2017 Retail Outlook
Trends and Strategies in the Retail Industry

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THE VIEW LOOKING OUT

RETAIL MARKETPLACE: STAGGERING STATS

- 2016 holiday shopping
  - Online sales up 11-17 percent
  - Online sales 21-24 percent of holiday spend
  - For the second year in a row, Amazon accounted for over one third (38 percent) of all online holiday sales

Sunrise Breakfast: CIO Challenge, NRF 2017

RETAIL MARKETPLACE: THEMES

- Relationship driven strategy is the next frontier

- Technology dominates

- The Amazon Age

- Personalization

- Leverage big data to personalize each customer relationship

RETAIL MARKETPLACE

- One in four jobs in the United States is retail related

- In next five years, the industry will change more than it has in the last century

- Technology is changing the very core of retail

- Expectation of service is being set by digital even though most purchases still at store

RETAIL MARKETPLACE

- The world is your storefront
- The marketplace is crowded
- Pace of change continues to accelerate
- Consumers willing to pay for speed of delivery

NRF Big Show 2017, 5 year study by IBM on customer experience/3 mega trends

RETAIL MARKETPLACE

- Few consumers enjoy the shopping experience

- Consumers are highly knowledgeable about products forcing sales associates to up their game

- Consumers will take increased delivery speed even if they don't need it

NRF Big Show 2017, 5 year study by IBM on customer experience/3 mega trends

RETAIL MARKETPLACE: TECHNOLOGY LANDSCAPE

- Approximately 35-40 percent of jobs are at risk over the next 20 years due to automation

- Some experts believe many of these jobs will not be replaced

- We are in the age of exponential [machine learning](#)

- [Artificial Intelligence](#) (AI) is at the core of many company business models
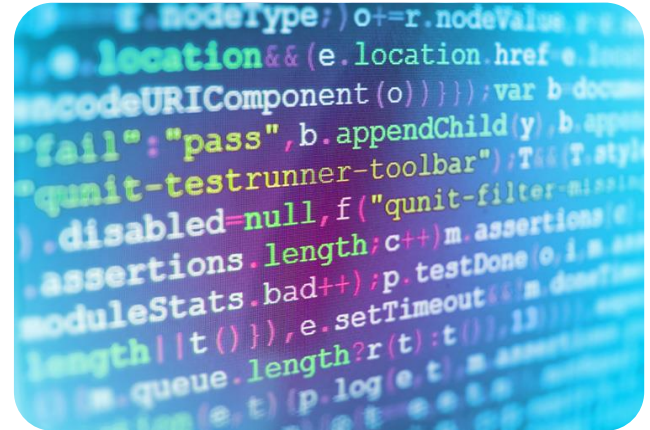
DIRECT TO CONSUMER (DTC)

- Paradigm shift causing hundred of store closures, a model that today's consumer prefers
- DTC will mortally wound the B and C malls
- Smart retailers are making the DTC avenue their primary focus rather than an after thought
- Brick and Mortar will continue to face increasing challenges
  - Overhead is costly
  - The consumer wants to buy direct at any time any where, period
  - Consumers don't want to buy an item four months in advance when they know it will be discounted soon
- Nike, UnderArmour and even Tesla are moving to DTC model

INNOVATION IN RETAIL

- 3D body scanning clothing store
- Handbag that detects toxic gases, barometric pressure and ambient temperature
- Shoes that tracks and interprets fitness data
- Self-driving cars
- Wearable technology powered by smart fabric
  - o Heated jackets
  - o Biometric hospital gowns
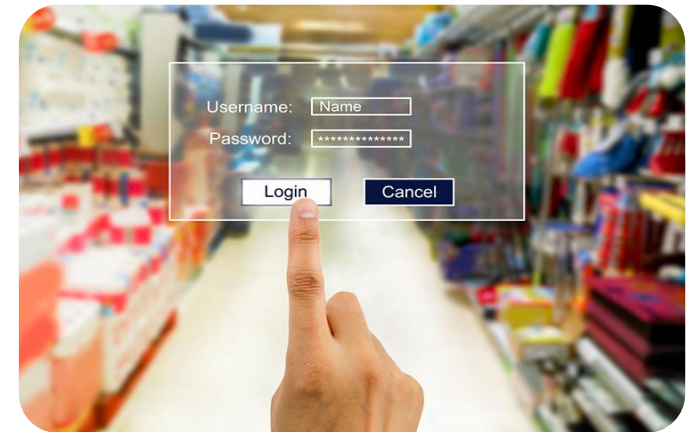
INNOVATION IN RETAIL

- Pop-up stores
- Hologram is the new mannequin
- Use of technology to identify emotions
- Kohl's pay
  - For Kohl's credit card users, Kohl's app let's you pay in store
  - Creates a seamless checkout integrating discounts, coupons and rewards
 - All transactions stored on phone making for easy returns

INNOVATION IN RETAIL: VIRTUAL REALITY

- Virtual reality will transform the shopping experience into a discovery experience
- Alibaba created a 3D brick and mortar New York department store
  - Buy+, a VR online shopping experience
  - Alibaba created a virtual reality store so consumers in China could shop at Macy's in New York using Buy+
  - Eight million people tried Buy+ in the first month of its launch
- Miku Hatsune
  - Virtual Japanese pop star had a ten city tour in North America
  - 15,000 people attended one concert
  - Over 900,000 fans on Facebook
  - Corporate collaborations with SEGA, Toyota USA, Google and more

INNOVATION IN RETAIL: ARTIFICIAL INTELLIGENCE (AI)

- AI incorporates a variety of variables to understand and predict customer behavior

- Tracks a customer's location and recommends clothing or accessories for that location

- 1-800 Flowers.com GWYN gift concierge – *Enter "Gwyn" in search box on 1-800 Flowers com website*
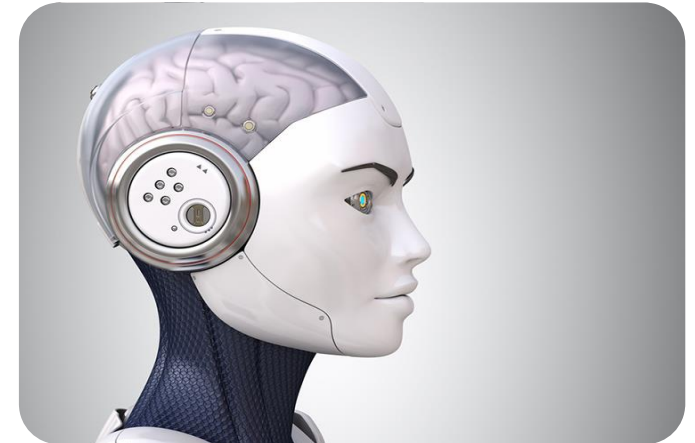
INNOVATION IN RETAIL: FACIAL RECOGNITION TECHNOLOGY

- Facial recognition technology
  - o Loss prevention
 - o Retail security
  - o Business intelligence

INFLUENCERS

- Influencers are individuals who have influence over potential buyers and are a powerful form of marketing

- $2.2 trillion retail dollars are influenced by digital/social media

- Influencers with large numbers of YouTube or Instagram followers can bring in hundred of thousands or even millions annually

- Take a look at the top 9 influencers

GENERATION Z

- Who is Generation Z?
  - Born after 1995
  - $44 billion in buying power
  - Outnumber millenials by 1million
- They want:
  - Speed in transaction
  - Strong engagement with brand
  - To speak in emoji not full sentences
- Most companies have focused efforts on millenials and are not ready for this "true digital native" generation
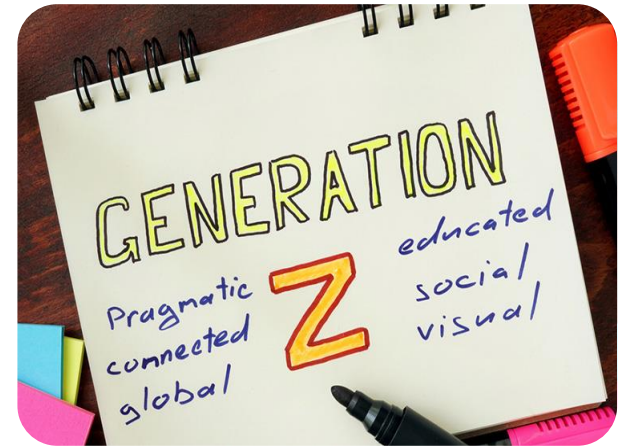
THE VIEW LOOKING IN

CYBERSECURITY

- Risk based approach to cybersecurity
- Cyber criminals have multiple ways to get to you
- Steps to fight cyber criminals
- Hire third parties to access risk
- Determine how much risk is acceptable

CYBER SECURITY - BE PREPARED

- Make sure technology is up to date

- Look at PCI Standards

- Email Security: Becoming key doorway to network infection

- Focus on employees, the human firewall

- Security is a competitive advantage

BIG DATA

- Data is the new currency for retail marketers

- Big data is at the core of AI, VR, Predictive Analytics, Personalization

- Big data incorporates multiple variables to better understand the customer

RFID

- RFID captures inventory management, item journey and assists in personalization

- Increases inventory accuracy, revenue, and gross margin

- Retailers who have piloted or launched RFID experienced 32 percent YOY growth

- Disney wrist band

POTENTIAL TAX LEGISLATION

- Marketplace Fairness Act
  - o States taking matters into their own hands
- Border Adjustability tax proposal
  - o Tax break for exporters
  - o Additional tax for importers
  - o Consumers will pay
  - o Will be tough to pass due to strong opposition and heavy lobbying efforts against the proposal

LEASE ACCOUNTING UPDATE: ONE YEAR CLOSER

- Refresher on new [lease accounting standards](#)
- Where to invest time and resources now
  - Review lease portfolio
  - Restructure leases if applicable
  - Determine if you have the right resources internally to navigate guidelines and reporting requirements
  - Determine if you have the right technology in place to be in compliance
  - Identify team (internally or externally) to create action plan

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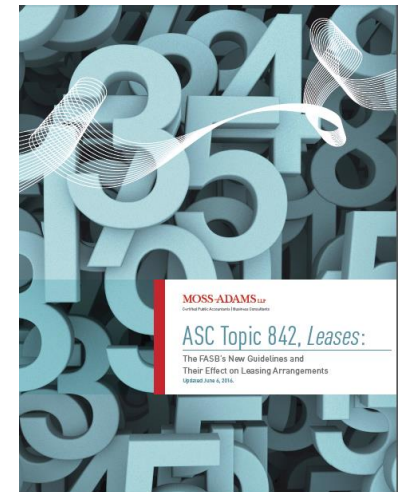
THE CONNECTION

HOW BRICK AND MORTAR COMPETES

- Secrets to brick and mortar success
  - o Know your market
  - o Differentiate your product or service
  - o Be an expert in your domain
  - o Leverage how close you are to the customer
- Click here for snapshots of unique stores download the app

HOW BRICK AND MORTAR COMPETES: TRANSFORMING THE IN-STORE EXPERIENCE


EATALY

EATALY offers an Italian culture experience through a combination of shopping, learning and tasting. Store includes a quick service cafe, live demonstrations, a grocery store and school.

SONOS

Sonos store provides a variety of living rooms to test out the stereo equipment. Goal is to mimic the stereo experience you would have at home.

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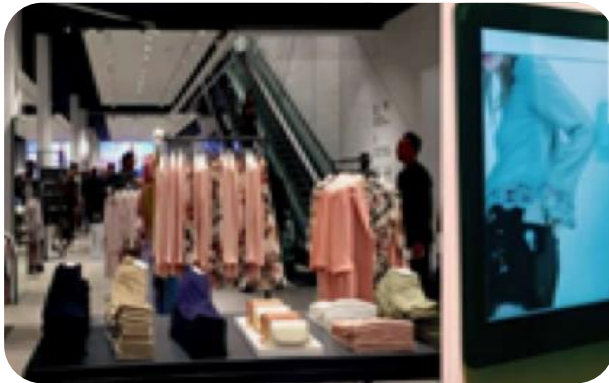
ZARA

Zara offers smart dressing rooms, equipped with iPads allowing customers to scan items and make requests for additional merchandise or sizes.

LULULEMON

Lululemon has small boutiques with limited designs and people in the back making the clothes. Provides a collaborative feel to designing the clothes.

HOW BRICK AND MORTAR COMPETES: EMPLOYEE ENGAGEMENT

- With highly educated consumers, knowledgeable, friendly sales associates are the key to the in-store experience
- Technology can enhance the sales associates impact through mobile POS and real-time inventory management systems that allow sales associates to instantly check for color, sizes and reviews
- Brick and mortar appointments for special events (interview, wedding), new wardrobe, or vacation wardrobe

PERSONALIZATION

- Concept of 1:1
- [Customization](#) of a product or service to meet the needs of an individual
- Formula for success
- Before you personalize, you must understand your customer

PERSONALIZATION

- Key is leveraging big data
- Privacy vs. personalization
- 74 percent of retailers who have adopted personalization as a strategy saw significant increase in sales

PERSONALIZATION

- Indochino
  - Custom high quality garment that fits perfectly at excellent price
- Shoes of Prey
  - Customized shoes designed by the customer received within 2 weeks
- Entertainer UK
  - Birthday club offers specific recommendations based on age of child, appropriate discounts

BRAND DEVOTION

- [Brand devotion](#) is a measurement of how deep a customer connects with a brand
- Brand devotion can be authentic, personal or tribal
- Brand devoted consumers spend 50 percent more than those who aren't devoted

BRAND DEVOTION AND LOYALTY PROGRAMS

- GameStop
  - Data drives personalized recommendations
  - Created Loot Crate stores for rewards members
  - Rewards members drive 3x more sales than non reward members

MOBILE

- Profile of the mobile customer

- Retailers must take full advantage of mobile technology's ability to improve shopping experiences and help store associates make in-store sales

SIX NEEDS OF MOBILE CUSTOMER

- Pricing
- Inventory
- Product reviews and advice
- Personalization
- Store guidance
- Checkout and loyalty

DYNAMIC PRICING

- <u>Dynamic pricing</u> is a change in pricing at least once a day

- By understanding the customer – what they want, urgency and willing to pay – a dynamic pricing model can be implemented

- Dynamic pricing will revolutionize the traditional buy and then markdown models

PREDICTIVE ANALYTICS

- Predictive analytics works by leveraging big data, customer intelligence, transaction information, and browsing habits to predict customers future behavior
- Model allows retailers to:
  - Recommend items based on browsing or transactions
  - Identify the most engaged customers, who is likely to buy and when
  - Target promotions to the most profitable customers
  - Optimize pricing

INVENTORY MANAGEMENT

- <u>On-demand manufacturing</u> huge paradigm shift from mass production
- <u>Virtual inventory</u> includes all of the products a store or business has on hand (retail floor, in a back room, or at a warehouse)
- Real-time inventory
- Shoe Carnival success story

BUZZWORDS

- **Personalization.** Engaging the individual customer in an experience based on their likes and activity patterns.

- **Customer-centric** . Placing the customer at the center of a company's marketing effort.

- **Artificial Intelligence.** The ability for a computer to perform human decision making processes.

- **Dynamic pricing.** Pricing strategy is based on market demands.

- **Influencers**. Individuals who have influence over potential buyers.

- **Relevancy.** Meaningful to the consumer.

BUZZWORDS

- **On-demand manufacturing.** Items manufactured on the spot to customer's specifications.

- **Virtual inventory.** Inventory is kept across the organization but accessed via online.

- **Predictive analytics.** Allows one to make predictions of future purchasing habits through data-mining and modeling.

- **Brand devotion.** Strong relationship between consumer and a brand, based on truth and authenticity

- **Machine learning.** Type of artificial intelligence that provides computers with the ability to learn without being programmed.

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