Microsoft

Navigating the Stages of AI Value Creation for **Retail**

Executive summary

AI has come a long way since 1956, when John McCarthy first coined the term at a conference he organized at Dartmouth College.[1] The unprecedented pace of innovation, along with the accessibility of ChatGPT and other generative AI tools, has galvanized virtually every organization.

Given the number of AI technologies, the possible uses, and the range of opportunities, it can be challenging to know where to start.

To better understand key drivers of AI readiness and their impact on AI readiness, Microsoft commissioned IPSOS to conduct a research study using qualitative data from experts and quantitative data from more than 1,300 information technology and business leaders across a range of industries and regions.[2]

IPSOS then used the survey data to build a predictive model to help identify the stage of AI readiness—from exploring to realizing.

This book provides our research findings for retail, focusing on how industry leaders can realize the value of AI.

Industry summary

Retail

Retailers are already realizing the power of AI. 21% of retailers have a chief AI officer, and a quarter of retailers are cloud-first, showcasing their leading position in developing solutions for customer-facing experiences.

Leverage our retail-specific insights and use cases to create value with AI. Based on a study commissioned by Microsoft and conducted by IPSOS, this guide identifies the key stages of AI readiness and drivers of AI and offers best practices and next steps for realizing value with AI in retail.

89

Retail decision-makers participated in this research

Research, methodology, and modeling

Market	Total	IT decision-makers	Business decision-makers
United States	n=500	251	249
India	n=200	100	100
United Kingdom	n=200	100	100
Germany	n=207	103	104
Japan	n=206	105	101

The research behind this e-book included multiple phases conducted by IPSOS on behalf of Microsoft. In August of 2023, IPSOS conducted an expert workshop with representatives from business and academia. They then conducted a quantitative survey of enterprise business and IT decision-makers (BDMs and ITDMs) on the topic of AI readiness and success from September to October of 2023.

These decision-makers had a budget responsibility, covered a mix of business factors and departments, and represented enterprise or higher mid-market organizations (500+ employees for U.S organizations, 300+ employees for global markets). They also covered 4 core industries, financial services (212 individuals), healthcare (153 individuals), manufacturing (171 individuals), and retail (89 individuals). We obtained input from more than 1,300 decision-makers in multiple markets, including the United States, India, United Kingdom, Germany, and Japan.

The survey included more than 40 questions related to each of the five drivers of AI success: business strategy, technology and data strategy, AI strategy and experience, organization and culture, and AI governance. The analyses and models described in this paper were created using multinominal logit analysis to protect the AI readiness level of each driver using the items in the survey for each and then the overall AI readiness from the predicted assessment of the five drivers.

For each stage of AI readiness, the study identified typical values to represent the stage's characteristics and opportunities. For example, in the initial "exploring" stage, the responses to all the scale questions were at a value of 1. Similarly, for the "planning" stage, questions were set at a value of 2. The values serve as standard examples for each stage. However, the specific recommendations for an industry might differ, depending on the organization's unique situation and opportunities.

Retail AI readiness summary

AI in the retail industry is now more powerful and accessible than ever. Advances in generative AI enable AI to tackle complex challenges that were once impractical. Today, retailers can leverage AI to deliver personalized services and enhance their resilience in an ever-changing marketplace.

Among retail organizations:

10%

Report consistently high **return on investment** from AI implementation

Cross-industry average: 7%

39%

Seek to **retain or increase revenue with customers** through AI investments

Cross-industry average: 30%

60%

Of **marketing departments** are currently using AI

Cross-industry average: 42%

28%

Have access to **SMEs in AI** for advice and consultation

Cross-industry average: 38%

54%

Prioritize **security and compliance** when selecting AI tools and solutions

Cross-industry average: 53%

40%

Upskill current staff with AI-specific training

Cross-industry average: 48%

51%

Collaborate with **external AI service providers** or **consultants**

Cross-industry average: 44%

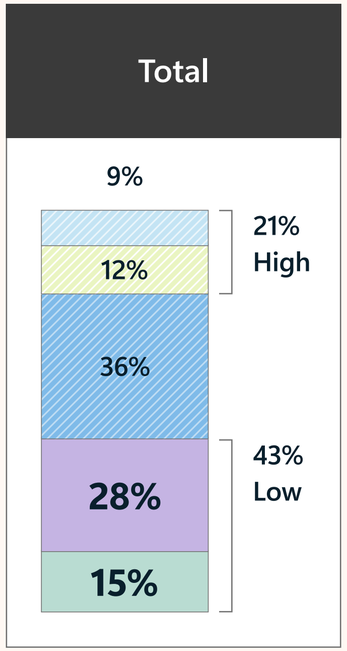
32%

Have piloted **AI applications or AI-enabled solutions**

Cross-industry average: 22%

Retail AI readiness insights

Retail stages of AI readiness



Overall AI readiness in retail

There's a broad mix of AI readiness in retail. Some retailers are at the forefront, consistently leveraging AI across their operations to enhance customer relationships and drive revenue. Yet, many are still at the starting blocks, with 43% of retailers in the **"exploring" and "planning" stage**. This diversity reflects the broad category of retailers, from big-box stores to boutique shops, and highlights the clear divide between companies that adopted cloud technology early on and those that didn't. About 25% of retail companies embraced cloud technology early, giving them a head start on AI. However, 8% of retailers have yet to start using cloud services, which is slightly higher than the average of 6% across industries.

Drivers of retail AI readiness

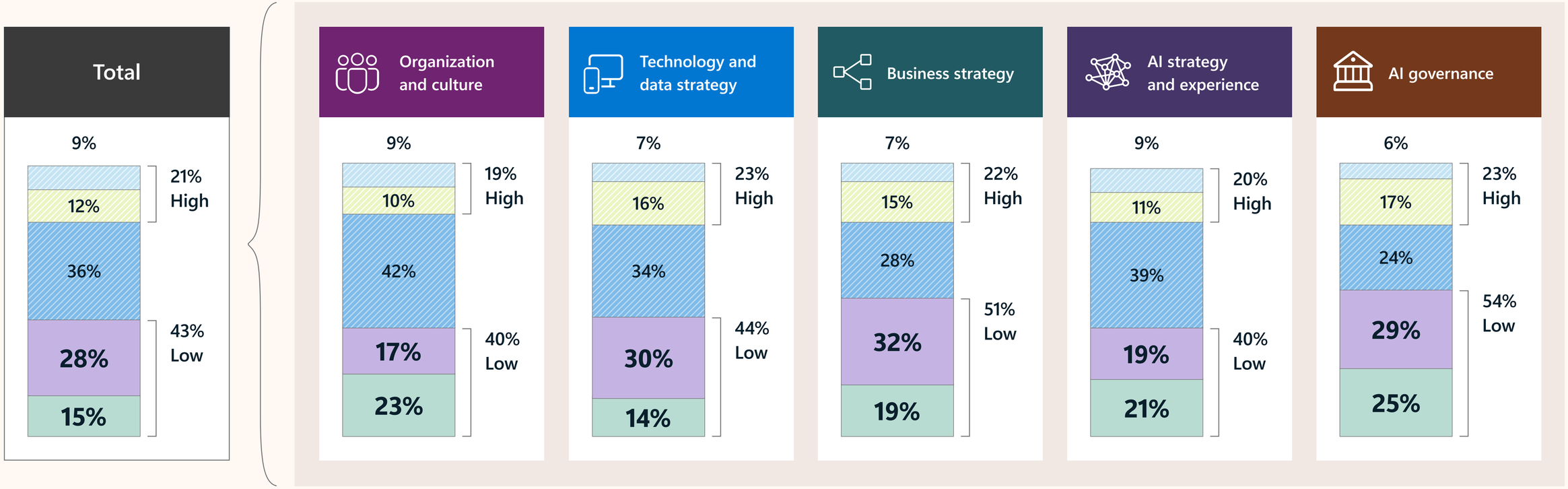
Our globally conducted research reveals that retail trails behind other industries in "scaling" and "realizing" for **organization and culture** and is slightly below average on **AI strategy and experience**. In terms of **AI governance**, a larger proportion of retail organizations are in the "exploring" and "planning" stages, at 54% combined, compared to the average of 49%. This difference represents one of the largest gaps for retail among the measured AI readiness drivers.

As a professional in the retail industry, focus on advancing from the "planning" stage by continuing to prioritize developing a solid AI business strategy tied to your business objectives. That foundation lets you go from proof of concept to implementation successfully.

Exploring Planning Implementing Scaling Realizing

Retail AI readiness drivers

Retail drivers and stages of AI readiness



Retail dominant AI readiness stages: Exploring and planning

Most retail companies are in the **exploring and planning stages** with the opportunity to use **business strategy** to advance towards realizing AI value.

Top drivers for exploring and planning stages

Business strategy

Rank #1

By leveraging AI, retailers can enhance their operations and deliver exceptional customer experiences. When crafting an AI strategy, retailers focus on personalizing and optimizing customer experiences, anticipating demand for popular products, recommending new products, becoming more resilient to supply-chain disruptions or stock shortages, and ensuring a harmonious experience across all customer engagement channels.

Top trend

- Streamlining omni-channel operations, unifying the supply-chain, and improving profit margins

Top opportunities

- Prioritized, approved, and socialized use cases for AI
- AI used for real-time decision-making

Discover how to shape the future of retail with business applications.

Technology and data strategy

Rank #2 (tie)

Safeguarding the trove of data from evolving threats is crucial—not just for customers but for the business itself. From point-of-sale systems and inventory logs to a vast network of supplier databases, the data estate in retail is as rich as it is varied. This complexity introduces a wide array of security challenges, making robust data security a critical focus.

Top trend

- Increased security threats from hackers, online scams, and in-store shrink

Top opportunities

- Access to complete and relevant data for AI modeling purposes
- Dedicated cloud infrastructure

Identify ways to connect your customers, your people and your data with Microsoft Cloud for Retail

Organization and culture

Rank #2 (tie)

Retail workforces are mostly young, frontline employees with high turnover. To leverage AI effectively, leaders must address fears about job replacement by clearly explaining how AI will enhance the workplace. Imagine AI as a tool to make work better—removing mundane and repetitive tasks. By focusing on how AI can enhance job satisfaction and safety, you pave the way for innovation that uplifts your teams, making their daily work more rewarding and engaging.

Top trend

- Streamlining omni-channel operations, supply-chain, and improving profit margins

Top opportunities

- Leadership has clearly communicated vision and importance of AI
- Availability of experts to contribute to AI projects

Learn how Microsoft 365 for frontline workers empowers employees.

Accelerate retail innovation with AI

The wide spectrum of AI readiness in retail reflects the variety of use cases and business types in the industry. On average, retailers are in the “exploring” and “planning” stages of AI readiness.

To advance in AI readiness, focus on developing a robust business strategy to progress to the “implementing” stage, maximizing the benefits of AI integration.

Opportunities exist to leverage strengths in organization and culture, supporting leadership to clearly communicate the vision of AI and its importance. Lean into your technology and data strategy to provide access to relevant and complete data in an embedded cloud infrastructure and ensure it’s secure.

Get the full e-book to learn how to develop an AI strategy roadmap for success and explore more valuable industry insights.

Discover more at **Microsoft Cloud for Retail**.

Endnotes

1. Grace Solomonoff, “The Meeting of the Minds that Launched AI,” May 6, 2023, accessed February 29, 2024, The Meeting of the Minds That Launched AI - IEEE Spectrum.

2. Please see the “Research, methodology, and modeling” overview for more detail on the research and analytical approaches that support this study.