2020 Digital Trends

Retail in Focus

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Foreword

Welcome to Adobe's Digital Trends report, our annual survey of marketing, advertising, e-commerce, creative, and technology professionals around the world. Now in its 10th year, *Digital Trends* continues to reveal the most significant shifts in the industry that are driving marketing strategies, company investment, and consumer behavior.

This 10th edition of the report gives us the opportunity to reflect on the last decade. Adobe, in partnership with Econsultancy, has gathered more than 75,000 senior leaders' experiences and insights across this period. Our commitment to measuring the industry viewpoint from business leaders and influencers delivers a fascinating window into how much change the technology sector has experienced.

When we produced the first report in 2011, the marketers were obsessed with digital channels. How would social media impact e-commerce? Would people buy anything on a mobile device? How would television advertising be affected by digital channels?

Of course, the landscape we operate in today is very different from that of 2011. Today's consumer expectations are far greater, but so is the opportunity. Technology and data are empowering brands to build direct, emotional relationships with consumers that are changing the way businesses operate forever. This is a new era for marketers. We can understand and interact with our audience in more meaningful ways than ever before.

Michael Klein
Director, Industry Strategy & Marketing

This also poses challenges for brands. Customer centricity is magnifying organizations' structural, cultural, and technological barriers that shape data management and customer experience delivery—and ultimately define business success. The regulatory environment, AI, and emerging tech are all providing challenges and opportunities whose impact is explored in detail in the report.

Fundamentally, the *2020 Digital Trends* report shows that today the value of customer experience is unquestionable. Brands leading the way in customer experience are three times more likely to have significantly exceeded their 2019 business goals.

Digital Trends continues to be a valuable tool for our teams at Adobe and marketers across the globe to track industry developments. This year's report is a fantastic opportunityto reflect on how these changes have evolved over the last decade and drive success for our customers in 2020 and beyond.

Executive summary

Unlocking the promise of scalable and personalized CX

Retail companies are being forced to evolve quickly due to a potent combination of converging economic, technological, cultural, and regulatory factors.

Established retailers have been confronted by the rapid speed to market of digitally native brands at one end of the spectrum and the scale of global giants such as Amazon and Alibaba at the other. But proficiency with digital tools and techniques is improving at speed and, alongside the emergence of artificial intelligence (AI) and automation, this promises to unlock a new level of business effectiveness for all retailers, whatever their backstory.

The main success factors for retailers during 2020 will be the quality of the customer experience (CX) and their ability to personalize in real time and at scale.

The *2020 Digital Trends* retail report from Econsultancy and Adobe focuses on the ongoing challenges and opportunities dominating this fast-changing sector.

CX excellence can insulate retailers from competitive pressures, but reorienting around the customer is an ongoing project

- Retail companies are twice as likely as peers in other sectors to identify digital competition as their most significant concern for 2020 (40 percent vs. 20 percent)—whether this comes from global commerce platforms or smaller, digitally native companies.

- Retailers regard CX optimization as the single-most exciting opportunity in 2020 (25 percent), ahead of data-driven marketing (16 percent) which occupied the top spot in 2019.

- CX improvement is an ongoing process, with long-term reward. CX (25 percent) is by far the most popular choice (ahead of customer service at 14 percent) when retailers are asked how they plan to differentiate themselves in the coming five years.

Realizing the promise of real-time personalization at scale remains an attractive—but frustrating—quest

- The proportion of retailers describing personalization as their most exciting area of focus for the coming year has dropped from 25 percent to 16 percent.

- Nonetheless, there has been no apparent decline in efforts around personalization, with more than a third (36 percent) of retail executives identifying it as a top-three priority area for 2020.

- Adoption of capabilities for delivering real-time, personalized experiences is higher than the average for all other sectors combined (32 percent vs. 27 percent).

Retailers are most likely to be increasing technology budgets, but skills development and strategic alignment are key for success

- Nearly two-thirds of retail organizations are planning to increase their CX-related technology spending during 2020 (64 percent, up from 59 percent in 2019). This is considerably higher than the combined average for other sectors (47 percent).

- Nearly half of retailers have implemented artificial intelligence (AI), or are planning to (46 percent).

- As in other sectors surveyed, which included media and entertainment, travel and hospitality, and automotive and telecommunications, very few retailers currently see themselves as "very advanced" in terms of aligning strategy and technology around CX (7 percent).

- Acquiring and retaining talent with digital skills features prominently on the list of significant concerns for retailers in 2020 (fourth, at 13 percent).

1 | The retail revolution

Retail is undergoing a revolution. The environment companies are operating in is transforming at breakneck speed, due to rapid changes in consumer expectations and requirements. These feed into what has always been a highly competitive industry, whose dog-eat-dog nature is reflected in the watch list of retailer concerns for 2020 (see Figure 1).

The number one challenge for retailers is competition with global commerce platforms such as Alibaba, Amazon, and Rakuten. The rise of these behemoths is by no means the only threat to companies in this sector. However, retail is very much at the sharp end of their increasing power. Retail respondents to the *2020 Digital Trends* report are nearly five times more likely than their peers in other sectors to say these global players are their most significant concern for 2020 (23 percent vs. 5 percent). For comparison, only 3 percent of financial services respondents cite global commerce platforms as their biggest concern.

Naturally, few retailers can think of competing head-on with Amazon, whose sales for the fourth quarter of 2019 hit $87.44 billion, sending its market capitalization above $1 trillion.[1] Instead, this survey finding shows the presence of these global giants remains a CX yardstick for retailers, compelling them to focus fully on their customers and engagement at every touchpoint through their purchase journey.

Figure 1: Thinking about your business more broadly, which of the following pose the most significant concern for 2020?

Competition with global commerce platforms such as Alibaba, Amazon, and Rakuten — Retail 23% / Other sectors 5%

Changes to the economy — Retail 18% / Other sectors 20%

Competition from digitally native companies — Retail 17% / Other sectors 15%

Attracting and retaining talent in digital, data, or CX related areas — Retail 13% / Other sectors 13%

Falling behind the curve in adoption of AI — Retail 9% / Other sectors 11%

Consumer concern about data and privacy — Retail 7% / Other sectors 15%

None of the above — Retail 13% / Other sectors 21%

■ Retail   ■ Other sectors

Respondents: 8,352

Further accentuating the need to adapt quickly to the CX opportunity is the saturation of retail categories such as fashion, groceries, and household goods by a combination of established retailers, the global giants mentioned above, and digitally native vertical brands. Many retailers are therefore not just focused on Amazon's or Alibaba's next move, but also on internal transformation, and leveling the playing field with businesses born in the digital era with agility in their DNA. Just under a fifth (17 percent) of retailers name competition from digitally-native companies as a top concern for 2020.
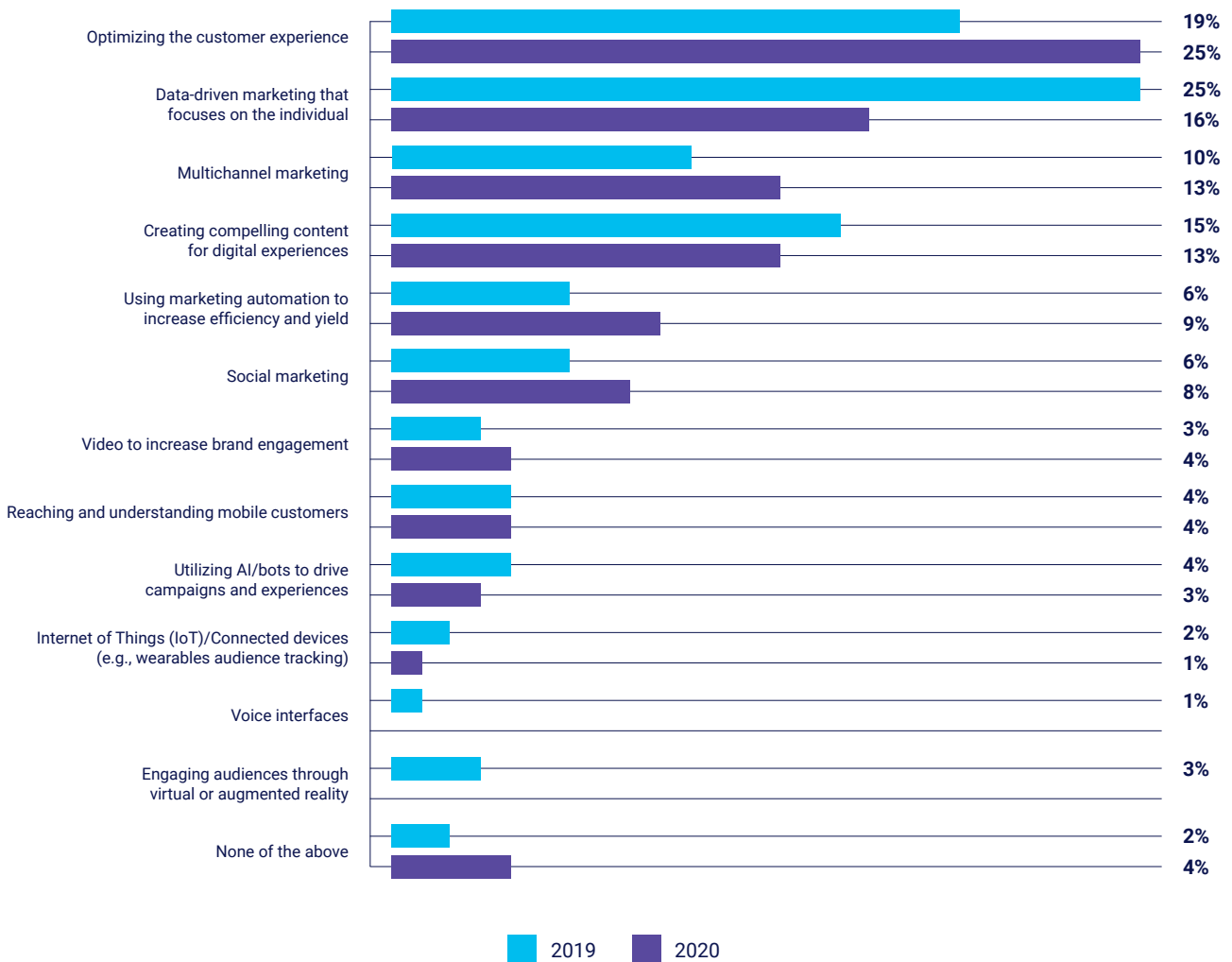
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[1] *Annie Palmer, "Amazon Soars After Huge Earnings Beat," CNBC, January 30, 2020.*

CX optimization delivers a competitive edge

In this hypercompetitive landscape, more and more retailers view CX as their best chance to stand out.

A quarter of respondents from the sector name CX optimization as their organization's single most exciting opportunity in 2020 (see Figure 2), elevating it above data-driven marketing that focuses on the individual (16 percent), which was top of their list in 2019.

Figure 2: Which one area is the single most exciting opportunity for your organization in 2020?

Category	2019	2020
Optimizing the customer experience	19%	25%
Data-driven marketing that focuses on the individual	25%	16%
Multichannel marketing	10%	13%
Creating compelling content for digital experiences	15%	13%
Using marketing automation to increase efficiency and yield	6%	9%
Social marketing	6%	8%
Video to increase brand engagement	3%	4%
Reaching and understanding mobile customers	4%	4%
Utilizing AI/bots to drive campaigns and experiences	4%	3%
Internet of Things (IoT)/Connected devices (e.g., wearables audience tracking)	2%	1%
Voice interfaces	1%	
Engaging audiences through virtual or augmented reality	3%	
None of the above	2%	4%

2019 respondents: 189 | 2020 respondents: 352

There are numerous examples of retailers that have become more competitive due to significant CX improvements.

UK-based consumer electronics and digital services retailer Dixons Carphone recently transformed their digital experience platform with an emphasis on gaining agility and speed through better platform integration and sharing of data. Via the project, they made major improvements to the speed of campaign time to market (by five times) and implementation of rich content changes (by 10 times).[2] By reusing components in the newly enhanced platform, their merchandising team can create an entirely new campaign, including a dynamic landing page, in minutes. This has helped the business hit what they call "windows of opportunity" to engage with customers, such as around new product releases.

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[2] *"A VIP Experience for All Customers," Adobe customer story for Dixons Carphone.*
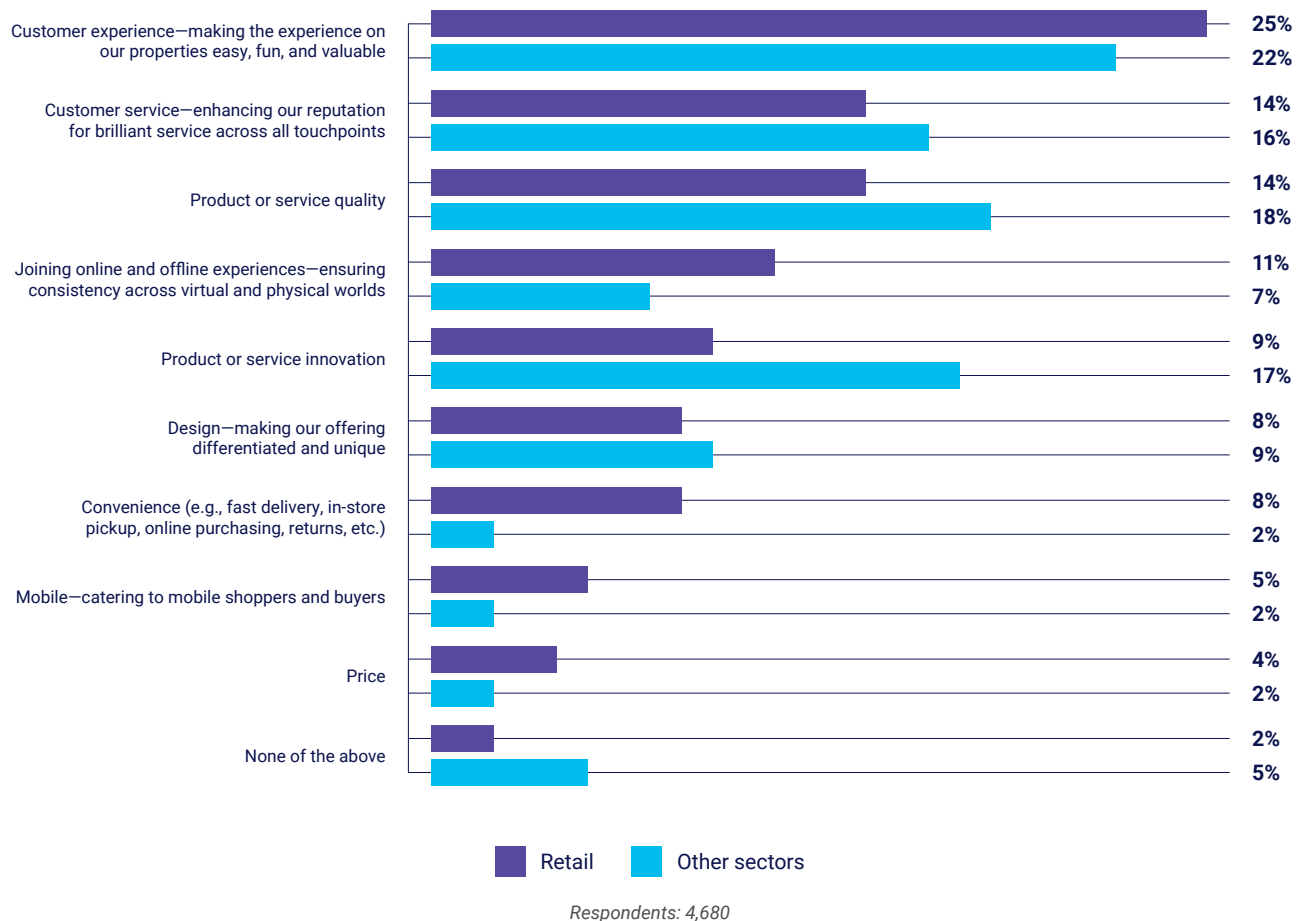
CX remains a long-term play

Retailer ambitions around CX enhancement extend well beyond 2020, too (see Figure 3).

When respondents were asked about their plans to position themselves competitively over the coming five years, CX was by far the most popular differentiator at 25 percent. At the same time, only a small minority of retailers currently see themselves as "very advanced" in terms of aligning strategy and technology around CX (7 percent), suggesting many require this longer timeframe to hone their abilities.

The focus on CX demonstrates how markedly retail has changed. CX quality heavily overshadows traditional selling points like customer service (14 percent), product quality (14 percent), convenience (8 percent), and price (4 percent).

While quality of service and convenience remain crucial, CX is about much more than just ensuring the buying process runs smoothly. Saving shoppers time and effort will never hurt, but to maximize both sales and efficiency, brands need another layer of relationship-building capability, identifying and addressing intent from the first interaction onward.

Figure 3: Over the next five years, what is the primary way your organization will seek to differentiate itself from competitors?

Category	Retail	Other sectors
Customer experience—making the experience on our properties easy, fun, and valuable	25%	22%
Customer service—enhancing our reputation for brilliant service across all touchpoints	14%	16%
Product or service quality	14%	18%
Joining online and offline experiences—ensuring consistency across virtual and physical worlds	11%	7%
Product or service innovation	9%	17%
Design—making our offering differentiated and unique	8%	9%
Convenience (e.g., fast delivery, in-store pickup, online purchasing, returns, etc.)	8%	2%
Mobile—catering to mobile shoppers and buyers	5%	2%
Price	4%	2%
None of the above	2%	5%

Legend: Retail / Other sectors

Respondents: 4,680

Bridging physical and digital channels

While retailers remain focused on matching the agility of digitally focused rivals, it's clear that legacy can be an advantage too. Physical stores, for example, can still be a valuable asset, especially with the last decade's rise of omnichannel purchase behaviors like click-and-collect and webrooming (browsing online at first and then in-store purchasing).

As such, multichannel marketing continues to be seen as a major opportunity (13 percent, see Figure 2) despite being complex and something many organizations are not yet fully set up to exploit. Joining up online and offline experiences is seen by 11 percent of respondents as their key differentiator over the coming five years (see Figure 3).

In summary, retail is never static. The sector now moves at a speed where agility has become table stakes for those seeking to compete in the space. The increasing power of global giants, the rise of consumer expectations, and regulatory changes around data management are all adding to the broad mix of challenges and opportunities offered by digital transformation. Reorienting around CX is key, but for many retailers this is a long-term play rather than a quick win.

The personalization imperative

2

This year's reduced excitement levels around data-driven marketing is an interesting change in sentiment—especially when we consider that CX optimization is very much led by data-driven marketing to individuals. Only 16 percent of retailers name data-driven marketing as their most enticing opportunity for 2020, down from 25 percent in 2019.
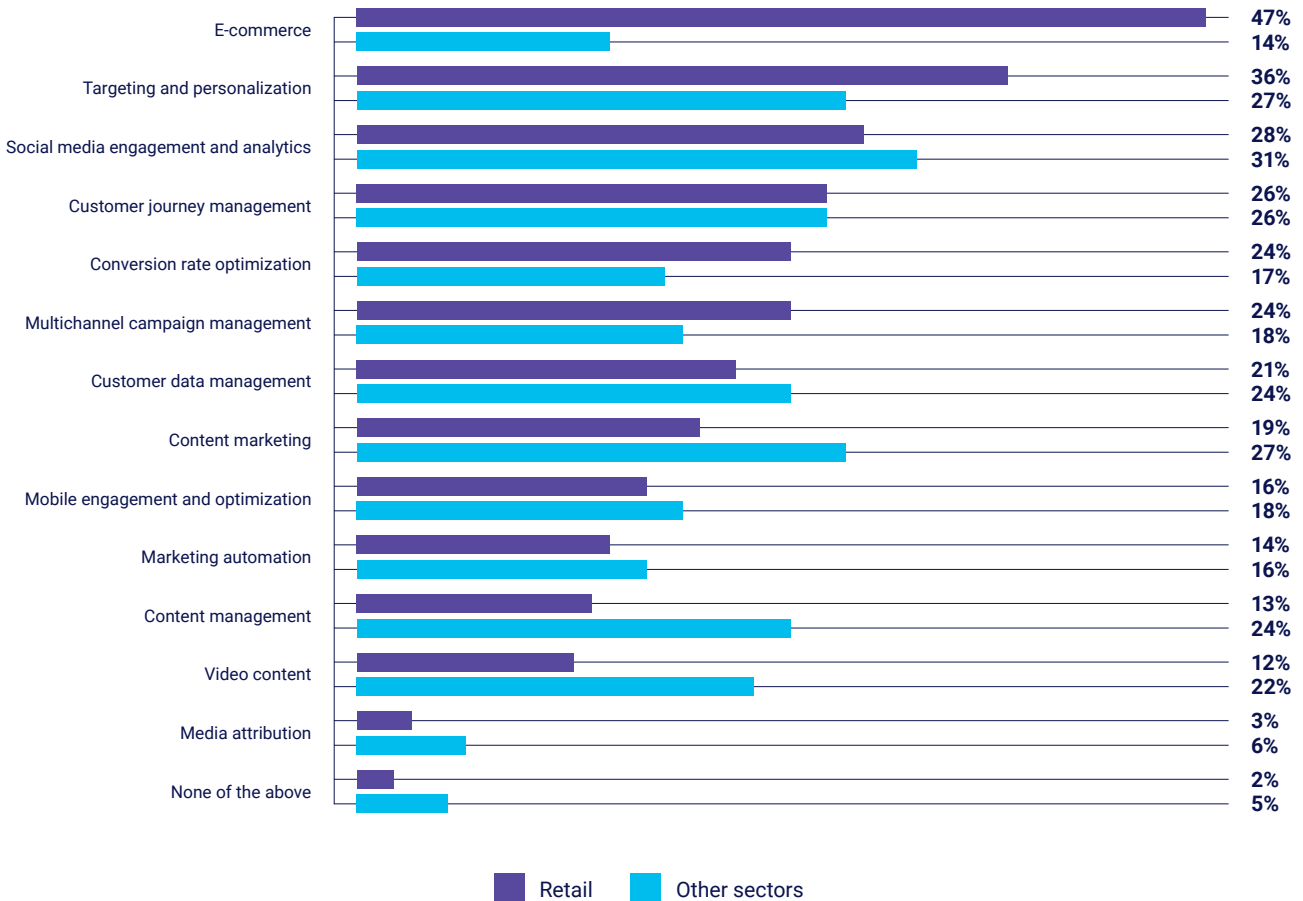
At the same time, personalization remains a key focus for the sector over the coming year, with 36 percent identifying it as a top-three priority (see Figure 4). This puts personalization not too far behind the natural retailer focus of e-commerce (47 percent) on respondents' priority lists. Personalization also has a much greater level of prioritization in the sector than among non-retail respondents (27 percent).

One potential explanation for these responses is that more basic personalization—such as "insert name here" emails—has become "business as usual" for retailers, and is no longer widely regarded as a unique selling point.

More advanced personalization techniques, meanwhile, do hold major promise and remain a priority for many. However, they also require more resources and time to get right. True, one-to-one personalization necessitates collection and processing of a lot of different types of data (product, purchase, device, behavioral, and other), in order to generate the insight required to create uplift. But often, this data resides in silos or in external "walled gardens," and bringing it together remains a significant challenge.

It remains clear, however, that when done right, personalization resonates with many customers. And for many retailers, it continues to hold significant appeal as a way to drive revenue and profit.

Figure 4: Which three digital-related areas are the top priorities for your organization in 2020?

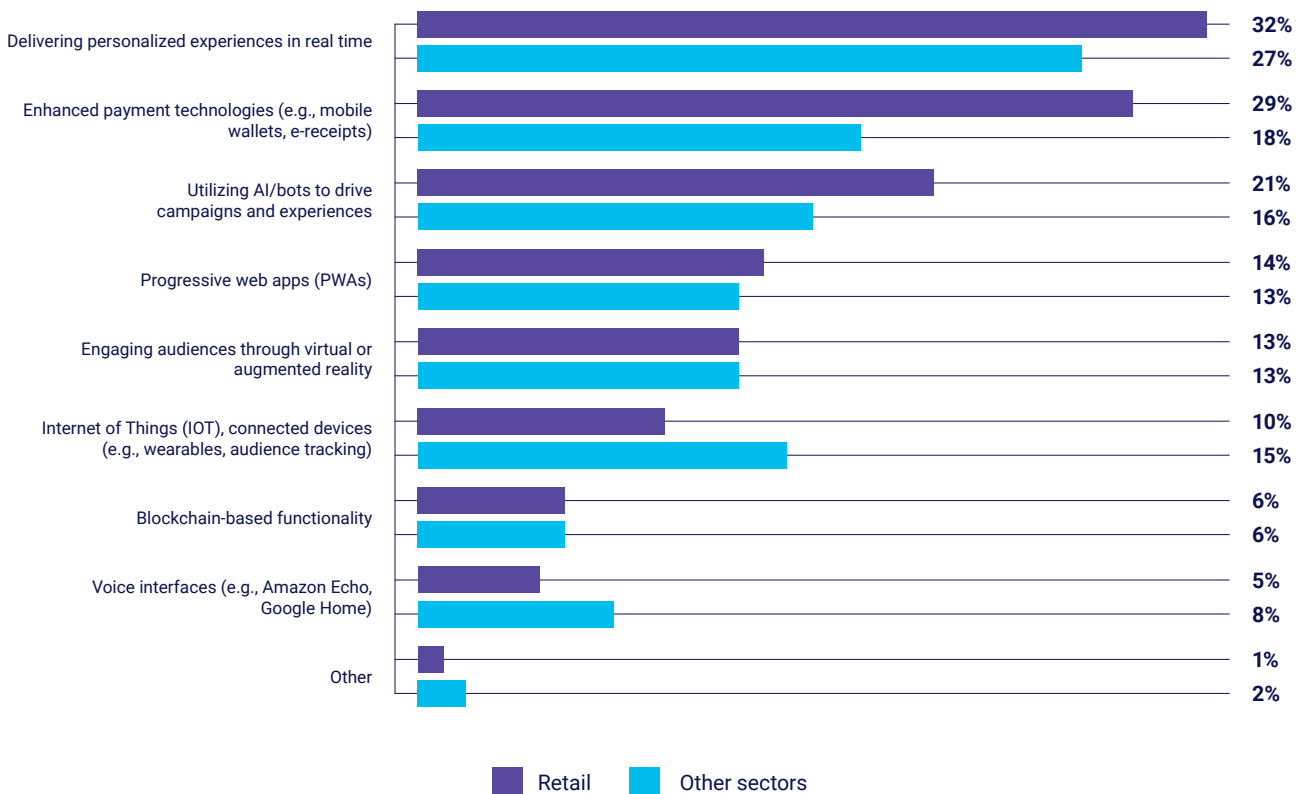|	Retail	Other sectors
E-commerce	47%	14%
Targeting and personalization	36%	27%
Social media engagement and analytics	28%	31%
Customer journey management	26%	26%
Conversion rate optimization	24%	17%
Multichannel campaign management	24%	18%
Customer data management	21%	24%
Content marketing	19%	27%
Mobile engagement and optimization	16%	18%
Marketing automation	14%	16%
Content management	13%	24%
Video content	12%	22%
Media attribution	3%	6%
None of the above	2%	5%

■ Retail   ■ Other sectors

Respondents: 5,140

Personalization at the forefront of investment planning

The continued interest in personalization among retailers is evident in Figure 5. Around a third of retailers say they have begun incorporating capabilities for delivering personalized experiences in real time (32 percent).

This is a slightly higher penetration rate than in other sectors (27 percent). It also puts personalization ahead of enhanced payment technologies, which are highly relevant to the retail space.

European beauty retailer Douglas is one provider that has successfully harnessed personalization as a key CX improvement tool.[3] Reinforcing their customer-centered philosophy, the business updated the platform underpinning their Beauty Card loyalty program and began targeting users with individually tailored stories, beauty content, promotions, and messages. The change is said to have attracted 4 million customers to the program in the first eight months after launch, as well as increasing engagement with messages.

Figure 5: Which of the following have you started to incorporate into your business?

	Retail	Other sectors
Delivering personalized experiences in real time	32%	27%
Enhanced payment technologies (e.g., mobile wallets, e-receipts)	29%	18%
Utilizing AI/bots to drive campaigns and experiences	21%	16%
Progressive web apps (PWAs)	14%	13%
Engaging audiences through virtual or augmented reality	13%	13%
Internet of Things (IOT), connected devices (e.g., wearables, audience tracking)	10%	15%
Blockchain-based functionality	6%	6%
Voice interfaces (e.g., Amazon Echo, Google Home)	5%	8%
Other	1%	2%

Respondents: 4,773

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[3] *Stephanie Krausse, "Fresh-Faced Marketing Encourages Loyalty," Adobe Blog, September 14, 2018.*

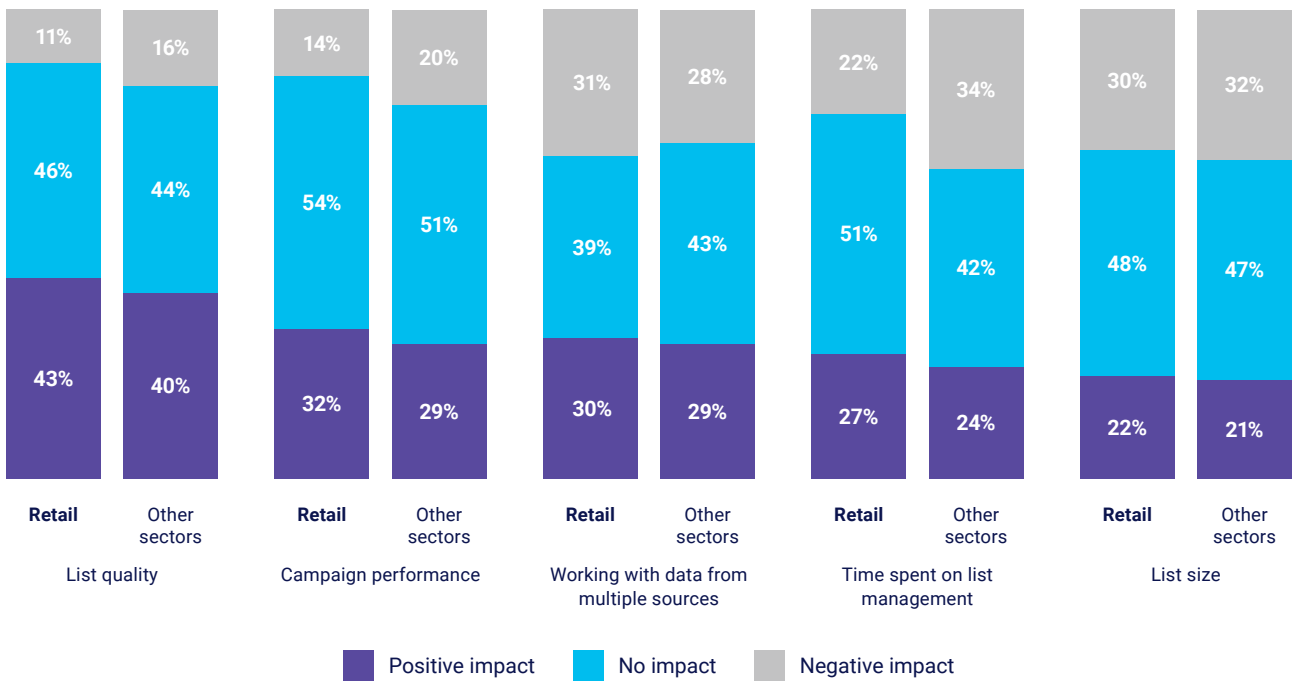## Data regulation: for many, a helpful nudge in the right direction

Recent regulatory changes—such as the European Union's GDPR and the California Consumer Privacy Act—have added another layer of complexity to the challenge of bringing together different data sources for scaled, one-to-one marketing. Broadly, retailers appear positive on the impact of regulation, with most either suggesting they were well prepared (saw no impact) or have experienced a positive effect (Figure 6).

In all categories, retail respondents tend more toward positivity than their peers in other sectors, as well as (mostly) being less likely to show negativity. The exception is their view of the effect of regulation on working with data from multiple sources, where one in three (31 percent) cite a negative impact. In this sense, it is clear GDPR has added to the already complex task of data-driven marketing.

In other ways, though, the picture is positive in terms of the impact of consumer data protection:

- Only 11 percent of retailers cite a negative impact on list quality, compared to 16 percent in other sectors. Some 43 percent of retailers say that the impact on list quality has been positive.

- Regarding the impact on campaign performance, retailers are more than twice as likely to be positive than negative (32 percent vs. 14 percent).

Figure 6: What impact has the increased focus on consumer data protection (e.g., the EU's GDPR) had on the following in your organization?

	List quality	Campaign performance	Working with data from multiple sources	Time spent on list management	List size

Retail – List quality: Negative 11%, No impact 46%, Positive 43%
Other sectors – List quality: Negative 16%, No impact 44%, Positive 40%
Retail – Campaign performance: Negative 14%, No impact 54%, Positive 32%
Other sectors – Campaign performance: Negative 20%, No impact 51%, Positive 29%
Retail – Working with data from multiple sources: Negative 31%, No impact 39%, Positive 30%
Other sectors – Working with data from multiple sources: Negative 28%, No impact 43%, Positive 29%
Retail – Time spent on list management: Negative 22%, No impact 51%, Positive 27%
Other sectors – Time spent on list management: Negative 34%, No impact 42%, Positive 24%
Retail – List size: Negative 30%, No impact 48%, Positive 22%
Other sectors – List size: Negative 32%, No impact 47%, Positive 21%

Legend: Positive impact, No impact, Negative impact

Respondents: 2,650

In summary, personalization isn't a new concept. Good old-fashioned service has always had an element of personal identity, such as the shopkeeper who knew your name and asked how you were doing each time you dropped in. In the field of digital retail, however, personalizing offers in real time and at scale is a different ball game entirely, and it's a challenge many organizations are embracing.

3 AI and automation: enabling the CX future

The commitment to pushing on with CX as part of the technology road map is clear. While no silver bullet, the right technology infrastructure is obviously fundamental to all aspects of modern-day retail—particularly in the world of data-driven customer interaction.

Without the right tool set, it is hard to imagine retailers successfully addressing their top target areas for 2020, such as e-commerce, personalization, and customer journey management (see Section 2).

Many retailers evidently have considerable work to do, to build the tightly integrated martech stack required for CX proficiency. Only 8 percent say they have a highly integrated, cloud-based technology stack—essentially mirroring 2019's responses (see Figure 7). A majority continue to report they either have a "a fragmented approach with inconsistent integration" (44 percent) or "little or no cloud-based technology" (20 percent).

Figure 7: What best describes your organization's approach to marketing and customer experience technology?

| | 9% | 8% | 28% | 28% | 43% | 44% | 20% | 20% |

We have a highly integrated, cloud-based technology stack

We have a somewhat integrated, cloud-based technology stack

We have a fragmented approach with inconsistent integration between technologies

We have little or no cloud-based technology

■ 2019   ■ 2020
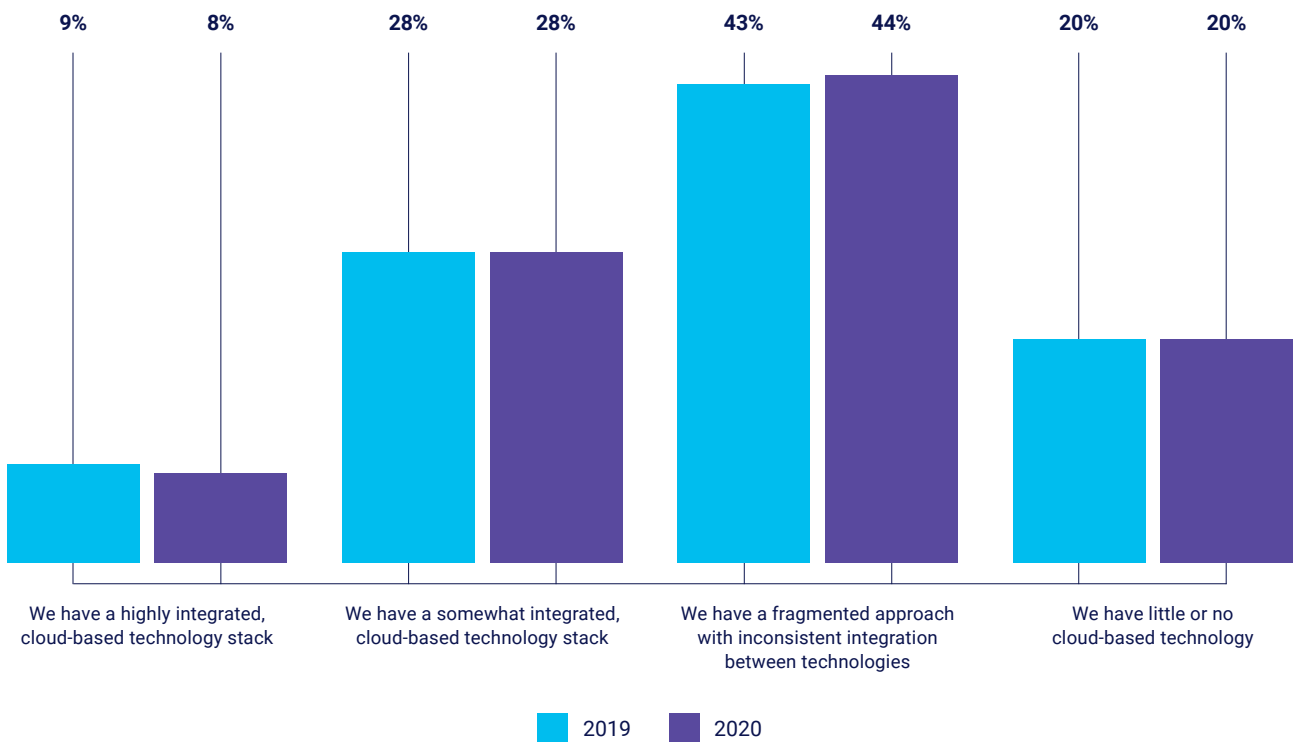
2019 respondents: 238 | 2020 respondents: 236

Retailers are technophiles, but they need to ensure investment is well orchestrated

Retailers are stepping up efforts to enhance their technology capabilities (Figure 8). In 2020, more than six in 10 organizations are planning to increase their CX-related technology spending (64 percent, up from 59 percent in 2019). Only 3 percent are planning to trim their expenditure.
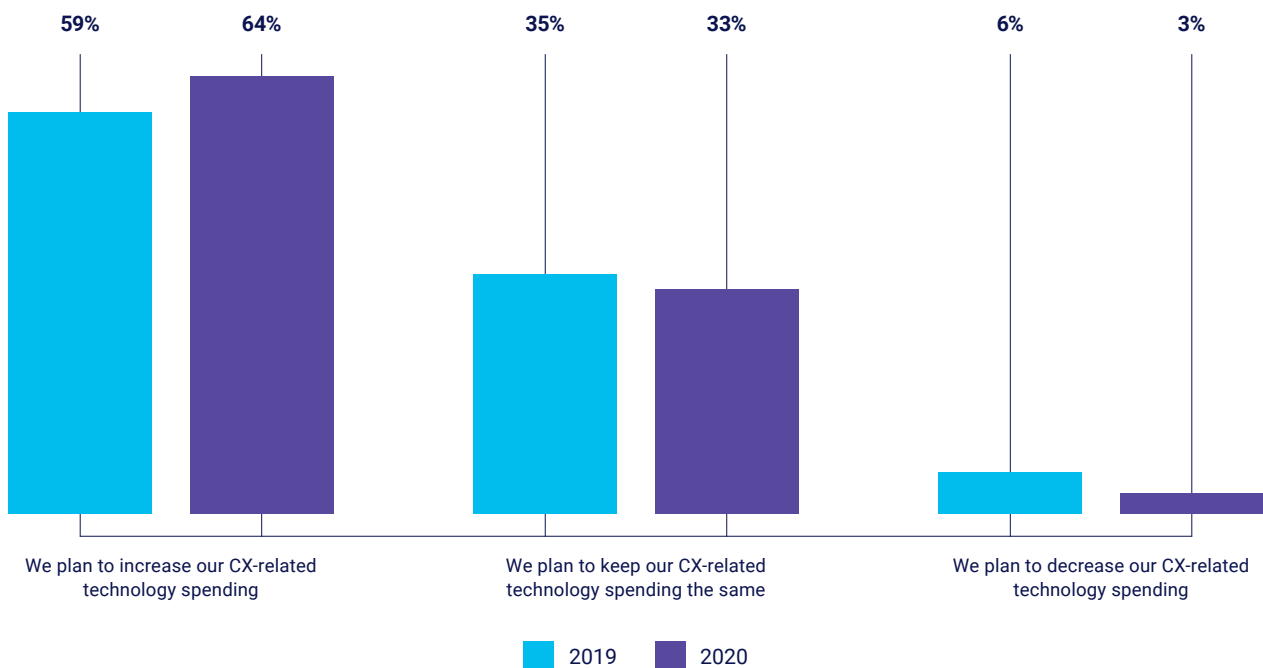
Retail companies are much more likely to put their faith in technology development than peers in other industries—only 47 percent of whom intend to increase spending this year.

A warning sign here is that many retailers indicate that their tech investments to date haven't been directed toward meeting commercial objectives. Fewer than half (45 percent) report that they are very or quite advanced (38 percent) when it comes to aligning strategy and technology around CX.

This would suggest the notoriously fragmented martech landscape is not yet on the way out.

Another key finding is that digital skills are featured prominently in the list of significant retailer concerns for 2020 (Section 1). It goes without saying that for technology capabilities to be fully exploited, companies need to have the right talent in place—especially as martech functionality evolves further with enablers such as AI.

Figure 8: What best describes your plans for CX-related technology spending in 2020?

| 59% | 64% | 35% | 33% | 6% | 3% |

We plan to increase our CX-related technology spending

We plan to keep our CX-related technology spending the same

We plan to decrease our CX-related technology spending

■ 2019 ■ 2020

2019 respondents: 170 | 2020 respondents: 232

AI's growing role in retailer versatility

In a hypercompetitive market, where adaptability is often the difference between success and failure, it is no surprise to see many retailers taking a strong interest in AI.
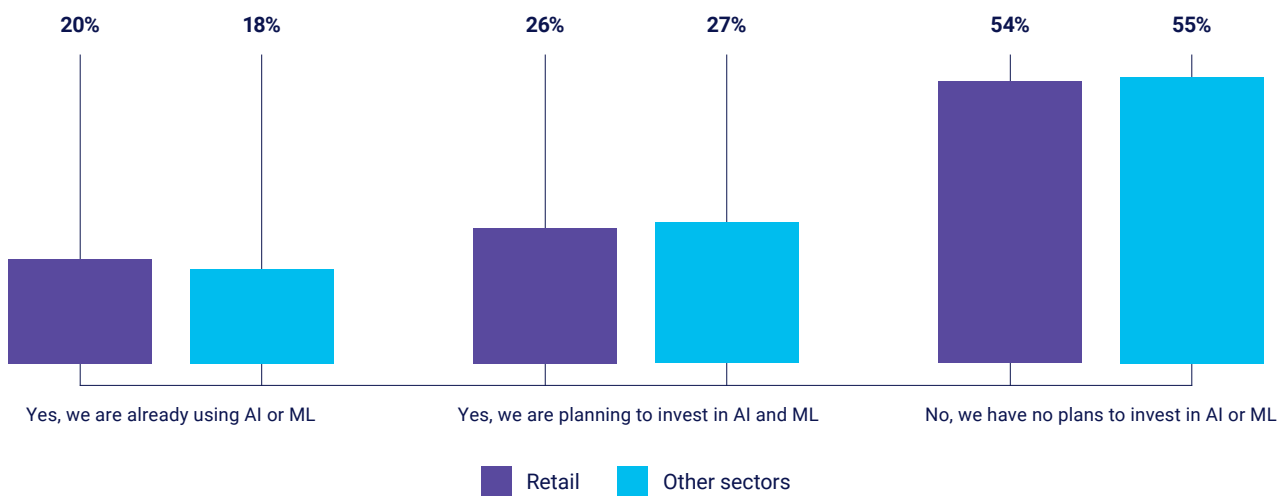
AI and machine learning (ML) promise to enable the go-to-market speed retailers are looking for as they allow continuous, real-time decision-making.

> **AI can support a perpetual level of CX improvement that has not been possible in the past. The automation that comes with AI/ML also allows businesses to reshape their operations and allow staff to concentrate on the tasks to which they are best suited.**

While AI/ML have a wide variety of use cases across CX and elsewhere, undergarment brand Jockey International has been using the technology to optimize its search advertising campaigns.[4] The company, which previously managed search bids manually, says they significantly increased the effectiveness of its spending after moving to an automated, AI-optimized system.

It is natural, therefore, that AI and ML play a role within the comparatively aggressive technology spending intentions shown in Figure 9. A fifth of retailers say they are already using AI or ML (20 percent, Figure 9). A further 26 percent say they are planning to do so. Others may not be aware that they are actually using AI or ML which, after all, is an enhancement to existing systems, rather than a distinct offering.

Figure 9: Is your organization using or planning to invest in artificial intelligence or machine learning in 2020?

20% 18%	26% 27%	54% 55%
Yes, we are already using AI or ML	Yes, we are planning to invest in AI and ML	No, we have no plans to invest in AI or ML

■ Retail   ■ Other sectors

Respondents: 3,956

> **In summary, AI's time appears to have come. The macro and micro pressures retailers are facing make the efficiency and effectiveness gains promised by AI even more appealing—at least for those providers that have the scale and resource to benefit. It is critical that businesses take a measured and strategic approach to investment in AI, and ensure they have the skills and flexibility to make full use of its benefits. Spending needs to be directed toward meeting strategic commercial objectives—not for for tactical whims or as operational sticking plasters.**

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[4]*"Taking an Iconic Brand into the Digital Age," Adobe customer story for Jockey International.*

Conclusion

Four key takeaways for retail companies

1. **Customer centricity must be the heart of digital transformation**
   It is crucial that retailers ensure their strategy has customer-centric digital transformation at its core. The ability to deliver excellent CX is going to be the key driver of competitive differentiation over the coming five years, so a laser focus on customer requirements is vital.

2. **Retailers must strive to deliver personalized experiences at scale**
   Companies in this sector must focus on understanding customer preferences so they can create frictionless and memorable experiences that built loyalty and trust. Irrespective of whether they are buying in an offline or digital context, consumers will shop elsewhere if they are not getting an experience tailored to their needs. Retailers must develop a strategy that prioritizes personalization while, at the same time, taking care not to cross any regulatory lines relating to data privacy.

3. **Data proficiency requires integrated technology**
   With challenge comes opportunity. Areas like multichannel marketing and personalization are highly complex, but they offer the potential of great reward. Companies need integrated commerce, marketing, and customer experience technology to deliver the best possible omnichannel experiences and meet customers' expectation of one-to-one treatment from their chosen brands.

4. **Aligning spending plans with business requirements is essential**
   Retailers must ensure that technology spending is made with strategic business goals in mind—for example, working toward a more data-driven approach to customer experience optimization to drive loyalty. Organizations in this sector must ensure they understand the use cases for AI and how they align with their broader commercial business objectives.
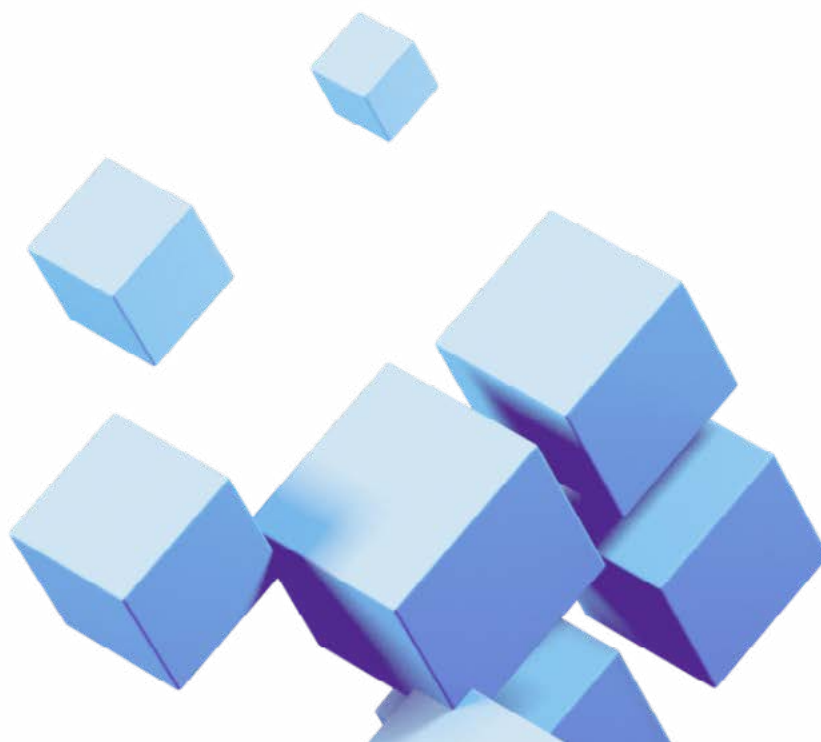
Methodology

2020 Digital Trends—Retail in Focus is based on an online survey fielded to select Adobe and Econsultancy lists in the fourth quarter of 2019. The survey closed having collected 495 qualified responses from the retail sector.

Demographic profiles

• Seventy-four percent of all the responses were at manager level or above.

• In terms of business function, creative and design held the largest share of respondents (30 percent), followed by marketing (19 percent), e-commerce (16 percent), and IT (6 percent).

• As defined by target market, B2C accounted for largest share of 53 percent followed by those addressing both markets equally (31 percent) and B2B (16 percent).

• The sample is global, with Europe providing the largest share of respondents (42 percent), followed by the United States (31 percent) and the Asia-Pacific region at 17 percent. The survey was translated into French, German, Chinese, and Japanese.

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