

ENABLING CONSUMER BUSINESSES TO UNLOCK EXPONENTIAL VALUE THROUGH CUSTOMER EXPERIENCE AND INNOVATION

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The Cognizant logo features the word "Cognizant" in a bold, blue, sans-serif font, with a small blue square icon to the left of the letter "C".

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Enabling Consumer Businesses to Unlock Exponential Value Through Customer Experience and Innovation

A New Vision to Thrive in the Consumer Industry Next Normal

This IDC Vendor Spotlight provides an overview of the benefits, challenges, and trends linked to the consumer industry's efforts to execute at scale (and in the short term) new customer experience models while conducting iterative innovation cycles with a long-term vision.

If we look at the current consumer industry (retail, CPG, and brand companies), there is a need to define a **new industry vision** to thrive in the next normal. To do this, we have identified six fundamental components of the new **"THRIVE"** vision for a fully immersive and contactless future of shopping:

- **Trusted:** Customers see the company as a trustworthy handler of personal data and sustainable business.
- **Holistic:** Blurring lines between physical and digital, the experience is integrated and contactless.
- **Real time:** Interfaces and moments of interactions are possible anytime, enabling an integrated experience.
- **Ingenious:** Looking beyond short-term circumstances for future and unexpected changes.
- **Valued:** Identifying the appropriate value for money and being aware of the values of the consumer.
- **Effortless:** Contactless commerce and reduced efforts on delivery and payments for products and services.

Starting from this vision, we see a new shopping paradigm emerging, based on three key pillars:

- Achieving real-time contextual customer experience personalization
- Reimagining retail operations and workforce
- Collaborating with the ecosystem of partners and suppliers

The new paradigm translates into **new retail contactless models** that become the linchpin for data-driven customer experience and innovation execution.

AT A GLANCE

KEY STATS

- » In 2021, retailers are accelerating DX programs by embracing cloud-first principles, third-party services, and systems integration partnerships.
- » Over the next three years, ecommerce interfaces and new store types will be top revenue sources for 45% and 43% of consumer companies.
- » 81% of retailers are investing in cloud-based omni-channel store systems.

WHAT'S IMPORTANT

- » New retail contactless models are the linchpin for data-driven customer experience and innovation execution.
- » By leveraging capabilities in areas such as digital customer experience, co-innovation services, connected stores and spaces, and digital supply chain, consumer companies have achieved concrete benefits such as a more than 10% conversion rate increase and a more than 10% reduction in out of stock.

IDC predicts that by 2023 a major retailer will announce a completely reimagined, almost completely touchless contactless in-store experience, leveraging voice activation and gesture- and motion-sensitive technologies.

To address the new shopping paradigm and to deploy new contactless retail models, it is fundamental that consumer companies distribute their joint innovation efforts across the seven building blocks of the extended retail and CPG value chain, and the underpinning core applications and processes:

- Supply chain
- eCommerce
- Store systems and operations
- Customer experience
- Product merchandising and marketing
- Employee experience
- Product design and development

Building a Digitally Enabled Consumer Industry Value Chain

IDC predicted that by 2021 retailers will accelerate DX programs by two years in two months by embracing cloud-first principles, third-party services, and systems integration partnerships.

This scenario is now a reality and consumer companies are investing considerable resources in co-innovating with their ecosystem of IT providers. Such an approach is instrumental to addressing the entirety of the consumer industry's value chain, with its seven building blocks and the related underpinning core applications and processes.

Within such a dynamic context, consumer companies should consider the following key industry priorities, paying attention to timely alignment of their strategies and execution:

- **Enabling real-time contextual customer experience:** 66% of consumer companies prioritize the innovation of their business models by addressing the customer experience building block. Among these companies, 26% are executing this strategy by evolving loyalty programs, going beyond transactional approaches and focusing on customer lifetime value.
- **Building the contactless store of the future:** Overall, 70% of retailers are reducing store size and assortment and increasing the focus on service. At the same time, 84% of retailers are implementing automated checkout systems, 84% are implementing IoT for in-store customer experience, 75% are implementing AR/VR for in-store customer experience, 78% are working on automated drive-through pickup, and 35% are working on robotics for in-store customer experience.
- **Merging ecommerce and physical stores:** Over the next three years, ecommerce interfaces and new store types will be top revenue sources respectively for 45% and 43% of consumer companies. 81% of retailers are investing in cloud-based omni-channel store systems, 80% are investing in capabilities that enable them to leverage the store as a

fulfillment center, and 76% say the implementation of unified commerce services is an innovation priority.

- **Enabling digital supply chains:** 92% of retailers are currently engaged in efforts to improve supply chain visibility, and business model innovation is a driver of supply chain digital transformation for 41% of companies. In this context, 80% of consumer companies are implementing IoT for supply chain visibility and 44% of consumer companies are participating in a multi-enterprise network for compliance and sustainability.
- **Implementing AI/ML analytics foundations:** Business agility is a driver of AI/ML implementation for 52% of consumer companies. 78% of companies will be adding new roles in store to manage processes enabled by technologies such as AI/ML analytics, and 50% are implementing AI/ML capabilities focused on customer experience personalization.
- **Co-innovating on a continuous basis with the ecosystem:** 14% of consumer companies are launching or running at least one co-innovation program, and 68% will have launched at least one such program within the next 24 months. 25% of these co-innovation-oriented companies prefer IT and services providers as their main co-innovation partners.

IDC believes the success of retail, CPG, and brand companies of the future will fundamentally rely on the following assets:

- **Unified innovation strategies** focused on continuous business model innovation and **solid co-innovation partnerships** with consumer industry technology start-ups
- **Customer data platforms** integrating first-, second-, and third-party data sources
- **Hybrid cloud** and **microservices** based platforms and infrastructures
- **Smart technologies** such as IoT devices and platforms, and edge platforms

Digital Capabilities Increase Conversion Rates, Profitability, and Inventory Efficiency

Within this context, consumer companies are facing **complex challenges** in many different areas of their value chains. The top challenges that retail and CPG companies are dealing with to address real-time contextual customer experience models cover a number of activities:

- Identifying **new loyalty strategies** that increase customer lifetime value (33% of companies)
- **Gathering and selecting useful data** from existing and new data sources (32% of companies)
- Defining the priority list of business use cases to enable the execution of **unified customer journeys** (30% of companies)

When driving innovation, consumer companies also need to resolve a set of overarching challenges that make the journey to the future of shopping even more complex:

- For 29% of companies, **balancing innovation efforts** with daily operations efforts is difficult.

- For 28% of companies, their ability to implement innovation **at speed and at scale** doesn't meet their actual needs.
- For 27% of companies, it is difficult to build a **platform** that enables innovation piloting, implementing, and scaling.

While conducting long-term and resource-heavy DX efforts, and addressing the complex challenges listed above, across the building blocks of the value chain, consumer companies need to strategically prioritize the enablement of customer experience personalization at scale. At the same time, they need to prioritize agile innovation approaches that address the new revenue streams and the enhancement of IT and business processes.

Retailers and other consumer companies have the opportunity to implement and leverage a set of capabilities that provide concrete benefits to the organization itself and to the ecosystem of partners and suppliers.

- **Digital customer experience:** enabling the execution of contextual marketing campaigns and the merger of online and offline customer journeys, and enabling companies to offer new loyalty programs
- **Co-innovation services:** optimizing the resources that consumer companies invest in innovation, better understanding consumers, and accelerating innovation piloting, implementation, and scaling
- **Connected stores and spaces:** offering safe, seamless, and frictionless experiences and innovation-ready, digitally enabled physical venues
- **Digital commerce platforms:** enabling omni-channel purchase experiences and providing a flexible environment for piloting, implementing, and scaling innovation
- **Digital supply chain and operations:** improving planning efficiencies and logistics operation execution costs
- **Cloud-first infrastructure:** enabling efficient and scalable customer experience operations and growth-oriented innovation execution
- **AI/ML analytics foundations:** driving business process automation, delivering customer experience personalization at scale, and enabling data-driven innovation

By innovating across these areas, over the past two years consumer companies have improved both their top- and bottom-line results:

- **Profitability:** 70% of companies increased ecommerce profitability by leveraging consumer mobile applications.
- **Revenue:** 31% of companies increased revenue by 10% or more.
- **Traffic:** 28% of companies increased traffic by 10% or more, across physical and digital assets.
- **Conversion rates:** 28% of companies increased conversion rates by 10% or more.
- **Promotional pressure:** 28% of companies reduced promotional pressure and markdowns by 10% or more.
- **Inventory and write-offs:** 28% reduced inventory costs and inventory write-offs by 10% or more.

- **Out-of-stock:** 27% of companies reduced out-of-stocks by 10% or more.
- **Operational costs:** 27% of companies reduced operational costs (e.g., logistics) by 10% or more.
- **CX metrics:** 25% of companies increased CX metrics (e.g., NPS, CSAT) by 10% or more.

Such improvement across the value chain is fundamentally enabled by continued and solid partnerships with IT vendors and service providers. It is essential that consumer companies define their strategies, build their road maps, and execute them by collaborating with IT providers that can address the consumer industry's specific technology and business needs, with a twofold approach that addresses short-term operational needs and long-term innovation needs.

Cognizant's Capabilities in the Consumer Industry

Cognizant supports retail and CPG clients with the strategy, design, and development of digital commerce platforms. The vendor provides its clients with a structured process consisting of experience strategy, product management, analysis of requirements, platform design, customization and development, DevOps transformation, automated testing and evaluation, deployment and ongoing support, ongoing optimization, and business model innovation. Cognizant's objective is to enable its consumer industry clients to execute their DX strategies efficiently, effectively, and with a long-term approach.

Cognizant is investing to expand its digital capabilities through the acquisition of different types of companies. These acquisitions span digital engineering, IoT, data and analytics, and cloud. Some of the key acquisitions include TQS Integration (smart manufacturing), Magenic (digital engineering), Servian (data and AI), Linium (cloud), Inawisdom (AI/ML), Bright Wolf (IoT), Tin Roof (digital engineering), 10th Magnitude (cloud), New Signature (cloud), Lev (digital marketing), Code Zero (cloud), Contino (DevOps and cloud transformation), Sentient Leaf (AI), and Softvision (digital product engineering).

To support consumer companies with the fundamental innovation processes related to the above themes, Cognizant leverages an innovation as a service (IaaS) framework based on **continuous, collaborative, and customer innovation**, which leverages bottom-up innovation; partnerships with vendors, start-ups, and academia; and combined hackathons.

From a start-up ecosystem perspective, Cognizant collaborates with specific companies to provide niche customer services. Also, through **theMarkt** — the vendor's Retail Experience Center — Cognizant provides more than 30 digital offerings that clients can familiarize themselves with, through dedicated lab sessions. Based on internal analyses, Cognizant has measured that, by partnering with internal and external stakeholders, theMarkt also accelerates time to market for innovative solutions, which are highly scalable.

Cognizant offers a portfolio of digital capabilities that addresses a variety of areas across the consumer industry value chain. More specifically, it focuses on addressing the following main retail and CPG priorities:

- **Experiential commerce:** In this domain, the vendor's capabilities are mainly focused on delivering personalized omni-channel experiences. For a major pharma retailer, Cognizant transformed its multichannel shopping experience across digital channels and 8,000+ stores, driving a tenfold digital revenue growth in five years. Similarly, for a large grocery retailer, it collaborated to transform its client business and deliver a seamless multichannel shopping experience. It also delivered a seamless and intuitive brand experience for an international car retailer. Cognizant offers a portfolio of services such as **Propel Commerce** (for commerce optimization in a post-pandemic context), **Intellipeak** (to manage the peak shopping season), and **ONERetail** (a smart information ecosystem for connected retail organizations).
- **360-degree digital marketing:** In this area, Cognizant has leveraged its recent acquisitions (Mustache, Lev, Zone, and IdeaCouture) to offer services to enable the execution of digital marketing content campaigns through the transformation of core processes, technology, and culture. Cognizant leverages services such as **Digital Content Factory** (marketing accelerators at scale) and **Customer Journey Artificial Intelligence** (prebuilt business use cases for the production of actionable analytical insights). For a global CPG brand, Cognizant enabled a centralized digital shelf through PIM and DAM, enabling product information to 500 ecommerce partners and distributors, leading to a 60% reduction in time to market and a 15%–20% increase in sales.
- **Smart and safe spaces:** Cognizant is investing considerable resources in this area, developing offerings around self-healing stores, IoT-enabled smart operations, sustainability services, **Smart and Safe Stores** (to enable customer and employee safety in a post-pandemic context), and **Cognizant OneFacility** (digital facility management). As part of this, Cognizant has delivered in-store services such as an endless-aisle project for a travel-retail company. The services enable travelers to purchase anywhere in an airport by browsing through products with relevant price, promotion, and inventory information. This has driven a 15% increase in customer orders. Cognizant collaborated with a very famous multinational toy manufacturing company to launch a platform for its diecast toy cars. This new system brings together physical and digital play with identifiable cars, a race portal, and a premium smart track and app.
- **Next-gen supply chain:** Cognizant offers services such as **SC Control Tower** (an analytics-driven tool to manage supply chains), **OneOMS** (a cloud-based order management system built with IBM Sterling Order Management), and **Hawkeye** (an open source dashboard and visualization tool for insights across the supply chain). Cognizant provided SC Control Tower services to a large F&B brand to enable cost optimization. It also supported a large grocery retailer with supply chain optimization services that leverage blockchain-based SKU management for supply chain transparency. In addition, Cognizant offers the Softvision suite of merchandising products to support its clients in building supply chain processes.
- **Adaptive consulting:** Cognizant has more than 750 consultants in the retail and CPG space. Their expertise covers the main areas of the consumer industry value chain, from supply chains to store operations and customer experience, as well as legacy modernization. For a leading sportswear company, the Cognizant consulting team

provided services that involve blockchain to fulfill in-store demand using connected marketplace inventory.

- **Digital engineering and automation:** Cognizant also offers cloud-first digital products, enterprise automation, and digital engineering services. Its objective is to enable cost savings through cloud/SaaS adoption and digital capabilities to switch to online and remote work models. Based on internal analyses, Cognizant says it delivers 40% faster time to market and 50% reduced TCO through its cloud solutions. Cognizant's proprietary Automation Center leverages automation to digitize core processes and accelerate the speed of innovation. Some examples of the support that Cognizant provided to consumer industry companies include:
 - **Process automation:** For a large U.S. department store, Cognizant enabled 28% cost savings through IT process automation, using Ayehu Eyeshare as the strategic tool.
 - **Application portfolio transformation:** Through Digital Engineering, Cognizant designs, engineers, and delivers digital products and experiences that drive digital-first business models. By leveraging agile pods and virtual pod models, for example, Cognizant Digital Engineering transformed a portfolio of more than 80 applications for a leading department store, enabling it to expand its back-end stores.
 - **Artificial intelligence:** For a convenience store chain with more than 10,000 stores in over a dozen countries, Cognizant modernized the artificial intelligence (AI) platform to improve client decision making, increase operational agility, and lower costs as part of its overall digital transformation.
 - **Mobile apps:** For a large manufacturer of confectionary, Cognizant co-innovated with the client and helped to design an interactive mobile application to help consumers celebrate Halloween safely through engaging applications that let families trick or treat virtually.
 - **Mixed reality:** For a large manufacturer of electronic products, Cognizant built a proof of concept for a mixed reality (XR) based experience, enabling customers to get the look and feel of products before purchasing.

The Challenges Tied to Providing Services for the Consumer Industry

IT spending in the retail and CPG industries will see YoY growth of 7% in 2021 and 9% in 2022, with a CAGR of 7% for 2020–2024. It is clear that consumer companies have significantly accelerated their DX programs and will continue to do so to meet increasingly more challenging short- and long-term company business objectives.

The complexity of such programs therefore requires consumer companies to closely collaborate with a number of IT and services providers. This is a key reason for a dramatic increase in competition among IT and services companies serving the consumer market. Such dynamics are combined with greater client pressure to innovate business models and deliver enabling solutions to increasingly short timelines and the need to optimize IT budgets.

Cognizant therefore faces generalist and specialized competition for its services, across the different domains of the value chain and within each consumer industry subsegment. Given the complexity of the market, Cognizant should prove its differentiating capabilities to the consumer

industry to provide vision and strategic support services, a solid partner ecosystem, and scalable services and products for profitable operations.

Addressing a Long-Term Effort to Enable the Future of Shopping

The process of envisioning the future of shopping, defining unified customer experience and innovation strategies, and executing DX programs at speed and scale is a complex, resource-demanding, and long-term effort. Consumer companies need to run daily operations efficiently and deliver short-term profits, while providing customer experience excellence and innovating across their value chains to keep up with rapidly evolving consumer behavior and to grow sustainably.

To increase their efficiency and effectiveness, retail and CPG companies should invest in establishing solid co-innovation partnerships with the ecosystem of partners and suppliers. Co-innovation activities should then target the entire consumer industry value chain.

Customer experience should be central to consumer companies' business models and to differentiate they need to implement real-time contextual customer journey models. Cloud-first customer data platforms and digital marketing capabilities are essential to achieve this goal.

The store should be increasingly focused on services by leveraging new technology-enabled formats that enable safe and secure contactless models. The same contactless principles should be applied throughout consumer companies' physical venues to ensure an excellent, safe, and secure employee experience. IoT and edge platforms and infrastructures are key to enable the contactless spaces of the future.

eCommerce capabilities should be abstracted within digital commerce platforms that enable integrated purchasing experiences within customer journeys. Hybrid, multicloud, and microservices-based platforms with embedded AI/ML analytics capabilities are fundamental to run commerce operations efficiently and effectively.

Digital supply chains should become the backbone of consumer companies, as they enable visibility, accessibility, and control of procurement, logistics, and inventory processes, as well as providing transparency on sustainability and consumer services. Cloud-first B2B and B2C order management, real-time inventory management, and integrated merchandise and assortment planning capabilities are essential to successfully operate in this area.

IDC believes that Cognizant has the expertise to support consumer companies with a solid portfolio of digital services and capabilities to enable the future of shopping. It can provide retail and CPG companies with a broad and deep offering that addresses key areas such as customer experience, digital stores, digital commerce, digital supply chain, and business model innovation.

MESSAGE FROM THE SPONSOR

Cognizant is one of the world's leading full-service digital partners for more than 200 retail and CPG brands across 30 countries. In a [recent study](#), Cognizant found that retailers have renewed their focus on combining the best of physical and online shopping to reignite growth in the years to come. Cognizant delivers this redefined shopping experience and new business models by pulling together an in-depth knowledge of software, AI, data, and cloud technologies that transform clients' business, operating, and technology models. Co-innovation with clients is one of the key offerings. Its **innovation-as-a-service** offer is organized around a framework of three elements — customer innovation, collaborative innovation, and continuous innovation. Cognizant delivers this service by leveraging **theMarkt**, a cutting-edge innovation infrastructure and experience center that combines Cognizant's technical knowledge and industry experience to orchestrate new ecosystems for the benefit of our clients.

About the Analyst

[Giulio Raffaele](#), Research Manager, IDC



Giulio Raffaele leads IDC Retail Insights' research on worldwide retail ecommerce and direct-to-consumer strategies. He also contributes to research on worldwide retail customer experience and commerce strategies, as well as European retail subindustry digital strategies. Along with the foundational international research activity, he leads and provides support for consulting projects for consumer companies, IT vendors, and consulting and system integrator companies, and contributes to IDC's event organization and execution.

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