

OUR PICKS TO CLICK

Some sweet predictions for the retail industry in 2016

by SUSAN REDA, EDITOR

Some predictions are a slam dunk. Retail will continue to be driven by technology: Science fiction is coming to life in the form of robotics and virtual reality, and the Internet will soon be embedded everywhere.

Another truism: Change is exponential in retail. Accepting that is the easy part. Trying to predict what's next in an industry that moves faster and faster — toppling norms and reimagining processes — is the hard part.

Will 2016 be a “sweet” year for retailers? Will a handful of winning ideas drive industry objectives for the next 12 months? Or is the idea of trying to predict what's just ahead for the industry our version of December madness?

Economists seem to agree that indicators point to a fairly solid 2016. Confidence data is encouraging, unemployment continues to dip and there don't appear to be any significant recession risks on the horizon. Presidential elections affect consumer sentiment, but historically they tend to have little impact on spending, which bodes well for retailers.

Still, uncertainties remain. Goldman Sachs' sobering assessment of what's in store for 2016 boils down to the phrase “flat is the new up.” The investment bank has forecast 2.4 percent growth and describes economic recovery as “running in place.”

With a nod to the NCAA basketball tournament's “Sweet 16,” we've come up with 16 predictions for the retail industry in 2016. No doubt some will deliver ‘nothing but net,’ others may spin around the rim before dropping in and a few may turn out to be air balls. Still, there's something to be said for making it to the final 16.

Planning for this feature begins in mid-July. Every conference session, exhibit hall meeting and phone briefing becomes fodder for determining what may be on the horizon. A big “thank you” goes to all who shared their insight, took the time to teach us about new technology or set aside a few minutes to share their retail vision. We simply couldn't do it without you.



A DIGITAL CORE IS ESSENTIAL

Today's consumer is firmly in control; she chooses how she interacts with retailers. And although we'd like to believe that shoppers can be forgiving, they're not. Responding to this customer requires a digital pulse to sense and respond to changing needs, and a digital pulse requires a digital core.

A digital core gives companies real-time visibility into all mission-critical business practices and processes around customers, suppliers, workforce, big data and the Internet of Things.





It allows businesses to react in an agile and hyper-aware fashion and enables them to predict, simulate, plan and even anticipate future outcomes.

Experts report that only 37 percent of retailers currently have a strategy to create a 360-degree customer view. By 2020 all store sales will be influenced by digital. Retailers need a digital core to understand all the data that moves in and out of the company.

PERSONALIZATION IS MISSION-CRITICAL

We live in the Age of the Consumer. Retailers need to explore every opportunity to raise the level and quality of contextual, personalized experiences.

Investments in customer analytics are imperative, as is an understanding of where to apply personalization to deliver the biggest bang for the buck.

Shoppers expect tailored offerings — including savings, merchandise and services. And personalization needs to be a consistent omnichannel effort. If retailers can't identify a shopper across various points of interaction, they're on thin ice.

Meanwhile, look for new “disruptors” to play the personalization card with aplomb. Stitch Fix is a prime example: By blending art, science and a human touch, the subscription-based company is projecting \$200 million in revenue this year.

CONVENIENCE, EXPEDIENCE THE FAST TRACK TO SHOPPERS' HEARTS

With consumers able to summon a car ride with a few taps on a smartphone, the expectation that everything should be simple and frictionless is growing. Companies that save shoppers time, simplify routine tasks and remove

friction are capitalizing: Think Uber, Apple Pay, Instacart and Amazon Prime.

While some debate the popularity of subscription services, they continue to pop up — promising to simplify everything from the delivery of dinner to razors.

Expect same-day delivery to move closer to critical mass in 2016 as more companies emerge serving an increasing number of markets. For omnichannel retailers like Macy's, same-day delivery is considered an important part of the value proposition.

Drones and 3D printing are topics du jour in retail circles, but will continue to garner more talk than traction in the coming year. Neither should be overlooked for the simple reason that both play to the desire for speed and convenience — two things consumers can never get enough of.

MUSIC VERSUS NOISE

Big data is a \$33 billion industry and growing, and nine out of 10 retailers believe big data is essential to their business operations. Still, it's how companies distill it into meaningful insights that defines outcomes.

As physical and virtual retail worlds mesh, the challenge for companies will be to derive meaning from the intersection of multiple sources — stores, e-commerce, mobile, social, in-store sensors or wearables. Connecting this data to deliver better customer service, improve the in-store experience or design a more-



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engaging mobile app has become table stakes.

Retailers who are truly obsessed with the customer will aggressively invest in analytics, recognizing that revenue growth and enhanced customer experiences depend on it.

SAY "HI" TO "BUY" BUTTONS ON SOCIAL SITES

Grab a new fall read and *Downing in English Oak*—a go-to pair of sunglasses for any season. Buy now from this tweet!



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10:12 AM · 14 Sep 2015

Social networks have moved way beyond their origins. Twitter, Facebook and Pinterest have all introduced buy buttons, but that's just the tip of the iceberg. Expect fringe platforms such as Snapchat, Instagram and Medium — maybe even Periscope — to be nipping at their heels.

Having buy buttons on some of the fastest-growing social networks means shoppers no longer have to ask where to buy. And when retailers take away

the friction, customers click to buy.

Even if you're not ready to leap into social shopping, don't overlook the power of these networks for marketing; Instagram's advertising revenue is expected to exceed \$1 billion in 2016.

VOICE TECHNOLOGY WILL BE WORTH TALKING ABOUT

Have you spoken to Siri lately? How about Alexa, Google Now or Cortana? Voice recognition is changing shopper behavior; if you're not listening, you risk being left out of the conversation.

While solid data calculating the benefits of voice-activated search remains elusive by virtue of small sample size, the fact is that most consumers speak faster than they type. As voice technology becomes more accepted by consumers, retailers will need to embrace its popularity as a search tool.

It's simpler and requires less effort for the shopper — a winning formula for consumers who have shown time and again that they're willing to adopt technologies that help them



sift through information or aid a purchasing decision.

PARTNERSHIPS WILL THRIVE

Gone are the days when retailers kept all their cards close to their vest. Partnerships are the new secret weapon for those committed to delivering on the promise of today's on-demand economy.

Walgreens, Target, Walmart, Costco and 7-Eleven are working with delivery startups like Instacart, Doordash and Postmates. Deliv, which bills itself as the bridge to the last-mile gap between retailers and customers, has a retailer roster that includes Macy's, Neiman Marcus and Williams-Sonoma.

On the other hand, look for retailer/designer



collaborations to cool in the coming year as shoppers grow tired of this once-loved differentiation strategy — and weary of the prevailing inventory management issues. In 2015 there was H&M with Balmain, Kohl's with Thakoon and Target introducing Adam Lippes. All are top designers best known by the 1 percent of shoppers who can actually afford their collections, not the masses who crave a designer label their friends will covet.

THE PURSUIT OF "FRICTIONLESS" PAYMENTS

Consumers want payment processes to be simple, but delivering a seamless experience from aspiration to purchase requires heavy

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lifting. Iterations from Apple, Samsung and Android have begun gaining traction, though usage is not growing at anticipated rates.

The key arbiter of what could be: 60 percent of consumers pay with smartphones because of loyalty benefits; nearly 15 percent of Starbucks customers pay with their phones.

While not every payment innovation will catch on, 2016 will find consumers and retailers wading through a sea of change. Biometrics like fingerprint systems, facial recognition and iris scanning are being introduced.

Technology consulting firm Frost & Sullivan

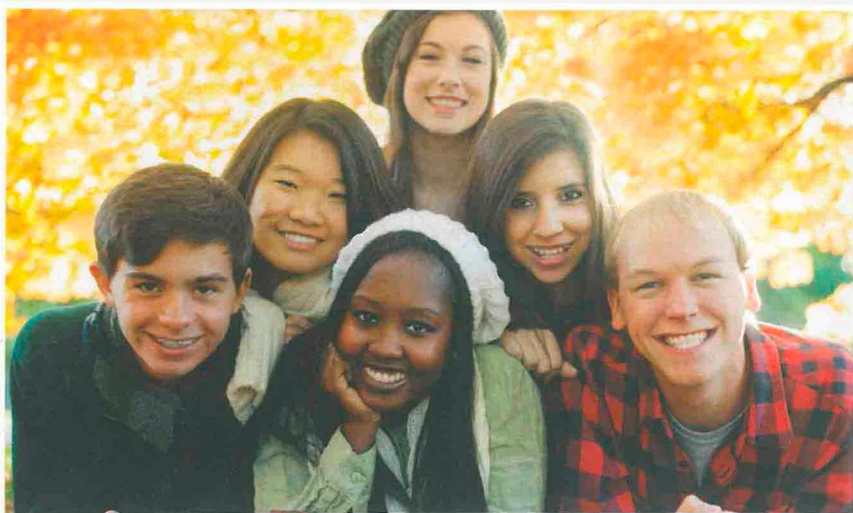
forecast that nearly a half-billion people will be using a smartphone equipped with biometric technology by 2017. MasterCard announced a program in October that will enable companies to add credit card credentials to devices such as key fobs and smart rings.

Don't discount RFID; the reality of paying by walking under an RFID-enabled archway is closer than ever. And resist the temptation to dismiss Bitcoin and other cryptocurrencies: They continue to drive home the message that the next generation thinks differently about money.

GENERATION Z IS ABOUT TO DISRUPT RETAIL

While everyone was paying attention to Millennials, Generation Z has been honing their shopping chops. Fitch recently reported that by 2020 people born in the late 1990s will be the largest group of shoppers worldwide, accounting for 40 percent of the U.S., Europe and Brazil/Russia/India/China consumer base.

The group will disrupt retailers with a new set of attitudes, motivations and behaviors. Generation Z is the most culturally diverse cohort, considered to be more self-reliant, solution-oriented and ambitious than Millennials. It's also made up of impatient shoppers



quick to dismiss companies that can't cater to their whims.

Which retailers have the upper hand with Gen Z? None at the moment. It's all about who meets their needs and who delivers something perceived to be unique — and how quickly they can have it.

NEW CYBERSECURITY THREATS LOOM

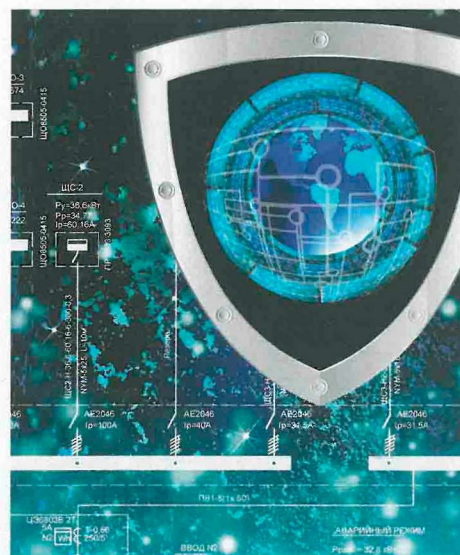
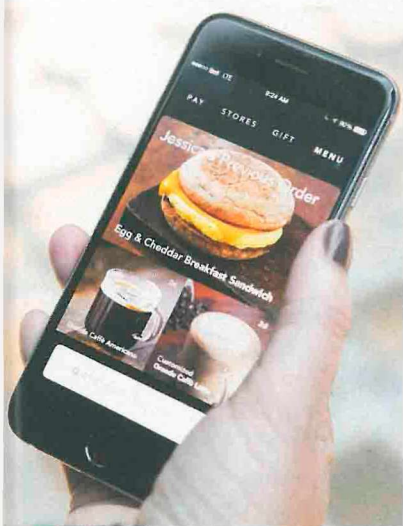
The cat-and-mouse game between retailers and cybercriminals shows no signs of abating. Hackers will continue to find new ways to attack retailers' networks, and retailers will continue to do everything in their power to thwart attempts.

Europay MasterCard Visa chip-based credit cards will provide an additional line of defense against counterfeit card fraud, but expect a chorus of voices (including NRF's) to continue to argue that not requiring a PIN to complete a transaction makes this a half step forward at best.

Meanwhile, concerns are shifting to other potentially unprotected opportunities for hackers. Merchant data warehouses, unencrypted transmissions and card-not-present transactions will be under greater scrutiny.

As Internet of Things becomes more established, innovators need to keep an eye on protecting smart devices. Wider adoption translates into stronger interest on the part of criminals looking to steal personal data captured by these devices.

Nine out of 10 retailers believe big data is essential to their business operations.



SEEKING THE MOBILE TOOTHBRUSH

Forrester reports that mobile will influence about \$1 trillion in U.S. spending in the coming 12 months as mobile search, shopping and social interaction becomes the centerpiece of customers' "always-on" way of life. Meanwhile, eMarketer reports that 25 percent of all U.S. e-commerce sales will take place via mobile devices by the end of 2016.

According to Forrester, 4.8 billion people globally will be using smartphones by the end of next year: The challenge for retailers will be finding a way to carve out a bit of real estate on those devices. Experts see mobile optimization rivaling the importance of desktop optimization.

In 2016, "deep links" to apps will become more preva-

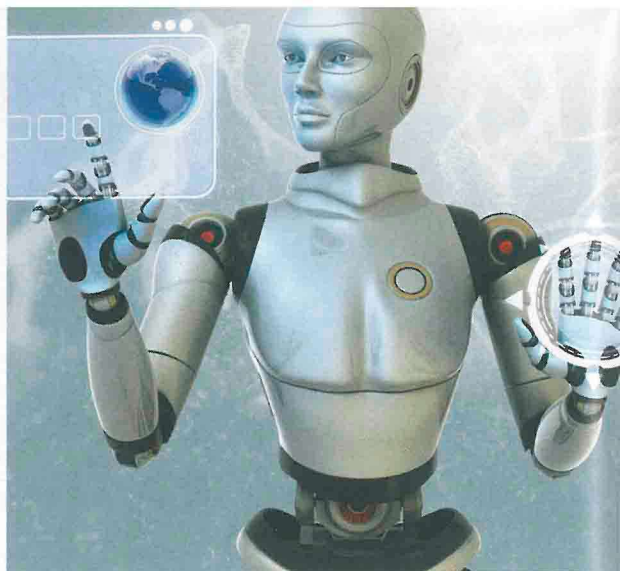
lent. Still, the success of mobile apps comes down to ease of use and speed of purchase. If an app is to have real value it need to pass the "toothbrush test" — it has to prompt the consumer to use it every day.

NEXT YEAR WE'LL HAVE AI MAKE THE PREDICTIONS

Retailers envision using the software algorithms that define artificial intelligence — including pattern recognition, deep-learning neural networks and computer vision — to generate decisions that help shape consumers' user experience. It can be used for recommendations, dynamic pricing and promotions — and it gets smarter over time, learning from the data.

While AI will become more rooted in retail, virtual reality is knocking on the door. The goal is to use VR to create immersive, contextual experiences, customized to highlight brand assets and strengthen customer relationships.

Regardless, it's time to test and explore. While the over-40 set may look askance at VR, younger shoppers who have been immersed in gaming since they were knee-high are inclined



to embrace this new shopping experience being dubbed v-commerce.

THAT SHRINKING FEELING

Macy's plans to shut as many as 40 stores in early 2016, after closing several dozen over the last few years. Forty stores are on the chopping block at J.C. Penney, and Target will close 13 units at the end of January. Along with planned store closings, the industry will endure shrinking store counts as the office supply segment consolidates and Walgreens Boots Alliance swallows Rite Aid.

Experts point out that a leaner organization can often grow more profitably. Macy's Backstage locations have begun to debut, Walmart's Neighborhood Markets seem like compact Supercenters and Target is expanding its small-format stores, rebranding CityTarget and TargetExpress stores as Target. Kohl's plans to open between five and 10 smaller stores, too.

One-size rarely fits all in apparel, and retailers are realizing the same can be said of real estate strategy.

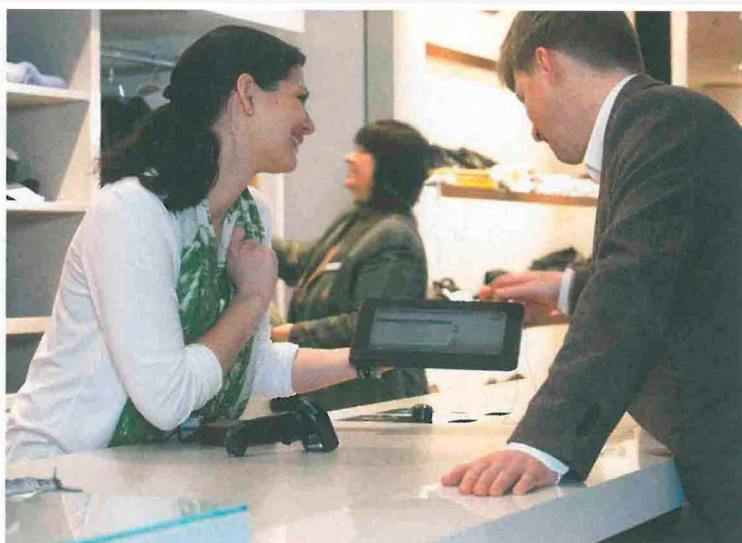


Instagram's advertising revenue is forecast to exceed \$1 billion in 2016.

IOT COMING ON PDQ

The Internet of Things became “a thing” in 2014 and it’s going to be much bigger in 2016. McKinsey Global Institute recently forecast that IoT could have a total economic impact of \$11 trillion annually by 2025.

While much of the talk today is about the use of IoT in home appliances and smart-phones, the technology sets the stage for major big data developments — specifically in the form of improved levels of supply chain



With great power comes great responsibility: Retailers must train their associates to use and understand technology tools, and realize that different people shop differently. Not every customer is tech savvy; many visit stores for the experience.

RISE OF THE DATA SCIENTIST

Success in 2016 boils down to smarter, data-driven decision-making. Intuition-based decisions will always play a role in retail, but true insight comes from combining different data sets — points of sale, weather reports, web traffic, competitors’ pricing data, even sensors.

Every merchant and marketer needs to be in sync with the ever-connected customer, and they’re challenged to go above and beyond brand promises. That requires a continued emphasis on breaking down organizational silos and connecting data across the retail organization. Consider that the entire Uber experience is predicated on data science and algorithms — a high bar, indeed.

It’s been said that understanding data science helps merchants speak a language that contributes to the bottom line from day one. It’s a huge opportunity, though a considerable conundrum remains: There is a dearth of data scientists today and those looking to tap into this expertise are finding that moving from aspiration to action is a longer process than anticipated. **STORES**

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efficiency and inventory management. With IoT, products can communicate how they are actually being used, providing insight into customer behavior and preferences.

While this game-changing technology offers potential cost savings and productivity enhancements, hurdles remain. Standards are imperative; the industry must work with technology vendors to provide connected, interoperable components and systems. Another significant obstacle is security and privacy concerns — protecting both company and customer data.

YEAR OF THE MOBILE-EQUIPPED ASSOCIATE

Providing better customer service and generating more interaction with shoppers can lead to greater sales. No longer an industry talking point, the concept of arming front-line associates with mobile technology has reached critical mass.

Tech-empowered associates have insight into available inventory across stores and distribution centers and can save a sale in seconds. With devices in hand, associates have the potential to better understand customer preferences based on past purchases or wish lists.

