# Embedding AI in your brand's DNA

Innovate from products to ecosystem— and everything in between

How IBM
can help

IBM has been providing expertise to help retail and consumer products companies win in the marketplace for more than a century. Our researchers and consultants create innovative solutions that help clients become more consumer-centric by delivering compelling brand and store experiences, collaborating more effectively with channel partners, and aligning demand and supply. With a comprehensive portfolio of solutions for merchandising, supply chain management, omnichannel retailing, and advanced analytics, IBM helps deliver rapid time to value. With global capabilities that span 170 countries, we help brands and retailers anticipate change and profit from new opportunities. For more information on our retail and consumer products solutions, please visit: ibm.com/industries/retail, ibm.com/consulting/retail, and ibm.com/industries/consumer-goods.
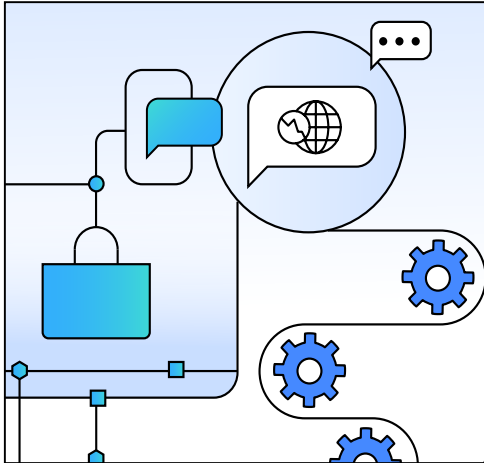
Key takeaways

Brands are evolving beyond mere AI adoption, embedding it in their DNA to harness their distinct AI-driven advantage.

▪ Over the next year, retail and consumer products executives expect to expand AI significantly throughout all areas of the business, from brand-defining activities to core operations.

But to be AI-centric, organizations need an open mindset for how AI can deliver transformation beyond productivity gains.

▪ Across 13 areas of the business, executives plan to augment most activities with AI over the next 12 months.

But they only project 31% of their workforce will need to reskill or develop new skills in that same time frame, underestimating what's needed to support employees in the AI transformation.

▪ Almost 9 in 10 executives claim to have clear organizational structures, policies, and processes for AI governance.

But fewer than one-quarter of organizations have fully implemented and continuously review tools on AI governance, putting brand trust at risk.

Industry executives project that
AI's contribution to revenue
growth will increase 133%
from 2023 to 2027.

Consumers are ready for AI.
Are you?

Consumers are tech-savvy trendsetters and brands need to keep up to stay relevant. Today, customers and shoppers are actively engaged with AI in their daily lives, from using AI-powered search engines to creating content with generative AI tools.

In the 2024 IBM Institute for Business Value (IBM IBV) consumer research study, nearly two-thirds of consumers said they have used or want to try AI applications.[1] This interest sets the stage for retail and consumer products companies to hasten integration of AI across their business while keeping an eye toward becoming AI-led brands—leveraging the technology to reimagine operations, inspire loyalty, and expand the size of customers' wallets for long-term competitive advantage.
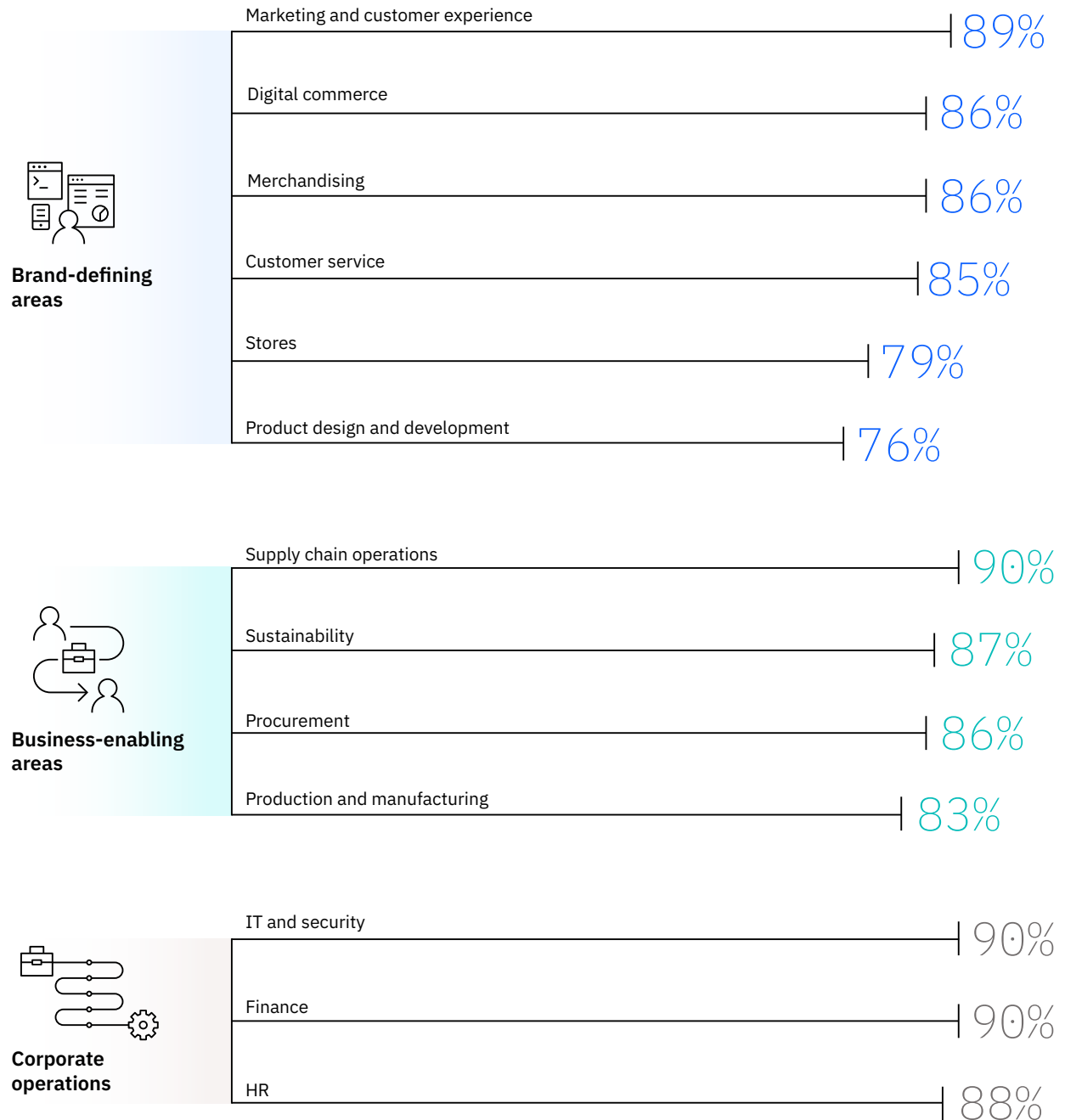
Our latest survey of 1,500 global retail and consumer products executives finds organizations are accelerating their adoption. AI—both traditional and generative—has permeated all functions in the enterprise to some degree. From marketing and customer service, to supply chain and procurement, to finance and IT operations, AI use cases span brand-defining, business-enabling, and corporate operations. Looking ahead through 2025, most executives are thinking big, expecting AI to be used extensively across the business (see Figure 1). Industry leaders also report AI spending is on the rise (see Perspective, "AI spending moves outside of IT"), and they project that AI's contribution to revenue growth will increase 133% from 2023 to 2027.

Retail and consumer products organizations are at a pivotal point in their AI journey. The question is: are they taking enough of the right steps to become AI-led brands, or are they just tacking on ad hoc AI solutions that deliver short-term gains? It's time to move beyond just productivity and efficiency and extend AI's power enterprise-wide to boost process effectiveness, spark new business models and ecosystems, and ignite engagement with innovative employee and customer experiences.

FIGURE 1

Retail and consumer products organizations plan to use AI extensively in 2025.

Percent of organizations planning to use AI to a moderate or significant extent over the next 12 months

Brand-defining areas

Marketing and customer experience	89%
Digital commerce	86%
Merchandising	86%
Customer service	85%
Stores	79%
Product design and development	76%

Business-enabling areas

Supply chain operations	90%
Sustainability	87%
Procurement	86%
Production and manufacturing	83%

Corporate operations

IT and security	90%
Finance	90%
HR	88%

Percentages represent an average of responses for a set of tasks in each functional area, based on the question: "To what extent do you use AI or gen AI in this activity?" Respondents replied "to a moderate extent" or "to a significant extent."

In this report, we discuss three factors that will help organizations make a fundamental change in their DNA, where AI emerges as the driving force behind every decision, innovation, and strategy. In part one, we discuss balancing the marathon with the sprint to shift from plus-AI to AI-first. In part two, we examine the need to prepare the workforce for the planned rapid and aggressive AI adoption, and in part three, we address the imperative to safeguard consumer trust. Each section includes an illustrative case study and concludes with an action guide of steps brands can take to accelerate progress.

Definitions

Traditional artificial intelligence

Systems that understand, reason, learn, and interact. AI technology includes machine learning (ML) approaches, but also other techniques such as reasoning, planning, scheduling, and optimization.

Generative AI

A class of machine learning that generates content or data, including audio, code, images, text, simulations, 3D objects, and videos—usually based on unsupervised or self-supervised learning. Recent examples of generative AI include GPT-4 (language), DALL-E (images), GitHub Copilot (code), and AlphaFold (scientific protein folding).

AI spending shifts beyond IT budgets

AI budget allocation is undergoing a significant shift. While IT budgets will still play a role, retail and consumer products executives report a growing portion of AI spending is moving outside of traditional IT budgets. As AI becomes more than just a tech tool, functional areas are identifying their needs for AI as part of larger business solutions, from creative marketing tools to empowering store associates to new warehouse management systems.

Executives project their IT budget dedicated to AI spend will increase by 19% over the next year, but spending on AI outside of the IT budget is expected to surge 52%. As a percent of revenue, IT spending on AI will be 1.04% and AI spending outside of IT will be 2.28% by 2025. Taken together, 3.32% of revenue could be dedicated to AI spending next year. For a $1 billion company, that equates to $33.2 million for total AI spend.

With at least 13 functional areas that span retail and consumer products organizations, executives across the C-suite must keep tabs on the investments being made in each area, coordinating platforms and tools to provide transparency across the enterprise. IT and the business lines must work together to avoid duplication of effort and to help ensure consistent alignment with the overall business strategy.

Building an intelligent brand that endures

Consumer organizations need to take a long-term view of their AI journey while moving with urgency and intent.

Nearly all industry executives are banking on AI for innovation in products and services (89%) as well as business models (85%). But a mere 54% expect AI to influence operational innovation. Transforming operations with AI across supply chains, manufacturing, distribution, finance, and compliance is the very essence of being an AI-centric brand. This remodel is both a marathon and a sprint—moving from simple AI use cases to orchestrating AI across functions to deliver sustainable value.

Many organizations are in the early stage of adoption, integrating AI within a single function. For example, 88% use AI to a moderate or significant extent in demand forecasting, 87% for HR help desks, 84% for IT support and issue remediation, 84% in creating and managing trade promotions, 81% in inventory and order management, and 80% in managing production activities. These are quick wins that can deliver a more immediate impact on daily operations.

But companies are keen on expanding to more sophisticated uses of AI over the next 12 months. They will be transitioning from internal departmental use cases with limited system integration to multifaceted ones that require external collaboration, more complex system integrations, and more human intervention and oversight.
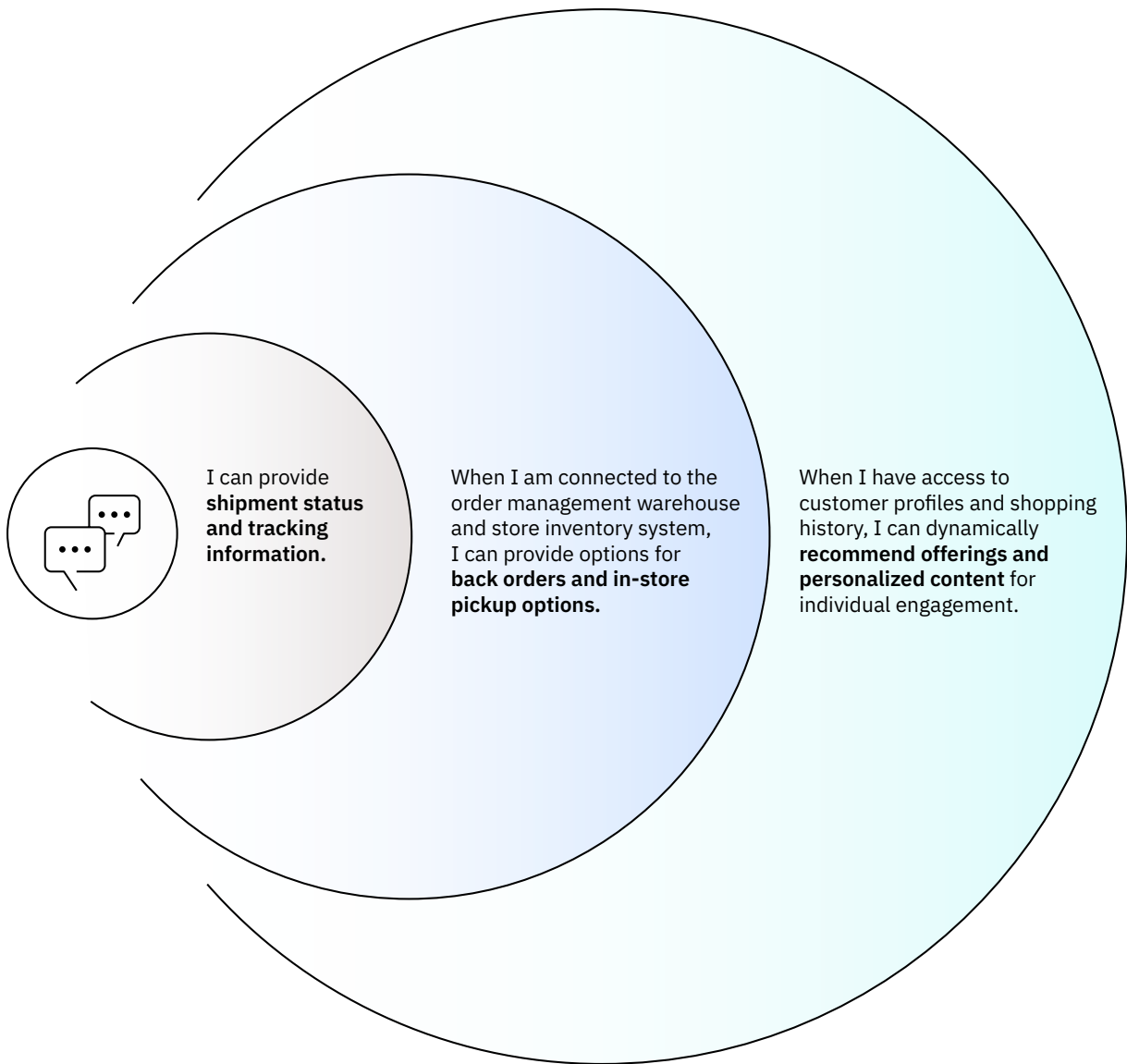
Take virtual assistants as an example (see Figure 2). Initially, they responded to simple, predefined queries such as order and shipment status. As they have become more integrated with data in ordering systems, they can identify delays or missing orders as well as back-order options and in-store availability. Adding customer shopping history and generative AI capabilities to their arsenal, they can dynamically recommend offerings and personalized content for individual customers. Camping World's virtual assistant, Arvee, illustrates the value of integrating platforms such as Oracle and Salesforce so that the assistant can access customer information efficiently to address queries faster.[2]

Only 54% of executives expect AI to help their companies innovate in operations.

Executives expect to expand rapidly to more sophisticated AI use cases across the enterprise. For example, those leveraging AI to a significant extent for personalized responses and follow-up actions in customer service plan to increase their usage by 236% over the next 12 months. Similarly, they want to grow significant AI usage in integrated business planning by 82% and in talent acquisition by 300%.

Brands are fueling virtual assistants with more comprehensive, relevant enterprise data to enable increasingly personalized responses to customers.

I can provide **shipment status and tracking information.**

When I am connected to the order management warehouse and store inventory system, I can provide options for **back orders and in-store pickup options.**

When I have access to customer profiles and shopping history, I can dynamically **recommend offerings and personalized content** for individual engagement.

As organizations progress with their initiatives, they are investing in platforms to integrate AI tools and models. Today, as they establish their AI foundation, they are primarily focused on data and analytics platforms (65%), innovation platforms (64%), and skills/learning platforms (62%). Building on these existing platforms and expanding to others will enable federation and orchestration of AI across functions, facilitating cross-functional learning to support scaling AI across the enterprise.

Executives plan to integrate AI capabilities with business partners over the next three years, and they predict the use of ecosystem platforms will surge from 52% today to 89%. Take the product compliance ecosystem as an example. By integrating end-to-end AI-driven compliance, brands can ensure all facets of the product lifecycle align with evolving regulatory requirements, consumer safety, and sustainability expectations. This ecosystem prioritizes accelerated product lifecycle management with an advanced business rules engine and touchless bill-of-materials generation, helping ensure products are market-ready with minimal manual intervention.

Executives expect their use of ecosystem platforms for AI tool and model integration to surge from 52% today to 89% in the next three years.

Kroger uses AI to elevate customer pickup experiences[3]

Kroger has long depended on data and advanced analytics to fuel business innovation. Since its inception decades ago, its loyalty program has delivered a trusted value exchange enabled by permission-based information. Today, using machine learning algorithms, Kroger delivers valuable personalized offers and communications across 150 million customer touchpoints and through 1.9 billion unique coupons customized for millions of loyal customers.

Most recently, Kroger has been exploring ways to use AI to help improve the customer experience, specifically order pickups. Using AI-enabled dynamic batching, an AI solution sorts through 200,000 totes per second to build the most efficient pickup trolley. It drives a 10% reduction in steps by identifying the most efficient pick route through the store. With dynamic batching of orders, these tools are providing associates the most efficient pick routes, so Kroger can dramatically reduce pickup lead time in its highest volume stores.

Action guide

Intentionally embed AI in operations
to deliver a sustainable brand advantage.

In the 2024 IBM IBV CEO study, 70% of retail and consumer products
CEOs said that to win the future, they must rewrite their organizational
playbook.[4] As you redefine your core operational strategies and processes
to capitalize on AI, concentrate on how to achieve lasting value.

Tailor AI to your brand's priorities.

As you move beyond AI-driven productivity gains, you need a clear vision and strategy for where AI and gen AI can help you distinguish yourself from competitors or shore up weaknesses. But keep in mind that consumers expect you to stay true to your core values as you innovate. If a strong customer experience is your focus, use AI to personalize customer service and optimize in-store experiences. If product innovation is a differentiator, tap into AI for product design, customer preferences, and vendor capabilities to facilitate faster ideation and development cycles. The key is to concentrate on what's most important—not everything that's possible.

Invite finance, technology, and business leaders to the same table.

Becoming an AI-centric brand requires purposefully aligning IT with long-term business goals, not just the hottest tech. For example, organizations that consider applications and infrastructure holistically in support of business needs (known as "hybrid-by-design" principles) can generate more than three times higher ROI over five years.[5] Tear down the silos between finance, technology, and business leaders so that together, they can build solid business cases for where AI can deliver a long-term competitive edge.[6]

Venture beyond tried-and-true partnerships.

Traditional strategic partnerships focused on physical distribution of supplies and products are no longer enough in the age of AI. Tech companies, startups, and other nontraditional partners are needed for model development, platforms, and tools. For example, other IBM IBV research found that 65% of organizations are already working with or planning to work with a strategic partner to build a large language model for generative AI initiatives.[7] Prioritize partners who understand your goals and share your vision. Identify those with a proven record for integration and loop them into your processes early. Think outside the box, imagining new partners that create new opportunities for growth.

Priming the augmented workforce

AI is transforming the nature of work from the store to the factory floor, but industry executives undervalue workforce reskilling.

AI is diffused throughout the retail and consumer products workplace. Nearly all (96%) executives say their teams are using AI and gen AI to a moderate or significant extent at work. When virtually everyone is using a new and powerful technology such as AI, then virtually everyone needs training to optimize the value and understand the risks that could damage the brands. Yet, leaders project only 31% of their workforce will need to reskill or develop new skills over the next 12 months, with this number climbing to just 45% in the next three years—a significant miscalculation.

Both hard and soft skills—from prompt engineering and data analytics to critical thinking and problem solving—are essential to ushering in the age of the augmented workforce where AI won't replace people, but people who use AI will replace people who don't.[8] The talent transformation is an ongoing training and education process that must be defined and started sooner rather than later. If not, 67% of employees have said they will leave for another employer that provides better training on new technologies, according to an IBM IBV survey of more than 21,000 workers.[9]

Executives recognize the workforce will be increasingly augmented, while automation remains crucial for rules-based tasks and repetitive work. Across 13 functional areas from marketing and commerce to supply chain, HR, and IT, they plan to more frequently augment than automate activities over the next 12 months (see Figure 3).
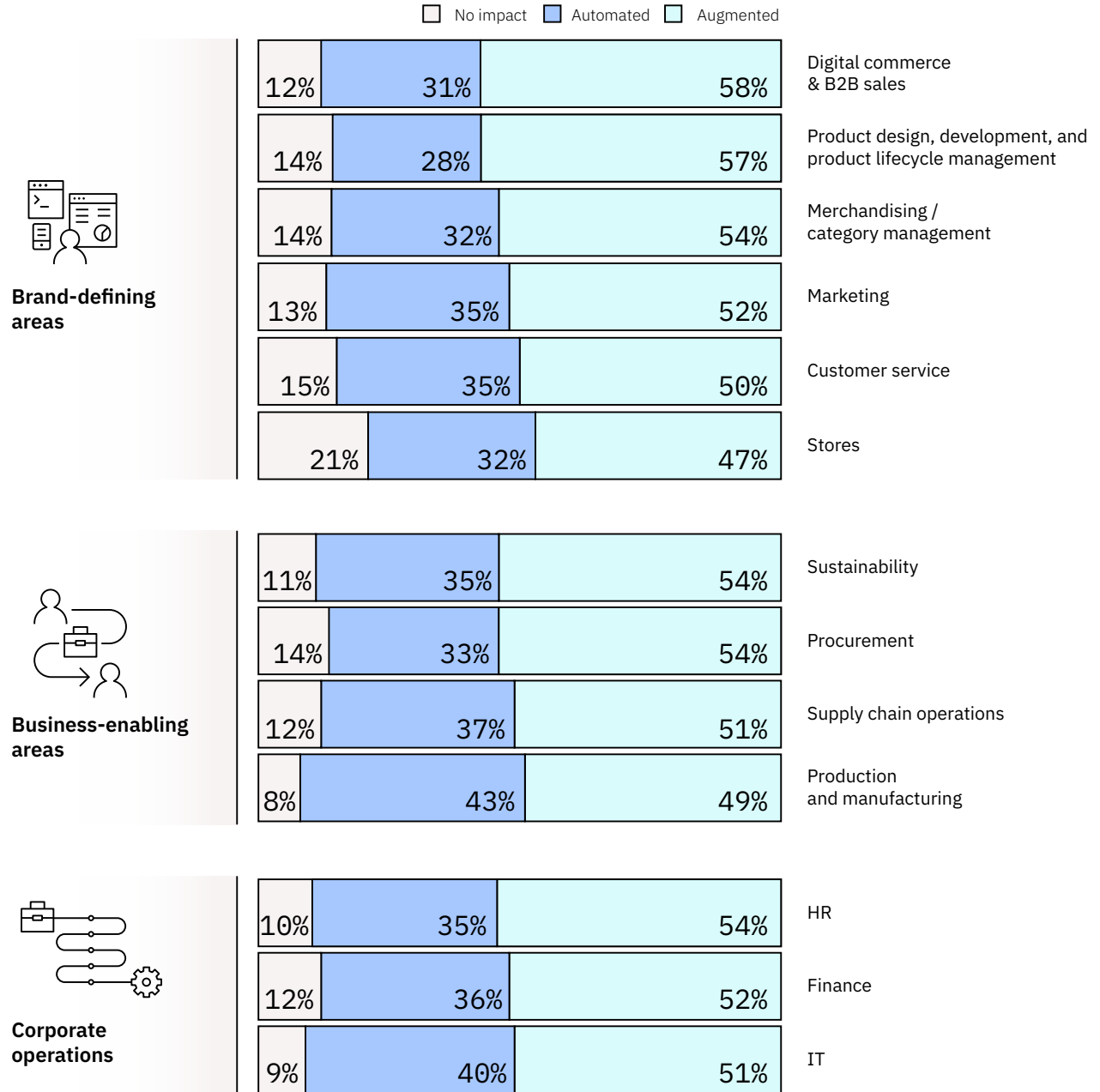
Industry leaders know that many brand-defining areas demand human intuition, creativity, emotional intelligence, and expertise that can be complemented by AI. For example, in product design and development, AI can accelerate idea generation and ideation, even providing visualizations. Likewise, operational areas have vast amounts of data where decisions require human oversight, such as supply planning, where 54% plan to augment their employees. In this activity, AI can quickly access and analyze a broader range of data to help the supply planner confidently resolve shortages in minutes, knowing important information is not missed.

Leaders project only 31% of their workforce will need to reskill or develop new skills over the next year.

FIGURE 3

Retail and consumer products executives know that automation has its place but see a future of augmentation.

Percent of activities that will be automated, augmented, or have no impact from AI in each area over the next 12 months

☐ No impact ☐ Automated ☐ Augmented

Brand-defining areas

	No impact	Automated	Augmented	
Digital commerce & B2B sales	12%	31%	58%	
Product design, development, and product lifecycle management	14%	28%	57%	
Merchandising / category management	14%	32%	54%	
Marketing	13%	35%	52%	
Customer service	15%	35%	50%	
Stores	21%	32%	47%	

Business-enabling areas

	No impact	Automated	Augmented	
Sustainability	11%	35%	54%	
Procurement	14%	33%	54%	
Supply chain operations	12%	37%	51%	
Production and manufacturing	8%	43%	49%	

Corporate operations

	No impact	Automated	Augmented	
HR	10%	35%	54%	
Finance	12%	36%	52%	
IT	9%	40%	51%	

Percentages represent an average of responses for a set of tasks in each functional area, based on the question: "To what extent do you use AI or gen AI in this activity?" Respondents replied "to a moderate extent" or "to a significant extent."

Ultimately, brands will be finding the sweet spot for automation and augmentation. Take managing the seasonal workforce as one example. AI-powered automation can streamline hiring, onboarding, and scheduling processes, reducing administrative burdens and helping control costs. Managers can use AI-powered tools that provide real-time insights into staffing needs, predict demand fluctuations, and optimize schedules. Similarly, in inventory management, AI-powered sensors and cameras automatically monitor inventory levels in real time, while providing employees with the insights needed to reduce the risk of stockouts or overstocking.

Even areas that have a high degree of automation, such as customer self-service, can benefit from augmented employees. As executives expand use of AI for personalized responses and follow-up actions over the next 12 months, they say 55% of the activities will be augmented versus 30% being automated.

Brands are finding the sweet spot for automation and augmentation.

Japanese retailer empowers people with AI to boost profits while reducing waste[10]

A leading retail company in Japan was grappling with costly problem: food and consumer-goods waste was eating away at their profits. The client's field staff needed data-driven insights to make more informed pricing decisions.

For a wide variety of products and the company's operations, price optimization relied more heavily on human judgment than data, leading to variations in customer forecasts, stock levels, and discount rates. These variations resulted in excessive and inadequate stocking, irregular discount amounts and timings, and large profit losses due to food waste and missed sales opportunities.

The company worked with IBM to develop a specialized price optimization AI system to analyze vast amounts of data, predict customer numbers and purchase patterns, and suggest optimal discount amounts and timings. Now the client's field staff can combine their own expertise with data to improve pricing decisions.

The pricing optimization system was designed to adapt to different product categories and sell-by durations, making it a versatile, scalable solution that can support a diverse product range.

Action guide

Prepare your workforce
to power your AI-centric brand.

AI is clearly impacting virtually the entire retail and consumer products
workforce—from the person stocking the shelves to those who sit with
you in the C-suite. It's being built into many of the tools employees use
every day, such as AI-powered sales forecasting tools or AI-driven
design tools. Leaders need to ensure all employees are prepared
to optimize the value AI can deliver.

Connect HR, IT, and business lines to define reskilling strategies.

Executives report leadership for reskilling efforts is divided among an AI center of competence (31%), HR (22%), AI committees (18%), and IT (17%). This disjointed approach is risky and can create confusion and frustration among employees. Leadership from HR, IT, and the business must join forces to shape an effective reskilling strategy. HR brings both an understanding of how to manage change and culture along with tactical implementation expertise. IT brings the technology knowledge, and business leaders can work directly with employees to define how AI can augment the workforce within each business domain. Have the joint team report directly into the C-suite and define measures to hold them accountable.

Predict every employee's potential.

If you only expect a third of your workforce will need reskilling or upskilling over the next few years, you aren't thinking big enough. Just as you forecast product demand, predict what employees will need to succeed in a rapidly evolving workplace. Look beyond just current skills to employee potential. Use AI-powered HR tools to anticipate how an individual might develop, perform, or contribute based on skills, talents, personality traits, experiences, and educational background.[11]

Share a blueprint for the workplace of tomorrow.

You may not know exactly what lies ahead, but you can communicate your vision for the future of work. From routine business operations to brand-defining areas, AI creates anxiety as employees worry about being replaced or not having the skills they need. Share your plans for automation versus augmentation with your workforce and help them see how AI will create new opportunities and enable them to do their jobs faster and better—from designing products to creating promotions to managing inventory. Consider how employees will use—and benefit from—technology as carefully as you consider the tech investment itself.

Safeguarding brand trust

With so many products vying for consumers' attention,
AI can either bolster or undermine a brand's trust.

Trust is paramount for both consumers and industry CEOs. Our 2024 consumer research report showed that 9 out of 10 consumers value trust when choosing a brand.[12] Similarly, 73% of retail and consumer products CEOs in our 2024 CEO study said trust will have a greater impact on their organization's success than any specific product or service.[13]

But AI adds new dimensions to the issue of trust, with risks impacting both business partner and customer relationships. Consumers are already wary of AI in general—only 53% trust the technology, falling from 61% over the past five years.[14] And within the partner ecosystem, companies need to know that each member is practicing trustworthy AI.

Retail and consumer products executives recognize that AI creates risks that can erode trust. Nine in 10 say misuse, such as creating misleading information, is their top worry associated with AI models, followed by privacy (85%), fairness and bias (80%), explainability (76%), and transparency (73%). For example, biased models can alienate customers. One consumer survey revealed that almost two-thirds of consumers avoid AI-fueled recommendations because they are biased or stereotypical.[15]

At the same time, these risks are slowing progress with generative AI opportunities. 57% of executives say data accuracy and bias is a barrier to gen AI adoption. 55% also cite privacy and confidentiality of data and 54% are concerned about cybersecurity.

Despite these concerns, organizations are struggling to enable the tools that can help them manage the risks. Companies have created a foundation: 87% of executives say they have clear AI governance structures. But less than a quarter of companies have advanced implementation of tools to assess, monitor, and manage AI governance (see Figure 4). "Showing your work"—designing solutions with explainability and transparency built in—will be critical to instilling confidence in consumers regarding your use of AI.

90% of executives
cite misuse as
their top concern
with AI models.

FIGURE 4

Few brands have advanced implementation of tools to help them manage their AI governance policies and activities.

Approach to AI governance

Advanced implementation of tools

84%
have defined roles and responsibilities for all stakeholders involved in AI

11%
have advanced implementation of AI accountability tools

91%
conduct ethical impact assessments to evaluate the impact of AI initiatives on different stakeholders

16%
have advanced implementation of AI bias and fairness tools

87%
have established clear organizational structures, policies, and processes for AI governance

23%
have advanced implementation of AI governance frameworks or policy tools

90%
build explainable models that can be easily understood and audited

24%
have advanced implementation of AI transparency and explainability tools

77%
conduct regular risk assessments to identify potential security threats

26%
have advanced implementation of AI risk and safety tools

Q. To what extent do you agree with the statements about your organization's approach to AI governance? Percentages represent those who agree and strongly agree. Q. To what extent has your organization implemented tools to assess, monitor, and manage the following? Percentages represent those who responded "fully implemented, reviewed, and updated regularly."

PepsiCo models a structured approach that enables it to scale AI responsibly. The company began by establishing a formal responsible AI framework and assembled a dedicated team to support it. The team then developed comprehensive policies and standard operating procedures to operationalize their AI principles. The governance board assesses, validates, and approves gen AI use cases against its responsible AI principles, sharing best practices and accelerators, and helping mitigate risks. The company is also building a platform that provides comprehensive governance of models, inputs, and outputs.[16]

Regulations are also intended to support trustworthy AI, but a lack of consistent guidelines across jurisdictions complicates implementation and stalls plans. In fact, nearly half (46%) of industry CEOs said their concern about regulations as a barrier to gen AI has increased in the last six months.[17]

However, AI can help companies manage the complexity. By automating the monitoring and analysis of detailed regulatory requirements, AI enables organizations to quickly identify potential issues and take corrective action. Executives plan to significantly increase their use of AI/gen AI in regulatory compliance over the next year. In product design and development, the percent increases from 53% to 79%, for sustainability, 74% to 88%, and for financial and regulatory monitoring and reporting, 66% to 94%.

In product design and development, executives plan to increase use of AI and gen AI to manage regulatory compliance from 53% today to 79% in the next year.

Using gen AI to streamline regulatory management across regions[18]

A multibillion-dollar global consumer products company operates in the highly regulated agricultural products industry. It devotes significant resources to managing compliance with local regulations, staying current with continuously changing guidelines, and integrating compliance into the product development process.

To help its product compliance and development teams reduce heavy manual workloads and free up more time to work strategically, the company worked with IBM to develop a generative AI-powered regulations assistant. This solution features a conversational user interface and provides a single source of truth for over 1,000 regulations impacting worldwide operations.

The regulations assistant enables product compliance employees to predict the impact of regulatory intent, summarize regulatory requirements, and compare regulations globally, faster than with manual processes. The AI tool also enables product developers to analyze the impact of regulations on product portfolios, review solution options, and query product specifications in a conversational journey.

To date, the regulations assistant has demonstrated that generative AI can orchestrate regulations data quickly and drive closer collaboration across borders to leverage regulatory success across the business. The tool also has the potential to increase efficiency by 8% to 13%, increase productivity by 10% to 15%, and increase profits by over $165 million during the next five years.

Action guide

Make trusted AI a brand differentiator.

Customer-obsessed businesses need to deliver on what their written policies dictate for responsible AI practices. Build confidence in responsible internal uses of AI before expanding to customer-facing use cases where broken trust can damage your brand.

Purge bias from your algorithms.

To provide transparency and explainability, define clear guidelines to monitor for discriminatory patterns. For example, conduct regular audits on historical purchasing and customer data that may reflect stereotyping and societal biases. Facilitate human-AI collaboration and oversight with training that helps employees understand and recognize fairness and bias. Prioritize diversity on your AI development teams. Establish a data governance framework to support data provenance, helping ensure your data is authentic and trustworthy. Maintain detailed records of bias mitigation efforts, create dedicated channels for bias-related feedback, and regularly incorporate insights into system improvements.

Leverage AI to proactively navigate regulations.

To stay ahead of an AI regulatory environment that is evolving at varying paces globally, use AI solutions to capture regulatory intent across multiple channels and forecast its impact. Choose AI development tools that build in governance and regulatory compliance management end to end. Proactively compare old and new regulations to quickly identify key focus areas within impact assessments. Automate tools to stay up-to-date and streamline audit processes.

Be open about your use of AI with customers and partners.

Build trust with customers by being up-front about data collection as well as how and where you are using AI. Offer opt-out options and avoid tech-speak in your explanations. Exchange AI roadmaps and strategies with business partners. Demonstrate your commitment to responsible AI practices and request the same of your partners.

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Study and research methodology

The IBM Institute for Business Value (IBM IBV), in cooperation with Oxford Economics, surveyed 1,500 global retail and consumer products executives in 15 countries in Q3 2024. 50% of the sample represented retail industry and 50% represented consumer products.

Participants were asked a range of questions in various formats (such as multiple choice numerical and Likert scale). They were asked about their organization's expectations, results, concerns, and barriers for scaling or planning to scale AI/gen AI within the enterprise and across their ecosystem partners.

To accomplish this, the IBM IBV ran a series of contrast analyses, including pairwise comparisons and data classification using hierarchical clustering highlighting results differences as shown in this report. Significance level for all analyses was set at ($p < 0.05$) level.

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IBM Institute for Business Value. June 2024.
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The enterprise guide to AI governance: Three trust factors that can't be ignored.
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