



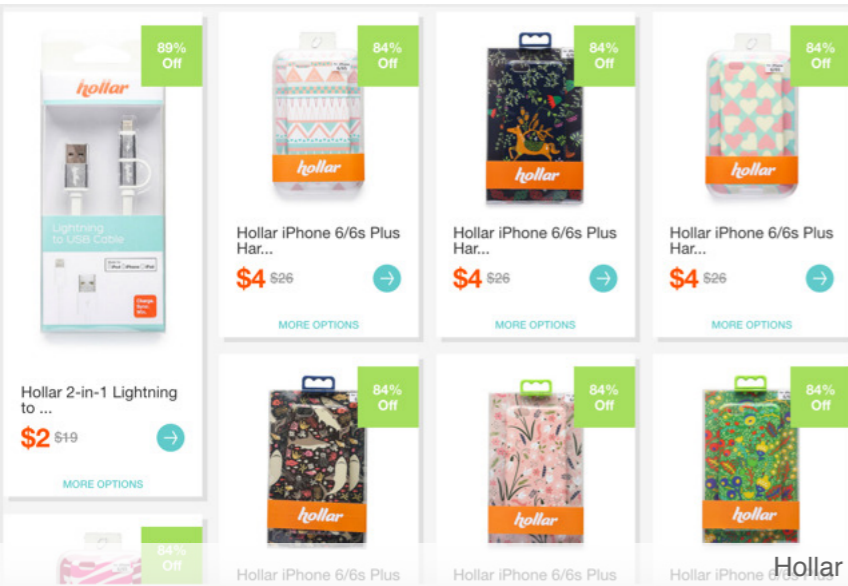
# Analysis



- The retail landscape is set for another year of seismic changes in 2018, as retailers with large store estates continue to be challenged and spending continues to shift online.
- The conversation around experience will continue to evolve as cash-strapped young Millennials seek value, while the older segment of this cohort look to buy into brands through paid-for experiences.
- Sustainability will dominate the conversation as consumers become increasingly aware of the damage they are causing to the environment. This will also help to continue to drive the popularity of resale platforms.
- Artificial intelligence will drive much of the innovation around voice and visual search technology, as well as connected and frictionless stores. Quick wins remain in optimising operational processes and improving online merchandising around location and customer behaviour.

Stella McCartney

# Millennial value equation



There is an emerging acceptance that Millennial consumers are more interested in experiences largely because they're unable to afford to buy physical goods. Time-pressed and smartphone-enabled, they're more cash-strapped than previous generations, earning £8,000 less on average than Generation X in their first years of employment. This has led to forecasts that lifetime earnings for many will be lower, on average. Retailers need to cater to this focus on value while also offering the same convenience and experience to more affluent consumers.

Amazon is offering a discount on Prime membership to people receiving government assistance. Hollar offers a dollar store-style experience online. Boxed creates the warehouse club experience of Costco or Sam's Club online, as well as adding functionality including AI-driven replenishment. At the extreme end of the spectrum, start-ups are now looking to address US consumers on food stamps, with applications such as FreshEBT helping consumers stretch their benefits as far as possible.

In the fashion space, there is speculation that H&M is gearing up to launch an online sales platform in 2018 that will offer branded products at discount prices.

## Actions worth exploring in 2018

**Look beyond affluent Millennials:** the notion of a generation of affluent Millennials is a myth. In the UK, between 2011 and 2016, this cohort saw their net income per household – after paying rent – fall by 0.2%, compared with an average increase for all households of 7.0%, according to [Consumer Cast](#) data.

**Reconsider what the family home looks like:** with under-30s increasingly staying at home with their parents, how do you service multi-generational adult households?

**Think about how you will offer this consumer seamless convenience and experience at a lower cost:** consider what efficiencies can be found – for example, whether products could be made cheaper by charging for returns.



# Experience becomes product



Clos19

The shift to experiential retail has left many retailers wondering where they actually make money. In 2018, ideas around the store as media will evolve, with traditionally free experiences becoming stand-alone, paid-for product.

We've already seen this with the emergence of [wellness festivals](#), but brands with a strong heritage and emotional resonance are now creating experiences that are paid for, with the product that the brand is known for playing little, if any, role in the experience.

One key example of this is the café opened by [Tiffany](#), which offered customers the opportunity to have "Breakfast at Tiffany's", tying in with the classic film starring Audrey Hepburn.

Brands that are successful in this sphere have a deep relationship with their consumer bases, and many are already experts in experiential retail. For example, Lululemon's in-store yoga classes have evolved into events like the Sweatlife Festival in London and Seawheeze in Vancouver.



Tiffany & Co

## Actions worth exploring in 2018

**Focus on building emotional connections with customers:** these brand extensions are only going to be successful if brands resonate with consumers and consumers aspire and identify with them.

**Look outside your traditional areas of expertise:** what are the logical extensions for your brand, and how can you create an experience that people will want to pay for? What expertise do you need to bring in to make this a reality?

**Mining heritage:** in 2017, LVMH began offering experiences that tie into its alcohol brands via the Clos19 website. One experience, costing £57,000, takes six people for a [five-day luxury gastronomic experience](#) in Bordeaux and Cognac.

# Sustainability and circularity become key



C&A



Eileen Fisher

Sustainability will be a key focus for the retail industry in 2018. According to Nielsen data, 66% of Millennials are willing to spend more on a product if it comes from a sustainable brand. The Shelton Group, a marketing company specialising in sustainability, found that 90% of Millennials will buy from a brand whose social and environmental practices they trust.

Businesses are working to close the loop. The Ellen MacArthur Foundation has created the [Circular Fibres Initiative](#), bringing together industry stakeholders to move away from the “take-make-dispose” approach towards a circular economy for textiles.

Eileen Fisher has created the [Renew programme](#), where products are repaired and resold online and in-stores. Other brands like Mud Jeans are experimenting with a leasing model where jeans are recycled after being worn for a year and turned into a new pair.

European fashion retailer C&A has unveiled its cradle-to-cradle programme where

garments are either composted or turned into new garments. It released a T-shirt that it claims can safely turn into compost within 11 weeks.

## Actions worth exploring in 2018

**Investigate the correct programme(s) for your business:** what does circularity look like to you? Will it mean repurposing and reselling old items, or taking products back down to their constituent fibres before building them back up again?

**Educate consumers on the value of their garments at the end of their useful lives:** ensure that products aren't going to landfill and that the maximum value is being extracted from fibres. Take-back schemes will be key as closed loops become more commonplace and brands seek more used fibres to recycle.

**Start to build products and business models with circularity in mind:** how can you create products that will retain their value through multiple owners?

# Resale steals market share



The resale market is one of online retail's fastest-growing sectors, according to Fung Global Retail & Technology. The total "re-commerce" market is expected to continue its substantial growth rate, from \$18bn in 2016 to \$33bn by 2021.

Apps targeting Generation Z and young Millennials are taking an increasing amount of spend and volume out of the traditional market, catering to Gen Z's desire to live more sustainably, and appealing to the frugal mentality of cash-strapped Millennials. Peer-to-peer apps such as Depop, Poshmark, Vestaire Collective and Grailed are reducing the number of opportunities that traditional operators will have to interact and sell to customers.

Being where the customer lives is key, and traditional brands will need to start thinking about how they can have an authentic and relevant presence within these environments. This could mean selling archive products, creating more durable garments and building brands that are valued in the resale process.



## Actions worth exploring in 2018

### Facilitate the sale of past season goods on marketplaces:

Stella McCartney has partnered with The Real Real to facilitate the sale of past season products. Information around consignment is available at McCartney's stores, and panels are being held at both the Real Real and McCartney's stores where experts explain the circular economy to customers.

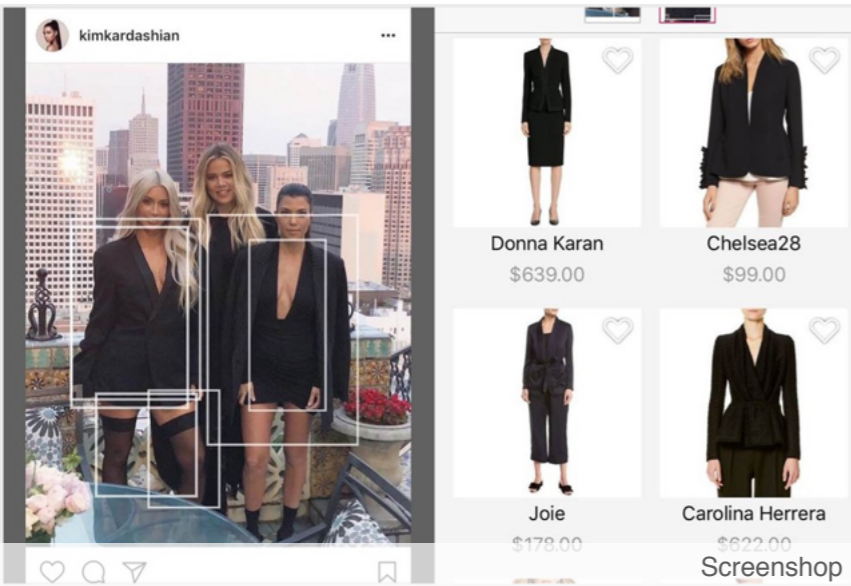
### Monitor popular products on resale apps:

Which of your brand's products are popular on resale apps? Can you create capsule collections based on this data? For instance, Helmut Lang launched its Re-Edition collection, a re-release of 15 of the designer's most memorable garments, on Grailed in September 2017.

### Partner with resale apps:

Brands should look at which apps their target demographic are shopping with, and how they can partner with them through content or events.

# Voice and vision: new search drivers



Emerging customer experience interfaces voice and vision will be key in 2018. Consumers will expect retail experiences to become completely integrated into their lives, and the emphasis will shift away from text as the only method of online search.

In 2017, we talked about how voice platforms like Amazon's Alexa will narrow the field of vision for consumers. This continues to be the case, with the retailer claiming it sold "tens of millions" of Alexa-enabled devices over the 2017 Holiday period, while the Echo was the most popular item on the site over the period.

Sales of voice assistants rose by **104% during the fourth quarter** of 2017, according to an Adobe Consumer Electronics Report, with over half of the people who own a voice assistant using it at least once a day.

Retailers are increasingly integrating "skills" into voice devices. Perry Ellis created a skill to help men get dressed for events. It takes into account dress codes, weather and venue to offer a solution,

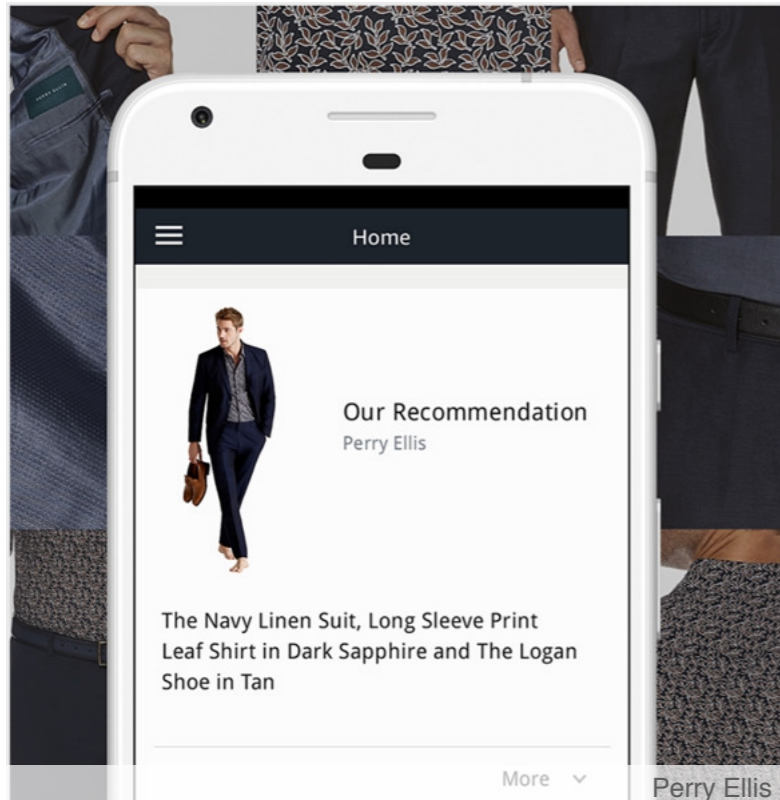
directing customers to outfit suggestions on PerryEllis.com – meaning that there are opportunities to drive customers outside of Amazon's ecosphere and on to your own website.

Visual commerce will also continue to emerge, particularly as consumers become comfortable with new Samsung Bixby functionality that makes the world searchable simply by holding up a smartphone and taking a picture.

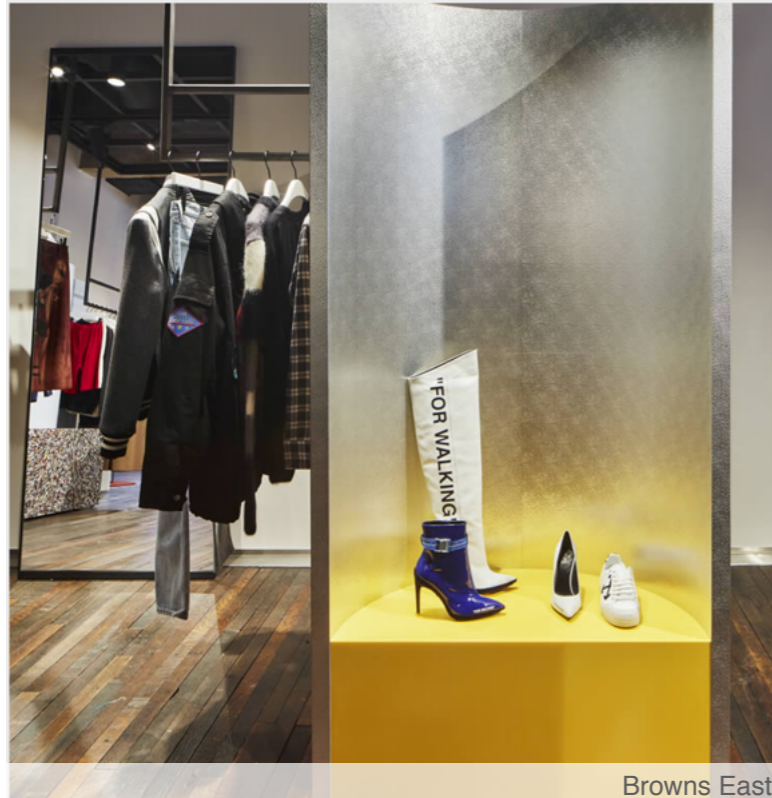
## Actions worth exploring in 2018

**Brands need to figure out how they will interact with Amazon's Alexa platform:** as the dominant system in the smart speaker sector (holding around 70% market share), brands hoping to play in the voice space will need to work with Amazon to gain any real scale.

**Integrate visual search:** this is not just for proprietary apps and mobile sites, but also working with other providers like Pinterest and apps like Screenshop.



# The connected store



Browns East

Increasingly connected stores will be a key trend for 2018, as retailers attempt to create the degree of customer knowledge and personalisation in-store that is available to them online.

In 2017, Browns launched the first iteration of owner Farfetch's "Store of the Future" at its Browns East store, following the reveal of the FarfetchOS earlier in 2017. This system links up RFID, a mobile app, smart mirrors and powered clothing rails to understand which products a customer wants, both in-store and after they leave.

In China, Alibaba is extending its joined up O2O supermarket concept, Hema. The stores merge online and offline shopping, allowing consumers to pay and get product information via an app; shop in-store and have groceries delivered; and even to pick seafood to be cooked and eaten on site.

The retail giant is also connecting this to other services, bringing together Tmall, Ofo (a bike-sharing platform) and Autonavi (mapping and navigation services) to create localised micro-ecosystems centred around Alibaba technology.

## Actions worth exploring in 2018

**Investigate what systems will allow for a greater integration of the online and offline customer experiences:** how can you use RFID to better understand the movement of products around the store and relate that to a person's purchase intent? How can you finesse the online and offline connection to improve the customer experience?

**Look outside your own ecosystem:** what other local services can you bring into your app that will help facilitate the most compelling customer experience?



# Frictionless continues to emerge



While Amazon might not have opened its frictionless Go store to the public in 2017, other retailers have leapfrogged the e-commerce giant to open checkout-less stores – mostly in Asia.

JD.com opened its first unmanned grocery store in January 2018, in the city of Yantai in Shandong province, China.

BingoBox has launched an entirely staff-free convenience store where people scan the items they want to buy, pay with Alipay, and then leave the store. Computer vision checks that shoppers are only leaving with items they have paid for, with facial recognition checking that shoppers have registered.

Wal-Mart's Code Eight incubator is reportedly developing a concept which reimagines the in-store shopping experience using technologies like computer vision to create physical stores without checkout lines or cashiers.



## Actions worth exploring in 2018

**Think about how you will remove friction from the checkout process:** while completely checkout-free stores might be the end goal, there are ways of making the checkout process smoother through the use of mobile apps. UK supermarket Sainsbury's is testing a mobile phone app that customers can use to scan products as they shop.

**Explore computer vision and how it could be rolled out in store:** what will this kind of retailing look like for you, and in what parts of the business does it make sense to experiment with it?

**Understand the implications of rolling out a fully-frictionless strategy:** how will customers feel about using facial recognition to avoid having to use checkouts? What are the security risks and the privacy concerns?

# To watch: Facial recognition drives service improvements



In the longer term, facial recognition will become key to retailers bridging the gulf between what consumers say they want and what they actually want, while also being one route for taking friction out of the payments process.

Consumers are becoming increasingly comfortable with facial recognition on the back of recent smartphone launches that use the technology to unlock the gadgets. This is driving growth in the space, with the global facial recognition market expected to be worth US\$8.93bn by 2022, up from \$3.4bn in 2016.

In Asia, JD.com, Bingobox and Alibaba are all already using facial recognition for payment in different projects, and this is set to be a trend that will continue to grow.

Facebook has patented technology that will feed information to floor staff about customers based on their user profile. It will enable businesses to target consumers with products informed by their Facebook activity and facial expressions.



It will also use crowd-scanning technology to identify emotions and enable staff to offer service if a customer is unhappy or needs help.

## Actions worth exploring in 2018

**Consider how you can use cameras in-store to track shopper satisfaction:** Wal-Mart has patented technology that tracks customer happiness at the checkouts and understands when it needs to bring in more cashiers.

**Explore how facial recognition will fit into the frictionless payment system of the future:** start to consider how this would integrate into current systems—would it be done via an app on a consumers' mobile phone, or through a camera in the store?

**Be sure to take the customer on the journey with you:** for many consumers, in-store personalisation to the degree offered by the Facebook patent would be considered creepy rather than helpful. Allowing people to opt-in and explaining the benefits of this to them will be key.

# To watch: Cryptocurrency emerges



Burger King



Coindesk

In 2018, retailers will need to track the emergence of cryptocurrencies and start to consider when will be the right time to start accepting cryptocurrencies such as Bitcoin, Ethereum, Ripple and Litecoin. While cryptocurrencies will take a long time to scale, retailers need to begin considering how they will integrate cryptocurrency payment options. Expedia, Lush and Starbucks have already begun accepting Bitcoin.

The value of several cryptocurrencies jumped in November 2017 after Amazon bought three cryptocurrency-related domain names, sparking speculation that it could be preparing a move into the space. As traditional financial players look at how to integrate cryptocurrencies, there is speculation that online giants like Amazon, Alibaba or Tencent could create the "ultimate" cryptocurrency.

As emerging and unregulated currencies, expect lots of hype but also instability around these projects in the short term as they work to becoming a credible payment method.

## Actions worth exploring in 2018

**Develop strategies around integrating cryptocurrencies into online and mobile platforms, and consider how they can be used to pay for items in-store:** key to this will be allowing for volatility in the value of cryptocurrencies, particularly around returns.

**Consider creating your own cryptocurrency:** in January 2018, Kodak launched KodakCoin, a photo-centric cryptocurrency that empowers photographers and agencies to take greater control in image rights management. In August 2017, Burger King Russia launched the WhopperCoin, a cryptocurrency that allows customers to exchange blockchain tokens through an app after purchasing a Whopper burger.

**Expect volatility in the short term:** it will take time for regulators, the market and businesses to fully understand these emerging new currencies.

# Related reports



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**Closing the Loop: Sustainable Fashion Strategies**



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**Shoptalk Europe 2017: Big Ideas**



**Facial Recognition: Emerging Business Strategies**