Changing the paradigm on customer centricity

Moving beyond omnichannel

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" The task is much broader than just making sure the right channels are in place. Retailers need to ask themselves, 'How do I run my business to be more customer-centric?' That involves a total business perspective. **"**

Mark Larson
U.S. Line of Business
Leader, Consumer & Retail
U.S. Sector Leader, Retail
KPMG in the US

KPMG

Moving beyond omnichannel

Retailers worldwide are facing threats to their very survival, from eroding margins and declining market share to the demands of digitally adept consumers whose best customer experiences have become what they expect from every customer experience.

Many retailers have responded with a largely outdated omnichannel approach, focusing on integrating the physical and digital channels they use to interact with customers, when the problem is actually inside the business. Today's customers will remain loyal only if a brand offers them transparency and superior quality products while actively engaging with them to build a relationship they value. Meeting those needs has nothing to do with offering yet another physical, digital or mobile channel—and everything to do with running the business in a way that is customer-first and customer-centric.

To succeed in winning the loyalty of 21st-century customers, retailers need a holistic, enterprise-wide, "outside-in" approach connecting the capabilities of the front, middle, and back offices so that customer centricity can become the focus of the entire business. Moving away from the limitations of omnichannel, executives have begun to adopt a KPMG Connected Customer Enterprise or "omni" approach.

KPMG challenges the predominant view of omnichannel and elevates customer centricity above and beyond channel interactions. The KPMG Connected Customer Enterprise approach provides personalized customer experiences, relevant products based on customer needs and preferences, and seamless, connected experiences across all digital and traditional customer interactions.

KPMG commissioned Forrester Consulting to conduct a study to take a deeper look. Our research shows that while a little over three-quarters of retailers cite omni as a top or high priority, at minimum two-thirds of retailers say their omni efforts haven't generated the returns they need. Customer-focused retailers need specific business capabilities to meet customer expectations and drive growth. The KPMG Connected Customer Enterprise solution focuses on the capabilities retailers require to understand and deliver against changing customer expectations. And it identifies steps leaders can take to build these capabilities and thereby create sustainable value from customer centricity.

77%
of retailers cite omni as a top or high priority

34%
or fewer are getting a strong or acceptable return on any single omni ROI metric

The KPMG Difference: Our unique, market-leading perspective

The KPMG Connected Customer Enterprise approach is built on an architecture of eight fundamental and integrated capabilities that can help retailers unlock new value for customers, employees, partners and shareholders. Customers are increasingly becoming channel- and retailer-agnostic, passing through complex journeys that are difficult to track and measure. The KPMG Connected Customer Enterprise enables companies to understand and deliver against their customers' ever-changing and heightened expectations (Figure 1).

Companies that invest in the eight capabilities are achieving demonstrable success. Indeed, using a measure of omni success that factors in three business outcomes—customer experience, business objectives, and self-reported ROI—our research shows that mature retailers (those investing in all eight capabilities) are over twice as likely to achieve omni success compared with their less-mature peers (Figure 2).
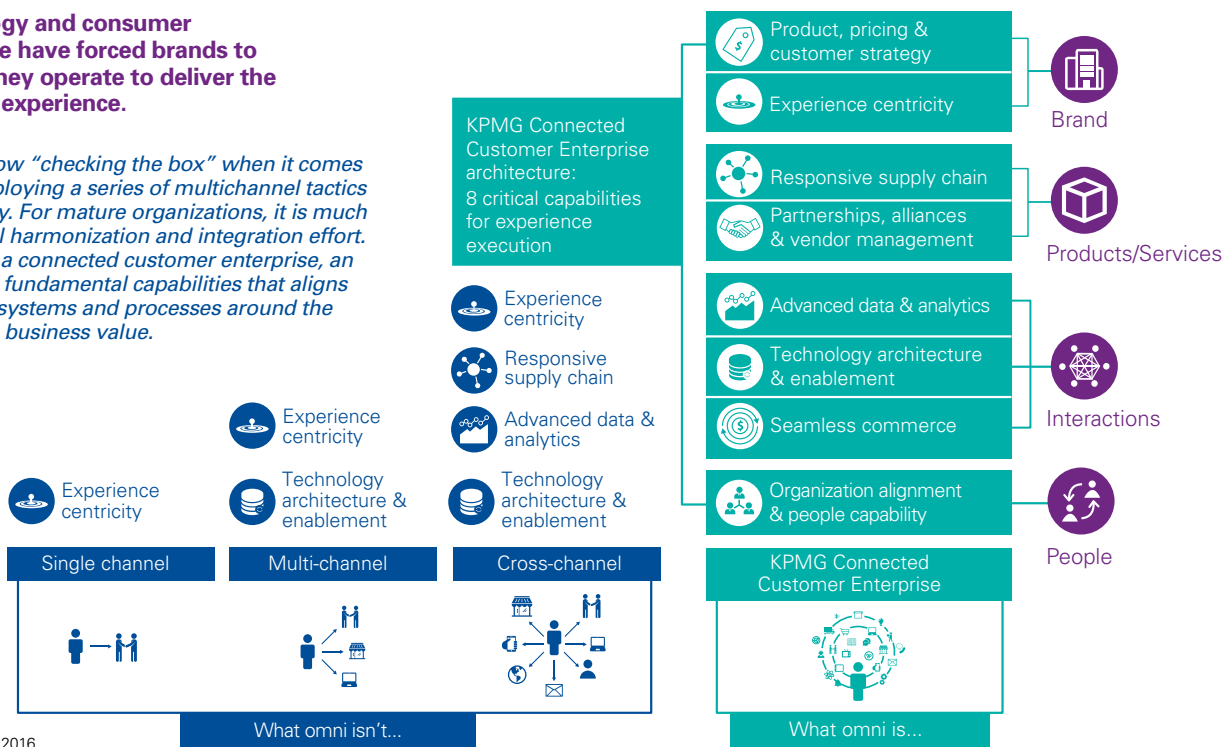
Most companies have already begun the journey in some way, so the goal is not necessarily to start anew, however it is important to integrate existing investments in a meaningful way. Our research shows the benefits are worth the investment. Mature organizations outperform less-mature firms by +15 to +28 percentage points across objectives aligned to all eight capabilities. Furthermore, 78 percent of mature retailers reported providing experiences that exceed customer expectations, compared with just 56 percent of less-mature firms. The customer experience can be the difference between gaining a loyal customer and losing a dissatisfied one.

Figure 1
The KPMG Connected Customer Enterprise evolution

Evolving technology and consumer behavior over time have forced brands to change the way they operate to deliver the desired customer experience.

Organizations are now "checking the box" when it comes to omnichannel, deploying a series of multichannel tactics disguised as strategy. For mature organizations, it is much more than a channel harmonization and integration effort. They're investing in a connected customer enterprise, an architecture of eight fundamental capabilities that aligns people, operations, systems and processes around the customer to capture business value.

KPMG Connected Customer Enterprise architecture: 8 critical capabilities for experience execution

Experience centricity

Responsive supply chain

Advanced data & analytics

Technology architecture & enablement

Experience centricity

Technology architecture & enablement

Experience centricity

| Single channel | Multi-channel | Cross-channel |

What omni isn't...

Source: KPMG International, 2016

Product, pricing & customer strategy

Experience centricity

Brand

Responsive supply chain

Partnerships, alliances & vendor management

Products/Services

Advanced data & analytics

Technology architecture & enablement

Seamless commerce

Interactions

Organization alignment & people capability

People

KPMG Connected Customer Enterprise

What omni is...

Figure 2
The race for growth is on.

Mature retailers across the globe that invest across eight omni capabilities are over two times more likely to see omni success.

Omni success metric: Customer experience exceeds expectations, successful execution of one or more omni objectives, and ROI achieved on one or more metrics.

55%

26%

● Less mature ● Mature
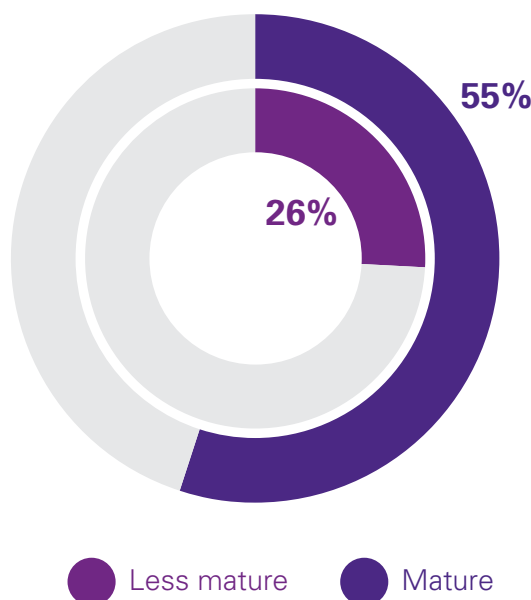
Base: 73 professionals at retail companies investing in all eight omnichannel capabilities and 227 professionals at retail companies not investing in all eight capabilities

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016

Retailers need to break from the pack to compete for growth

> " **Understanding your customer is useful, but if you can't execute on a scale level across the enterprise, across the portfolios, services or products, then you'll never convert that insight into business value.** "

Duncan Avis
Global KPMG Connected
Customer Enterprise Lead
KPMG in the US

The Forrester study reveals that retailers are making significant investments over the next 12 months across each of these fundamental and integrated capabilities, including integrated commerce, product strategy, technology architecture, and customer experience strategies that organizations need to operate with experience centricity.

In this period, the majority (70 percent) of retailers will allocate 15 percent or less of sales to omni; 48 percent will budget a max of 10 percent of sales. While it is important to invest in these foundational areas, it is also critical for retailers to think about all eight capabilities, identifying the biggest gaps between current and desired state, to develop a strategic omni investment plan. The study also reveals that retailers will continue to build out their omni strategies over the next few years, with roughly half predicting they will increase spending for most omni capabilities. Integrated commerce, technology architecture, customer experience, and supply chain will be key areas of investment, while partner ecosystem strategy will remain a lower priority. With partners playing a critical role in the value chain, retailers risk falling short of optimizing their programs without making an investment in this important area of the business. Budgets will also get a lift: While just 29 percent of firms report they would be investing 16 percent or more of sales in their omni strategy over the next 12 months, 44 percent predict they will make that level of investment over the next two to three years—a +15 point change over near-term investments. As omni budgets increase, retailers will need to be strategic and judicious about the level of investment they make in each of the eight capabilities in order to succeed (Figure 3).

Mature retailers will continue to invest in these areas to a greater degree than their less-mature peers. The study found that two-thirds of respondents believe their omni strategy places them among the more- or most-mature organizations in their industry. Yet 30 percent of retailers invest in five or fewer of the eight omni capabilities; 46 percent are investing in six or seven. Just 24 percent of those organizations surveyed actually have a mature, holistic omni strategy, with investment in all eight key areas. Mature organizations are investing in several key regions. US retailers led their peers in other countries, with 46 percent investing in all eight omni capabilities, while just eight percent of German and 14 percent of Australian retailers have a holistic omni strategy. The maturity of US companies compared with other geographies is not surprising given its position as an earlier adopter of online commerce and the high percentage of retail dominated by big-box and chain retailers (Figure 4).

Figure 3
Investment in a KPMG Connected Customer Enterprise

Investment in the eight capabilities spans the entire organization, from customer-facing interactions through to back-office operations.

Base: 300 professionals involved with omnichannel strategy decisions at retail organizations

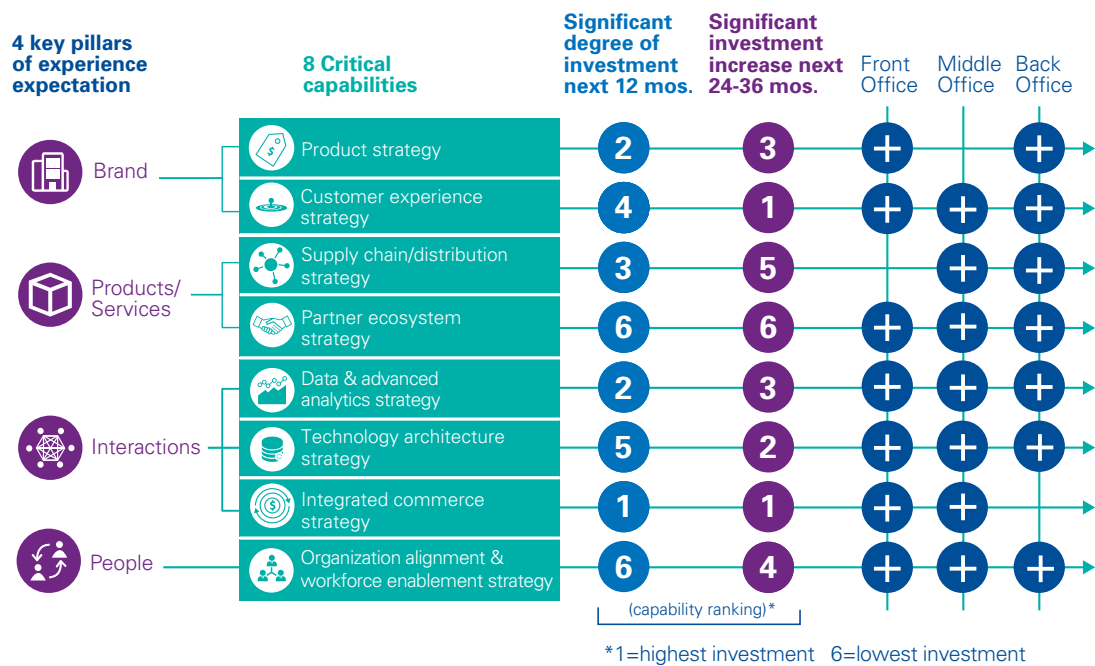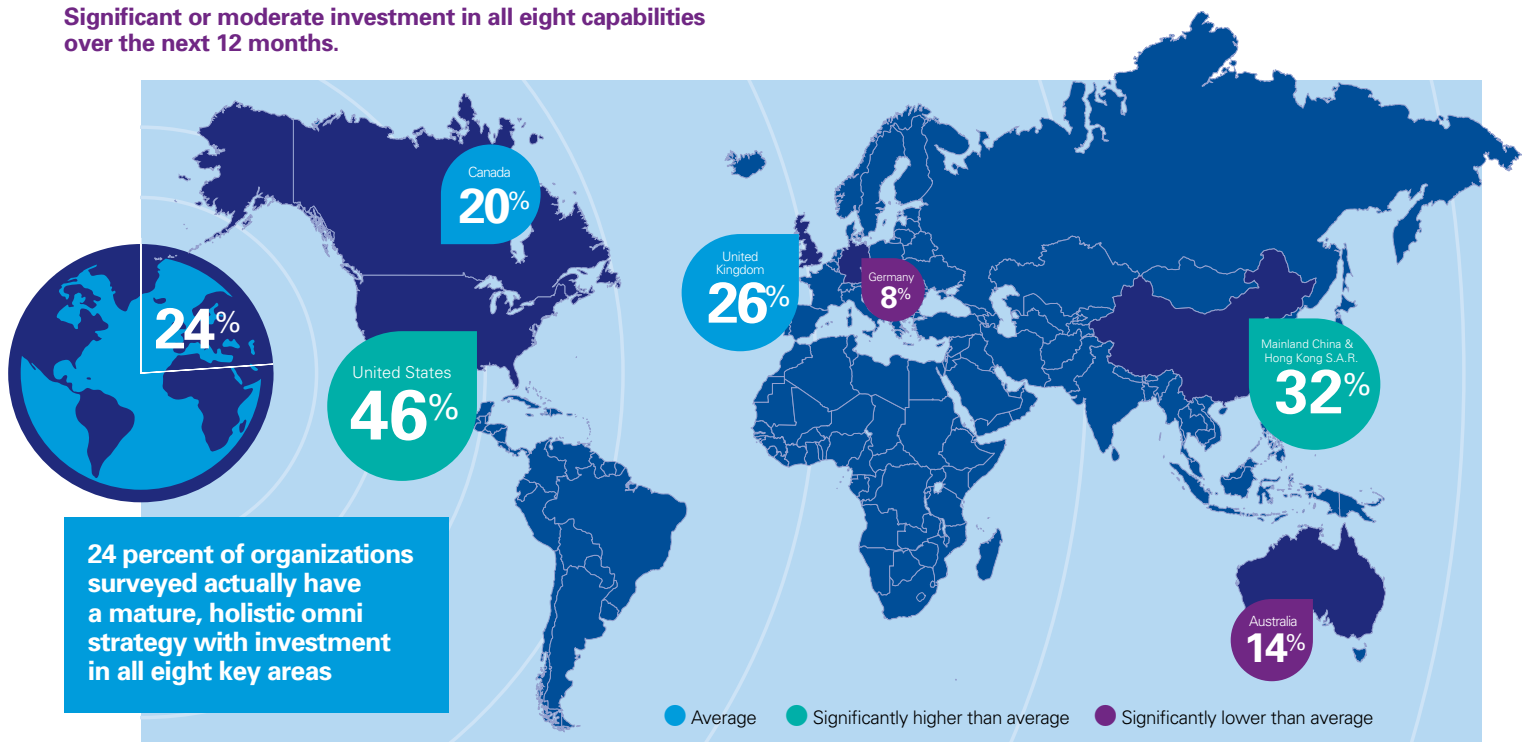Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

4 key pillars of experience expectation	8 Critical capabilities	Significant degree of investment next 12 mos.	Significant investment increase next 24-36 mos.	Front Office	Middle Office	Back Office
Brand	Product strategy	2	3	+		+
Brand	Customer experience strategy	4	1	+	+	+
Products/ Services	Supply chain/distribution strategy	3	5		+	+
Products/ Services	Partner ecosystem strategy	6	6	+	+	+
Interactions	Data & advanced analytics strategy	2	3	+	+	+
Interactions	Technology architecture strategy	5	2	+	+	+
Interactions	Integrated commerce strategy	1	1	+		
People	Organization alignment & workforce enablement strategy	6	4	+	+	+

(capability ranking)*

*1=highest investment   6=lowest investment

Figure 4
Global maturity

Significant or moderate investment in all eight capabilities over the next 12 months.

24%

24 percent of organizations surveyed actually have a mature, holistic omni strategy with investment in all eight key areas

Canada 20%
United Kingdom 26%
Germany 8%
Mainland China & Hong Kong S.A.R. 32%
United States 46%
Australia 14%

● Average   ● Significantly higher than average   ● Significantly lower than average

Base: 300 professionals involved with omnichannel strategy decisions at retail organizations; 50 respondents per region

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, August 2016

Building a KPMG Connected Customer Enterprise

> **The siloed nature of a lot of retailers means they're only thinking about a customer-centric focus within their functional areas [and not across]… the broader business. While they're making changes, it's not nearly fast enough to keep up with the change occurring with their customers and competitors. It's tactical change, not transformative.**

Mark Schmeling
U.S. Advisory Industry Leader,
Consumer & Retail
KPMG in the US

Five major challenges To align the front to the middle to the back office around an outside-in view that has the customer at its heart can be an enormous challenge without a properly structured and orchestrated approach. The journey starts with understanding the organization's best customers and then building the business around those customers, specifically by aligning core operations, supply chain, financial management and other back-office and support functions to create the best experience for those customers.

Our research points to the need for retailers to move from a channel focus to a business focus, but they face considerable challenges in doing so. Five challenges stand out—and they stand in the way of creating a truly connected customer-centric enterprise:

1 Security and compliance concerns. Data security and regulations about the stewardship and storage of customer data, as well as issues around sharing data with third parties as part of ecosystem-based solutions, are at the forefront of retailers' concerns globally. Customer data protection figures high on the retail regulator agendas. In our study, 27 percent of retail leaders identify regulatory compliance and concerns around data security and privacy as road-blocks to successfully executing their omni strategy.

2 Lack of system and data integration. Retailers remain hampered by a fragmented portfolio of applications and infrastructure, with little ability to integrate the eCommerce and enterprise stacks. As a result, building and implementing connected customer enterprise capabilities is challenging or impossible. Twenty-six percent of retailers say their customer data resides in multiple databases, and 22 percent note a lack of system integration or legacy systems. In these circumstances, it's no surprise that the top obstacle to omni success—cited by 32 percent of retailers—is the inability to share customer data and analytics among channels, countries or locations. What's more, nearly one-quarter have difficulty tracking individual customers across interactions.

3 Strategy misalignment. Nearly three out of 10 omni strategy professionals at retail companies say that "insufficient budget" is a top obstacle to omni success, while roughly one out of five cite lack of a companywide customer engagement strategy as well as lack of executive sponsorship. Wider research and in-depth interviews with retail executives show a broader issue at play: Various business units take a case-by-case approach to individual channel initiatives rather than a coordinated, holistic approach to a connected customer enterprise strategy. This is not just an obstacle to success—it also leads to broken or clunky cross-channel experiences for customers.

4 Misalignment of people, partners, and processes. It's not enough to set a channel-focused strategy. If you fail to a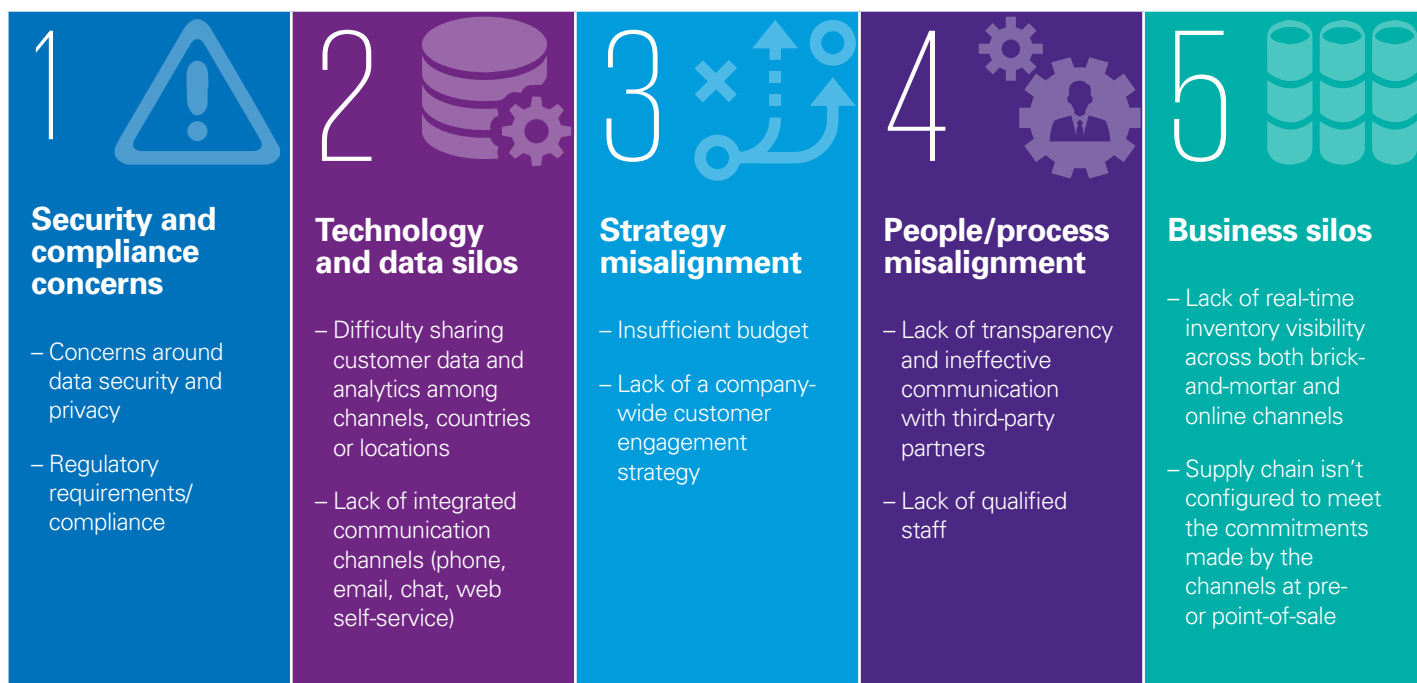lign internal resources, processes, and partners with this strategy, execution will be a challenge. Roughly one-quarter of retailers cite a lack of transparency and ineffective communication with third-party partners, lack of qualified staff, and lack of incentive to collaborate among the top five obstacles to success; 19 percent struggle with a misalignment between internal processes and their omni strategy.

5 Siloed organizational structure. Most retailers still organize by channel, with separate P&Ls, leadership, and incentives for stores and eCommerce. They run separate applications, managing forecasts and inventory independently. This failure of alignment results in lack of inventory visibility across brick-and-mortar and online channels (24 percent) and inconsistencies in products and pricing across channels (22 percent). Retailers struggle to "onboard" items, vendors, and content in their legacy applications at the rate they need for today's "always available and immediately deliverable" eCommerce customer expectations. The result is supply chain and inventory management systems that cannot meet the commitments made by channels at pre- or point-of-sale instances—an issue cited by 24 percent of retailers—leading to lower customer satisfaction and higher service costs.

Overcoming these challenges will help organizations identify and deliver on customer expectations for a true customer-centric experience. Addressing each of the eight capabilities, from the outside in, will help enable organizations to understand and meet customer expectations holistically and thereby be responsive to them.

Figure 5
Top 5 obstacles to success

1 Security and compliance concerns	2 Technology and data silos	3 Strategy misalignment	4 People/process misalignment	5 Business silos
– Concerns around data security and privacy – Regulatory requirements/compliance	– Difficulty sharing customer data and analytics among channels, countries or locations – Lack of integrated communication channels (phone, email, chat, web self-service)	– Insufficient budget – Lack of a company-wide customer engagement strategy	– Lack of transparency and ineffective communication with third-party partners – Lack of qualified staff	– Lack of real-time inventory visibility across both brick-and-mortar and online channels – Supply chain isn't configured to meet the commitments made by the channels at pre- or point-of-sale

Base: 300 Global professionals involved with omnichannel strategy decisions at retail organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

Getting to success in retail

While we know building a KPMG Connected Customer Enterprise is a key focus for retailers as they strive to improve the customer experience, grow revenue, and gain an advantage in a highly competitive market, too many will waste their investment without addressing factors critical to omni success. In order to compete, retailers need to transform their approach, moving from cross- and multichannel tactics to a holistic and connected customer enterprise strategy—one that extends across brand, products and services, interactions, and people. Evolving to a holistic strategy is an iterative process, not an overnight transformation. In order to succeed, retailers must:

● **Prioritize investments based on KPMG Connected Customer Enterprise capability maturity.** To help avoid the risk of disjointed initiatives and wasted investment, retailers should conduct an objective assessment of their maturity level for each of the eight connected customer enterprise capabilities—identifying where they are doing well, any gaps between current and desired state, and where they need to focus to fill those gaps. They should then prioritize initiatives and investments based on this assessment and develop a roadmap to deliver a compellingly differentiated experience across the customer journey.

● **Transform their organization to create a consolidated P&L.** Retailers need a single organization that spans all aspects of digital and physical interactions and is based on the customer's journey rather than transaction location. A consolidated P&L generates savings and creates common budgets that can be deployed to fund the investments necessary for a KPMG Connected Customer Enterprise. It also enables clearer visibility into real-time inventory across brick-and-mortar and online channels. A key component to successful consolidation is the creation of incentives and KPIs that will foster collaboration between channels.

● **Leverage technologies.** Retailers must acquire and leverage foundational technologies to support omni strategies. Key technologies include an order management system that provides an enterprise-wide, consolidated record of orders and their status; a product information management system to achieve a single enterprise platform for managing product content and offers; and customer insight and intelligence technologies that create a holistic single view of customer interactions and enable predictive analytic modeling. Retailers should also invest in online and in-store assisted selling technologies both to improve customer experience and increase revenue by automating cross-sell and upsell opportunities.

● **Strengthen the partner ecosystem.** While mature retailers recognize the importance of aligning partners with their omni strategy, it falls low on the priority list for the average firm. Alignment between your own strategy and partner ecosystems, alliances, and vendor relationships is an integral part of a broad ranging connected customer enterprise approach. To help bridge this gap, retailers will need to design partner ecosystems using open platforms and APIs to enable flexible, dynamic engagement with external partners.

Figure 6
So, what does good look like for your customers... and you?

KPMG Connected Customer Enterprise capabilities	What good looks like for customers	What good looks like for organizations
Product, pricing & customer strategy	Connection to the brand, relevance of product and experience	Products/services, pricing and promotions are optimized leveraging real-time data
Experience centricity	Experience the brand promise across all touch points	Experience decisions made to optimize economic value of priority customers
Responsive supply chain	Receive products and services when, where and how it is convenient	Leverage innovation-driven demand and inventory management and distribution
Partnerships, alliances & vendor management	Reap the benefit of partnerships without compromising perception	Identify & leverage synergies with third parties to overcome enterprise barriers
Advanced data & analytics	Personalized interactions with a brand leveraging customer data	Leverage real-time customer data to optimize the experience
Technology architecture & enablement	Frictionless use of technology across the journey and experience	Culture of innovation and agility driving speedy, quality tech implementation
Seamless commerce	Seamless and secure payments for products/services across channel(s)	Preference driven and integrated payment mechanisms across channels
Organization alignment & people capability	Seamless and consistent experience across all brand interactions	Culture of inside-out experience centricity

Source: KPMG International, 2016

Investing for the future

To deliver on ever-increasing consumer expectations for a true customer-centric experience and to achieve business and financial goals, organizations must take a holistic approach, addressing each of the eight critical capabilities. But investing in these capabilities is only part of the equation. Organizations also must have a clear understanding of where and how they're investing to understand the true value of the KPMG Connected Customer Enterprise approach.

The path forward is first to understand where your organization is today, using a broad-ranging maturity assessment that covers all eight capability areas of your enterprise architecture, from front office through middle and back office. This effort can help identify relative competencies versus leading practice. This, in turn, can help to inform the business case and roadmap for investing in relevant capability areas across the enterprise value chain with a keen focus on unlocking ultimate business value.

Organizations can drive profitable growth by making transformation and business decisions based on what their customers value most. A value-centric mindset, capability, methodology, and comprehensive measurement system are required to get the economics of customer experience right and capture financial outcomes. A KPMG Connected Customer Enterprise can help retailers achieve these goals.

> **"Most companies have been on some point of this journey. It's about making it work today and for tomorrow. It's about integrating the business today that aligns with the customer, to deliver for the customer, and to deliver profitable returns for the shareholders."**
>
> Julio Hernandez
> Global Center of Excellence
> Lead & US Customer
> Advisory Lead
> KPMG in the US

Figure 7
KPMG Connected Customer Enterprise maturity assessment
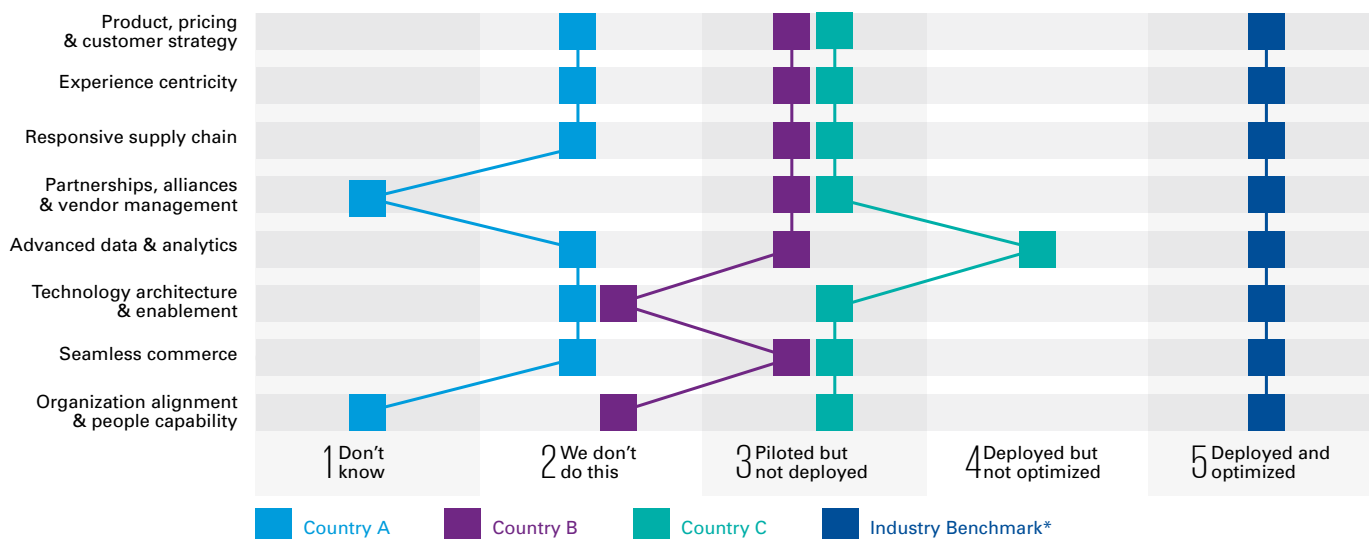
* Base: 300 Global professionals involved with omnichannel strategy decisions at retail organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

About KPMG Customer Advisory

KPMG brings together expertise in strategy and implementation – as well as far-reaching industry and functional knowledge – to create better customer outcomes that produce better business returns.

That means looking beyond the front office to a wholesale transformation of functions such as marketing, sales and service – and often linking them to the middle and back office. The resulting organization is closer to customers and can deliver interactions that are seamless, responsive, relevant and consistent to build greater loyalty and share of wallet.

From ambition to implementation, KPMG partners with organizations on their journey to becoming customer centric, balancing cost against customer satisfaction, and maximizing the opportunities to increase revenue.

About the study

2016 Forrester Consulting Global Omni Study

Conducted during the summer of 2016, the research comprised two elements: 1) a quantitative survey of 1,290 business and technology leaders at enterprises in the US, Canada, the UK, Germany, Australia, Mainland China and Hong Kong S.A.R. involved with omnichannel strategy decisions at their organizations and 2) 12 qualitative interviews. Six industries were included in the study: banking, property and casualty (P&C) insurance, healthcare payers and providers, consumer packaged goods, retail and telecommunications.

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