

# Can Retailers Sell Better in This Digital Age with Artificial Intelligence?

The retail industry continues to be characterized by high levels of innovation and growth. As the industry turns more dynamic, retailers are presented with equal amounts of opportunities and challenges.

In the past, transactions originated and terminated in a single channel and retailers never toiled much to appease their customers. Technological advancements have upended buying patterns and given birth to multi-channel retailing, where consumers can buy from any channel according to their whims and fancies.



## That means, consumers now expect

- The same degree of personalization as they receive in online stores
- Instant gratification - appeasing them as quickly as possible
- Cross-channel consistency- delivering the same offers and experience across devices and channels
- Access to the right kind of information at the right time through the channel they prefer

## Digital Age Demands Effort to Make your Bricks Click

Consumers are becoming increasingly penny-wise and are interested in disintermediation (cutting the middle-man out) so that they can get the most out of the money they spend. They constantly flip between brands, offline and online shopping modes, trying to pursue the most fulfilling shopping experience. They prefer ordering online or picking up products from the store after buying them online to avoid delivery hassles and shipping charges.

With the emergence of multiple sales channels, marketing campaigns, supply chain operations, and sales accounting processes have become disjunct. Additionally, retailers continue to use outdated legacy solutions and channels that are seldom truly enabled, let alone optimized. Such siloed and unoptimized structures coupled with poor inventory forecasting techniques that create out-of-stock situation of hot items damage customer expectations and leave retailers with razor-thin margins.

### What to Do?

Retailers are continuously working towards adopting adaptive retailing -- to provide the right kind of information at the right time through the channel customers prefer. This enables retailers to forge a laser-focused, direct-to-customer relationship through personalization and in-store behavior analysis.

## Artificial Intelligence: The Way Forward for the Retail Industry

According to McKinsey, 70% of buying experiences are based on how the customer feels they are being treated. If businesses can convey how valuable customers are to them, sales are sure to flourish.

Sales channels need to transform from being information sources to being points of engagement. With this in mind, Applexus created the artificial intelligence (AI)-enabled product Clienteling. Clienteling leverages the power of artificial intelligence and analytics to help businesses connect customer behaviour to business operations. By providing a holistic view of inventory, pricing information, customer shopping habits and preferences, sales associates can turn into sales champions by engineering a happy shopping experience.

While AI may seem like a lofty idea to retailers, it holds the key to personalization they have been chasing after. Behavioural and demographic data form the crux of personalized selling in online stores. Businesses leverage such data to understand the level of interest with a product on their website and cater content to suit their tastes.

Amazon's recommendation success does not come through a stroke of luck. Rather, Amazon anticipates a customer's next move from their purchase history, items in their virtual shopping cart, and products they have liked and rated to make spot-on product recommendations. Amazon calls its homegrown algorithm 'item-based collaborative filtering', which reflects the wisdom of crowds and presents their customers with a one-to-one shopping experience. Reports, which show a 29% increase in sales from \$9.9 billion in 2011 to \$12.83 billion in 2012, attest that their algorithm has fared well for them.

Many others have raised the game with spot-on product suggestions to delight their customers. For instance, Icebreaker, a privately-held clothing designer and manufacturer company could witness 28% more revenue from recommended products and an 11% overall increase in average order value.

Personalization is just one benefit of AI. Chatbots powered by AI are effective in acting as virtual customer service channels to meet the ever-swelling number of customers whose primary touch point is mobile. Janie Yu, Partner at Fung Capital, highlights the need for chat offerings when she said, "Everyone is on their phone. You have to take notice. Consumers are spending most of their time on their phone and in chat channels—at least one to four hours a day, depending on where you are in the world. Retailers have to think about having a relevant experience there." Bestowed with the ability to grasp the content and context of customer's queries and requests, the best chatbots can deliver a customer experience that leaves no trail of machine interaction.

Retail giants like Macy's have turned to AI-powered shopping assistants for timely engagement with their customers. "We can see, in real time, what our customers are asking and how our answers are performing, and we can make adjustments on the fly to give our customers a better experience," says Robert Michaels, Director of Information Technology at Macy's. The virtual agent handles about one-quarter of customer inquiries and has liberated their customer service agents to handle other pressing tasks.

What's more, retailers are rethinking their supply chain strategies using AI to strike the right balance between service and supply. Driven by customer demand for shorter lead times from order to delivery, retailers are moving toward anticipatory logistics. With big-data based predictive algorithms working behind the scenes, retailers can predict demand even before an order is placed. Anticipatory algorithms can also be used to determine the right level of goods and resources to offset peak demands during holiday season shopping.

IBM Watson uses weather data analytics to match supply chain availability with demand. Watson gathers climatic conditions from weather stations and scours news feeds and social media data to understand weather patterns and create forecasts. Retailers use such data to control seasonal inventory levels, increase cross-selling and improve traffic in their stores.

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