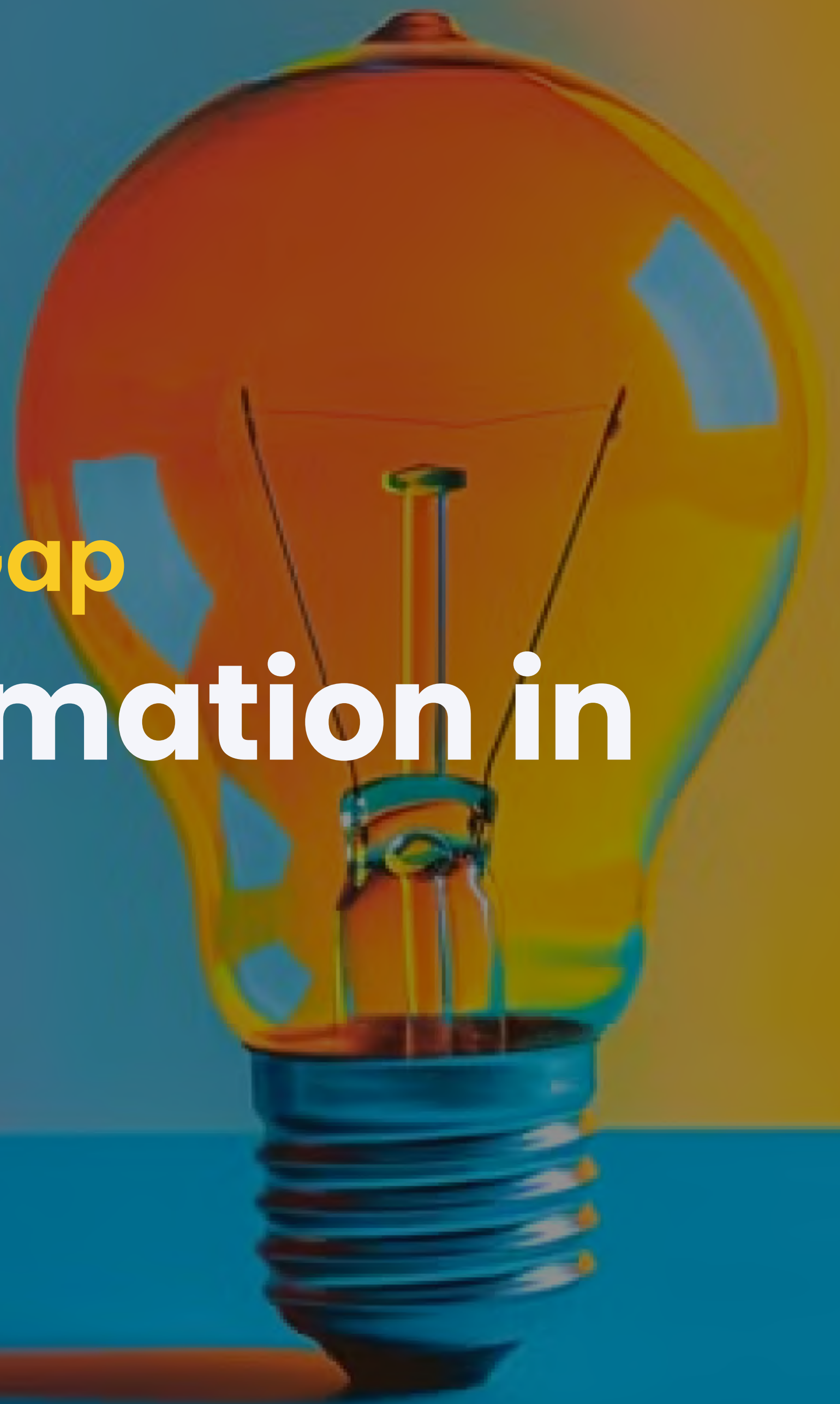
NOV 2024

INCISIV

Market Research

Bridging The Innovation Gap

State of Transformation in Retail and CPG



IN PARTNERSHIP WITH

aws FOR RETAIL AND CONSUMER GOODS

Why did we do this research?

Amazon Web Service (AWS) and Incisiv have partnered on this comprehensive global research study to understand the current state of innovation in the Retail and Consumer Packaged Goods (CPG) industries.

The study focuses on identifying the key factors that drive and impede innovation within these industries.

By capturing a broad range of perspectives from industry leaders and professionals, this research provides a detailed and nuanced understanding of the innovation landscape in Retail and CPG.

The findings aim to guide strategic decision-making and investment in innovation, ensuring that brands are well-equipped to meet future challenges and capitalize on new opportunities.

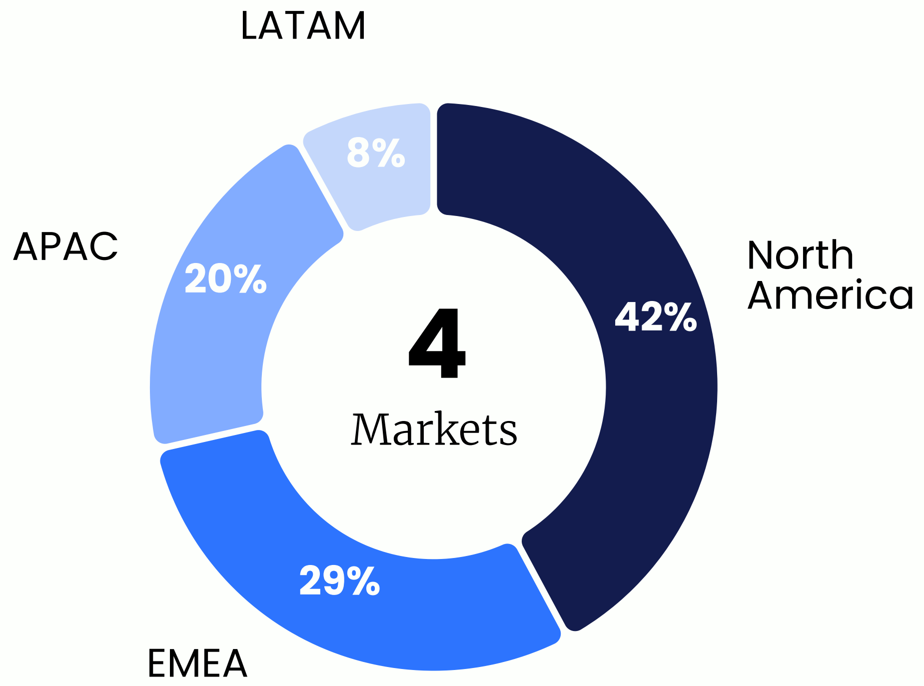
Survey Demographics

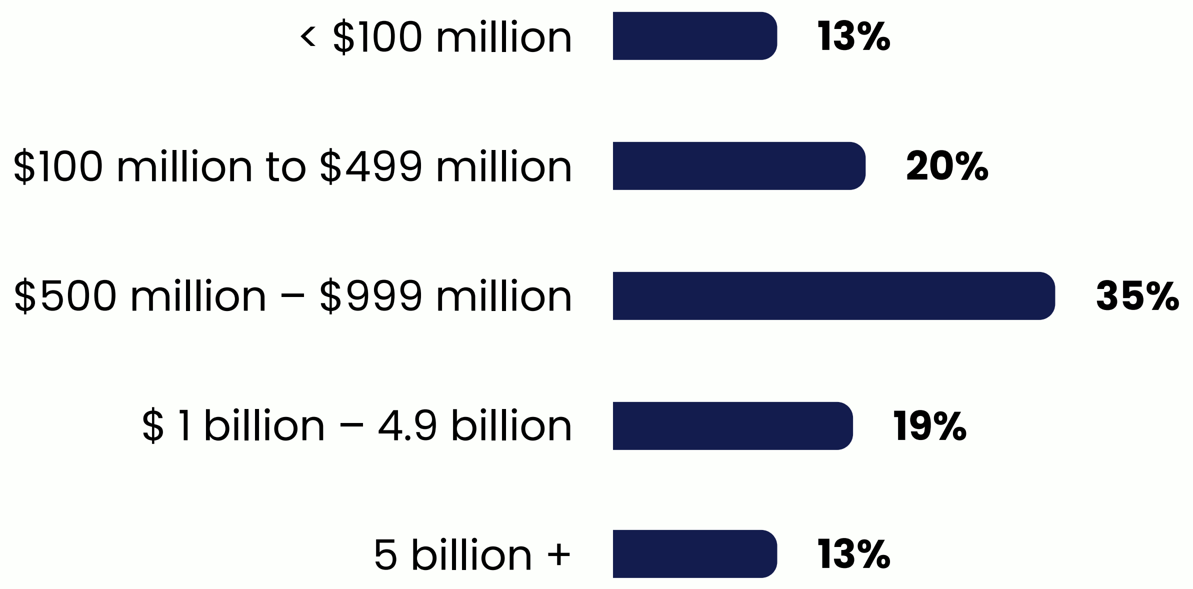
1563
Respondents

93%
Director and above

52%
Retail respondents

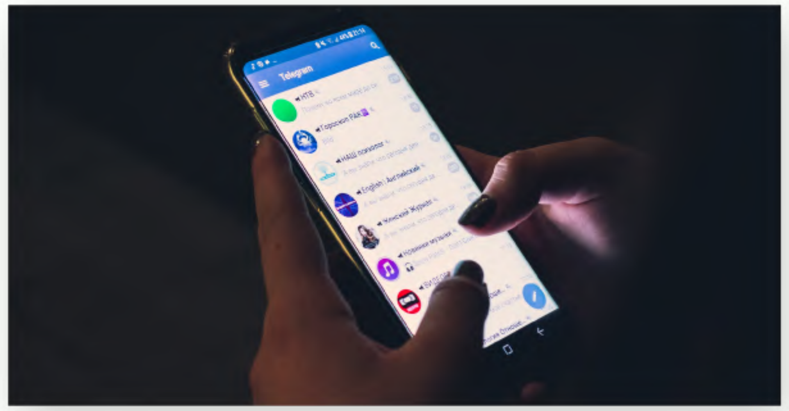
48%
CPG respondents





Innovation in Retail and CPG is Stifled by Underfunding. Innovation and Gen AI Hold the Key to Future Success.

Digital Experiences
need an overhaul



Brands must significantly improve their digital capabilities to meet evolving customer expectations.

Many companies currently find their technology insufficient, with a notable gap between present capabilities and future needs.

This highlights the urgency for brands to invest in and enhance their digital customer experiences to remain competitive.

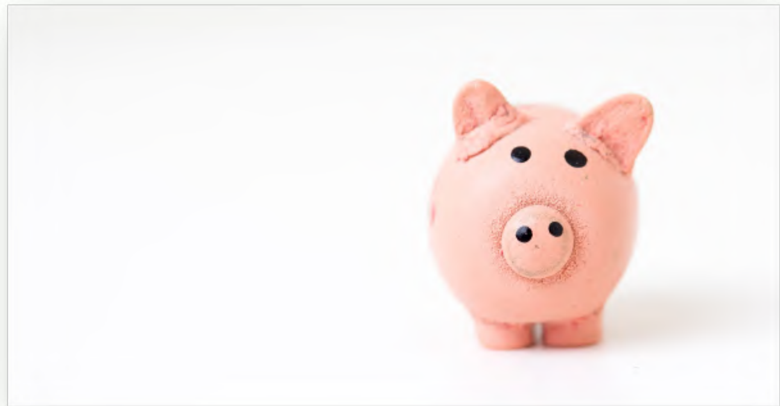
Innovation Gap
needs to be bridged

There is a substantial innovation gap in the Retail and CPG sectors.

Many firms struggle with tracking emerging technologies, experimenting with new solutions, and scaling successful innovations.

Enhancing technological literacy, fostering a culture of experimentation, and investing in training programs are essential to bridge this gap and drive sustained innovation.

Innovation Needs Investment
underfunding needs to stop

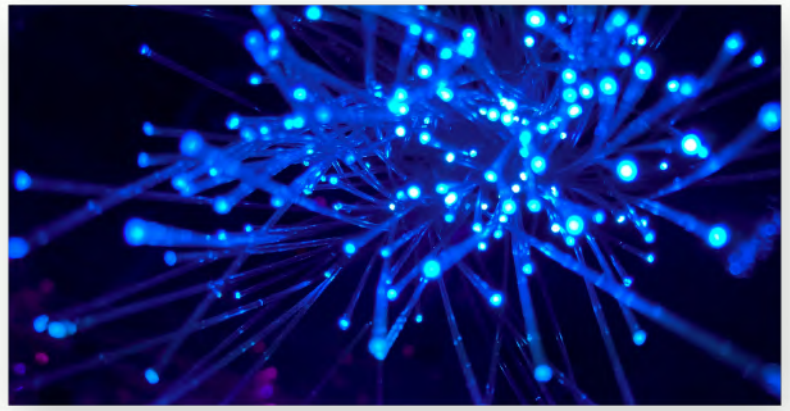


Innovation efforts are often underfunded, and budgets are frequently cut.

When funds are allocated, they tend to focus on efficiency improvements rather than customer experience enhancements.

This approach can limit creativity and long-term competitiveness as brands prioritize predictable ROI over transformative innovation.

Gen AI Will Be Transformative
but progress will be steady



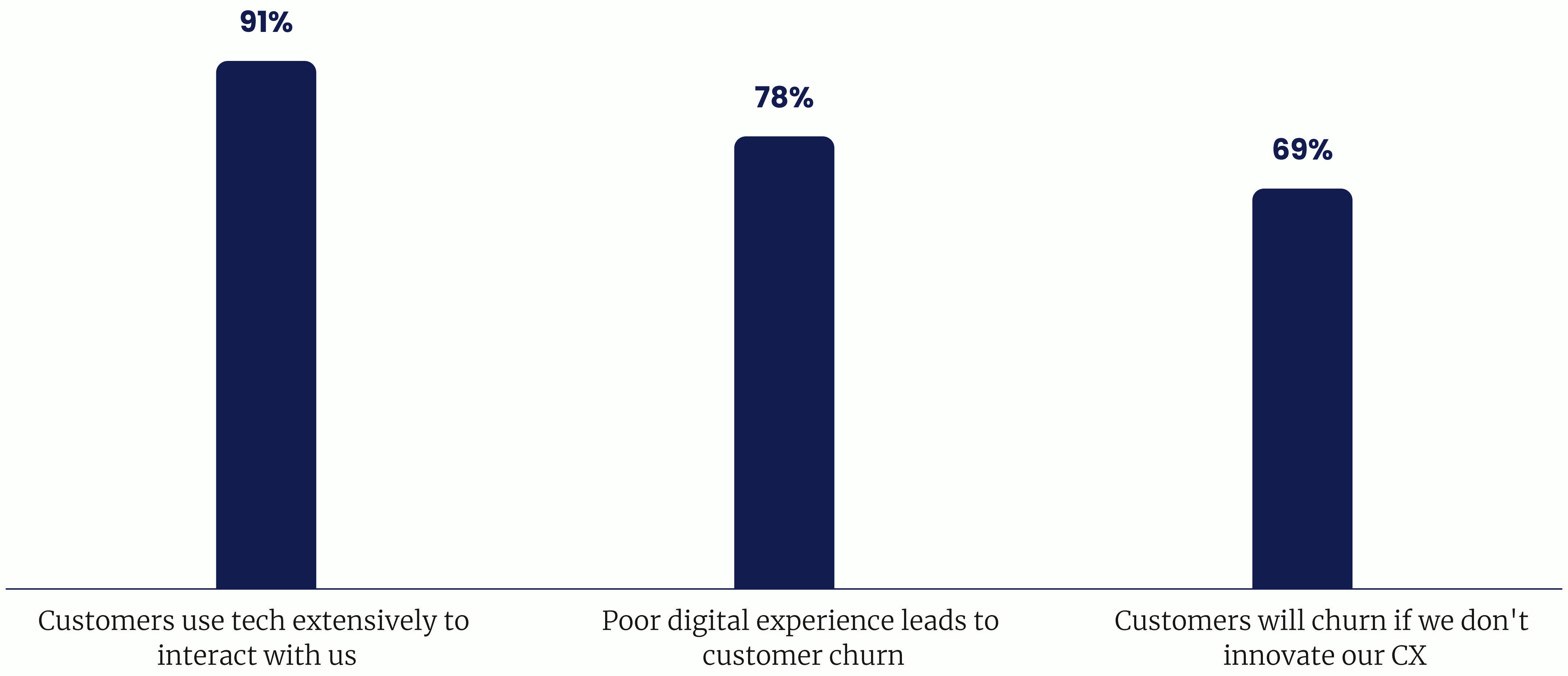
There is a universal agreement on the transformative potential of Generative AI (Gen AI). Brands expect Gen AI to drive significant improvements across various business areas, from reducing operational costs to enhancing speed to market.

However, adoption is still in early stages, with many brands cautious about investing heavily due to the technology's complexity and integration challenges.

Delivering a robust retail digital experience is table stakes, poor experiences leads to churn.

Customer Experience Expectations

How to read this chart:
This chart shows the % of respondents that agreed with the statements noted below.
(e.g 78% of respondents agreed that a poor digital experience leads to customer churn)



% respondents that Agree
Q. Do you agree or disagree with the following statements related to your customer expectations? n = 1563

Key Takeaway

Brands must constantly be looking for friction in the customer experience, seeking new ways to interact with customers that differentiates their brands. Need to invest in things like conversational search, mobile voice enablement, and virtual fit.

Customers rely heavily on digital technologies to engage with brands; their first impression of a brand is usually digital. Providing a seamless and robust digital experience is table stakes.

A subpar digital experience not only drives customers away but also erodes a company's competitive edge. Customers leave brands that can't deliver on their digital expectations.

Digital expectations are also not static. Brands need to continually enhance their digital customer experience, because what is good enough today won't be good enough tomorrow.

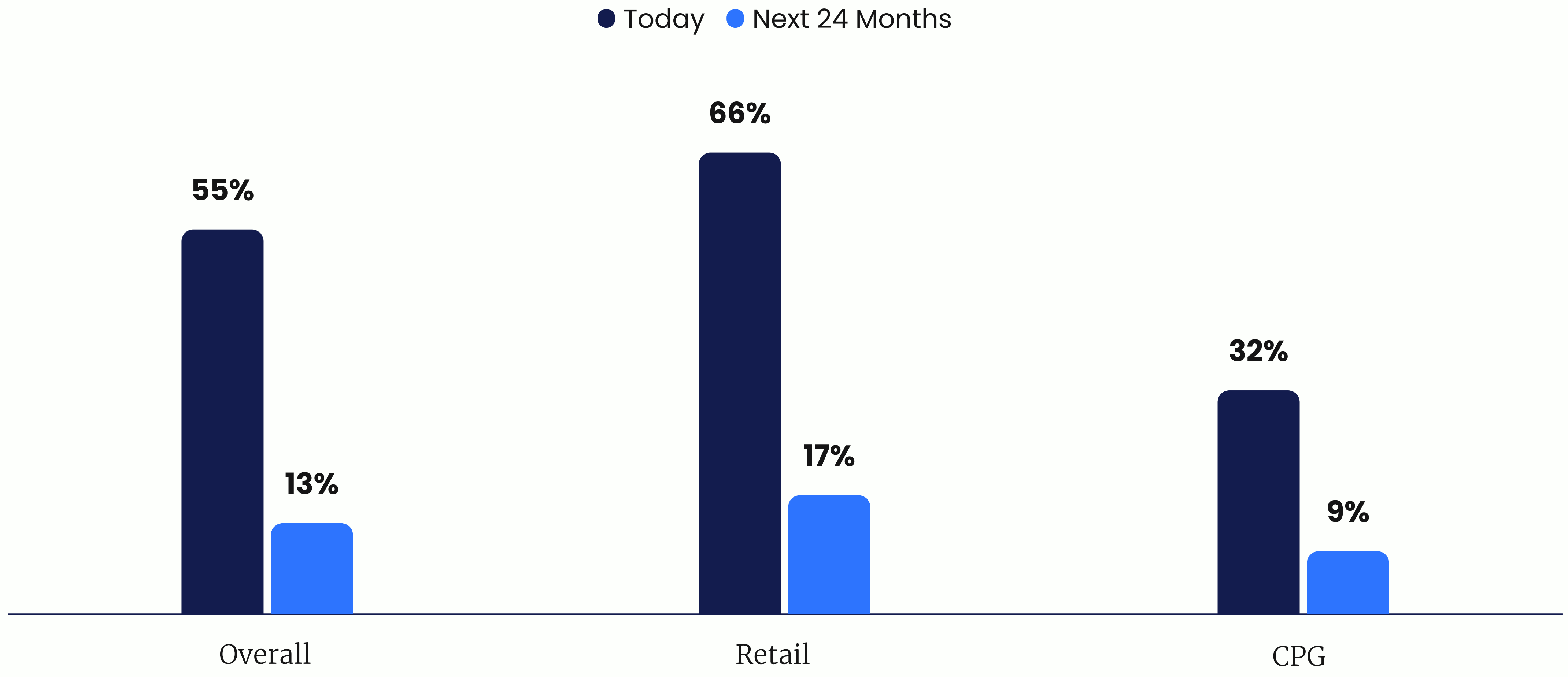
This involves not only updating digital platforms and interfaces but also understanding and anticipating customer needs and preferences.

The cost of failing to innovate is high, as competitors who prioritize digital excellence will capture the market share left by those who lag.

The current digital experience cannot meet evolving customer expectations.

The Customer Experience Gap: Can we meet our customer expectations

How to read this chart:
This chart compares the % of respondents who say that their current customer facing technologies can meet their customer's digital experience expectations today with the % of respondents that say that their current customer facing technologies can meet their customer's digital experience expectations over the next 24 months (e.g 55% of all respondents can meet their customer's digital expectations today, but only 13% can meet their customer's future expectations)



% respondents

Key Takeaway

Brands need to explore areas like virtual shopping assistants, more efficient fulfillment, and more convenient returns process that don't facilitate fraud.

The current state of digital readiness is insufficient to meet the evolving expectations of customers. Retail and CPG companies must recognize the urgency of this gap and take decisive actions to enhance their digital capabilities, ensuring they remain relevant and competitive in a rapidly changing digital landscape.

About half of the surveyed brands believe their existing customer-facing technologies are adequate for today's digital experience expectations, and a starkly lower percentage believes these technologies will suffice in the future.

There is greater confidence in current technologies in the retail sector, yet there is a clear concern about their future readiness. Retailers understand that new innovations, enhanced user experiences, and emerging trends continuously reshape customer expectations. For instance, customers may expect greater or even 1:1 personalization in the near future, and few retailers currently have that capability. The CPG sector presents a different picture; fewer respondents are confident in their current technologies even today. This indicates a more immediate need for improvement and innovation.

There is a significant innovation gap facing Retail and CPG firms.

The Innovation Gap: Can we learn and scale new technologies?

How to read this chart:
This chart shows the % of respondents who said their ability is extremely poor or poor across the areas given below. (e.g 75% of respondents said they do a poor job of tracking or learning about new technologies)

The innovation gap in Retail and CPG firms hinders their ability to meet evolving customer expectations. Closing this gap requires enhancing technological literacy, fostering a culture of experimentation, improving scalability, and investing in comprehensive training programs.

Many companies struggle to track and learn about emerging technologies, leading to late adoption and missed advantages. AI and machine learning, for example, can enhance customer personalization and supply chain efficiency, yet firms often fail to experiment and test novel solutions.

Even when firms pilot innovative solutions, they often fail to implement them at scale due to inadequate infrastructure or resistance to change. A company may develop an effective AI-driven customer service chatbot but struggle to deploy it across all customer touchpoints and integrate it with key data sources, thereby failing to maximize its benefits.

Training business teams on new technologies is crucial. Without proper training, employees cannot effectively use new tools, leading to underutilization and inefficiencies.

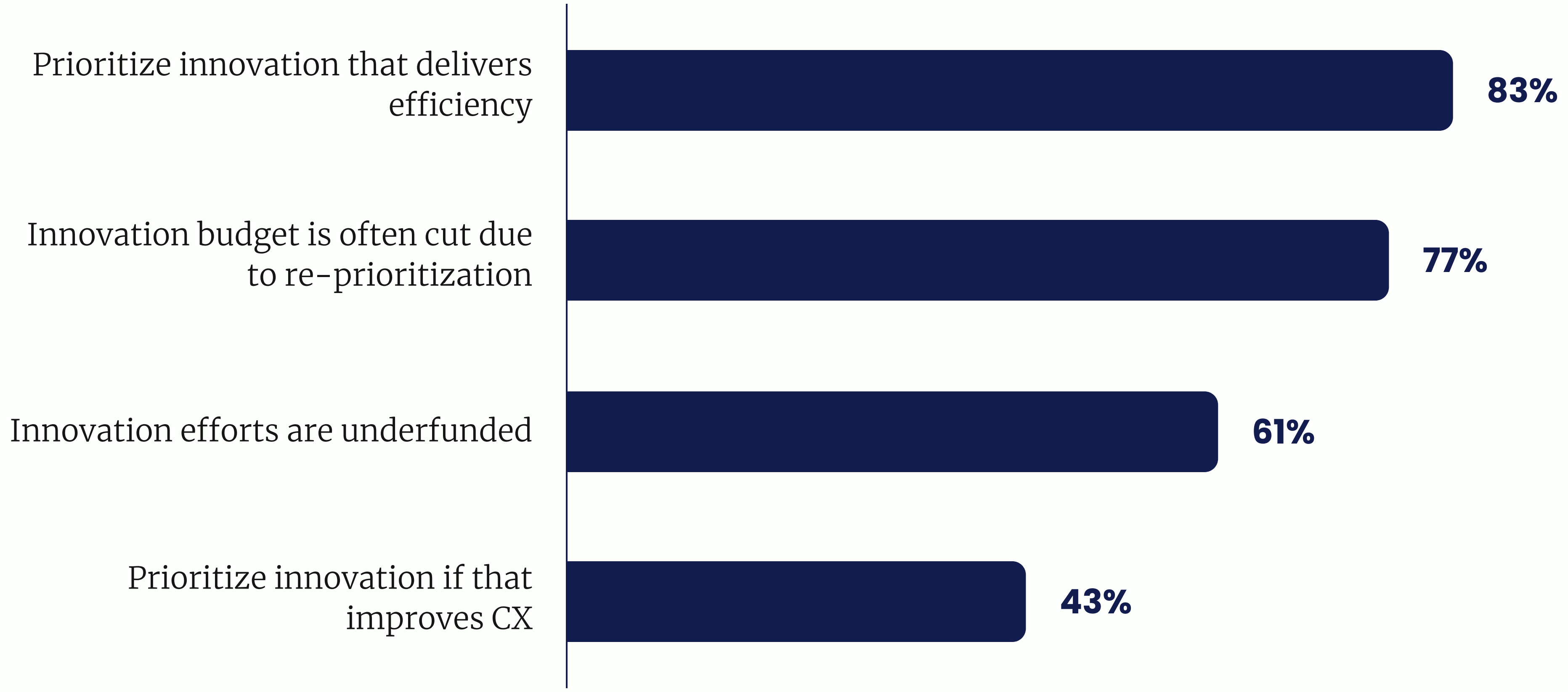
Key Takeaway

Brands need to invest in their people in order for innovation to flourish. Training budgets may be small, but they can be used in novel ways like online training, hackathons, and higher-learning partnerships.

Innovation efforts are underfunded and often cut. Innovation efforts are focused on efficiency.

The Funding Gap: Are we investing in innovation?

How to read this chart:
This chart shows the % of respondents who agree with the statements given below.
(e.g 77% of respondents said that their innovation budgets are often cut due to re-prioritization)



For sustained growth and competitive advantage, companies must commit to consistent and balanced investment in both efficiency and customer experience (CX) innovation, recognizing the long-term value of enhancing customer experience.

Brands struggle to maintain consistent investment in innovation, particularly in areas that do not show immediate returns. Innovation efforts tend to focus on efficiency, as companies prioritize projects that deliver clear, tangible benefits.

This focus on efficiency-driven innovation suggests that firms are more comfortable investing in areas where the return on investment (ROI) is more predictable and measurable. For example, process improvements or supply chain enhancements that reduce costs are often favored over initiatives aimed at enhancing customer experience (CX), which may have a less direct impact on the bottom line.

Underfunding and the frequent cutting of innovation budgets can stifle creativity, motivation and prevent firms from staying competitive in an increasingly dynamic market.

Key Takeaway

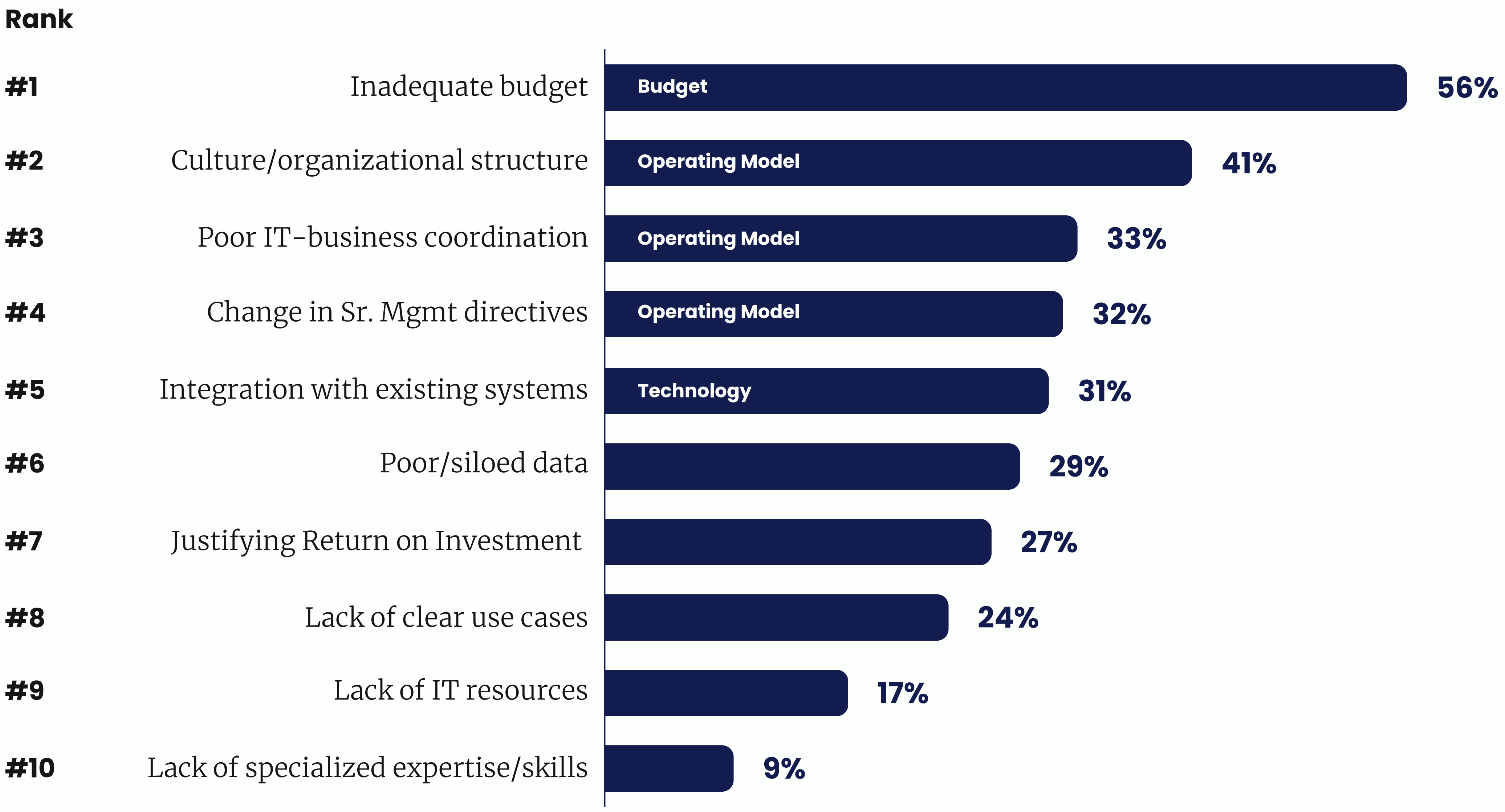
If innovation is part of the culture, it can't be "cut" - it's woven into how the organization thinks and operates, driving progress regardless of constraints.

The operating model is the biggest drag on innovation.

Innovation Roadblocks: What impedes innovation?

How to read this chart:

This chart shows the % of respondents who rated the area as a Top 3 challenge to innovation.
(e.g Lack of budget is the #1 challenge in innovation. 56% of brands rated it as a Top 3 challenge)



Key Takeaway

Once over the budget issue, brands need an efficient way to exchange and explore ideas. Prioritization and an understanding of ROI help the cream rise to the top.

While the #1 challenge is an inadequate budget, which significantly limits the capacity for innovation, the issues run deeper into the company's operating model. The operating model, encompassing company culture, coordination, and executive directives, is the major barrier to innovation.

A rigid or poorly defined culture can stifle creativity and discourage employees from pursuing innovative ideas. Additionally, organizational structures that do not support cross-functional collaboration can lead to silos, where departments work in isolation rather than in a cohesive manner.

This lack of synergy is particularly evident in the poor coordination between IT and business units, which is crucial for the successful implementation of new technologies.

Changes in senior management directives further complicate the innovation process. Frequent shifts in strategic priorities can disrupt ongoing projects and create an environment of uncertainty, making it difficult for teams to commit to long-term innovative initiatives.

Savings from technology investments are poorly tracked, and seldom used for innovation.

Only 17%

Can effectively measure the savings generated from their technology investments.

How did brands use savings generated from their technology investments?	% Respondents
We didn't use it. The savings were adjusted in our financial budget	**89%**
We used some of the savings to fund other technology investments	**10%**
We used all the savings to fund other technology investments	**1%**

Key Takeaway

You can't improve what you don't measure. Brands should be measuring all efforts to see which ones should be retired and which need additional investment.

Poor tracking and underutilization of savings from technology investments hinder long-term innovation and competitiveness.

Less than one in five brands can effectively measure the savings generated from their technology investments. This lack of effective measurement creates significant challenges in fostering innovation. Without accurate tracking, it becomes difficult for brands to understand the true impact of their technology investments.

This, in turn, limits their ability to make informed decisions about future investments and improvements.

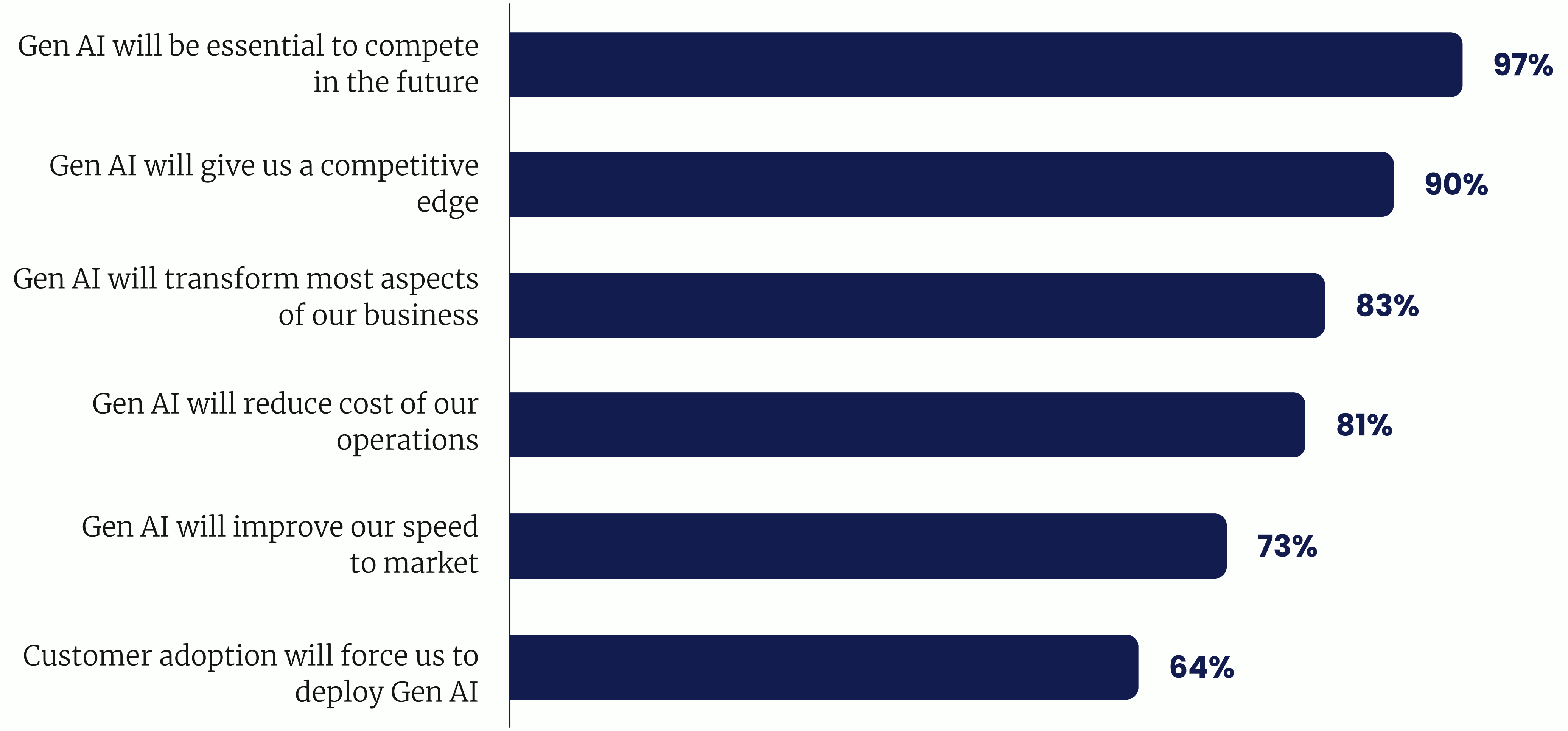
Not only are savings poorly tracked, they are seldom reinvested into further innovation. The majority of savings are simply adjusted within the financial budget rather than being allocated to new technology initiatives.

Brands must develop robust mechanisms for measuring savings and commit to reinvesting a significant portion into further opportunities to drive further efficiency, enhance customer experience, and stay ahead of market trends.

There is universal agreement that Gen AI will be transformational.

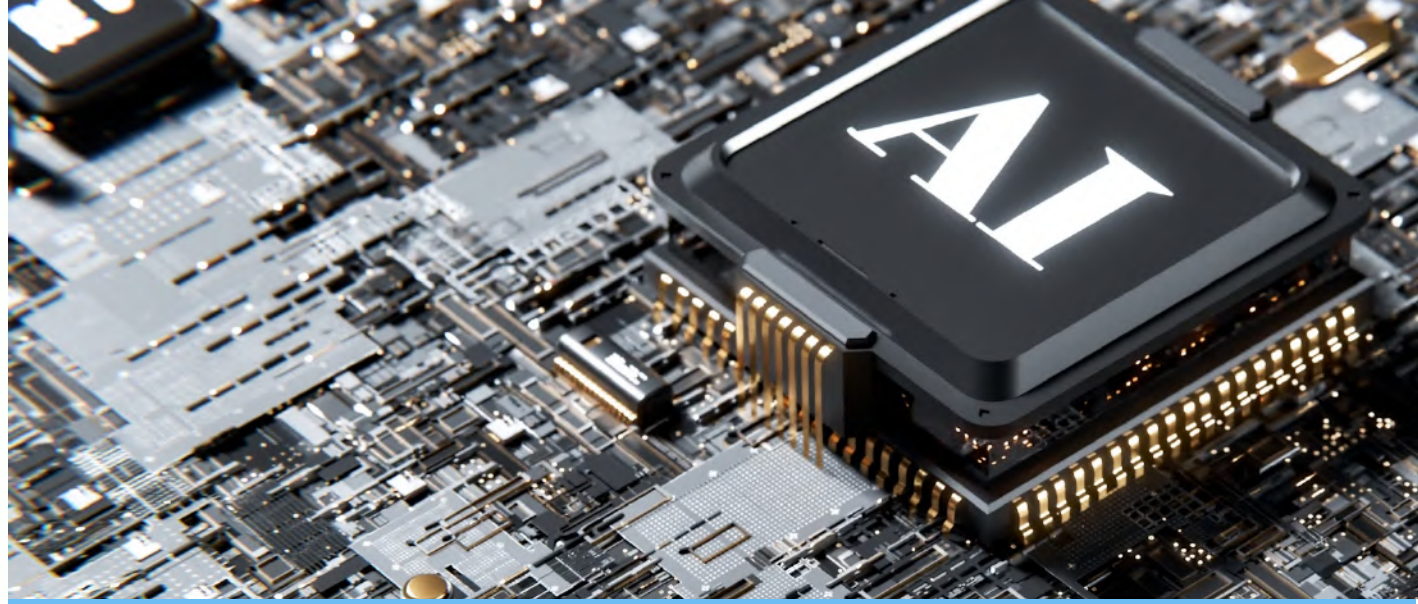
Gen AI Outlook: How do brands view Gen AI?

How to read this chart:
This chart shows the % of respondents who agree with the statements below .
(e.g 97% of brands said that Gen AI will be essential to compete in the future)



Key Takeaway

Generative AI will revolutionize retail operations and the customer experience. It's a superpower that can help retailers stay agile and help retailers rapidly adapt to market changes.



There is a universal consensus that Gen AI will be critical for future competitiveness. The analysis reveals three key insights about the transformative potential of Generative AI (Gen AI) in the business landscape.

Brands expect Gen AI to drive significant improvements across various business areas, from customer service to product development.

Second, Gen AI is expected to revolutionize business operations by reducing costs and increasing efficiency. By automating routine tasks, optimizing workflows, and enhancing decision-making processes, Gen AI can streamline operations, leading to substantial cost savings and profitability improvements.

Third, Gen AI's ability to improve speed to market is a major advantage. Businesses can respond more swiftly to market demands and customer needs, gaining a significant competitive edge.

This agility is essential in today's fast-paced market, where being first to market can make a substantial difference.

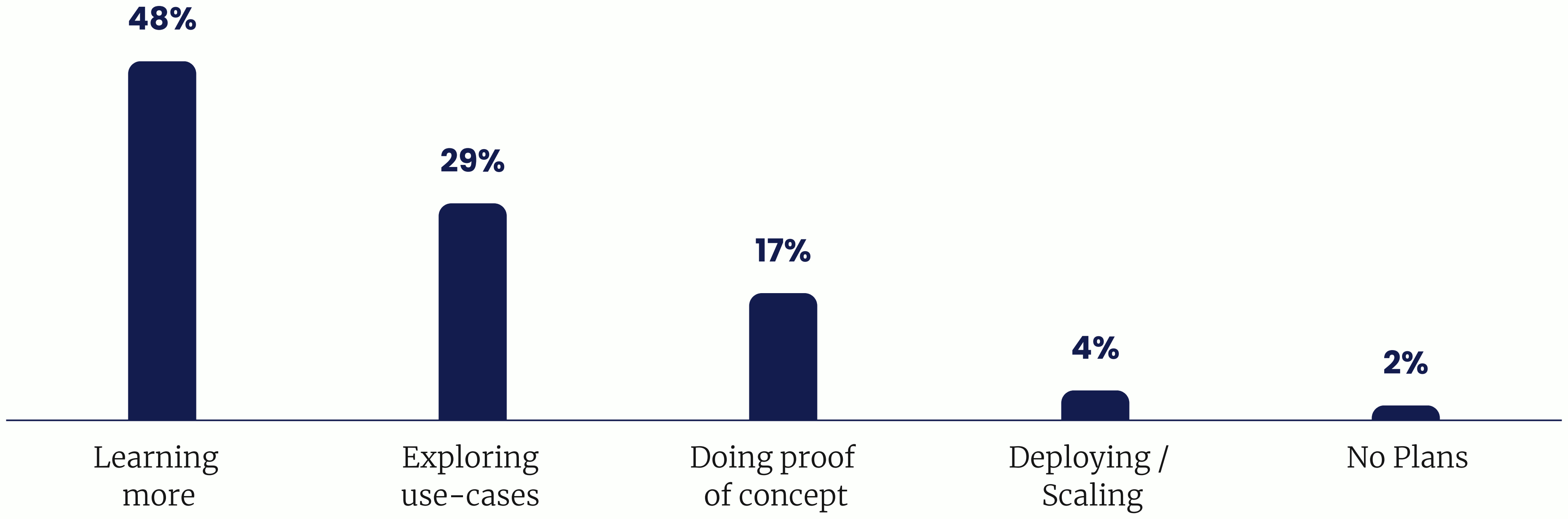
However adoption of Gen AI capabilities is low, brands are cautious when spending money.

Only 18%

Will reallocate funding from other projects/technology to pay for generative AI in 2025

Gen AI Maturity: What is the current deployment of Gen AI capabilities

How to read this chart:
This chart shows where brands are in their Gen AI adoption
(e.g 48% of brands are currently learning more about Gen AI and only 4% are scaling Gen AI projects)



Key Takeaway

Brands must get the data foundation and integration right to leverage Gen AI effectively. Building this foundation for growth needs to be a core focus.

Most brands are in the early stages of Generative AI (Gen AI) adoption, and only a small fraction are actively deploying or scaling Gen AI projects. This cautious stance can be attributed to several factors.

Gen AI technology's complexity and novelty create a learning curve that requires significant time and resources. Brands may lack the necessary expertise or confidence to move beyond the exploratory phase.

This is compounded by concerns about integration with existing systems and the potential risks associated with deploying new technology.

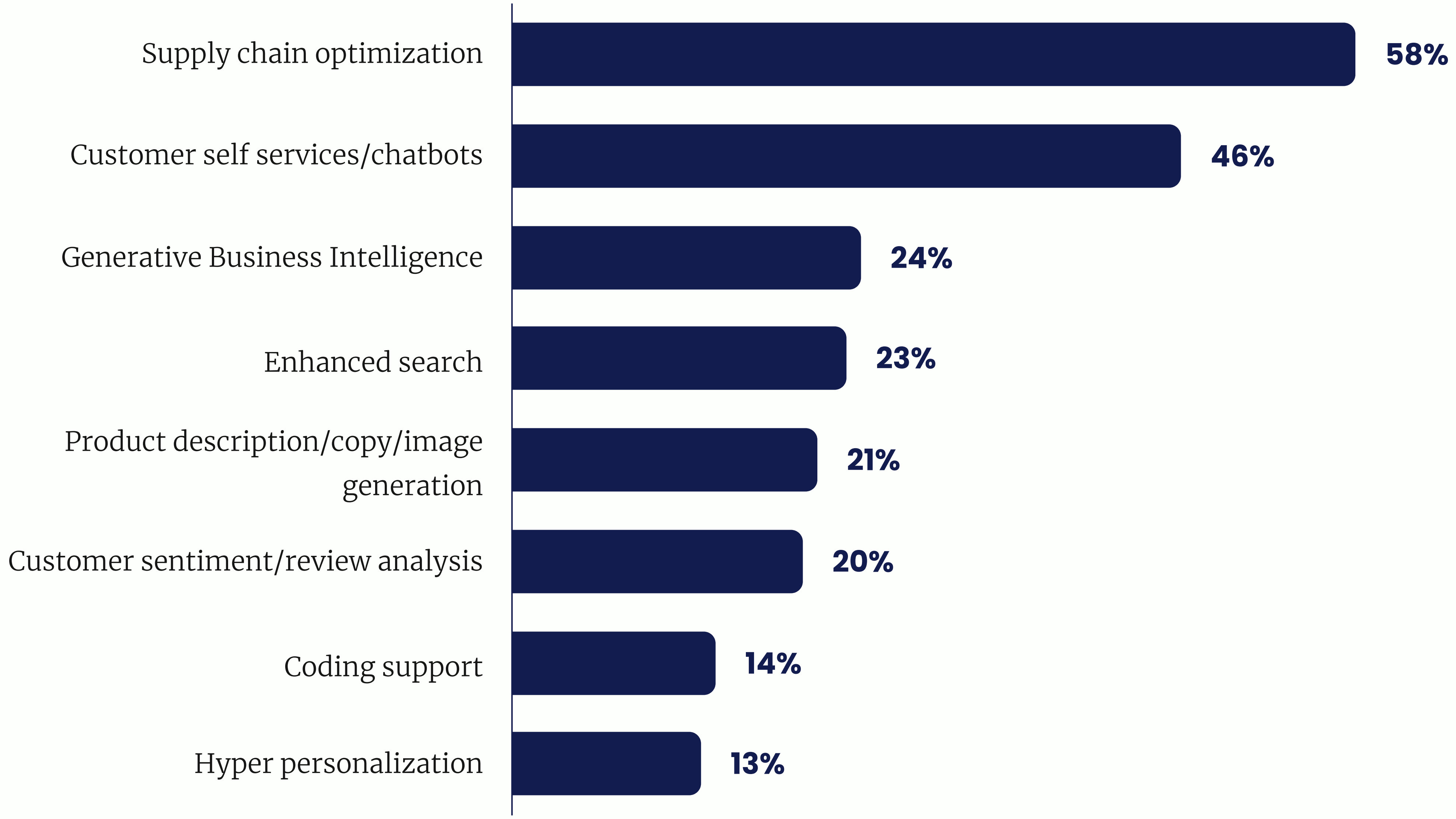
Conducting proof of concept projects is an important step, but it often reveals practical challenges that need to be addressed before wider deployment. These challenges include ensuring data quality, managing costs, and aligning Gen AI initiatives with broader business strategies.

Despite these hurdles, the fact that only 2% of brands have no plans to adopt Gen AI indicates a widespread recognition of its potential.

Gen AI use cases are focused on delivering quick wins.

Gen AI Use Cases: Where are brands focused?

How to read this chart:
This chart shows the % of respondents pursuing Gen AI use cases..
(e.g 59% of brands are exploring Gen AI use cases in supply chain optimization)



Key Takeaway

Brands don't have the luxury of time or large budgets for innovation; they are looking for quick results. Clear use cases with measurable results will pave the way for more complex AI initiatives.

Brands are prioritizing Gen AI use cases that offer immediate operational benefits and improved customer interactions.

Supply chain optimization is the top priority, emphasizing the need for efficient logistics and cost reduction to maintain competitiveness and meet customer demands swiftly.

The focus on customer self-service and chatbots reflects the desire to enhance customer engagement and support while reducing the burden on human support teams. Automating interactions improves the customer experience and allows staff to handle more complex issues.

Generative business intelligence is gaining traction as brands look to AI for deeper insights and better decision-making. They are betting that Gen AI can unlock institutional knowledge buried in their vast troves of data.

Product content generation (copy and image), along with customer sentiment and review analysis, are essential for enhancing marketing and customer relationship strategies.

CASE STUDY

AI/ML Services

fetch

Founded in Madison, Wisconsin, Fetch, formerly Fetch Rewards, is on a mission to help people have fun and save money with every purchase. A leading rewards app, Fetch has 18 million active monthly users who have collectively submitted more than $757 million in rewards points.

Problem

Fetch was using an AI solution from a third party to process receipts, but found it wasn't getting the data insights it needed.

- Fetch's business partners wanted information about how customers were engaging with their promotion, and Fetch didn't have the granularity it needed to extract and process data from million of receipts daily.
- Needed full access to all aspects of the data it was receiving instead of "black box."

Solution

The solution uses Amazon SageMaker-which lets businesses build, train, and deploy ML models for any use case with fully managed infrastructure, tools, and workflows. It also uses AWS Inferentia accelerators to deliver high performance at lowest cost for deep learning inference applications.

- The Fetch team engaged with AWS Partner Hugging Face through the Hugging Face Expert Acceleration Program on the AWS Marketplace to help Fetch unlock new tools to power processes after the receipt scans had been uploaded.

Impact

Fetch's commitment to developing in-house ML and AI capabilities has resulted in several benefits, including some cost savings, but more important is the development of a service that better serves the needs of the customers.

- 33% ahead of delivery schedule
- 30% reduction in development time
- $6 million annual cost savings
- 50% faster processing time improved customer experience
- Full control over data

CASE STUDY

Product Description Generation

The Very Group is a leading multi-brand online retailer in the UK. It offers customers access to thousands of products across categories like clothing, homeware, electronics through its popular e-commerce website. They sell fashion, electrical, home and more to 4.4 million customers.

Problem

As the way families shop has changed, so has The Very Group. From catalogs, to bricks, to mobile, they have consistently transformed to meet evolving needs for customers and their business.

The Very Group wanted to explore using generative AI to automate the creation of product descriptions for their website. This process is manual and time consuming.

They wanted to assess value, accuracy and best practices in using generative AI.

Solution

The Very Group collaborated with AWS Generative AI Innovation Center to build:

A Gen AI system that uses Amazon Bedrock, Large Language Models (LLMs) and Multi-Modal Models as an intelligent product analyzer and description writer for TVG's copy writers.

During the PoC, Gen AIIC fine tuned large foundation models to reflect the terms of TVG in the retail domain.

Impact

Improved efficiencies: The solution reduces the time needed to create and check the quality of product descriptions significantly.

Enabled scaling: Given the reduced time needed to create descriptions, the solution enables a higher completion rate of accurate product descriptions across the entire product portfolio.

Executive Perspective

David Dorf
Global Head of Retail Industry Solutions
AWS

Retail is a highly competitive industry, and innovation allows retailers to differentiate themselves from competitors, offer unique products/services, and provide a better customer experience. Consumer preferences and shopping behaviors are constantly evolving. Innovation enables retailers to adapt and respond to these changes, developing new offerings that better meet customer demands. Adopting the four ideas below will help ensure a retailer's longevity:

Engrain innovation into the culture. Always be obsessed with customers and know they can never be fully satisfied. A great example is when evaluating the shopping experience, Amazon realized the checkout process was full of friction. By focusing on improving checkout, they were able to offer Just Walk Technology, freeing shoppers from the entire checkout process.

Create mechanisms. As Jeff Bezos once said, "good intentions never work, you need good mechanisms to make anything happen." Mechanisms are repeatable processes that turn inputs into outputs. For example, when describing an idea, we write the press release first for clearer understanding. Once a process is proven effective, mechanize it.

Design for change. By decoupling our monolithic e-commerce site into single-purpose services, Amazon was able to reduce dependencies across teams leading to increased speed and business agility. Know that everything you create today will likely need to change in the future, so plan for it.

Learn from failures. Embrace failure as a necessary part of innovation. Run many experiments knowing that only a few will pan-out and be willing to pivot from what you learn. Amazon Unbox was a failure, but they were able to pivot into Prime Video by staying stubborn on the vision but flexible on the details.

A culture of continuous innovation allows retailers to stay ahead of the curve, anticipate customer needs, and adapt to industry changes - key factors for long-term success in the competitive retail sector.

ABOUT INCISIV

Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks and prescriptive transformation insights to clients across the consumer and technology industry spectrum.

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ABOUT AWS

Driven by relentless customer obsession, AWS for Retail and Consumer Goods provides the most comprehensive set of cloud, analytics, and artificial intelligence capabilities to empower retailers and brands to drive market differentiation and growth.

https://aws.amazon.com/retail/