

## What's in Store for 2018

**H**ow many retail experts predicted Amazon's blockbuster acquisition of Whole Foods Market?

Based on news reports, one: Scott Galloway, the outspoken and often renegade professor of marketing at New York University's Stern School of Business. Judging from the shockwaves the announcement created, most never saw it coming.

The business of predictions is not for the faint-hearted. Forecasting what's next for the retail industry, in the throes of its most transformative period in decades, is a dicey objective at best.

Witness those who spent the better part of 2017 predicting a retail apocalypse, based largely on the number of bricks-and-mortar stores that have announced closings. While there's no question that the over-stored and over-mailed industry is experiencing a correction, the industry is not dying.

Absent from the dire forecasts are stories of nimble retail companies embracing new ways of doing business and re-engineering how they connect with consumers. They're blending physical and digital experiences, deploying new technologies and testing everything from alternative payment options and once unheard-of collaborations to divergent thinking about logistics.



*The acquisition of Whole Foods Market dramatically augmented Amazon's local delivery distribution system.*

And then there's the consumer — capricious, demanding and indulgent. Personal income is up ever so slightly; disposable personal income has increased to nearly \$15 billion, though larger proportions of spending are directed toward healthcare and wellness, services, experiences and recreation.

So what's in store for 2018? *STORES* editors have a few educated guesses. After dozens of conference sessions, endless nights spent reading reports and a daily diet of tech and trend news, we're feeling confi-

dent enough to share some predictions as to how things are likely to shake out in 2018.

**Look for additional acquisitions of physical retail stores by digital companies and vice versa.**

Digital needs physical. Physical needs digital. Sure, the two can peacefully co-exist, but the power of combining the two is unassailable.

Amazon's acquisition of Whole Foods is the perfect example. Buying Whole Foods opened the door for Amazon to at-

tract more premium food vendors, while Amazon augmented its local delivery distribution system with 460 stores in upscale urban and suburban locations at a time when grocery delivery wars are reaching a fever pitch.

More recently Albertsons purchased Plated, and Signet Jewelers and James-Allen.com put a ring on it. Then there's Walmart, which is flexing its physical store muscle to grow digital sales. The acquisitions of Modcloth, Moosejaw, Shoebuy and Bonobos provided Walmart a greater stake in the digital marketplace, entrée into higher-profit categories and access to more affluent shoppers. Still, it's Walmart's ability to leverage its massive portfolio of stores as pick-up destinations for shoppers that exemplifies why digital needs physical.

Warby Parker has become the poster child of digital retailers with physical ambitions. In 2017, plans called for opening 25 stores to create authentic relationships with customers and demonstrate that its glasses are of equal, if not better, quality than competitors.

Bonobos has been opening "Guideshops" for some time now, believing the ability to see, touch and try on are pivotal



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factors in purchasing. The real benefit: the information collected digitally, the relationships built in person and the chance to reduce the high costs of returns that have plagued online apparel sales.

One Kings Lane opened its first physical retail location in Southampton, N.Y., this summer. Originally opened as a pop-up shop, the brand has decided to extend the lease and invest in a longer-term relationship with the Hamptons community. The shop will continue to operate with regular hours throughout the year.

### The showroom strategy will gain momentum as retailers try a minimalist approach to selling.

Nordstrom's October debut of a smaller retail concept surprised industry insiders. Nordstrom Local doesn't have dedicated inventory on hand. Instead, it's packed with services; personal stylists can assemble recommended items and assist with ordering merchandise. Shoppers can buy online while they're inside the store, pick up those orders the same day, have alterations and tailoring done, even enjoy a glass of wine and a manicure.

While smaller brands have dabbled in this approach to selling — think Blue



Warby Parker opened physical stores to help create authentic relationships with customers.

Nile and Rent the Runway — the fact that a more traditional retailer like Nordstrom is dipping a toe in these waters qualifies as a watershed moment.

For several years the growth of e-commerce has put pressure on traditional bricks-and-mortar retailers to “right-size” physical stores. Target, Sephora and Kohl's have responded with smaller, tech-enabled spaces that provide shoppers with a more efficient experience.

Look for more retailers to adopt this showroom/webroom/guideshop strategy. Shoppers are receptive to this type of shopping experience. They're comfortable working with a stylist who captures measurements, size and style preferences digitally, and they gravitate toward the extras — like tailoring services or a cold drink.

At luxury shoe brand M. Gemi, associates use a clienteling app to get to know shoppers and can easily access online inventory and arrange for shipment directly to the customer. Comfortable chairs and a glass of champagne go a long way toward keeping shoppers happy and making the experience memorable.

The economics are compelling for retailers too: Beyond less inventory, a smaller footprint translates into fewer associates, higher sales rates and fewer returns.

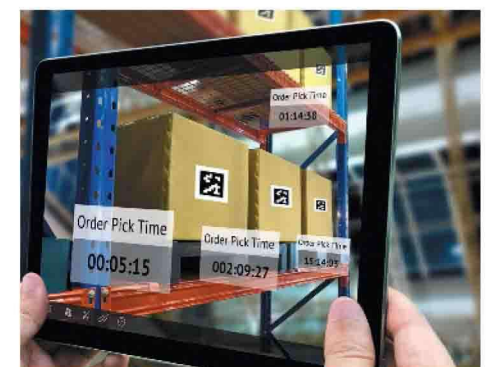


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### Augmented reality will be everywhere as retailers leverage the technology to engage shoppers more deeply.

Unlike its oft-cited counterpart virtual reality, AR has been embraced for its simplicity; no need to use a headset to immerse oneself in this technology. Lowe's Holoroom and IKEA's catalog are both examples of AR that have taken center stage.

Gartner has predicted that 100 million consumers will shop via AR by 2020. Given the number of applications already in place, that guesstimate may be underestimating its reach: Today shoppers rarely shop for a new lipstick without first trying it on virtually. The same can be said for furniture shopping, where an early step in the process now calls for placing a virtual couch into a photo of one's living room to check the size and style. The beauty of AR

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is the role it plays in providing information and insight to support buying decisions.

While AR has captured shopper interest, VR is helping retail design teams visualize store layouts and shelf set-up. Experts believe next-generation opportunities lie in using the technology to test store remodels and redesigns before committing to a project. It also can be enormously valuable as tool for executives to evaluate performance by “walking” through remote stores or global units.

Look for mixed reality, the love child



of AR and VR, to make inroads as well — though at a slower pace. MR uses sensors, advanced optics and next-gen computing power to map and track surroundings, merging real and virtual worlds to produce new environments and visualizations where physical and digital objects co-exist and interact in real time. Think about an

MR mannequin that is a shopper’s exact body type and can be dressed with future purchases — talk about a “wow” factor.

**Though still in an embryonic stage, now is the time to figure out how artificial intelligence can help create customer-centric experiences.**

After decades bemoaning how to derive insights from the mounds of data being amassed at retail companies, AI is the chance for merchants to grab the brass ring.

Officially, AI is classified as the branch of computer science that focuses on enabling machines to use decision-making and learning abilities to solve both real-life and hypothetical problems. At retail, AI

promises speedier processing of enormous mounds of data; companies look forward to the possibility of using AI to suggest data queries and possible outcomes, and to optimize execution of sales, customer relationship management, shopper recommendations, manufacturing, logistics and payments.

Most claim its greatest value is as a tool to enable differentiated customer experiences. According to Gartner research, 85 percent of retail customer interaction will be managed by AI by 2020; 30 percent of all companies will employ the technology to augment at least one primary sales process by then.

AI is a long-term strategic bet; while most companies are planning to increase investments, the learning curve will be steep. Though it is unquestionably the most discussed technology in retail circles, it is also one of the most misunderstood. Many use the terms AI and “machine learning” interchangeably, but there are subtle differences: AI looks to build machines capable of intelligent behavior; machine learning is the science of getting computers to act without being explicitly programmed.

Examples of AI that shoppers are familiar with include purchasing suggestions on sites like Amazon, live chat bots on websites and recommendation services on Spotify and Netflix. Future opportunities are bolder, including the possibility of sentient robots and nanobots implanted in the human brain to access information and archive thoughts.

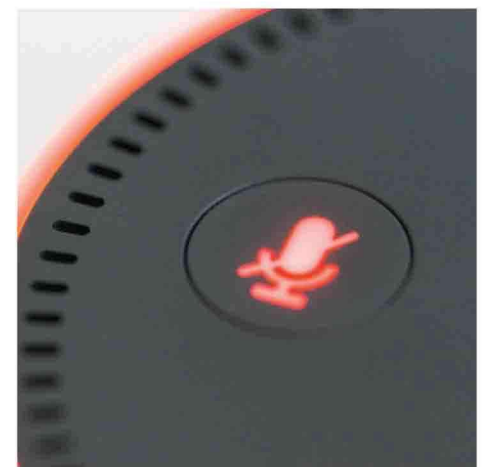


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**Move aside mobile — the commerce of the future is voice-powered.**

Conversational commerce, voice commerce ... call it what you will: What really matters is the economic potential in the interaction between shoppers and an ever-growing list of technologies including Alexa, Google Home and Siri.

Voice-first computing, powered by AI and natural language processing, surfaced in 2011 with the introduction of Apple’s Siri. The novelty soon became essential as users — and businesses — tuned in to the value of AI assistance, especially as it relates to shopping. In a relatively short period of time, consumers have discovered the convenience, speed and ease of voice commerce. One day it’s “Alexa, can you order a six-pack of paper towels?”; the next day they try it again. Before they know it,



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“Alexa, add ‘X’ to my cart,” is a comfortable, expedient way to reorder basics. Shoppers’ comfort level with this method of commerce has nowhere to go but up.

Experts are already tossing around numbers: Walker Sands’ 2017 “Future of Retail” study reports that one in five U.S. customers have made a voice purchase through Amazon Echo or another digital home assistant, and another third plan to do so in the next year. ComScore research forecasts 50 percent of all searches will be via voice by 2020; Gartner reports virtual assistants will participate in a majority of commercial interactions between people and businesses by 2020.

Retailers need to raise their voice skills — shoppers are talking.



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**The rush to find more effective ways to get digital orders into customers’ hands will intensify, creating more strain on the supply chain and crimping profitability.**

Retailers have been trying to solve supply chain puzzles for years. They desperately want to satisfy shoppers’ demands but face a problem of inventory — specifically, inventory accuracy. Despite software tools intended to manage inventory-related challenges, gaps remain in visibility and forecasting.

Hype is focused around last-mile efforts; some large retailers including Walmart and Target are experimenting with new delivery tactics, curbside pick-up and refrigerated lockers. Getting product into the hands of shoppers fast enough to feed their desire for items delivered in a matter of hours is critical to satisfying a growing cadre of consumers.

Still, as the experts at RSR continue to point out, “If you don’t know what you have, where it is or how you can get it, nothing else really matters.” Moreover, if retailers are fulfilling product from the nearest store and don’t have the right inventory systems in place to manage product move-

ment, they risk disappointing shoppers.

New models such as Instacart, UberRUSH and Postmates offer ecommerce capabilities to retailers who lack fulfillment. But the real problem is less about last mile and more about managing inventory against the backdrop of omnichannel strategies that combine in-store experience with direct-to-consumer delivery.

OrderDynamics’ recent Omni-1000 report found that only 29 percent of retailers in the United States offer click-and-collect, or buy online, pick up in store — which may be tied to inventory challenges. The report also found that

while nearly two-thirds provide basic inventory visibility to online consumers, only 8 percent offer a detailed level of inventory visibility.

No doubt retailers understand the tremendous value of the omnichannel consumer — and likewise the perils of gaps in the ability to serve this shopper.

**The path to consumer nirvana in 2018 will consist of unique experiences, transparency, operational efficiencies and a vigilance on reducing pain points in the shopper journey.**

Consumers can be a tough crowd — demanding, unforgiving, not particularly loyal and as fickle as the weather. Still, for those who manage to make a connection, the rewards can be sweet.

The trick for retailers will be to focus their technology firepower on creating unique experiences. Lowe’s relies on AR and VR to deliver a one-of-a-kind experience to its do-it-yourself shoppers; Sephora focuses on creating meaningful customer connections and a customized approach to beauty with best-in-class digital tools: Its

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new smaller footprint Sephora Studio is the first to offer what the beauty retailer calls a 75-minute “Custom Makeover Plus.”

How critical is it to get the experience piece right? The answer can be found in the long lines that form at the Starbucks units inside convention centers. Though the host is often supplying free coffee — maybe even Starbucks brand — devotees line up for their drink and an experience that can’t be duplicated.

Personalization remains a retail enigma, and there’s not likely to be a metamorphosis in the next 12 months. Nonetheless, it’s not something that retailers can let slip, especially as companies such as Netflix and Spotify continue to hone their skills when it comes to individualized recommendations and playlists. Once consumers taste what can be, they expect other businesses to deliver the same treatment.

The one area where personalization seems to be sticking is subscriptions. Stitch Fix, an online service that combines personal styling with complex algorithms to customize clothing deliveries for men and women, has ushered in a new era of personalization. Winc, a wine subscription service that is gaining popularity, sends



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customers a variety of wines customized to their palate.

Another way to connect with today's consumer: television. Americans have returned to the couch, absorbed in television shows and proudly sharing their binge-watching inclination. Retailers need to find a way to connect and capitalize.

**Strange bedfellows? Not anymore. Partnerships and collaboration are the stuff alternative business models are made of.**

Connecting with consumers today can mean teasing out new connections inside traditional business models. Seeing unexpected collaborations can spark excitement and create energy at a time when relationships have begun to grow stale. Think Martha Stewart and Marley Spoon, IKEA and Task Rabbit.

Designer collaborations will always be important but when the partnership is truly unexpected, the outcome can be as well. Witness supermodel Heidi Klum teaming up with supermarket chain Lidl to create a capsule collection, marking the first time she has put her name on a clothing line. The collection, consisting of 18 core pieces and priced in line with Lidl's value mindset,



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appeals to time-starved shoppers who jump at the chance to scoop up a fashion item along with a quart of ice cream.

This fall, Ace Hardware announced it had acquired a majority stake in ecommerce startup The Grommet, the company behind

more than 2,500 innovative consumer products including FitBit, OtterBox and SodaStream. A collaborative partnership was forged in 2016, and in just a short time the helpful hardware folks determined that Grommet customers visited its stores over 50 percent more often than the average Ace Rewards customer and spent almost three times as much.

Bottom line: Retailers need to explore creative collaborations and strategic partnerships to drive consumer relevancy and business viability. It's imperative in the year ahead.

### Here are a few other things to keep an eye on:

Commercial businesses are finding **new types of revenue models** that solve pain points in the customer experience, enabled by innovative use of technology and the Internet of Things. DSW offering shoe rental and Volvo's subscription service are just the tip of the iceberg.

Like it or not, **digital currency** is coming; news of global banking giant JPMorgan Chase buying up bitcoin-bullish payment network WePay in a rare fintech acquisition could be an important turning point.

**3D printing** is quietly growing and has the potential to shake retail's foundation. McKinsey predicts that additive manufacturing could have an economic impact of \$550 billion annually by 2025. Retailers shouldn't wait until consumers can print their own jeans at home to pay attention.

Consumers are spending on **health and wellness**. Retailers who help consumers on their journey to peak physical, mental and emotional performance are headed in the right direction.

**Cybersecurity monitoring, detection and remediation** will top retail initiatives in 2018. Vendor security, proven to be a vulnerability, has reached critical status. All need to guard against new attacks aimed at the automation communications layer that are likely to emerge as more consumers use home automation/AI assistants such as Amazon Echo and Google Home.

**IoT** has already refined how businesses operate and people interact with one another. Predictions call for IoT to reach a staggering 75 billion devices by 2025. Retailers will continue to explore ways to use IoT in the coming year for everything from keeping better tabs on their inventory to managing losses from theft and connecting with shoppers.