The Work Ahead research series provides insights and guidance on how businesses – and jobs – will evolve in the digital economy.

In this installment, we look at the impact of digital transformation on the retail industry. Following the rise of e-commerce, new business models have emerged that are inspired and enabled by digital technologies and mindsets. Our research reveals a surprisingly wide gap in how digital leaders and laggards perceive the digital future and are approaching these changes. To achieve a leadership role and reap the rewards of digital opportunities, retailers must quickly transform their thinking, IT infrastructures, doctrines and business strategies.
THE WORK AHEAD IN RETAIL

George Lucas, creator of Star Wars, once said, “You can’t do it unless you can imagine it.” In our latest research on the future state of work in the retail sector, we find many industry executives struggling to imagine where the future is leading them and their organizations, not to mention the role digital technologies will play along the way.

Traditional retailers are challenged by rapidly emerging new business models, such as Amazon Go and Facebook’s launch of its digital commerce platform, Marketplace. Moreover, pioneering companies in the sharing economy (i.e., Uber) are expanding from their initial markets into areas such as food delivery, while insurgent retailers, such as Sun Basket, are combining digital and social media platforms, mobile apps and massive volumes of new data to encroach on retailers’ territory. These nontraditional competitors are changing the rules of the retail game via disruptive strategies.

To better understand the strategies and technologies that digital transformation requires, Cognizant’s Center for the Future of Work, surveyed 500 executives from the retail industry across 18 countries, in partnership with renowned economist Nouriel Roubini. (For more on the study methodology, see page 21, and read our foundational paper, “The Work Ahead: Mastering the Digital Economy.”)

Sadly, our research shows a significant number of retailers making decisions and forming strategies based on outdated attitudes, fears and misunderstandings.

Given all the hype around digital, and the available data on its increasing importance, it is surprising to see enormous and persistent differences in thinking between retail’s digital leaders and laggards. (See Appendix I, page 21, for how we defined leaders and laggards.) Digital leaders tend to experience higher revenue growth, and their attitudes about digital technologies suggest they will keep their leadership position. Their perspective on how retail jobs and work will be transformed as a result of digital is also more evolved, as are their ideas on the vastly new and enhanced skills that will be needed to support tomorrow’s retail environment.
Digital leaders tend to experience higher revenue growth, and their attitudes about digital technologies suggest they will keep their leadership position.

Digital laggards see an alternate reality. They place far less importance on digital technologies and their future role, and they show higher levels of fear and concern about digital overall. Our findings reveal a reluctance among laggards to digitally transform their thinking, IT infrastructures, doctrines and business strategies. If they remain on this track, their companies could find themselves in dire straits.

This report digs deeply into the differences in thinking between digital leaders and laggards, as well as between high- and low-revenue-growth retailers, and highlights strategies that can be employed to achieve and maintain digital leadership.

We also delve into the role that “mental constructs” and personal attitudes play in separating retailing’s digital leaders from laggards. We explore how the thinking of digital leaders results in differentiated strategies, greater returns and improved results. We reveal the differences between leaders and laggards in their digital technology investments, and then analyze how leaders believe digital implementations should be sequenced between now and 2025. We also scrutinize the perceptions of frontline retail managers in terms of the mistakes they believe are being made by executives when it comes to digital transformation.
Key Findings

Our research reveals several key trends that retailers need to embrace in the work ahead:

01

Digital commerce outpaces brick-and-mortar. Already a significant retail driver, digital commerce is predicted to increase in importance by 68% for surveyed retailers between now and 2020. This trend has motivated many retailers to invest strategically in digital technologies.

02

Digital leaders outperform digital laggards. There is a correlation between companies with strong revenue growth and digital leadership, and retailers with a higher percentage of online sales. Companies that have experienced early digital commerce success are also likely to express a more positive outlook on the value of digital technologies to the overall business.

03

Retailers don’t know if they are winning the race. Many retailers find it difficult to evaluate their relative digital maturity and how they compare with competitors.

04

Digital leaders think differently about the role and value of digital technologies, including the ability of these tools to enable competitive advantage in the form of revenue growth, and positively impact work and jobs. As a result, leaders are developing more aggressive technology plans and strategies than digital laggards.

05

Digital technologies will transform jobs in positive ways. Digital leaders believe digital technologies will help them increase efficiency, manage people better, work faster, be more creative and innovative, make better decisions, boost freedom and flexibility, and even help them make more money by 2020.

06

Digital leaders believe digital technologies will have a big impact on work by 2020. Far more so than laggards, digital leaders believe work will be significantly impacted by technologies such as business analytics and artificial intelligence. They are simultaneously concerned about data security and privacy, bots, new regulations on digital businesses and hyperconnectivity of people and things.

07

Retailers with very strong revenue growth have different opinions than moderate growth retailers as to which skills will be needed by 2020. The biggest differences in opinions are in the areas of fabrication, verbal and written communications, language and design skills.
DIGITAL COMMERCE: THE MAKE-OR-BREAK FACTOR

In 2016, total worldwide retail sales reached $22 trillion, of which digital commerce makes up $1.9 trillion, or 8.7% of the total. While the majority of retail sales still occur in brick-and-mortar stores, overall growth is predominantly driven by digital commerce, which was expected to expand rapidly worldwide at a 23.7% growth rate in 2016, and by 2020 to represent 14.6% of total retail spending of $27 trillion. Of course, digital commerce numbers vary depending on the product category. Online sales penetration for many product types – electronics, apparel, furniture, home improvement, etc. – are significantly higher than worldwide retail sales projections, while categories such as petrol, convenience and grocery have a much lower penetration.

In the U.S., sales at department stores fell almost 6% in 2016, while online retail sales rose 11%. As a result, bricks-and-mortar retailers have been forced to re-evaluate their business performance, and many, such as Sears, Macy’s, Aeropostale, Chico’s and American Eagle, have needed to close stores. Still others – especially those who have failed to digitally transform – are going out of business altogether, including The Limited and Wet Seal. In an industry with razor-thin margins and intense competition, missing out on key growth opportunities is a ticket to irrelevancy, or worse.

Given the rapid rise in digital commerce, retailers are increasingly concerned about profitability since online sales are believed to contribute to margin erosion. In fact, some retailers fear that an over-reliance on digital technologies will dilute margins. These concerns, however, are not supported by our research. Rather, retailers with strong to very strong revenue growth, which we correlate with digital leadership, also tend to realize higher profits.
Digital Channels and Strategies

Retailers have enjoyed consistent revenue growth through their digital channels for the last several years. This growth is expected to accelerate into the foreseeable future. In fact, retailers are increasingly dependent on digital commerce growth as sales soften through traditional channels. In fact, 22% of retailers in our study said they generate 30% or more of their sales from digital channels. By 2020, 79% of retailers forecast they will receive 30% or more of their sales from digital channels, a massive 259% increase (see Figure 1).

Nearly all retailers (98%) achieve at least some of their revenue through digital channels today; most respondents anticipate much of their future growth to be driven by digital commerce.

Retailers with exceptionally strong (11%-plus) revenue growth already derive a higher percentage of their sales from digital channels, according to our research. These retailers also forecast a more bullish future than lower performing retailers (see Figure 2, next page).

Growth in Retail Coming through Digital Channels

The number of retailers receiving 30% or more of their sales through digital channels will increase 259% by 2020.

Figure 1
Source: Cognizant Center for the Future of Work
Response base: 500 retail industry executives
Higher-Growth Retailers Sell More through Digital Channels
Comparison of companies reporting 30% or more of sales through digital channels in 2015 with their 2020 forecasts, and then separating them by revenue growth rates.

Figure 2
Source: Cognizant Center for the Future of Work
Response base: 500 retail industry executives

The Gap: Digital Leaders vs. Laggards

Our research found that digital leaders significantly outperform digital laggards. We even found a correlation between the percentage of revenues from digital channels and digital maturity. As an example, one-third of digital leaders currently receive 30% or more of their sales through digital channels compared with just 4% of digital laggards. That gap will continue through 2020, our research suggests.

There is also a correlation between digital leaders and retailers with very strong (11%-plus) revenue growth. For example, retailers with very strong revenue growth account for 36% of digital leaders in our study, but only 5% of those with strong revenue growth are categorized as digital laggards. Our research finds digital leaders already have a head start on their digital transformation, better attitudes about the value of digital technologies, greater revenue growth and, generally, more organizational awareness about how to win in the highly competitive retail environment. These characteristics are all proving to be key market advantages.

Follow the Money

Overall, 87% of retailers saw a revenue increase as a result of their digital technology investments in 2015-2016. In fact, 45% of retailers with a record of very strong revenue growth realized a 12% or greater increase in digital revenue. However, digital technology investments are not a panacea for success, as 59% of retailers with negative or flat revenue growth saw no change, or actually experienced a revenue decrease as a result of their digital technology investment. Our findings suggest investments in digital technologies on their own are not enough; rather, success requires leaders to adopt a digital mindset, be willing to take action and embrace the belief that today’s biggest growth opportunities reside in digital commerce.
Given this analysis, it should come as no surprise that 75% of companies with very strong revenue growth said they had increased their investments in digital technologies in 2015-2016; in contrast, 50% of companies with negative to flat revenue growth made no changes or reduced their investments in digital technologies.

Retailers’ three-year plans suggest there may be a split in retailing strategies in the near term, with some organizations focusing on using digital technologies to reduce costs (45%), and others continuing to spend more to increase their top lines (38%). Our research findings suggest retailers with strong revenue growth are more focused on investing in digital technologies to grow the top line than to reduce costs. This difference in focus puts cost-reduction-obsessed retailers at risk of falling even further behind.
Digital Mindset Differences

One of the biggest epiphanies that emerged from our research is the difference in digital thinking between leaders and laggards. Digital leaders see digital transformation as a positive, while digital laggards express far more fears and concerns related to digital technologies. In fact, almost 72% of digital laggards are concerned they are wasting money by investing in digital technologies, but only 25% of digital leaders share those apprehensions (see Figure 3).

In our analysis, the worries expressed by some digital laggards are justified, as they may be the result of existing IT environments that are incapable of delivering a real-time, contextually relevant and personalized digital shopping experience. These concerns may also stem from leadership’s unwillingness to adopt a digital mindset or invest in the required upgrades, technologies, doctrines, strategies, skills and business processes to elevate their organization’s digital wherewithal.

A retailer’s attitude about the potential of digital technologies to positively impact business performance is an important indicator of the company’s commitment to digital transformation and is seen as a predictor of digital success. Digitally mature retailers are significantly more enthusiastic about how digital impacts their work than digital laggards are. Our research findings suggest a correlation between a retailer’s growth trajectory and its confidence that digital technologies deployed between now and 2020 will have a positive impact on growth.

Digital Laggards Express More Concerns about Digital Technologies

Percentage of leaders and laggards who are moderately to significantly concerned with the growing reliance on digital technologies at home and in the office.

Note: Percentages do not equal 100% because “average” respondents were not included in these findings.

Figure 3  Source: Cognizant Center for the Future of Work  Response base: 500 retail industry executives
The Impact of Digital Technologies on Jobs and Work

Retail executives at companies that are digital leaders have a far more positive attitude than laggards about the impact of digital technologies on their jobs (see Figure 4, next page). These retail executives believe, at a significantly higher level than those at laggard organizations, that digital technologies will help them become more efficient, manage people better, work faster, be more creative and innovative, make better decisions, provide more freedom and flexibility, and make more money.
Leaders Optimistic about Digital’s Impact

Digital leaders have a far more positive attitude about how digital technologies will impact their jobs.

When asked a more general question about the impact of digital on work, retail digital leaders expressed their belief in a far stronger impact than digital laggards did (see Figure 5). The majority of digital leaders feel business analytics, AI, concerns about security and privacy, bots, digital technology regulations and practices will greatly impact work, as will the state of being hyper-connected.

Across Technologies, Leaders Expect Digital to Have a Greater Impact on Work

Source: Cognizant Center for the Future of Work  Response base: 500 retail industry executives
New and Enhanced Skills Needed in Retail

Retail executives with very strong revenue growth see a greater need for enhanced digital skills by 2020 than do retail executives in all other revenue growth categories. The following list details where the greatest differences in thinking exist between companies with very strong vs. moderate revenue growth, as well as the percentage difference between the two groups’ estimation of the skill area’s future importance:

- **Fabrication skills** (to support the design and production of customized products locally through 3-D printing or other digital means). Percentage difference in perception of future importance: 200% greater among executives at strong-growth retailers.

- **Verbal communications skills.** Percentage difference in perception of future importance: 169% greater among executives at strong-growth companies.

- **Written communications skills.** Percentage difference in perception of future importance: 128% greater among executives at strong-growth retailers.

- **Language skills.** Percentage difference in perception of future importance: 125% greater among executives at strong-growth retailers.

- **Design skills.** Percentage difference in perception of future importance: 122% greater among executives at strong-growth retailers.

We attribute the need for improved design, language and communication skills to the increasing shift from brick-and-mortar and face-to-face interactions to digital ones, where the design of digital interfaces becomes critical and the medium of communication moves to online chat, AI-supported chat bots, audio and video.

As described earlier in this report, there is a close correlation between digital leaders and strong revenue growth. That same pattern continues in forecasted skills. For example, digital leaders believe design skills will be more important by 2020, at a rate 98% higher than digital laggards; executives at strong-revenue-growth companies share this belief, at rates 122% higher than at companies with moderate revenue growth rates.

We attribute the need for improved design, language and communication skills to the increasing shift from brick-and-mortar and face-to-face interactions to digital ones, where the design of digital interfaces becomes critical and the medium of communication moves to online chat, AI-supported chat bots, audio and video.
THREE WAVES OF DIGITAL TRANSFORMATION

While the business impact of digital technologies is forecast to increase between now and 2025 across all groups in our survey, digital leaders believe digital technologies will have a far greater business impact than all other groups, and this uniquely influences their strategies, budgets and investment plans. Our analysis of the forecasted retail business impacts of 23 digital technologies reveals three waves of digital transformation:

- **Disruptive transformation:** The first era, which has developed over the past decade, introduced massive changes through the evolution of social, mobile, analytics and cloud technologies (the SMAC Stack), as well as cybersecurity.

- **Hyper-digital transformation:** The age of hyper-transformation is now emerging, a period of accelerated change in which retailers can quickly become digital laggards if they don’t adopt key digital technologies between now and 2020.

- **Ubiquitous transformation:** In this third era, which will run through 2025, a wide range of digital technologies will be implemented. These technologies will quickly mature and become mandatory to retail viability. As a result, the digital technologies and business processes in place in 2025 will look very different than they do today.

By understanding which digital technologies are important today, as well as in 2020 and 2025, we can develop a critical roadmap that provides direction on when and how retailers should prioritize the adoption and implementation of these technologies.
Sequencing Digital Technologies in Retail

No organization can implement all digital technologies simultaneously due to budget and resource limitations; instead, they need to prioritize their timing of digital initiatives, based on business impact. By the end of the disruptive transformation era, at least 25% of digital leaders in our study identify five digital technologies as having the biggest business impact: cybersecurity, big data/business analytics, mobile technology, social media and cloud (see Figure 6).

2016: Age of Disruptive Transformation in Retail

At least 25% of digital leaders predict these digital technologies will have a large to very large business impact.

Between now and 2020, retailers expect accelerated adoption of digital technologies. During this age of hyper-digital transformation, nine additional digital technologies join the list of technologies that at least 25% of digital leaders believe will have a large to very large business impact: collaboration technologies, telepresence devices, artificial intelligence, digital currency, sensors/IoT, software bots (for process automation), sharing economy platforms, hardware robots and telematics. (See Figure 7, next page, for the full list of the 14 digital technologies in order of their business impact.)

Between 2020 and 2025, at least 25% of retail digital leaders predict all 23 digital technologies included in our survey will have a large to very large impact on their businesses. This expansive list of technologies (see Figure 8, next page) includes nine additional digital technologies: nanotechnology, geospatial information systems, drones, wearables, blockchain, virtual reality, biotechnology, 3-D printing and autonomous self-driving cars.
2020: Age of Hyper-Digital Transformation in Retail
At least 25% of digital leaders predict these digital technologies will have a large to very large business impact.

2025: Age of Ubiquitous Transformation
At least 25% of digital leaders predict these digital technologies will have a large to very large business impact.
CHALLENGES AND MISTAKES

A key challenge that retailers face is the difficulty of accurately judging where they are on the digital maturity curve relative to their competitors. There appears to be little expertise in making this assessment; for example, 79% of digital leaders don’t know they are ranked as leaders, and only 56% of retailers ranked as average in our study believe they are at this level. The other 44% in the average category mistakenly believe they are either leaders or laggards. The lack of competitive clarity makes it even more difficult to develop an effective competitive strategy.

Our research suggests that retailers’ plans reflect neither self-awareness nor a realistic idea of what it will take to catch up or leapfrog their competitors in this highly competitive space. Namely, factors such as online sales penetration, business performance, attitudes about digital, planned technology investments and efforts to close skill gaps do not align with the progress retailers expect they’ll make vs. their competitors over the next three years.

Retailers’ plans reflect neither self-awareness nor a realistic idea of what it will take to catch up or leapfrog their competitors in this highly competitive space.
As part of this research exercise, we also asked 125 retail managers about the biggest mistakes they saw related to the digital transformation. Their top five answers were as follows:

1. Failing to stay fully on top of changing customers' needs and behaviors.
2. Focusing insufficiently on cybersecurity.
3. Ignoring fresh thinking from outside the company.
4. Lacking a clear digital strategy.
5. Moving too slowly.

All five of these top answers are indeed critical to success. Retail executives would be well served to take these opinions from retail managers on the frontlines to heart.

**Digital Doctrine and Strategy**

Digital transformation requires executives to have a vision for and understanding of what they are trying to achieve. As Figure 9 reveals (next page), retail managers believe an unclear digital strategy is among the biggest mistakes companies make when embarking on a digital transformation strategy. Digital strategies flow from and are the result of an effective digital transformation master “doctrine.” The purpose of a digital transformation doctrine is first to create a unified understanding of why digital transformation is needed and, second, to guide all tactical digital strategies that evolve from it. An organization’s digital doctrine should influence its strategy, its operating model and the tactics it employs to compete.

An organization’s digital doctrine should influence its strategy, its operating model and the tactics it employs to compete.
RECOMMENDATIONS AND NEXT STEPS

The behaviors and expectations of today’s consumers are rapidly evolving under the influence of digital and mobile technologies; as a result, retail growth and profits are quickly shifting to digital commerce. These changes require retail industry decision makers to acquire real-time situational awareness, new digital strategies and a digital mindset around business transformation.

Retailers must recognize and act proactively when customers, competitors and markets change by deploying the appropriate digital strategies and technologies in the right sequence to maximize returns and competitive advantage.
As this report reveals, digital transformation is difficult. We recommend that retail executives embrace the following action items:

- **Recognize that the need** for digital transformation extends beyond websites and mobile apps.
- **Understand the degree of change** occurring in retail as a result of customers' fast-changing behaviors.
- **Judge accurately where the organization stands** on a digital technologies maturity curve.
- **Show the necessary leadership** to change strategies, budget priorities and plans based on new market data, trends and insights, and then make the required investments in digital technologies, people and skills to compete successfully.
- **See that traditional channel-centric strategies are no longer viable**; rather, retailers must adopt precise, customer-centric strategies, enabled by digital technologies.
- **Don’t excuse slow adoption of digital technologies**, as the data is clear and compelling and demands immediate action.
- **Think with a digital mindset**, intimately understand the capabilities of digital technologies, understand digital's role and importance in customer interactions, and develop new digital business models, processes and strategies for supporting today's and tomorrow's digital markets and consumers.
- **Realize that digital transformation and the industry’s adoption of digital technologies** are occurring on an accelerated schedule that peaks around 2020. It waits for no retailer's budget cycles, three-year master plan, leadership change or strategy.
- **Align the pace of digital transformation initiatives** with the speed at which consumers are adopting digital technologies, behaviors, markets and thinking. This might mean over-investment in the near term to catch up or stay ahead of the competition.
- **Unify disparate digital transformation initiatives** behind a single company-wide digital transformation doctrine - a guiding statement that effectively describes the reason for digital transformation, what needs to happen and what winning looks like. This doctrine must be used to direct and shape the entire company's efforts.
- **Closely monitor the business impact of rapidly emerging digital technologies** to ensure investments are prioritized and acted upon in the right time and place to maximize ROI and competitive advantage, while also balancing the need to innovate and embrace a fail-fast, test and learn mentality.
- **See how digital transformation will alter traditional retail roles**, responsibilities and skills for all associates.
- **Pay close attention to how digital transformation shapes and changes consumers' interactions and experiences**, and train associates to best serve digitally enabled consumers.

The Greek philosopher Heraclitus wrote, “Change is the only constant in life.” In business, another constant exists: While some companies will adapt to market changes, others won’t. The pace of change across the industry landscape is accelerating like never before. Some retailers will choose to deny, ignore and retrench, while others will embrace, adopt and lead. The race to digital transformation is on, and there is no time for delay.
Appendix
Leader vs. Laggard Calculation

Digital leaders were identified based on the responses to three questions:

• What percentage of your company’s revenues today is invested in all technologies – including your central IT budget and spend by business units throughout your firm?

• Please estimate the percentage impact of using digital technologies on revenue and costs over the last financial year for your organization.

• How does your company compare with other firms in your industry in applying digital technologies to transform business strategies, processes, and services?

“Leaders” account for 18% of the sample and achieved scores of 35 or more; “laggards” account for 16% of the sample and achieved scores up to 15. The “average” group accounts for 66% of the sample.

Methodology and Demographics

We conducted a worldwide survey between December 15, 2015, and January 28, 2016, with 500 retail executives and 125 middle managers responsible for other employees. The executive and manager survey was run in 18 countries in English, Arabic, French, German, Japanese and Chinese. We used telephone interviews for executives and online surveys for the managers. The study was conducted with research and economic support from Roubini ThoughtLab, an independent thought leadership consultancy.

Footnotes

1 Sun Basket is a meal kit service provider that sends customers a box of pre-portioned meal ingredients with easy-to-understand recipes. For more information, see the Sun Basket website: https://www.sunbasket.com/.


Kevin Benedict is a Senior Analyst with Cognizant’s Center for the Future of Work, and a popular technology pundit, writer and keynote speaker with over 30 years of experience. He brings a unique perspective as a veteran mobile industry executive who has taught IT and business strategy workshops in 17 different countries over the past three years, and written over 3,000 articles.

Kevin can be reached at: Kevin.Benedict@cognizant.com
LinkedIn: https://www.linkedin.com/in/kevinbenedict
Twitter: @krbenedict

Read Kevin Benedict’s blog at: http://www.futureofwork.com/author/details/kevin-benedict

Shannon Warner is a Cognizant Vice-President, Digital Experience Strategy and Analytics, within the company’s Products and Resources business unit, which includes the retail, travel and hospitality, manufacturing and logistics, energy and utilities industries. In this capacity, Shannon’s focus is on enabling clients to transform their customer experiences leveraging digital technologies.

Shannon joined Cognizant in 2010 and has more than two decades of experience in the retail industry and business consulting. Prior to joining Cognizant, Shannon worked for Target for nearly 20 years where she managed the retailer’s relationship with Amazon, started the company’s captive center in Bangalore, India, and spearheaded numerous payment and loyalty programs.

As a recognized industry thought leader, Shannon is a frequent speaker on digital customer experience and has done significant primary customer research. She is sought after to provide digital transformation business advice to her clients who are seeking to develop cohesive, relevant, value-added customer experiences across digital and traditional customer touchpoints. Shannon’s areas of expertise include digital commerce, digital information strategy and management, customer experience management, digital marketing and loyalty, and program management.

Shannon can be reached at Shannon.Warner@cognizant.com
LinkedIn: www.linkedin.com/in/shannonlwanner/