



# Evolve to Win: How Retailers Must Adapt to Stay Relevant

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# Customer choice and new technology aren't seeds of an "apocalypse" – but a call for retailers to embrace change.

In nature, the species that best adapt to their environment survive to build future generations. In today's retail world, complacency kills. The brands that adapt will remain relevant as the stores and buying channels of the future emerge, driven by rapid technological advances.

And the impacts of this evolution will be tremendous: Digital commerce will encompass as much as 70 percent of all retail transactions by 2025, resulting in up to half of malls and large stores closing, repurposing or reformatting. Retail supply chains will be reinvented as a matrixed network of both owned and outsourced logistics and assets, built for agility and the highest possible level of visibility.

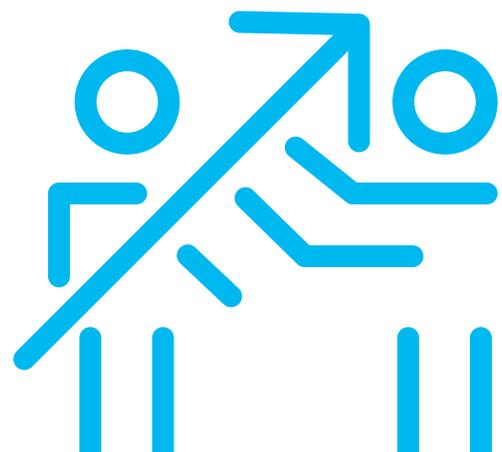
## An evolution driven by customers

As generational shifts in the world's cultures and populations continue, growing access to technology and greater spending power are creating a generation of shoppers defined by their digital savvy. As the growing global middle class sees its spending power increase, and as millennials' influence on retail gives way to generation Z's demands, retail customers will expect and require frictionless experiences, convenience and immediacy.

Already, we see transactions for grocery staples and commodity goods taking place via mega-marketplaces as customers use auto-replenishment and same-day fulfillment services. In the future, manufacturers will leverage these marketplaces to compete directly for a share of your customer's wallet. Retail will create seamless brand and shopping experiences, using augmented reality, curated brick-and-mortar showrooms, high-touch service and personalized promotions and product assortments. Artificial

intelligence (AI) will help retailers create deeply personalized customer engagements and ultra-precise segmentation. And, as the lines between channels and devices blur, frictionless shopping will be the norm.

In this brave new world of retail, many retailers will no longer be able to survive only on uniqueness, brand or price. Retail innovators and disruptors will be well-positioned to survive and outpace competitors by moving with what their customers demand. They'll adapt to new technologies by failing fast and by learning even faster.



## Beyond data-driven: Data-defined retail

Besides their vast customer data stores, retailers will capture information from IoT sensors and devices, and they'll rely on social, news, events and weather (SNEW) data not only for buying decisions, but for real-time, dynamic whole-experience optimization. Predictive analytics will anticipate changes in customers' product needs based on evolving personal dynamics. Retailers won't just respond to customers' shopping cues. They'll be able to suggest items to fill needs that those shoppers might not have realized yet. Both in-store and digital interactions will leverage cognitive computing to aid customers in decision making and to provide sales assistance, driving more profitable transactions. Augmented reality (AR) and virtual reality (VR) technologies will combine with other systems to enable personalized promotions. Real-time simulations will educate shoppers, and AR experiences will show how clothing and accessories will look once purchased. None of this will be possible without the right solutions to gather, analyze and take action on the insights this data reveals.

## The mega-marketplace effect

The world's mega-marketplaces – among them, Amazon, Alibaba, JD.com, Google and Walmart – will strive to own every stage of the retail journey, from product discovery, to product and price comparison, to payment and fulfillment. Their size and influence, their alignment with brick-and-mortar retail experiences and their comprehensive profiles of customer activity will aid them in setting the bar for frictionless, adaptive customer experiences. These marketplaces have already grown to connect all forms of commerce – B2C, B2B, C2C – as more retailers leverage mega-marketplaces as their digital storefronts and, in many cases, their fulfillment providers.

## “Uberization” of the value chain

As options for last mile delivery multiply, retailers will be able to leverage third parties who own the capacity and capabilities for warehousing and transportation and planning. Those retailers who continue to own supply chain assets will become part of that ecosystem, brokering to other retailers, manufacturers and marketplaces. Meanwhile, the growth of the gig economy will extend this “uberization” to the broader value chain, from design and marketing to home delivery and services such as product set-up and instruction.





## Everything is changing – Will you?

In 2020, retail remains in a transitional state. Digital commerce hasn't yet scaled enough to lower costs while rightsizing of brick-and-mortar retail still isn't finished. But this turbulent period is not a retail-ending "apocalypse." It is an opportunity for retailers to choose how they'll remain viable in the future.

Will your brand choose a decentralized inventory model, with 100 percent in-store fulfillment to minimize costs and drive immediacy? Or will you embrace a centralized inventory approach, with stores acting as showrooms where customers come to experience brands, get high-touch service and place orders for fulfillment from a distribution center? Will you choose a hybrid of both models? The approach you choose will determine whether your assortments ultimately shrink or expand. It will also determine whether you choose to partner with a mega-marketplace or focus on building your own customer experience and leveraging the new economy of third-party fulfillment options. These questions and more are waiting as this transformative journey continues.

Technology will be the predominant catalyst for changing customer expectations. Retailers need to reinvent their business models in order to position themselves for these shifts, mitigate new risks and ensure they're agile enough to respond to future changes.

## How retail's evolution will impact your business:

- **People:** You can't fulfill customer expectations or drive profitability without visibility into your labor needs and the ability to quickly reallocate resources. In addition to sensor data from store shelves, radio-frequency identification (RFID) tagging of products and data from customer orders, retailers will reassign staff to the most vital prioritized tasks from moment to moment, thus cutting labor costs and reducing the likelihood of stock-outs.
- **Product:** The evolution of retail will not replace the in-store experience for many purchases. Customers still prefer shopping in stores. They want to touch, feel, see and experience products. New technologies will make those experiences richer by adding the fun and depth of virtual reality and augmented reality, while the ability to analyze data from a variety of sources will guide all aspects of merchandising decisions (assortment, space, price, promotion, markdown) so customers find what they want, easily, each time they walk through your doors.
- **Price:** Hyper-personalization will move beyond product suggestions and will further encompass promotion. Analyzing your customers' shopping data alongside social, news, events and weather (SNEW) data will not only help you set prices, it can help you understand what items your customers are price checking, so that you can set policies around pricing that are meaningful and competitive.

- **Placement:** With the rise of experiential retail, additional fulfillment services such as click-and-collect and the addition of third-party lockers for marketplace transactions, customers' expectations around fulfillment and delivery are changing, too. How will you best allocate space in your stores to meet customers' expectations? You'll do so using data-driven insights and AI, guided by customer expectations that you observe in data for each category. Those decisions cannot be made manually at the corporate level by an army of space planners. They must be informed by customer insights that will drive the right assortment placement in stores.
- **Promotions:** What items will drive positive traffic to your stores? Which of those items, when promoted, will not only increase the volume of transactions but result in the most meaningful and profitable transactions for your brand? And how will real-time feedback change the way you assess promotion performance and realign your promotional tactics? Only data-driven insights will allow you to adapt to the pricing signals your customers send.

But this type of deep personalization will only be possible with technology that analyzes vast amounts of data and unlocks deeper, more personal, more local insights.

## Stealth promotions

What if you could create a pricing structure that leaves your competitors with no understanding of what prices your customers are actually paying? This is the promise of stealth promotion. A retailer who fully implements personalized promotions will be able to compete in ways that mega-marketplaces like Amazon cannot. If each customer who enters your store has a unique discount off a product's base price, tailored to that individual's profile and a host of other dynamic factors, your competitors will be unable to know what price points to compete on, giving you a competitive advantage.

## What strategy will you choose?

We've shown you the future of retail and given you a broad strategy to start you on your journey. But success will ultimately rely on your understanding of your customers, not just who they are now, but who they will be in the future.

Only then will you be able to make the best decisions about technology solutions and partnerships to fully build out your evolutionary strategy, making it more likely your brand will not just survive but thrive, in the future of retail.