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Cloud boosts bottom line for consumer business

As the consumer industry shifts to digital, the transition to cloud offers an economic boost

While the trend away from physical to digital storefronts has grown steadily over the past few years, the COVID-19 pandemic has accelerated the shift by as much as five years, according to a recent IBM US retail index[1].

Growth has significantly increased in the new so-called essential categories that have emerged due to the crisis, for example, including groceries (up 12 percent), alcohol (16 percent), and home improvement materials (14 percent).[1] Other categories that saw growth exceed at least 35 percent include over-the-counter medication, household supplies, and personal care products.[2]

As few of the expected things to return to exactly the way they were before 2020, however, one of the top operating-model priorities organizations are expected to have is to enhance their IT infrastructure to handle the growing need to conduct business virtually. Visible in every industry, the impact of the move toward cloud will be especially pronounced in consumer-based industries. In business-to-consumer (B2C) commerce, we see it in industries ranging from consumer retail to lottery to consumer automotive, which have shifted the bulk of their operations online and have had to create or evolve consumer experiences and expectations, while in business-to-business (B2B) activity, the essential transportation, logistics, and warehousing functions have been transformed by digital. In fact, 50 percent of logistics service providers are already tapping into cloud services and another 20 percent are ready to migrate their on-premise solutions to the cloud.[6]

However, many consumer-based industries are facing technological challenges in trying to transform their way of operating. Chief among these is the need to ensure their technology can address shifting demographics, changing consumer preferences and behaviours, and the other elements of economic uncertainty we're all experiencing right now. Cloud will enable these organizations to adjust to changing needs, with systems and technologies that are highly resilient. (And while it may not be obvious to consumers, cloud makes possible many daily activities to which they've become accustomed, including online shopping, product and service fulfillment, and content consumption.)

Exponential increase in consumer-industry IT spend

Historically, consumer-based organizations have not invested heavily in their IT systems; most still spend between 2 and 3 percent of their total operating budgets on it, much less than those in industries such as financial services, energy, and the public sector. However, this is changing. As of 2019, retail technology investment has increased to over US$203.6 billion, according to Gartner.[4] In 2020, 85 percent of retail companies and 42 percent of consumer-products organizations were expected to have further increased their IT spend.[5] The upshot is that customer-facing solutions such as e-commerce, digital marketing, and customer-service initiatives have received the lion's share of the increase in investments in the retail sector.

Even so, most businesses in the consumer industry sector still depend on aging legacy IT systems and infrastructure to run their back-office processes, functions, and reporting. With the accelerated shift toward digital, the strain on these processes is growing, to the extent that the pace of innovation has shortened IT infrastructure end-of-life from 15-20 years to 10 years or less. Simply put, original plans 2 years ago for IT investment need to be rethought.

Using cloud to enable financial advantage

Why is the transition to cloud so critical for consumer-based organizations? One reason is because cloud shifts investments in technology away from capital expenses and into operating expenses, a rapid transition to cloud could have a substantial impact on company financials. Under the capital expenditure (CAPEX) model, the procurement of infrastructure hardware and data centres incurs an upfront cost on balance sheets and capitalizes these assets over time. That means much of the hardware a company needed to purchase in order to build its infrastructure to support e-commerce is paid up front, then depreciates over time.

In an operating expenditure (OPEX) model with cloud, however, that upfront payment doesn't happen. Instead, companies pay by consumption. For many consumer-based industries, the CAPEX model doesn't fit the way they prefer to operate from a financial perspective. With typically smaller IT budgets relative to other sectors, moving their expenses to a consumption-based model lets them align more closely to their actual sales and revenue numbers. In addition, the more consumer organizations align their sales to their technology spend, the better their return on investment will be. Given the much thinner margins in consumer compared to other industries, this represents a huge advantage.

IT resiliency: more critical than ever

Another key reason that it's critical for consumer-based organizations to invest more heavily in IT is that, as COVID-19 continues to force consumers, workers, and users to conduct their lives in a virtual environment, IT systems will start to creak at the seams. Companies are increasingly looking to cloud-based technologies to advance their ability to deliver their services and goods and have their employees set up to work virtually. Cloud will enable them to leapfrog their technology investments by procuring services on a consumption-based model instead of investing in their own, on-premise infrastructure that they must continually services and update to maintain resiliency.

As omnichannel transactions become the norm, and as services increasingly swing toward the web and mobile, the need for cloud technology will continue to grow. By providing resilient infrastructure within the target budget, this move to OpEx could be what enables the consumer industry to continue fast-tracking its IT transformation. For example, some companies are using open-source frameworks to enable real-time, transparent views into global inventory management information and offer omnichannel capabilities to customers—all without on-premise servers. Other organizations are starting to lean on cloud or software-support companies to help them develop the capabilities to address peak demand during events such as Black Friday and Cyber Monday.

On the B2B side especially, cloud better supports high transaction volumes, high availability, and highly resilient systems. This translates to an improved, consistent customer experience and higher customer retention scores. In matters of supply chain resiliency—the suppliers, distributors, and logistics network that ties it all together, ensuring that store shelves are continuously stocked with goods—cloud becomes essential.

For B2C industries, cloud enables the functions that are essential for online omnichannel transactions. Consumers want to buy products and services online, and companies need to sell them in a way that supports the overall goals and aims of the business. Cloud also enables different fulfillment processes, such as curbside pickup and fulfilling purchases from store warehouses rather than central distribution facilities.

Cloud is also changing the ways B2C companies interact with their customers. The automotive industry in particular is experiencing a paradigm shift toward e-retail and e-commerce and away from the traditional consumer ritual of going to the showroom, talking to a salesperson, choosing and purchasing a vehicle, going through a pre-delivery checklist, and taking a walkaround. As early as 2035, consumers may purchase as many as 1.3 million vehicles online every year, according to the research firm Frost & Sullivan[7]. Dealerships are relying more on virtual reality showrooms and delivery checklists, as well as virtual vehicle-servicing tools, to ensure customer needs and expectations are met. In fact, the survey by Frost & Sullivan reported that 43 percent of auto shoppers expressed interest in performing the complete auto purchase online without ever visiting a dealership, and 83 percent said their reason was to save time and simplify the purchase experience.[3]

Cloud technology has been developed to facilitate such experiences. And in the vehicle-purchasing instance, it's being used as an innovation platform to make sure these new buying and fulfillment experiences are successfully delivered to every customer.

For both consumers and consumer-based organizations, cloud makes numerous daily activities easier and more seamless. It drives uninterrupted experiences, better company-consumer engagement, and stronger financials: a win-win-win situation. It's time to inquire, invest, and innovate in cloud.

Combining our strengths, Deloitte Advisory and cloud technologies help organizations deliver agile and secure always-on business capabilities as they develop their cloud adoption frameworks. Contact us to learn more.

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