The Digital Commerce Imperative

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Executive Summary

Digital commerce is an essential part of doing business for most retailers and consumer packaged goods (CPG) companies. The COVID-19 pandemic has accelerated the need to embrace digital transformation, with the alternative being a significant loss of revenue — or worse. Enabling digital commerce is not a simple flip of a switch, however. Successful digital commerce must bring together a deep understanding of customers needs, a vigilant focus on security and privacy, and a commitment to improving supply chain agility (including fulfillment).

Microsoft commissioned Forrester Consulting to evaluate how retail and CPG companies are approaching digital commerce improvements, especially amid the challenges of the pandemic. Forrester conducted an online survey of 624 decision-makers responsible for digital transformation strategy and operations from retail and CPG companies in the US, Canada, the UK, Germany, France, Singapore, India, and Australia to explore this topic. We found that retailers and CPGs that are preparing themselves to be most successful with digital commerce are those that give proper attention to all facets of digital commerce, including customer experience (CX), security, and the supply chain.

KEY FINDINGS

› Eighty-three percent of retail and CPG decision-makers agree that delivering a connected and unified experience to customers is vital to their business success — and digital commerce is a key component.

› Digital commerce improvements are focused on three priorities: CX, security and privacy (including fraud), and supply chain agility.

› Retail and CPG leaders see significant necessity and value in using partners to support and deliver digital commerce improvements.

› Retailers and CPG companies must prioritize digital commerce improvement investments to keep pace with expected digital commerce growth.

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Digital Commerce Is Essential For Retail Success

The COVID-19 pandemic and its related precautions, restrictions, and changing consumer needs have dramatically shifted the way retailers and consumers interact. For example, the precarious nature of all physical touchpoints with consumers has forced retailers to rethink how they manage customer engagement and relationships. Seventy-percent of retail decision-makers also report a reduction of consumer demand as families manage discretionary budgets more tightly, which has resulted in an overall loss of revenue. Additionally, consumer demand is shifting to different types of products and goods, which many companies don't have a distributed supply chain to support (see Figure 1).

Amid these shifts, retail and CPG decision-makers have recognized the importance of continuing to meet customer needs, with nearly three-quarters of surveyed respondents saying that CX is at the forefront of every business decision. With that objective in mind, 83% respondents agree that delivering a connected and unified experience to customers is vital to their business success. The key to creating those experiences lies with digital commerce.
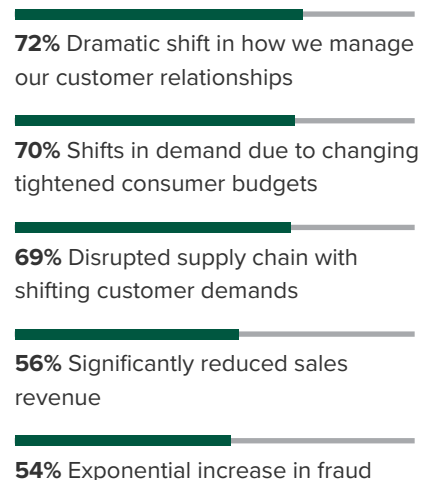
DIGITAL COMMERCE REQUIRES A BALANCED APPROACH ACROSS MULTIPLE PRIORITIES

Over 75% of leaders surveyed say that improving digital commerce capabilities is their most urgent business priority. When considering their most important specific digital commerce priorities over the next one to two years, decision-makers focus on three key themes: 1) customer experience, 2) security and privacy (including fraud), and 3) supply chain agility.

Each of these priorities is important for digital commerce as they all link to similar outcomes of improving customer satisfaction and driving loyalty, which can ultimately drive revenue increases (see Figure 2). This study found that retailers are taking a balanced approached to these priorities because neglecting any of one these categories can have a ripple effect, negatively impacting the other areas. For example, if a retailer focuses its full effort on CX by building the best commerce platforms and customer service but fails to improve the supply chain and fulfillment sitting behind those platforms, meaning customers never receive their orders, CX will suffer. Likewise, any type of security or fraud incident (especially those involving customer data) can have lasting effects on brand perception and loyalty. Thus, a holistic approach to digital commerce is essential for companies to achieve the outcomes they want (see Figure 2).

Figure 1: Top 5 Impacts Of The COVID-19 Pandemic On Retail Operations

72% Dramatic shift in how we manage our customer relationships

70% Shifts in demand due to changing tightened consumer budgets

69% Disrupted supply chain with shifting customer demands

56% Significantly reduced sales revenue

54% Exponential increase in fraud

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
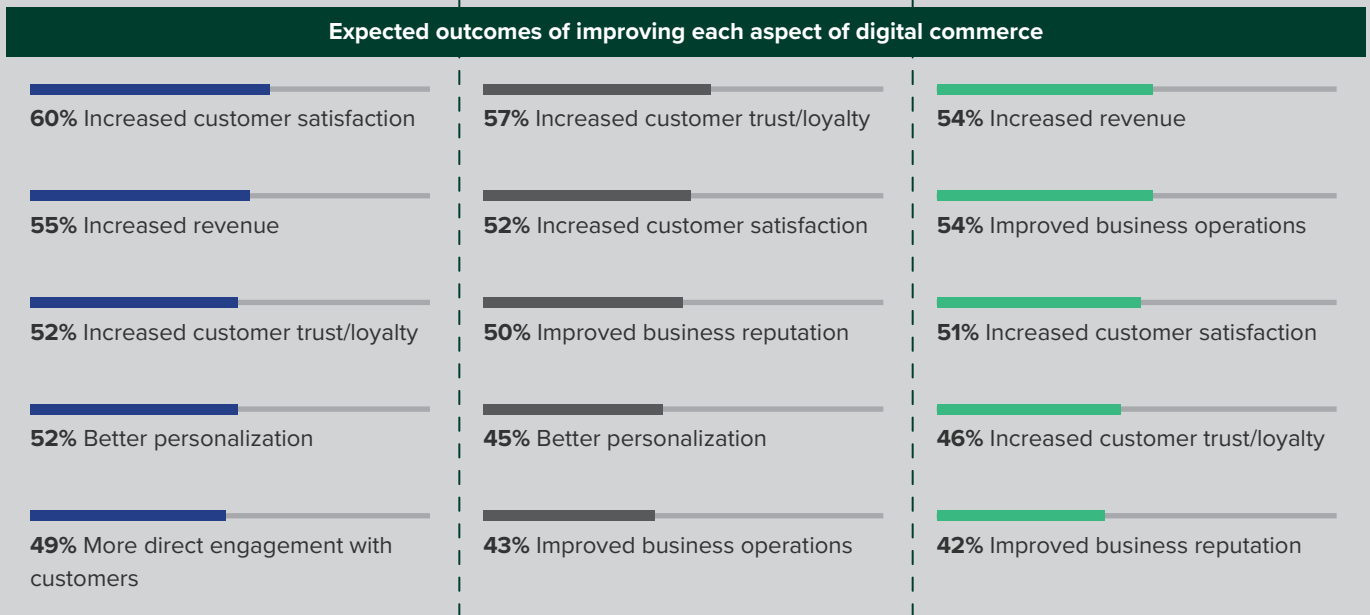Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

83% of retail and CPG decision-makers agree that delivering a connected and unified experience to customers is vital to their business success.

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Figure 2: Digital Commerce Requires A Balanced Approach Across Multiple Priorities

76% "Improving **digital commerce** capabilities is our most urgent business priority."

Top digital commerce priorities *(Percent of decision-makers taking these actions)*

CUSTOMER EXPERIENCE	SECURITY AND PRIVACY	SUPPLY CHAIN AGILITY
50% Enabling employees with digital tools to better serve customers	**59%** Developing, or improving, a fraud protection solution in-house or exploring external options	**56%** Improving existing digital commerce capabilities (e.g., better demand planning, automation)
43% Increasing investment in consumer insights and analytics capabilities	**42%** Improving fraud prevention and protection	**40%** Updating or upgrading core business systems to operate more efficiently
42% Improving customer experiences via social platforms		**36%** Improving supplier redundancy and expanding distribution partner models

Expected outcomes of improving each aspect of digital commerce

60% Increased customer satisfaction	**57%** Increased customer trust/loyalty	**54%** Increased revenue
55% Increased revenue	**52%** Increased customer satisfaction	**54%** Improved business operations
52% Increased customer trust/loyalty	**50%** Improved business reputation	**51%** Increased customer satisfaction
52% Better personalization	**45%** Better personalization	**46%** Increased customer trust/loyalty
49% More direct engagement with customers	**43%** Improved business operations	**42%** Improved business reputation

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
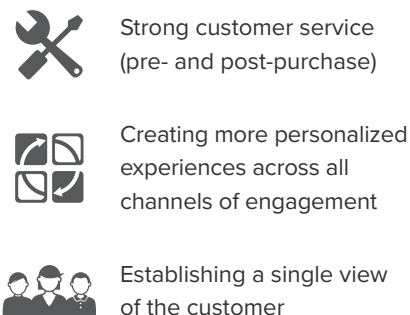Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

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Digital Customer Experiences Are Just As Important As Physical Ones

Gauging customer experience is much easier to do with in-person interactions. As companies shift to more digital interactions, it will be more challenging to deliver and measure the same quality of experiences. When considering the aspects of CX that are most important for digital commerce, retail and CPG decision-makers identify these top priorities (see Figure 3):

› **Offer strong customer service and support capabilities.** Retail leaders know the importance that customer service has in creating a positive CX. Many retailers have strong in-person customer services practices and should explore ways to transition those same principles to digital interactions. Post-purchase service and support ranks as the most important CX aspect; 55% of respondents cite it as their number one focus area (nearly 10% more respondents than pre-purchase support). This reinforces the notion that retailers must focus on the complete digital commerce CX to preserve a positive experience all the way through the customer journey from exploration to purchase to end use.

› **Create personalized experiences across content, offers, and messaging.** Companies engaging in digital commerce have the challenge — or opportunity — of being able to make interactions with customers feel more personalized and relevant. However, nearly 50% of retail decision-makers report lacking the unified customer data and real-time insights needed to drive these types of experiences. Recognizing these challenges, 47% are focused on improving analytics capabilities, including cross-channel analytics, to better turn customer data into insights. This, in turn, will support personalization efforts.

› **Establish a single view of the customer.** Retailers collect an extensive amount of data on their customers from various touchpoints. Firms often store this data in separate applications or systems with very little integration between them. These data silos inhibit them from creating a comprehensive profile of customer needs — a challenge for 44% of retail decision-makers. Given the desire to drive better personalization via customer insights, retailers must create a single view of their customers across all engagement channels. Critical to this effort is investing in customer data platforms to bring vital customer data together into one place, in which 43% of retail decision-makers say they are actively engaged.

Figure 3: Top 3 Most Important Aspects Of CX Related To Digital Commerce

Strong customer service (pre- and post-purchase)

Creating more personalized experiences across all channels of engagement

Establishing a single view of the customer

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

Security And Fraud Protection Improvements Must Keep Pace With Digital Commerce

Digital commerce broadens the scope of security and fraud risks for retailers, but protecting customers' data is still the number one focus. Sixty percent of retail leaders say that preventing data breaches — specifically involving customers' personally identifiable information (PII) — is a top 3 digital commerce priority, with customer privacy and account protection (e.g., fraud protection) and business fraud protection (i.e., account-based fraud, discount fraud, returns fraud, etc.) close behind at 56% and 53%, respectively (see Figure 4).
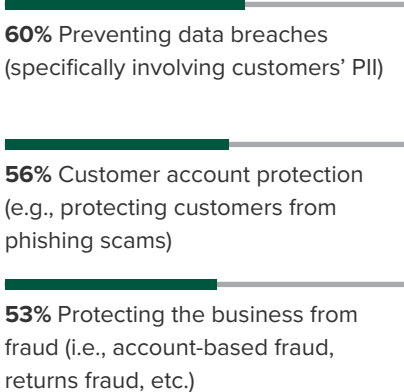
Retailers must protect their business from fraud — rather than just treat fraud as something from which they need to protect customers. Online fraud losses reached $40 billion globally in 2018.[1] Historical data shows that during economic downturns, fraud usually becomes higher, such as friendly fraud (e.g., buying a high-value item online and then claiming that it was a fraudulent transaction).[2] The need for protecting the business from fraud will continue to increase as more sales go through digital channels.

Fifty-two percent of retail and CPG decision-makers consider the increasing level of sophistication of online threats/attacks as a major security challenge for digital commerce. Unfortunately, confidence in current security and fraud measures is lacking: Less than a quarter of retail leaders strongly believe that their digital commerce services have strong security and fraud protection measures in place. Reasons for this low confidence include lack of proper tools (46%), lack of data management solutions and policies (43%), lack of security skills to implement proper protections (39%), and an overwhelming volume of threats (34%).

Retailers recognize the importance of improving security and fraud protection and are working to remedy current challenges (see Figure 5). Most (53%) are investing in improving or upgrading existing security tools, and 44% are bringing on security partners to bolster data security and fraud protection measures. On top of this, retailers also recognize the need to put greater attention on data privacy rules, regulations, and processes to ensure that employees are in compliance and not putting customer information, or the company, at risk.
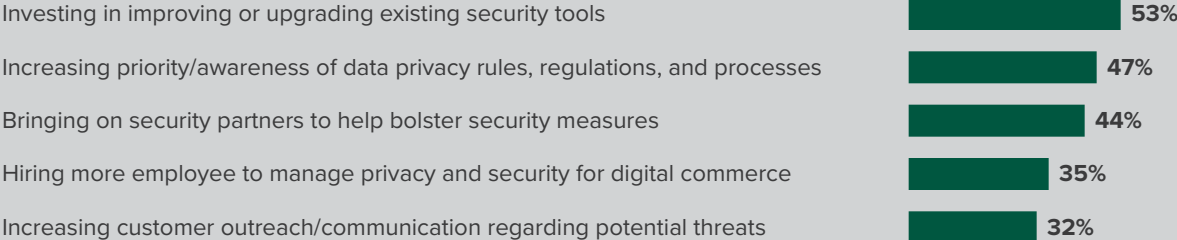
Figure 4: Top 3 Most Important Aspects Of Security Related To Digital Commerce
(Showing percentage who ranked in top 3)

60% Preventing data breaches (specifically involving customers' PII)

56% Customer account protection (e.g., protecting customers from phishing scams)

53% Protecting the business from fraud (i.e., account-based fraud, returns fraud, etc.)

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

Figure 5: Most Common Planned Security Improvements For Digital Commerce

Investing in improving or upgrading existing security tools	53%
Increasing priority/awareness of data privacy rules, regulations, and processes	47%
Bringing on security partners to help bolster security measures	44%
Hiring more employee to manage privacy and security for digital commerce	35%
Increasing customer outreach/communication regarding potential threats	32%

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

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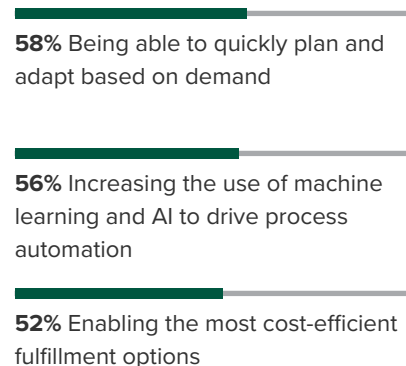# Digital Commerce Fails Without Supply Chain Agility

The most important aspects of supply chain agility for retailers include being able to quickly plan and adapt based on demand, increasing the use of machine learning and AI to drive automation, and being cost-effective (see Figure 6). However, only 51% of retail decision-makers feel their supply chains are prepared to meet growing digital commerce needs. This concerns stems from several challenges, the first being the pandemic. Retailers report that the pandemic has severely impacted global supply chains, with 49% of surveyed respondents reporting longer fulfillment times and 45% seeing raw materials shortages. Other challenges include an overreliance on a small set of partners (42%) and inadequate supply chain technology (37%).

The technology component can be a particular challenge if companies are not able to connect their supply chain technology with the rest of their digital commerce systems. Only 43% of retail leaders report that their digital commerce services are well-integrated with supply chain/fulfilment systems. This can result in significant delays or disruptions in fulfillment, which in turn has a negative impact on CX.

Remedying these supply chain challenges starts with visibility. The most common improvement retailers and CPG companies are making is better visibility across the supply chain (from factories to raw materials suppliers). Many retailers (45%) are also improving capabilities to manage demand planning adjustments in real time, which stems from having better visibility. Just as many (45%) are planning to increase the size of the distribution networks, and 42% plan to onboard more suppliers to ensure greater flexibility going forward (see Figure 7). This flexibility includes adding transportation partners to alleviate bottlenecks in getting goods to customers as demand fluctuates: 48% consider last-mile delivery to be one of the top 5 most important components of supply chain agility. These improvements will enable companies to be more agile as market demands continue to shift.
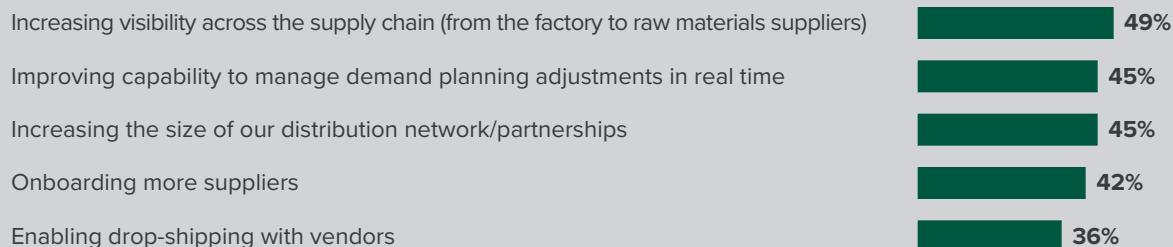
Figure 6: Top 3 Most Important Aspects Of Supply Chain Related To Digital Commerce
(Percent who ranked in top 3)

58% Being able to quickly plan and adapt based on demand

56% Increasing the use of machine learning and AI to drive process automation

52% Enabling the most cost-efficient fulfillment options

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

Figure 7: Most Common Planned Supply Chain Improvements For Digital Commerce

Increasing visibility across the supply chain (from the factory to raw materials suppliers)	**49%**
Improving capability to manage demand planning adjustments in real time	**45%**
Increasing the size of our distribution network/partnerships	**45%**
Onboarding more suppliers	**42%**
Enabling drop-shipping with vendors	**36%**

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

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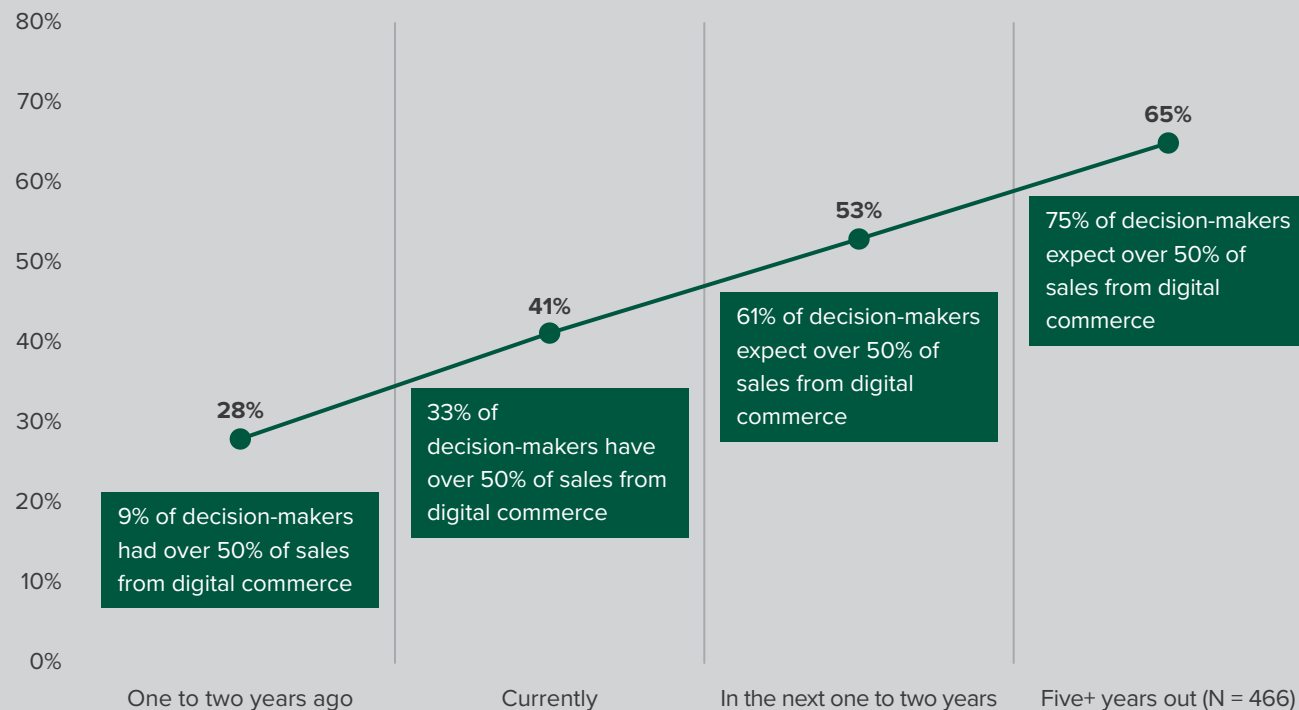# Retailers Need Support To Sustain Digital Commerce Growth

Respondents from our survey indicate that digital sales are growing at a steady rate, with 61% expecting over half of their sales to come from digital commerce in the next one to two years, nearly doubling the number of companies in that position today. Decision-makers expect similar growth over the next five years (see Figure 8).

This expected growth creates greater motivation for retailers to strengthen their digital commerce capabilities around the three key areas of CX, security, and supply chain agility. Respondents expect to drive these improvements in the following two ways:

› **They plan to bring on new services partners.** Most retail and CPG leaders recognize that they can't address their current challenges on their own and that partners are critical to meet the growing demand for digital commerce (see Figure 9). Retailers most commonly value security partners as retailers can leverage their experience and expertise to prepare against evolving threats. Digital commerce implementation partners are the second-most valued partner type, as retailers need their help to ensure all new capabilities are implemented in a way that will foster positive CX and enable fluid omnichannel operations.

Figure 8: Digital Commerce Is Expected To Grow Significantly Over The Next Five Years

"What percentage of your sales come from digital commerce?"

- **28%** One to two years ago — 9% of decision-makers had over 50% of sales from digital commerce
- **41%** Currently — 33% of decision-makers have over 50% of sales from digital commerce
- **53%** In the next one to two years — 61% of decision-makers expect over 50% of sales from digital commerce
- **65%** Five+ years out (N = 466) — 75% of decision-makers expect over 50% of sales from digital commerce
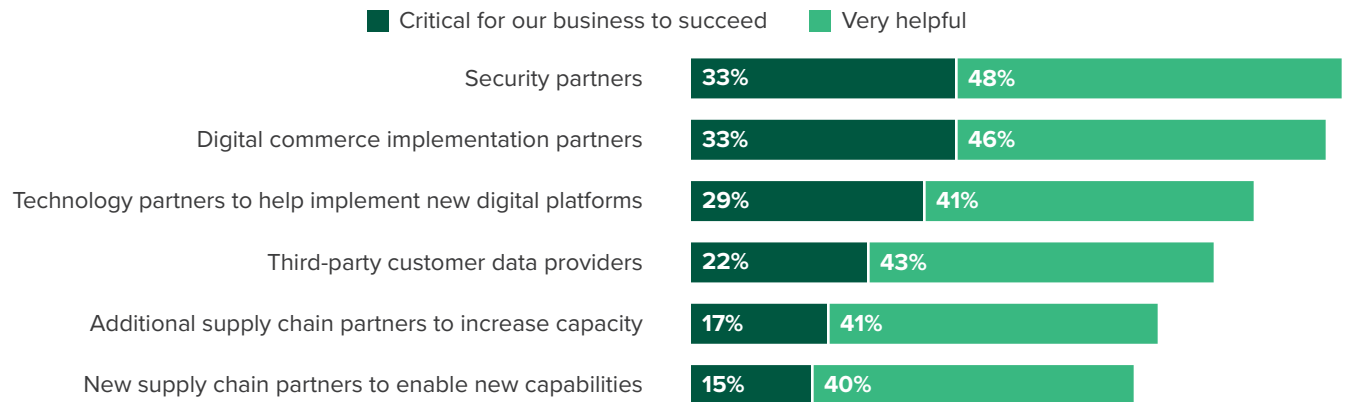
Base: 470 global decision makers of digital transformation strategies and operations as it relates to the retail experience for customers with channel engagement from online and offline
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

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Figure 9

"How valuable would the following resources/support be in helping your company address its challenges in transitioning toward digital commerce?"

■ Critical for our business to succeed   ■ Very helpful

Resource	Critical	Very helpful
Security partners	33%	48%
Digital commerce implementation partners	33%	46%
Technology partners to help implement new digital platforms	29%	41%
Third-party customer data providers	22%	43%
Additional supply chain partners to increase capacity	17%	41%
New supply chain partners to enable new capabilities	15%	40%

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

› **Improving internal capabilities, tools, and skills.** Retailers and CPG companies already have many tools and resources in place that can help them deliver on digital commerce priorities, but those resources are not fully utilized. For example, many retailers struggle with supply chain not because they lack partners but because they lack visibility into the ecosystem. Adjusting internal processes to improve this visibility is the first step to addressing supply chain challenges. Another area they struggle with is CX. Nearly 40% of respondents indicate that CX and personalization improvements can start by improving internal capabilities and skills. This effort begins with breaking down data silos to get a fuller view of the customer across channels and then improving analytics capabilities to turn that customer data into actionable insights.

DIGITAL COMMERCE INVESTMENTS MUST REFLECT DESIRED OUTCOMES

Establishing the right partnerships and tools to improve digital commerce capabilities will require a focused investment in addressing the early challenges discussed. Today, 45% of decision-makers say their investments in digital commerce capabilities have increased compared to two years ago, but 38% report no change in investment. Looking forward over the next one to two years, 69% anticipate investment growth (with nearly a quarter expecting a 10% increase in investment or more); only 28% do not expect any change. Given the substantial expected growth in digital commerce, retailers must increase investments in digital commerce at pace to better meet customer needs, increase revenue, and enable greater business agility.

Key Recommendations

The current shift toward digital commerce is significant, but many companies have been, and still are, unprepared to manage it. Unfortunately, there is no single solution to fixing current challenges, as building a resilient and dependable digital commerce solution requires a concentrated focus on CX, security, and supply chain agility. Through a combination of improvements in these three areas, companies can expect to see the greatest success with digital commerce. To better address current challenges and bolster your organization's digital commerce capabilities, consider the following:

Changing shopper behavior is a constant; a customer experience team that focuses on that is important. People today are more empowered than ever before and have higher expectations for the companies that serve them. As part of this, highly empowered customers want more choices, richer experiences, and increased convenience. Learn to gauge your customers' and prospects' level of empowerment to determine how urgently they will demand change — and identify which elements of the customer experience matter most as you expand your digital commerce channels.[3] It's also important to keep a critical eye on changing customer attitudes and behaviors so that you can be more agile in adapting to these changes. While the CX function is often divided among many teams at most organizations, ask yourself if you are doing everything you can at every instance to consider CX in the solutions, services, and products you provide. How strong is post-transaction customer support? Are you getting regular feedback from consumers? Do you have a blanket CEO@company.com address that you check regularly, or do you receive information through the filter of your customer service team?

Security and privacy are table stakes. A recent study from Forrester found that the most popular corporate value among US and Canadian online adults is a commitment to information confidentiality and data privacy.[4] This is especially critical when customer data (i.e., PII) is included. As you expand your use of digital channels, ensure that security keeps pace with new capabilities so that attackers (internal or external) cannot compromise customer data. Don't forget about protecting your overall business as well. Different types of attacks and fraud (such as account-based fraud or returns fraud) can threaten business continuity if not controlled. Ransomware attacks are more common than ever. An obsession with secure systems and redundancy in rebuilding if necessary are essential. Some companies have hired C-level executives who focus on information security; we expect that to be more common in the future as more business shifts to digital channels.

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The pandemic exposed supply chain fragility: Now is the time to diversify partners even more. The best customer buying experience means very little if the fulfillment process behind that purchase is inefficient or broken. Customers increasingly expect a high level of service with fulfillment, so supply chains must be optimized. Ensuring all the moving components and dependencies of your supply chain function together properly amid shifts in the market is a daunting task — which few have mastered. Focus on getting the proper visibility into your supply chain network so that you can understand where bottlenecks are occurring. From there, identify areas where finding new partners or expanding networks can help avoid future pitfalls. Building this type of resilient supply chain should be the ultimate goal of virtually all organizations — particularly those that aspire to deliver a first-rate customer experience.[5] Marketplaces can also be a valuable way for companies to accommodate bursts in demand or changes in customer interests.
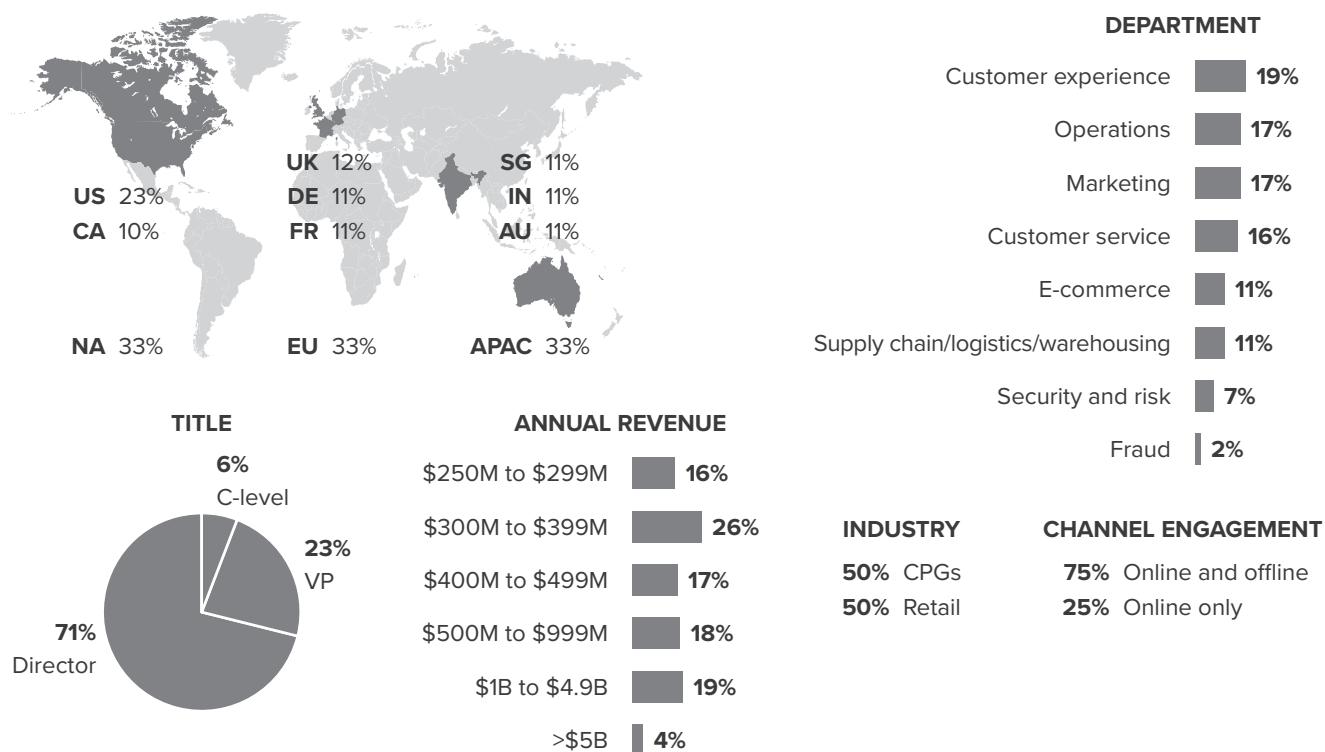
Set yourself up to succeed with the proper funding for digital commerce capabilities and partnerships. If digital commerce is truly expected to overtake in-store sales, then you must rethink where your company is putting its future investments. Digital commerce requirements for better security measures, improved supply chain agility, and customer data analytics and usage all require budget. Many decision-makers from our survey also indicate the importance of partners to support key digital commerce needs. While there is a cost to these types of partnerships, their impact can be substantial. Examine your budgets to ensure that they reflect the growing needs of digital commerce and not just the traditional channels that you are used to. While many companies are stretched financially, now may be the time to make bold decisions on cutting costs elsewhere in the organization to fund digital efforts. Many of these issues above like privacy, data governance, liability, and protectionism are government relations issues. Part of your budget should also take lobbying for the issues that benefit you into consideration.

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Appendix A: Methodology

In this study, Forrester conducted an online survey of 624 decision-makers responsible for digital transformation strategy and operations from retail and CPG companies in the US, Canada, the UK, Germany, France, Singapore, India, and Australia. Respondents were from a mix of different roles and responsibilities within their organizations including customer experience, operations, supply chain, and security. Seventy-five percent of the respondents surveyed engage in both online and offline sales channels while 25% are online only. Respondents were offered a small incentive as a thank you for time spent on the survey. The study was completed in November 2020.

Appendix B: Demographics

DEPARTMENT

Customer experience	**19%**
Operations	**17%**
Marketing	**17%**
Customer service	**16%**
E-commerce	**11%**
Supply chain/logistics/warehousing	**11%**
Security and risk	**7%**
Fraud	**2%**

UK 12%   **SG** 11%
DE 11%   **IN** 11%
FR 11%   **AU** 11%

US 23%
CA 10%

NA 33%   **EU** 33%   **APAC** 33%

TITLE

6% C-level
23% VP
71% Director

ANNUAL REVENUE

$250M to $299M	**16%**
$300M to $399M	**26%**
$400M to $499M	**17%**
$500M to $999M	**18%**
$1B to $4.9B	**19%**
>$5B	**4%**

INDUSTRY
50% CPGs
50% Retail

CHANNEL ENGAGEMENT
75% Online and offline
25% Online only

Base: 624 global decision makers of digital transformation strategies and operations as it relates to the retail experience for their retail experience for customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, November 2020

Appendix C

ENDNOTES

[1] Source: Marie Griffin, "E-Commerce Chargeback Costs Reach $40 Billion Per Year," Retail TouchPoints, February 22, 2018 (https://retailtouchpoints.com/features/trend-watch/e-commerce-chargeback-costs-reach-40-billion-per-year).

[2] Source: "Fraud in a Downturn," PwC, 2009 (https://www.pwc.com/gr/en/publications/assets/fraud-in-downturn.pdf).

[3] Source: "The Future Of The Empowered Consuming In The US," Forrester Research, Inc., December 15, 2020.

[4] Source: "Vast, Fast, And Relentless: Consumer Buying Enters A New Era," Forrester Research, Inc., August 11, 2020.

[5] Source: "Supply Chain KPIs That Support Digital Business," Forrester Research, Inc., November 8, 2016.

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