The Phygital Generation in Retail

What Happens When Online & Offline Get Hitched

avanade

It's a simple but powerful thought that your retail company's market value revolves around data. Those who own the future in retail will be the ones who optimize all available data from all available sources. The intersection of human intelligence and artificial intelligence... of the physical and the digital... will drive that data and define the experience for retail customers and employees alike. At Avanade, we call it phygital. The power of all that data grows exponentially when retailers combine the physical and the digital, from in-store location dwell time to online click thru's. That's how market makers will shape retail in the Digital Age.

This is also the vision and work of the Digital Retail Innovation Lab, where Accenture and Avanade show-case insights and innovations each year at the annual event for the National Retail Federation (NRF). The Lab provides an immersive environment for various types of retailers from more than 20 countries to experience and assess multiple technologies that are creating value today and promise for tomorrow. Our goal with this primer is to illuminate and enliven the discussion of just how far retailers can take their digital journey with the latest tools and technology available. This year we're especially focused on the data that flows in combination from both offline and online sources and how retailers now have the power to uncover and apply data-driven insights that few of us ever imagined, all in the blink of an eye.

Data online and offline

Physical vs. Digital

The Phygital Generation in Retail

Customers

Employees

Operations

Opposites Attract
Online & Offline Meet

For starters, figuring out "digital" for retail is a lot like other complex tasks your organization faces - a matter of trial and error - and retailers have necessarily been on the front line of almost every digital revolution. At the same time, the industry is facing its largest transformation in half a century, and as one retail industry observer notes, "Customer behavior is the only thing evolving faster than technology, and the two are inseparable."[1] Digital-first companies are a formidable force in the evolution of customer behavior. Brick and mortar stores have lost 22% of their market value over 10 years, as compared to the nearly 2,000% increase in Amazon's market value.[2] But, something less obvious is afoot.

We're all consumers, and as human beings we also tend to value experiences and connectedness. The evolution of the internet and social media certainly reflect both of these facts. Online is all about convenience, transparency, and always-on availability, while the offline world is tactile, experiential, and intimate. In-store associates play a key role as both a source of data and insights as well as being "curators" of the customer experience in the store. That's one reason why online-first companies are opening brick-and-mortar storefronts, and 70% of people say they would prefer to purchase an item in a store if one was located nearby.[3] The fact is that e-commerce is no replacement for touching and feeling a product before making a purchase – 85% of people value this option. Your employees make it real for customers.[4]

Our research shows that 80% of retailers still do not marry online and offline when it comes to supporting the customer journey, not only because of technology gaps but also because of culture and behavior, bred by long-worn habits.[5]   It's time to facilitate the blending of digital and physical worlds into a single phygital retail experience, not just to solve disparities between online and offline interactions but to deliver a more seamless experience as customers move from one channel to another – e.g., imagine customers move from reading social media posts about a product on their mobile, then checking availability on a retailer's mobile website, and then turning to the in-store sales associate for a few final questions before purchase. The data that comes from retail interactions both on and offline will transform the industry for both retail shoppers and workers.

It's time to get phygital!

A Bright Future Together in Retail Data

Traditional competencies in retail cease to be functional silos in a world driven by artificial intelligence (AI) and become much more inter-connected and dynamically related processes. Thus, in order to really develop and implement a durable digital strategy, companies must examine and integrate all of the key components of getting work done - data, systems and people - in a comprehensive strategy.

Phygital Customers

Retailers today are fighting a battle against distraction—more products compete across more channels for less mindshare. But while a lot of brick-and-mortar retailers struggle against their online competitors by working ever harder to increase foot traffic, they may be fighting the wrong battle. Ideally, they want insights from both "clickstream" online data and "footstream" offline data. That is, while many have been waging an e-commerce battle with the likes of Amazon, they may be overlooking the advantage they possess in operating physical stores, which they can then combine with e-commerce -- a differentiating blend of the digital and the physical.

Retailers can use new types and sources of phygital data to counter growing consumer distraction. Given diminishing consumer attention for any particular brand, sellers must do more than just sell -- they must create fluid and effortless customer experiences for shopping, selection, payment and service. This means they have to do more of the work consumers would 'normally' do, so that their customers can then ignore all the minutiae along the way. Combining real-time, online technologies with in-person support and 'cool tools' like dwell-time sensors, facial recognition and sentiment analysis can make this happen. AI-driven data solutions can create invisible or zero-effort experiences to help customers along their retail journey.

> "The simple truth is that it's very difficult for brick and mortar retailers to compete with the online giants when it comes to price. However, research has shown that consumers are willing to pay a premium within reason, if it comes with a great in-store experience."
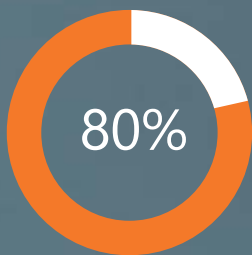>
> Jason Hunt, SVP, Digital Lead, North America at Avanade

Customers

20%

By 2019, 20% of major retailers will use augmented reality to enrich the product selection experience and convert shoppers to buyers three times faster.[11]

Workforce

80%

The employee and retail workforce are some of the best levers of value for digital retailers, especially those with real-world footprints: 80% of the world's stores still work out of a physical location.[12]

Operations

88%
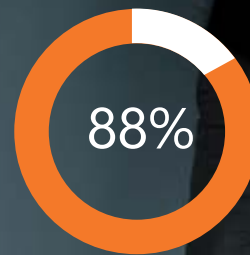
88% of retail business and IT executives say technology will change at an unprecedented rate over the next three years, and many believe their growth is hampered by internal legacy systems that do not flex to meet today's demands.[13]

Join Us at The Digital Retail Innovation Lab

Avanade's Retail Lab at NRF focuses on the value and promise of what it really means to be a data-driven retailer. Retailers can now gain first-time insights into how to delight customers, empower employees and connect inter-related aspects of their business. It's no longer a matter of critical and non-core, we want it all. Everything matters, together. The Digital Retail Innovation Lab at this year's NRF showcases numerous ways retailers can collect, analyze and leverage data to transform not only the customer experience, the most obvious point of value, but also the employee experience and supporting operations as well.

The Lab provides retail and consumer goods providers with an immersive environment to experience applications of emerging technology that are creating value today. Drawing from our experience working with clients around the world and across industries, the Lab focuses on ways retailers are successfully leveraging emerging technology to gather and operationalize data to create differentiated experiences for customers and employees.

About Avanade

Avanade is the leading provider of innovative digital and cloud services, business solutions and design-led experiences delivered through the power of people and the Microsoft ecosystem. Our professionals bring bold, fresh thinking combined with technology, business and industry expertise to help fuel transformation and growth for our clients and their customers. Avanade has 30,000 digitally connected people across 24 countries, bringing clients the best thinking through a collaborative culture that honors diversity and reflects the communities in which we operate. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation. Learn more at www.avanade.com.

For more on Avanade's vision of technology, AI and the future of digital in Retail, please download our Annual TechVision Report.

Footnotes:

[1] Digital (S)age: Marketing Best Practices in the Digital Age, blog by Michael Schinelli, CMO, UNC-Kenan Flagler School of Business.

[2] Brick & Mortar Retailer Market Values (2006* vs. Today), Yahoo Finance.

[3] "These 5 Retail Innovations Could Actually Make You Want to Shop in a Store Again," www.entrepreneur.com, Feb 24, 2017.

[4] The State of Retail – 2016, TimeTrade.

[5] "These 5 Retail Innovations Could...," www.entrepreneur.com, Feb 24 2017.

[6] Avanade Digital Workplace in Retail client research, https://www.avanade.com/dwresearch-retail.

[7] Ibid.

[8] "Google teams with Gupshup to develop voice-activated actions for Google Home," VentureBeat, Dec. 8, 2016.

[9] Pano Anthos of XRC Labs, as quoted on FoxNews, reported on https://www.quotes.net/authors/Pano+Anthos.

[10] "Omnichannel Shoppers: An Emerging Retail Reality," Think with Google, Julie Krueger, March 14, 2015.

[11] "10 Predictions for the Retail Community," Leslie Hand, IDC Community, November 29, 2016.

[12] "Why Smart Online Retailers Are Opening Physical Stores," McKinsey Group in LS Retail, March 21, 2017.

[13] "People First in Digital Retail," Accenture Technology Vision for Retail 2016.

avanade

About Avanade

Avanade is the leading provider of innovative digital and cloud-enabling services, business solutions and design-led experiences, delivered through the power of people and the Microsoft ecosystem. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation and has 30,000 professionals in 24 countries.

Visit us at www.avanade.com.

North America
Seattle
Phone +1 206 239 5600
America@avanade.com

Asia-Pacific
Sydney
Phone +61 2 9005 6772
AsiaPac@avanade.com

South America
Sao Paulo
Phone +55 (11) 5188 3000
LatinAmerica@avanade.com

Europe
London
Phone +44 (0) 20 7025 1000
Europe@avanade.com