



Executive Summary

**Digital transformation
through data:** how retailers
are delivering more value
through insights

May 2019

At a glance

25% of retailers are leading in terms of their data maturity, and they are unlocking value by understanding customer behavior in ways that were never possible in an exclusively brick-and-mortar world. The best-in-class retailers are using advanced data capabilities to enhance their core sales activities and customer experience, as well as monetizing their retail platform as a media asset. Retailers recognize the potential in driving both the core business and seizing emerging opportunities, but **the path to digital transformation has been challenging** - more than 50% of retailers **struggle to access the right talent and prioritize investment in data capabilities**.

Leading retailers are characterized by their test-and-learn culture in which experimentation and data-informed decisions permeate the entire organization. For these retailers, digital transformation through data has required dedicated effort to build four key data foundations: **culture and ways of working, technology, skills, and data**. With solid foundations in place, retailers can collect, analyze, and activate audience data with improved speed and confidence.

There is no one-size-fits-all approach for digital transformation. Each retailer has its own set of strategic choices that influence how it activates customer data to support its organizational mission. The best-in-class companies use this strategic direction to guide their transformations and identify the use cases that will drive customer engagement and revenue. This **Executive Summary** and accompanying **Guide** describe these data foundations and use cases in detail and provide actionable steps for retailers seeking a digital transformation through data.

Introduction

Digital innovation is revolutionizing the traditional retail model. In addition to e-commerce, digital interactions influence more than half of every dollar spent in brick-and-mortar stores and drive expectations of price transparency, convenience, and relevance.¹ Such compounding trends intensify the urgency for retailers to act. Those who successfully manage the digital shift do so, in part, by using online customer data to enhance their core retail activities and develop new sources of media revenue. These digital touchpoints allow retailers to understand customer behavior in ways that were never possible in an exclusively brick-and-mortar world. Retailers who use customer data to transform themselves are better positioned to thrive in the new digital retail landscape and create sustainable growth.

How much value can retailers drive with this data, and how do they do it? Deloitte conducted a study to better understand how retailers are leveraging customer data to increase engagement on their digital platforms and drive value through the monetization of those platforms. To narrow focus and reveal opportunities for retailers on their digital platforms, the study excludes customer acquisition and exclusively offline activities.

This executive summary details the study's findings. It is complemented by:

A **Diagnostic Tool** for retailers to assess their data maturity

A **Data Activation Guide** with actionable steps for retailers to improve their data maturity



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About the report

This report was commissioned by Google and conducted by Deloitte. The findings were discussed with Google executives; however, Deloitte is responsible for the analysis and conclusions from the study.

¹ "Deloitte Global Powers of Retailing," 2018.

Setting the stage

Customer data is at the center of online retail.¹ Retailers are driven by customers, suppliers, and now advertisers to become more data-informed. Customers expect to be recognized, served relevant products, and presented with offers that satisfy their individual needs. Suppliers and advertisers want to effectively influence customers during the critical moments before purchase.

E-commerce websites are media assets that can connect brands directly with customers in a transactional mindset. While retailers are seizing this opportunity to create more value with suppliers and brands, a superior customer experience remains the big prize. At the center of these efforts is a common goal: to translate an understanding of customers' behavior into a competitive advantage in the online retail industry.

Retailers are diverse, but data is a priority across the globe. While data is universal, there are regional nuances that affect how retailers approach digital transformation in the United States, EMEA, and APAC. For instance, the UK is considered a global leader in omnichannel retail, including online channels, but in other parts of Europe, not all omnichannel players have the same urgency to transition online. In APAC, China leads the way in e-commerce market maturity, including payment and fulfillment innovations, while in Indonesia, the focus is on capturing new customers from increasing Internet connectivity and smartphone adoption. In the United States, the retail market is thriving; in fact, the United States is home to seven of the 10 largest retailers in the world.² Still, the United States is facing some market turmoil as the rise of digitally native brands has shifted competitive dynamics in the e-commerce retail landscape.

Despite the variability across regions, customer data is used by retailers around the world to better serve and communicate with customers. This global emphasis on data is leading to tighter data privacy regulations, such as the European Union's General Data Protection Regulation (GDPR). Although the long-term impact of GDPR and other impending regulations is unknown, the intent of the regulations is to protect consumers. Retailers who prioritize data governance and compliance with these new regulations and engage in public policy development are positioning themselves to thrive.

A note on good data practice

Throughout this executive summary and accompanying [guide](#), there are a number of references to how data can be used to derive customer insights and drive better business outcomes. In all cases, the underlying objective of using data is to serve customers with the best products and experiences based on their needs.

The right to use customer data to create value for consumers and retailers rests on the ability of the industry to demonstrate responsible and transparent use. All data collection, processing, and use referenced in this executive summary must be carried out in compliance with law and should leverage controls and tools that meet evolving customer needs.

¹ In this study, customer data is defined as first-, second-, and third-party data collected on customer characteristics (such as location and demographic), customer behavior on their own sites (such as product views, add to basket, and bounce rate) and transaction history

² "Deloitte Global Powers of Retailing," 2018.

How retailers are creating value through customer data

Retailers collect, transform, and activate customer data to drive value across three primary operational objectives:

- **improve the user experience**
- **enhance core sales activities**
- **engage in emerging monetization opportunities**

Each of these operational objectives is defined by a set of use cases:

User experience

User interface and navigation optimization



Personalize and optimize the look, feel, and navigation of the e-commerce website using customer browsing and purchasing data

Emerging monetization opportunities

Digital supplier-funded marketing



Optimize brand promotion and merchandising opportunities for suppliers within the online customer journey

Core sales activities

Product recommendations



Serve the most relevant products and content to customers based on their historical preferences

Promotions and house ads



Serve the most effective promotions or advertisements to customers at the right times

Non-supplier marketing



Serve the most appropriate (non-supplier) advertisements to customers based on context and customer behavior

Product assortment and merchandising



Optimize product assortment and placement decisions based on customer behavior

Customer loyalty and lifetime value



Use customer behavior to develop and introduce effective incentives to drive loyalty and LTV

Online to offline



Influence in-store conversion through the online customer experience (if customers are unlikely to convert online)

User experience

The digital consumer has higher expectations for ease and relevance of each step of the purchasing journey. Retailers focus heavily on the user experience because it is central to a great overall customer experience. User browsing and transaction data can be translated into actions designed to tailor the customer journey and user interface, which can significantly improve the user experience and drive value.

The majority of retailers interviewed were able to **diagnose issues in the user experience** that caused customers to abandon journeys, but few have built the organizational and technical agility to optimize the user experience based on customer behavior or characteristics.

Core sales activities

Customer data enables a number of critical capabilities that enhance a retailer's ability to sell products and better serve customers.

Data can be used to understand customers' historical purchase behavior, browsing activity, and potential loyalty. Retailers can then use this data to optimize their product catalog to match their customers' purchasing behavior, enhance their promotional campaigns to target customers with the right offer based on their browsing activity, and improve their loyalty program to identify and serve high-value customers. In fact, retailers adept at using data in their core sales activities drive higher conversion rates, basket size, and purchase frequency than their low data maturity counterparts.

One online retailer, in particular, implemented onsite retargeting tools that drove an estimated **20% increase in revenue** for targeted promotions compared to its previous promotion performance at a lower data maturity level.¹

Emerging monetization opportunities

An increasing number of retailers are **diversifying into media businesses, pursuing higher margin revenue streams and offering innovative new shopping experiences.** Likewise, given their proximity to the point of sale, suppliers are using digital sponsorships and promotions to inform purchasing decisions. Data also enables retailers to monetize their digital media assets and online to offline support, to serve the over 90% of online customers who abandon the online customer journey before making any transactions. While this may represent a relatively small percentage of revenue for some retailers today, others have invested heavily into these emerging opportunities and are seeing the benefits.

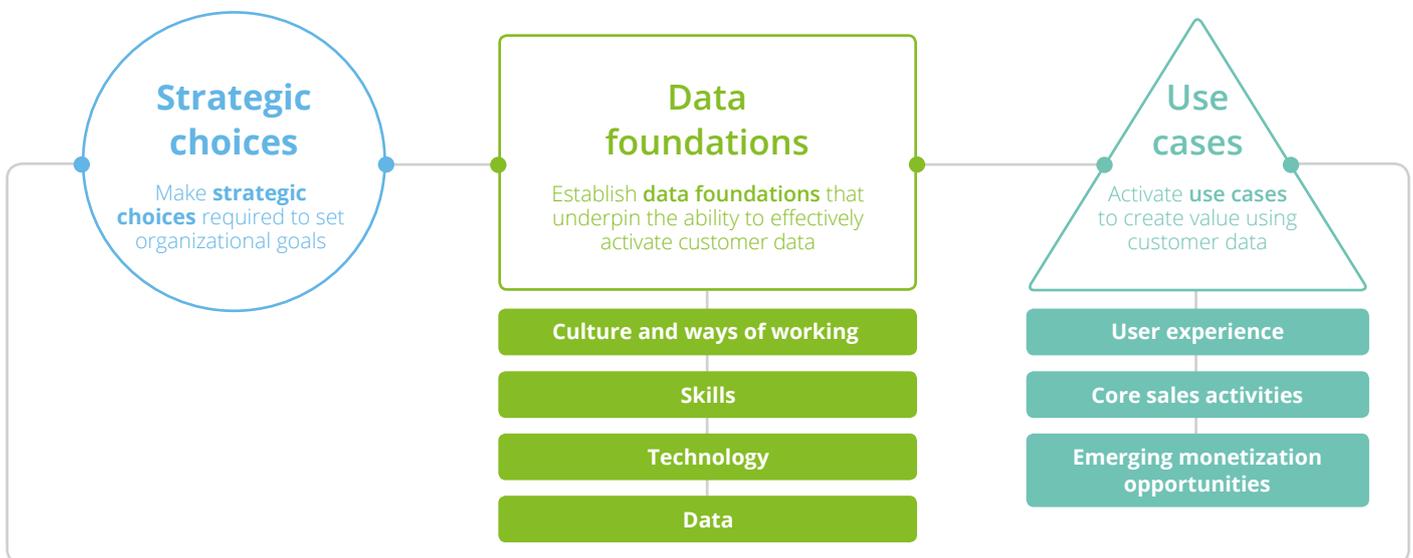
Some retailers have invested in media assets that drive compelling revenue and margin growth, in some cases **3-4x the percentage margin of the core business.** This relieved pressure from traditionally slim retail margins and has improved the sustainability of the overall business.

¹ Digital transformation through data study; Deloitte Analysis

Thinking about digital transformation...

Improving data maturity was a strategic priority for all of the retailers who participated in the study, but **the road to transformation requires a clear direction and deliberate choices about where to focus**. The **Data Activation Framework** sets out three critical stages for digital transformation, and the accompanying **Data Activation Guide** details actionable steps retailers can take across these stages to increase their data maturity:

Data Activation Framework



Charting the path forward

Digital transformation is not a straightforward journey, but a handful of retailers are charting an effective path forward. With their data foundations in place and a clear strategic direction and ambition for data, they are able to execute more sophisticated use cases and deliver market-leading online experiences.

These best-in-class companies have translated an understanding of their customers' behavior into a competitive advantage, using data to increase customer revenue as well as drive supplier and advertiser revenue. There are clear rewards for retailers who are willing to learn from these examples - and to act quickly.

Appendix

About the study

As part of this study, Deloitte held interviews with more than 60 retailers and e-commerce experts in the United States; Asia Pacific (APAC); and Europe, the Middle East, and Africa (EMEA). Study participants came from a diverse range of retail backgrounds and varied by:

Category From everyday essentials to specialty retail		Sizes From \$100 million in annual revenue to \$42 billion in annual revenue		Channel mix From omnichannel to online only	
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In order to compare retailers' data capabilities across regions and highlight how retailers can become more advanced, Deloitte created a **Data Maturity Scale** with four distinct levels of maturity - Level 1 (Nascent), Level 2 (Developing), Level 3 (Mature), and Level 4 (Leading).

In addition to representing the retailer perspective, Deloitte conducted more than 20 interviews with technology providers, advertisers, and advertising agencies to understand the data trends affecting the overall retail ecosystem.

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