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Digital

The future of retail
11 predictions on the
disruptive forces in retail
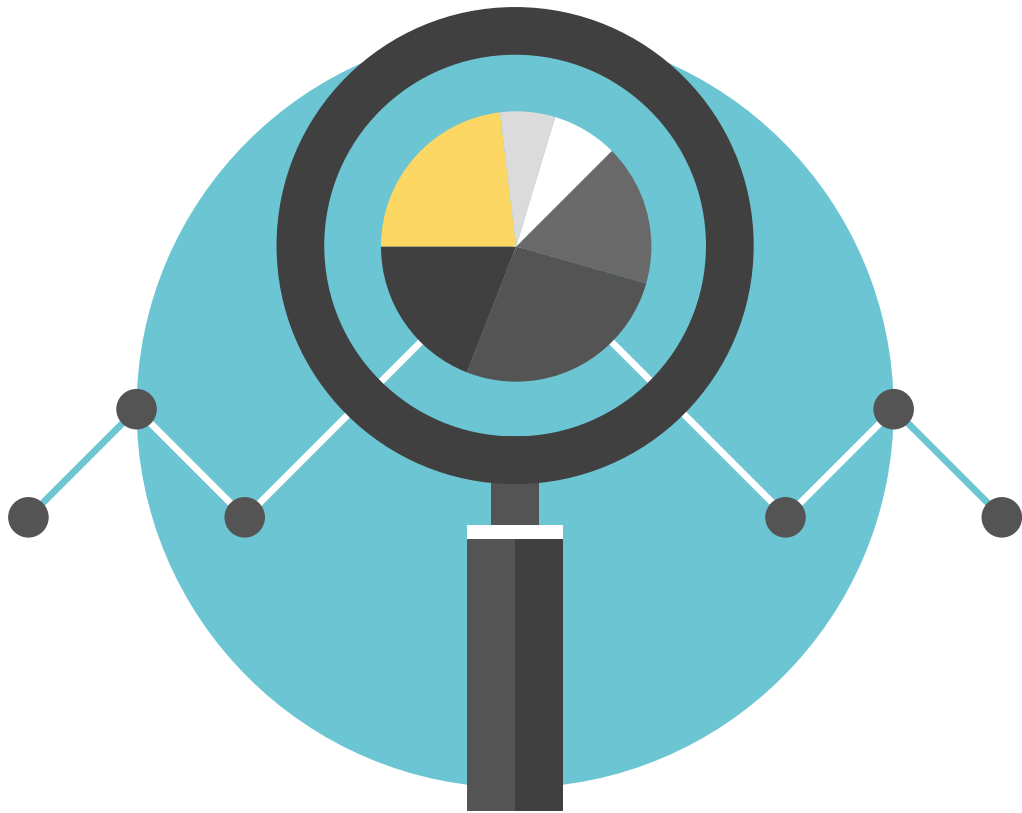
The future of retail

The retail landscape as we know it today is facing major disruption that will fundamentally change the way the industry works. There are two main drivers in the market that have already redefined and will continue to redefine the entire industry: the new digital customer and the new face of competition.
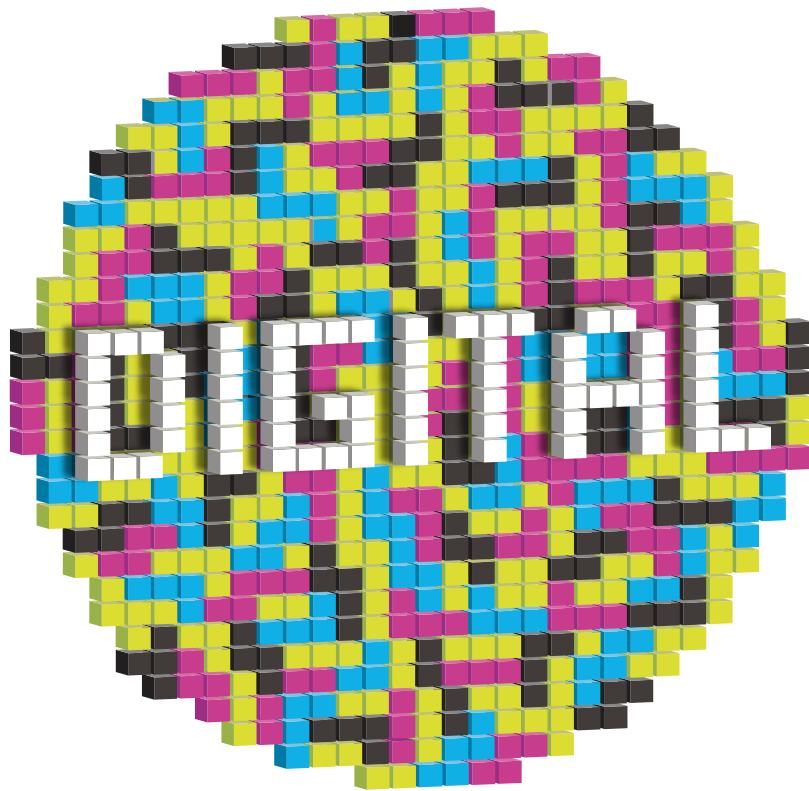
The new digital customer

The typical customer retailers face today is constantly connected, well aware of their needs and wants, well-informed, and demands a great shopping experience – the "extra mile". This norm will become further entrenched as Millennials will soon be retail's major customer group, bringing with them great buying power. Retailers need to be aware that the shopping journey can start and end in any channel the customer chooses – desktop, mobile, tablet or in-store – and realize that they need to be wherever the customer is. In 2015, as many as 92% of shoppers had used a digital device prior to or during their shopping trip for product-related research[1]. Serving customers as a trusted advisor, recognizing them when they come back, delivering great service regardless of channel, and rewarding them for being loyal customers will be the key to making them stay and keep on buying the brand.

This presence everywhere is called Omnichannel. It's about providing a seamless and comprehensive customer experience. However, Omnichannel is not simply a fancy new buzzword or an optional path for particularly innovative market players. It is rather the new – and only – way of running a retail business. Yet not only the customer and the way they shop and interact with a brand has changed, but so has the face of competition, which makes existing companies' need to change fundamentally and become Omnichannel through and through even more urgent.

The new face of competition

Besides traditional competitors, new and innovative players are strongly impacting the retail space as we know it today.

A number of factors are leading to reduced barriers of entry into retail markets: rapid technological advances, universal access to information, increasing venture capital fund size, and more relaxed government regulations. Whereas previously it took significant amounts of time, money, and human capital to establish a retail business, today, an online shop selling a third party's products can be developed within several days.

Retailers must realize that the real competitive threat in the future will come not only from their old foes, but also from the glut of small and young players who are entering the market in increasing numbers. These new players employ a customer-centric approach – the customer is at the center of everything they do, and they prioritize customer utility over mere one-off sales revenue. For example, sharing-instead-of-owning models (e.g. Rent the Runway, Car to Go), personalization and bespoke offerings instead of generic products and services (e.g. Outfittery), and single points of purchase (e.g. Amazon, Zalando) are revolutionizing the fashion retail market. Customers evidently want to live lean, have the latest products without or at a low upfront cost, be treated individually, and get their purchases done in the fastest and easiest way possible. The new competitors named above have the DNA to change their business model, processes, and operations instantly and can therefore react to evolving customer needs very quickly.
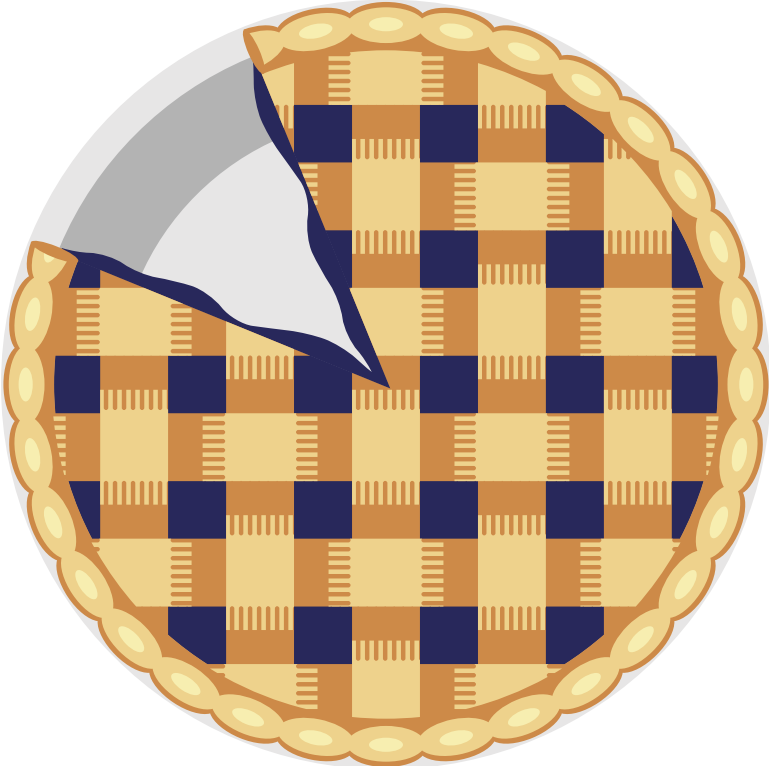
What it takes

Retailers need to constantly redefine who they are, how they operate, what value they present to the customer, and how they differ in a highly competitive market. The good news is that new companies often lack the experience, footprint, customer base, and resource power that traditional players have at their disposal. And this is what incumbent retailers need to leverage in order to create a competitive advantage and an outstanding experience for the customer. On the following pages we will dive deeply into 11 predictions about how the retail landscape will change and what retailers need to consider when preparing their businesses for the new Omnichannel world.

11
predictions on the future of retail

11 predictions on the disruptive forces in retail

Deloitte Digital works with several clients throughout the retail industry and has witnessed retail's transformation toward Omnichannel for many years. As a result of the knowledge and experience we have gained, this paper discusses the 11 disruptive forces that either have started or will start to change the retail industry. Since we expect all of these trends to become the norm in future, we suggest that every retail company consider how the predicted changes might affect their business.
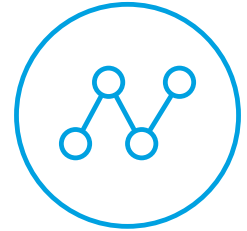
Prediction 1: Commerce everywhere

Commerce will become pervasive at every point of "inspiration"; this will enable customers to buy through video, social, chat, and other novel channels.

Retailers need to define what the right channels and touchpoints with the customers are according to their preferences. Having established these, a transaction should be possible anywhere a customer interacts with the brand and gets inspired. Engaging, digital, and consistent content that adds real value for the customer is the key to building a loyal customer relationship.

Example:
The British online emporium ASOS incorporates interactive, click-to-buy videos as part of their seasonal campaigns. This results in higher sales during highly competitive periods such as Christmas, and truly engages and bonds the customers to the brand as they interact with ASOS across various channels. The customers themselves effectively become components of the campaign.

Sheila Shayon, "ASOS Shoppable Videos Drive Holiday Sales and Brand Engagement," BrandChannel
http://brandchannel.com/2012/11/01/asos-shoppable-videos-drive-holiday-sales-and-brand-engagement/
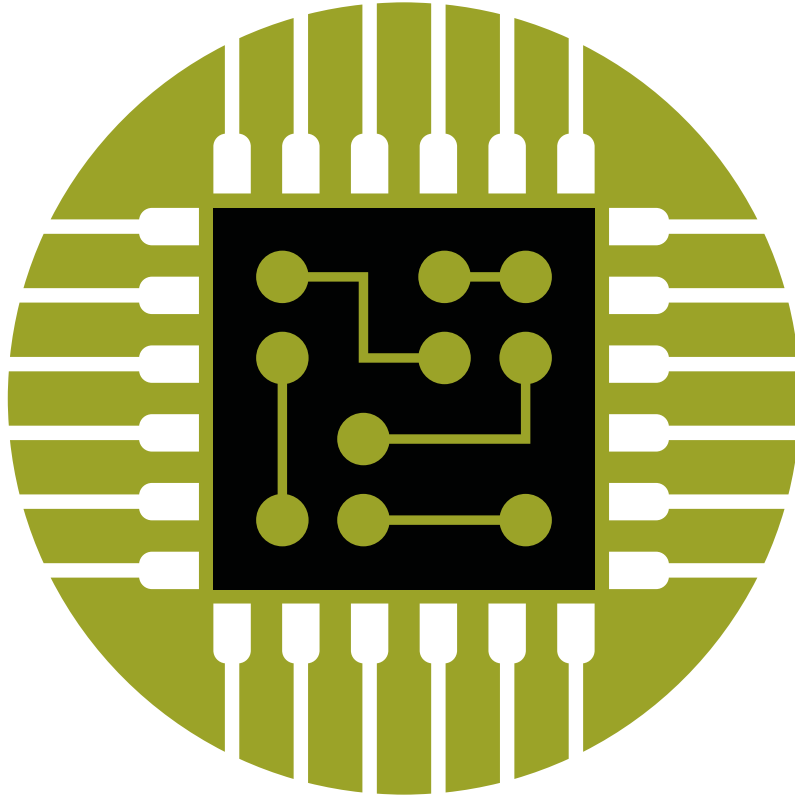
Prediction 2:
Ecosystem inventory

Traditional channel-specific inventory will evolve first into enterprise inventory, breaking with conventions and silos, and then finally open up and become an ecosystem inventory enabling further sales across channels and platforms.

In order to drive sales and use inventory as efficiently as possible, retailers need to consider how to open it up to their broader ecosystem. Wholesalers, franchisees, and third parties offer great opportunities for retailers to be present on different platforms to increase revenue beyond their own capabilities. Moreover, retailers can become specialists in certain fields and therefore take on the role of a micro-platform. In this case, retailers would not only be selling their own merchandise (e.g. skiing trousers and jackets), but would also include external retailers' portfolios in their own to be able to offer clients everything they need (e.g. skis, snowboards and boots).
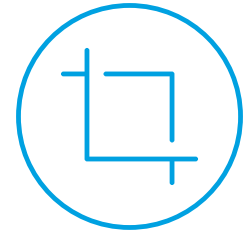
Example:
With the initiative of extending its wedding business to increase overall revenues, Macy's has partnered up with BeGlammed in 22 cities across the U.S. to offer on-demand, at-home beauty services that will offer brides-to-be a new way to prepare for their big day. The ultimate goal for Macy's is to be the partner of choice from day one in the entire wedding preparation journey, thus pushing sales of existing merchandise along the month-long set-up phase.

Rachel Brown, "Macy's and BeGlammed Unite for On-Demand Beauty Services," WWD
http://wwd.com/beauty-industry-news/beauty-features/macys-beglammed-beauty-services-10558918/

Prediction 3: Customized products and services

Products and services will become fully personalized to the individual needs of a customer, thus fostering in customers a sense of belonging to the brand as a contributor and co-creator.

Everyone is a customer, and we know that we feel especially valued when products and services are personalized to our needs and wants. The wish to be unique is growing stronger and raises an important question for retailers: where is customization possible and does it truly add value for the customer? Retailers need to make smart, individual choices about their personalization strategy – sometimes even a slight change has a big impact on the customer.

Example:
Normal is a US company that offers customized, 3D printed earphones. The premium products have a highly competitive price and are personalized end-to-end – from a 3D printed case for each individual pair, including the customer's name, preferred color, etc. The customization process can simply be handled with smartphone images of each ear, which kicks off the production process.

Prediction 4: Rich content and social media
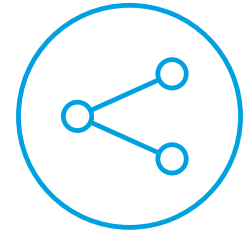
Retailers will be required see themselves as and act like media companies, when producing and delivering content to make sales is no longer enough to make customers loyal to the brand. In this context, social media will become the biggest influencer on sales by providing direct transaction options at the point of inspiration.

Content is essential nowadays if customers are expected to engage with a brand.

(Social) platforms need to be opened up to allow for user-generated content that resonates particularly with retail customers. Retailers need to give their customers a voice to allow them to become brand advocates and actually drive sales. Customers love to see stories from their peers in order to empathize, be inspired, and learn how to engage with the product in a novel way.
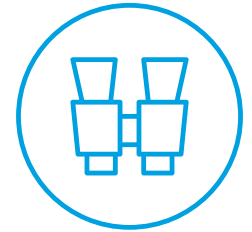
Example:
Primark has invested highly in a number of campaigns and digital assets to drive in-store conversion by inspiring customers through user-generated content, such as "Primania", their popular site for outfit inspirations and product feedback. Primark focuses its social media/online presence and content delivery on engaging with users and driving sales in stores rather than online clicks. This rich content is also provided in stores to create compelling stories around Primark's products and make shopping with the brand a highly engaging experience.

Hilary Milnes, "On Social, 'Primania' Looks to Fill Primark's E-commerce Void," Digiday
http://digiday.com/brands/social-primania-looks-fill-primarks-e-commerce-void/

Prediction 5: Customer recognition and contextualization

Each customer will be known and instantly recognized by retailers and thus approached and engaged with in a far more personal and effective manner based on their individual context and preferences.

New digital technologies (e.g. iBeacons and RFID) open up great opportunities for retailers to recognize and engage with customers in stores, among other things. Retailers need to clearly define their strategy for collecting, analyzing, and applying individual customer data to make the shopping experience with the brand as convenient and rewarding as possible.

Example:
Impinj is a leading provider of RAIN RFID solutions that deliver Item Intelligence to retail, pharmaceutical, hospitality, and many other industries. The company opened a state-of-the-art innovation center for retail applications in Seattle in December 2014. The Retail Experience Center (REC) showcases Item Intelligence Solutions and explores Item Connectivity Applications in a real-world retail environment. It provides retail executives, media, and others with the opportunity to learn about and participate in a wide range of demonstrations and interactions, all highlighting the value of

RFID-based Item Intelligence data in making powerful business decisions and improving shopping experiences.

Beth Bacheldor, "RFID News Roundup," RFID Journal
http://www.rfidjournal.com/articles/view?12488

Prediction 6: Immediate availability

Customers will expect retailers to fulfil their needs immediately or even predict them, and in order to satisfy their "right here, right now" retail expectations.

As retailers are increasingly expected to meet the changing customer expectations of product availability and speed of delivery, companies must determine their customers' real needs. This might not necessarily be same day delivery, but instead more accurate predictions of when delivery will actually be made. Customers demand an exceptional, proactive service where uncertainty or long waiting periods are not an option. Continually being on top of things and going the extra mile to satisfy the customer will differentiate successful players from the rest.

Example:
Amazon recently launched its one-hour delivery service Prime Now in Germany. The service is powered by a fast-growing network of fulfilment centers that utilize technology to speed up order delivery times for customers. The essential element of the service is an algorithm that calculates the probability of a purchase and sends the item before it is physically ordered. As Amazon continues to exceed customer expectations, the number of Prime memberships has grown significantly.

Tom Barfield, "Amazon launches same-day delivery in Germany," The Local
https://www.thelocal.de/20151112/amazon-launches-same-day-delivery-in-germany

Prediction 7: Loyalty through convenience

As time is one of the most precious commodities in our fast-paced and complex world, customers will be loyal to those retailers who offer the highest convenience in their shopping experience.

Shopping takes time. There's the kind of shopping that people enjoy because they're treating themselves, and there's the kind of shopping that just needs to be done (e.g. toilet paper, shampoo, detergent, etc.). For the latter, customers in retail will increasingly demand a higher convenience which goes as far as not having to think of it at all and not having to do it themselves. Personalized concierge services or subscription models are just two examples of how retailers can find the right answer to this development and provide the customer with an easy and rewarding shopping experience.

Example:
The Dollar Shave Club (DSC) is a razor business that sells blades and related beauty products through a subscription-based model. The "no frills" strategy keeps the focus on the basic needs of customers and leaves out the (often) unnecessary extras. Thus DSC can offer highly competitive selling prices starting at US$ 1.

Prediction 8:
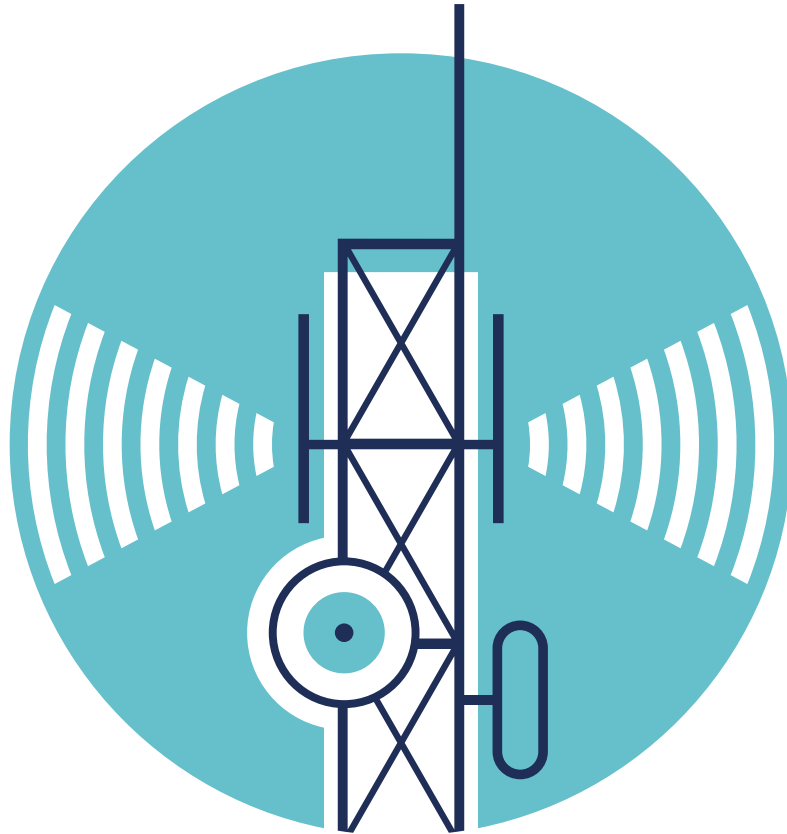# The brick and mortar super-experience
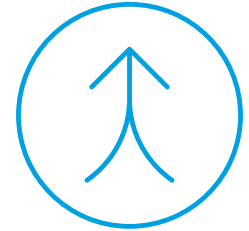
The role of physical stores will fundamentally change as barriers between physical and digital continue to blur and stores transform into emotion-focused, experience-first places where brands can be explored and experienced through digital technologies.

Retailers need to redesign the role and set-up of their stores to meet the demands of constantly connected customers. As the barrier between physical and digital will not exist in the future, a holistic view on the overall customer experience regardless of channels needs to be created and communicated to the customer.

Example:
The Japanese fashion brand Uniqlo uses neuroscience to help match customers' moods with the perfect Uniqlo product in their store in Sydney, Australia. Customers put on a headset that operates with a single sensor on the forehead to measure brain activity as people watch short video clips that each represent up to 10 different moods. The technology's algorithm then employs five metrics – interest, like, concentration, stress and drowsiness – to analyze the user's response to the videos and then tries to best match a design with the user's current mood.

Ariel Bogle, "Uniqlo is using neuroscience to help you find the perfect shirt," Mashable
http://mashable.com/2015/10/06/uniqlo-neuroscience-australia-tshirts/#qJFOLCUrikq4

Prediction 9:
Death of checkout

A transaction will no longer be an event but rather a seamlessly integrated part of the shopping experience. Moreover, the role of store associates will fundamentally change to become one of a trusted advisor with the primary focus on helping customers find what they need.

Leveraging the latest technologies – especially with regard to payment – will be fundamental to redefining the shopping experience in retail stores. What today still feels like stealing, when customers are able to check out on their own without any interaction with the store staff, will become a norm in future. Personnel need to be trained and prepared for their new roles and the responsibilities they will face when the transaction is no longer at the core of their daily business operations.
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Example:
MasterCard launched fingerprint and facial recognition payment services in 12 European countries as part of a range of new services aimed at improving identity verification for mobile payments. Users will be able to scan fingerprints or take selfies to validate their identities, in a system designed to let them complete an online purchase without the need for PIN/confirmation codes or passwords.

Daniel Thomas, "MasterCard to introduce 'Selfie Pay' to UK," Financial Times
https://www.ft.com/content/e3c15344-d731-11e5-829b-8564e7528e54

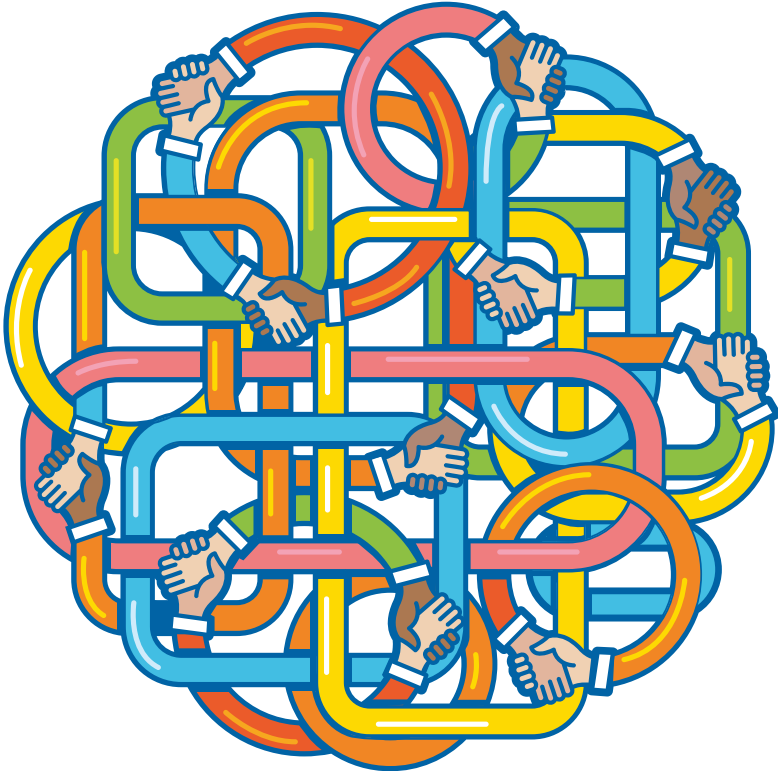# Prediction 10:
Closest to the consumer

Third-party companies such as marketplace, rental, social media, and aggregation sites will redefine the customer-retailer relationship in a way that will fundamentally disrupt the traditional view of who owns the customer and their data.
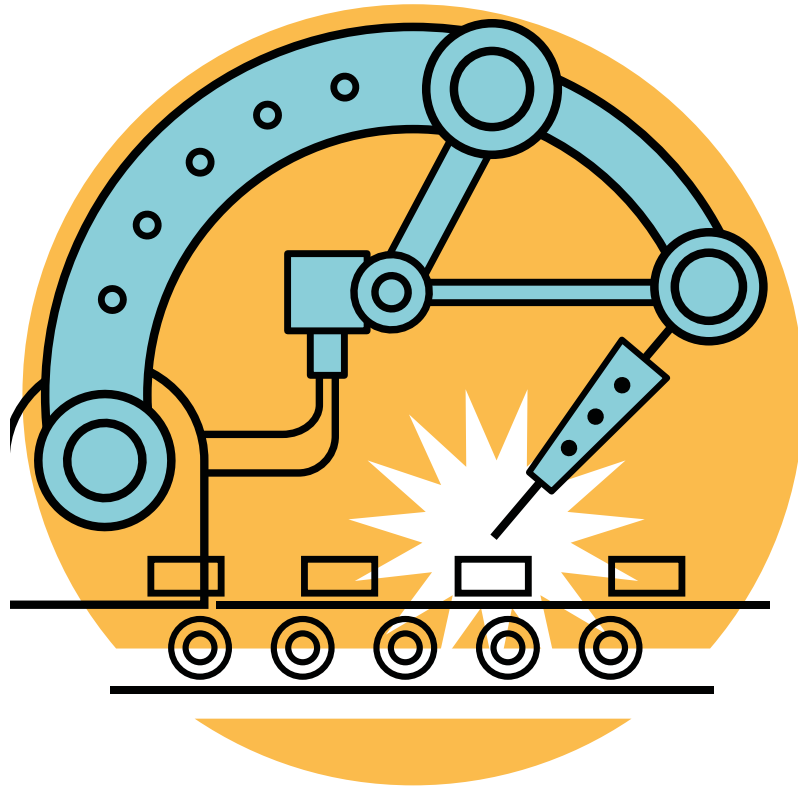
New players are entering the market, forcing established retail players to think about the future of their customer relationships. If they are no longer the ones to interact directly with the customer, but do so through a third party, what consequences does this have for their entire business? Retailers need either to provide such solutions themselves or to ensure at an early stage that they are connected with the right partners to avoid being cut out of the customer journey.

Example:
Instacart is an on-demand grocery delivery platform that has a unique business model which enables "personal shoppers" to fulfill customer orders. This way, customers are not required to enter and interact with their local supermarkets themselves, but instead enjoy their groceries delivered directly to their houses.

Jill Krasny, "Meet The Companies That Are Reinventing Same-Day Delivery," Inc. http://www.inc.com/magazine/201403/jill-krasny/same-day-delivery-startups.html

Prediction 11:
Supply chain transparency and automation

Enabled by technology, the supply chain of retailers will become highly traceable and automated in future. This will allow customers to achieve full transparency about what they're buying and help retailers to fulfill orders more efficiently.

Customers are becoming more and more conscious about what they are consuming. Smart tags, for instance, can make the entire supply chain of a product accessible to customers and enable them to understand where the product comes from and how it was made. Moreover, blockchain technology can help to easily identify counterfeit products via digital IDs and fraud-resistant databases so that customers can be sure that what they're buying is genuine. On the other hand, robots will work hand-in-hand with humans to perform warehousing activities and therefore make the overall delivery process safer, faster, and more precise.

Example:
Avery Dennison, the US$6.3 billion global packaging company, and EVRYTHNG, a technology company that sells software for managing data related to the Internet of Things (IoT), entered into a partnership to establish a real breakthrough in the transparency of supply chains. Within the next three years, more than 10 billion apparel and footwear products will carry smart tags that can be used to communicate information such as the materials in them, where they were produced, and how they can be recycled or passed along.

Heather Clancy, "Let your product do the talking: the rise of smart labels," GreenBiz
https://www.greenbiz.com/article/let-your-product-do-talking-rise-smart-labels

Your way to success

Certainly, retailers will realize that the predictions introduced above have already started to become a reality today. But if we imagine what the retail world will look like a few years from now, these novelties for us will be the norm for future shoppers. Nobody can be great at everything, but it is fundamentally important that retailers define the areas in which they want to shine and outperform their competitors.

Most importantly, though, a clear course of customer-centric action must be set and navigated. All the actions companies undertake to transform their business into the digital age need to have a value-generating impact on the customer. In order to achieve this, retailers need to identify exactly who their customers are, what they want and need today, what they might want or need in future, and through what touchpoints their message is going to be received at the right time.

Once the journey is defined and the entire organization is on board, speed of execution comes into play. As digital technologies evolve quickly and new ones are implemented at an ever faster rate, retailers need to move quickly and ensure they integrate regular checkpoints into their journey map to track the true value they are offering the customer.

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