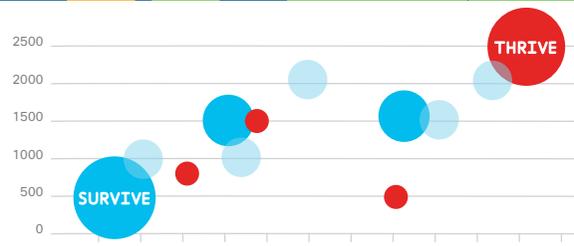
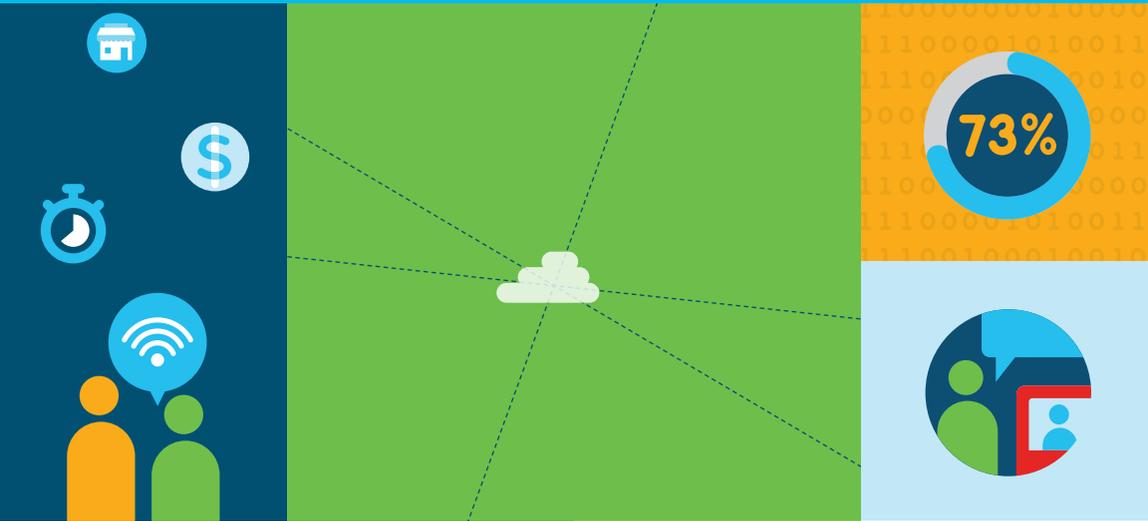




A Retail Thrive Guide: Preparing for the Consumer 2020



Contents

03	Digitizing for the Consumer 2020	14	Retail Digital Transformation Roadmap Framework
04	Who is the Consumer 2020?	16	The Digital Roadmap in Action
06	Retail: The Most Disrupted Industry	18	Aligning the CIO + CMO Partnership
08	Business Models in the Digital Vortex	22	Customer Experiences that WOW
09	Retail Strategy and Value Vampires	24	To Learn More
12	Five Ways to Thrive with the Consumer 2020		

“

Four out of ten companies that cannot transform will fail over the next decade. However, you can find ways to not only survive, but thrive.”

Digitizing for the Consumer 2020

Since the emergence of digital media, we've heard about the growing power of the consumer. Today, it is astonishing to see how far this trend has continued to evolve. Across industries, the Consumer 2020 is in control as they select, or replace, the brands that have traditionally provided products, services, and experiences.

Cisco research shows that four out of ten companies will fail over the next decade if they cannot transform their business to meet today's digital demands. We are already seeing the truth of this in the marketplace:

- A repositioning of malls and hotel chains
- Many mergers and acquisitions and closures
- Disruptive and surprising technical capabilities

Now the question becomes how to survive in this chaotic environment. The ultimate survival strategy is to invest in a mix of technology, software, and services supple enough to adapt to each change as it comes along. Based on this foundation, you can create a customer experience, pricing model, or ecosystem of partners and services that allows you to find ways to not only survive, but thrive.

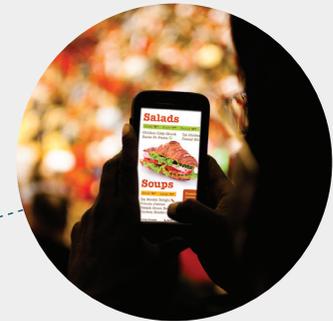
Who is the Consumer 2020?

The Consumer 2020 sits atop an always-expanding, personalized network of data, gathered from in-store browsing to AI apps, helping make informed decisions and control experiences.

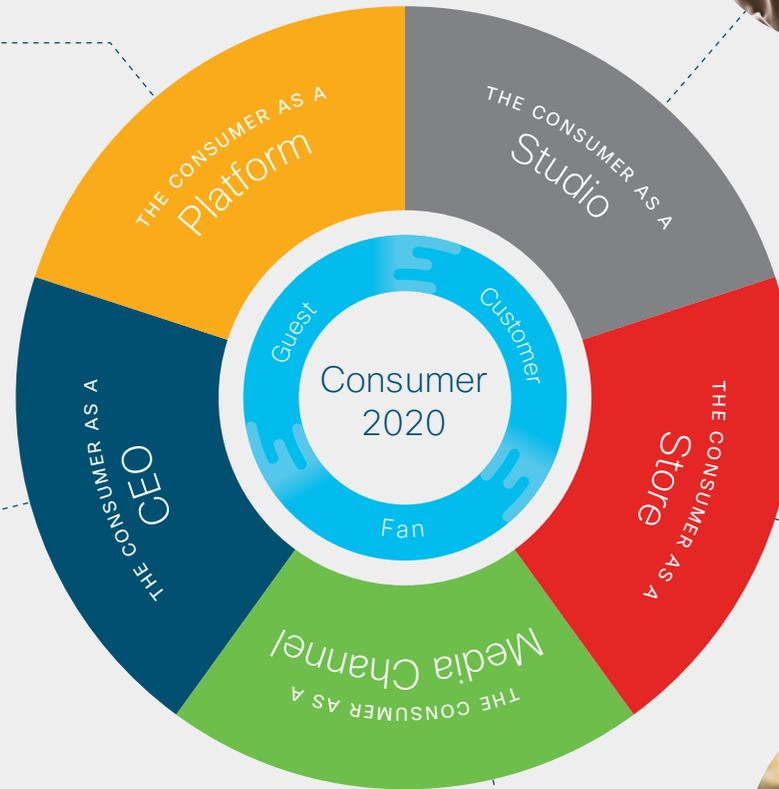


The modern shopper is increasingly involved in the manufacturing and development of new products and services, including customized offerings for clothes and other personal items.

With direct access to retail channels via mobile devices, consumers can curate, order, sell, and purchase products and services, everywhere and any time.



The most powerful form of entertainment for today's shopper is generating personal content, including streaming photos and experiences via social media.



The Consumer 2020 has an increased impact on the brand, reviewing not just the product but company issues such as sustainability and social responsibility.



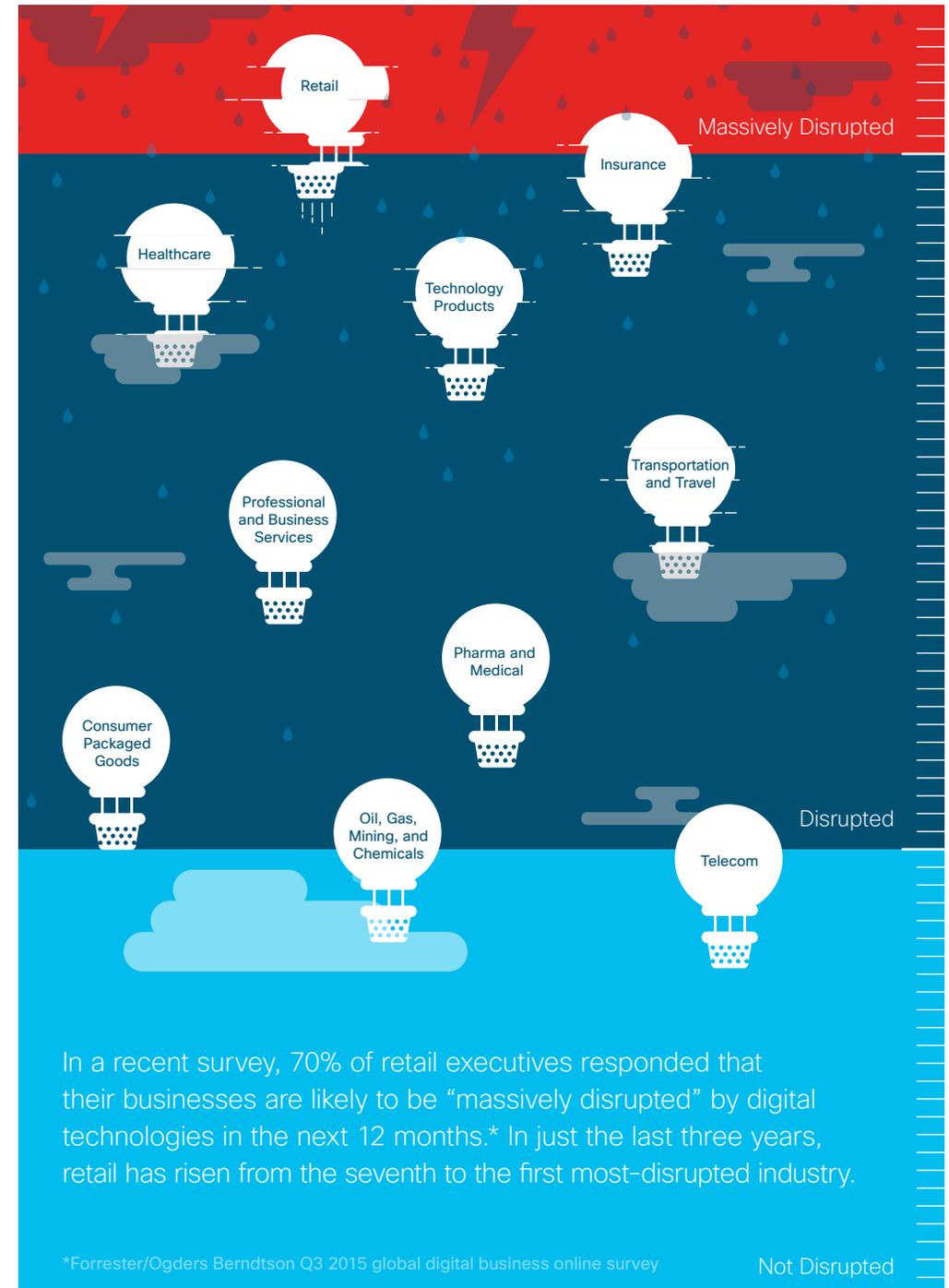
Retail: The Most Disrupted Industry

Recently, Cisco introduced the idea of disruption across industries—disruption that can only be addressed through a powerful digital transformation. We describe this as a “digital vortex,” which describes industries that will see the most disruption over five years. Even faster than expected, new research shows that retail is becoming the single most disrupted industry.

This is due to industry-leading disruption from companies like Amazon, which has broken new ground in its quest for the Consumer 2020 with its acquisition of Whole Foods in grocery, Emmy-winning media and entertainment offerings, and its AmazonBasics brand of consumer goods (with more than 900 products). Amazon is succeeding by:

- **Raising consumers’ expectations** by continually improving reliability and reducing the time from order to possession
- **Increasing frequency of interaction** with consumers by adding category breadth as well as other capabilities, such as content delivery and intelligent interaction (with devices such as Echo and Alexa)
- **Building customer loyalty** with fee-for-membership services such as Amazon Prime, whose members now include nearly half of all U.S. households
- **Becoming so easy to use** that consumers see less need to shop—or look for information—elsewhere

We also see Amazon and other digital natives, such as Bonobos, embracing brick and mortar, opening physical outlets to grow and expand their presence. In fact, despite many reports of the “retail apocalypse,” IHL Group data shows a net increase in store openings of over 4,000 in the U.S. in 2017. In fact, for each company closing a store, 2.7 companies are opening them.



Business Models in the Digital Vortex

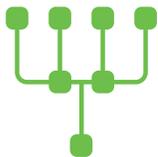
The digital vortex changes how business is being done. Retailers may compete on cost (Amazon), customer experience (Virgin), or on a platform (Pinterest). As a retailer, you need to choose where you want to compete. These models focus exclusively on delivering three main forms of value for the consumer.



Cost value: Offerings cost much less than traditional options, if they cost anything at all. Examples include freemium models, consumption-based pricing, and price transparency.



Experience value: Giving customers what they want, how and when they want it. This can mean letting customers choose what they want and skip what they don't, reducing effort and complexity, and providing instant gratification.



Platform value: Using digital technology to scale offerings, leverage new sources of data, and create network effects. Platform value enables rapid scalability, reduces capital expenditure, and creates multi-sided markets where all parties benefit.

Note that while cost value and experience value are as old as competition itself, platform value is new to the digital age, and it is the driving force of the most disruptive companies.

Retail Strategy and Value Vampires

The digital vortex also changes the nature of competition in two ways.

The first is the emergence of a new type of competitor we call the “value vampire” because it creates value for customers while draining revenues and profits from the markets they attack. Value vampires use combinatorial disruption that puts extreme cost value (employing business models including free/ultra-low cost, price transparency, and buyer aggregation) at the heart of their business models. Their offerings are much cheaper, and often all-around better. Incumbents quickly lose not only revenue, but relevance.

In other words, a value vampire is a company whose competitive advantage shrinks the overall revenue or profit pool (or both) in a market. Value vampires are dangerous for incumbents because they are ruthlessly efficient at creating customer value.

“Value vacancies” are short-duration windows of opportunity in tightly contested markets. They can be leveraged by organizations in response to threats from value vampires and other digital disruptors.



“Value vampires are dangerous for incumbents because they are ruthlessly efficient at creating customer value.”

Defense: Serving the Consumer 2020

It's no secret that the majority of retailers are seeking to compete on customer experience. With value vampires sucking the profits from core businesses, and value vacancies vanishing quickly, companies need new strategies to survive. A simple—but powerful—strategic framework shows how companies must respond when attacked by disruptors, and how to make the most of their growth opportunities.

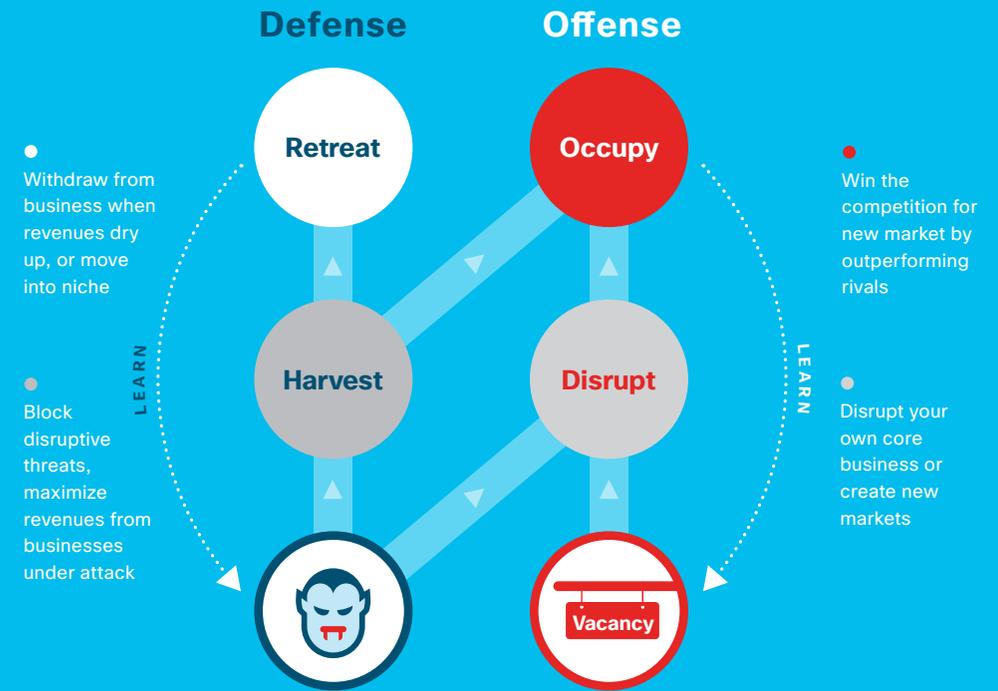
When a disruptor attacks a line of business, a company must decide whether it can fend off the disruptor and win, or whether its best move is to get as much as it can from a business in decline.

The “harvest” strategy is all about gaining as much revenue as possible when the disruptor has the upper hand. This can include using “blocking” strategies, such as lawsuits and regulations, to slow the disruptor down. It can also include making strategic investments in the business to make it profitable for longer.

Eventually, the business may no longer be profitable, or not fit with the strategic direction of the company. At that point, it can be sold off or shut down—this is the “retreat” strategy. Or it can become a niche business, profitably serving a small group of customers.

Offense: Capturing the Consumer 2020

Now, let's go on offense. A company can move into the “disrupt strategy” when it senses a new opportunity, such as a completely new market. It can also disrupt its own core business—seeking to deliver a product or service in a new way, even at the risk of reducing revenue from one of its own businesses. Finally, a company can disrupt itself when a value vampire attacks a core business—competing instead of moving into harvest.



Defensive and offensive strategies for today's retailer—and the threat of the “value vampire.”

Finally, we have the “occupy” strategy. There is an important difference between disrupting a market and winning—or occupying—it. Often, the company that wins a value vacancy is not the first one in. This is good news for big companies that are agile enough to compete, since they can often use their own size, scale, and expertise to their advantage.

Five Ways to Thrive with the Consumer 2020

1

Create omnichannel, personalized customer experiences.

Customers shopping online expect seamless, convenient, fast, and personalized shopping experiences. Retailers need to provide the same or better experiences at the store. Customer insights give you the ability to predict and personalize customer engagements. Accenture finds that customers call out poor experiences as the primary reason for switching allegiances. Already, there is a 50 percent increase in companies that say they compete directly on customer experience.

2

Empower associates to be productive and customer-first.

To deliver the best in-store customer experience, you need a workforce that's ready and eager to deliver what your customers demand. Productivity technology empowers associates to become trusted advisors, equipped to help customers with real-time inventory information, product specifications, and personalized recommendations. Digital capabilities such as on-demand training, analytics, and collaboration tools yield better-trained, better supported, and more satisfied associates who remain on the job for longer. Gallup Research shows that companies have a 1.5 times higher earnings per share with workforces that are highly engaged.

3

Optimize your retail operations. To remain competitive in the modern digital marketplace, your retail infrastructure must balance customer demands for personalized digital services with operational requirements for unified commerce. Increasingly, stores need consistent information management combined with a consistent omnichannel experience to ensure accelerated deployment and rollout of new business functions, services, and apps.

4

Protect your brand and secure your operations. Cybersecurity attacks continue to make big headlines. Retailers need to build strong processes, IT networks, and systems that secure their business from the store to the cloud to the data center. By offering faster threat detection, secure mobile access, and continuous compliance for cardholder data, security becomes another critical aspect of the Consumer 2020 experience.

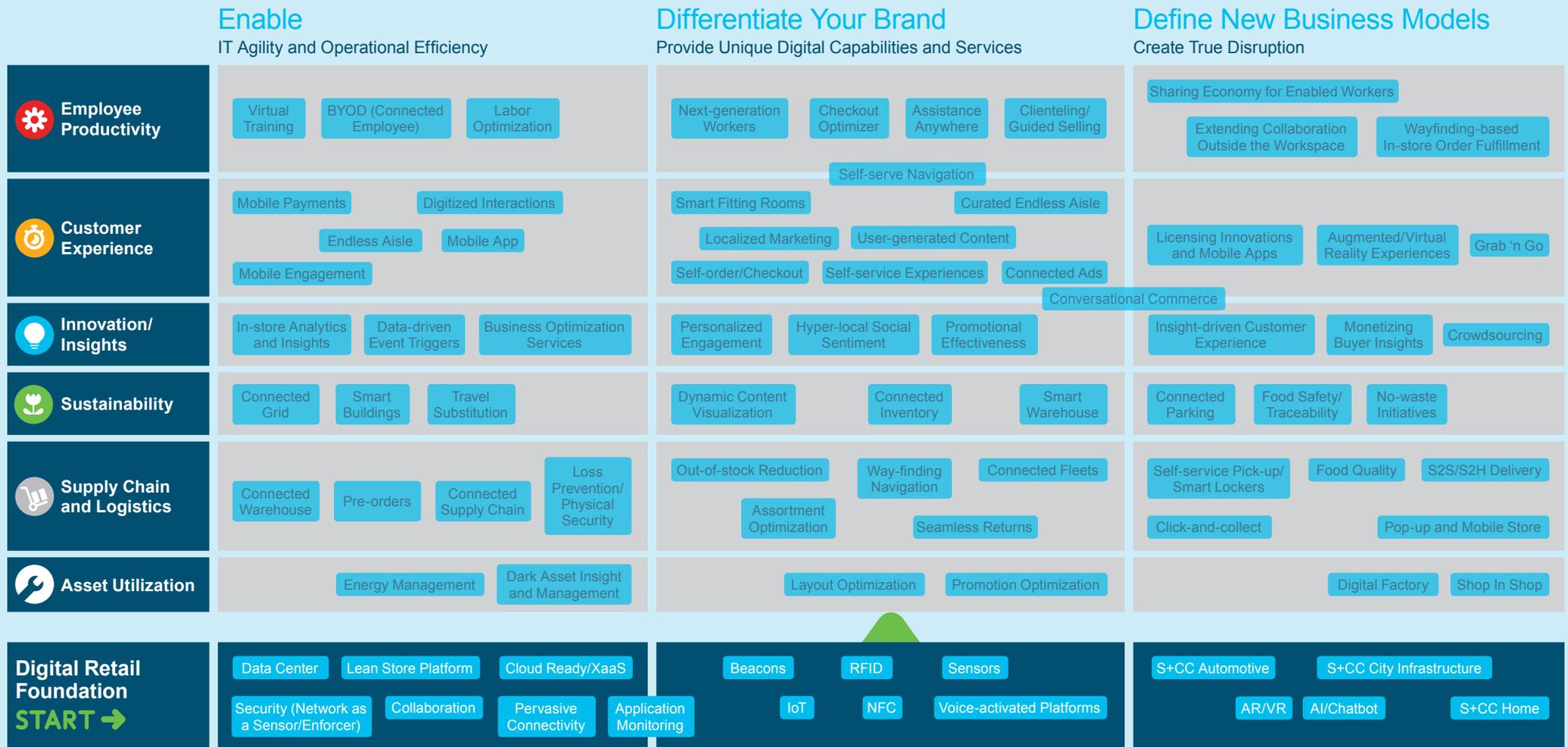
5

Build your store on the Cisco Digital Network Architecture (DNA). The essential strategy for digital transformation in this rapidly changing environment is to invest in a technology foundation that is flexible, automated, and secure—a digital-ready network. With Cisco DNA, retailers can revolutionize how they design, build, and manage the network for almost any new solution, including Cisco Kinetic for sensor networks to enable the latest customer experiences.

2020

Retail Digital Transformation Roadmap Framework

To meet the needs of the Consumer 2020, Cisco creates a digital transformation roadmap based on the right infrastructure, aligned to specific retailer goals.



The Digital Roadmap in Action

Every retailer starts their digital transformation from a different point. Regardless of where the retail business is today, this is a holistic and long-term transformation process. It requires a sweeping set of changes to develop digital retail capabilities, but you can proceed with incremental building-block steps, once the right foundation is in place. It also requires an attentive approach to change management, to help each retail team make the most of its new capabilities.

Cisco provides solutions, software, and services for both the foundation and the higher-level digital capabilities. We help retailers build basic, enabling technologies, create differentiation, and even define new business models. Cisco works with retailers to determine where they can get the most impact to design a roadmap for digital transformation.



Case Study: Panera Bread

For almost 40 years, Panera Bread has cooked up edible innovation with fresh, authentic artisan breads served in almost 2,000 cafés across the U.S. But today, faced with explosive growth, the company is taking it to the next level with an award-winning digital transformation.

- **Phase I:** Panera set up the wireless foundation for a series of digital cafés enabled by Cisco’s Digital Ready Network, designed to help develop customer experiences, use automated processes to reduce costs and complexity, and lower risk with world-class security and compliance.
- **Phase II:** The company created a new “quick service” business model. Now, consumers can place a mobile order up to five days in advance and come by the café to pick it up; lines and wait times are reduced as the store receives an automatic alert upon their arrival. Dine-in guests may also select items via phone or at the kiosk. By enrolling in the MyPanera digital loyalty program, the system provides more personalized services such as remembering user favorites.
- **Phase III:** The solution supports “Farm to Fork” initiatives, deploying wellness apps to support customers’ dietary needs and fitness goals. Panera also uses this new technology to manage parking, enable delivery, and centralize security.

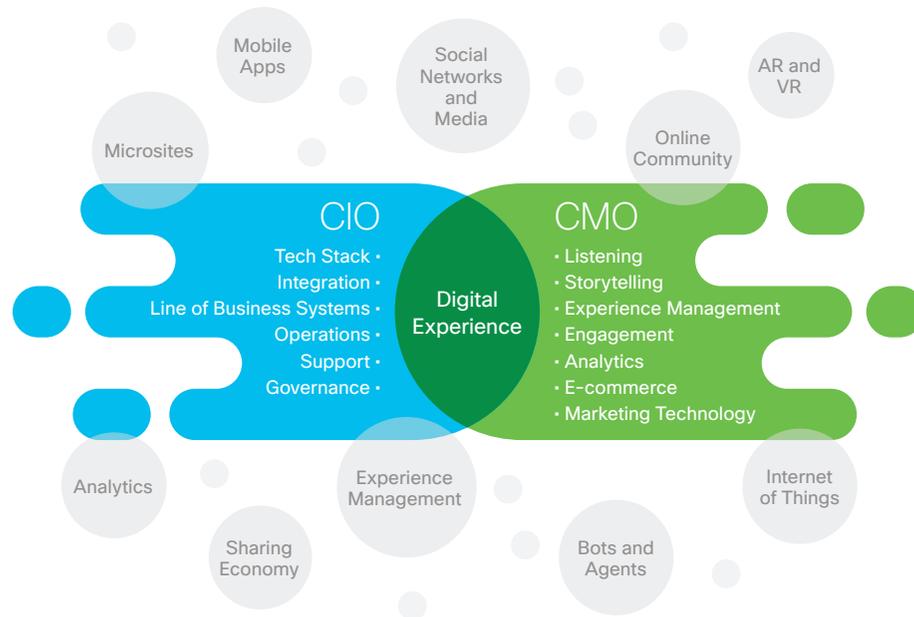


The new business model is hugely popular: Within the first year about 50 percent of all transactions were completed over the Cisco network. Today, Panera is rapidly growing its reputation as a “destination” food operator that resides on the cutting edge of customer experience.

Aligning the CIO + CMO Partnership

Who is on your team to help make this happen? The CIO and CMO should be at the top of your roster. However, many of today's retailers need to correct a misalignment of purpose between IT departments and marketers to make this happen. Marketers are focused on developing new apps that give customers an engaging, personalized experience, while IT is still charged with maintaining the legacy infrastructure.

But the goals of these two functions are beginning to collide, with websites and apps run by the CMO now becoming cornerstones of the business. CIOs are moving toward overseeing all of IT in collaboration with marketers and business units. This allows retailers



To meet the expectations of the Consumer 2020, CIOs and CMOs must combine resources and share control in the age of digital proliferation and silos.

to deliver fresh digital experiences for customers (and also for associates) and work together to support business strategy.

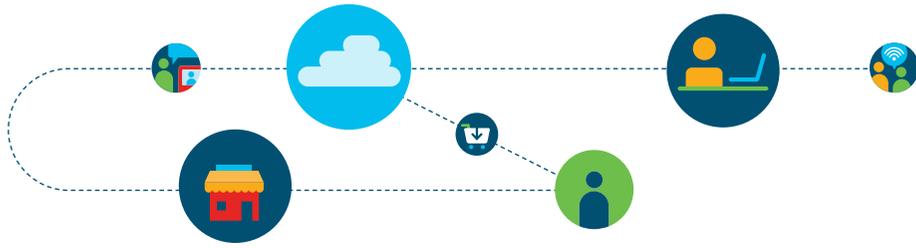
Working with a powerful executive team, retailers can combine development of enterprise and Cisco development and operations resources (control, governance, accounting, etc.) with dynamic, technology-based customer experiences to create affordable technologies to support the business that are agile, reliable, and secure. In this way, CIOs and CMOs are able to create a new type of business model.

Hyper-Personalization of Products and Experience

Gone are the days when shoppers accepted cookie-cutter products and experiences. Thanks to evolving technology and increasingly higher customer expectations, we are seeing a major trend toward individualized products and services that change course as new data is acquired.

It's not just about computers and smartphones, but "things" such as cars, refrigerators, homes, and even light bulbs connecting to the Internet. Every device captures data—smartphones, video cams, location beacons, web activity, credit cards, and so on. And the Consumer 2020 wants to offer input on social media, crowdsourcing, and reviews.

As well, with computing power per dollar at an all-time low, the ability of the CIO and the CMO to use data is improved. We have made rapid strides in machine learning over the past few years, and innovative mediums such as VR/AR and Intelligent Assistants are adding fuel to the hyper-personalization engine. The total amount of data created (and not necessarily stored) by any device will reach 600 ZB per year by 2020, up from 145 ZB per year in 2015.



Digitization with the Internet of Things

Now with the Internet of Things (IoT), retailers can automate and remotely monitor their operations while improving the customer experience. Having a completely connected network of sensors and systems makes critical information available across store sites and the supply chain.

Building on top of Cisco's IoT networking capabilities, the Cisco Kinetic platform is an IoT data fabric that:

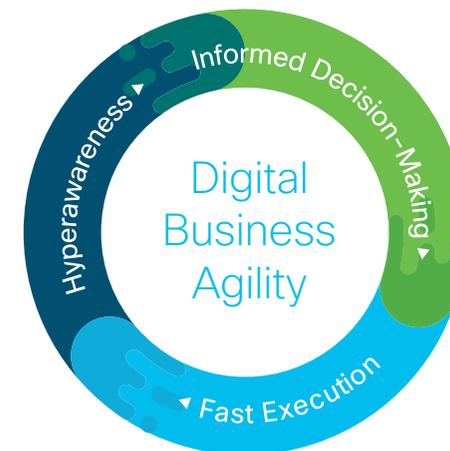
- Extracts data from diverse in-store sensors and normalizes it to make it useable in the retailer's various applications. (Data may include details on customer behavior, dwell times, conversion, etc.)
- Processes data at the edge—in the store—so retailers can take fast action on that data (such as offering a timely promotion to a customer onsite.)
- Moves data to business-critical systems to help achieve desired outcomes such as merchandising decisions, sales offer options, and so on.
- Applies policy around data ownership, security, and privacy to ensure the right data gets to the right applications—with support for on premise, public and private cloud, multi-cloud, and multi-location.

Overall, Cisco Kinetic will help retailers get the most value possible from their IoT data.

Greater Agility with Analytics

In-store analytics are key to keeping the retailer agile and well-informed:

- **Hyperawareness:** By relying on a well-planned analytics strategy, CIOs and CMOs can monitor key metrics, including store traffic, average purchase basket size, customer demographic profile, shoppers' preferences, and dwell time. These can be broken down into customer and staff heat maps. As well, they can be used to manage inventory shelf life, assisting with inventory management and loss prevention.
- **Informed decision-making:** Based on these in-store metrics, managers and staff are also positioned to make more-informed decisions about the business and about their customers, including forecasting. They have the ability to tap the knowledge of product experts as needed, and can also predict shopper purchase requirements more accurately. Plus, they have data to help them evaluate the likelihood of shopping cart abandonment.
- **Fast execution:** Finally, managers are in a position to act on store conditions in a timely way, such as dynamic staffing based on store traffic and product placement of high-value or perishable items.



Customer Experiences that WOW

Industry research shows that customer experience directly impacts the bottom line for the retail business. Customer experience is also instrumental in satisfying and retaining customers; in fact, 70 percent of buying decisions depend on how customers feel they are treated (McKinsey). Just a five percent increase in customer retention can impact profits by as much as 25 percent (Bain).

So how are some retailers thinking about how to improve customer experience?



Domino's

Based on Cisco networking, Domino's has built a world-leading digital-ordering and point-of-sales platform for 14,000 stores globally. Using the platform, the company is able to be more responsive by collecting and analyzing all kinds of information about customers, from names and phone numbers to online ordering habits. <http://bit.ly/2ku9Yd8>

TRADER JOE'S

Associates are urged to walk customers to any item they can't locate, tear open bags of food for impromptu tastings, and accept returns with no questions asked. <http://nyti.ms/2o78udV>

Harrods

Cisco Intelligent Onboarding and captive portal capabilities simplify Wi-Fi access and personalize the consumer experience at leading retailer Harrods. When customers enter Harrods, their mobile device is detected, they receive a welcome message and prompt to open a custom app and join the Wi-Fi network. Cisco Enterprise Mobility Services Platform collects information for location analytics so Harrods can dig deeper into shopper dwell time information, examine shopper activity, and the paths they take to increase loyalty, basket size, sponsorship opportunities, and ad revenues. <http://bit.ly/2pRmgCg>

Walmart 
Save money. Live better.

Wal-Mart has signed a deal for voice ordering through the Google Assistant. What makes this deal unique is that for the first time Google will sync up with Wal-Mart accounts. This will make reordering much easier, since Google Assistant will know what products consumers purchased in the past, and incentivizes them to earn discounts for online orders and pickup from stores. <http://bit.ly/2BqEtv0>

For More Retail Case Studies

<http://bit.ly/2C8C6KI>



To Learn More

Thriving in today's retail environment requires new guidance and approaches. Visit cisco.com/go/retail to see how retailers are embracing the future to realize the benefits of digitization.

To assess your current readiness for digitization, take our Cisco Digital Assessment. <http://bit.ly/2kKTm19>

Follow us at @CiscoRetail.

