

Unlocking AI's ROI in Retail

Introduction

UK retail in the years following the global pandemic has largely been a case of facing into headwinds.

Above and beyond anything else has been the battle to drive sales and operate optimally in the most significant inflationary environment the UK has experienced for generations.

But other key questions keeping retailers occupied – and, at times, holding them back from doubling down on growth strategy include: how many stores is too many? Why is my supply chain not operating optimally? Are we meeting the latest environmental, social and corporate governance (ESG) regulations? And why are my staff leaving, and why can I not find the talent? There are also a whole host of new competitors on the scene – Temu and Shein in the e-commerce space have been particularly prolific at taking market share in 2024.

The list of challenges will continue in 2024 – especially with the European Union just passing the Artificial Intelligence (AI) Act, and the Corporate Sustainability Reporting Directive requiring businesses to report on the impact of their activities on ESG matters.

But as inflation drops and the post-pandemic landscape becomes clearer to understand, retailers that have had the strength to navigate their way through the last few turbulent years are developing future-focused strategies – there is real positivity going into 2024.

Tailwinds include consumers' increasing interest in physical retailing again as they seek compelling experiences with brands beyond the transactional. Retailers are also showing a growing understanding of what constitutes the right blend of online and in-person shopping, and many have moved HQ and right-sized office space to support new hybrid work patterns that appeal to a new generation of staff.

Another tailwind comes in the form of technology.

Generative AI's (GenAI) emergence into the public consciousness with the public launch of OpenAI's ChatGPT in November 2022 has been transformative, with most retailers Retail Gazette talks to in early stages of experimentation with how to deploy GenAI to drive positive change throughout their organisation.

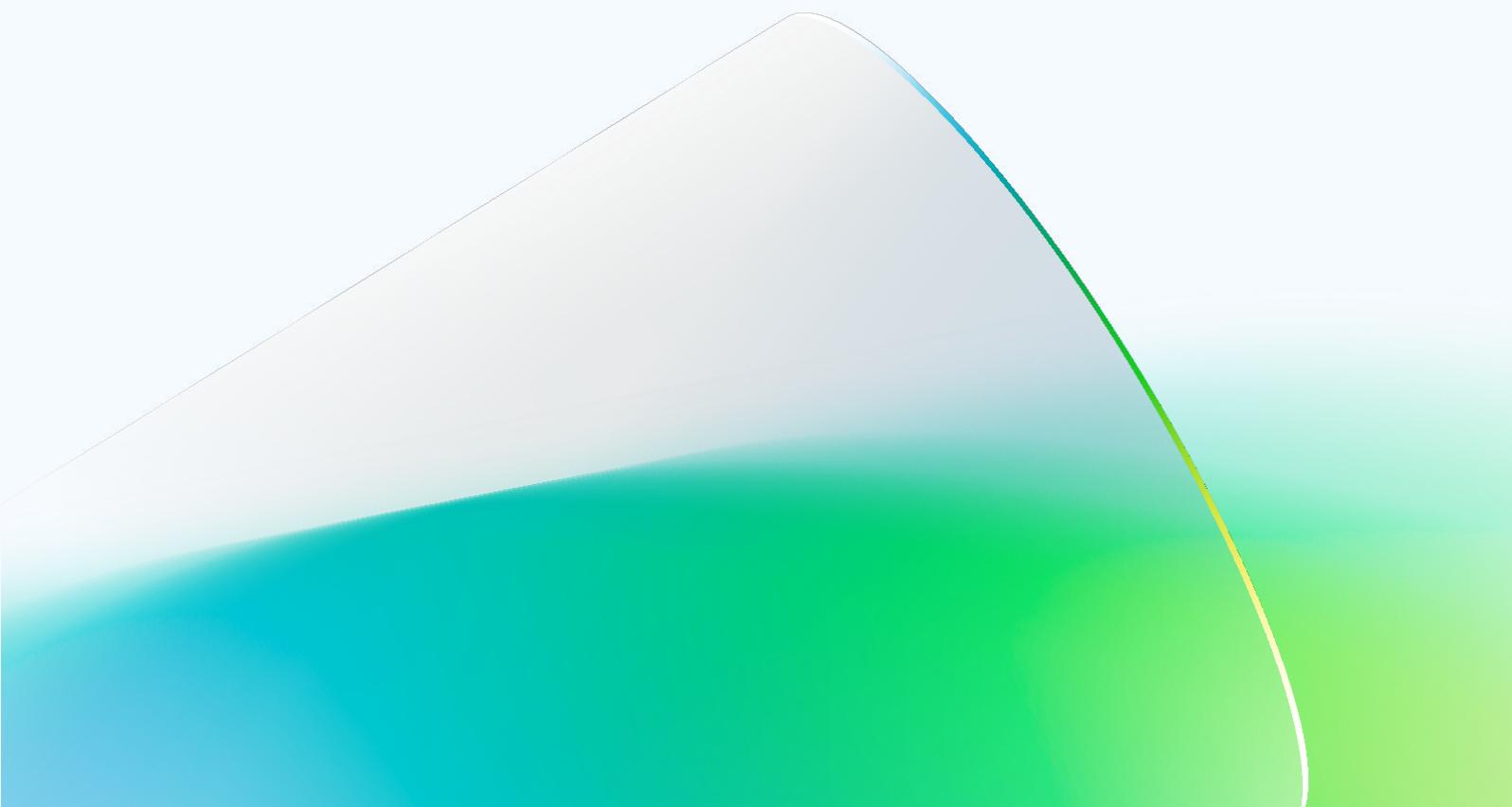
AI was even the Collins Dictionary word of the year for 2023, emphasising this interest.

A McKinsey & Co global survey found 30% of those in the consumer goods and retail industry regularly use GenAI tools in or outside work. Some 40% have used them at least once, suggesting 2023 was a year of experimentation at the bare minimum¹.

The 12 months ahead represent a year of opportunity. This guide produced in association with AI powerhouse Microsoft aims to help retailers dispel the myths and misconceptions around AI, understand its potential impact and shape a pragmatic strategy that harnesses the rapid evolution of AI tech.

[Read on for insights and best practice inspiration](#)

The great data migration and getting AI- ready



From fashion e-tailer ASOS and electricals retailer Currys to pizza delivery retailer Domino's and DIY group Kingfisher, retailers from all sectors of the industry are on a cloud transformation pathway.

There are examples from all retail sectors – Chanel in the luxury space, Ikea in home furnishings, Polish convenience chain Zabka, Spanish department store chain El Corte Ingles, and global grocery behemoth Carrefour are all on that route to cloud.

For many of these businesses it has been decades of trading and operating on IT infrastructure that has increased in complexity over the years, with applications often run and hosted locally. These businesses are seeking the scalability, reliability, and cost-effectiveness associated with cloud computing.

There is a growing realisation retailers' data and tech infrastructure should be cloud-based so legacy tech does not hamper their ability to launch new propositions and gain a clearer view of business performance.

Each organisation is at a different stage of the journey to becoming a cloud-based, data-driven enterprise.

“Without the programme we've done to bring data together, we wouldn't even be able to consider doing true GenAI.”

Susie Moan, CDO, Currys²

Siloed retail is real. The roundtables Retail Gazette runs with representatives from across the industry nearly always circle back to a conversation on how legacy systems and data and organisational silos are unaffordable to fix quickly despite desperate need.

With the advancements in technology in recent years, particularly in the field of AI, a common ambition is to break down silos and achieve “intelligent retail”, where an organisation delivers experiences for its workforce and consumers that seamlessly integrate AI and machine learning into custom applications.

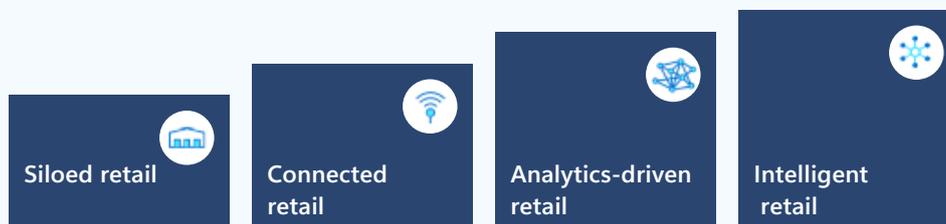
² Susie Moan was speaking to Retail Gazette for this report in December 2023

Few are there yet, but others might claim to be at the “connected retail” or “analytics-driven retail” digital maturity stage. These are defined, respectively, as having migrated or modernised tech to enable advanced innovations and reduce operational overheads and aligning to a common data model that allows for better insight and data governance³.

The journey to digital maturity is not the daunting task retailers might think it is. According to a Microsoft report compiled in association with analyst group IDC in November 2023, some 71% of businesses from all sectors say their companies are already using AI, 92% of AI deployments are taking 12 months or less, and organisations are realising a return on their AI investments within 14 months⁴.

The report found for every \$1 a company invests in AI, it is realising an average return of \$3.5X, and 52% report that a lack of skilled workers is their biggest barrier to implementing and scaling AI.

The stages of digital retail maturity



If retailers wish to embrace all that GenAI can offer them in 2024, they need to be progressing up this maturity scale. Data underpins most of what they want to do, and much of what they have yet to even think about doing.

Susie Moan, chief data officer (CDO) at Currys, says “you should always have a data strategy that is aligned to your business strategy”. One example of this in action at Currys is the December 2023 launch of a retail media arm which gives technology partner brands the opportunity to target Currys customers via several ad new vehicles.

³ <https://learn.microsoft.com/en-us/azure/cloud-adoption-framework/industry/retail/plan>

⁴ <https://blogs.microsoft.com/blog/2023/11/02/new-study-validates-the-business-value-and-opportunity-of-ai/>

For a venture of this kind to be successful, a retailer needs to be confident about and always within reach of its data. Since joining as Currys first CDO in 2021, Moan has worked with Microsoft to migrate the retailer's systems to the Azure cloud platform.

"The business has been hungry for data," she explains. "We've made it hard in the past for my team to get that to people due to disconnected systems, partly due to various acquisitions."

"The Microsoft Azure piece combined with the data product/data science approach is all about bringing that data together and enabling people in my team and others to use the data faster."⁵

Moan and her team are currently working on several internal proof-of-concepts using GenAI, which she believes will help drive insights and support business decisions.

"Without the programme we've done to bring data together, we wouldn't even be able to consider doing true GenAI," she notes⁶.

Microsoft comment: Building a strong data foundation

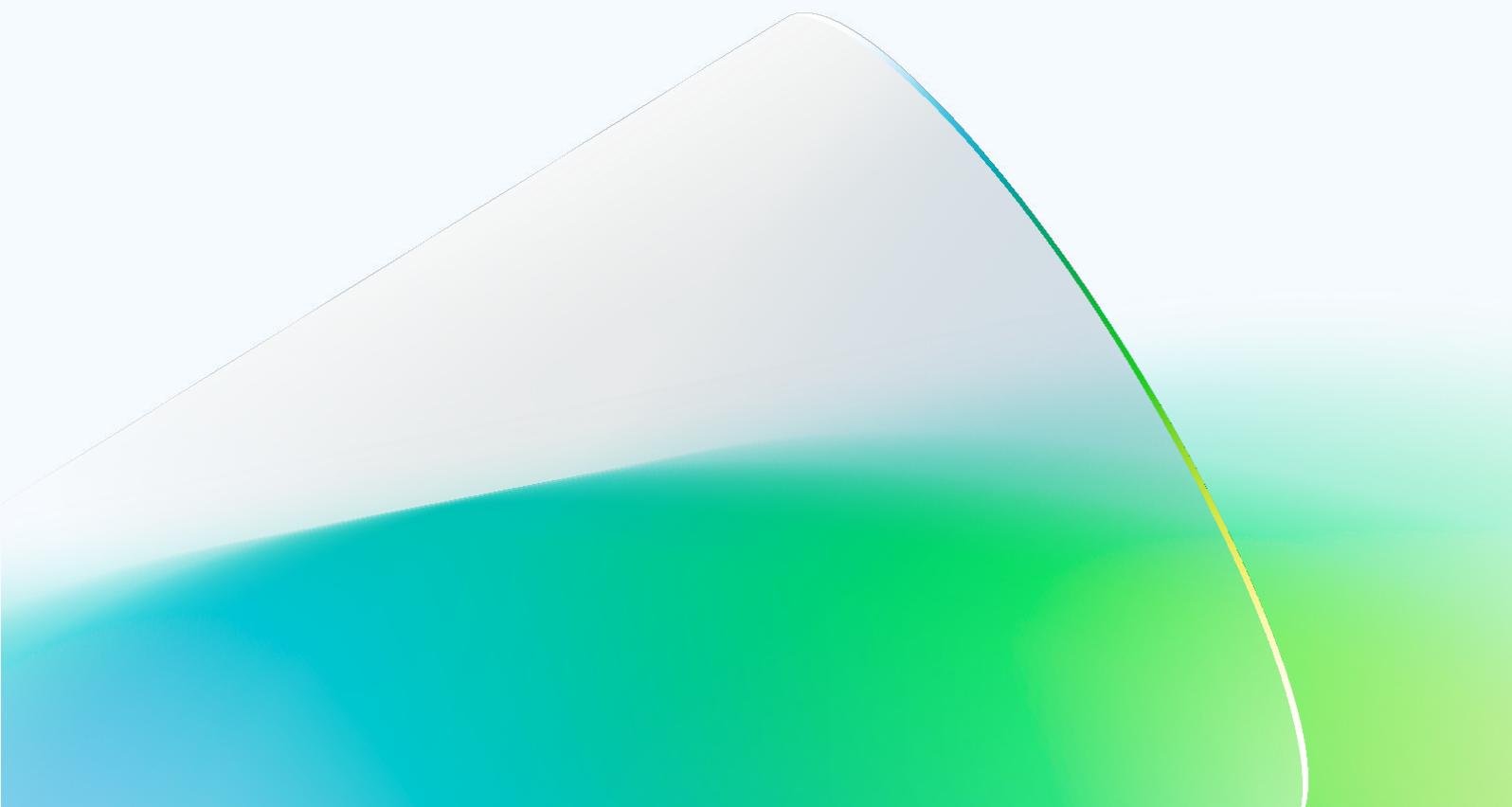
As AI revolutionises the retail landscape, a robust data estate stands as the cornerstone for unlocking its full potential.

By effectively capturing, managing, and analysing vast troves of customer, product, and operational data, retailers can harness AI's power to enhance customer experiences, optimise supply chains, and drive business growth. This requires retailers to focus on improving data quality, data variety, data volume, data accessibility, data security, data governance and continuous data improvement to drive its AI transformation journey. Data quality monitoring, data enrichment and data fusion techniques ensure that AI models are always learning from the most accurate and relevant information.

⁵ <https://www.computerweekly.com/feature/Currys-data-strategy-takes-major-step-forward-with-launch-of-Connected-Media>

⁶ Susie Moan was talking to Retail Gazette for this report in December 2023

How leading retailers and startups are bringing GenAI to life for the fickle consumer



It may seem like a cliché for retailers to say consumer demand is ever-changing, but modern shoppers are fickle and retailers and brands are operating in a more competitive landscape than ever so it's not just rhetoric.

A 2022 report entitled *The Loyalty Paradox* surveyed 2,000 UK and US consumers, and found customer loyalty in e-commerce was particularly slim, with just 6% of those surveyed saying they felt loyal to online retail brands.

It was a slightly different story in offline food and drink retail, with 21.5% saying they were loyal to companies in this sector – but even that can be tested in a challenging economy, as value chain Aldi leaping Morrisons in supermarket market share rankings this year illustrates.

“Brand affinity through emotional connection has weakened to be replaced by habitual ties based on lived and related experience with brands and retailers,” Edit’s joint managing director Rob McGowan explained in *The Loyalty paradox* report⁷.

Against such an uncertain consumer backdrop, it becomes crucial for retailers to focus on customer insights and build a proposition that relates to that data. Old technology will present them with the same old problems, so investment in the latest tools is needed to give the flexibility retailers need to keep following customer behaviour.

It is also crucial to have a connected organisational and brand strategy with a multi-horizon portfolio of technology investments that is coupled with a culture grounded on growth mindset.

“By pioneering the use of generative AI, we want to be one step ahead and invent the retail of tomorrow.”

Alexandre Bompard, Carrefour chairman & CEO⁸

New forms of consumer engagement are required, and AI is one tool that can help deliver that – as several new retail-related cases studies prove.

⁷ <https://www.marketingweek.com/future-loyalty-built-on-good-habits/>

⁸ <https://www.carrefour.com/en/news/2023/carrefour-integrates-openai-technologies-and-launches-generative-ai-powered-shopping>

GenAI to enhance consumer engagement

In June 2023 European grocery giant Carrefour deployed ChatGPT-based solutions to improve consumer engagement: an advice robot for shopping on [carrefour.fr](https://www.carrefour.fr), and description sheets for Carrefour brand products on its website.

Customers can access a natural-language AI chatbot called Hopla on the grocery website homepage to help them with their daily shopping, asking for advice when selecting items. The robot is connected to the website's search engine and presents product lists related to what shoppers are discussing.

The GenAI is also used to enrich Carrefour brand product sheets, providing customers with more information. Ultimately, the plan is to use the tech for all product sheets. A collaboration with Bain & Company and Microsoft, partners of OpenAI, has brought this to life for Carrefour. The retailer also uses Microsoft's OpenAI Azure service to access OpenAI's GPT-4 technology while also leveraging all of Microsoft Azure's data security, reliability and confidentiality features, to ensure compliance with GDPR.

Alexandre Bompard, chairman & CEO of the Carrefour Group, says: "By pioneering the use of generative AI, we want to be one step ahead and invent the retail of tomorrow."

Meanwhile, pioneering startup Fashable is using GenAI to drive positive change in the fashion industry. The team developed an IP technology to provide factories, designers, brands, influencers and marketplaces AI that learns from multiple sources and generates high-definition fashion images to shape design strategy.

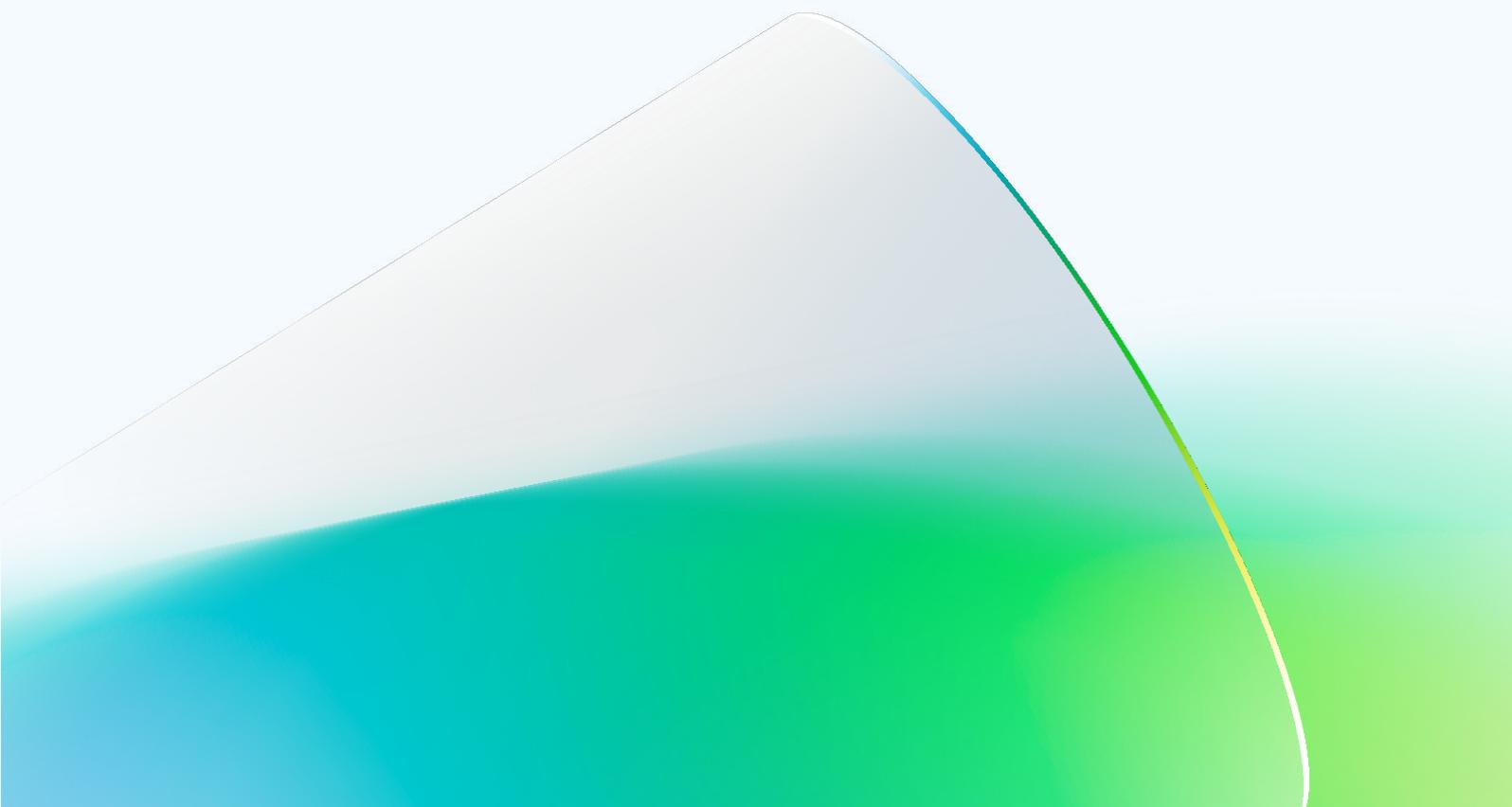
Born at its XNFY Lab, a joint initiative with Microsoft, the company can create new designs based on what today's shopper wants. It uses AI to gather and analyse fashion signals across the online world and social media – what is trending, what colours are in demand, what designs are favoured, and for which demographic – and then helps in supporting the development of new designs for brands based on the info⁹.

Microsoft comment: Hyper personalisation in the era of GenAI

Hyper-personalisation is something retailers must focus on. But first of all, what is it? It is a cross-sector, context-driven approach to customer engagement at the individual level that is achieved by leveraging and integrating customer insights across multiple dimensions of context and dynamically generating adaptive, customised content for that customer. Often, the objective of hyper-personalisation is no longer about increasing basket size or share of wallet but rather winning greater customer share of life. This allows companies to maintain relevance to a customer beyond its traditional products, services or experiences. This deep understanding allows retailers and their partners such as financial institutions, health and wellness providers, travel and hospitality and others, to tailor their interactions with customers in real-time, based on their needs, preferences, and context.

⁹ <https://www.prnewswire.co.uk/news-releases/xnfy-lab-announce-the-launch-of-an-ai-generated-fashion-895690260.html>

Retailers must build a resilient and robust supply chain to support front-end success



It's not just the customer-facing areas where GenAI can make a difference to a retailer.

Indeed, if retailers are only looking at AI investment/deployment and data utility from a customer experience (CX) point of view, they are still going to encounter many of the problems we highlighted in the introduction.

Encouragingly, retailer attention is now turning to the supply chain – the industry has been forced to confront huge upheaval since 2020 when the pandemic turned demand forecasting on its head, before unexpected geopolitical and financial turmoil in the aftermath meant a challenging environment persisted.

Some retailers were simply unable to adapt to an inflationary – and fast-changing – supply chain environment, for example Made.com collapsed amid increased warehousing costs as an initial pandemic spike in consumer demand preceded a significant slump in sales.

No retailer was immune from the disruption, and if anything the last few years have sharpened business's focus on the need to bring flexibility into the supply chain – and to invest in the right technology to drive efficiency and enable as near to a real-time view of operations as possible.

Today's retail poster child for supply chain transformation is ASOS, which has spent 2023 ramping up its 'Driving Change' agenda – the strategic plan put in place by José Antonio Ramos Calamonte when he became CEO in June 2022.

This agenda has entailed major supply chain replumbing to help get the business back to profitability. It has reduced stock levels by circa 30% since the start of 2023, and it has embedded a faster stock model to avoid excess inventory building up – a major problem many retailers, including ASOS itself, faced post pandemic.

Acknowledging the need to invest in supply chain in the ASOS annual report, published in November 2023, Calamonte says: "Helped by channel shift into online, we grew at pace,"¹⁰

¹⁰ ASOS Annual Report 2023

“When growing very quickly, it’s often not optimal to do things perfectly and to strive for operational excellence. It isn’t the time to focus on every detail [...] However, there comes a point when the biggest opportunity stems not from prioritising growth, but from focusing on those details, and when embedding operational excellence can generate a better return than continuing in a quest for additional growth at any cost.”

Calamonte says an improved use of data is one way for ASOS – which has a long-running Azure deal with Microsoft for cloud infrastructure and data management – to win in the year ahead.

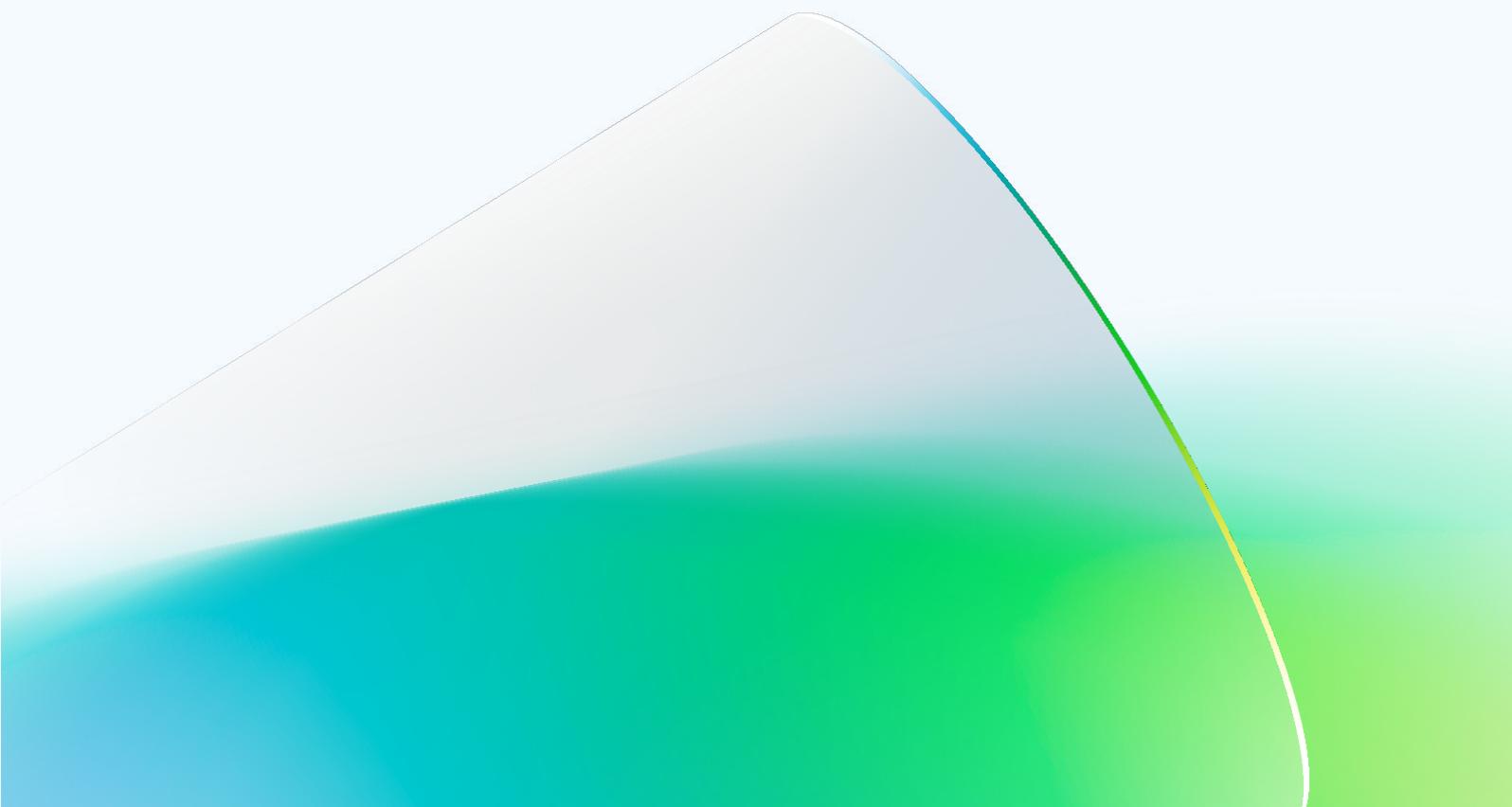
“This culture of operational excellence will be aided by increased access to an improved use of data throughout our organisation and we continue to innovate in this area,” he notes. “We continue to develop our data science and machine learning capabilities which we deploy across our business areas and to improve the customer experience.”

A key focus area is returns, and to eliminate “bad returns” from unprofitable customers, serial returners or those sending items back due to avoidable circumstances such as poor quality or inaccurate sizing.

“We will constantly strive to eliminate bad returns by closer scrutiny of returns data to identify high returning products, brands or materials and taking corrective action and improving the size, fit and quality of our products alongside AI forecasting to drive better decision-making,” Calamonte states.



Using AI for the greater good



ESG regulations are on the rise for retailers. Although many retailers are building out ESG strategies having acknowledged it's 'the right thing to do' and also seeing it as a way to attract staff and keep customers happy (the carrot), increasing regulation will force others to act (the stick).

This was a large area of focus for retailers in 2023, and will continue to be so.

For example, in 2024, retailers will need to clearly map how their business will move towards net zero by 2050. And pending legislation from the Department for Food & Rural Affairs will mean retailers have to prove their products are not produced on land linked to illegal deforestation.

UK government continues to change its mind with certain legislation, including around mandatory food waste reporting which remains voluntary rather than obligatory for now, and packaging policy, which has been delayed. But whether an ESG standard is written into law or not, heightened scrutiny puts pressure on retailers to act in this space.

Andrew Opie, British Retail Consortium director of food & sustainability, says: "Five to ten years ago the focus was on consumers and how to take them with you.

"As well as the customer right at the heart of everything you do, we've [now] got the added pressure from regulators and the financial institutions."

He adds: "If your business isn't sustainable you can forget about getting finance from [financial institutions]." ¹¹

In addition, retailers of all sectors are realising the importance of building circularity into their operations, with multiple resale platforms, product take-back schemes for recycling, and rental divisions created by retailers in 2023 and more to come in the year ahead.

¹¹ Andrew Opie was talking on stage at Retail Technology Show 2023, in London in April 2023

3 examples of AI helping support ESG strategy

Italian fashion house Zegna built what it calls the Zegna X 360 system with Microsoft AI and data tools – connecting style consultants with online customers. The system promises personalised shopping that makes it possible to see how different combinations of clothing work together. Edoardo Zegna, chief marketing, digital and sustainability officer of Zegna Group, says: “Being able to predict at a higher rate the products that a customer may need will clearly create less waste. Ultimately transportation will happen way less. Instead of shipping clothing from a warehouse to the store, they can just ship from the warehouse.”¹²

Walmart is on a mission to reduce waste, cut down on plastic, and use more recyclable packaging in home deliveries. As part of the wider sustainability drive it is using applied AI to identify when an item purchased online can be fulfilled from stores instead of a distribution centre, in order to reduce the number of miles driven and the number of boxes used for shipping.¹³

Retailers across the fashion industry, including River Island, Pentland Brands, and New Look, are embarking on supply chain traceability projects, as they seek to prove product source, materials, and supplier working conditions. It’s a big 2023 trend that will build momentum in 2024 as tech companies offering this software such as Segura and TrusTrace continue to add to their client list¹⁴. By analysing certifications, environmental performance, ethical practices, et al, GenAI algorithms can check supplier alignment with a retailer’s ESG goals.

¹² <https://news.microsoft.com/europe/2023/04/20/working-with-microsoft-zegna-adds-ai-to-digital-toolkit-to-engage-clients/>

¹³ https://tech.walmart.com/content/walmart-global-tech/en_us/news/articles/walmarts-ai-powered-inventory-system-brightens-the-holidays.html

¹⁴ <https://greenretail.world/2023/11/28/just-the-beginning-new-look-makes-supply-chain-traceability-move/>

Microsoft comment: AI for Good initiative supports our customers and partners

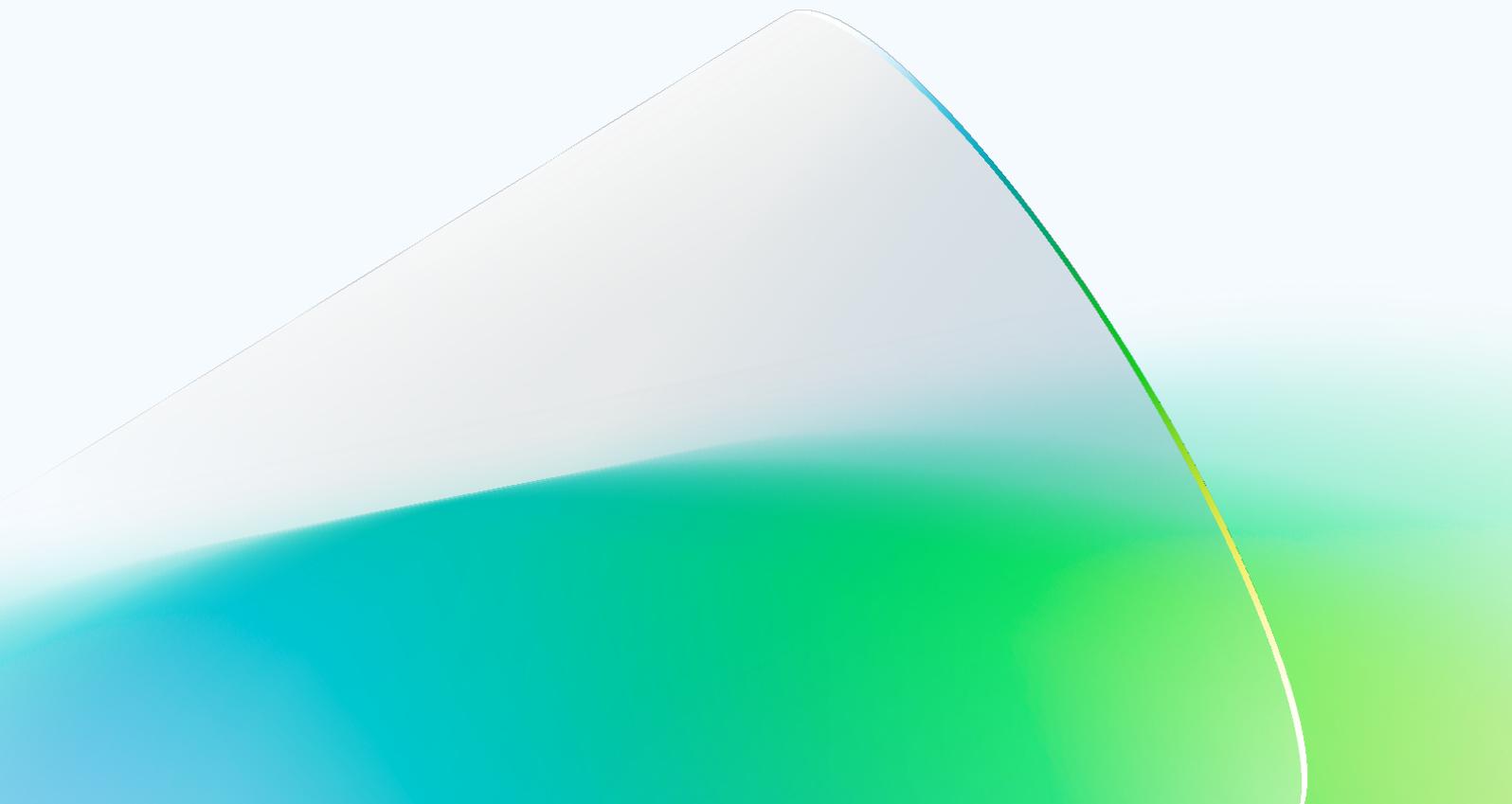
Retailers are grappling with their ESG and social responsibilities. AI offers a platform to transform impact on customers and for the world. Microsoft's 'AI for Good' initiative supports customers and partners who recognise that like never before, our world is changing. Faced with critical worldwide challenges, Microsoft wants to make sure AI builds on human ingenuity and drives a new era of responsibility.

AI for Good enables any of our customers with an idea to accelerate it and give it scale across a number of fields. For retailers, accessibility is key. We're building assistive technologies which could support the evolution of inclusive in-store shopping experiences using braille readers or augmented reality tools. In employment, we are investing into all stages of employment – job search, interviewing, and upskilling – and developing tools for neurodiverse-inclusive hiring platforms and tools to support professionals with Down's Syndrome or a diagnosis of autism to do their jobs, opening up a more diverse workforce for retail and beyond.

Learn more about [Microsoft 'AI for Good'](#).



Unleashing the full potential of your people through AI



Heading into 2023, official UK data showed retail employed 3.12 million people ¹⁵

That was 14,000 down year-on-year, and indicative of the continuation of an ongoing decline in workforce numbers that has seen hundreds of thousands leave the sector post-Covid. In 2023, one of the largest employers in UK retail, Wilko, collapsed into administration taking tens of thousands of jobs with it, and the sector declined further.

Morale in the industry is not high. The Retail Trust charity released results of a survey of 1,600 retail workers in 2023 showing rates of abuse from customers had increased by 7% year on year, leaving 66% feeling stressed or anxious about going to work and 42% considering quitting retail altogether ¹⁶.

Much work is under way to make the industry a safer, more exciting and attractive one to the modern workforce. Sainsbury's and Superdry are among those trialling new more flexible working patterns, while Majestic Wine has installed new performance incentives for store staff that can ramp up salaries considerably if targets are met ¹⁷.

But how can technology help make retail a better place to work?

On the front line, the evolving nature of stores to more boutique-like spaces and destinations for expert consultancy, such as the first Dunelm store in a shopping centre, which opened in Watford in December 2023, mean shop staff require new tools and technologies to deliver compelling customer experiences.

Technology that enables store staff to gain access to the internal information they need to help support a sale, or connect them to other members of staff quickly and efficiently is key here.

¹⁵ <https://brc.org.uk/news/corporate-affairs/retail-jobs-fall-in-latest-statistics/>

¹⁶ <https://www.retailtrust.org.uk/news/retail-trust-calls-for-rising-levels-of-assaults-facing-shop-workers-not-to-go-unrecorded-as-one-in-four-dont-report-abuse/1569.article>

¹⁷ <https://events.retailgazette.co.uk/insider-communities/boardroom-insider-community/>

As an example, beauty house L’Oreal has empowered frontline beauty advisers with Microsoft Teams, which is used for exchanging insights with colleagues, as well as a platform to receive sales targets and weekly reports. Self-serve HR is a growing trend in retail, empowering and organising staff via the tool they love best – a mobile device ¹⁸.

Away from the frontline, GenAI can greatly improve the creativity, productivity and collaboration of knowledge workers from buyers to designers and from merchandisers to category managers.

AI is set to add anywhere from \$150bn to \$275bn to apparel, fashion and luxury sector operating profits in the next three to five years, according to McKinsey, which highlights the technology’s capability to increase productivity and get items to market quicker ¹⁹.

Adoption of AI as a design assistant is being embraced. At the Metaverse Fashion Week in 2023, for example, Tommy Hilfiger ran an ‘AI design contest’ encouraging attendees to create items using the latest tech, with the winning design made into a digital wearable, available for purchase on virtual fashion platform DressX.

Natalie Berg, retail analyst & founder of NBK Retail consultancy, calls the shift in retail taking place today as “tech-enabled human touch”. Tech such as AI arriving is not going to replace human endeavour – it’s going to accelerate human capability, she argues.

“Now more than ever, it’s essential that retailers embrace technology as a means of driving efficiencies as well as enhancing the customer experience,” she notes.

“I keep coming back to the phrase ‘tech-enabled human touch’. In my view, this is what’s going to separate the retail winners from the losers going forward.” ²⁰

¹⁸ <https://customers.microsoft.com/EN-AU/story/1583937356323679552-loreal-consumer-goods-teams>

¹⁹ <https://www.mckinsey.com/industries/retail/our-insights/generative-ai-unlocking-the-future-of-fashion>

²⁰ <https://nbkretail.com/retail-insights>

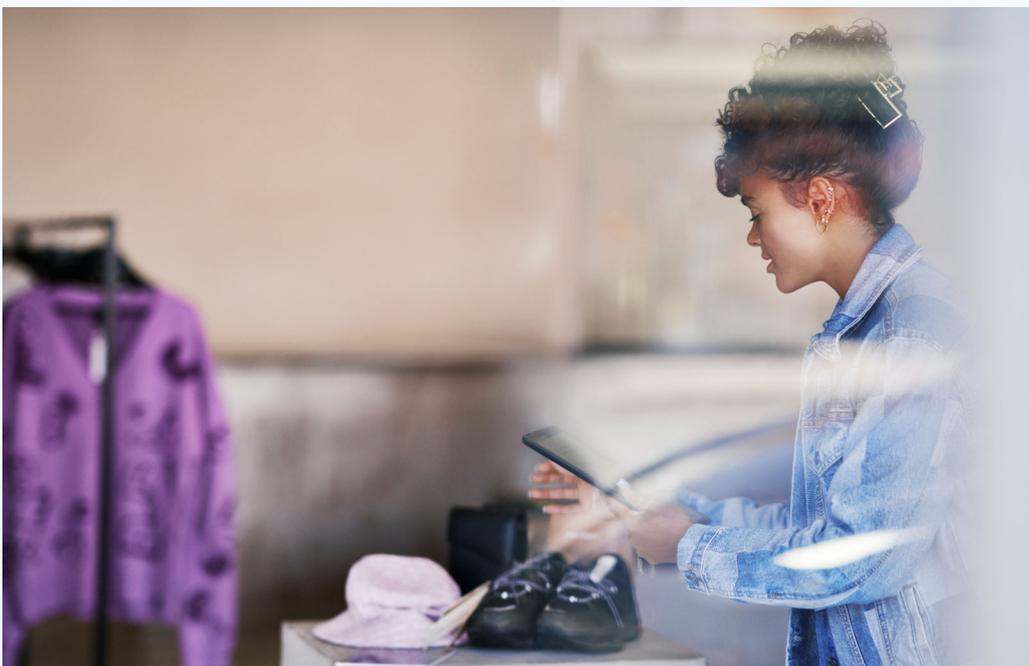
Microsoft comment: We're all in on responsible AI

Our approach is founded on the idea that when you create technologies that can change the world, you need to make sure they're used safely.

It is not only a technical challenge, but also a cultural and organisational one. Microsoft has been developing and applying responsible AI principles since 2016, but it recognises that principles alone are not enough to ensure ethical outcomes. That's why Microsoft offers tools, frameworks, and resources to help retailers implement responsible AI practices and embed them into their culture and operations. By doing so, retailers can harness the power of AI for good and create positive impact for their business, society, and the environment.

Optimising inventory management, reducing waste, promote circular economy practices, personalising customer experiences and improving employee engagement, collaboration, and productivity are all ways in which retailers can use responsibly developed AI tools.

Learn more about [Microsoft's responsible AI approach](#).



Key takeaways

We've dispelled some AI misconceptions, and highlighted its diverse potential – and actual – usage across retail. Here's a five-point framework for AI deployment in 2024 and beyond:

1. Move from siloed retail to intelligent retail: Retailers have the data to drive forward: it's time to break down the silos, migrate data to the cloud to make it accessible and actionable. From retail media to relevant customer communications powered by AI, there's a whole world of opportunity when retailers get to grips with their data.

2. Relationships with customers have changed: Retailers can't rely on unwavering loyalty from shoppers any more. There are far too many alternative options for them if they are not happy with service. Retailers must become customer insight-driven to stay on top of their game, embracing AI to do just that but also to create compelling propositions that attract shoppers in the first place.

3. Time to adopt back to front retail:

High level CX will always be a non-negotiable for retailers, with investment in the latest e-commerce and digital tools crucial. But after several turbulent years for the industry, attention has to turn to the supply chain to bring robustness and protection against ongoing disruptions. Data and AI investment can aid forecasting, returns management, inventory control, and so much more.

4. Help required to maintain ESG compliance: Retailers facing a raft of new regulation need to gain visibility of their supply chain and supplier practices. AI can crunch the relevant data quickly and efficiently and help retailers comply with all the latest legislation and industry best practice.

5. Develop a tech-enabled human touch: retail is a human industry. It's the largest private sector employer in the UK, and people buy from people. But there are a growing number of tools and technologies available to enhance the people power of the industry, including AI, which can be embraced as the workforce's co-pilot in the challenging months and years ahead.

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