THE INTELLIGENT ENTERPRISE IN THE EXPERIENCE ECONOMY FOR THE RETAIL INDUSTRY

Understanding how your customers feel and delivering experiences they can trust

THE BEST RUN **SAP**

WELCOME

"The imperative for a single, intelligent, and digital core is essential to future growth. From crafting a personalized customer experience on the fly to helping business users make informed, real-time decisions, retailers need to instantly connect historical and transactional data across the enterprise."

Achim Schneider
Global Vice President
Retail
SAP SE

Dear Customers:

The recent years have been marked by an unrelenting and disruptive consumer revolution – a search for convenience, price, and customer experience that has moved consumers online.

The next five years will require retailers to unify the online and offline worlds, a challenge dependent on both technology and that most human of elements: trust.

Looking ahead to 2025, consumers will expect retailers to be deeply enmeshed in their lives as trusted partners, and the consumer and the retailer will have a relationship based on common values.

Retailing will shift from a product-centric approach to customer-centric, experiential retail blending products, physical and digital services, personalization, and unprecedented levels of convenience. Experiences will be measured and improved.

Robotics and artificial intelligence will be central to all aspects of the business – from automated warehouses to robotic store associates and driverless car delivery. Automated and real-time models for service and fulfillment will become the standard consumer expectation.

Physical stores will remain an integral part of the retail shopping experience, but they will be dramatically transformed to offer an array of experiences, from highly personalized services to showrooms, fitting rooms, and even brand extensions that could include classes and entertainment.

The transition is already well underway, but it will not get far without building consumer trust as the ultimate currency – trust in treating data safely, in delivering the right quality of product at exactly the right time, and in providing a seamless experience from shopping to consumption and returns.

Building that trust will require an unprecedented level of transparency and delicacy as retailers collect more and more consumer information to help create personalized experiences.

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In the experience economy, to create an even more delightful and distinctive experience for the customer, retailers will need to consider not only operational data but also people's beliefs, emotions, and intentions.

The winners will be retailers who are truly open to new ways of thinking and radical innovation. They will be those who best adapt in this fast-changing environment by developing new skills and acquiring the right tools to be even more agile and responsive.

We have identified five strategic priorities that will keep retailers on the path forward:
- Be customer centric across the value chain
- Serve the segment of one
- Implement digital supply chains
- Run smart stores
- Sell outcomes beyond products

This paper takes a deep dive into the trends shaping our industry over the next five years and the path to innovation. In it we propose a set of priorities that will drive transformation and the tools that will make it possible.

Consumers are not looking for a digital experience or a real-world experience. They are looking for a seamless shopping experience, one that bridges the online and offline worlds. They are also willing to pay more to companies that share their values and support sustainability.

To be the retailer of choice, retailers must embrace emerging technology, use experience management to replace guessing by knowing, think creatively about the services they can uniquely provide, and, most important, earn their consumers' trust to become a part of their lives.

Welcome to the experience economy!

Sincerely yours,

Achim Schneider
Global Vice President
Retail
SAP SE

TABLE OF CONTENTS

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OUR PLACE IN
THE NEW WORLD

The world is undergoing a profound transformation – one that has upended how people, companies, and governments interact.

We believe that successful retailers in 2025 will be those that understand every aspect of the customer experience and can leverage emerging technologies to transform their customer engagement.

The Internet has reversed the information gap, and the consumer is now in charge. The next generation of shoppers will not only expect the best deal and recommendation to serve their lifestyle, they will also make their choice of retail brand based on the company's demonstrated ability to run a sustainable business that is in line with the customer's values.

The shift has put retailers under intense pressure, yet it is also providing opportunity for those who can reimagine their place in their customers' lives.

For retailers, demographic changes, the rise of the smartphone, the ubiquity of the Internet, the changing role of stores, and competition from

unexpected rivals are forcing a strategic reevaluation of the fundamentals of their business. Forward-looking retailers are already building new capabilities that will enable a new relationship with their customers rather than cause them to be left behind.

The retail industry as a major contributor to global carbon emissions will have to make sustainability a priority on its agenda and discover significant business opportunities.

The need for change is underscored by macro forces in play, including the transition from a linear economy to a circular economy, the globalization of supply chains, and the explosion of cities as the dense center of populations. These, coupled with the need for sustainable energy and the increased strain on global health systems, are testing consumers' trust in institutions.

Mini Cases: Data, Artificial Intelligence, Experience, and Sustainability in Action

StitchFix makes 100% of sales using recommendations. Rather than up-selling based on past purchases, it makes unique and personal selections by combining data and machine learning with expert human judgment.[1]

Warby Parker has discovered how recommendations and options powered by AI can be geared toward specific locations and can even connect the customer's online and in-store experiences. The result is a customer experience that makes each customer a fan of the brand.[2]

Nike and Levi's have opened "concept" stores, which are flagships for their brands and an attempt to dissolve the boundaries between online and offline shopping. They represent a shift happening in the way both companies sell their products, putting a heavy emphasis on one-to-one connections with customers and customized products.[3]

H&M Group has set a clear goal to use only recycled or other sustainably sourced materials by 2030. It will achieve this by upcycling, recycling, and reusing. Through its garment collecting program, the company lets customers drop off their old clothes and discarded textiles in return for shopping vouchers and discount cards. H&M's commitment is that all clothes it collects will either be reused, reworn, or recycled – with 0% going into landfills.[4]

CONSUMER TRUST IS THE KEY TO PERSONALIZATION

Experience data, analytics, predictive intelligence, and demonstrated sustainability will become retail assets like no other, providing the fuel to power every aspect of the business.

Experience management will be at the heart of customer engagement. This means understanding what is happening by interlocking operational performance data from business and technology with experience data from customers and employees, then acting on insights to improve customer satisfaction, increase organizational performance, and deliver a better brand perception.

Retailers will be immersed with their consumers' lives. Consumers will expect retailers to connect, "know and understand me," and "meet me where I am," transforming traditional marketing approaches into more personalized, experience-driven offerings

To be successful, however, retailers will have to build unprecedented levels of trust with their customers. This trust will start with keeping customer data private and secure. Without that, customers will not share the data needed to create personalized shopping experiences.

But trust is also earned and kept through consistent and on-time delivery, a seamless shopping experience, the right quality, and ethical and sustainable sourcing.

Sustainability will not only be key to winning the loyalty of the next gener-ation of shoppers but also a business necessity and key to further profitable growth.

To achieve this transformation on multiple levels, retailers will leverage new technologies like never before.

Converting Big Data into predictive insights that drive automated promotion, replenishment, and marketing activities will be a competitive differentiator required to exceed customer expectations.

We expect that robotics and artificial intelligence will transform all aspects of the business. Automated warehouses, robotic store associates, and driverless car delivery will introduce new levels of efficiency into the last mile. Machine learning algorithms will help uncover unspoken needs and create more-relevant, personalized offers.

While physical stores will remain an integral part of the shopping experience, their function will be dramatically different. New technologies will be integrated into physical stores to provide unparalleled levels of engagement and service. Augmented and virtual reality will provide the ability to try on any color, style, or size. Beacons, RFID, and mobile devices will deliver real-time product information, availability, and other digital services that enhance the overall experience.

This, of course, requires reimagining the role of the store and the ability to seamlessly unify the offline and online worlds, perhaps the biggest challenge facing retailers over the next five years.

85%
of shoppers value strong customer service and support, but brand performance leaves a lot to be desired[5]

>50%
of consumers say that the overall enjoyment of their experience is important in their decision to buy a product or service[6]

Even when people love a company or product,
59%
will walk away after several bad experiences, and
17%
will walk away after just one bad experience[7]

73%
of shoppers say they agree or agree completely that it's important for a retailer to give them flexibility to control how their personal information is used to tailor their experience[8]

5.6x
Faster growth in sustainable products[9]

60%
Potential increase in net margin for retail companies that are using Big Data analytics[10]

45%
of retail survey respondents have deployed machine learning for customer engagement in their organizations[11]

FIVE PRIORITIES
FOR SUCCESS

We have identified five strategic priorities necessary for retail companies to transform their business.

BE CUSTOMER CENTRIC ACROSS THE VALUE CHAIN

SERVE THE SEGMENT OF ONE

IMPLEMENT DIGITAL SUPPLY CHAINS

RUN SMART STORES

SELL OUTCOMES BEYOND PRODUCTS

BE CUSTOMER CENTRIC ACROSS THE VALUE CHAIN

In 2025, retailers will be able to create deep data and predictive insights from data generated at every customer touch point – physical, digital, and social.

These insights will drive a forward-looking understanding of consumer trends and allow retailers to preempt changes in taste and style, as well as design the right experience and service offerings to create hyperloyal customers. (See Figure 1.)

It starts with optimizing existing processes by creating and using a deep understanding of customer needs to offer targeted assortments and campaigns. These processes will be extended by responding to real-world data input (search data and consumption data from sensors and home devices) and changes in usage and consumption to make relevant offers for products and services when consumers need them.

The result will be tailored, immersive experiences that anticipate customer needs, supported by seamless omnichannel interactions.

To get there, retailers must develop a new culture, one that is relentlessly focused on the customer. Successful retail cultures already put a premium on providing convenience, whether online or offline, based on insights garnered from customer experience and supply chain data to optimize customer buying experiences. And they must obsessively protect customer privacy. The next generation of retail culture must start at the very top, modeled by the leadership of the company, and must empower every employee to act on behalf of the customer.

Figure 1: The Vision of Customer Centricity

Focus all elements of the end-to-end experiences designed around the customer

- **Designed** experience
- **Empowered** front line
- **Metrics** that matter
- **Customer feedback** and continuous improvement
- **Customer-focused** leadership
- **Listening and understanding** your customer

79% of retailers consider it important to quickly and efficiently change assortments and adapt pricing across channels based on current trends and customer insights, but **only 27% are able to do so.**[12]

Saks Fifth Avenue uses Experience Management solutions from SAP (Qualtrics) to gather data from VIP customers and develop a customer lifecycle program with different levels and special benefits. It researches social media behavior to know how best to communicate with online customers and sends real-time survey results to customer service for immediate response to customer concerns. It also prioritizes the development of its online presence based on this rapid customer feedback. With a 75% increase in the speed of data collection and significantly reduced outsourced research costs, the company can make a wide range of relevant research data available for easy access and correlation across the company.

FROM BACKWARD FOCUS TO BEING FIRST TO SERVE TOMORROW'S DEMAND

What do my consumers really want? With this end-to-end integrated scenario, leverage the power of social insights, sentiment analysis, and search data to improve your assortment planning and have in store today what your shoppers demand tomorrow.

TRADITIONAL SCENARIO

- Central assortment planning based on historic data
- Manual, homegrown spreadsheets with siloed data
- Little to no use of predictive science or external or forward-looking data
- No use of experience feedback

- No integration to execution, requiring manual, error-prone work
- Assortments not localized
- Items purchased and listed in regions with no insight into regional demand added to ERP

- Demand review after the fact
- Manual stock adjustments
- Slow-moving inventory leading to a high level of clearance markdowns
- Out-of-stocks resulting in missed revenue and dissatisfied customers

- Delayed visibility to sales, profitability, and inventory that leads to late and costly decisions
- Limited ability to preempt customer needs and preferences
- Risk of markdowns and reduced profitability

NEW-WORLD SCENARIO

Understood market demand	Customer-centric planning	Plan launch	Profitability monitoring	Rapid response
- Demand signals and product search, enabling real-time understanding of market demand - Planning assortments with products based on sustainable design to be reused and recycled - Combination of search rankings and marketplace view with internal assortment data to intelligently identify possible additions to the current assortment mix - Omnichannel planning for store, online, and wholesale channel on a single planning solution	- Experience feedback and social media data to enhance the future prediction of market demand - Customer segment and social media sentiment analysis	- Analysis of cluster performance and trends of categories, products, attributes, locations, and customer segments to inform planning decisions - Intelligent store clustering based on customer demographics and category insights to drive localized assortments - Advanced analytics for decision support around products to keep or drop - Assortment optimization to maximize revenue and margins using predictive analytics - Demand predictions to optimize how much to buy both preseason and in season	- Integrated, end-to-end planning process from merchandise and assortment planning to execution with allocation and purchase order creation - Real-time monitoring in season of plan and forecast to actuals, enabling a quick response - Visibility into real-time item-level profitability - Retailer's ability to trigger customer feedback to understand the emotions and sentiments related to product offerings	- RFID-enabled store processes, helping store staff control inventory and provide early-warning singles for demand changes - Automated stock transfer to rebalance supply across stores and eliminate markdowns - Capture of consumer emotions and values combined with operational data sets to help merchandise planners understand what drives product uptake for the target customer segments and help create more-targeted assortments

TOP VALUE DRIVERS*

30% **Increase** in revenues

60% **Reduction** of markdowns

30% **Reduction** of inventory write-offs

Source: SAP Performance Benchmarking

SERVE THE
SEGMENT OF ONE

While customer centricity is meant to serve all customers, the next generation of personalization will serve the segment of one.

In 2025, retailers will use large data management platforms to gather big sets of sales, service, and marketing data to build a 360-degree customer profile and understand and predict individual and contextual customer needs. (See Figure 2.)

People expect retailers to know them, and, as a result, real-time interactions will create the context for marketing, assortment, pricing, and promotional offers. Algorithms will be commonplace throughout every retail business process and will power recommendations and tailored experiences for consumers. Augmented and virtual reality will offer a personalized dressing room experience, furniture display, or digital store walk-through that will take the individual shopping experience to a new level of personalization. Sensors will monitor use, consumption, wear, and freshness, alerting consumers to replace, replenish, or repair.

Retailers will need the explicit consent of their customers to gather data and put it to work, which requires a new level of transparency and a new level of collaboration between customer and retailer.

However, to meet this vision of serving the segment of one, retailers must also be able to individualize their offerings and optimize their existing processes to allow for single-item sourcing and delivery.

Retailers who offer consumers the chance to give feedback to their products, brand, and shopping experience will be able to create winning customer experiences. A new software category, which combines experience management with operational systems and brand reviews, as well as product and customer experience feedback, is already starting to redefine customer engagement.

Figure 2: The Vision of Serving a Segment of One

Individual and customized services
- Deliver personalized experiences and support
- Offer tailor-made services
- Use IoT and sensor data for service optimization and automated replenishment

Lot-size-of-one sourcing and production
- Source or produce individual products in a cost-effective way
- Run a smart, integrated, and flexible factory
- Manage an adaptive and responsive supply chain

Individual product design
- Extend the configured-to-order and made-to-order portfolio
- Manage modular product concepts
- Integrate digital capabilities

Contextual omnichannel marketing
- Segment customers intelligently
- Run targeted campaigns
- Engage in a personalized way

Personalized selling
- Convert individual needs into opportunities and orders
- Configure products and solutions flexibly
- Use all sales channels consistently

Cycle labels: Service · R&D · Marketing · Sales · Production

73% of retailers consider it important to deliver a fun, relevant, and personalized experience that is convenient and unique to customer sentiment, history, and preferences, but **only 10% are able to do so.**[13]

SPAR Handels AG (SPAR Switzerland) has created a loyalty program that gives its customers immediate benefit during checkout. Besides receiving a very attractive weekly offers, a SPAR Friend member is eligible to win the whole purchase when it is the 1,000th purchase in any of the roughly 160 outlets counts. Validating the SPAR Friends 1,000th purchase at checkout is done in real time. Having a central system to steer and control the loyalty program is key. SPAR Switzerland also wants to have the flexibility to further develop the program with new offerings and features, which can be introduced swiftly.
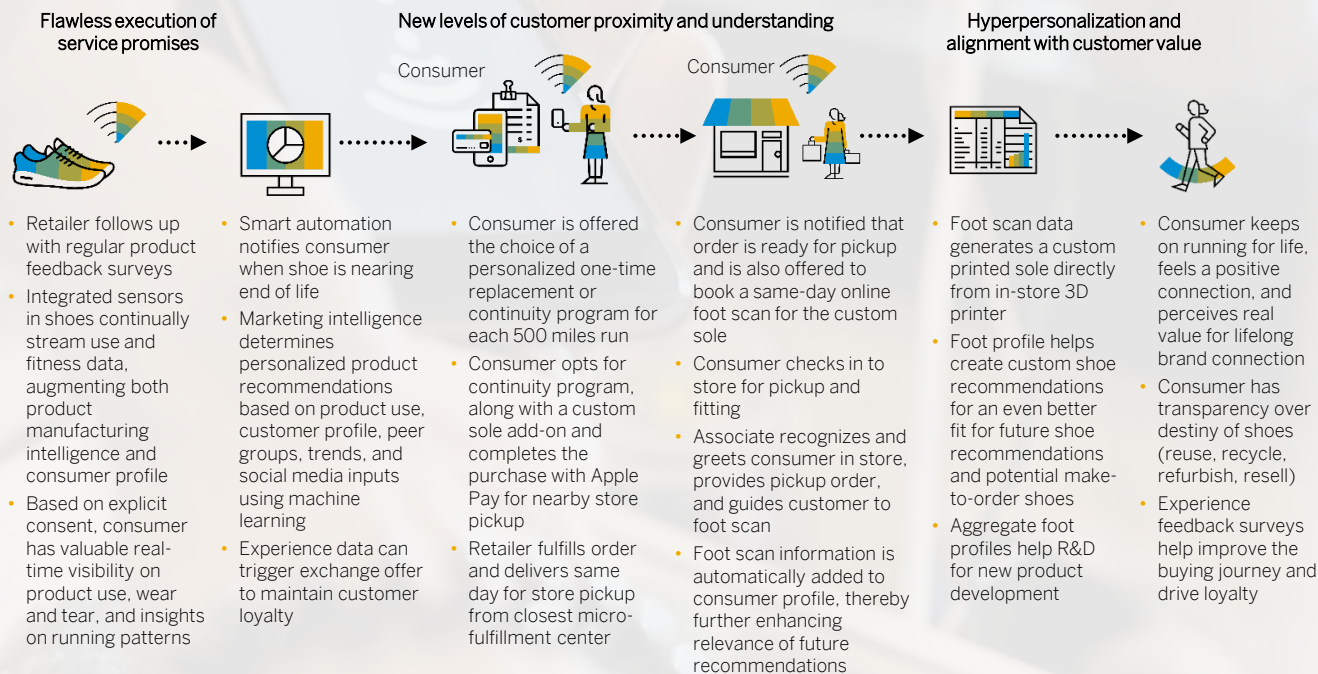
FROM MASS MARKETING TO PERSONALIZED, IMMERSIVE EXPERIENCES

By connecting to your customers' lifestyle, you are able to create an immersive shopping experience for your consumers – one that earns lifetime loyalty and also delivers significant efficiencies and new business opportunities to the retailer.

TRADITIONAL SCENARIO

- Consumer recognizes accelerated wear and tear in product
- No sensor data is made available
- No usage or experience data available

- Consumer looks up information about running shoes online
- No personalized offers are made
- Cumbersome execution happens between channels

- Consumer chooses retail store
- Associate advises unknown consumer; no connection to online offers
- Associate has no access to sales history, sizes, or functional needs

- Consumer decides and pays
- Anonymous sales data is imported to ERP system

- Opportunity to maintain consumer contact and build consumer loyalty is lost

NEW-WORLD SCENARIO

Flawless execution of service promises

- Retailer follows up with regular product feedback surveys
- Integrated sensors in shoes continually stream use and fitness data, augmenting both product manufacturing intelligence and consumer profile
- Based on explicit consent, consumer has valuable real-time visibility on product use, wear and tear, and insights on running patterns

- Smart automation notifies consumer when shoe is nearing end of life
- Marketing intelligence determines personalized product recommendations based on product use, customer profile, peer groups, trends, and social media inputs using machine learning
- Experience data can trigger exchange offer to maintain customer loyalty

New levels of customer proximity and understanding

Consumer

- Consumer is offered the choice of a personalized one-time replacement or continuity program for each 500 miles run
- Consumer opts for continuity program, along with a custom sole add-on and completes the purchase with Apple Pay for nearby store pickup
- Retailer fulfills order and delivers same day for store pickup from closest micro-fulfillment center

Consumer

- Consumer is notified that order is ready for pickup and is also offered to book a same-day online foot scan for the custom sole
- Consumer checks in to store for pickup and fitting
- Associate recognizes and greets consumer in store, provides pickup order, and guides customer to foot scan
- Foot scan information is automatically added to consumer profile, thereby further enhancing relevance of future recommendations

Hyperpersonalization and alignment with customer value

- Foot scan data generates a custom printed sole directly from in-store 3D printer
- Foot profile helps create custom shoe recommendations for an even better fit for future shoe recommendations and potential make-to-order shoes
- Aggregate foot profiles help R&D for new product development

- Consumer keeps on running for life, feels a positive connection, and perceives real value for lifelong brand connection
- Consumer has transparency over destiny of shoes (reuse, recycle, refurbish, resell)
- Experience feedback surveys help improve the buying journey and drive loyalty

POTENTIAL BENEFITS

40%
Increase in subscription revenues

20%
Reduction in logistics costs

100%
Forecasted growth in revenue for categories with product experience data

Source: SAP Performance Benchmarking

IMPLEMENT DIGITAL
SUPPLY CHAINS

Drive effectiveness across a connected, end-to-end supply chain by providing real-time consumer insights to internal and external fulfillment teams, distribution centers, manufacturers, and suppliers.

In 2025, customers won't come to the retailer, the retailer will come to them. All the factors that drive demand – promotions, seasonality, events, weather – will be dynamically taken into account to predict demand.

With drones and driverless cars, real-time product delivery at a low cost will offer a significant competitive advantage. Robotics and artificial intelligence will drive efficiency in retail warehouses. (See Figure 3.)

Consumers will expect their needs to be met automatically. Consequently, retailers will become more vertically integrated, connecting the end-to-end supply chain to automate replenishment of consumer demand. Consumers will expect transparency into the supply chain and expect to see focused sustainability efforts.

To get there, retailers will use predictive analytics and machine learning to predict demand and supply of the individual household.

They will connect to the point of consumption – such as the fridge – and automate replenishment.

Lastly, retailers will provide scalable, efficient, and convenient source-to-consumer services to the place of need to build brand and process loyalty and develop brand extensions, such as food preparation services.

To take advantage of these opportunities winning retailers will deploy a highly flexible and highly efficient robotics supply chain that is able to serve dynamic individual needs anywhere and anytime.

Figure 3: End-to-End Connected Digital Supply Chain

69% of retailers consider it important to have visibility into the global inventory pool and optimize it for a "source anywhere, fulfill anywhere" model, but only 15% are able to do so.[14]

Migros, a leading Swiss retailer, improved its supply chain agility through digitalization. The result was the ability to ensure product freshness and a better shopping experience for supermarket customers.

The Home Depot Inc. is connecting in-store robotics with an intelligent enterprise approach. It is using drones and robotics to create an efficient in-store experience that delights customers and provides faster order fulfillment.
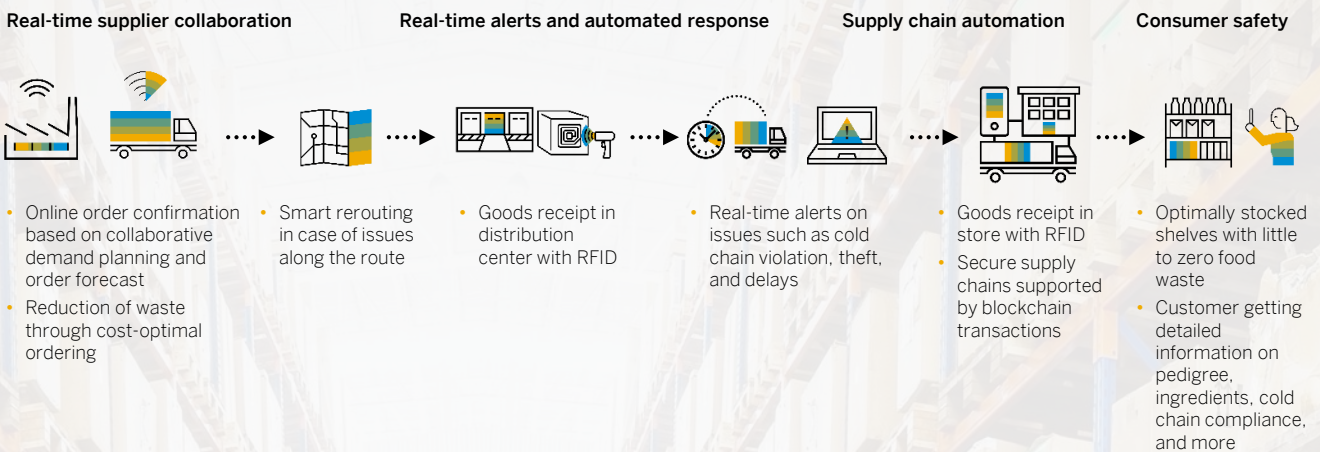
FROM MANUAL, ERROR-PRONE SUPPLY TO SUSTAINABLE, HANDS-FREE SUPPLY CHAINS

With this integrated, end-to-end scenario, you are able to create an automated, connected, hands-free supply chain that delivers new levels of speed and efficiency as well as superior value to your shoppers and consumers.

TRADITIONAL SCENARIO

- Manufacturer sends product to a retail distribution center
- No inventory visibility on the road is available
- No information on delivery status is available

- Delays in traffic are not accounted for

- Often manual and error-prone goods receipt occurs with paper or scanner-based lists

- Issues align the supply chain
- No visibility on status on the road is available
- There is no chance to react

- Goods can arrive too late or damaged without warning

- Customer faces empty shelves
- Store associates have no information on upcoming arrivals

NEW-WORLD SCENARIO

Real-time supplier collaboration

Real-time alerts and automated response

Supply chain automation

Consumer safety

- Online order confirmation based on collaborative demand planning and order forecast
- Reduction of waste through cost-optimal ordering

- Smart rerouting in case of issues along the route

- Goods receipt in distribution center with RFID

- Real-time alerts on issues such as cold chain violation, theft, and delays

- Goods receipt in store with RFID
- Secure supply chains supported by blockchain transactions

- Optimally stocked shelves with little to zero food waste
- Customer getting detailed information on pedigree, ingredients, cold chain compliance, and more

POTENTIAL BENEFITS

30%
Reduction in supply planning costs

40%
Reduction in damage and waste

25%
Reduction in total logistics cost

Source: SAP Performance Benchmarking

RUN SMART STORES

Consumer-centric retail stores will use experience management technology to turn their customers into advocates, their employees into ambassadors, and their brands and products into obsessions.

To stay relevant, retailers will need even more flexible supply chain processes. In addition, they need to become increasingly self-aware and connected, providing a constant feedback loop to the consumer downstream and to the manufacturer upstream. (See Figure 4.)
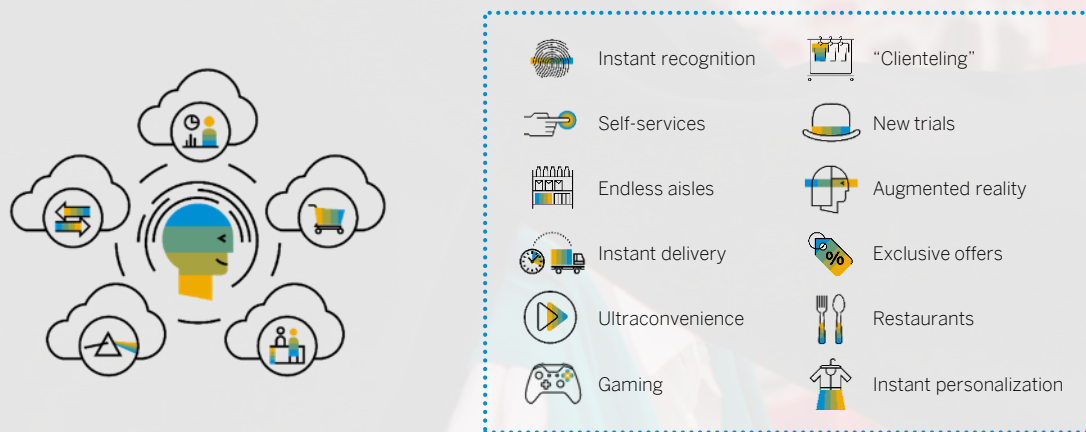
In 2025, the online and physical shopping experiences will merge by leveraging the best disruptive technologies, turning stores into "brand experiences." Virtual reality, the use of digital technology to create immersive simulations, targeted marketing with AI, and augmented reality that lets users interact with digital content overlaid on real-world content will allow retailers to create differentiating shopping experiences. Customer interaction will be captured to optimize assortments, pricing, and promotions.

With customer identification, smart fitting, endless aisles, and gamification, the opportunities will drive loyalty as well as new revenue opportunities.

The journey will start with empowering the front-line sales staff with real-time customer, product, and inventory data to serve their customers better – regardless of channels, This will be extended through sensor-based customer identification, store interaction, and checkout, as well as automated store processes. The result will be more productive, knowledgeable, and happy store employees that focus on selling versus stocking or administrative tasks.

Ultimately, stores will be transformed into experience centers with highly personalized services backed by unified digital experiences.

Figure 4: Turn Stores into Brand Experience Centers

- Instant recognition
- Self-services
- Endless aisles
- Instant delivery
- Ultraconvenience
- Gaming
- "Clienteling"
- New trials
- Augmented reality
- Exclusive offers
- Restaurants
- Instant personalization

74% of retailers consider it important to equip store associates with real-time product and inventory information to help them serve shoppers better, but only 30% are able to do so.[15]

Tommy Bahama is a brand that is constantly innovating – expanding from apparel to furniture to restaurants. However, the company is committed to letting consumers interact with the brand any way they want to, in whatever channel they desire. A commerce solution is what enables the company to deliver a personalized experience to each of its consumers.

FROM DISCONNECTED STORES TO INTEGRATED BRAND-BUILDING EXPERIENCES

Create a smart store to deliver brand-building store experiences. With this integrated, end-to-end scenario, you can manifest your brand, create new store experiences, and capture changing needs by running your stores like an online business.

TRADITIONAL SCENARIO

- Shopper enters story anonymously
- No history is available
- No insight into the shopper's needs, preferences, or buying behavior is available

- The interaction is captured only upon checkout
- No interaction is sensed

- Store is run by point-of-sale transactions
- Customer sees only what is sold
- Valuable interaction data is lost
- Customer preferences are not discovered
- Decisions are made after the fact

- Staff has no access to real-time inventory information or incoming deliveries
- Staff can't guide customers

- No personalized offers
- No convenience options
- No help when items are not available
- No ability to provide feedback

- No ability to differentiate the customer experience or offer service that drives loyalty
- Stores exposed to price competition from online pure plays

NEW-WORLD SCENARIO

Shopper recognition	Smart Store	Fast response	Product and experience feedback	Compelling shopping experience	New customer loyalty

- Shopper who is recognized and approached according to their privacy settings
- Smart "clienteling" enabled based on history and known and predicted preferences

- Smart-shelf heat maps to capture interactions
- Sensor technology that helps optimize store layouts, assortments, and price points, and enables better understanding and prediction of shopper preferences

- Real-time response to relevant customer demand signals
- Accelerated replenishment
- Triggered product transfer with RFID enablement to balance stock between stores flexibly

- Real-time inventory and product information
- Ability to use geospatial data to identify nearby stock locations
- Elimination of price differences and control of shelf stock using advanced scanner technology

- Real-time inventory information and endless aisles
- Frictionless checkout and convenient service options with grab-and-go formats
- Instant shopper feedback to optimize the experience and drive new revenue opportunities

- Combined insights from both experience and operational data sets, enabling understanding of the key drivers of customer loyalty
- Ability to drive shopper and consumer loyalty and increase shopper share of wallet

POTENTIAL BENEFITS

25%
Increase in revenue

50%
Reduction in markdowns

30%
Increase in inventory turnover

Source: SAP Performance Benchmarking

SELL OUTCOMES BEYOND PRODUCTS

In 2025, the majority of retail companies' revenue will come from services developed from the insight gleaned from consumer insights and experience data. New business models will include subscription, pay-per-use, or outcome-based models.

These services will move from being product add-ons to offerings in their own right, with separate revenue streams, and they will not be restricted to the companies' own products but will rather evolve into multibrand services beyond current product categories. The intelligent retailers are the ones willing to chart new territories that are adjacent to their business. (See Figure 5.)

The next wave of retailers will think of their brand as a scalable platform, allowing for brand extensions and creative partnerships into telecommunications, travel and entertainment, and financial services.

To make it work, retailers will need a deep understanding of their customers' consumption habits and must occupy a trusted position in their lives.

With this in place, they can use experience and operational data to create new offers and services. By extending current business processes to connecting with consumers, retailers can offer use-based services enabled by sensors. The ultimate transformation will be moving from selling products to selling outcomes, facilitated by "no ownership" and subscription services.

Figure 5: Extending Existing Business Models and Innovative Customer Engagement

New offerings	Automated replenishment	Pay per outcome	Personalized nutrition
Pay per use	Automated replacement	Zero-click ordering	Management of the fridge
Subscriptions	New trials	Fashion curation	No ownership models

61% of organizations consider it important to leverage strengths (customers, assets, core competencies) and work with partners to drive successful business models, but only 25% are able to do so.[16]

Tata CLiQ helps connect Indian consumers in 900 cities and 10,000 villages to modern retail. SAP® Customer Experience solutions help offer hundreds of brands and thousands of items – all on one platform. Now people everywhere – from large cities to small villages – can get deliveries to their doorsteps or local stores.

FROM TRADITIONAL RETAIL TO SELLING OUTCOMES AND LIFESTYLES

With this integrated, end-to-end scenario, gain a superior understanding of your customers' needs and use it to create new revenue-generating offers and services, such as personalized meals with ingredient and recipe meal-kit service. Reimagine customer engagement to deliver better health outcomes and contribute to better waste management.

TRADITIONAL SCENARIO

- Consumer shops for groceries with a few meals in mind, at best equipped with a shopping list

- Store staff lack the information to make recommendations
- There is no customer history, or insight on preferences
- There are no recipes, no information on nutritional values, and no way to match to the consumer lifestyle

- Items for a meal can be incomplete
- Key items can be forgotten or out of stock
- Leftovers and excess packaging can result

- There is no added consumer value
- There is no way to differentiate retail services

NEW-WORLD SCENARIO

New levels of customer proximity and understanding

Selling balanced and healthy nutrition

Hyper-personalization

Consumer subscribes to meal-kit service, which provides cooking and taste preferences and physical and exercise information per their individual preferences and goals

Experience feedback and machine learning can be used to improve recipes, recommendations, and the overall offering; the next delivery cycle is kicked off

Consumer profile and preferences are enhanced based on structured and nonstructured feedback

Consumer

Nutrition expert

Home

Consumer prepares meals and provides feedback

Food and nutrition experts help consumers discover matching items based on their personal preferences and buying history

Through machine learning, the back-end system determines recipe recommendations based on consumer data, preferences, and history, including data from social media

Trend analysis from Web searches helps make recommendations that drive demand

Meal kits are assembled and shipped directly to consumers based on shipping preferences

Home delivery or pickup of selected meal kits is according to specs, with the right size, amount, and nutritional values, and with reduced, sustainable packaging

POTENTIAL BENEFITS

3x
Increase in shopping basket value

40%
Reduction in logistics cost per item

30%
Increase in repeat purchase rate

Source: SAP Performance Benchmarking

KEY
TECHNOLOGIES

The current pace of technological advancements has the most profound impact on enabling how retailers transform themselves to respond to their customer needs and to the market trends.

Intelligent technologies promise to bring great benefits such as productivity and efficiency gains, enabling innovative new business models and new revenue streams. The following intelligent technologies are instrumental in helping retailers respond to the market trends. Each of these priorities will be enabled by emerging intelligent technologies.

Artificial Intelligence and Machine Learning
Businesses can leverage these capabilities to eliminate repetitive manual tasks and drive the next level of intelligent business process automation. Today, advances in speech and visual recognition are dramatically changing how consumers interact with retailers – for example, shopping by voice with a personal home assistant or using visual search to find a product. Robotic process automation streamlines repetitive, rule-based processes and tasks in an enterprise and reduces cost through the use of software robots by replicating specific tasks or keystrokes.

Data As a Strategic Asset and Advanced Analytics
The recognition that data is a strategic asset is a fundamental shift for most businesses. Retailers that curate their data and aggressively acquire data from external sources will have significant advantage over their more traditional competitors. Empowered users can get real-time visibility into their changing environment, simulate the impact of business decisions, mitigate risk, and achieve better customer outcomes.

Key Technologies

Conversational AI

Voice interfaces will be the go-to technology for the next generation of applications, allowing for greater simplicity, mobility, and efficiency while increasing worker productivity and reducing the need for training. In customer interactions, they will transform customer engagement and allow targeted and fully informed exchanges anytime, anywhere.

Blockchain

A relatively recent breakthrough technology, blockchain is revolutionizing the movement and storage of value by creating a chain of unaltered transactional data. The blockchain model of trust, through massively distributed digital consensus, has the possibility reshape supply chains and commerce across the entire digital economy. In the near term, blockchain-based solutions are satisfying consumer's demand for solutions to support global traceability and sustainability in food and agricultural products. Solutions to validate authenticity and to fight counterfeiting are also perfect use cases for blockchain technology.

The Internet of Things (IoT) and In-Store Technologies

Retailers are using IoT capabilities to bring digital capabilities to the physical world. The IoT through product-level RFID is being used to transform the store, from basics, such as inventory management with the IoT, to more advanced experiences such as smart mirrors. The checkout process continues to evolve to meet customer demands with technologies such as self-checkout, self-scanning, and smart checkout. Fully automated stores are already established in parts of Asia and are being introduced in other markets.

Virtual and Augmented Reality

Virtual reality, the use of digital technology to create immersive simulations, was once the stuff of science fiction. So was augmented reality (AR), which lets users interact with digital content that's overlaid on the real world. They will become the standard way to demonstrate a product, whether that is furniture or paint in the consumer's home, beauty products applied to the consumer's face, or fashion worn virtually by the consumer.

Data Platform to Manage Experience

Retail leaders are connecting operational data from companies' business systems (what is happening) with the experience data coming from customers and employees (why it is happening) to get 360-degree views, actionable insights, and to deliver better experiences.

~50%
Of new mobile apps use voice as a primary interface, and **50%** of the consumer-facing G2000 use biometric sensors to personalize experiences by 2019[17]

30%
Increased conversion rate and up to **25%** higher revenues from a CX architecture supported by an AI layer[18]

Up to **25%**
increased inventory turns through 2021 for retailers that leverage AI, AR, and the IoT for employee and customer engagement to respond to stakeholders' experience expectations[19]

20%
Improved customer satisfaction for retailers that leverage AI, AR, and the IoT for employee and customer engagement to respond to stakeholders' experience expectations [20]

Up to **15%**
employee productivity for retailers that leverage AI, AR, and the IoT for employee and customer engagement to respond to stakeholders' experience expectations[21]

58%
Of human task hours will be automated by 2022[22]

99%
Accuracy in voice and video recognition by 2020[23]

20.4 billion
Connected devices will be in use by 2020[24]

GETTING THERE:
A PHASED APPROACH

Companies will become intelligent enterprises on three distinct tracks as they evolve their strategic priorities to match their company's vision. They will:

1. **Optimize** what they already do by implementing a stable and scalable digital core to make processes more transparent and integrated
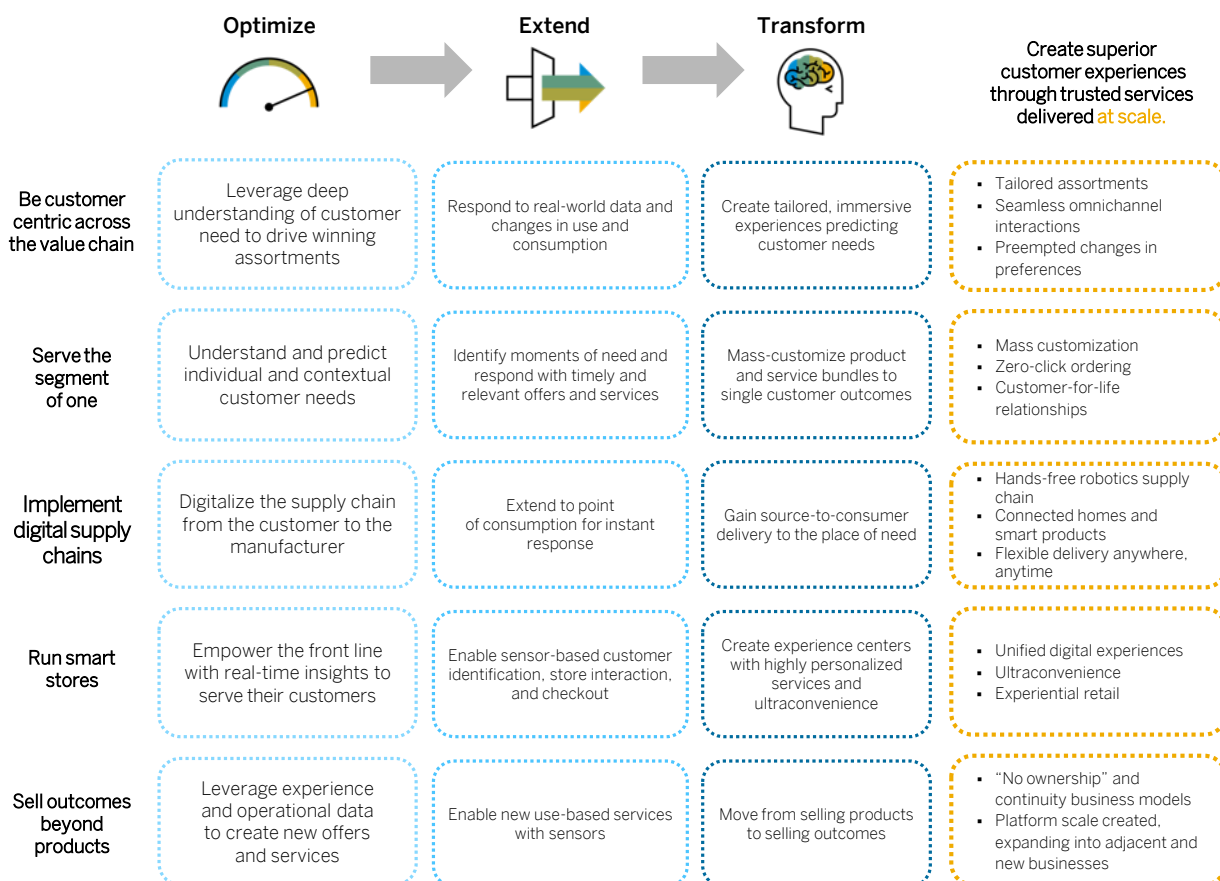
2. **Extend** their current processes by connecting them to the real world using IoT technologies

3. **Transform** their business using a constant stream of data, enabling new service-driven business models (See Figure 6.)

Figure 6: **Strategic Priorities Across the Maturity Framework**

	Optimize	Extend	Transform	Create superior customer experiences through trusted services delivered at scale.
Be customer centric across the value chain	Leverage deep understanding of customer need to drive winning assortments	Respond to real-world data and changes in use and consumption	Create tailored, immersive experiences predicting customer needs	• Tailored assortments • Seamless omnichannel interactions • Preempted changes in preferences
Serve the segment of one	Understand and predict individual and contextual customer needs	Identify moments of need and respond with timely and relevant offers and services	Mass-customize product and service bundles to single customer outcomes	• Mass customization • Zero-click ordering • Customer-for-life relationships
Implement digital supply chains	Digitalize the supply chain from the customer to the manufacturer	Extend to point of consumption for instant response	Gain source-to-consumer delivery to the place of need	• Hands-free robotics supply chain • Connected homes and smart products • Flexible delivery anywhere, anytime
Run smart stores	Empower the front line with real-time insights to serve their customers	Enable sensor-based customer identification, store interaction, and checkout	Create experience centers with highly personalized services and ultraconvenience	• Unified digital experiences • Ultraconvenience • Experiential retail
Sell outcomes beyond products	Leverage experience and operational data to create new offers and services	Enable new use-based services with sensors	Move from selling products to selling outcomes	• "No ownership" and continuity business models • Platform scale created, expanding into adjacent and new businesses

EARLY DIGITAL ADOPTERS
LEAD THE WAY

How to achieve these strategic priorities?

Start with reimagining your business together with your customers. Then build a path for even more optimization and intelligent automation to simplify your business and free up resources to invest in even more digital transformation programs and find new business models and revenue streams.

According to a July 2018 study by Forrester Consulting that was commissioned by SAP, innovative retailers focus on digital priorities to help them achieve digital transformation more than other retail companies. (See Figure 7.)

Figure 7: **Innovators Focus More on Digital Priorities Than Others**[25]

Be customer centric across the value chain
Innovators	95%
Others	78%

Serve the segment of one
Innovators	86%
Others	69%

Implement digital supply chains
Innovators	95%
Others	67%

Run smart stores
Innovators	93%
Others	61%

Develop new business models
Innovators	89%
Others	69%
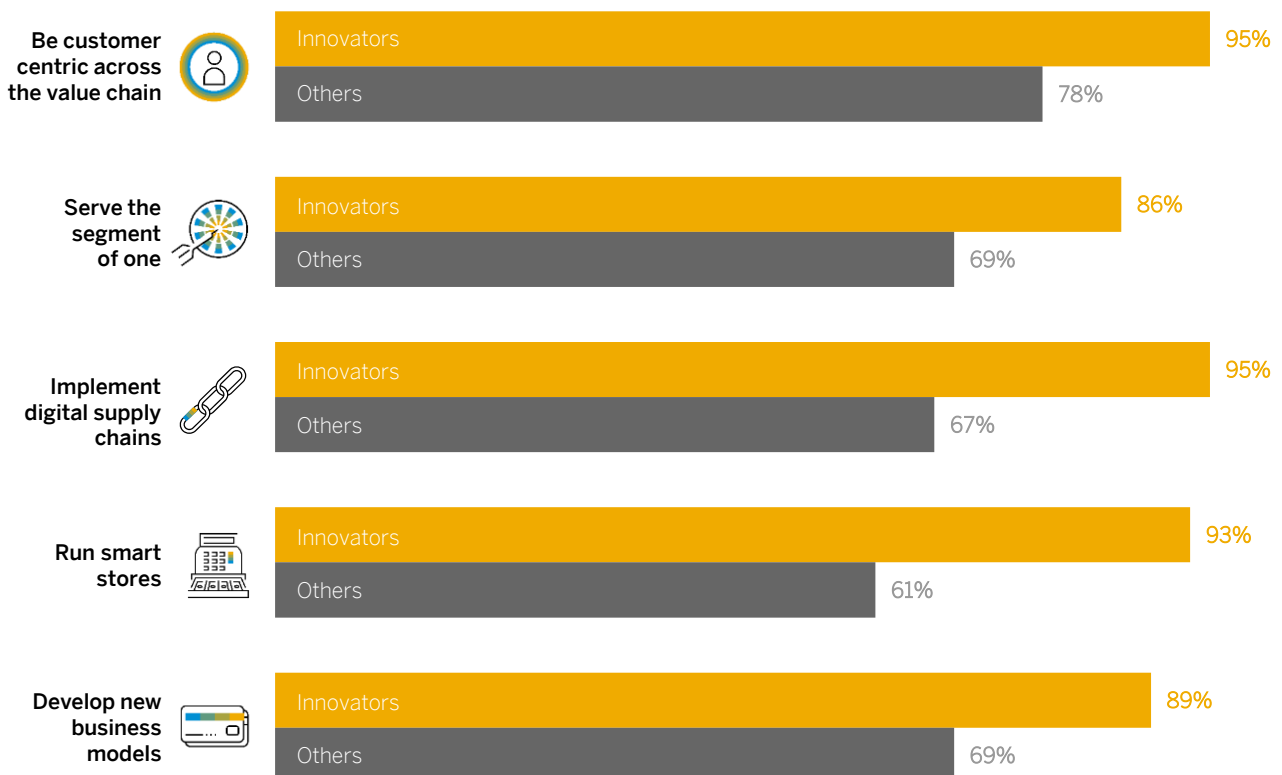
SAP'S FRAMEWORK FOR THE INTELLIGENT ENTERPRISE IN THE EXPERIENCE ECONOMY

Most organizations understand what is happening in their business but may not always know why.

They know what's happening because they have systems that capture operational data (O-data) – about their customer transactions, supply chain, manufacturing, spending, and the activities of their workforce. They can see that data through reports and dashboards. They can see trends and predict what will happen next.

But to influence what happens next, companies need data about the interactions that people have with their products and their business. Experience data (X-data) captures beliefs, emotions, opinions, and perceptions – the "why" something is happening. And when companies know why something is happening, they can make an informed decision about the best way to respond.

To win in this experience economy, intelligent enterprises connect experiences with operations. They use both X-data and O-data to guide their business decisions. Intelligent enterprises collect insights from customers, employees, products, and brands at every touch point. They use powerful technologies to automate and integrate their data, processes, and applications, enabling them to sense risks, trends, and opportunities. And they act on this intelligence across every part of their business. (See Figure 8.)

Only SAP has the strategy, expertise, and solutions to deliver on this vision, enabling intelligent enterprises to turn insight into action.

Figure 8: SAP® Intelligent Enterprise Framework

HOW TO PLAN YOUR PATH TO THE INTELLIGENT ENTERPRISE

In the digital economy, intelligent technologies and integrated business processes are now driving digital transformation.

To do this effectively requires an end-to-end plan for becoming an intelligent enterprise. This includes creating an intelligent enterprise road map and implementation plan with proven best practices and deployment options that optimize for continuous innovation with a focus on intelligent outcomes.

The End-to-End Journey to Becoming an Intelligent Enterprise

Plan
well to manage expectations

Simplify and innovate
- Reimagined business models, business processes, and work
- SAP Digital Transformation Framework methodology as a guide for digital transformation
- Value-based innovation road maps

Build and launch
with proven best practices

Standardize and innovate
- Model-company approach to accelerate adoption with model industry solutions
- Design thinking and rapid, tangible prototypes
- Coengineered industry innovations delivered with agility

Run
all deployment models

Run with one global support
- One global, consistent experience
- End-to-end support – on premise, in the cloud, or with a hybrid approach

Optimize
for continuous innovation

Optimize to realize value
Continuously captured and realized benefits of digital transformation

To move forward with speed and agility, it helps to focus on live digital data and combine solution know-how and industry-specific process expertise with data analytics so that the right digital reference architecture is defined and delivered. In that context, a model-company approach is aimed at simplifying and increasing the speed of the digital transformation journey. Model companies represent the ideal form of standardization for a specific line of business or industry. They are built on preconfigured SAP solutions based on best practices supported by SAP, along with the business content that encompasses our experience and expertise relevant for the industry. They provide a comprehensive baseline and come with the accelerators to jump-start digital transformation projects.

COMPREHENSIVE SAP ECOSYSTEM: ORCHESTRATING THE PARTNER ECOSYSTEM TO DELIVER VALUE FASTER

Our comprehensive ecosystem for the retail industry offers:

- The Intelligent Enterprise as the overarching strategy to meet future requirements, providing:
  - SAP S/4HANA co-development programs for customers and partners
  - Industry co-innovation programs for industry-specific use cases
  - Delivery of "enterprise-to-enterprise industry clouds"
  - Thought leadership, evangelism, and enablement by industry through events, councils, and regular customer exchange

- Integration into a wide range of business services (OEMs, suppliers, key vendors, and more)
- Open architecture, with a choice of hardware and software specifically designed to meet requirements
- Complementary and innovative third-party solutions to provide leading-edge and state-of-the-art technology

Our partner ecosystem includes, among others:

accenture · wipro · IBM · Capgemini · Microsoft Azure

EY · seidor · DELAWARE Consulting · pearl

itelligence NTT DATA Business Solutions · Deloitte. · Vision33 · RIZING · utopia Perfect Data, Perfectly Possible

beyond technologies · birlasoft · Vistex Bold Vision. Brilliant Execution. · T··Systems·

pwc · FUJITSU · keytree · INTURN

Infosys · NOVARDIS we know how · DTS Delivering Tomorrow's Solutions · STAR IT THINKING FOR RETAIL · TATA

applexus

implema · VISEO · BigID · T.CON · attune transforming the business of style

gicom® · MIRAKL · KPS · CTAC CTAC POWERHOUSE · GK SOFTWARE

SAP IS COMMITTED
TO INNOVATION

10-Year Innovation Vision

SAP delivers fully intelligent business solutions and networks that span across company boundaries and promote purpose-driven businesses. These solutions will be the most empathic symbiosis between machine intelligence and human ingenuity.

- Self-running enterprise systems
- Self-organizing business ecosystems
- New markets and business models

Comprehensive Industry Coverage

SAP enables comprehensive coverage of the complete retail value chain across the enterprise. With its clear industry road map, SAP is the partner of choice for the Retail industry.

- More than 13,400 retail manufacturers in 121 countries innovating with SAP solutions
- 99% of retail companies in the Forbes Global 2000 are SAP customers
- All lines of business are supported on a single platform

Proven Services Offering

By bringing together world-class innovators, industry and emerging technology expertise, proven use cases, and design thinking methods, we help retail companies develop innovations that deliver impact at scale.

- Proven methodologies to drive innovation, from reimagining customer experiences to enhancing operations
- Innovation that is fueled through a managed innovation ecosystem from SAP
- Ability to build your own innovation capability and culture

SAP supports retail companies in becoming intelligent enterprises – providing integrated business applications that use intelligent technologies and can be extended on SAP Cloud Platform to deliver breakthrough business value.

Learn more

- [SAP.com for Retail](#)
- [SAP Services and Support](#)

RESOURCES

Outlined below is external research that was used as supporting material for this paper.

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Note: All sources cited as "SAP performance benchmarking" are based on our research with customers through our benchmarking program and other direct interactions with customers.

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