



PwC survey finds that retailers who have removed the silos from omni-channel operations are achieving significant competitive advantage.

In the latest annual survey of retail and consumer goods CEOs conducted by PwC on behalf of JDA Software, only 18 percent of executives say they have eliminated operational silos and are delivering seamless omni-channel shopping experiences for their customers. These companies expressed greater confidence in future revenue and profit growth than their peers, while achieving significant competitive advantage through lower costs and increased investments in customer-centric services.

The research also found there are considerable differences in omni-channel maturity across the countries surveyed. Mature markets generally have more mature omni-channel capabilities, but emerging markets are investing heavily and are actually ahead in providing certain customer-facing options. Western-based international companies wanting to penetrate Chinese retail markets, for example, should be prepared to match their advanced omni-channel delivery capabilities.

PwC conducted the research in late 2015 with 305 responses from executives across China, Germany, Mexico, United Kingdom and United States. Twenty-three percent of responses came from top 250 retailers (> \$5 billion revenue), with another 51 percent classified as top 1,000 retailers. Respondents identified themselves as coming from hard goods, soft goods, CPG, ecommerce and grocery verticals, as well as from related retail and consumer goods sectors.

Outlook on Growth

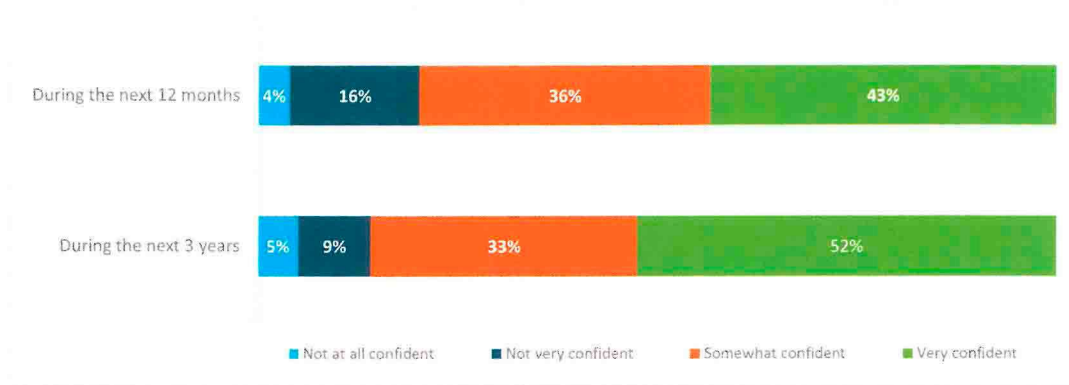
Continuing a trend seen in the last two years' surveys, confidence in revenue growth for the next 12 months has grown, with 48 percent of CEOs in the survey saying they are very confident in growth, compared to 44 percent the previous year. There is also confidence in profit growth, with 79 percent either somewhat or very confident in profit growth over the next 12 months and 85 percent somewhat or very confident in profit growth during the next three years.

Where the numbers get interesting is when you break down the responses from those companies who have removed business silos versus those who have not yet done so. Of the 18 percent of companies without silos, 59 percent say they are very confident in revenue growth over the next 12 months, and 69 percent are very confident of growth during the next three years. This compares favorably to the averages of 48 percent and 53 percent revenue growth, respectively, expressed by all CEOs collectively.

Similarly, when considering CEOs' expectations for profits, 63 percent of the companies without silos were very confident in profit growth over the next 12 months, and 70 percent during the next three years, versus overall averages of 43 percent and 52 percent, respectively, as shown in Figure 1. If nothing else, those CEOs who have removed the business silos from their operations are much more confident in revenue and profit growth. As we shall see, they are also ahead in a number of their omni-channel capabilities and investments that should deliver that growth.



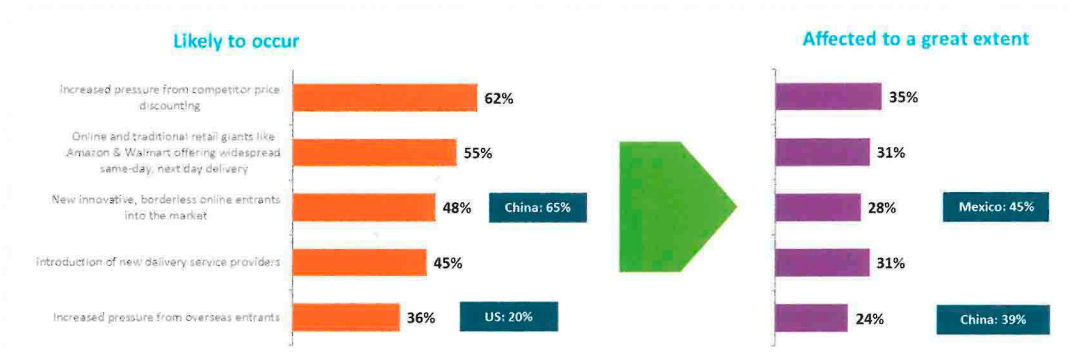
FIGURE 1—CONFIDENCE IN PROFIT GROWTH



Threats and Challenges

With the ease of market entrance for ecommerce retailers, the growing demands for omni-channel delivery speed and fulfillment options, and the continued rise of Amazon.com, there are plenty of external threats and internal challenges to keep CEOs up at night. However, the external threats were felt more strongly in emerging markets (China and Mexico) than in the more mature markets of Germany, United Kingdom and United States. For all of the potential threats shown in Figure 2, CEOs from emerging markets felt they were more likely to occur and would impact them more than expressed by CEOs in mature markets.

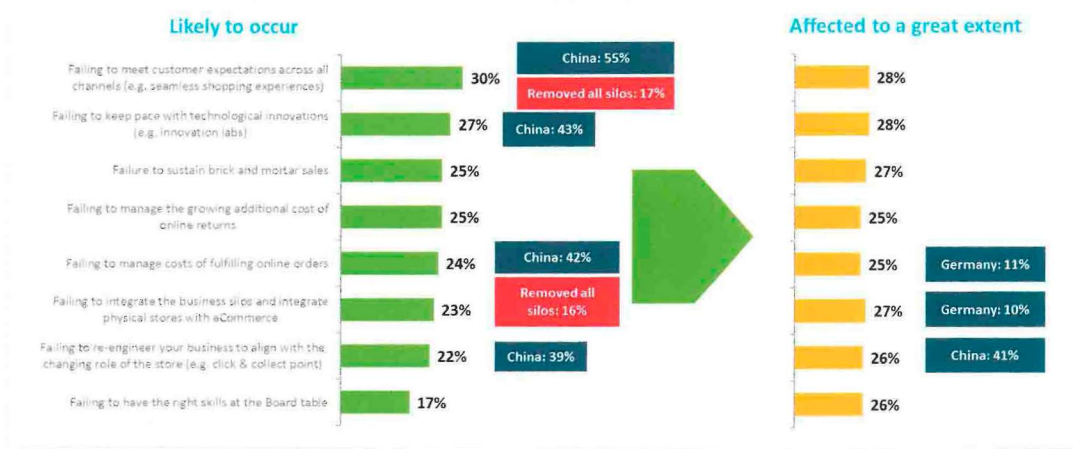
FIGURE 2—EXTERNAL THREATS



There was also a difference in which threats were perceived as most prominent. CEOs from emerging markets were more concerned about new overseas or borderless entrants, at a rate of 45 percent and 61 percent respectively, versus 32 percent and 43 percent in mature markets. CEOs in mature markets tended to be more concerned with competitor price discounting.

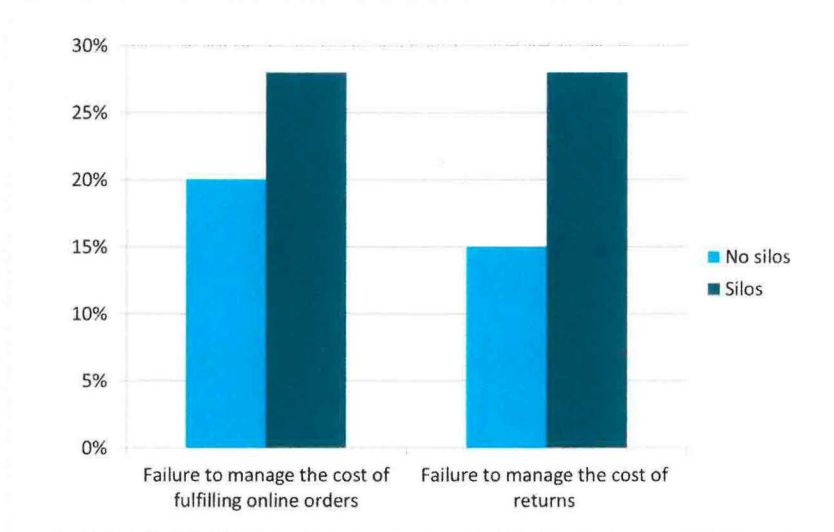
While the variations in perceptions of external threats were most prominent between emerging and mature markets, the variance in perceptions of internal challenges were most dramatic between those CEOs who have removed business silos and those who have not. In the all-important category of meeting customers' expectations across channels, for example, only 17 percent of CEOs who had removed business silos felt failing to accomplish this was likely to happen versus 34 percent for those who still have silos.

FIGURE 3—INTERNAL CHALLENGES



CEOs who have removed silos are also less concerned about the impact of internal challenges, with lower impact scores across all challenges. Especially notable are the impact of costs for omni-channel fulfillment and returns. As seen in Figure 4, only 20 percent felt that failure to manage the cost of fulfilling online orders would impact them to a great extent versus 28 percent of those who still have silos. Similarly, only 15 percent of the silo-less CEOs felt failure to control the cost of the return of online orders would greatly impact them versus 28 percent of those with silos.

FIGURE 4—VARIATIONS IN THE IMPACT OF INTERNAL CHALLENGES

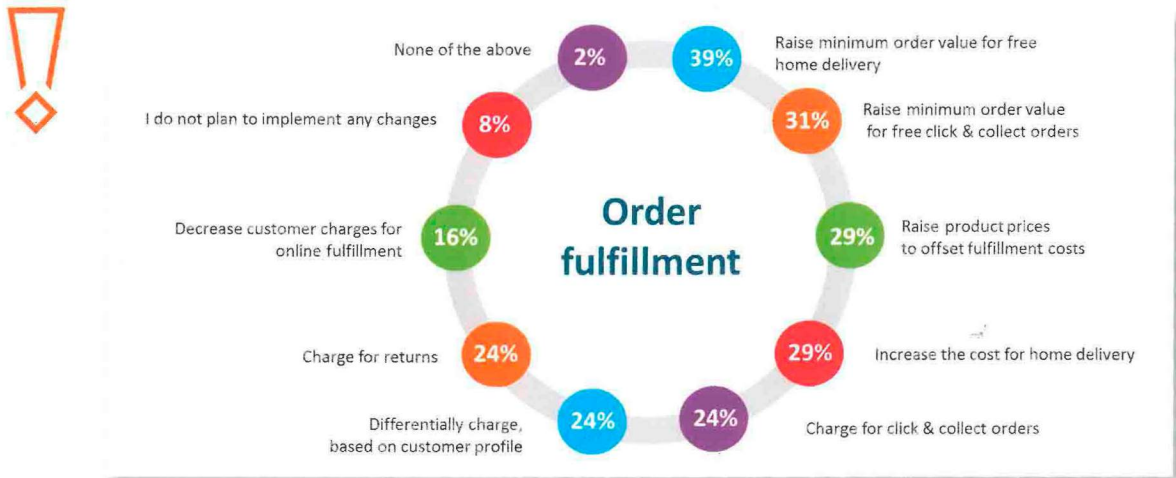


Cost Advantage

Not only are CEOs who have removed business silos less concerned about the impact of omni-channel operations, they also appear to have significant cost advantage over those companies still operating in silos. While 74 percent of CEOs in companies operating in silos say their costs for omni-channel fulfillment are increasing, only 59 percent of the companies that have eliminated silos say these costs are increasing. When asked to rank their top cost for omni-channel fulfillment, 32 percent of CEOs who have eliminated siloes indicated shipping directly to consumers from a distribution center versus 45 percent for those with silos. Similarly, when asked to rank their top three cost factors, processing returns was listed by 51 percent of those without silos versus 67 percent by those with silos. This data strongly suggests that removing silos from omni-channel operations can give companies a competitive cost advantage.

The survey also asked CEOs what changes they plan to implement to deal with the high costs of omni-channel fulfillment, as shown in Figure 5. It is enlightening to note that CEOs who have eliminated business silos felt less compelled to make any of these changes, and in fact 19 percent say they will make no changes at all compared to only 4 percent of those CEOs who still have silos.

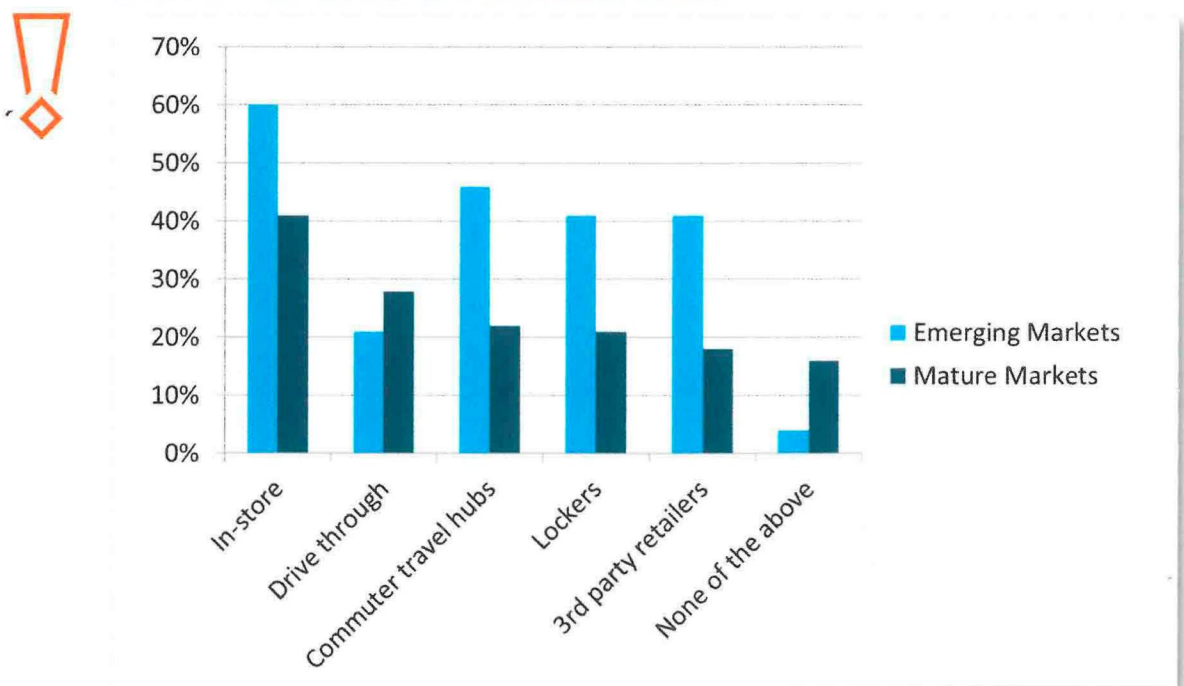
FIGURE 5—PLANNED CHANGES TO DEAL WITH THE HIGH COST OF OMNI-CHANNEL FULFILLMENT



Omni-Channel Fulfillment Focus

Since omni-channel fulfillment is one of the biggest challenges facing retailers today, it is not surprising that the fulfillment options they are focusing on vary significantly by both market and omni-channel maturity. Perhaps what is surprising, however, is that emerging markets (China and Mexico) are generally offering more fulfillment options to their customers, or plan to over the next 12 months, than the companies in more mature markets (Germany, UK, US), as shown in Figure 6. This is important to note for companies who want to compete in emerging markets.

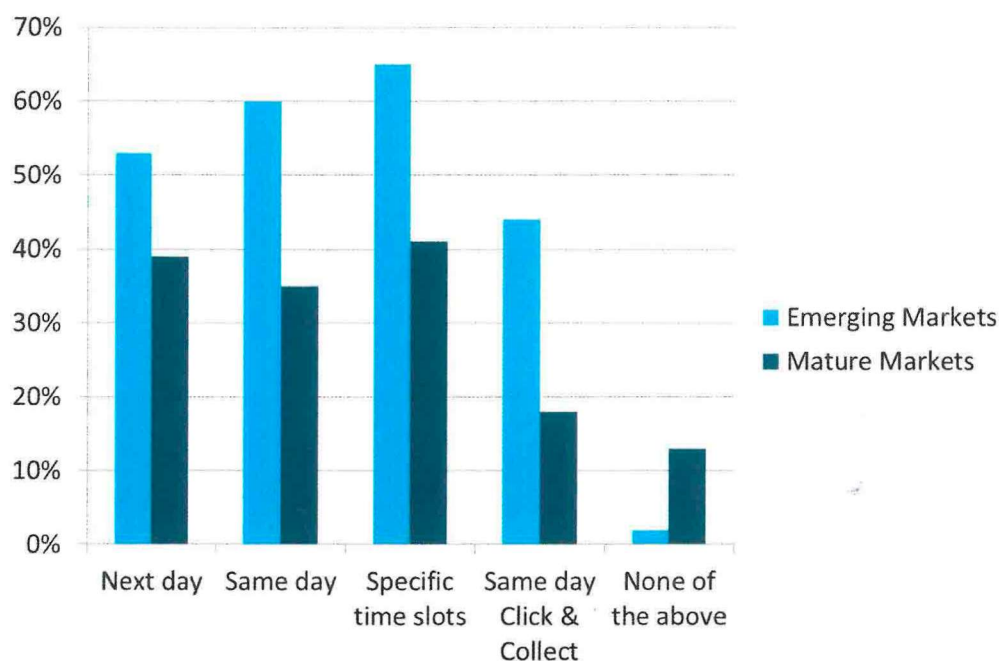
FIGURE 6—MARKET ADOPTION OF CLICK & COLLECT OPTIONS



Similar disparities were seen in the delivery options CEOs in emerging markets say they are offering, or will in the next 12 months, versus those in mature markets, as shown in Figure 7.



FIGURE 7—MARKET ADOPTION OF DELIVERY OPTIONS



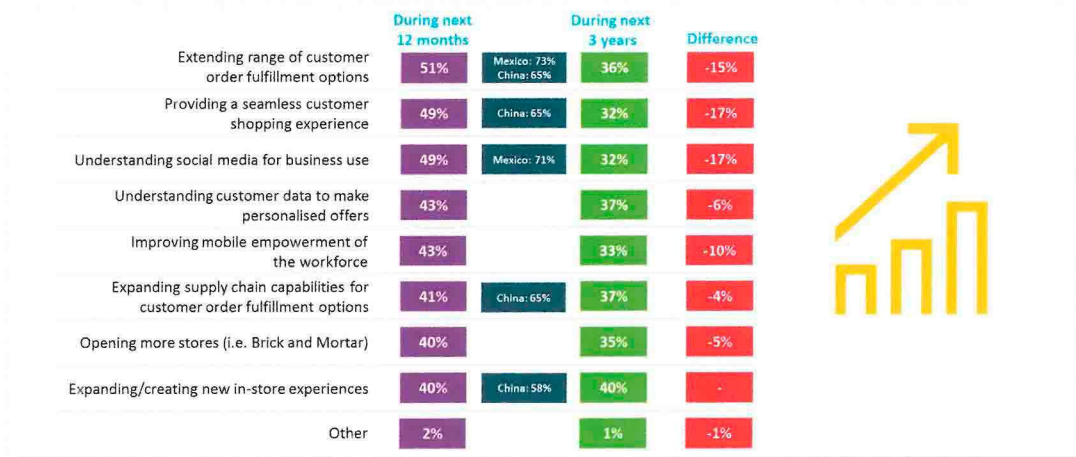
It is also significant to note that the responses to the above questions are different coming from CEOs who have removed business silos than from CEOs who still have silos. These more mature omni-channel companies are more likely to offer in-store Click & Collect (56% vs. 47%) than their peers with silos, but are less likely to offer any of the other Click & Collect options. These companies appear more focused on the speed of delivery. They favor same day over next day deliveries and are more likely to offer specific time slots for customer deliveries. In mature markets, speed to delivery can be a loyalty-building competitive advantage.

Omni-Channel Investments

What CEOs' real priorities are can usually be seen in where they choose to invest their capital. Therefore, it is noteworthy that the CEOs in the survey say that 26 percent of their investment capital is being spent on omni-channel readiness. Even more noteworthy is that Chinese CEOs say they are spending 45 percent of their investment capital on omni-channel and that 62 percent of them indicated this is higher than the previous year, compared with the average of 43 percent.

As Figure 8 shows, there is also a sense of urgency to invest now to meet omni-channel imperatives. CEOs' investment intentions are higher for the next 12 months than they are over the following three years, especially for the critical omni-channel functions of extending the range of customer fulfillment options and providing seamless customer shopping experiences. The emerging markets in particular are spending heavily in these areas, as well as in understanding social media, improving supply chains and creating new in-store experiences.

FIGURE 8—WHERE CEOS ARE INVESTING IN OMNI-CHANNEL



Another way to examine omni-channel success, besides geographically, is to look at who is investing more in omni-channel and where they are investing it. It might be counterintuitive, but those who are already leading are investing more than their peers. Those CEOs who have eliminated business silos are doubling down by increasing their investments in omni-channel over last year at a rate of 52 percent compared to the 43 percent average. They are investing heavily in regular and same day Click & Collect, as well as in same day delivery, and specific delivery time slots.

When asked to rank their top three priorities for I.T. investments, the CEOs without silos were putting much more emphasis than their peers on understanding their customers through forecasting and replenishment (42% vs. 25%) and customer data (42% vs. 23%). In contrast, the CEOs who still have silos were focused more on the basics such as ecommerce, order management and supply chain, areas the more mature omni-channel companies have already mastered.

Omni-Channel Leaders

Omni-channel leaders, the 18 percent who have removed business silos and are offering seamless omni-channel customer shopping experiences, aren't just doing the same things better than their peers. They are more focused on omni-channel at the board level and are investing in more customer-focused capabilities that will further increase their competitiveness and profitability.

When asked about the challenges that lay ahead, these omni-channel leaders were far less worried about board focus or meeting customer expectations. For example, 56 percent of the leaders say that failure to have the right skills at the board level is unlikely to occur in their organizations compared with only 35 percent of their peers. And 57 percent say failing to meet customer expectations across channels is unlikely to occur versus only 29 percent of their peers. The leaders are also more likely than their peers to have established Chief Customer Officers or Chief Digital Officers, positions that bring greater customer-centric focus to the board room. The omni-channel leaders are prepared and confident in their ability to succeed in the omni-channel marketplace.

Omni-channel leaders are not standing pat waiting for their peers to catch up, either. They are investing more in the customer-centric capabilities that will allow them to better understand their customers and deliver richer customer shopping experiences. This will make them even more competitive and better positioned to continue their leadership. Those companies who want to successfully compete with these leaders, therefore, must not only remove the business silos that prevent seamless operations, but also rapidly increase their investments in omni-channel capabilities before they fall further behind the omni-channel leaders. These actions will define retail winners and losers going forward.