified—a lack of internal skills and an immature digital culture—by including steps to close any talent gaps and upskill your existing workforce.

Our research found that SAP retail customers do not consider a lack of leadership support an area of concern, but it can still be an area of opportunity to drive innovation for businesses that prioritize it. Ultimately, a successful digital transformation requires both a shift in mindset and a strategy to bring in the right technology and partners to enhance your employees’ existing skill sets. Company leadership will need to be aligned with this new way of thinking for it to succeed.

Add Advanced Analytics, AI, and Machine Learning Now

SAP retail customers know that improving the customer experience is critical to their success. Access to the right data and analytics in real time is not an option if you want to find an edge by knowing your customers better than your competitors do. You must understand customers' historic shopping behaviors to predict their future behaviors, which will require innovations in AI, machine learning, and predictive analytics.

Before companies adopt these innovations, their data must be accurate, accessible, and easy to analyze. A cloud-based data warehouse is one way that businesses can get closer to their analytics goals. They are secure enough to store sensitive customer data, yet available across an organization. The right providers will offer you built-in disaster recovery and redundancy, which also will allow you to scale up or down during peak sales and seasons.
Know Your Customer Through Digital Transformation

Emerging technologies such as AI, machine learning, and predictive analytics will play a huge role in digital transformation for retailers. Their ability to predict consumer needs will be invaluable in helping retailers gain a much-needed competitive edge. SAP retail customers will need to find a cloud provider that is ready to integrate with their SAP systems and prepared to deliver an easy-to-use platform for the next generation of analytics. If you want to take advantage of these technologies today, you should choose a cloud provider that simplifies advanced AI and machine-learning tools for you so that you do not need to hire data scientists to use them. Your cloud platform should be ready for your workforce to find insights they can visualize, report, and act on without needing a Ph.D.

Early dot-com entrepreneur and author Seth Godin observed, "Change almost never fails because it's too early. It almost always fails because it's too late." Digital transformation isn’t coming to the retail sector—it’s already a big element of the industry’s technology investment. Companies that use SAP and put the right technology foundations in place now have an opportunity to invest in introducing the next generation of innovations that will delight their customers for years to come.