

AI USE CASE PORTFOLIO:

A Retailer's Guide to Applying AI in 2024 and Beyond

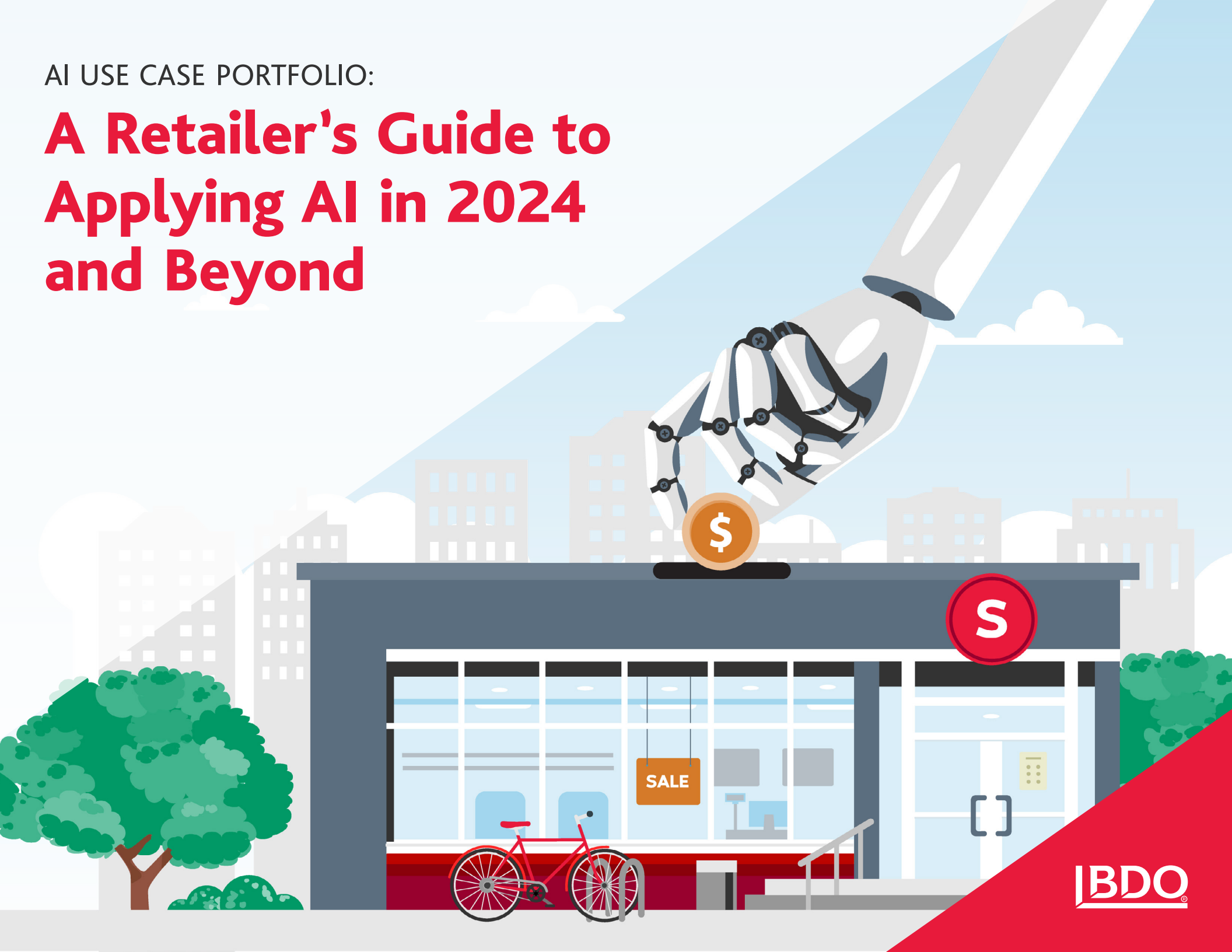


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Finding the Right Use Case for Your Organization

Retailers are eager to implement Artificial Intelligence and generative AI technologies — for good reason. AI has the potential to transform the retail industry, from producing powerful insights for inventory decisions to minimizing returns, and immersing customers in a virtual shopping world. AI's potential for transformative impact has retailers eager to leverage this technology both in store and online.

Retail leaders are increasingly exploring new and innovative applications for AI and setting up the internal infrastructure necessary to leverage AI in the future. In fact, 55% of retailers have formalized or are in the process of formalizing a policy for generative AI usage, according to [*BDO's 2024 Retail CFO Outlook Survey*](#).

With all the compelling use cases available, retail executives may be unsure where to place their bets. Determining where to invest in AI can vary greatly based on organizational needs, technical experience, and what the retailer is looking to achieve, be it an immediate impact or a long-term play that could drive more impactful results.

This use case portfolio is designed to help you [accelerate your AI journey](#), no matter your organization's AI maturity level. The AI use cases outlined range from easily applicable — for retailers who are still new to AI adoption — to bold and complex — for those ready to tackle more sophisticated AI projects with greater investment.



AI for Beginners

AUTOMATED CALL CENTER RESPONSES & CHATBOTS

An exceptional customer experience is most retailers' North Star. But at the same time, many retail companies are operating leaner than ever, which often leads to reductions in staff for customer service or call center roles.

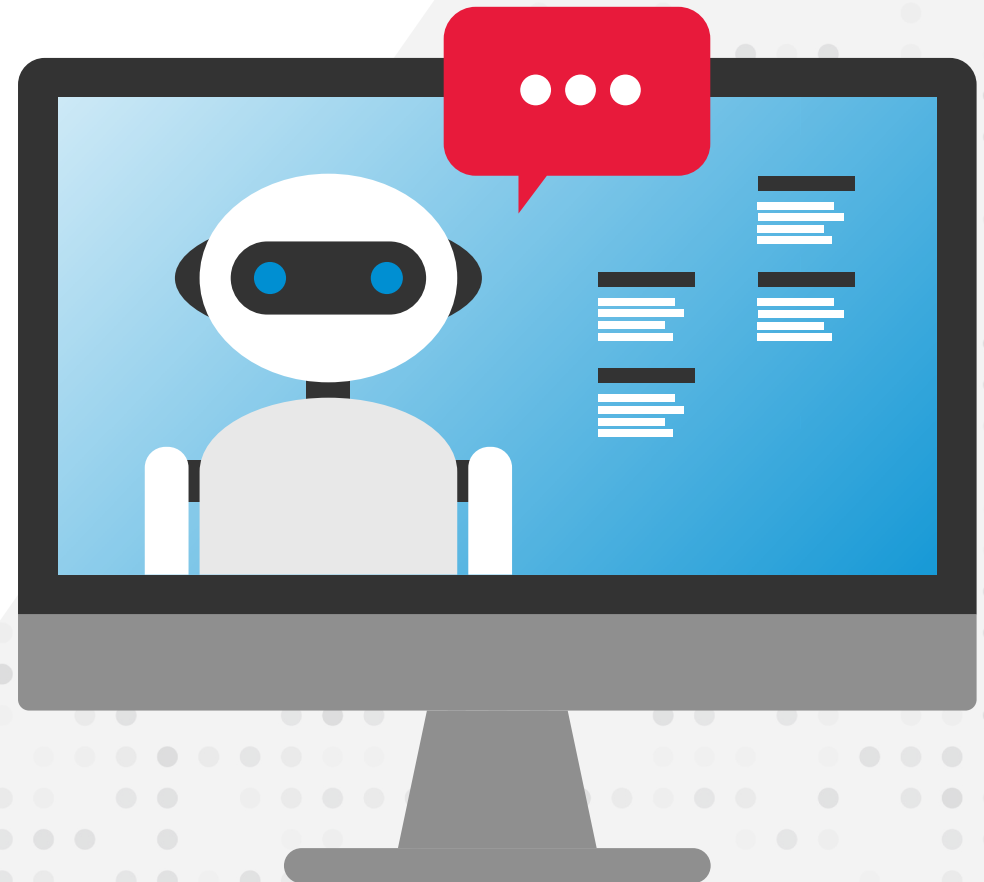
Before AI, automated responses left consumers spending time navigating multiple menu levels to reach the answer they needed. Online chat functions introduced over the years, though still limited, have evolved and continue to evolve with the help of AI.

Today, AI can handle incoming calls and better route inquiries or provide automated responses with less navigation and reduced employee interaction. Though there are still improvements to be made, AI is helping to reduce hurdles for the customer. Chatbots use natural language processing technologies and advanced analysis to understand and interpret human language and can increasingly answer customer questions with human-like responses.

AI's presence within the customer journey is growing fast — [Gartner](#) predicts that generative AI technology will be used by 80% of customer service and support organizations by 2025.

ROI METRICS:

- ▶ Improved customer satisfaction
- ▶ Reduced costs associated with customer service
- ▶ Freed up employees' time for higher-value tasks



AI for Intermediate Users

LEASE CONTRACT ANALYSIS AND REAL ESTATE RECOMMENDATIONS

Retailers are currently reassessing their real estate needs. With expensive leases and eroding in-store foot traffic, retail executives must be highly strategic in the quantity and location of their stores.

In recent years, we've seen a focus on rightsizing, such as retailers moving out of major malls or considering abandoning their flagship locations. More retailers now opt for neighborhood storefronts to be closer to target consumers, particularly as many customers still work from home and no longer commute to cities or dense areas where large-format stores tend to be located.

The myriad of factors impacting retailers' real estate decisions have them reevaluating their lease commitments and ensuring they have effective lease management, which can significantly impact the bottom line.

AI can automate lease analysis by summarizing and capturing key provisions and tagging those with corresponding lease documents, streamlining the lease review process. Instead of requiring staff to physically review each lease, AI can quickly understand rental terms and conditions for various spaces.

To inform smarter renegotiation, AI can generate insights from historical lease contract data and external real estate market information. Retailers could ask AI questions like:

- ▶ What stores are not performing well?
- ▶ What are the current standard lease prices in X market?
- ▶ What am I paying X commercial real estate vendor?
- ▶ Which commercial real estate vendors should I renegotiate with this year?

Armed with better insights, retailers can pivot to capture foot traffic in high-value locations — a critical advantage in today's market.

ROI METRICS:

- ▶ Reduced overhead costs and optimized spend
- ▶ More efficient lease management processes
- ▶ Better understanding of real estate portfolio and ROI



AI for the Confident Retailer

MARKETING: ONE-TO-ONE PERSONALIZATION AT SCALE

Consumers expect a highly tailored and personalized experience when shopping online and when using social media platforms — AI has massive potential to reshape the customer journey.

To meet the moment, retail marketers must rely on data to sharpen messaging that will resonate with consumers at an individual level, thereby increasing effectiveness.

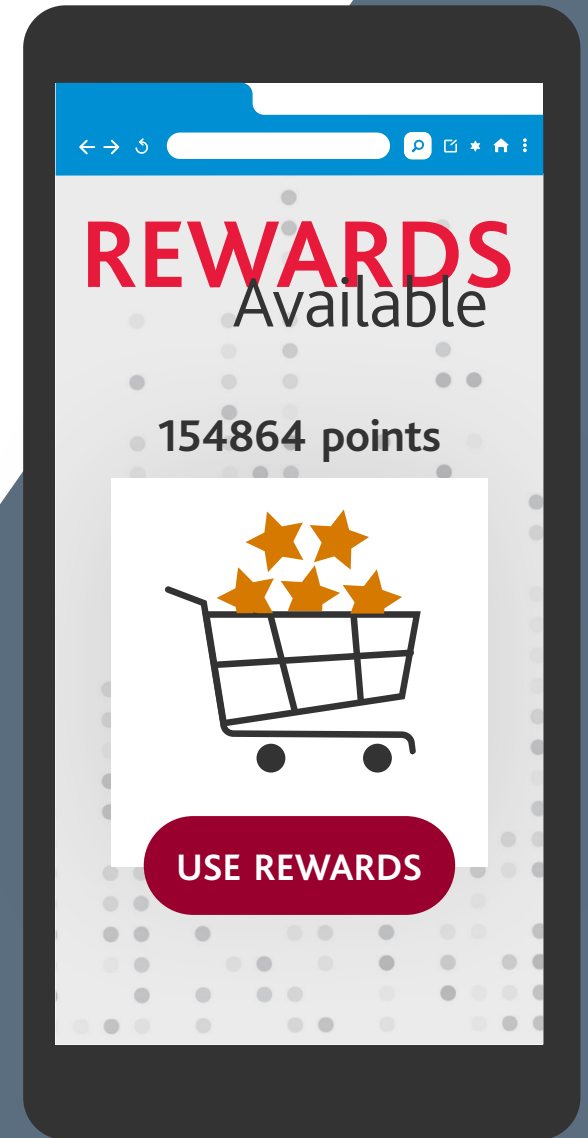
Retail marketers must have a deep understanding of each consumer's preferences and purchasing behavior to engage in one-to-one marketing. By using AI to compile and analyze the vast amounts of structured and unstructured customer data in their possession — call center transcripts, social media engagements, website reviews, online browsing and purchasing behavior, mobile app use, and more — retailers can derive powerful marketing insights.

With AI-powered insights and a robust profile of consumer preferences and needs, retailers can customize messages, offers, and product recommendations to each individual. This AI application in retail allows executives to move from an assumption-based persona model to a data-based personal model. AI at this level can help create personalized ads, dynamic digital content, and more to tailor each touchpoint of the buyer's journey.

The result is a stronger brand-customer relationship that helps retailers drive revenue and boost loyalty for a competitive edge.

ROI METRICS:

- ▶ Lower marketing spend per customer
- ▶ More meaningful market segmentation
- ▶ Increased sell-through
- ▶ Higher customer satisfaction scores



For the Advanced AI Integrators

DYNAMIC PRICING

Understanding the profound effect of pricing on profitability, retailers are trying to better gauge customers' pricing elasticity. They are turning to AI for help as they design dynamic pricing strategies. According to [BDO's 2024 Retail CFO Outlook Survey](#), nearly half (46%) of retailers are already using AI to optimize prices.

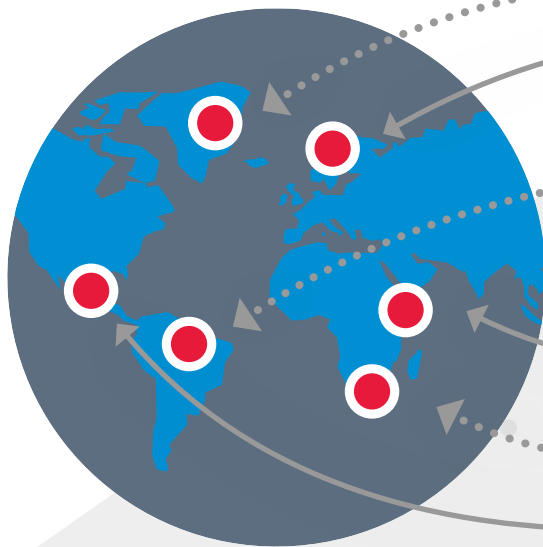
Especially in-store, retailers may consider digital price displays that update easily based on patterns from various data sources. Factors may include time of day, weather, store location, inventory levels, competitor pricing, and more. AI can be leveraged to analyze patterns within the data and automatically inform or suggest changes to sticker prices. Retailers can then approve or deny those suggestions so that the digital display reflects a new price.

AI can also be used for dynamic promotional efforts to time when discounts and promotions should be offered to drive purchases or help clear inventory.

However, dynamic pricing is a balancing act, as retailers must be careful not to employ surge pricing. Raising prices during peak demand times can be damaging to the brand reputation and turn customers away. Instead, AI can help the retailer understand when prices should be raised to remain competitive or for limited inventory or limited-edition product drops.

ROI METRICS:

- ▶ Improved profit margins
- ▶ Increased sales
- ▶ Reduced risk of inventory excess



For the AI Innovators

UNLOCKING THE POTENTIAL OF VIRTUAL REALITIES

Advanced AI in retail may take shape within virtual realities (VR) — from virtual grocery aisles to customer avatars — there are many possibilities for retailers to explore.

VR applications certainly exist today, but consider a future where a consumer wants to experience the look and feel of shopping in a grocery store without leaving their couch. Currently, consumers can add items to a virtual cart and have someone else do the shopping and delivery for them. But what if they could go beyond today's in-app experience? In the years ahead, it may be possible for a customer to shop “in-store” from home in a way that truly blurs the digital-physical lines.

With AI-powered VR, retailers can develop immersive and lifelike experiences. Rather than selecting items from a list on a screen, they could log into VR mode and be transported to a virtual aisle. This could help retailers enhance the browsing experience for customers and recapture the impulse purchases that can be lost online since consumers would have the ability to see related products on the virtual shelves as they “walk by.”

Retailers can gather immense amounts of data from in-app, VR-powered shopping to uncover insights about how customers navigate their store, then use that data to optimize store layout, change procurement strategies, and more.

AI usage through the lens of VR doesn't stop there. [Some major retailers](#) are already implementing AI for [avatar development](#), allowing customers to build and be their own models for online shopping. By deploying virtual try-on technology, retailers empower customers to see how clothes will look on them by bringing the fitting room experience to life in the comfort of a customer's home.

For these use cases, we will likely see retailers forging new partnerships to bring virtual or augmented reality ideas to life. Partnering with technology companies and developers to help customize and implement these technologies will be the next phase of AI adoption for today's bolder executives. Many would struggle to use AI in such an advanced way without crucial collaboration and partnerships.

While this level of innovation is exciting, the substantial investment may lead retailers to wonder: What is the benefit? Retailers who use AI in this capacity will likely find it helps to reduce returns because customers have a much better sense of size and fit, effectively minimizing the chance they'd send the item back. Customer avatars also give retailers new inventory insights. They can see — in the data — not only what customers purchase but what they tried on and in what colors or sizes, helping retailers understand what's in demand so they can stock up.

ROI METRICS:

- ▶ Reduced return rates
- ▶ Differentiated customer experience driving a competitive edge
- ▶ Increased customer conversion
- ▶ Established brand loyalty and increased customer retention



Getting Started on the AI Journey

These AI use cases offer a representative sample that retailers of any size — even those without in-house data scientists or AI experts — can explore. There are many others.

To successfully adopt AI and yield results, it is important that you and other leaders within your organization assess where the company is within the AI journey, then find a use case that fits within that. Some use cases can be deployed much faster than others, while others require external partners and additional investment. But each use case stands to deliver measurable benefits.

o get the most out of AI in your organization, we recommend taking the following five steps:



1. EDUCATE

Understand and explore what AI can do. Learn its practical applications for your people, organization and industry — as well as its risks and limitations.



2. DEFINE YOUR AI VISION, JOURNEY AND AI IMPACT

Align your AI vision with your organization's goals and values. Ensure it adheres to ethical principles and your sustainability practices. Create your strategic roadmap by pinpointing the areas where AI can add the most value to your business.



3. LAY THE FOUNDATION

Design a holistic AI governance program that integrates legal, regulatory, privacy, security, and ethical considerations. Build the data infrastructure to support identified and future AI use cases.



4. PREPARE YOUR PEOPLE

Communicate the “why” behind the AI, then the “how.” Provide clarity on roles and incentivize engagement and adoption while offering the training and resources necessary for employees to succeed.



5. GO AND GROW

Test, refine, and launch your initiative with mechanisms in place for continuous feedback and iteration. Measure performance impact, learn from issues, and celebrate your wins.

As you start the AI integration processes, it is crucial to improve privacy and data protection practices at the same time. AI relies on secure, accurate, and clean data to generate quality outputs. Taking steps to mitigate data privacy risks and uphold data integrity is critical for AI investments paying off. Consider the following focus areas:

BUILD A CULTURE OF COMPLIANCE

Build a culture of compliance to adhere to existing and evolving privacy, security, and data protection laws across the U.S. and EU. Leaders within the retail industry, especially, should monitor for and strengthen compliance with new laws related to AI and marketing.

MITIGATE AI BIAS

AI bias can harm your brand reputation and erode customer trust. AI models can learn human biases from training data, such as marketing or hiring preferences — a human review should always be required to avoid biases in the data set. Establish safeguards to mitigate potential bias, such as training AI with representative data and conducting routine testing of sources.



ADHERE TO WEBSITE COMPLIANCE AND CONSENT RULES

Evolve and strengthen your organization's consent management capabilities before collecting, using, or sharing customer data. This involves obtaining opt-in or explicit consent. Give consumers control over their data and provide transparent notice.

MINIMIZE DATA COLLECTION

Consider whether internal controls are sufficient to verify that your organization is not over collecting customer data. Data must be stored in accordance with privacy and data protection laws, which often means regularly assessing which data sets need to be retired, as well as evaluating if you are collecting more data than you need.

MANAGE THIRD-PARTY RISK

Because you will often forge new partnerships to implement AI technologies, there may be several new third-party relationships to manage. New partnerships can lead to data ingress or egress points resulting in unauthorized data leaks. Establishing a third-party risk management program and conducting [Data Privacy Impact Assessments](#) are a valuable exercise to identify potential vulnerabilities and are required in many countries.

To incorporate best practices into AI applications from the start, consider implementing a [Data Privacy by Design Program](#) to embed privacy and data protection practices into processing activities at the onset of product or service development, IT development methodologies, or vendor procurement.

PREVIEWING THE EU AI ACT

Looking ahead, retailers should consider how the EU's recently passed AI Act and the better-known General Data Protection Regulation may affect their consumer marketing, targeting, or data collection efforts. Though originating in the EU, the [AI Act](#) states that U.S.-based companies that develop, provide, or market AI technology in the EU are subject to compliance, which largely aims to ensure AI application respects users' "fundamental rights and safety." While the AI Act doesn't focus on how AI technologies process EU users' personal information, U.S.-based companies must still abide by other EU laws — namely GDPR — regarding the collection and use of EU citizens' data for AI purposes.





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