

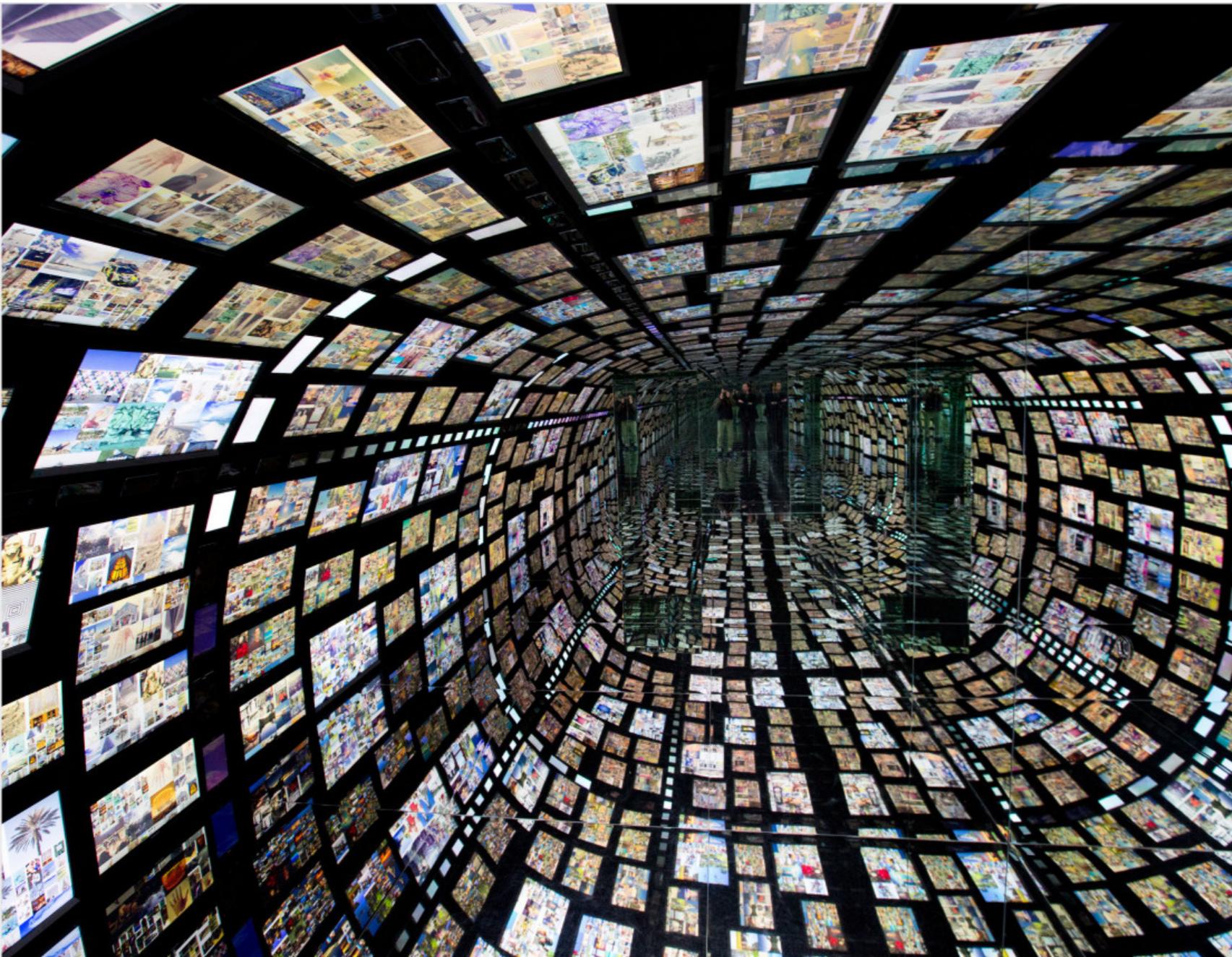
# THE FUTURE OF RETAIL 2017

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*The key strategies, consumer expectations and themes that retailers will need to understand to remain successful in 2017.*

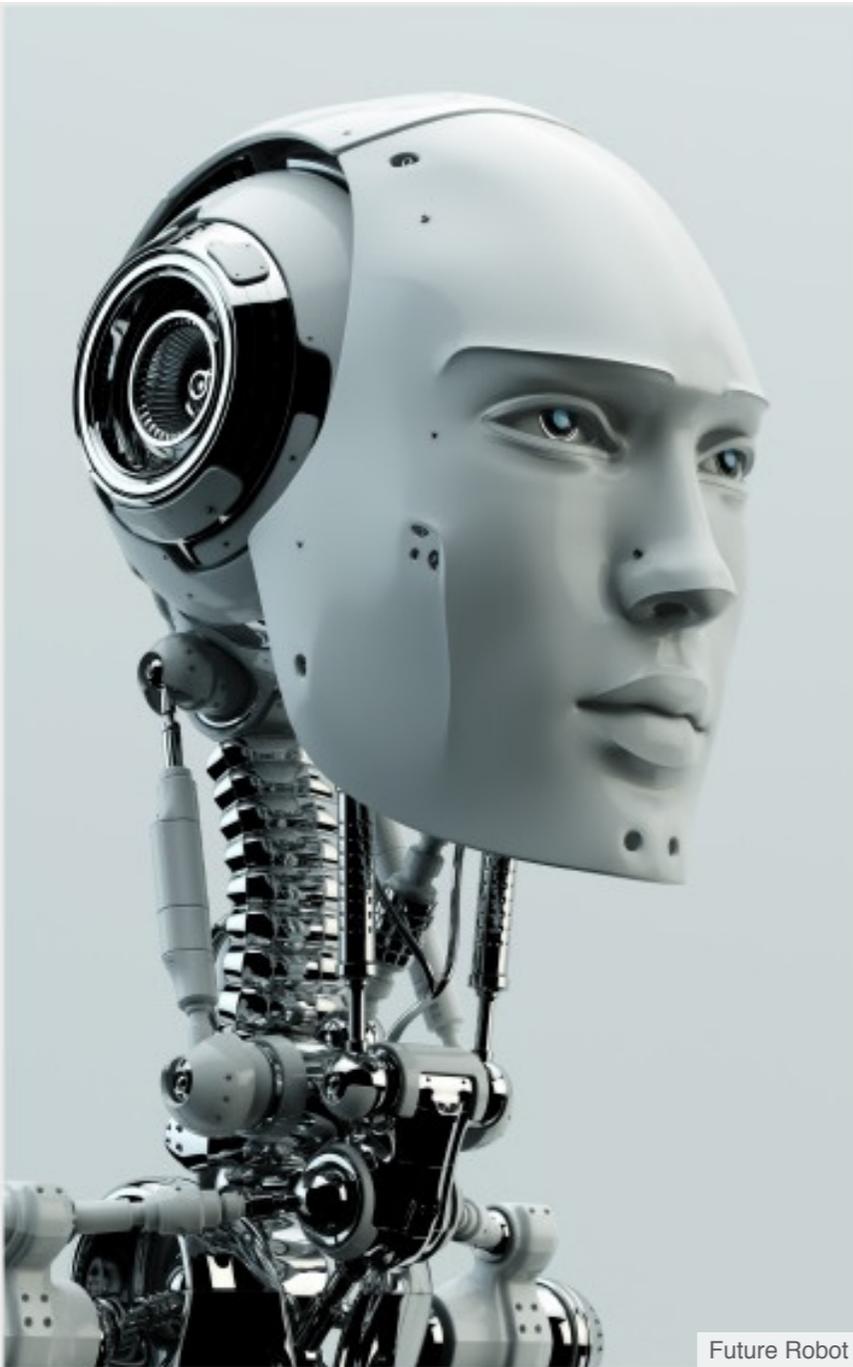


# OVERVIEW



- 2017 will be a year of changes, as retailers begin to understand the scope of business applications for artificial intelligence – from pre-empting customer needs to cutting costs and processes.
- AI will also be a key driver in the development of conversational forms of commerce, and its influence on product design will become more pronounced.
- The shifting political landscape will lead to significant sourcing shifts, while the launch of Amazon Go will accelerate development of frictionless checkouts.
- What it means to be a successful bricks-and-mortar operator will continue to evolve, as brands begin to re-evaluate physical space.
- Offerings will be better targeted based on location and demographic, and KPIs will be more closely aligned with marketing and media.

# AI WILL NARROW THE CUSTOMER'S FIELD OF VISION



Future Robot

Artificial intelligence will drive sweeping change throughout the retail industry in the next decade, impacting both operations and customer experience.

The age of AI is ushering in new [virtual assistants](#) that, as they become more commonplace, will become the gateways that refine and control choice, re-routing sales and footfall.

Google Trips is organising consumers' footfall before they even get close to a store. It creates offline maps for travellers on their smartphones, assembling the most popular stores, cafés and attractions into a neatly packaged tour.

Retailers can't afford to ignore AI: Google Home, Amazon's Alexa and Korea's Amica are set to filter the consumer's shopping experience, making it harder for brands to reach them. Brands will need to understand what drives these algorithms, to ensure they can get in front of the customer, and how this will change consumer expectations of their own service proposition.

In 2017, retailers will need to look at how to succeed outside the AI universe – by accessing customers through [strategic partnerships](#) and getting the key personnel and strategies into place that will help them succeed in an AI future.

In the past, website optimisation and personalisation was achieved through trial and error using A/B testing. AI means that retailers are now personalising and optimising shopping experiences in real time based on what users are clicking on, particularly around visual filtering.

AI is driving other innovations featured in the Future of Retail 2017 report, such as chatbot and virtual assistant voice technology.

AI will also be employed in non-customer facing areas of business, [automating routine tasks](#) like invoice management, while also increasingly informing retailers' buying and product design strategies.

# NATURAL LANGUAGE



Whether it is written or spoken, 2017 is set to be the year that **conversation** comes to the fore.

Amazon's Alexa has had a strong start to the year, with Amazon claiming that the device's popularity has meant that orders placed for the Echo in mid-December 2016 will not be fulfilled until mid-January 2017.

Consumers will grapple with what it means to have an "always-on" listening device in their homes and other private spaces. Many expressed concern when Las Vegas' Wynn Hotels announced plans to install devices in its hotel rooms.

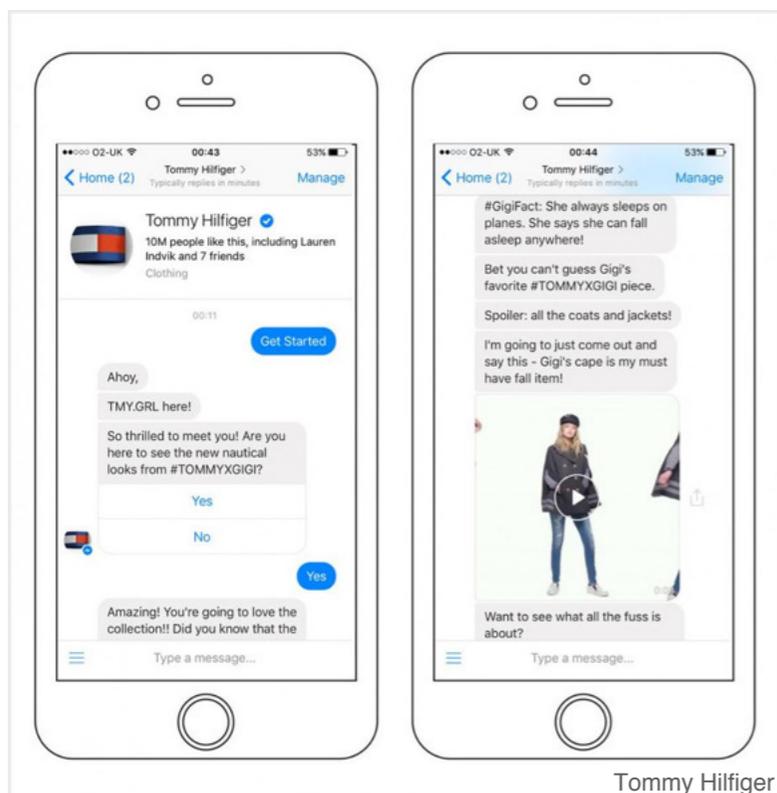
But with the virtual assistant market estimated to be worth \$3.6bn by 2020, according to Allied Market Research, retailers will need to figure out how to integrate with Amazon Echo and its competitors, particularly as they begin to partner with other verticals. Ford has already teamed up with Amazon to install Alexa in its cars.

Retailers will need to track the growth of voice technology to understand when and

how they will need to bring its functionality to their own apps.

**Conversational commerce** and **chatbots** will continue to evolve in 2017, as developers use machine learning to help bots shift from multiple choice answers to natural language conversations.

When Shop Direct launched a chatbot in its Very app, CEO Alex Baldock claimed that customers would want to chat with it as they do with their friends on WhatsApp. "AI will change the game, and we're backing it in a big way. It'll allow us to offer a personalised, 'natural language' CUI experience for service queries in 2017 – which will be massive for our customers," he said. "In the long term, we believe AI-driven CUI will go even further, by democratising the personal shopper. We will chat to them about the best products, style ideas and offers, and help them select what's right for them."



# DATA DRIVEN DESIGN



Fashion brands with short supply chains are increasingly using data to influence the production of their collections.

Kohl's has begun using social data to drive the creation of its new fast fashion brand K/Lab. The brand, which targets Millennials, has appointed a data scientist to scour social platforms, follow bloggers to see what's popular among their followers and analyse customer behaviour. This information is then aggregated for K/Lab's style curator, who works with a product planner to finalise what items will be created.

German online retailer Lesara is building its business by using what it describes as "smart data" – combining weather, social content and other media to identify which trends are popular with consumers, and then working with a turnaround time of ten days from design to delivery.

In 2017, retailers will need to back up their design decisions with data, as they look to maximise margins.

# THE NEW CHECKOUT



Amazon Go has raised the bar for frictionless checkout experiences. The retailer is piloting a grocery store in Seattle where shoppers scan the app on their phones on the way in, put items into a bag, and then are able to walk out without having to stop at a checkout. The system figures out which products have been put in the bag using a combination of computer vision, sensor fusion and deep learning.

In Japan, Panasonic is trialling a system with convenience retailer Lawson where consumers put their basket of goods on a scanner, which detects what's in the bag. The bottom of the basket then drops out and puts the goods into a shopping bag while the customer pays the bill.

Other retailers are looking at less radical ways of reducing friction at the checkout. [Inditex's Zara](#) are trialling self-checkout in some Spanish stores, while Wal-Mart has rolled out mobile payment (Tesco is trialling a similar scheme).



These innovations are not limited to brands at the lower end of the price spectrum. Rebecca Minkoff is a luxury brand that has launched self-checkout in its New York store. Co-founder Uri Minkoff said the move was aimed at customers who don't want to engage with a person.

This kind of strategy is not only limited to the retail sector. Hotels are increasingly removing the need for human interaction at check-in: many have rolled out mobile check-in that allows guests to either pick up keys or open their rooms with an app.

Millennial consumers are increasingly using self-service kiosks to avoid any sort of interaction. Almost a quarter of those aged 18-34 surveyed in a Retailer study said they use self-checkout because they "don't like interacting with cashiers".

# THE STORE AS MEDIA



As AI narrows the consumer's field of vision, retailers need to create new kinds of stores that appeal to shoppers' desires for novel experiences and activate brands in a [new way](#).

Innovative brands have been leading the way, creating stores and temporary spaces that are entirely focused on the experience – a few don't even sell their own products. These new spaces are being created by new entrants, brands without a bricks-and-mortar legacy, which is providing a fresh perspective on what it means to be a store today.

Success metrics are aligned more with marketing and media, where selling takes a back seat to bringing like-minded communities together, entertaining, educating, trialling and learning. "We set out to build a marketing centre of excellence," said Samsung Electronics North America CEO Gregory Lee of the brand's 837 space in New York's Meatpacking District, which doesn't actually sell the electronics brand's products. It is instead a playground where

people can connect with Samsung technology, products and services in an interactive and immersive way.

Apple has opted for a similar strategy with its Town Square format, which focuses on community and education. They host coding classes for kids, and staff are on hand to teach people how to take better pictures. Apple's senior vice president of retail Angela Ahrendts said of the shift: "The store is now the biggest product we produce."

This shift is driving the creation of entirely new businesses. B8ta, a US IoT gadget retailer, focuses on giving shoppers a hands-on experience with devices. The store does not make any money from the products it sells, instead charging the brands it stocks a monthly subscription fee in exchange for visibility, sales revenue and feedback on consumer behaviour. New York home retailer Pirch has built a 'try before you buy' experience where every sink, shower, refrigerator and oven is live, so customers can assess before buying. Shoppers can even book a shower to help decide on which shower head to buy.



# MANUFACTURING SHIFTS



Increased political instability, currency shifts and the rise of on-demand automated manufacturing may be the trinity of circumstances that finally force more structural shifts and modernisation in supply chains.

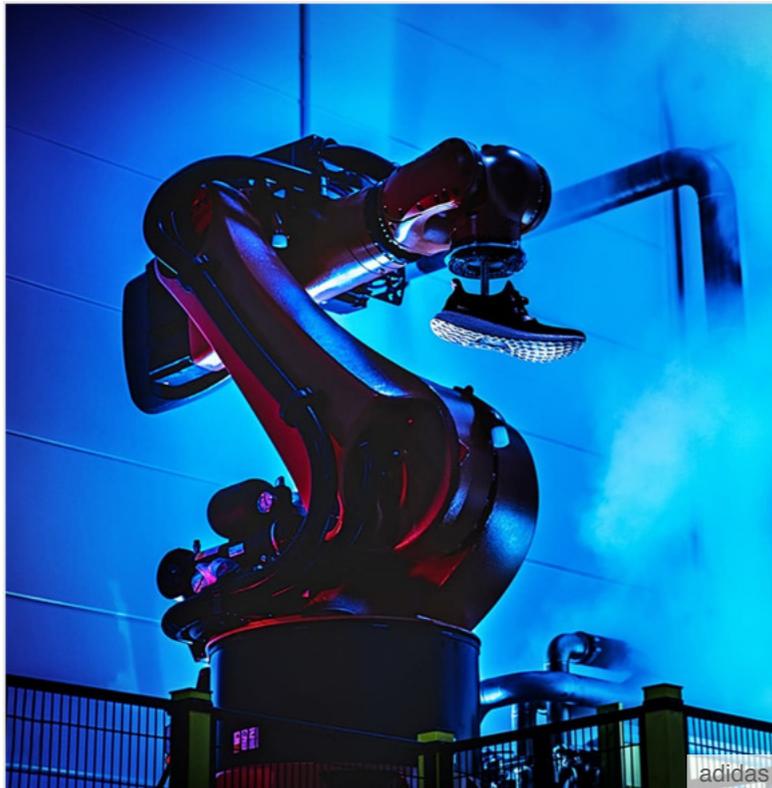
It's not just the prospect of terror attacks that are leading brands and retailers to reconsider their sourcing practices. [Brexit in the UK](#) and President [Donald Trump's pledge to revitalise US manufacturing](#) are likely to lead to revised trade agreements and tariffs. This will change which countries offer the best value for money, while fluctuating exchange rates will also create challenges.

The uncertainty created by these two political scenarios means that affected retailers are likely to be investigating more near-sourcing. For example, UK-based online retailer ASOS has already committed to doubling its (admittedly small) level of UK manufacturing due to the pound's decline, which has made local manufacturing more competitive.

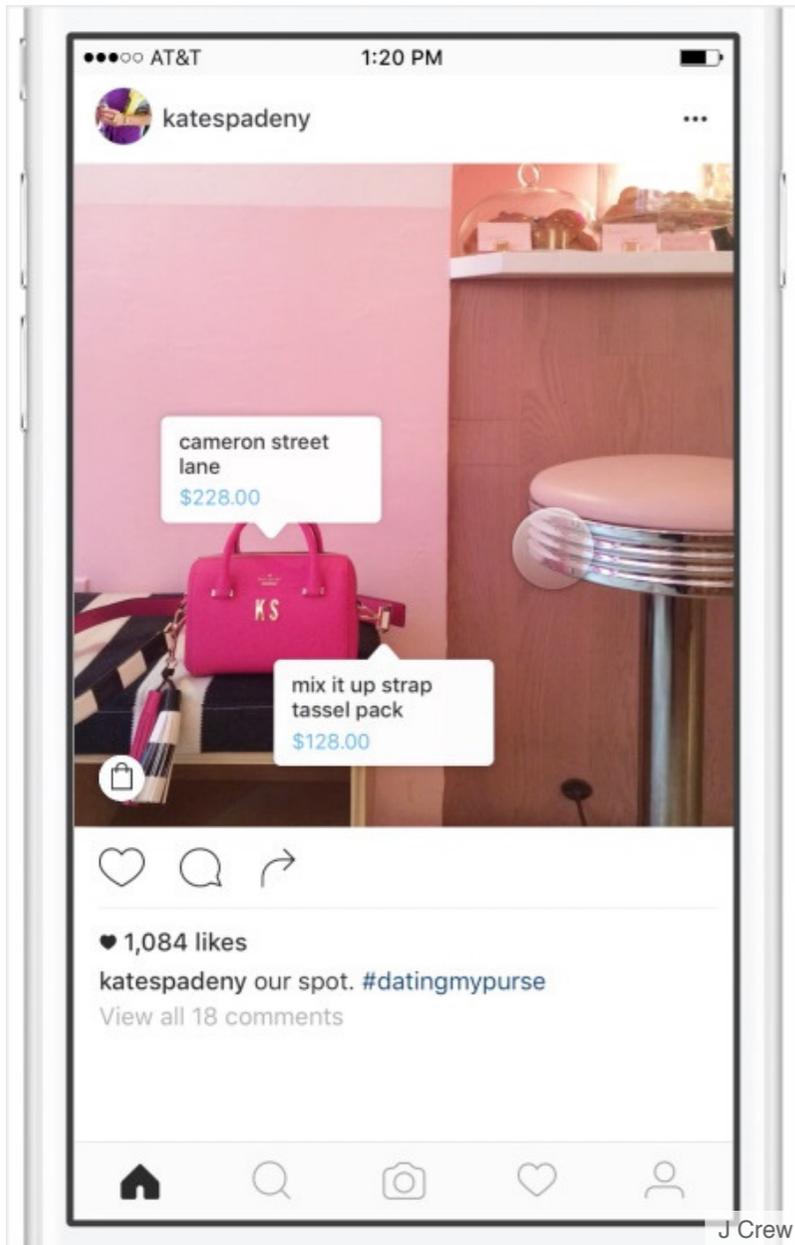
In 2016, European and Middle Eastern brands and retailers employed security consultants to assess risks to teams travelling to markets blighted by terrorism. In 2017, more brands will be reviewing sourcing to understand the overall risks of those threats to their supply chains.

As they respond and look to source from increasingly higher-cost labour countries, the supply giants and those retailers with vertically-integrated supply chains will be investigating the cost benefits of more automation. This is likely to accelerate as robotic automation costs become more financially viable.

Adidas is one brand that has already invested in this, opening its robot-powered "Speedfactory" in Germany in 2016, with plans to open another in Atlanta in 2017.



# SOCIAL SELLING



2017 is the year Instagram's potential as a shoppable channel will become clear. The social media network began trialling its shoppable tags with 20 US retailers in November 2016.

The value of building a traffic bridge to increase conversion from Instagram is already proven for some brands. In 2016, All Saints employed a bolt-on solution from Olapic which increased sessions from Instagram to its website by 54% week-on-week, with conversion increasing 50%.

Retailers will also increasingly use the more ephemeral elements of social networks, such as Snapchat or Instagram stories, to offer exclusive products, such as J Crew's limited edition sunglasses and discounts to their most engaged consumers.

Facebook will remain the dominant social commerce platform, accounting for 50% of total social referrals and 64% of total social revenue. In 2017, retailers will need to harness the social network's newer tools, such as Facebook Live, and consider how they will contribute to sales growth.

# NEW DIGITAL WORLDS



Buoyed by the success of Pokémon Go in 2016, retailers will increasingly look to AR as a means of [reinvigorating the in-store](#) experience. Goldman Sachs predicts that AR and VR enhanced retail could be a \$1.6bn market by 2025, with 32m users. The best examples will enhance service, or add a new dimension to the shopping experience.

Retailers should look to service experiences such as [Charlotte Tilbury's virtual mirrors](#) that allow shoppers to test out different make-up looks before meeting with her make-up artists; Lowe's Holorooms that allow shoppers to build a virtual version of their homes; or Wayfair's AR app that allows customers to see how its furniture would look in their own spaces.

BMW plans to use augmented reality to create virtual showrooms for its cars. "[In tests of the app] we saw people ducking down when they were getting into the car, as if there really were a roof there for them to bang their heads on," Andrea Castronovo, BMW vice-president for sales strategy and future retail, told the Financial Times.

Retailers will look to AR to bring [excitement to physical retail spaces](#), adding a new option for storytelling and connecting back to the idea of the store as a media trend,

Covent Garden partnered with Blippar to create an "AR retail district" over the 2016 Christmas period. Users were able to bring a digital reindeer to life, which appeared to fly above their heads. They could also "blipp" Covent Garden's 50ft Christmas tree in the piazza, which unlocked retail and restaurant offers from around the district.

VR will continue to be an expensive way of entertaining shoppers and grabbing PR, but current indications suggest it is a long way from having any significant impact on retail sales.



# THE NEW LIFE OF THE OBJECT



Blockchain technology and RFID are changing the life of the garment from something inert into something that is connected to the world. This year, retailers will start to consider how these technologies might be applied in their businesses.

Blockchain will start being used to tell the story of a product's history, and to verify its authenticity, while RFID, NFC and Bluetooth tags will create a life for the garment in-store and beyond.

A blockchain is an open, shared database where information can be transmitted through huge networks (supply chains, for example) and users can contribute without compromising security. Users cannot change information that has already been added.

The initial use case will be in the luxury sector, where brands will be able to stamp out counterfeiters while helping maintain value in the resale market for shoppers who treat luxury goods as assets to be sold later.

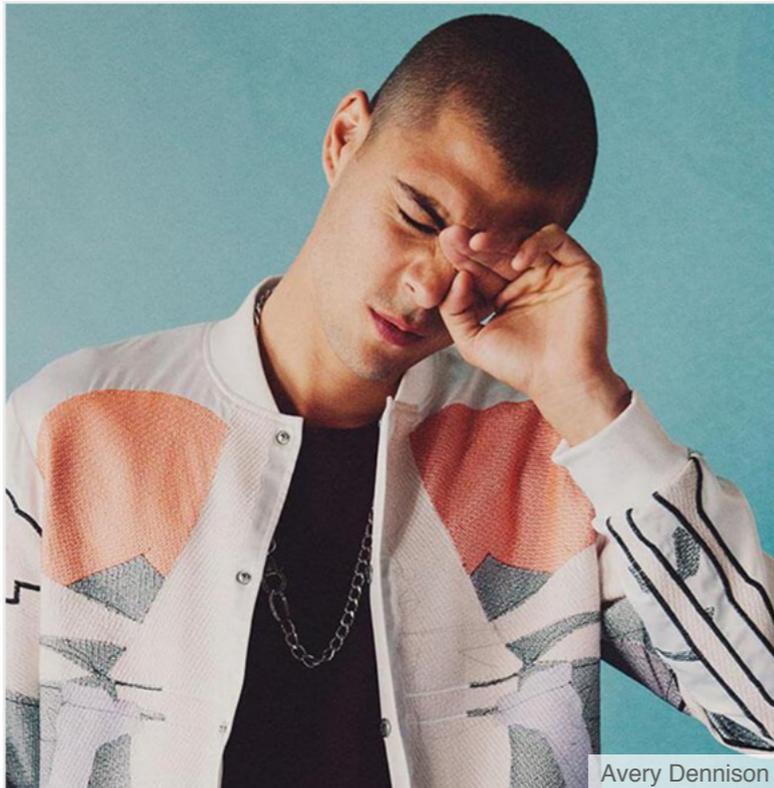
Brands looking to highlight their green credentials will also be able to use a blockchain to reveal their supply chains and

to understand product composition for closed-loop recycling when it becomes a reality.

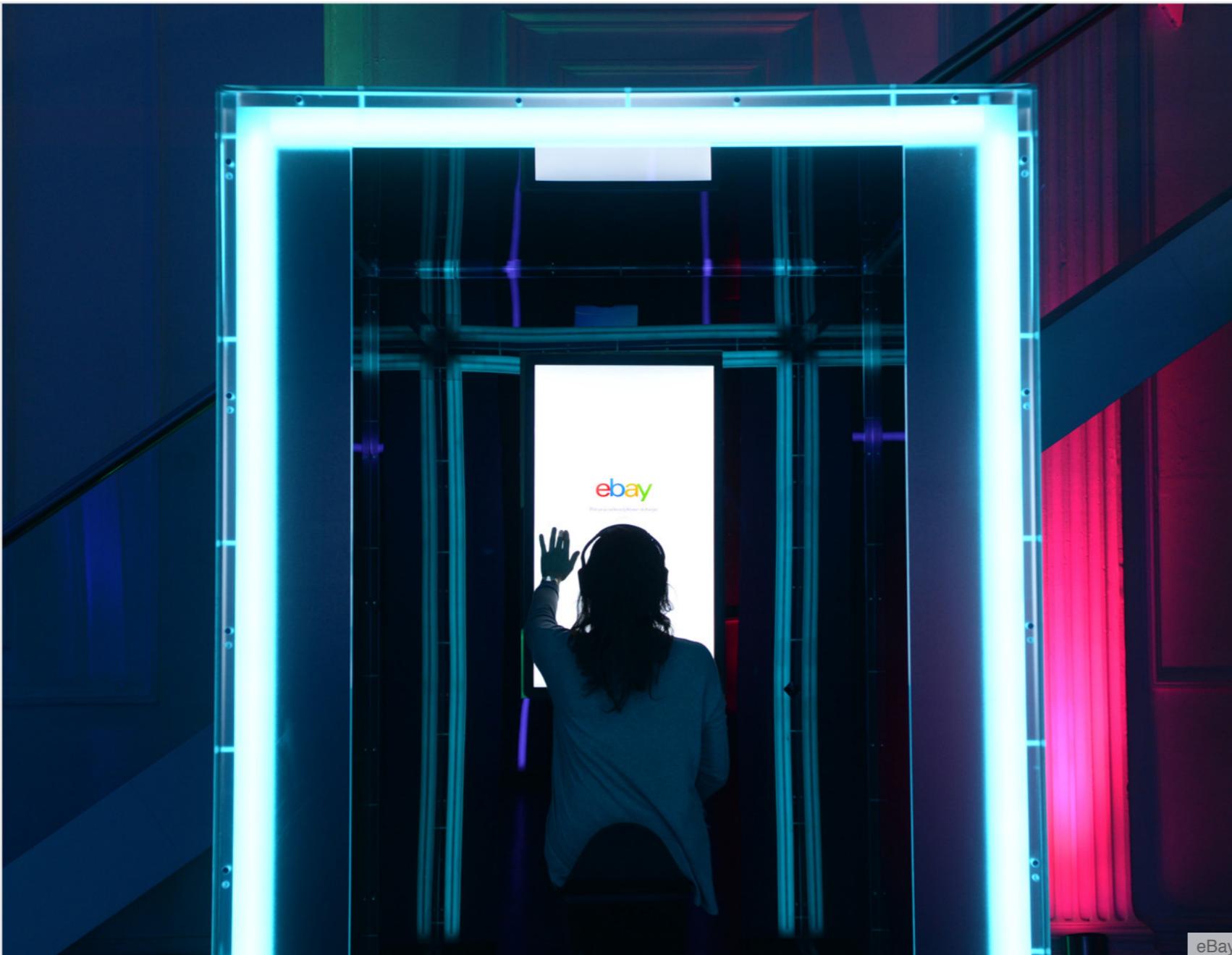
Early providers in fashion include VeChain, whose FashTech solution allows a clothing collection to be verified on the blockchain using NFC. A person's phone communicates with the small VeChain chip embedded inside the clothing or accessory, which then tells its "story" to the consumer by accessing the blockchain database.

RFID use in-store was covered in [The Future of Retail 2016](#), which looked at managing the movement and availability of stock in-store. Now, NFC and Bluetooth tags are taking on new functionalities that give products a digital life once they exit the store.

Avery Dennison collaborated with New York menswear label Rochambeau in November 2016 to create a limited edition bomber jacket that gives the wearer access to personalised content, rewards and access to exclusive experiences, with rewards collected using a NFC tag in a hidden pocket on the left sleeve.



# EMOTION TRACKING



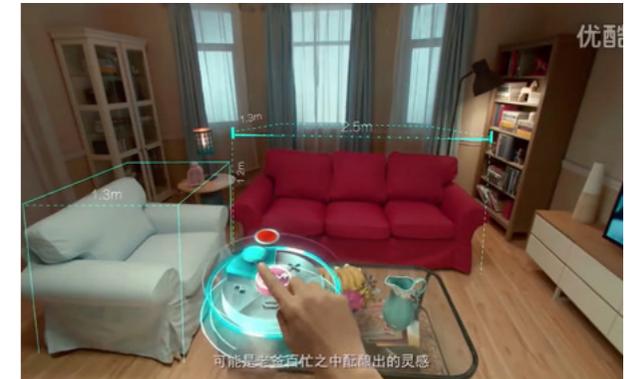
As AI creates more personalised interactions, developers are attempting to create more human experiences that adapt to shoppers' emotional state.

In the physical space, SoftBank's Pepper robot claims to be capable of understanding a shopper's facial expressions and changing its product suggestions accordingly.

Macy's has implemented an IBM Watson-enabled in-store mobile service initiative, which allows shoppers to ask for directions to products or departments using natural language. The service can detect when an emotionally sensitive phrase is used, at which point it will offer the shopper the option to speak to a sales associate. This alerts a member of staff via a notification on their mobile dashboard to find the shopper and offer assistance.

Ebay is experimenting with software that will help retailers track customers' emotional responses to products using bio-analytic technology and facial coding.

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