# Unlocking Value with AI:
## Opportunities for Retailers in 2024


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# Executive Summary

The retail industry is in the midst of a transformation brought on by a combination of factors. Diminishing profit margins, labor shortages, and increasing customer demands for more personalized, convenient, and so-called blended experiences—that incorporate elements of both online and physical retail experiences—are putting additional pressure on retailers to operate with a more customer-centric approach.

The shift to this more customer-centric mindset has served as a catalyst for other operational mandates, including greater visibility into customer behavior patterns, more transparency into and granular control over multi-store operations, and an overarching focus on driving more personalized, efficient, and loyalty-boosting customer engagements. As a result of these mandates, many retailers have turned to leveraging AI to address customer and operational demands.

To uncover insights that will ultimately help retailers develop their AI strategy, Microsoft partnered with The Futurum Group to conduct research into the use of AI within the retail industry. While retailers generally feel their efforts are improving their customers' experiences, consumers are less convinced, expressing concerns about trust in how the technology is being used, and around data privacy and security. **Ultimately, the results point to a need to better align AI initiatives with customer outreach programs focused on detailing the benefits of the technology, and more transparency around the collection, use, and application of customer data.**

To gather these insights, we surveyed 1,002 retail executives globally. These executives work for companies with annual revenue of more than USD$200 million, with operations in North America, UK, Germany, France, Japan, Malaysia, Australia, Brazil, and Mexico. At the time of the survey, respondents had to be employed in a leadership position within their organization. To capture shopper sentiment, we also surveyed 502 North American consumers, ages 18-65.

## Key Findings

- Retailers have been, and intend to continue, aggressively adopting AI to unlock new customer value as well as to increase productivity in back-end operations.
- A perception gap exists between consumers and retailers on where to apply AI to the shopping experience.
- Retailers must be transparent about data use, privacy, and security when harmonizing AI experiences with customer expectations.

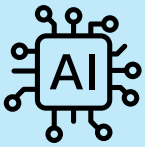
## AI Definitions Used In This Report

To ensure consistency of responses, these definitions were provided in the survey to respondents.

**Traditional AI:**
Algorithm-based solutions that reason over structured data to solve specific questions, like making predictions and recognizing patterns (examples include image recognition, demand forecasting, and natural language processing).

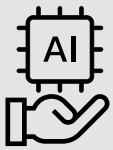
**Generative AI:**
A category of AI techniques and models that are designed to generate new, original content rather than simply recognize or analyze existing data.

# The State of AI Within Retail: 5 Key Takeaways




### AI is primarily used for back-end data management and operations tasks.

Eighty-seven percent report that they have implemented both traditional and generative AI in store operations. Generative AI is used more than traditional AI across most business operations categories with the top two categories being Inventory Management (45%) and Sales Forecasting (45%). Retailers use both forms of AI for Customer Feedback Analysis (44%) and Supply Chain Optimization (42%). As generative AI tools are refined and improved, they will see increasing use in marketing tasks, such as generating copy for campaigns and customer-retention outreach, thereby reducing worker effort while improving efficiency and personalization.




### Nearly three-quarters (74%) of consumers are comfortable with using AI.

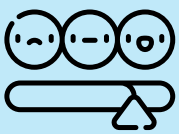
Nearly three-quarters of consumers say if retailers used AI-powered shopping experiences, their desire to shop with that retailer would increase or be about the same. Of the quarter of consumers most hesitant about AI-powered shopping experiences, privacy and prefer human interaction are their biggest concerns, which presents an opportunity for retailers to spend time building trust by having a clear privacy policy and communicating it broadly.

### Consumers need more explicit language from retailers on the benefits new technologies provide.

Perception gaps exist on how new technologies help shoppers. For instance, while 42% of retailers anticipate consumers feeling more valued in settings like checkout-free stores, only 16% of consumer respondents report a heightened sense of value. This disparity suggests that retailers have not sufficiently invested in educating consumers on why certain new technologies benefit shoppers. More educational effort here both in-store and on digital surfaces outside of the store can help to change this perception.

### 76% of consumers reported that customer loyalty programs are a factor in their overall experience and impacted their desire to make a purchase.

With only 36% of retailers focused on using AI for this use case, considerable potential and opportunity exists in the development of AI-enabled customer loyalty programs.

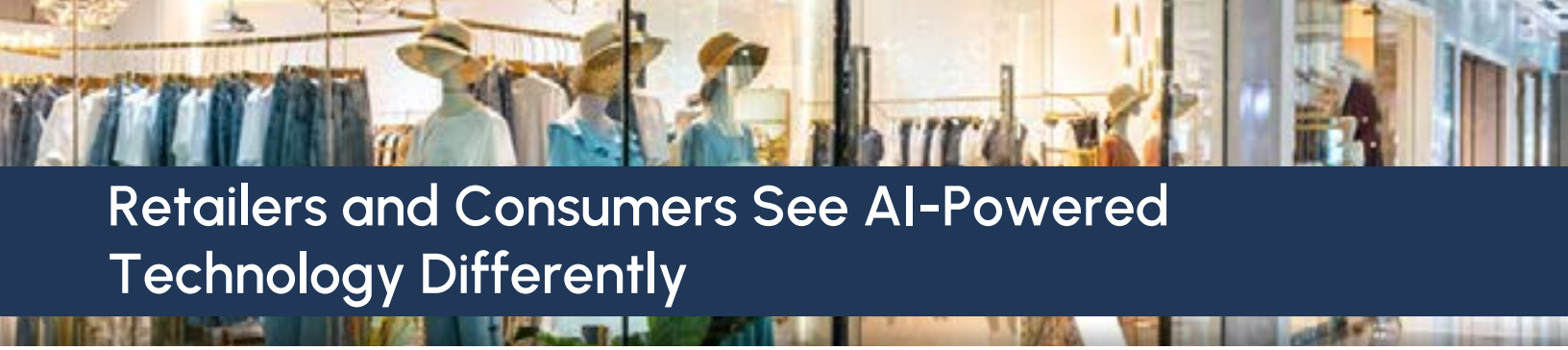


### Building trust will be the key to gaining consumer acceptance of AI.

These findings reveal common sentiment toward new technologies like AI and point to the need for retailers to build trust with consumers on how AI will be used responsibly within the retailer's operations. Investing in a responsible AI strategy and communicating it broadly is table-stakes for all retailers to successfully deploying AI technologies into their business operations.

# Smart Retailers Will Pay Close Attention to Consumer Needs When Making AI Investments

The perceptions around AI and its capabilities and limitations can mask the underlying impact of what this technology enables. To ensure a balanced view between retailers and the consumers who shop, this survey included two cohorts. The first focused on retail executives globally (1,002 respondents), and the second consumers (502 consumers in North America). Both groups were asked questions exploring value drivers and sentiment on artificial intelligence. The shopping tools and retailer engagement experiences were not presented as AI-enabled per se, yet for analysis purposes, we understood them to be potentially powered by AI.



# Retailers and Consumers See AI-Powered Technology Differently

Retailers are focused on AI-powered experiences because they think consumers are benefiting. However, consumer perception does not always align with the retailers' beliefs, particularly when it comes to service and brand connection. Even more interesting, in some areas, a greater percentage of respondents to our consumer survey indicate that they receive a benefit from a specific AI-powered technology or feature than the percentage of retailer respondents who believe that the AI-powered experiences will benefit consumers. Consider the following highlights from the survey:

**21%** of retailer respondents said they expect that consumers experience lower prices due to customer loyalty programs,

while **59%** of consumers report that they perceive they experience lower prices because of customer loyalty programs, a positive delta of 38%.

**27%** of retailer respondents said they expect that consumers experience faster service due to checkout-free stores,

while **51%** of consumers report that they perceive they experience faster service because of checkout-free stores, a positive delta of 24%.

**36%** of retailer respondents said they expect that consumers experience lower prices due to personalized marketing,

while **45%** of consumers report that they perceive they experience greater choice because of personalized marketing, a positive delta of 9%.

Conversely, **42%** of retailer respondents said they expect that consumers will feel more valued due to checkout-free stores,

while only **16%** of consumers report that they perceive they feel more valued because of checkout-free stores, a negative delta of 26%.

## The Futurum Group Insight

Our findings show several areas where consumer and retailer perception lack alignment on the benefits of AI-powered retail experiences. These findings reveal a gap in retailer understanding of consumer perceptions regarding the perceived benefits of these AI-enabled tools. We believe that retailers need to recalibrate their beliefs and take this opportunity to better understand consumers and to be very thoughtful about where AI helps consumers directly.

Retailers can take several steps to better understand their consumers. First, collecting direct feedback through post point-of-sale surveys can aid in not only driving awareness of AI within the store experience but also gauging its effectiveness in delivering a positive customer experience. Moreover, this feedback can be used to better understand consumer apprehension around data privacy and data security, enabling retailers to create consumer-focused materials explaining how the retailer is using AI-powered technology.

Another technique is to utilize employees working in the store to explain or demonstrate how the technology is being leveraged to reduce friction within common store experiences, such as having store associates explain that AI can be used to predict product demand more accurately, leading to fewer stockouts. With specialized knowledge about consumer perceptions of each of these tools, retailers can be better equipped to make improvements, increase implementations, and provide more specialized messaging around each tool, creating a win-win situation for retailers and consumers alike.

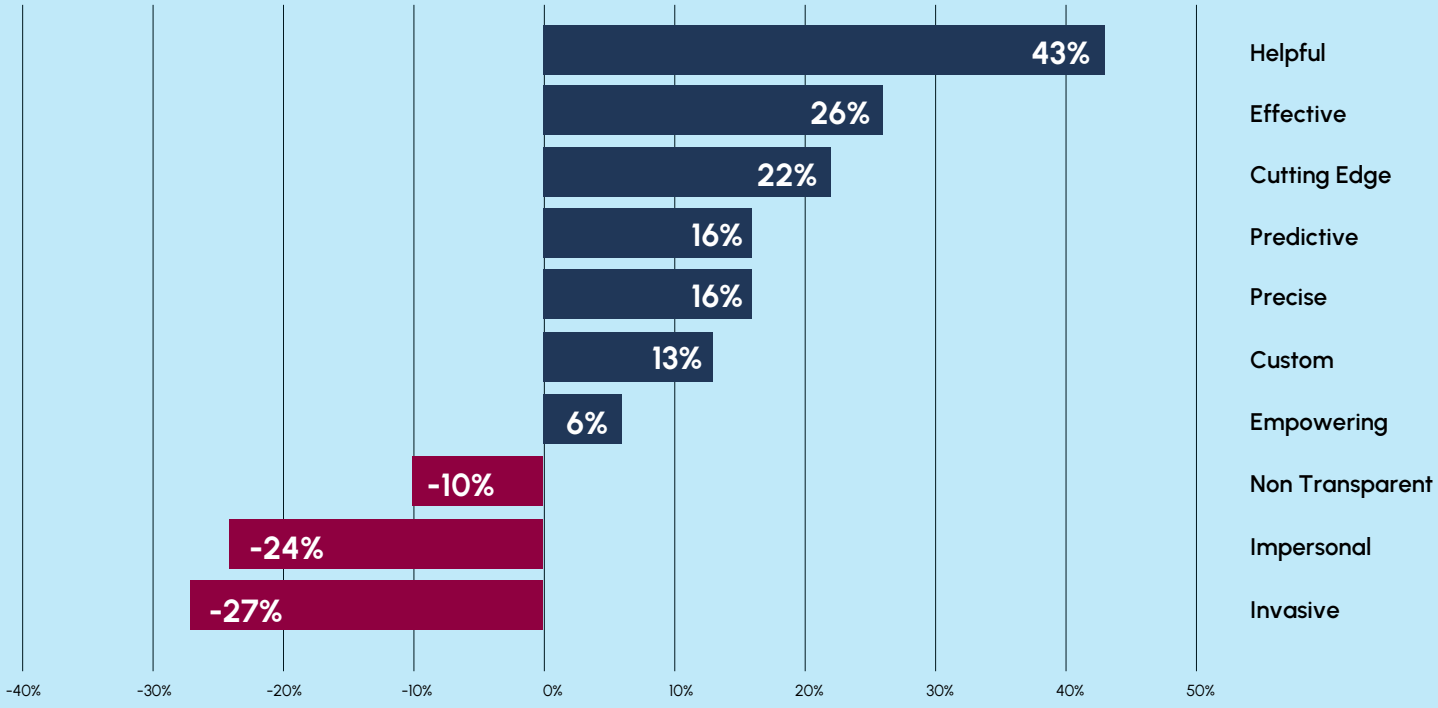
# Consumer Perceptions of AI Technology Reflect a Mix of Excitement and Caution

We wanted to gauge consumer perception regarding the use of AI to better understand the opportunities or potential challenges that retailers face. The mix of responses shows that retailers face a challenge when it comes to changing AI perceptions. Curiosity and excitement all show a positive association with AI. However, nearly one-third of respondents said they are concerned about AI-enabled technology. With any early-stage technology, concern and hesitancy are typical; this perception will likely improve over time with more exposure and improved experiences. Retailers should take the opportunity to highlight examples where AI-enabled technologies are in use and making a difference. For instance, with chatbots, Gen AI actually helps to bring the humanity back to otherwise flat, one-sided communications by allowing for more bi-directional and natural language interactions with the consumer, informed by its brand voice and knowledge base.

AI can also be used to modify the tone of a generated response to more closely align the response to the situation. For example, generative AI-powered technology can be used to automatically transform a message written in a neutral tone to a more formal style for legal interactions, or transform that same message to a more casual tone for marketing engagements.

At the same time, **43% of consumers report that they associate the word "helpful" with their impressions of AI-enabled experiences**. Yet, twenty-seven percent associate the word "invasive" with their impressions of AI-enabled experiences. There appears to be a slight disconnect between how consumers feel about their experiences with retail AI-enabled tools and the explicit nature of AI. It is Futurum's point of view that much of this disconnect is the result of a late adopter/laggard perspective on new technology, and regardless of experience enhancements, there are always technology adoption laggards that will resist. This reality should not deter retailers.

**Consumer Views Vary on the Efficacy of AI-Enabled Experiences**



Consumers who report that they would be more inclined to use a retailer because of its use of AI-powered technologies cite efficiency (69%) and choice (69%) as key benefits, which aligns with the impression that AI-enabled technologies are helpful. Those consumers who indicate that they would be less inclined suggest that they prefer human interaction (64%) and have privacy concerns (64%).

Data privacy in the context of AI cannot be glossed over, as it has implications for both customers and retailers alike. The first step is to create a detailed data privacy policy that clearly lays out what type of data is captured, where it is stored, how long it is retained, and how it is used to train or inform AI models. Perhaps most important, the policy should clearly explain what types of personal data is captured, how that information is used, how long it is retained, and how customers can opt out of data collection. Transparency is a key driver of trust, particularly around new technologies such as AI, and providing AI data privacy details to consumers is a necessary tactic. Of course, retailers also need to ensure there are guardrails in place for policy adherence by not only its own employees and systems but also any other third parties that might access the data.

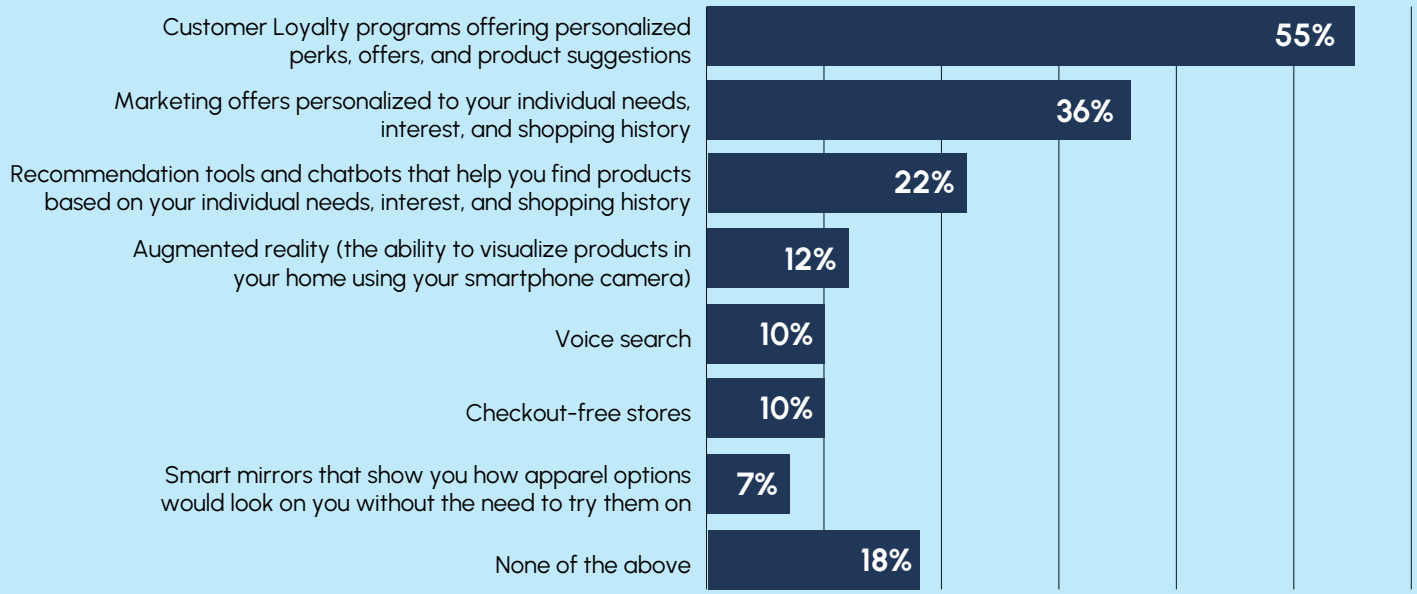
## The Futurum Group Insight

We find that consumers are both excited and curious about AI, and in a few instances, perceive the benefits of AI more than retailers anticipate. Protecting customer privacy should be paramount for retailers. There is a fine line between providing welcome personalization and unwanted intrusions into a person's personal behavior. Providing a reminder to purchase a commonly bought food item based on a person's previous buying frequency is fine, but suggesting the concurrent purchase of a weight-control product if the purchase frequency of the original item increases is inappropriate. While this example is extreme, it illustrates the need to constantly review the AI algorithms in use to ensure they do not become intrusive or offensive. Going a step further, retailers might want to ensure that the continued training and utilization of anonymized data plus real customer data in AI recommendation filters is designed to improve experiences, make better recommendations, and eliminate any risks that violate privacy or even make recommendations for inaccurate items or items that have already been purchased.

# Limited Personal Experience with AI-Powered Retail Experiences

Consumers overall report limited awareness of some of the main technologies that retailers use to engage with them during a shopping experience. While 55% of respondents report they have taken part in customer loyalty programs offering personalized perks, offers, and product suggestions, fewer than half report having personally experienced each of the other AI-powered experiences mentioned within the survey. Additionally, 18% of respondents report having no familiarity with any of the AI-powered experiences we asked about.

**Consumers Have Experienced AI-Enabled Customer Loyalty Programs More Than Any Other Technology**



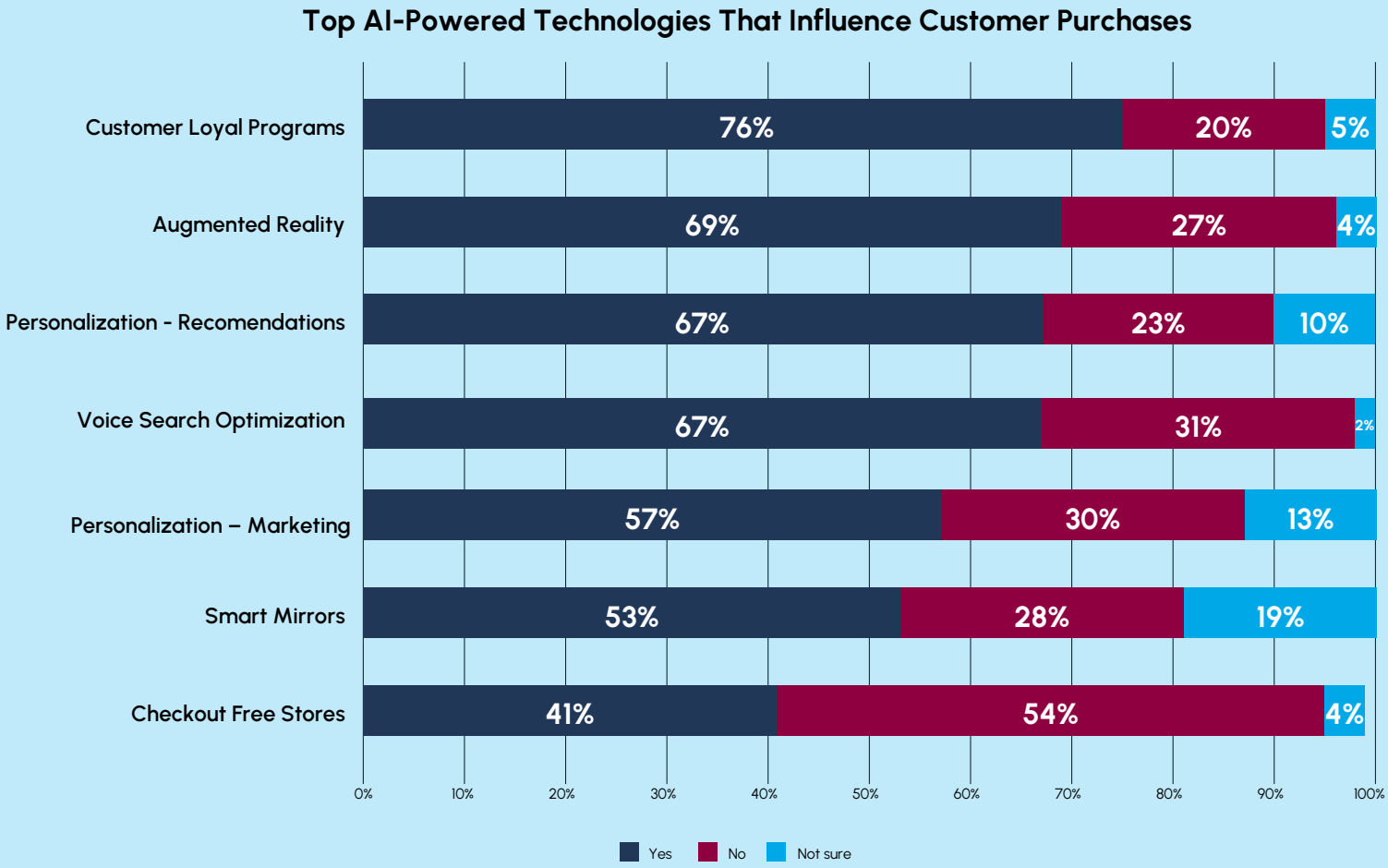

Of the technologies that we asked about in the survey, 61% of consumers say that customer loyalty programs offering personalized perks, offers, and product suggestions inspire them to shop with particular retailers. Furthermore:

**76%** of consumers reported that customer loyalty programs factored in the decision to make a purchase.

**43%** of consumers are willing to pay extra to receive benefits from a next-gen customer loyalty program, which are typically free offerings.

Secondly, 33% of consumers report that marketing offers would inspire them to shop with particular retailers; 57% of consumers reported marketing offers as a factor in the decision to make a purchase. The key takeaway for retailers is the need for targeted offerings.

Interestingly, while only 12% of consumers said augmented reality (AR) would inspire them to shop with a particular retailer, 69% of consumers who had experienced AR reported that it was a factor in the overall decision to make a purchase. Of the 12% of consumers that say AR would inspire them to shop with a retailer, 68% are willing to pay extra to use the tool.




## The Futurum Group Insight

Customers crave loyalty programs. We see customer loyalty programs, providing personalized perks, offers, and product suggestions, as a key factor in why customers choose to shop with a specific retailer and why they make a purchase—and with good reason. AI-driven loyalty programs provide more targeted offers that align with consumer needs, often via coupons or discounts, which encourages greater purchase volume or increased frequency of purchases. Moreover, loyalty program customers generally will consent to sharing lots of data, data that AI can mine to uncover additional insights, including adjacent purchases, seasonal data, and price-sensitivity data.

Newer shopping technologies such as AR and smart mirrors are growing in popularity. Early data indicates that they are very successful when used, but customers are still becoming comfortable with the idea of utilizing these technologies.

For instance, self-checkout has become commonplace and although there are most certainly people that still want the full-service checkout experience, there is a continuum of people that also want to try completely checkout-free stores. Hybrid experiences provide a bridge to new technology adoption. We believe retailers need to commit to technologies that remove friction, improve access to the right offer, and give consumers tools to build stronger loyalty with retailers. And many retailers are rapidly doing just that.

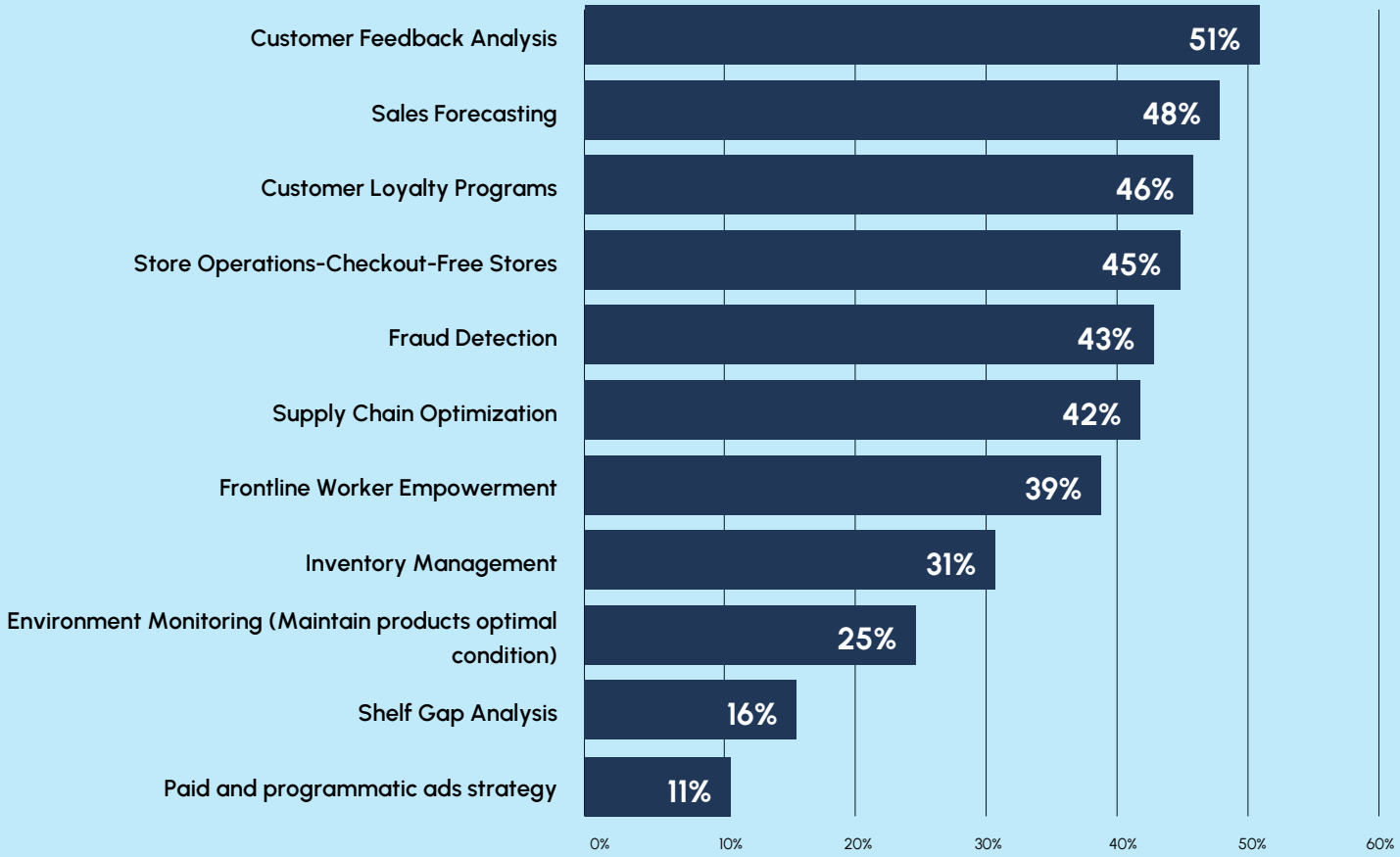
# Retailers Are Rapidly Adopting AI

In the past decade, the retail industry has undergone a massive digital transformation. Retailers have navigated ongoing challenges from supply chain disruptions, changing consumer preferences, and an exponential increase in data. AI can help with many of these challenges, and we wanted to understand how retailers are preparing to use both traditional AI and generative AI. Not surprisingly, AI adoption appears widespread across retailer types, with 87% of respondents reporting they have implemented AI for store operations, 78% reporting they have implemented AI to enhance the customer experience, and 36% indicating they are using AI within their contact center.

When looking at the data by region, 94% of respondents from Australia are reporting that they have implemented AI for retail operations, more than any other region. North America leads the way for implementing AI specifically targeting the customer experience, with 90% reporting, as well as implementing AI for the contact center with 51% reporting.

Retailers report that they are prepared to maximize the benefits of both traditional and generative AI in specific aspects of their businesses. Adoption of AI appears to be multifaceted among respondent companies both for operations and managing the customer experience. Overall, respondents report using AI in operations for Customer Feedback Analysis (51%), Sales Forecasting (48%), and Customer Loyalty Programs (46%). There is a clear bias to improving front-of-house operations.

## Retailers Focus Use of AI in Front-of-House Operations

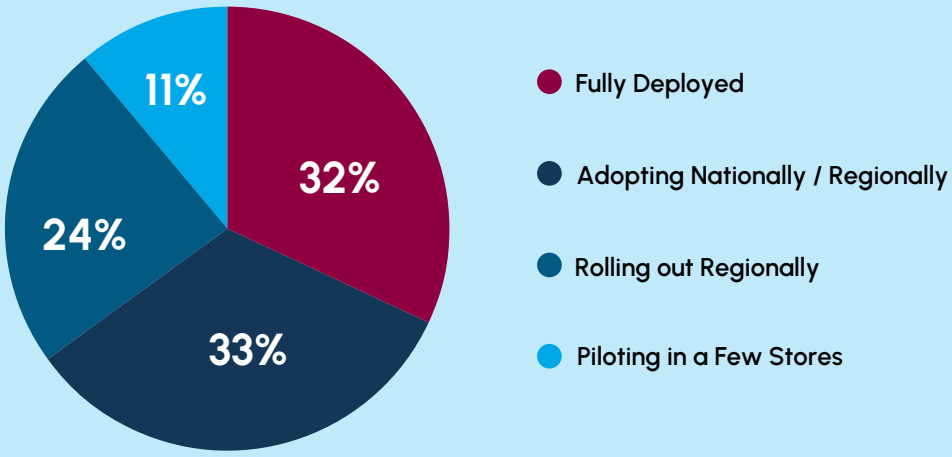



Of these respondents, we wanted to know whether they are using generative AI, traditional AI, or both. Given that generative AI solutions have been in the market for much less time than traditional AI solutions, we were intrigued to see that more retailers are using generative AI with greater frequency in several areas: Sales Forecasting (45% vs. 19%), Inventory Management (45% vs. 29%), and Paid and Programmatic Ads Strategy (44% vs. 17%).

Nearly half of retailers are using both traditional and generative AI for Customer Feedback Analysis (44%), Supply Chain Monitoring (42%), and Environmental Monitoring (42%). Traditional AI did not lead in any of the operational categories, which is worth noting due to the nascent stage of generative AI.

The advanced level of adoption is reinforced by respondent reports of the maturity of AI implementation across operational projects. On average, approximately one-third of respondents report that their companies have key projects fully deployed, while half to two-thirds report having adopted AI-enabled technology in key operational areas at least nationally/regionally.

**Average Progress of AI Implementations Across Operations**




To enhance the customer experience, retailers report using AI for Customer Personalization – Targeted Marketing (60%), Customer Feedback Analysis (54%), and Customer Personalization – Product Discovery, Recommendation Engines, and Chatbots (50%). Only 36% of retailers are using AI for customer loyalty programs, which is a stark contrast to what consumers said inspires them to shop with a particular retailer.

## The Futurum Group Insight

Use of AI has boomed in nearly every industry, so it is not surprising to see retailers turn to the technology. Consumers want to be able to shop and communicate with brands across several channels. This consumer behavior then creates lakes of valuable data that can be mined for insights, which is where traditional, machine learning (ML)-based AI has garnered significant traction.

However, retailers must always be mindful of using AI and consumer data responsibly, clearly creating and adhering to the following principles:

- **Disclose what data is being collected, how it will be used, how it will be stored, and how long it will be retained**
- **For loyalty or preferred customer programs, clearly explain what data is collected and how it will benefit the consumer**
- **Clearly delineate what personal or sensitive data is collected and what data is never collected**
- **Provide mechanisms for easily opting out of certain data collection programs**
- **Disclose what data is collected for use in AI-powered experiences, what data is masked, and the benefit of the AI experience to the consumer**

Retailers will continue to leverage traditional AI while capitalizing on the newfound power of generative AI to provide more personalized experiences. Through AI-enabled technology, retailers can examine consumer interaction histories, first-party data captured on their website, and even in-store behavior via linked accounts to provide recommendations, offers, and tailored journeys based on those insights.

We are encouraged to see so many retailers are at least moderately prepared to implement AI—both traditional and generative—across so many facets of the business. It is not surprising that retailers are tapping into the power of AI to meet the needs and expectations of consumers while improving operations. However, we are still seeing a disconnect between retailer priorities and consumer expectations. Customer loyalty programs were the most used tool by consumers and played the biggest role in the decision to make a purchase. But retailers are prioritizing other aspects of business to improve customer experiences. We believe that retailers that use AI to improve customer loyalty programs, over other aspects of business, will increase profitability and longevity and outperform competitors that are slower and more cautious about AI utilization.

# Gauging the Impact AI Will Have on Operations and Engagement

While we know that retailers are turning to AI, we wanted to gain better insight into how retailers are gauging the success and improvement that AI has brought to their operations. We asked respondents to share how AI implementations have affected their business. While many report benefits, there is room for improvement as retailers globally invest more in AI.

### Reported Improvement Outcomes from AI Implementation in Operations

- **Environmental monitoring for improved predictability**
- **Sales forecasting has increased profits**
- **Consumer feedback analysis has led to greater quality**
- **Customer loyalty programs have increased perception as an innovative retailer**
- **Checkout-free stores have increased perception as an innovative retailer**

## The Futurum Group Insight

There are still key opportunities for growth with AI deployments that likely will result in increased improvements in operations. As with any technology, the maximum benefit is derived when workers can fully access and use AI in an integrated way across an organization's entire data, process, and employee ecosystem. As such, we believe that retailers will see more improvement across operations as those deployments continue to be rolled out, especially as generative AI becomes more ubiquitous in operations. At this point, we learned that retailers are still deploying AI across their operations; leaders (<40% of those surveyed) have fully deployed AI across operations while the remaining 60%+ are still on their deployment journeys . That said, even staggered or piecemeal rollouts of AI technology deliver benefits. Nearly 40% of retailers report increased profits, increased innovation, and greater predictability as a result of deploying AI across various aspects of operations.

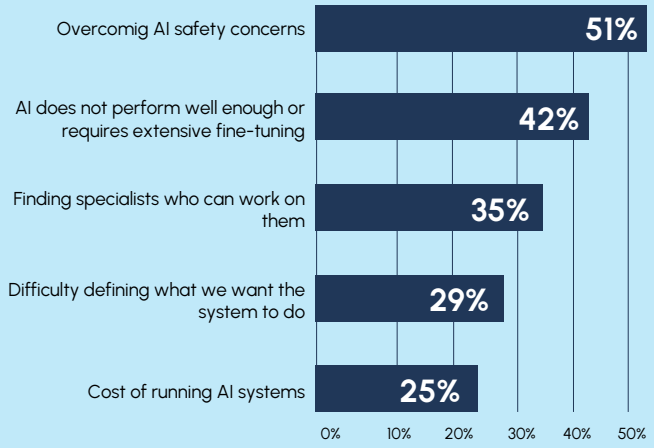
Unsurprisingly, retailers believe that the use of AI for personalization in recommendations and marketing has led to customers feeling more valued, getting faster service, and feeling more connected to the brand. These are all key areas that have a direct result on customer loyalty and retention, which are key goals for retailers everywhere.

# Navigating the Future of AI Implementations

## AI Implementation Challenges

Customers likely have seen AI in action across other facets of their lives, from the AI-generated recommendations within their streaming services to the use of AI to calculate the estimated time of arrival within their GPS mapping applications. However, despite the confidence that retailers indicate in deploying AI-enabled technologies and the benefits they believe will accrue to their companies and consumers, one-half of retailers say that overcoming safety concerns may present a challenge to implementations. Another challenge is more tactical in nature: one-third of respondents indicate that finding specialists who can work on AI implementations may be an issue. The cost of implementing AI is only viewed as an impediment by one-quarter of respondents.

### Overcoming AI Safety Concerns Remains a Top Roadblock for Implementation




## The Futurum Group Insight

We expect objections to AI that revolve around safety to drop over the next few years. Safety concerns surrounding the implementation and adoption of technology is always a challenge that organizations have had to overcome. AI is no different. Consumers often do not realize how much they have already been using a technology, and AI has long been in use. The current public debate about AI is causing slower adopters to be concerned, but most are likely using AI every day without even realizing it. Continued investment in privacy, cyber security, and better more targeted AI will help overcome this hesitancy.

The growing ubiquity of AI in consumer, business, and government spheres will likely also reduce the level of objection to the technology. A parallel may be drawn between objections to AI and the objections to cameras. Whereas once people were extremely concerned about cameras being used in both public and private spaces, the proliferation of high-definition cameras over the past 20 or so years in both of these types of spaces has led to a growing acceptance that the technology is here to stay.

That said, the use of AI presents retailers with an opportunity to take a proactive approach to the technology and highlight their responsible deployment method as a competitive differentiator. Educating consumers on how AI can enhance experiences and how customers can benefit from the advancement can build trust with consumers. Some consumers are leery about the power of AI. Taking the time to change the perception will benefit everyone.

# Retailers Want Consumers to Know About AI

We have established that AI is used across operations, and we wanted to know how transparent retailers are with consumers about the technology. An overwhelming majority (87%) of retailers report that their companies inform consumers about their use of AI. Unfortunately, we identified a disconnect between consumer and retailer responses. In the consumer survey, we asked if they (consumers) were informed of AI-powered experiences, and the majority (60%) reported that they have not been informed about retailers using AI. This dichotomy of perception is crucial to overcome.

When asked about the signal that companies use to determine whether consumers want to use, or benefit from, AI tools, 65% of retailers report that consumers "ask for them directly," while 53% of retailers say that consumers ask for them "but not by name." Retailers report that their companies measure the impact of AI on customers at the highest rates via "customer reviews – on your digital properties" (66%), "customer reviews – on review sites" (64%), and "social media feedback" (59%).

## The Futurum Group Insight

Simply telling consumers that AI is being used is not as comprehensive as explaining the benefit of the technology, how it is enabled, and how consumer behavior and data feeds into the technology. When examining this disconnect through the lens of overcoming AI safety concerns, it is clear that there is still much work to be done.

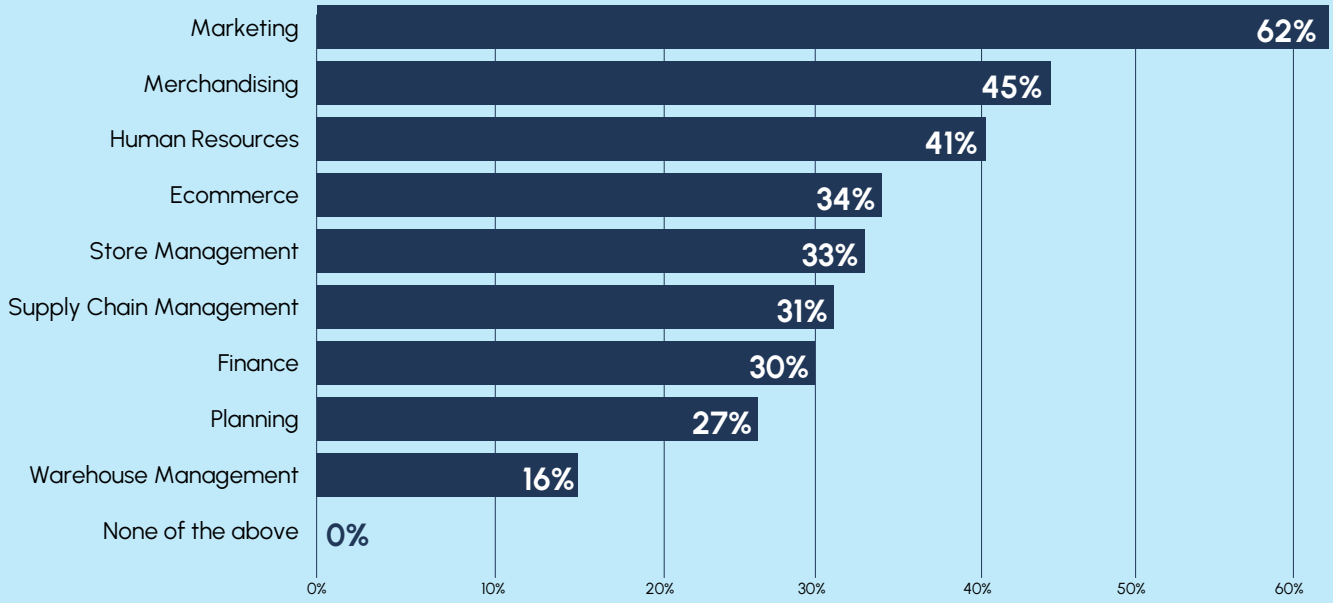
Retailers should consider adhering to responsible AI principles such as accountability, inclusivity, fairness, and transparency. Responsible AI principles such as these provide a solid foundation for an AI strategy that is ethical and establishes a greater degree of trust among customers.

More specifically, retailers should have clear and transparent policies that detail the information they collect from customers; opt-out options that allow customers to determine which data is collectible; what data is used to inform, train, or tune AI models; and, most important, how that data is secured. Additional disclosure on how the use of AI will improve the customer experience is also important, particularly with respect to tangible benefits. Retailers should discuss how the delivery of curated product offers, discounts, and other customer benefits are made far more effective using AI to surface hidden insights within the data to better serve consumers.

# Where Retailers Want AI to Help

AI deployments are increasing across industries, and so we wanted to know the three areas where retailers are hoping to see the most improvement brought by AI in the next 18 to 24 months. Overwhelmingly, respondents selected Marketing (62%) as the area they would most like to see improvement. Retailers chose Merchandising (45%) and Human Resources (41%) for second and third, respectively. When we examined the data by the respondent's role, marketing was still the top choice across the board. Respondents also identified the Marketing Manager (54%) as the role they most hope to see improve in the future with continued use of AI. The Customer Service Associate was the second most selected (45%).

**Retailers Believe of All Their Functions, Marketing is Most Likely to Improve with AI**




## The Futurum Group Insight

Retailer responses show that they fully embrace AI for key operations and customer engagement. Although they are committed to rolling out implementations, we believe there is room for growth and opportunities for education.

Before digital data capture, retailers could gather data only from consumers enrolled in a loyalty or club program. With the shift to online operations, retailers can now capture more consumer data from various sources. Retail data sources come from digital interactions (e.g., website visits, app usage, texts, social media) and more traditional methods (e.g., calls to customer service). Modern retailers also use technologies such as beacons and cameras in physical stores to track consumer movements and focus, gaining detailed insights.

To address the need for consumer consent for data tracking, retailers use mobile apps that include this consent in their terms and conditions. Through these apps, retailers collect zero-party data (consumer-shared) and first-party data (consumer behavior). Zero-party data, directly shared by consumers, is often more accurate and reliable, reflecting true preferences of how they want to be contacted, what products or services interest them, and how they want to interact with the retailer. First-party data is gaining importance to retailers that have previously relied on third-party data (data obtained or purchased from external parties), as third-party data might be unreliable and is increasingly being scrutinized by regulators.

The ultimate goal of data capture and analysis is to create a seamless, omnichannel consumer experience that provides value to both the retailer and the customer. Retailers can use AI to analyze diverse data sources for strategic improvements that provide the retailer with a top-down view of a consumer's journey.

Because AI captures and analyzes both data focused on an individual purchasing behavior and aggregate data from all types of shoppers, a more streamlined customer experience can be created across all channels and interactions. Product displays, graphics, and other elements in a physical store can be recreated in the digital realm and vice versa. Retail metrics, such as customer heat maps, dwell time, and data on how customers interact with a product (e.g., what features of a product customers focus on or how they interact with that product) can be analyzed to support cross-channel calls to action that reduce sales friction.

For retailers, generative AI can be used to improve efficiency and effectiveness, from enabling more intuitive self-service experiences (an intelligent bot that allows customers to interact with a store without human intervention) to generating dynamic content by pulling from internal data, allowing for quick customization of product offers, promotions, and even images based on a customer's previous behavior or preferences. For example, generative AI tools create images based upon prompts to appeal to different purchasers or situational contexts. For example, an image of a model wearing leggings could have the image background rendered white for a stock-photo look, or the user could leverage generative AI to automatically render different backgrounds (e.g., in the gym, or at a nightclub), based on the specific context of a product search or setting. This capability improves store efficiency and relevancy with potential buyers, which can lead to greater sales conversions.

Another potential generative AI use case is augmented product description generation, which allows product descriptions to be automatically generated based on the buyer's context. For example, the description of a high-end wristwatch could be rendered differently if a person was searching for an anniversary gift as opposed to a search for a sports-focused tool.

We believe that correct use of AI, including transparency of the technology, results in greater profitability and overall increased customer loyalty.

# Conclusion

AI is evolving swiftly. Examining the current state of retail AI provides a baseline for monitoring its progress and reveals investment and knowledge gaps and opportunities. Our collected data shows there is considerable potential for companies to strategically and thoughtfully implement retail AI technology. Our findings suggest early-stage momentum with significant potential for growth.

In the near term, it benefits retailers to understand the nuance of how customers interact with their AI technology, keeping in mind that consumers as a group are simultaneously excited and hesitant about AI. The current research can serve as a baseline for this convergence of delight consumers feel about some engagement methods and their potential hesitancy about the nature of the AI technology that drives them.

To successfully move forward, retailers must distinguish between consumers' preference for AI-assisted and human-powered technologies and clearly communicate this understanding. Although it is tempting to focus solely on AI, it is crucial to prioritize how consumers perceive its deployment. Retailers should be mindful of the actual benefits consumers perceive from AI technology and, more important, how it affects their relationship with the retailer and brand.

As more retailers utilize AI technology, consumers will become accustomed to interacting with it, even if it is not their preferred method of interaction. Consider the use of answering machines in the 1980s; many people were initially put off by having to speak to a machine instead of a person. However, the penetration of answering machines did not happen overnight, so consumers were able to become accustomed to the technology over time.

As answering machines—and, eventually, digital voicemail—became ubiquitous, even people who did not like the technology eventually found themselves using it. This evolution should serve as a lesson to retailers who must work to normalize the presence of AI-enabled tools for consumers and demonstrate the benefits of AI while being ever mindful that prominent AI use cases will evolve over time.

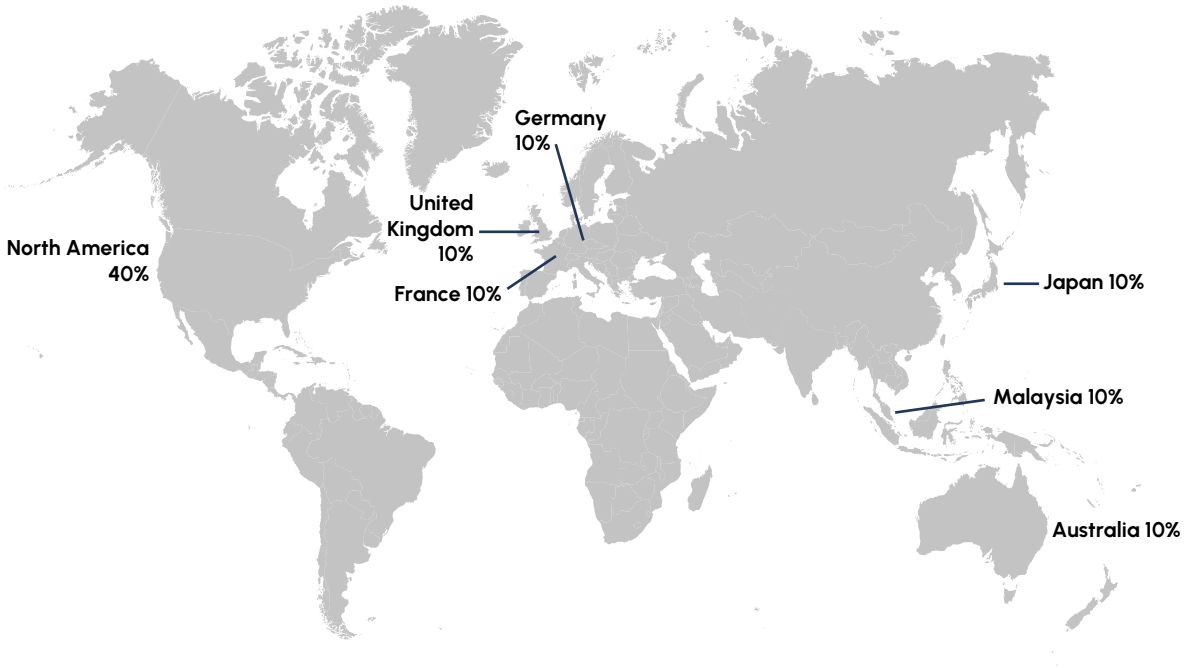
Finally, the key to success is to clearly illustrate the ways in which AI is being used, lay out the consumer protections and guardrails in place to ensure safe and responsible use. This is not a set-it-and-forget-it strategy, but an ongoing process that needs to be monitored, managed, and revised as new AI-driven models, programs, and concepts are introduced. Further, the overriding focus of all AI initiatives should revolve around improving experiences and operations, while providing clear benefits to both consumers and retailers.

## 3 Key Considerations for Retailers to Successfully Drive AI Adoption

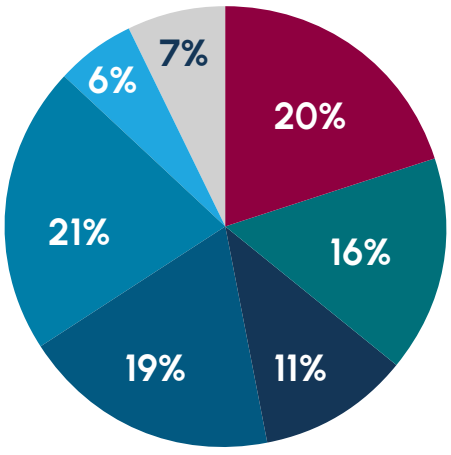
- Assess the root causes of divergence between customers' views of AI and retailers' views, and implement targeted education, notifications, and promotional strategies to highlight the ways in which customers will benefit from the technology.
- Take a measured and staggered approach to rolling out AI, so that customers become familiar with the technology over time and can easily see its benefits reflected in their experiences. But it's critical to start now. The organizations that start now will be well positioned for success more so than the competition that waits.
- Be sure to incorporate principles for delivering responsible AI, and ensure that all internal and external stakeholders, AI programs, and data systems adhere to these principles.

# Retailer Demographics

## Company Headquarters Location

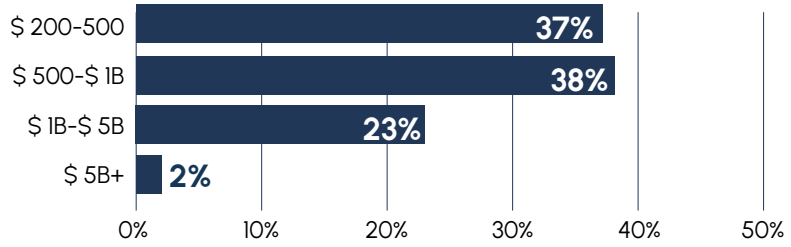



## Position in Company

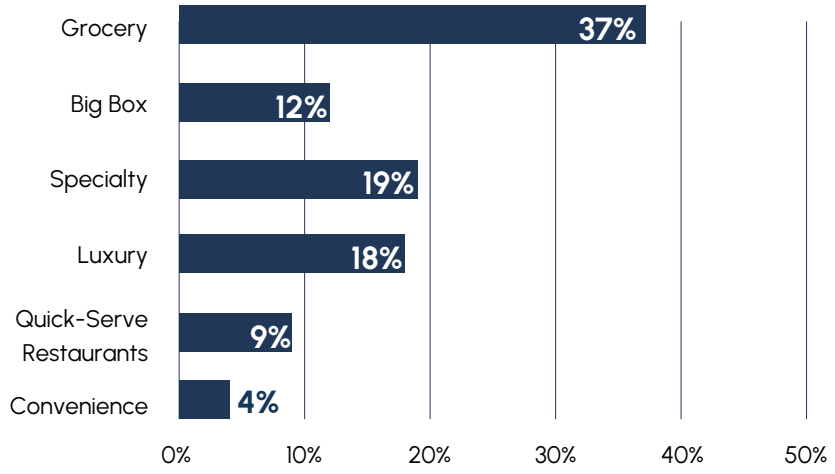



- CEO (20%)
- Operations / Supply Chain (Director or above) (16%)
- Finance (Director or above) (11%)
- Marketing (Director or above) (19%)
- Sales (Director or above) (21%)
- Customer service (Director or Above) (6%)
- Merchandising (Director or Above) (7%)

## Company Size by Revenue




## Retail Focus

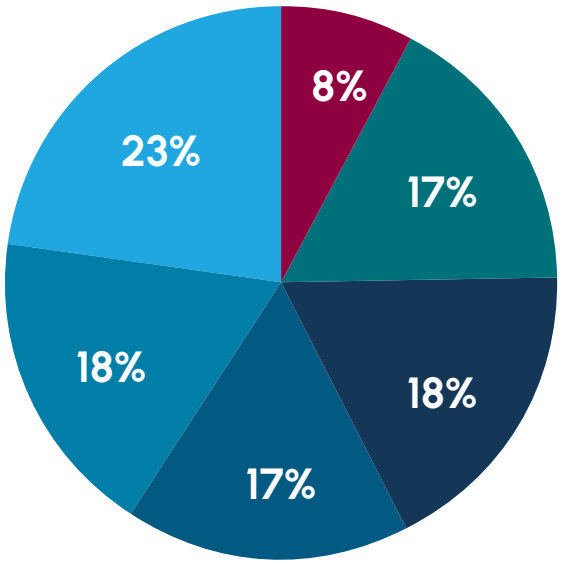


# Consumer Demographics

## Consumer Survey

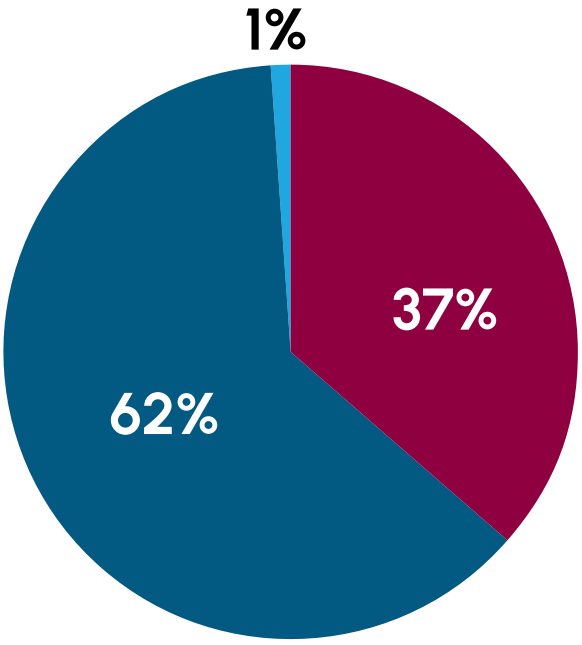
502 consumers

## Age Breakdown




- 18-24 years old (8%)
- 25-34 years old (17%)
- 35-44 years old (18%)
- 45-54 years old (17%)
- 55-64 years old (18%)
- 65+ years old (23%)

## Gender Breakdown




- Male (37%)
- Female (62%)
- Non-Binary or other (1%)

# Important Information About this Report

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TheFuturum Group

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