9 Trends Affecting ~~their~~ YOUR Future

Where Tomorrow's Shoppers Are Heading

> By Mike Troy

An image of babies scooting across the floor toward an unknown destination is the perfect metaphor for the state of the retail industry. A place where a new generation of consumers is moving quickly into an uncertain future that is exciting, confusing and scary for retailers and brands.

Every aspect of the industry is expected to undergo a transformation more radical than anything that has come before and the change will occur in a compressed timeframe. Retailers and brands have to figure the future out fast, faster than consumers and competitors, to be relevant in a world reshaped by the forces of technology, lifestyle choices, new shopping behaviors and attitudes toward consumption.

While much is uncertain, we took our best shot at picking nine of the most significant trends affecting future shoppers and the industry. The result is a blend of trends ranging from the well-established ones poised to intensify further to newer trends with the potential to accelerate quickly. All will affect tomorrow's shoppers and the retailers and brands intent on serving them.

We arrived at the list after countless conversations with industry thought leaders, executives at companies facilitating disruption and listening to presentations at industry conferences. We dissected consumer research, read whitepapers and received input from senior leaders within the Innovation Practice of *Retail Leader*'s parent company EnsembleIQ. Here's a look at the future where shoppers are heading and what retailers and brands can expect.

CONVERSATIONAL COMMERCE

The desire to eliminate friction and increase shopper convenience has long influenced the retail industry's evolution. Think shopping carts, conveyor belts at checkout and scanning. More recently, technology has eliminated pain points shoppers didn't know they had until a new, better way emerged and behaviors changed forever. That is happening again with the dawn of voice-enabled commerce, or VEC.

Smartphones are nearly ubiquitous and now the household penetration rate for in-home speakers with voice assistants is growing quickly. Advances in natural language processing have made voice interaction amazingly accurate with huge implications for retail. The most notable examples of course are Amazon's Alexa, which is accessible through a range of devices including multiple Echo form factors and Google's Home device powered by the Google Assistant.

Amazon routinely reports that Alexa-enabled devices are among its top selling items and Google said it doubled device shipments in the fourth quarter and sold tens of millions of units with retail partners such as Best Buy, Target and Walmart experiencing strong performance. The company also said it saw great momentum around Google Assistant usage, now available on more than 400 million devices ranging from Google hardware to iPhones, tablets and watches.

The household penetration rate for smart home speakers is projected to surpass 25% this year, according to Forrester, and within five years will top 65%. Users are becoming more and more comfortable with the devices, integrating them into life's daily routines, including shopping. VEC eliminates the unnatural process of typing, tapping and swiping and will reign supreme as the next big advance in the elimination of friction.

Shoppers will be able to articulate their needs for products or even services and thanks to ever-improving fulfillment capabilities can have select products at their home in less than an hour. It will be the new normal for a generation of shoppers coming of age in homes equipped with smart home devices. The act of making a paper list, visiting a physical store, selecting products from shelves and placing items on a belt to be scanned by another person will seem archaic.

VEC represents a new frontier for retailers and brands who will need to develop shopper engagement strategies, operating models and strategic partnerships to find success. And conversational use cases aren't just for shoppers. Technology providers such as Theatro have developed a conversational interface for store associates that replaces clunky handheld devices to simplify store operations and the delivery of customer service. Meanwhile, Symphony Retail Solutions offers a sort of Alexa for analytics capability known as CINDE (Conversational Insights and Decision Engine).

If there is one qualifier for the future impact of voice it is around the potential of fully predictive models. IoT enabled products that reorder themselves or AI-driven replenishment models that fulfill products based on consumption patterns already exist. Generally, speaking VEC trumps such fully autonomous commerce initiatives because humans are irrational, impulsive and occasionally change their minds or want to try new things.

DEMOCRATIZATION OF RETAIL

Retail is everywhere all the time and for future generations that will be even more the case. In a world where every image is theoretically shoppable with the scan of a smartphone or the utterance of a desire is quickly fulfilled, the only respite from shopping may be while sleeping. Even then, predictive algorithms will be churning to anticipate the slumbering consumer's needs.

The notion of always-on retail is a huge societal shift from the era when physical retail dominated and operating hours were restricted. Walmart changed that with the advent of 24-hour supercenters and now there is the Internet, which never sleeps. Beyond the ubiquity of retail and its accessibility, the democratization of commerce speaks to the phenomenon that everyone can be, and many are, retailers thanks to the elimination of traditional barriers to entry. Dramatic growth of third party platforms such as Amazon, Walmart, Etsy, eBay, and others give budding entrepreneurs access to shoppers and a digital support infrastructure superior to some smaller and mid-size companies still wrestling with digital operations.

Big tech companies such as Google and Facebook also facilitate commerce. It is becoming possible for literally everyone on the planet with access to inventory, fulfillment capabilities and smartphone to be a retailer. The notion of "going shopping," which implies a time specific visit to a physical location, won't resonate with future shoppers. They are shopping all the time, or have the ability to do so anyway, from millions of merchants worldwide whose "stores" are accessible via digital means.

DIRECT TO CONSUMER

These are strange times for retailers and consumer goods companies wrestling with new shopper behaviors and new types of competitors. Both are causing fundamental changes to product distribution methods and business practices of which one of the most significant is the growth of direct-to-consumer sales. If ever there were a case to illustrate that the consumer has all the power, the DTC movement is it, and it will be even more so in the future.

Shoppers expect products to be available everywhere all the time and will seek out those able to satisfy their needs because they have the digital means to do so. The DTC shift happened because retailers and their trading partners clung to status quo methods of product distribution too long, which left an opening for new entrants unencumbered by legacy business practices such as selling direct to end users. Now the floodgates have opened and legacy brands large and small have abandoned outdated notions of channel conflict to embrace DTC efforts and dedicating senior leadership to the channel. They have no choice because consumers expect to be able to buy whatever, from whoever, whenever "they" choose, not when a legacy retailer and major CGP company allow them to do so based on pre-Internet business practices.

Brands who underestimate the potential of DTC will be sorry because it promises to be the source of future growth and valuable insights. It will also change the dynamics of retailer and supplier conversations about new item launches, planogram resets, online availability and investments in retailer specific demand generation programs. DTC gives brands the ability to satisfy their most passionate fans who may desire products lacking the mass appeal traditionally required to warrant placement on store shelves. DTC also lets brands rethink product launch strategy since the viability of an item isn't determined by the willingness of a critical mass of retailers to stock the product.

The DTC space is ripe for startup activity too. Keep an eye on a company called INS, which recently raised $43 million to build a platform launching later this year that facilitates direct to consumers sales and is said to have pre-launch interest from big CPG.

THE ETHICAL ENTERPRISE

Many of the trends influencing consumers' future behaviors relate to the when, where and how aspects of commerce. Things like product discovery, payment methods, store experience and fulfillment options. However, before shoppers make decisions in any of those functional areas they first make emotional judgments about why and with whom they will do business.

This is where the role of the ethical enterprise and the modern articulation of the concept comes into play. Retailers and brands have always known that doing the right thing mattered. It's why there are so many corporate social responsibility reports touting accomplishments in areas such as water conservation, diversity, working conditions, women and minority sourcing accomplishments and disaster response efforts.

What it means to be an ethical enterprise has extended beyond such core areas with "mom and apple pie" appeal to unfamiliar new, emotionally charged territory where political and social justice influences are in play. Large companies are more accustomed to finding themselves in the crosshairs of vocal opponents who leverage digital tools to amplify their outrage. But a big shift has occurred where companies of all sizes are expected to take a stand on hot button issues in ways they never were before. It is a literal minefield filled with nuance because depending on the issue or individual involved it may not be enough to simply express outrage. The level of outrage needs to be proportional and timely or a company risks being perceived as slow to act or inauthentic, choosing to act only after public outcry.

This phenomenon creates a new marketing dynamic for retailers and brands when it comes to advocacy and support of public policy where issues can be double edge swords. Most recently brands that provided benefits or price discounts to NRA members felt compelled to distance themselves from the organization after a school shooting in Florida, which caused a backlash among NRA members.

This is an uncomfortable space for many mass market retailers who have long sought to avoid alienating any shopper segment. Retailers and brands are under tremendous pressure to change that mindset in an era when being an ethical enterprise means being more visible on social issues.

5

CYBER SECURITY

It has been said there are two kinds of companies: those that have been hacked and those that don't know they have been hacked. There is also a third type of company: one that has done extensive vulnerability testing of its own systems and employee training to thwart bad actors; engaged in contingency planning and allocated the financial resources to secure data, which has become every company's most valuable asset; and allocated appropriate financial resources and elevated cyber security to a C-level position.

Such measures are not extreme considering the technology world is in an arms race with sophisticated cyber criminals motivated by financial gain or simply the destruction of value. The consequences of failing to maintain the absolute highest levels of vigilance are enormous. Nothing destroys consumer trust or sends investors rushing to the exits faster than a data breach. Obviously, shoppers who lack trust in a retailer's ability to protect their personal information and financial details will frequent other merchants, sales and profits will suffer and so will the stock price of publicly held companies.

Just ask Target. The data breach it suffered in late 2013 dealt the company a staggering blow that resulted in huge fines, costly measures to restore confidence, a change in senior leadership and a host of new strategic initiatives to revive growth. Target lost valuable time in the process, which is something no company can afford when the market is moving fast and consumers have abundant choices.

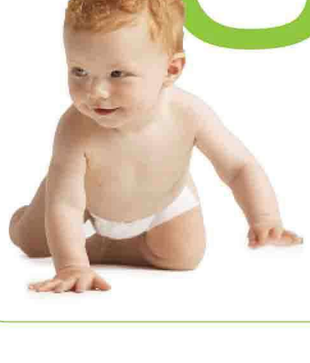
Cyber security has risen high enough as a risk factor that S&P working with Guidewire Software has integrated the firm's risk analytics into S&P's Global Ratings360. Cyber security is a growing component of business risk and financial losses that the firm, citing a report from the International Monetary Fund, said ranged from $250 billion to $1 trillion globally last year. The wide range suggests that no one really knows.

The Securities and Exchange Commission at least wants investors to be more aware of digital security risks and recently updated guidance it first offered on the matter in 2011. Companies are now expected to develop policies that allow them to quickly assess cyber security risks, make public disclosures and prevent corporate insiders from trading shares if they have knowledge of a cyber incident.

In addition to companies' own efforts, the scope of the problem is such that major trade groups have entered the fray to facilitate information sharing. The National Retail Federation recently hired former cyber security think tank expert and U.S. Senate homeland security advisor Christian Beckner to serve as senior director of retail technology. In that capacity, Beckner will lead NRF's cyber security efforts such as the NRF Retail Information Sharing and Analysis Organization and Threat Alert System, which gathers intelligence on cyber security threats targeting retailers and alerts companies to help them keep data secure.

Likewise, the Retail Cyber Intelligence Sharing Center (R-CISC), a group spun off from the Retail Industry Leaders Association (RILA) two years ago and led by former RILA executive Suzie Squier, is aggressively promoting the exchange of information. The group operates the Retail Information Sharing Analysis Center, which serves as a portal for the real time exchange of threat intelligence, strategic knowledge and tactics.

6



GLOBALIZATION

There is more to globalization than product sourcing and trade agreements. Aside from economic considerations, globalization is taking on new meaning for retailers and brands. Shoppers' expectations of retailers in an analog and more homogenous domestic marketplace were easier to satisfy and a retailer could define its competitive set based on a tight geography.

In an increasingly digital and diverse nation, retailers have to meet shoppers' expectations for a product assortment that resonates with their culture and community and competitors are no longer defined by proximity to a customer's home. This is a major shift that will manifest itself in several key ways. For starters, globalization means shoppers' expectations are as easily set by an overseas competitor as one down the street.

In the United Kingdom, online grocery retailer Ocado operates automated warehouses filled with a swarm of 1,000 robots that can pick a 50-item order in less than five minutes and speed it on the way to a customer's home. The company is working on autonomous delivery vehicles and robots that can climb stairs to

7

THE PRIVACY CONUNDRUM

Customers want it all. Low prices on quality goods, clean stores, easy to navigate websites, fast and free shipping, no-questions-asked returns and organic and GMO free food, even if they don't know what GMO means. Retailers are used to the shifting sands of customer expectations and know they must continually find ways to meet them.

One way the bar is being raised again is shoppers' demand for personalization, a vague objective that can take many forms but is most often associated with marketing communications and promotions based on purchase behavior. Shoppers have shown a willingness to surrender personal information if they derive value from doing so. The general assumption is that digital natives are less averse about sharing personal information while older folks tend to be more guarded and apprehensive when it comes to who knows how much.

While all shopper segments appreciate and increasingly recognize the value of their personal information, they still value privacy and chafe at perceived abuses. Retailers have become their own worst enemy in this regard with some operators routinely abusing the trust online shoppers have placed in them with incessant email marketing tactics.

That's just one example, but there is growing concern, especially among consumer activists, that Americans don't know what they don't know regarding the extent to which their personal information is collected and used, and lengthy and cryptic privacy policies don't offer much clarity even to those who read them. Meanwhile, some shoppers at the forefront of technology have eagerly embraced facial recognition technology, which involves an entirely new layer of data sharing.

All of these issues highlight why the European experience with the General Data Protection Regulation (GDPR) that goes into effect this May has everyone from compliance types to marketers and finance folks concerned. The regulations give individuals greater control over their personal data and imposes stiff penalties on companies who use information improperly.

Normally European regulations aren't a big deal for U.S. retailers, but this situation is different because GDPR has cross border implications for a digital world where information doesn't respect boundaries. The sweeping new law applies to all companies that collect and process data belonging to European citizens and could serve as a model for U.S. regulation if privacy advocates have their way.

According to the London-based Open Data Institute, GDPR creates a strange contradiction because customers are increasingly reluctant to share their data even though they have service expectations that can only be delivered by the collection and merging of data from multiple sources.

Resolving the privacy conundrum while delivering against shoppers' heightened expectations represents a major operational, marketing and ethical challenge for retailers and brands.

deliver to the door. U.S. retailers are focused on rolling out click and collect service but why would anyone want that if they can have the order delivered?

In China, Alibaba's supermarket/restaurant concept Hema is blending physical and digital in unique ways and delivering orders in a tight geographic radius within 30 minutes. Hema stores are an app-driven exercise in transparency where customers shop with their phones to access information and receive product suggestions. The app can be used to make payment or they can use a facial recognition kiosk. Employees use the stores to pick and pack orders that are delivered to a trading area of less than two miles. The concept opened three years ago and there are currently about 30 Hema stores with plans for another 30 this year.

The globalization phenomenon is also evident in the growth of cross border e-commerce, which is the fastest growing part of e-commerce. Cross border retail volumes worldwide are forecast to reach $900 billion by 2020, up from $300 billion in 2015, according to DHL. Online retailers are increasing their sales by as much as 15% on average simply by extending their offering to international customers who may be less price sensitive, according to the firm. A new breed of solution providers facilitate cross border trade to simplify the process for retailers and it is great for consumers who are able to order goods from anywhere in the world. For example, a company called PideloRapido gives customers in Latin America access to 160 million eBay listings in the U.S. and provides a door-to-door delivery service.

8

BRAND REDEFINED

The rules of brand building have changed, creating huge implications for major consumer goods companies and their trading partners. And more change is on the way as key drivers intensify, altering the definition of brand for future generations of shoppers.

The concept of brand has been traditionally about trust, quality and simplifying choice for shoppers. That combination isn't as relevant as it once was. Brands have eroded their decision simplification advantage with prolific line extensions that made it harder for even loyal shoppers to choose among brand variations. As for quality, major national brands have seen that advantage diminish too thanks to steady improvement by retailers' private brands regularly touted as good or better than branded equivalents. Consumer advocates often reinforce that view, suggesting that being a smart shopper means purchasing store brands.

Trust remains an important driver of shopper behavior, but even that is no longer the exclusive domain of big brands. Consumers are just as likely to trust, experiment with and make repeat purchases of smaller brands perceived as innovative, authentic, specialized or cause related. No niche is too small for a brand to occupy in the digital age and social media platforms make it easy to generate awareness with a target audience. Contrast that with traditional barriers to entry brands faced, such as securing an appointment with a buyer at a larger retailer, securing shelf space or spending millions on national campaigns to generate awareness.

Now, consumers inclined to buy smaller or mid-tier brands are causing a major headwind to large CPG companies' growth that shows no signs of dissipating. The emergence of these smaller challenger brands has given rise to the phrase "ankle-biters," which tends to be used with derision as thought the small brands are a nuisance to larger established brands. One major impact of this new market dynamic has been a flurry of acquisition activity and large CPG companies look for a faster path to growth.

M&A activity is forecast to continue at a rapid pace and thanks to the relative ease with which brands can be built there will be a full pipeline of targets from which to choose.

9

EXPERIENCE MATTERS

There is a lot attention being paid to the concept of "store" experience. It relates mainly to the sensory experiences one has within retail environments where shoppers buy things. There is a school of thought that suggests retailers can negate the sales and traffic draining effects of e-commerce if their physical environments are sufficiently compelling. It certainly can't hurt, but retailers face a different type of headwind to in store sales that has to do with experiences.

One of the major trends affecting how shoppers behave in the future involves the reallocation of dollars from stuff, regardless of the store experience, to actual experiences. The mindset of a younger generation, according to best-selling author Doug Stephens, is that what they own is less important than where they are, who they are with and what they are doing. This thinking is also resonating with older consumers who have spent a lifetime accumulating stuff and are in their downsizing and decluttering phase

Stores have to be about more than just distributing products, or so goes the logic from those making the cases for experiential retail. The world is awash in stuff, so prospering as a retailer has to also involve a component that is about distributing experiences. Retailers have to help shoppers — if that is even the right word to use in an experiential future — be inspired and create memories. Some retailers do this already, but there is rampant experimentation underway with new technologies and service models as retailers look for ways to drive deeper levels of engagement that go beyond the basic transaction. **RL**

* **EDITOR'S NOTE:** Have a point of view about where tomorrow's shoppers are heading or comments on any of the trends listed here? Let us know by sending an email to **Mtroy@EnsembleIQ.com** and be sure to read the "What's Next" column on Page 42, where Tanner Van Dusen, head of EnsembleIQ's Innovation Practice, weighs in on the future.