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EXECUTIVE SUMMARY

CX in the Retail Industry

Software and Services for Customer Data & Analytics, Customer Relationship Management, Contact Center, Personalization & Optimization, Customer Data Platforms, Employee Experience, and Customer Feedback

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Section 1
Executive Summary

1.1 Introduction

Consumers around the world primarily purchase goods and services via retailers that can have a presence in the physical world, online, or both, which has rapidly become the norm for proprietors both large and small. The use of digital data and technologies has also expanded the number of channels through which customers can interact with the retailer, from traditional methods, such as face-to-face, telephone, and mail, to newer digital channels, including web, mobile devices, apps, text, chat applications, and social media. Irrespective of the channel used to interact with customers, smart retailers have realized that in order to win and retain customers, they need to improve the overall customer experience, focusing on the totality of customers' experiences with the retailer over time, not just on a single interaction or transaction.

In order to provide the optimal CX, an assessment of the company's current capabilities, actions, and mindsets of both employees and customers must be undertaken, along with an analysis of what needs to be done to improve that experience. In today's digital world, technology can be a useful tool to help a retailer accomplish these tasks, as well as support and maintain changes made to ensure a positive CX over the long term.

This report focuses on the software platforms, applications, and services that are offered to retailers to help them achieve and maintain excellent customer experiences. These tools can be segmented into different core functional areas, but the end goal is the same: to provide the retailer with the data, measurement, and engagement tools to support the human efforts, processes, and mindsets to make CX a key priority across the entire organization.

1.2 Market drivers

The retail CX market is driven by a number of factors, though increasing revenue and profitability underlies all other driving forces, particularly given the historically tight margins faced by retailers. The advent of digital operations has placed further pressure on retailers to provide more shopping options and more responsive services to remain competitive and viable in a market where instant gratification has become table stakes for many customers.

The key market drivers spurring the growth of CX software and services in the retail market include the following:

- The operational and behavioral shifts that were the result of the rapid onset of the COVID-19 pandemic, and the subsequent reopening process
- Increasing customer expectations for consistent and seamless omnichannel experiences
- The growing use of CX to improve sales channel effectiveness
- An increasing use of zero-party and first-party data to support omnichannel experiences

1.3 Market barriers

There is no single barrier to the growth of CX software and services. Instead, the barriers come from a variety of sources and range from practical, organizational, or technology hurdles, to issues related to change management and a lack of trust of new technology.

The key market barriers tempering the growth of CX software and services include the following:

- Customer resistance to data capture/elimination of third-party cookies
- Technology integration issues between multiple CX/customer relationship management

(CRM) platforms

- Synchronization issues between frontend CX and backend fulfillment
- Change management issues
- Liability concerns

1.4 Market forecast highlights

Dash Research projects that the global market for CX/customer engagement (CE) software and services will reach $10.9 billion by 2026, up from $5.9 billion in 2019, reflecting a 2019-2026 CAGR of 9%. North America, with its large concentration of software vendors and huge base of large, multinational retailers, will lead the forecast, generating nearly $6.3 billion in 2026 revenue, up from $2.5 billion in 2019.

Notably, the retail market is faced with challenges that have been amplified by the COVID-19 pandemic and the return to normalcy. Tight profit margins, labor availability and cost issues, and increasing custom demands for on-demand pickup and delivery services have driven organizations to optimize policies and procedures across all functions (marketing, sales, operations, and service). Spending on CX applications is projected to be more than double the amount spent on CX platforms, reflecting most retailers' strategies of adding additional functionality to existing software systems, rather than replacing individual applications with a single dedicated platform.

1.5 Dash Research insights

- Providing excellent and consistent customer experiences can be supported by technology applications, platforms, and services, but ultimately depends on the retailer assessing its current state of CX delivery, listening to customers, identifying what level of service it wants to provide, and then implementing and reinforcing specific operational and behavioral changes.
- COVID-19 hit some retailers (particularly brick-and-mortar only companies) hard. However, the relatively rapid reopening of the economy, as well as the increasing use of multiple channels has provided retailers with a significant opportunity to improve the overall experience with their brands, through online and offline touchpoints.
- Spending on CX software and services is projected to increase steadily over the next several years, as retailers come to the understanding that great CX is based on understanding how customers interact with them, taking a customer-centric approach to sales, marketing, and service operations.

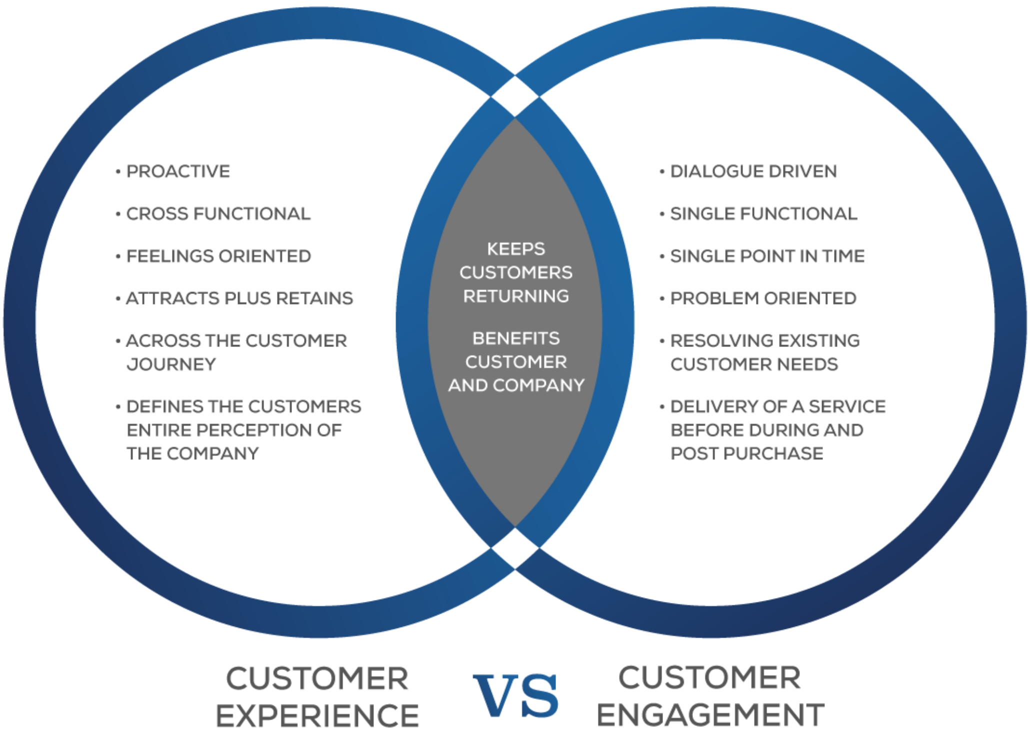
Section 2
Market Overview

CX is often defined as the sum total of a customer's interactions with a product, brand, or service, encompassing all touchpoints pre, during, and post transaction. While providing good CX is important to every business and organization, as few customers will continue a business relationship if they are treated poorly, perhaps the most visible and widespread examples of strategic CX programs are found in the online and offline retail markets.

A key element of providing CX is CE, which can be defined as the interaction between an external consumer/customer and an organization through various online or offline channels. Typically, platforms and applications that support CE functions will include features such as web chat, social media management, marketing personalization, and feedback mechanisms. This can be contrasted with CX platforms and software, which are designed to monitor and enhance the overall experience customers have while interacting with their customers, which can include customer data platforms, CRM platforms, self-service support, helpdesk functions, and conversational support across multiple channels. Many vendors will provide platforms and applications that span the entire spectrum of both CX and CE functions, while others may pick and choose different features and elements that are included in their software offering.

Figure 2.1 illustrates the difference in functions, purposes and goals generally found in CX and CE platforms and applications.

Figure 2.1 Customer Experience vs. Customer Engagement



Source: Dash Research © 2021 Dash Network

Consumers around the world primarily purchase goods and services via retailers, which serve as the primary point of contact between end users and the products they use. Except for products that have exclusive or limited distribution, consumers have a choice as to where they purchase products, and often make their decisions based on the experiences they have with retailers. As a result, retailers have shifted their approaches to become more customer centric, focusing on understanding customers' shopping preferences, what exhilarates them, and what frustrates them when interacting with stores, both online and offline.

Ultimately, CX improvements are largely driven by organizational change management, but software can be used to support these initiatives. Increasingly, they have turned to digital platforms and applications to manage the plethora of customer data that is captured and aggregated from a variety of sources. These platforms and applications are increasingly integrated with other backend applications that can help better align production and distribution schedules with demand, as well as support better human interactions via live telephone conversations, internet-based chat, email, and mobile applications. The end goal is to incorporate software technology that provides a 360° view of the customer's complete interactions with the retailer, while simultaneously removing the friction points and barriers that can impede the retailer from promptly and intelligently responding to sales queries, service requests, or complaints.

This report examines the current and future market issues, market drivers and barriers, and case studies within the retail CX/CE industry. Dash Research has also calculated the current and future market potential for CX/CE software and services within the retail segment, taking 2019 as the base year, and forecasting growth through 2026. The impact of the COVID-19 pandemic and the changes in the retail segment that were driven by a staggered reopening are also discussed.

2.1 Market drivers

The retail industry has undergone a significant shift over the past few decades, driven primarily by the advent of the internet, the proliferation of mobile devices and location-based technologies, and the massive explosion of data on shoppers captured both online and offline. Shoppers have become accustomed to the convenience of being able to research, purchase, and, if necessary, return products from the comfort of their home (or, thanks to smartphones, wherever they have an internet connection).

But as shopping has become more convenient for customers, it has placed new demands on retailers, which must be able to optimize the shopping experience across multiple channels, while quickly responding to customer feedback that can be shared not only with the company, but with other customers, prospects, and, via social media, the entire world, with a click of a button.

This gradual but consistent shift to a customer-centric, omnichannel engagement strategy was amplified by the COVID-19 pandemic, which quickly forced retailers to contend with a perfect storm of physical store shutdowns, production and distribution delays, and a customer base increasingly demanding that products and services be available to them through channels they deemed convenient and safe. As the pandemic lockdown restrictions lifted, expectations on CX, service, and support continued to evolve, but with the added requirements of being able to support new sales modalities, such as contactless checkout, contactless delivery, buy online, pick up in-store (BOPIS), and increased support for third-party delivery services.

CX and CE have become integral to retailers' strategic and operational playbooks. Vendors are increasingly developing software platforms and applications that can address these issues, while reducing the amount of technical expertise required by retailer CX teams, IT departments, and operational professionals in the store, online, or within customer contact centers.

The purchase and use of software platforms, applications, and ancillary services within the retail market include the following key drivers, as further described below.

- COVID-19 pandemic shutdowns and reopening
- Customer expectations for consistent and seamless omnichannel experiences
- CX is improving sales channel effectiveness

- Increasing use of zero-party and first-party data to support omnichannel experiences

2.1.1 COVID-19 pandemic shutdowns and reopening

Beyond the massive human toll, the COVID-19 pandemic served as a catalyst and an accelerator for major operational and behavioral shifts in both the brick-and-mortar and online retail markets. Early in the pandemic, retailers were forced to close or severely curtail in-store operations, while simultaneously dealing with supply shortages, distribution challenges, and, in some cases, a 100% shift to an online ordering, fulfillment, and service model. Additionally, new safety protocols designed to protect workers and customers forced changes in workflow, and, in some cases, severely restricted the ability to provide optimal CE and services.

As the worst impacts from the pandemic subsided, businesses were forced to readjust again, keeping in place safety protocols and procedures, while slowly reopening physical locations and maintaining digital or hybrid operations. This progression, from a near-immediate shutdown to a gradual reopening, has impacted the CX functions in the retail market in the following ways:

- Customer convenience has become table stakes for all retailers. Even before the pandemic, large online retailers were putting pressure on brick-and-mortar retailers to allow customers to purchase products when they wanted, through their desired channel, and then choose how they wanted that order fulfilled. Examples of how retailers responded included the rollout of BOPIS, curbside pickup, and delivery. The key factors driving this trend were safety and convenience. While safety may be a waning driver, convenience is here to stay. Companies with platforms and applications that allow multichannel, flexible ordering and delivery processes allowed retailers to quickly start up these services.
- The direct, in-person interaction with shoppers that historically served as the foundation of in-person retail has been supplanted by virtual or contactless touchpoints. Companies that were able to shift to alternative channels, such as phone, text, social, or web-based chat communications, were often able to maintain that vital one-to-one communication from presale through the sales process, and for support or service issues after the sale.
- During the pandemic, shoppers shifted much of their activity to online channels, resulting in a greater volume of returns (because customers could not touch or see products before buying). This is also true in some retail environments, such as apparel, which closed fitting rooms due to the pandemic, and essentially created a “see, but do not touch” buying experience, thereby driving up the level of returns.
- Early in the pandemic, labor issues, particularly in customer care centers, forced some retailers to quickly deploy CX agents remotely, in order to keep operations running. Others turned to artificial intelligence (AI)-based virtual agents to handle routine, first-level CX or customer service issues. In both cases, retailers had to deploy flexible (often cloud-based) CX platforms or applications that allowed agents (real or virtual) to quickly access customer journey persona information, order histories, order fulfillment information, and promotional or marketing data to aid them in handling a high volume of customer inquiries.

2.1.2 Customer expectations for consistent and seamless omnichannel experiences

Until the commercialization of the internet, retailers generally only had to manage a limited number of channels through which they interacted with their customers: in the store itself and, depending on the retailer, via telephone and mail-order catalogs. But with the increase of internet shopping, mobile devices, and new communication channels (chat, social media, payment systems, etc.), retailers are needing to respond to the demand to communicate with customers through any number of channels.

Customers also expect that if they begin an interaction with a retailer through one channel, they should be able to seamlessly continue that interaction through any other channel, without being required to repeat any information from the previous part of the interaction. Customers understand that retailers

Section 6
Table of Contents

Section 7

Table of Charts and Figures

Section 8
Appendix

8.1 Scope of study

This report examines the market issues, drivers, and barriers for CX and CE software platforms, software applications, and services targeting the retail industry. The retail market is defined as any organization (online or offline) that primarily sells its products directly to customers and receives payment at the time of the sale. The category includes establishments across a variety of categories, including apparel, electronics, home goods, supermarkets/food, pharmacies, books, sporting goods, jewelry, big box, musical instruments, home improvement, and other categories, but excludes hospitality establishments, such as restaurants, motels and hotels, sporting events, resorts, and casinos.

8.2 Sources and methodology

Dash Research is an independent market research firm that provides industry participants and stakeholders with an objective, unbiased view of market dynamics and business opportunities within its coverage areas. The firm's industry analysts are dedicated to presenting clear and actionable analysis to support business planning initiatives and go-to-market strategies, utilizing rigorous market research methodologies and without regard for technology hype or special interests including Dash Research's own client relationships. Within its market analysis, Dash Research strives to offer conclusions and recommendations that reflect the most likely path of industry development, even when those views may be contrarian.

The basis of Dash Research's analysis is primary research collected from a variety of sources including industry interviews, vendor briefings, product demonstrations, and quantitative and qualitative market research focused on consumer and business end users. Industry analysts conduct interviews with representative groups of executives, technology practitioners, sales and marketing professionals, industry association personnel, government representatives, investors, consultants, and other industry stakeholders. Analysts are diligent in pursuing interviews with representatives from every part of the value chain in an effort to gain a comprehensive view of current market activity and future plans. Within the firm's surveys and focus groups, respondent samples are carefully selected to ensure that they provide the most accurate possible view of demand dynamics within consumer and business markets, utilizing balanced and representative samples where appropriate and careful screening and qualification criteria in cases where the research topic requires a more targeted group of respondents.

Dash Research's primary research is supplemented by the review and analysis of all secondary information available on the topic being studied, including company news and financial information, technology specifications, product attributes, government and economic data, industry reports and databases from third-party sources, case studies, and reference customers. As applicable, all secondary research sources are appropriately cited within the firm's publications.

All of Dash Research's reports and other publications are carefully reviewed and scrutinized by the firm's senior management team in an effort to ensure that research methodology is sound, all information provided is accurate, analyst assumptions are carefully documented, and conclusions are well-supported by facts. Dash Research is highly responsive to feedback from industry participants and, in the event errors in the firm's research are identified and verified, such errors are corrected promptly.

8.3 Forecast methodology

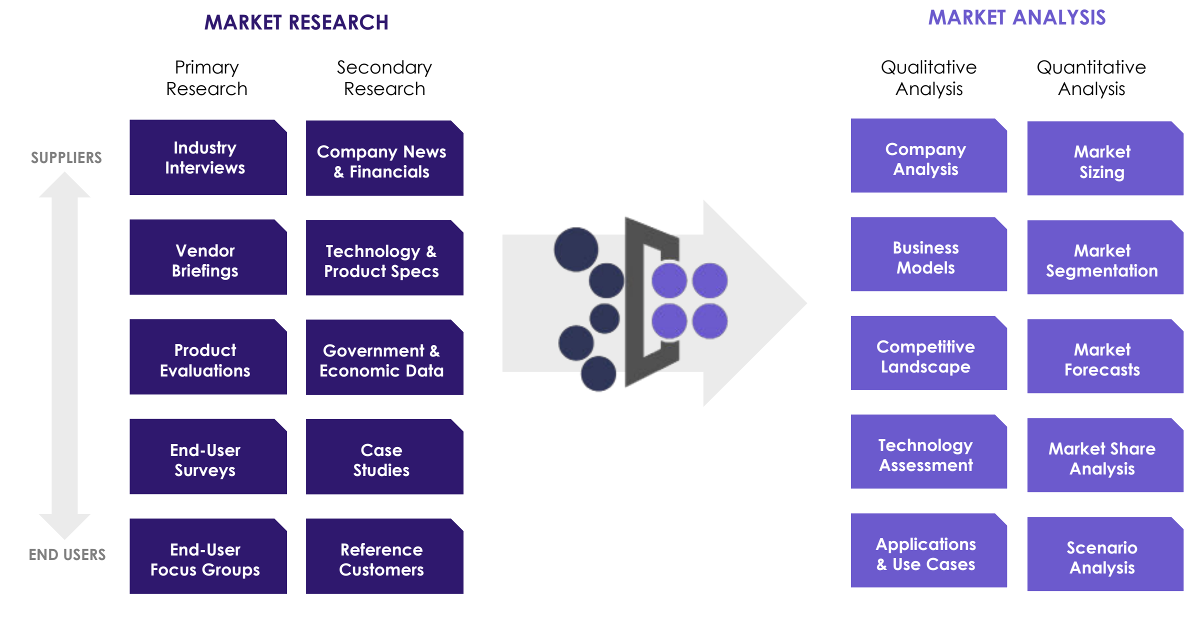
Dash Research has taken a multifaceted approach to developing its forecast model. A scan of the market was undertaken to identify a market ecosystem consisting of companies serving the retail market, including small, medium, and large players, across seven key CX functional areas: contact center; personalization & optimization; customer feedback; customer data & analytics; customer relationship management; customer data platform; and employee experience.

Using a combination of company-supplied data (annual reports, press releases, analyst conference calls) and public and subscription-based company databases, an assessment of each company's revenue was captured for the base year of 2019. Further assessments on the amount of revenue that was directly attributed to CX platforms, applications, or services were made, along with an assessment of the revenue level attributable to retail customers, which were cross-checked against customer lists, press releases, and industry news reports.

To forecast the potential market value, industry growth rates from several sources were collected and analyzed, and applied as a baseline growth rate for the industry. Then, segment growth rates were calculated by implementing technology adoption growth curves for each region and functional area, taking into account the internal market dynamics and external economic factors that impact the retail market.

The forecast is not without limitations; many of the functional areas overlap, and Dash Research's categorization relies not only on vendors' classification, but on an assessment of what the company's products and services actually allow a retailer to accomplish. Further, while Dash Research has attempted to capture a wide-ranging and comprehensive ecosystem of companies, the definition of what constitutes CX software and services is highly variable. Dash Research has focused on companies that offer solutions that are clearly focused on CX, as opposed to marketing automation, sales automation, or other related applications.

Dash Research Methodology



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