



Connecting with the Connected Customer

2019 Retail Outlook

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State of Retail





Economic Outlook

- 2018 GDP was 2.9%
- Although interest rates on the rise they are still at lowest points in history
- Very low unemployment rate
- However, the future is filled with uncertainty:
 - Tariffs
 - Low inflation in spite of rising wages
 - Brexit
 - Productivity growth is just over 1%, which is very weak
- Life expectancy has declined for three years straight
- Health care industry is ripe for disruption and this will influence future of retail



Retail Industry Today

- Retail is a \$2.6 trillion industry in the United States
- In 2021, over 2.14 billion people worldwide are expected to buy goods and services online, up from 1.66 billion global digital buyers in 2016
- Online and digital is the new norm
- Offline brick and mortar stores must create surprise and delight through experiences to succeed in this channel
- Leveraging AI, machine learning, and data science will be a competitive advantage
- Tremendous number of bankruptcy going on particularly at the brick and mortar level
- Hatch, Cydney, "The Growth of Ecommerce is out of this World!", *Ecommerce Marketing*, May 8, 2018
"Number of digital buyers worldwide from 2014 to 2021 (in billions)", *Statista*, *eMarketer*, 2019



The China Impact

- Retail sales in China are expected to enjoy continued growth:
 - Innovation spurring ecommerce growth
 - Consumers in China are rapid early adopters of technology
 - China doesn't have a Western retail legacy, such as malls, supermarkets, and big-box stores
 - The mobile-pay trend totals \$9 trillion



Industry Forces

AMAZON

- Amazon continues its world-wide dominance in the retail space and holds 40% of US online retail sales
- Amazon Go may be the future of retail
- Amazon lockers provide convenience for delivery and returns
- Amazon rolling out “zero click” purchases
- 8.2 million people own an Amazon Echo device
- Alexa has 40,000 skills, but only two are used frequently: set a timer and play a song

Amazon Web Services (AWS)

- Cloud platform
- Offers customer value, convenience, and selection
- Extensive services capability
- Allows prototype and standard for new brand

AWS could be spun out of Amazon



Industry Forces

ALIBABA

- Alibaba is a marketplace, not a retailer
- Alibaba encompasses the functions of Amazon, eBay, PayPal, Google, and FedEx combined
- Total transactions reached \$248 billion in 2017
- eMarketer reports Alibaba has 58.2% share of the retail ecommerce in China
- Alibaba dominates 80% of China's online shopping market
- Alibaba is the world's fifth-largest internet company by revenue

Freshippo, Alibaba's Mobile Grocery Store

- Mobile-driven, brick and mortar grocery store chain
- Customers order via kiosks or online
- Part of Alibaba's "new retail" approach
- Option to have groceries cooked and delivered
- Grocery delivery offered within 30 minutes for customers within three kilometers

Zeng, Ming, "Alibaba and the Future of Business", *Harvard Business Review* Sept-Oct 2018

Bird, John, "Alibaba's 'New Retail' Revolution: What Is It, And Is It Genuinely New?", *Forbes*, Nov 18, 2018

Kwok, Sharon, "Alibaba tops e-commerce market share while facing fresh competitor in China", *eMarketer*, 11/07/2018



Industry Forces

TARGET

- Target's traffic continues to increase
- Target plans to leverage Shipt's technology platform
- Utilizes Buy Online Pick Up In Store (BOPIS)
- Launched self-checkout to increase customer experience and ROI
- Emphasis on retail employees continues as authentic person-to-person interactions are critical to developing in-store sales



Industry Forces

WALMART

- Walmart has a store within 10 miles of 90% of the population in the United States
- Investing in a variety of delivery channels
 - The retail giant acquired Jet.com to further its delivery strategy
- Changing their employee demographics to be digitally native
- Investing heavily in drive-up, pick-up service

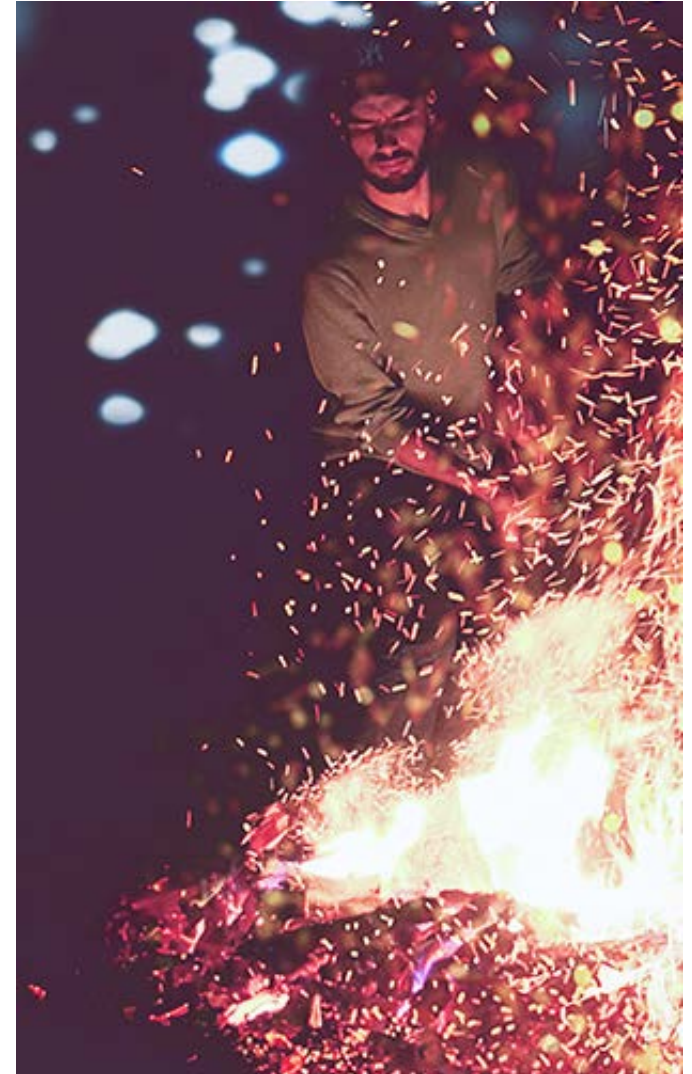


Offline Revolution

- Ninety-percent of retail dollars are still spent in store
- Brick and mortar is experiencing a cultural shift
- Brands need an identity
- Bringing online experience into the store is critical
- Human connection still important (H2H)

INNOVATIVE OFFLINE STORES

- McDonald's kiosks are helping to increasing sales
- Lowe's new robots assist customers
- Levi's latest next gen store in New York will integrate digital elements
- Museum of Ice Cream delivers an experience that ignites the senses
- Phluid Project is a mission-conscious, non-binary store

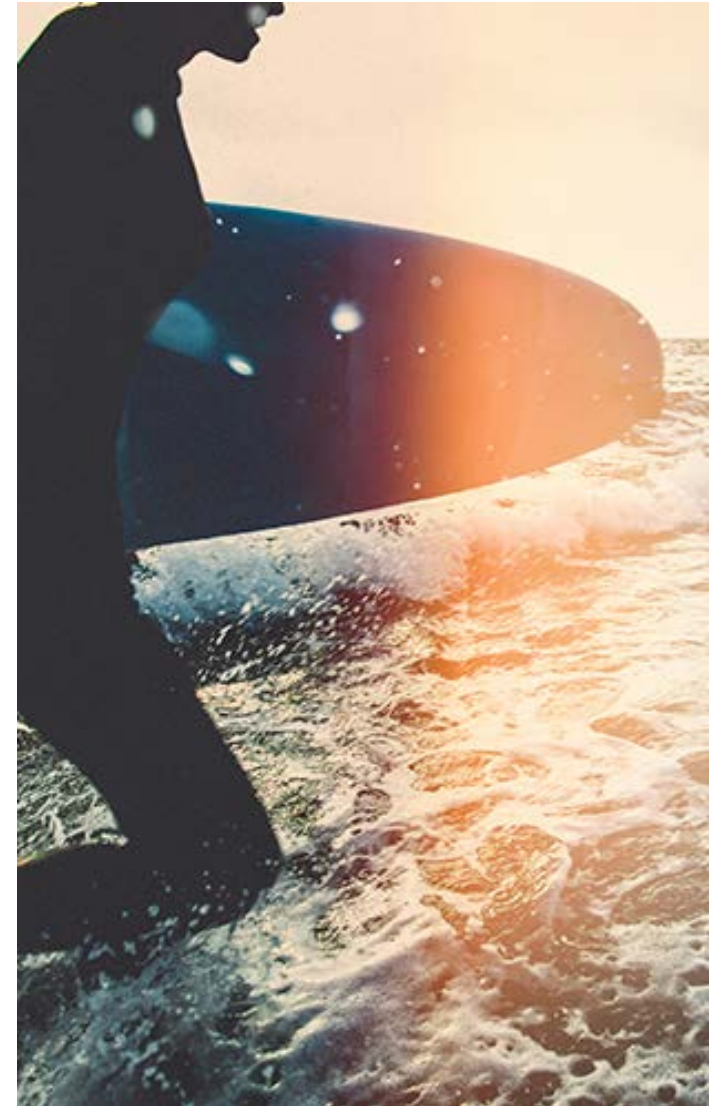


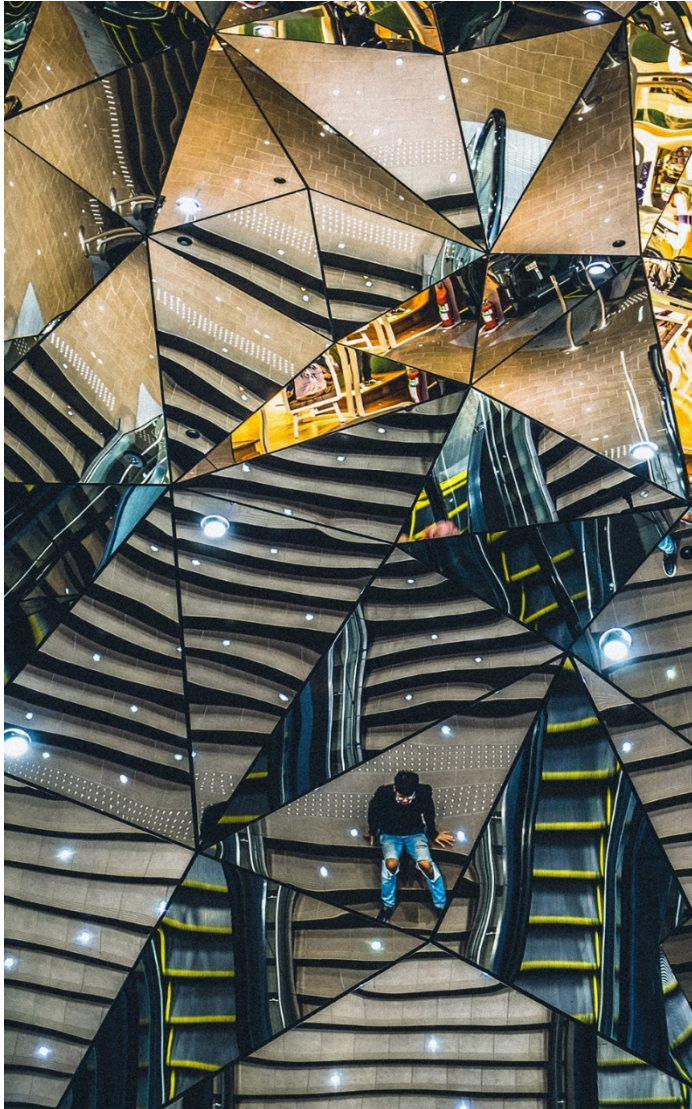
Turbulent waters

- The market continues to see a high level of retail filings involving several prominent retailers:
 - Sears was one of the largest filings with about 700 stores and 90,000 employees
 - Prior to Toys R Us Chapter 11 Filing they had \$5B in debt and annual interest obligations of \$400M
 - Additional retail filings in 2018 included: Claire's, Nine West, David's Bridal and Brookstone, Mattress Firm, Samuel's Jewelers, National Stores, Gump's, Walking Company, Bon Ton Stores, Kiko Milano USA and A'Gaci.
- 2019 has already seen Charlotte Russe, Payless Stores (2,000 stores) and Shopko file
- Influencing factors include excessive debt, competitive pressures and increasing ecommerce market share

"The Retail Apocalypse Embracing Innovation", *ABF Journal*, Jan/Feb 2019
Gerdan, Samuel J and Ed Flynn, "Chapter 11 Update: Total Filings Hold Steady While Retail Filings Continueto Climb", *American Bankruptcy Institute*

12 Lesk, Sari, "Shopko files for bankruptcy, will close more Wisconsin stores (Updated)", *Milwaukee Business Journal*, January 16, 2019





Secrets to Omnichannel Success

- Are retailers ready for consumers to buy from different channels?
- Successful omnichannel execution includes the following:
 - Walk in customers shoes
 - Make training a priority
 - Ensure quality is king
 - Validate localization and personalization
 - Put customers at the center of development



Returns

- It's estimated \$400 billion in merchandise was returned in 2018
- Retailers can benefit from improving the return process to improve customer experience and increase loyalty
 - Leverage data to track 100% of returns to identify the reason for the returns
 - Provide a variety of drop off locations to return products
- Amazon/Kohl's partnership allows customer to painlessly return Amazon inside a Kohl's with no boxing or shipping
- Both retailers win as Kohl's attracts increased traffic and Amazon eases burden of returns and can show case their Echo



Lease Accounting Standards

Much of the focus in 2017 was on revenue recognition, now the focus turns to complying with the lease accounting standards

According to a study by LeaseAccelerator, the biggest obstacle in implementing the new standards is collecting the data as many lease processes have been operating in silos and are decentralized

Two recent proposed changes by FASB may help companies adopt the leasing guidance in a timely manner:

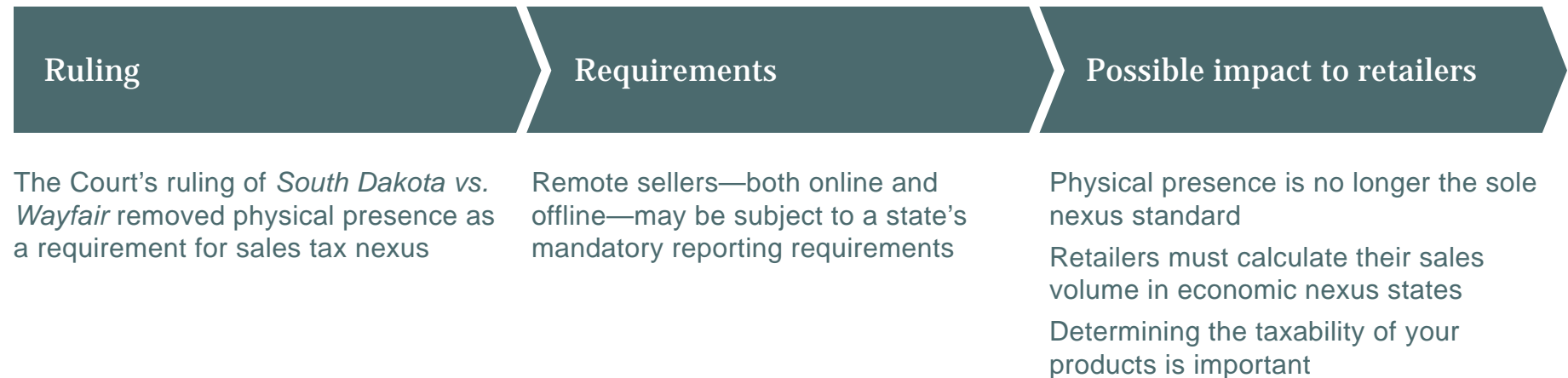
- 1) Allow entities the option to apply the provisions of the new lease guidance at the effective date (January 1, 2019), without adjusting the comparative periods presented
- 2) Allow lessors to elect, under certain circumstances, to not separate the non lease components from the lease

FASB standards will come into effect 2019 for calendar year end public entities, other entities have an additional year to adopt the guidance

URGENT



South Dakota vs. Wayfair



The Customer Connection



Personalization

- Consumers want personalization
- Promotions and ads must be tailored to the individual
- Data science is driving personalization
- Geography, body type, previous purchases, fabric, style, and color can be used for one-on-one interactions
- Retailers must shift focus from inventory of products to inventory of customers
- Need to drill down to more specific individual characteristics than have traditionally been of focus
- Growing markets should play a part in retailers strategic, long term plan such as non-binary and LGBTQ
-





Millennials

- Millennials have a combined spending power of \$600 billion
- This segment values: quality, ease of shopping, and convenience
- Millennials are comfortable with self-service checkout
- Very loyal group
- This segment doesn't like credit card debt and is open to alternative payment processes



The Non-Binary Customer

- Non-binary customers don't identify as male or female
- Phluid Project is the world's first gender agnostic store
- Majority of customers are heterosexual
- The gender-neutral labels movement isn't a passing trend



Women

85%

OF ALL CONSUMER
PURCHASES ARE MADE
BY FEMALE SHOPPERS

Price

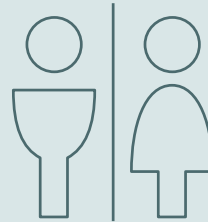
IS THE NUMBER ONE
INFLUENCER FOR A
WOMAN'S PURCHASE

89%

OF WOMEN SAY THEY
WILL WATCH FOR AN
ITEM TO GO ON SALE
BEFORE PURCHASING



The Brains of Men & Women



- Men want to learn how it works
- Men respond to facts
- Men talk to communicate
- Men view shopping as a necessity
- Men regard asking for help as weakness
- Men respond to messages about winning

- Women want to know the benefits
- Women respond to stories
- Women talk to connect
- Women view shopping as an event
- Women regard asking for help as efficient
- Women respond to messages about improving





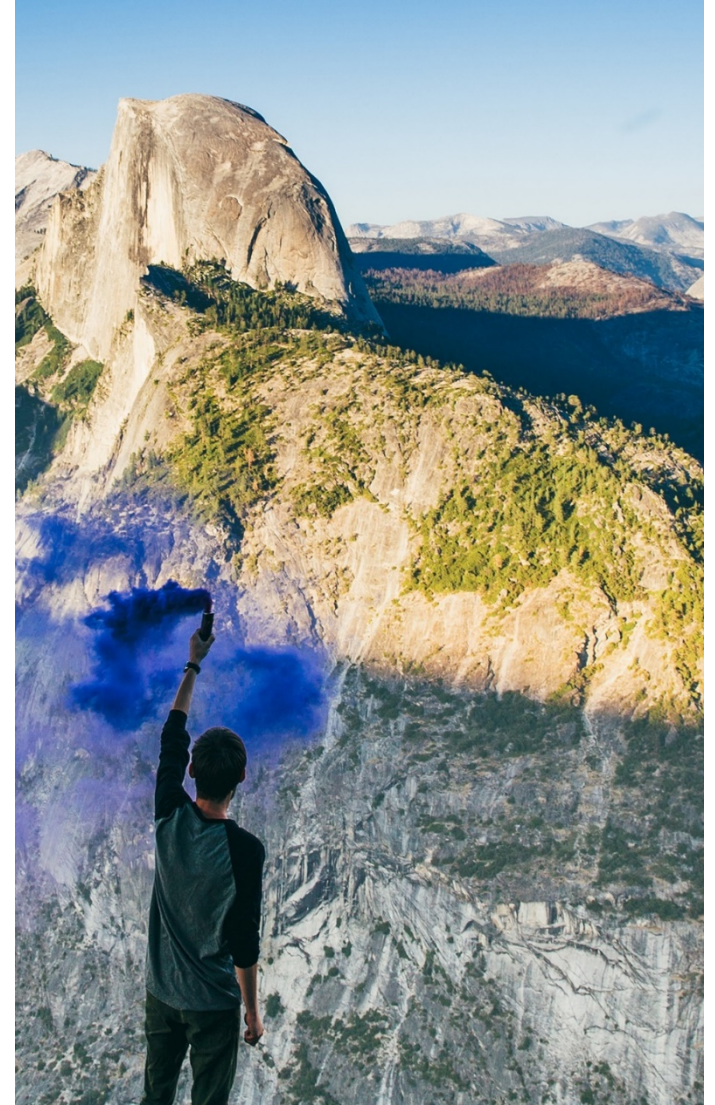
LGBTQ

- The global LGBTQ community has incredible buying power
- Inclusion, diversity, and brand authenticity are very important
- The LGBTQ community has tremendous leverage to advance political advocacy and global human rights
- LGBTQ-inclusive advertising being seen year-round—not just during Pride season



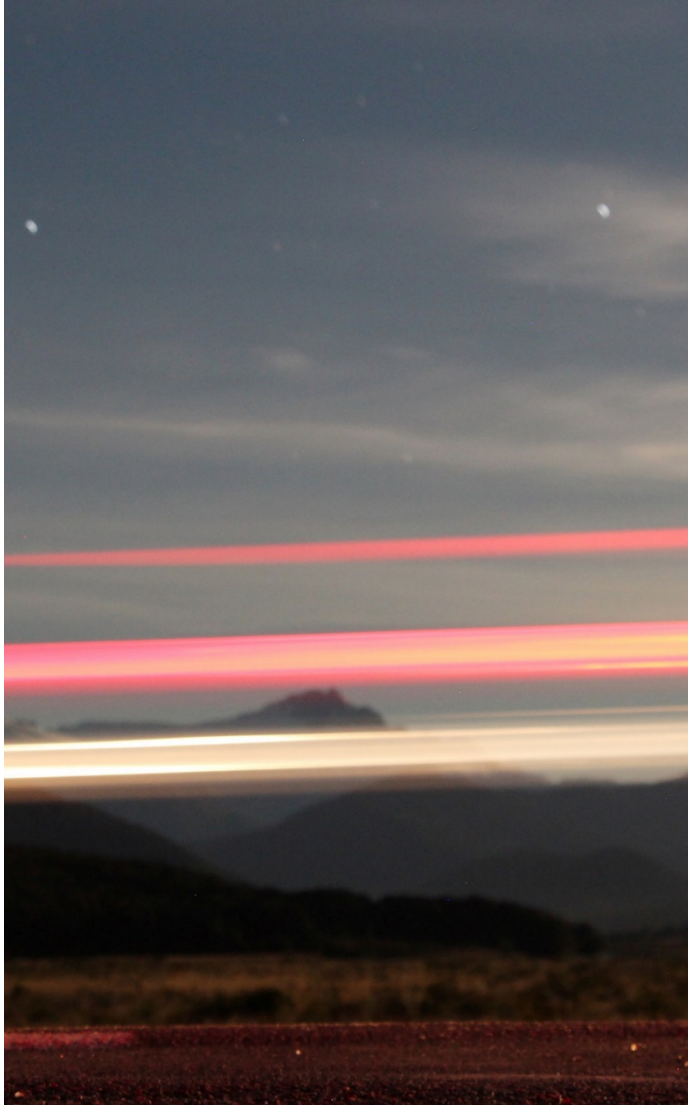
The Connected Associate

- Demographics of the workforce are changing
- Associates need and want to leverage technology through real-time tools
- Technology can help the associate guide the customer from check-in to check-out
- Human to human (H2H) contact is still essential



Technology Rules





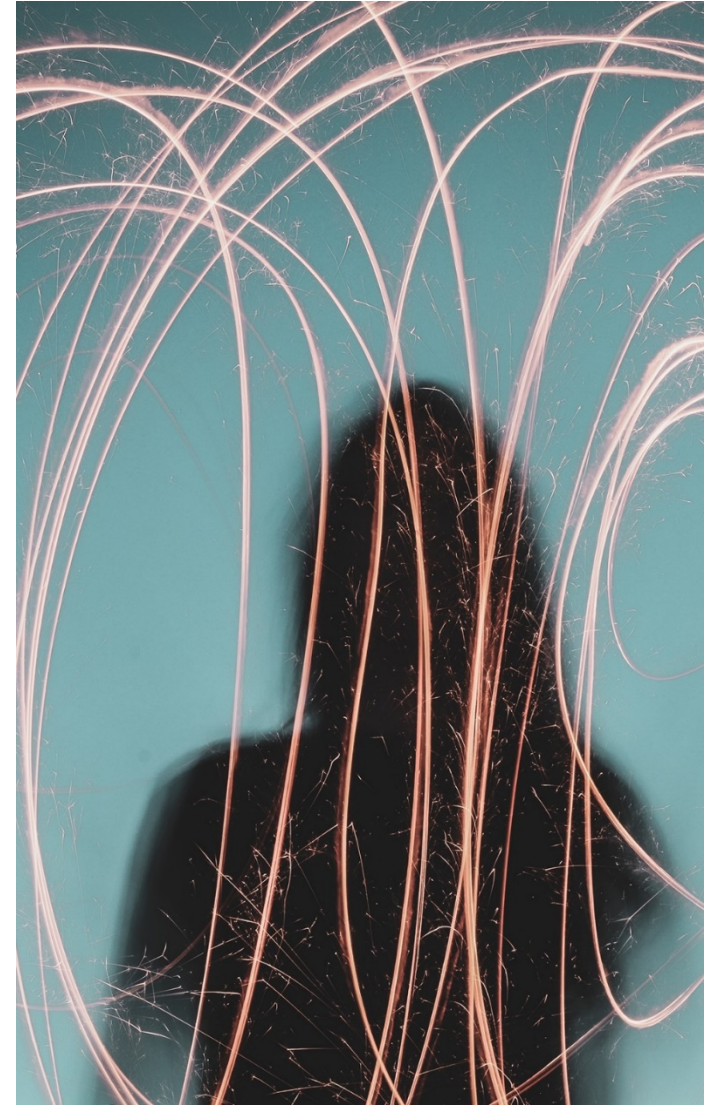
Leveraging Technology

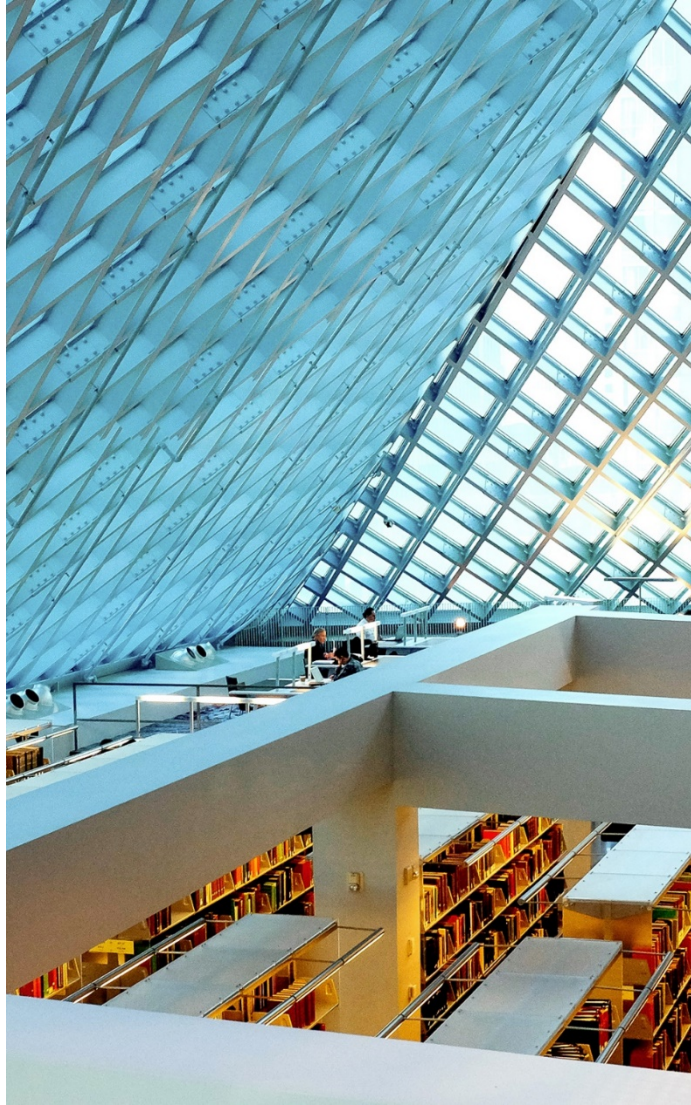
- Use data to enhance the customer experience
- Data needs to be real-time, easily accessible, and instantly actionable
- Five Retail Analytic Trends
 - Customer metrics
 - AI
 - Daily flash sales reporting
 - 5G networks
 - Inventory awareness



AI

- AI is predicted to generate \$29 trillion in business value by 2021
- Allows retailers to predict future customer purchases
- AI can be used to capture product placement, location, and how long a customer looks at the item
- AI also helps reduce markdowns by identifying which products should have a higher margin
- Pricing can be fluid based on the day of the week





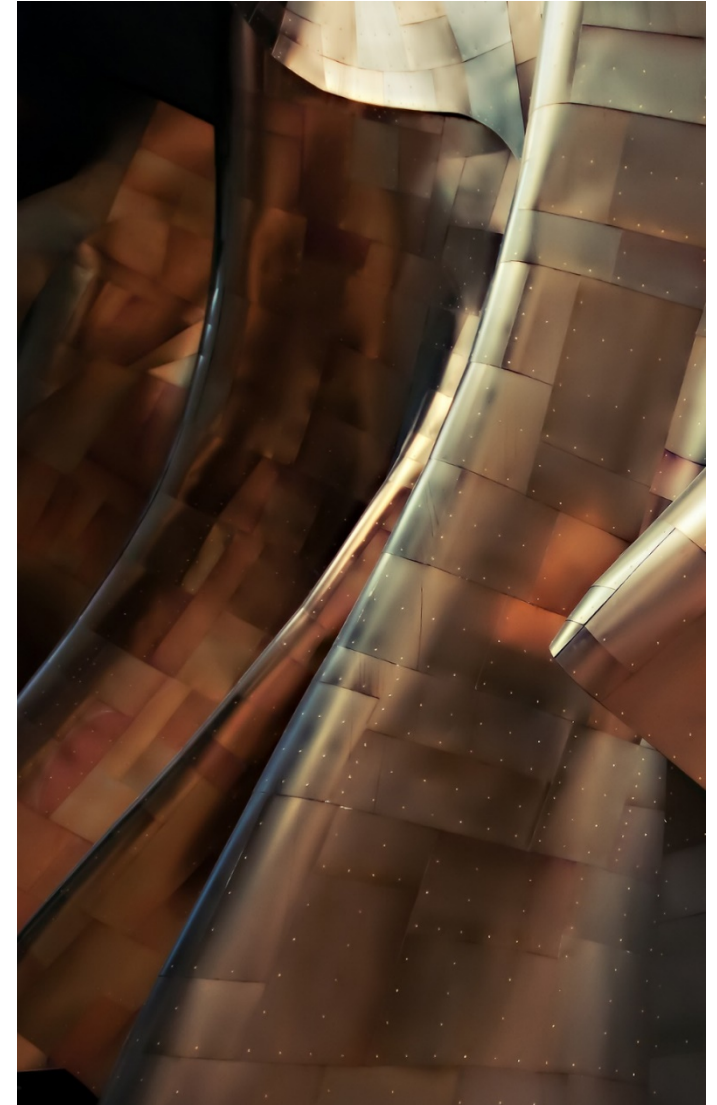
Robots

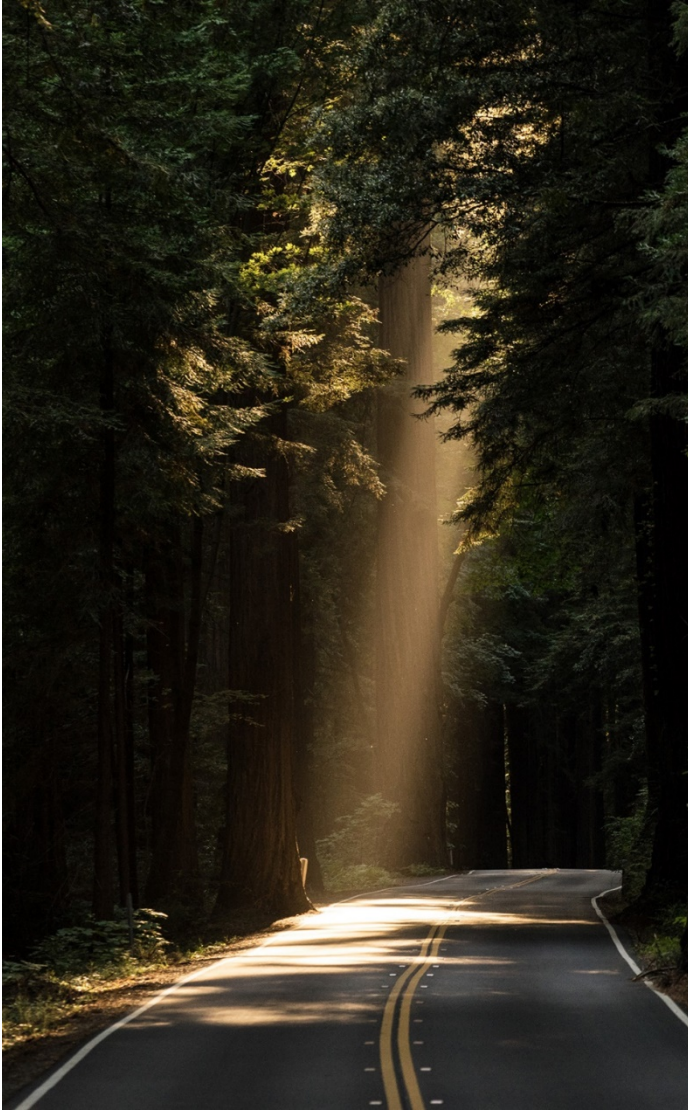
- Retail robots being used in retail
- Robotics isn't replacing people but rather assisting them
- Future bot functionality:
 - Platform for information transfer
 - Radio frequency identification (RFID)
 - Data capture
 - Camera analytics
 - Planogram compliance



Drones

- Drones will play a larger role in retail's future
- Drones are being used now for a variety of purposes:
 - Food delivery
 - Medical deliveries in remote locations
 - Capturing data
 - Helping with the last mile of delivery
 - Security
 - Checking stock
 - Capturing consumer behavior





Autonomous Vehicles

- Amazon, Kroger, and Walmart are deploying some form of AV technology
- Two big obstacles for AV include the lack of regulatory clarity—especially important during accidents—and customer adoption
- AV has far reaching impact on multiple industries:
 - Bus systems
 - Car insurance
 - Traffic
 - Air travel

Bhattacharyya, Suman, “High End of the Hype Cycle’: Retailers are Testing Autonomous Vehicles,” *Digiday*, January 2019

Chaturvedi, Aditya, “6 Ways Autonomous Vehicles Could Impact Our Lives,” *Geospatial World*, July 2018



Voice: The Next Big Platform

32%

OF CONSUMERS HAVE
A VOICE-ACTIVATED
DEVICE

40%

OF CONSUMERS WILL
SHOP WITH THE HELP
OF THESE DEVICES IN
THREE YEARS

75%

OF BUYERS ARE
INTERESTED IN
RECEIVING VOICE
ASSISTANCE IN STORE

Voice
assistance

ALLOWS FOR MULTITASKING WHEN DRIVING,
COOKING, AND WORKING



Visual

Visual technology is being leveraged by a variety of retailers



Amazon's thumbs up- and down-voting mechanism pares down choices



eBay's computer vision makes it easier to find items in the global marketplace



Pinterest recently introduced Lens to inspire ideas using objects in the real world



ASOS, a UK retailer, has an interactive app that allows the user to upload photos and find like items and accessories



Retail-isms

Term	Definition
Non-binary	Not gender specific
H2H	Human-to-human contact
Offline	Brick and mortar
New retail	Phrase coined by Alibaba CEO Jack Ma; refers to experience, consumption, and logistics centers rolled into one for a seamless convergence of offline and online
Zero click	Company sending customers items based on predictions rather than customers' orders





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