Digital disruption in retail

Analysing the industry use of Agile management in improving customer experiences via digital technologies

Research report 2016
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About the author

Dr Dave Chaffey is CEO and co-founder of Smart Insights, a publisher which offers a comprehensive digital marketing learning resource to 150,000 members worldwide. The 18 Toolkits in the Smart Insights RACE Planning framework help our members improve their Digital Marketing ROI through practical guidance in Benchmark audits, planning templates, guides and Elearning.

Dave has been a consultant and trainer on Digital Marketing since 1997 when he delivered one of the first training workshops on Internet Strategy.

He’s is the author of five bestselling books on Ecommerce including Digital Business and Ecommerce Management and Digital Marketing: Strategy, Implementation and Practice and Emarketing Excellence.

He has been recognised as one of 50 marketing ‘gurus’ worldwide who have shaped the future of Marketing by the Chartered Institute of Marketing and in 2015 was rated as the top UK influencer on social media for Marketing and Advertising in a top 50 compilation by BrandRepublic.com (a portal of publisher Haymarket brands Campaign, Marketing and Media Week).

Dr Dave Chaffey
CEO and Co-founder of Smart Insights
February 2016
Never have there been such dramatic shifts in consumer shopping behaviours, preferences, and expectations as now. It’s imperative for retailers and consumer goods companies to adapt, and put the customer at the heart of their businesses. They must optimise all their channels to market as part of a single, integrated strategy for driving compelling customer experiences, yet also control costs. Realising this requires strategic investments across multiple areas of the business, and it requires IT solutions that are agile, dynamic and integrated.

Microsoft recognises these challenges, many of which we share. We are unique in the industry in that we are a retailer, a consumer goods company and a solutions and technology provider. Capitalising on all our own technology and experience, we work with our retail and consumer goods customers to create seamless and personal shopping experiences that are differentiated from the competition and make shopping fun and rewarding.

Customer-centricity is key to the success of any business. Customers now have full control over what they buy and when, where and how they buy it, so the face of retail has changed forever and the balance of power has firmly shifted to the customer. Building loyalty both in-store and online is becoming more challenging with these ever-more promiscuous consumers seeking both convenience and value, but the prize for keeping ahead of the competition is quickly rewarded with increased revenue.

Imagine if a digital store assistant was guiding your customer around the store based on their online search history of your website. Or if your predictive retailing system tracked and aggregated social trending and other data to predict spikes in product demand and initiate automatic actions.

Retailers must fully harness social media, business intelligence and data insight and the advent of crowdsourcing to their advantage during this time of transformation and combine the best of online and in-store in the new merged world of physical and digital.
Empowered Retail gives you a sustainable competitive advantage in this digital age through:

**Customer-centricity.** Putting customers first, letting them create their own experiences with technology that learns, predicts and engages at a personal level. The customer journey has now evolved into a series of connected, digital-first experiences.

**Empowered workforce.** Deliver dynamic and agile systems that support your business today and into the future, with a scalable platform that empowers and enables all employees to communicate across the entire organisation. Empower teams with the tools to handle daily activities and increase agility in responding to customers and market changes, whilst enabling all staff to share ideas and increase engagement.

**Modern store.** Where offers and experiences are personal and relevant, yet store and employee data and devices are still protected against modern security threats. Armed with the right devices, bespoke creative technology solutions and the right tools, retailers can increase productivity and efficiency across assisted selling, modern point of sale, retail execution, store operations and electronic work instruction.

We hope you find the following research insightful, and that it highlights and brings clarity to some of the key challenges you’re facing in this ever-changing sector.

_Mike Lynskey_
Microsoft Retail Industry Lead
January 2016
Executive summary

To remain relevant to consumers today, retailers have a huge challenge to review which digital media and technology innovations will really matter to their future. The success of the leading multi-channel retailers shows that those that will succeed in future must take the smart investment decisions to develop more customer-centric online and in-store experiences which empower customer service and sales staff.

*Retail Digital Disruption 2016* explores the challenges and success factors to take advantage of these opportunities, focusing on good practices retailers are deploying now to develop more effective integrated experiences. The research focuses on the largest multichannel retailers in the UK, to show the ‘state of the art’ of managing digital disruption in UK retail. Examples of retail brands who participated to share techniques they are using include Argos, Boots, B&Q, Carphone Warehouse, IKEA, Screwfix, John Lewis, Marks & Spencer, Tesco and Staples.
Key findings

1. Responding to digital disruption is business critical.

The business impact of digital disruption is significant – 54% rated it as ‘business critical’.

2. Integration of technology and cross-device experience management are major challenges.

Selecting and integrating different technology solutions to respond to digital disruption was rated as the biggest challenge, followed by evaluating experience and ROI across multiple devices.

3. Adopters of in-store digital technology are enthusiastic about its benefits.

Beacons, NFC-enabled product tags and interactive displays to assist purchase were rated effective by many, particularly where staff had been trained in collaborating with customers as they used these devices.

4. Short-term planning and lack of a strategic roadmap is common.

The majority of businesses are deploying traditional research and insights to assess customer needs, but are not looking ahead to plan future innovations and developing initiatives to meet these.

5. Ownership of cross-channel experience management is essential.

A clear responsibility for customer experience was seen as a success factor with 75% believing they had clear responsibilities for this. However, there was a mixed approach to forward planning. Nearly half of businesses (48%) did have a medium to long-term roadmap stretching out beyond the typical annual planning cycle for the current year (25%). However, over one quarter (27%) had a short-term perspective, only planning initiatives in the current quarter.

6. Many retailers are lagging in techniques to optimise customer experience.

The most common techniques to create more customer-centric experiences focused on traditional techniques such as surveys and competitor benchmarking with the majority of companies using these. However, more than a third of companies still didn’t regularly use what should be considered as standard digital experience improvement techniques, such as real-time insight about customer interactions; structured experiments using AB or multivariate testing and agile release cycles.
Introduction

The innovation in digital media and technology is unremitting. Witness the raft of new digital technologies devices launched at consumer trade shows like CES and digital business events like CeBIT. Then there are the weekly updates from the main digital platforms that consumers use to interact and select products such as Apple, Google, Facebook, Instagram, Twitter and Pinterest.

If retailers get the decisions wrong about where and how to invest in digital technology then the consequences are clear. Many retail brands who haven’t made the smart investments in ecommerce have lost market share to their more agile rivals. Leading adopters of digital technology and media have understood the need to respond to digital disruption and have taken a strategic approach to exploit the opportunities and minimise the risks.

Yet digital disruption isn’t a single event, it will continue as a key challenge to be managed by retailers in the years ahead. So, in the report we take a close look at the processes and techniques that retailers are using in building an Agile approach to continuously respond with enhanced propositions, communications and experiences.

Which are the best techniques to respond to digital disruption?

While the impact of digital disruption on every multichannel retailer is clear, each has naturally responded in different ways depending on their leadership, culture and legacy systems and processes. All retailers are on a journey where they seek to improve their digital capabilities to respond to digital disruption, but it is often difficult to know the best strategic initiatives to follow and how these compare to competitors.
In this research, we aimed to go beyond a top-level discussion of the importance of digital disruption and instead drill-down to share some of the approaches that are used amongst leading retailers. This report is structured around practical takeaways which will enable retailers to benchmark their approaches including techniques for:

- Managing the key challenges of digital disruption in retail.
- Reviewing digital channel capabilities and customer perception.
- Improving digital customer experiences online and in-store.

Research methodology

To highlight the ‘state-of-the-art’ in the research we wanted to succinctly define the potential opportunity that responding to digital disruption can deliver both to the business and the customer. To help assess the impact of digital disruption, in the survey we asked respondents to give their view of its importance of responding to digital disruption by this definition:

“Creating innovative omnichannel experiences by exploiting new digital technologies to drive incremental revenue by delivering relevant propositions, real-time contextual communications and experiences across all touchpoints.”

The research sample focuses on the largest multichannel retailers in the UK. 73% of managers surveyed were from companies of more than 250 people in size with nearly half (45%) from companies of more than 1,000 employees.

How many people work at your company?

- 10,000+ 11%
- 1,000 - 10,000 34%
- 250 - 1,000 28%
- 50 - 250 7%
- 0 - 50 19%
Respondents were typically senior managers with the majority of the 125 respondents either 'heads of' or managers of marketing or digital marketing.

**Which best describes your role?**

- Head of Department: 39%
- Marketing Manager: 24%
- Other: 14%
- Digital Marketing Manager: 7%
- Sales/Business Development: 7%
- Owner/Proprietor: 5%
- Head of Digital/Chief Digital Officer: 4%
- Ecommerce Manager: 2%
The imperative to respond to digital disruption

How important is responding to digital disruption today? Since applying digital technology and media within retail is no longer new, we wanted to determine how businesses rate the importance of digital disruption in 2016. It’s clear that, for many, the impact of digital disruption is still significant with over half of respondents (54%) rating it as ‘business critical’.

How do you rate the importance of responding to digital disruption of your business?

- **Business critical**: 54%
- **Moderately important**: 39%
- **Low importance**: 7%

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Digital Disruption in retail -
Research report 2016

MyCustomer

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Microsoft
The challenges of managing digital disruption

To proactively manage the impact of digital disruption, it helps to understand the types of challenges it presents and then put in place processes to manage these challenges.

We asked the retailers in the survey to assess how they saw the many and varied challenges of managing disruption by managing the creation of new experiences. The challenges are ranked here from the biggest to the smallest challenges based on a three point scale where 1 is a minor challenge and 3 is a significant challenge.

Digital disruption: Ratings of challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designing effective customer experiences across multiple devices</td>
<td>75%</td>
</tr>
<tr>
<td>Integrating different technology solutions</td>
<td>75%</td>
</tr>
<tr>
<td>Selecting and prioritising technology options</td>
<td>72%</td>
</tr>
<tr>
<td>Evaluating experience and ROI across multiple devices and channels</td>
<td>72%</td>
</tr>
<tr>
<td>Defining and implementing multichannel strategies</td>
<td>72%</td>
</tr>
<tr>
<td>Implementing agile processes for timely delivery</td>
<td>70%</td>
</tr>
<tr>
<td>Getting senior management buy-in</td>
<td>61%</td>
</tr>
</tbody>
</table>

The challenges are presented for the organisations who saw them as a significant challenge. You can see that the challenges are rated similarly by many organisations – so these are core, common challenges. Getting senior management buy-in is less of a common problem, but still rated a challenge in many businesses. Reviewing the averages, these were between 1.91 and 2.07 on the 3 point scale.

Integrating digital technology solutions is often rated as a challenge. This is unsurprising given the range of technology options available, and indeed, a cursory glance at Scott Brinker’s Marketing Technology infographic highlights over 1,800 Martech companies across 40 categories. Closely related to this, the challenges of creating, managing and measuring experiences across multiple devices are also highlighted.

Implementing Agile processes is seen as somewhat less of a challenge, but in a later section we’ll see that many retailers still struggle to make frequent, agile releases.

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1 Scott Bringer: Marketing Technology summary visual.
How are businesses assessing the impact of digital disruption on their customers?

Digital technology and media have been disruptive in their impact on the retail sector for many reasons, including:

- New business and revenue model opportunities, especially new direct-to-consumer sales and subscription for product replenishment and multichannel click and collect options.
- New devices for discovering and choosing products and retailers including smartphones, tablets and interactive in-store displays.
- New locations for customers to interact with retail brands including through proximity advertising and messaging and in-store.
- New social methods for sharing experiences and opinions across the social networks.
- New options for creating customer experiences from more intuitive product selection and comparison on web platforms to augmented and virtual reality.

To take advantage of these types of innovations, an Agile approach to marketing and technology adoption is essential to avoid being disrupted by businesses that are more responsive to these changes. The unrelenting pace of change is one of the main characteristics of modern marketing, but this doesn’t mean that retailers should chase all changes. Instead the right type of research is needed to understand changing patterns of consumer device use and shopping behaviour. In the research we assessed how proactive businesses are in assessing changes they need to respond to using different research techniques.

Types of research used to understand changing consumer needs

<table>
<thead>
<tr>
<th>Type of Research</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor analysis</td>
<td>73%</td>
</tr>
<tr>
<td>Social media listening</td>
<td>70%</td>
</tr>
<tr>
<td>Customer surveys related to technology and experience</td>
<td>63%</td>
</tr>
<tr>
<td>Consumer panels, interviews and crowdsourcing ideas</td>
<td>46%</td>
</tr>
<tr>
<td>Subscribing to research services</td>
<td>38%</td>
</tr>
<tr>
<td>Internal innovation labs</td>
<td>24%</td>
</tr>
<tr>
<td>Links to external retail innovators and incubators</td>
<td>21%</td>
</tr>
</tbody>
</table>
The results show that, as might be expected, traditional market research techniques like competitor analysis and customer surveys are used widely, although over a quarter of businesses didn't use these core techniques applied to their digital channels. Likewise social media was used as an insight source by many businesses.

However, other techniques to test new approaches through consumer panels or innovation labs were less common. An example of this type of approach is JLabs developed by John Lewis where they can assess new types of retail innovation through working with startups who are focusing on retail.

**Key takeaway**

Create ‘early warning’ systems to flag-up potential disruptive technologies

Ensure customer and market research is fit-for-purpose in enabling your brand to respond to consumer adoption and perceptions of the latest digital innovations.
The creation of new digital customer experiences is one of the most prominent changes offered by new digital platforms. Many content and commerce management systems now offer new interaction options amongst their feature lists, but that’s not to say these are always utilised.

To help provide benchmarks of techniques used to improve digital customer experiences, we asked respondents to rate their adoption of different online retail techniques on a 5 point scale compared to others in their retail vertical. Adoption of these techniques is shown in the chart below in order from the highest to lowest rates of adoption.

### Capability of online retail experience

<table>
<thead>
<tr>
<th>Technique</th>
<th>Adoption Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online loyalty schemes</td>
<td>64%</td>
</tr>
<tr>
<td>Real-time personalised incentives</td>
<td>76%</td>
</tr>
<tr>
<td>Local messaging/proximity marketing</td>
<td>73%</td>
</tr>
<tr>
<td>Payment systems</td>
<td>68%</td>
</tr>
<tr>
<td>Mobile apps</td>
<td>67%</td>
</tr>
<tr>
<td>Personalisation</td>
<td>74%</td>
</tr>
</tbody>
</table>
Across all of these six techniques to deliver an online customer experience, the average score is typically in the range 2.5 to 3 out of 5. This suggests that even amongst these leading businesses the majority believe their capabilities require improvement compared to other leaders in the sector. Whilst it isn’t a great surprise that some of the newer, more advanced techniques like proximity messaging or real-time, personalised incentives aren’t used more frequently, it is surprising that there aren’t higher adoption levels for what can be considered well-established e-retail techniques like offer-based personalisation and mobile apps.

It can be argued that there is less need for mobile apps with the advent of responsive and adaptive web designs to create experiences suitable for smaller form-factor devices. However, the majority of larger international retailers do support customers through mobile apps which take advantage of the native features of the main device platforms such as iOS, Android and Windows. Google also recognises the importance of apps and has recently increased app support for findability through indexing and deep linking with apps. It’s also worth remembering the ongoing popularity of apps, with consumers spending 90% of their online media time on apps.

Creation of in-store digital experiences

Next, we asked the retailers to suggest where they needed to improve their in-store digital customer engagement capabilities. We asked about a range of digital engagement techniques which were rated on a scale of 1 to 5 for satisfaction with their capabilities.

In-store engagement capabilities rated below average

<table>
<thead>
<tr>
<th>Technique</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFC enabled product tags</td>
<td>75%</td>
</tr>
<tr>
<td>In-store beacons</td>
<td>66%</td>
</tr>
<tr>
<td>In-store self-service devices</td>
<td>63%</td>
</tr>
<tr>
<td>Augmented reality in-store experiences</td>
<td>62%</td>
</tr>
<tr>
<td>Real-time personalised incentives</td>
<td>55%</td>
</tr>
<tr>
<td>Online loyalty schemes</td>
<td>47%</td>
</tr>
<tr>
<td>Wifi access</td>
<td>29%</td>
</tr>
<tr>
<td>Social media engagement</td>
<td>22%</td>
</tr>
</tbody>
</table>

Use of in-store WiFi and encouraging social media engagement are the most widely deployed in-store digital engagement techniques. More advanced techniques such as in-store beacons, NFC enabled product tags (like CloudTags) and in-store augmented reality were rated lower, despite the hype and case studies of early adopters in the retail press.

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2 Google announce App Indexing support November 2015
3 Seven Years Into The Mobile Revolution: Content is King...Again
In an open question we also asked the retail brands to share their successes for deploying innovative experiences. A common theme was an enthusiasm for using in-store digital tech, which included:

"In-store experience enhancement through digital technology i.e. assisted walk-through tablets."

"In-store iPads comparing products have been incredible effective."

"Introducing engaging POS stands in stores and encouraging staff to actively engage with customers while using them."

"We have used NFC technology in stores to give more information around our products and to offer promotions."
In this section of the report we reviewed techniques for managing digital disruption to see how companies had developed an Agile approach. Using Agile techniques to harness insights, boost employee productivity and implement new digital value propositions have become popular techniques, but to deploy them effectively requires recognition of different types of agility.

The two main types of digital agility that should be harnessed to create more customer-centric experiences are:

- **Market agility** where customer research, real-time employee insights and structured experiments are used to understand customer preferences and to respond by creating better digital experiences and giving staff the right type of insight to manage their interactions better.

- **Systems development agility** where updates to the digital customer proposition and experience are implemented using agile systems development methodologies such as Scrum.

If you’re interested to learn more about how to structure a team and manage agile development, you may find this well-regarded case history explaining how Spotify has implemented an agile methodology inspiring. It details how Spotify structures its development team into different groups so they can focus on rapidly creating an effective proposition while maintaining links between teams.

4 Case study of Scaling Agile at Spotify
Here’s an example:

Scaling Agile @ Spotify with Tribes, Squads Chapters and Guilds

Control of the multichannel experience

Consistency and integration of customer experience is often described as a challenge and this is no surprise since there are a wide number of customer touchpoints ranging from company pages across the different social networks to websites accessed over desktop, tablet and smartphone devices plus email and SMS messaging. Lack of consistency and integration between touchpoints can commonly occur when there isn’t clear responsibility across the different touchpoints. However, within this group of companies, clear responsibility was the norm with 85% of participants describing responsibility as clearly defined.

Is there a clearly defined person or group responsible for managing an integrated customer experience across all touchpoints?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes - clear shared responsibility</td>
<td>59%</td>
</tr>
<tr>
<td>Yes - single defined person</td>
<td>26%</td>
</tr>
<tr>
<td>No clear responsibility</td>
<td>15%</td>
</tr>
</tbody>
</table>
Retailers responding to our survey typically had clear ownership of customer experience and should be commended for this since we find this is often not the case in business-to-business, travel or financial services sectors.

**Key takeaway:**
Clearly define ownership of multichannel customer experience

Clear ownership of multichannel experience is essential to providing effective experiences since clear ownership should lead to a defined strategic approach meaning these prerequisites are ticked:

- **Measurement of the effectiveness of experience.** For example, through real-time feedback facilities and Customer Satisfaction or Net Promoter Score surveys specific to experience.

- **Roadmap for improving digital experiences using innovative approaches.** With dedicated senior management responsibility for experience a roadmap and business case prioritising strategic initiatives can be defined.

- **Process for identifying and correcting defects in the cross-channel experience.** Defects to the experience can be identified.

- **Structured experiments used to improve experience.** Budget and resource needed for continuous AB and multivariate testing can be identified.

To create a more strategic approach to investing in digital experiences a longer-term perspective will help. With so many competing initiatives such as those covered in section 2, there is a risk that options aren’t prioritised and deployed. When we asked retailers in the survey about their planning horizon we were surprised to see a mixed pattern of short and long-term planning given that the majority of respondents belonged to larger organisations.

**What is your timeframe when planning marketing and digital strategy?**

- Current quarter: 27%
- Current year: 25%
- 1-2 year: 30%
- 2 year+ roadmap: 18%
Nearly half of businesses (48%) did have a medium to long-term roadmap stretching out beyond the typical annual planning cycle for the current year (which was 25%). However, over one quarter (27%) had a short-term perspective only planning initiatives in the current quarter.

Whilst it could be argued that a longer-term view isn’t required given the rate of change of new digital innovation and adoption of an Agile approach, it’s impractical to improve all aspects of the customer journey in a short-term view. If we consider Dell’s approach to their experience optimisation, as an example, they evolved over a five year period to best in class starting with the basics of testing value propositions in each country through to personalisation and then more advanced structured testing programmes.

Committing to creating and managing a long-term initiative will force you to review how you prioritise and make the business case for many competing initiatives. It can also help prevent short-termism where activities tend to focus on what is new rather than what will have the greatest value for the business and the customer.

We recommend using this type of analysis to balance the customer and business benefits of digital innovation.

Rating different types of business value against costs in a quantitative way as shown in the diagram below, can help with more objective selection of marketing technology.

Recommended techniques to improve the quality of digital experiences

To conclude the study, we wanted to share best practices around processes and tools that are used to continuously improve digital experiences. We asked about adoption of a range of techniques related to testing new ideas for experiences to improve effectiveness and agile methodology.

We asked about adoption based on a three-point scale where the current capability was assessed from 1 (zero adoption) to 3 (category leading). So techniques with the higher average response have been adopted more widely. We present these techniques as those which were actively used.

Techniques used to improve the digital customer experience

<table>
<thead>
<tr>
<th>Technique</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating of experience through online surveys</td>
<td>81%</td>
</tr>
<tr>
<td>Regular benchmarking</td>
<td>79%</td>
</tr>
<tr>
<td>Regular usability testing</td>
<td>64%</td>
</tr>
<tr>
<td>Conversion optimisation of digital experience using AB testing</td>
<td>61%</td>
</tr>
<tr>
<td>Applying big data for predictive intelligence</td>
<td>61%</td>
</tr>
<tr>
<td>Conversion optimisation of digital experience with multivariate testing</td>
<td>57%</td>
</tr>
<tr>
<td>Agile development with frequent release cycles</td>
<td>56%</td>
</tr>
</tbody>
</table>

Looking across the techniques, those with the highest adoption rates tend to be the most straightforward, established techniques such as use of online surveys, benchmarking and usability testing.

Although Big Data has many applications, we asked about a specific retail use-case, which is applying it for predictive intelligence to make more relevant recommendations to customers. Responses showed that more than half of businesses (61%) are using this technique.

Two other types of techniques we asked about were structured testing or conversion optimisation and using an agile approach to develop and launch new features. We can see that a relatively large proportion of companies aren’t using these techniques which could be expected to be standard in larger multichannel organisations today:

- **39% have not adopted AB testing.**
- **42% have not adopted multivariate testing.**
- **44% have not adopted an Agile methodology with a frequent release cycle.**
So despite the discussion and examples of these techniques to create more customer-centric experiences, many businesses haven’t put in place the processes to develop them further.

Key takeaway
Scale up structured testing programmes

This example from a leading UK multichannel retailer presented at the 2015 Ecommerce Expo shows how they are seeking to gain competitive advantage by increasing the number of tests. It’s also interesting to note that it’s not possible to predict response since there are an equal number of experiments (around one third) which succeed, fail or neither.

Creating your roadmap for the future

The majority of retailers we surveyed still see digital disruption as a business critical issue. All retailers are on a journey to develop their multichannel propositions and communications to create experiences which enable them to compete in the future.

Yet, the research shows that many are at an early stage of this journey since there are significant challenges of integrating technology to support effective, joined-up customer experiences.

With many respondents mentioning challenges of prioritising and integrating technology and evaluating the effectiveness of experiences, yet admitting they have a limited planning horizon, it’s clear there is a need to create a roadmap for developing propositions which is flexible enough to respond to marketplace changes.
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To find out more about how digital transformation can empower your business, email us today to speak to one of our experts: msukservices@microsoft.com

Working with others in a new range of ways

Retail banking for life: Seamless customer life stage journeys

Santa social mindshare: Virgin Atlantic and Santa

Changing workplace life: Marks and Spencer

Reinventing car buying: Volvo

Digital relationships at global scale: Real Madrid

Crowdsourced brand engagement: L’Oreal Paris
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