Retail 2017 Trend Report

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As the department store channel shrinks, and more brands fight for less space, our opinion is that brands will need to be more creative, flexible, and diversified in their approaches.

THE PATH TO CONSUMERS WILL BE MORE DIRECT IN 2017

The rise of eCommerce over the last 10 years has forced retailers to adapt to the changes demanded by consumers. eCommerce growth continues to accelerate and outpace growth in the brick-and-mortar channel. Online sales accounted for almost 20% of the total US sales this holiday season based on preliminary estimates.

In addition, department stores have offered discounts and promotions as a key tool to drive demand and bring consumers into stores. Over time, this strategy can dilute a store's brand and leave stores looking picked through. Also, it trains consumers to wait for discounts instead of buying products at full price.

There have been a significant number of store closures in the last few years and we expect that to accelerate in 2017 and to continue. As the department store channel shrinks, and more brands fight for less space, we think brands will need to be more creative, flexible, and diversified in their approaches.

One way brands can disrupt the more traditional wholesale channel without taking on the significant real estate risk that comes with opening their own stores is to open pop-up stores. With pop-ups, brands have complete creative control of the brand experience and how their messaging is communicated to consumers. They can tell the story they want to tell and explain in their own voice what the brand stands for.

In some cases, brands use pop-ups more as an advertising tool than as a place to transact commerce. These kinds of pop-ups usually offer a special experience to draw consumers into the store. Pop-ups can also be set up in locations other than malls, allowing brands to reach their target customers where they are.

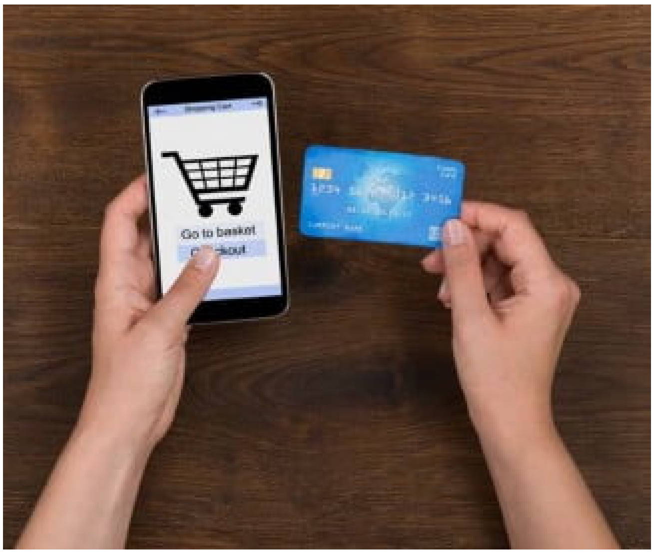
Retailers and brands can also use pop-ups to test the waters in the most expensive shopping areas, often at discounted rents, while landlords can use the temporary stores to show off the space to prospective long-term tenants. Mall operators are receptive to pop-ups, as they bring something new and unique to consumers. Real estate firm, Related Companies, has used pop-up shops at the Time Warner Center in New York City to provide a fresh feel and add variety for consumers.

We have seen just the tip of the iceberg in 2016 in terms of what brands can do to reach consumers in more creative ways. Food trucks have become highly popular; they now compete with restaurants in a number of markets. We think a similar opportunity exists in the retail space, retailers and brands can operate retail trucks, temporary spaces, and pop-up shops in traditional and nontraditional locations in order to drive sales and traffic.

BATTLE OF THE MARKETPLACES IS SET TO CONTINUE

Online pure plays are also increasingly seeking a physical presence. Companies such as Amazon, Bonobos, and Warby Parker have opened a handful of physical stores. We think many more eCommerce companies will follow suit in 2017. A brick-and-mortar presence will be a necessary part of the business model for online pure plays. Pop-up stores are a good way to test the market. We think more companies will use pop- up stores to enhance profitability, increase brand awareness, and enhance the overall shopping experience.

Another way for brands to directly reach consumers is through social media. Instagram and Pinterest, for example both now offer a commerce tool. In addition to allowing users to shop via its platform, Instagram allows brands to directly share their brand story and messaging with users. We think this way of shopping will become more mainstream in 2017.



Online marketplaces from names such as Amazon and Walmart are carving greater share of eCommerce sales in Western markets, including the US and Europe. These regions are following in the footsteps of China and India, where marketplace sites such as Tmall, JD.com, and Flipkart have long dominated online retailing.

Marketplaces are purely platform providers. They enable other companies to sell goods or services, but do not provide anything tangible themselves. In 2017, we expect competition among marketplaces to intensify further as the major ones gain share of consumers' online spending.

Internet shopping in the US and Europe traditionally meant buying from a retailer's or brand's website, with the obvious exception of eBay. Now, consumers in these markets are following trends seen in China and India, migrating to marketplace sites. Below, we identify three phases in the development of online marketplaces.

Amazon has led the charge to marketplace formats in the West. In the third quarter of fiscal year 2016, third-party sellers were responsible for half of all units sold on Amazon.com. This was the first time this threshold had been reached. We estimate that, in 2016, Amazon's annual marketplace sales exceeded those of eBay for the first time.

Walmart moved into the marketplace format in 2009, but it did not grow its seller numbers substantially until 2016. As a result, Walmart added approximately one million SKUs per month to its website in 2016, driven by their acquisition of Jet.com. Walmart has also made investments in JD.com in China, taking its stake to around 10.8%. These moves are further bolstering its exposure to the marketplace segment.

In Europe, Zalando has been among the retailers to launch a marketplace. Zalando's is targeted at big fashion brands and, like Amazon, it offers fulfillment on behalf of third-party sellers.

There are four benefits to the marketplace model that make it attractive to companies that have previously operated in the direct-retail sector:

1. It is highly profitable. Marketplace sites can charge double-digit commissions for simply acting as portals. Fulfilling orders on behalf of sellers provides an additional revenue stream.

2. Marketplaces are protected from the risks associated with owning stock.

3. Shoppers are less likely to walk away unsatisfied, as the long tail of product demand can be satisfied with little effort by the retailer, in turn building loyalty and repeat visits.

4. A marketplace model offers an asset-light way of entering new regional markets.

Due to these benefits, we expect major retail names to continue their push into the marketplace format in 2017. Amazon will become a majority marketplace by the number of units sold and will pull further ahead of eBay in terms of marketplace sales. We also expect to see marketplace providers enhancing their services such as in fulfillment, in order to make themselves attractive to both buyers and sellers. Marketplace growth will pressure more brands and retailers to establish a presence on these sites.

However, over the medium term, we also foresee marketplaces' share of eCommerce plateauing, as some consumers will continue to seek reassurance that dealing directly with a retailer gives them product authenticity, return policies, and collection options.

MONOBRAND APPAREL SET FOR SUSTAINED OUTPERFORMANCE

We expect H&M, Primark, and Zara to remain among the fastest-growing names in mass-market apparel retail in 2017. High-growth online names such as Boohoo.com will be among this group, too.

Innumerable articles and reports have poured over these retailers' fast-fashion credentials to explain their success. But their fast-fashion credibility is enabled by a more fundamental characteristic; they are monobrand or vertically integrated retailers. In other words, they sell only their own labels, which enable them to establish themselves as brands rather than just as retailers.

Uniqlo provides further evidence of the popularity of monobrand apparel retailers. The company is not a fast-fashion retailer, but a single-brand retailer that has seen very strong growth in recent years. At the same time, a number of large multibrand retailers have reported disappointing top-line performance. This trend is not black-and-white. Monobrand retailing does not guarantee success, as Gap can attest to, and some multibrand pure plays such as Amazon and ASOS, are seeing much success online.

IS IT TIME TO CLOSE THE RUNWAY-TO-RETAIL GAP

One of the most buzzed about concepts in the retail industry is the idea of “runway to retail” which has put the fashion industry in the midst of an intense debate, with the announcement of “in-season fashion shows” by several major designers and brands declaring that the time is ripe for the industry to explore change.

Should runway fashion be available to buy immediately, or should it come to market four to six months later based on the century-old industry calendar? This shift has profound consequences for all aspects of the retail organization. To eliminate the months of delay between runway excitement and retail availability, brands will have to shift their design processes, planning cycles, and merchandising timelines to provide product to consumers more quickly.

Many at the upper end of couture fashion will always have loyal fans willing to wait for their limited supply. Therefore, one size does not fit all. We are likely to see a mix of distribution models for some time to come. The larger tide will continue to sweep us all to faster, more on-demand commerce models as the customer has spoken and reacted positively to those designers who are delivering product directly from the runway, to the consumer.

COLLABORATION AND INTERNAL ALIGNMENT THROUGH INTEGRATED BUSINESS PLANNING

Economic, political, and environmental challenges combined with the growing complexity of global operations have made Integrated Business Planning (IBP) a top corporate priority. Indeed, the potential is tremendous in the most volatile business climates. This process aligns merchandising, sales, planning, R&D, operations, finance, and other functional areas of the organization, into a single line of sight, from plan to performance to profit.

Due to the complexity of today’s business environment, collaboration in technology encompasses a broad range of tools that enable groups of people to work together, including social networking, instant messaging, team spaces, web sharing, audio conferencing, video, and telephony. Broadly defined, any technology that facilitates linking of two or more humans to work together can be considered a collaborative tool. Many large companies are developing enterprise collaboration strategies and standardizing on a collaboration platform to allow their employees, customers, and partners to intelligently connect and interact. As you well know, any solution that can do this will vastly improve both cost and service performance.

Internal alignment is just part of the IBP process to create company agility that can recognize, recalibrate, and respond to disruption in the business caused by the ever demanding consumer. According to leading research from Gartner, the majority of large global retailers and manufacturers are looking to advance their current Sales & Operations Planning (S&OP) initiatives to also include a full view of the financial impacts of their supply and demand balancing options to inform, better more timely strategic decisions. It is this journey to true IBP, which allows strategic, bottom-line oriented “what if” scenario modeling, and must be managed by a strategic process which can move at the pace of today’s global business environment.

U.S. RETAILERS WILL FACE INCREASED COMPETITION IN GROCERY AND APPAREL

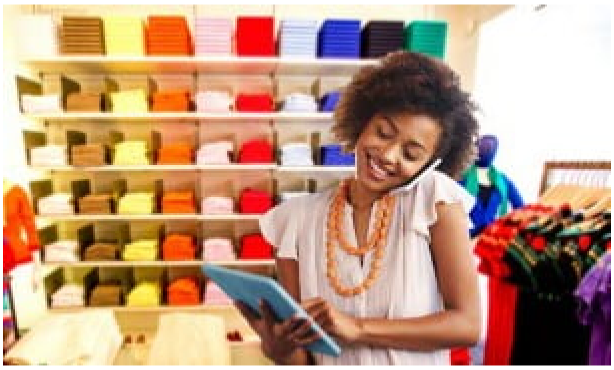
The level of competition in the US grocery and apparel segments will likely intensify in 2017 due to new entrants and greater competition from existing players. In grocery, a wave of European retailers is set to enter or expand in the US. Emerging grocery concepts, enhanced services, and convenience are bringing increased competition.

US grocery sales are estimated to have reached $1.13 trillion in 2016, representing a five year CAGR of 1.1%. In apparel, Amazon’s push into fashion specifically, its expansion of its private-label offerings, and consumers’ increasing comfort with purchasing apparel online will likely pose a greater threat to those apparel retailers that are primarily value oriented. Euromonitor estimated US apparel and footwear sales were $384.94 billion in 2016, representing a five year CAGR of 2.1%.

Competition in the grocery segment is intensifying due to the aggressive expansion of German discount supermarket Aldi and its fellow German competitor Lidl, which has announced plans to enter the US market in 2017. In addition, emerging concepts with enhanced service offerings such as Amazon’s smart grocery store concept, Amazon Go, will fight for share in the market. Amazon Go is in test phase and is expected to open in Seattle in early 2017.

Aldi announced plans to accelerate its US expansion and operate 2,000 stores by 2018, which would represent a 29% increase from its 1,300 US stores in 2015. Lidl is expected to enter the US toward the end of 2017, and the company plans to open 150 US stores by 2018. Both of these low-overhead, no-frills concepts have had significant impact on the UK grocery market already. They have taken share from the “big four” grocers in the UK Sainsbury’s, Tesco, Asda, and Morrisons and have put downward pressure on these retailers’ margins. In the US, Aldi’s prices are estimated to be 10%-25% lower across both like-for-like items and private-label SKUs that are similar to those sold by Walmart.

These discount chains keep prices low by limiting inventory to a lean selection of private-label items, whereas traditional supermarkets tend to carry a variety of different brands of a single product. In addition, Aldi and Lidl operate much smaller store formats and limit their store investment more than traditional supermarkets do, which allows the discounters to deliver convenience and affordability to shoppers.



Adding further pressure will be emerging concepts with enhanced service offerings such as Amazon's smart grocery store concept, Amazon Go, will fight for share in the market. Other retailers such as Target and Kroger are looking to offer its shoppers greater convenience with new store formats. Target plans to open 27 flexible format stores in the next three years. The stores are one-third the size of a typical Target and offer a more curated product assortment and improved back-end capabilities that provide additional online pickup options.

Amazon will be heaping pressure on apparel retailers. The company began selling apparel in 2002, but intensified its efforts in February 2016, when it launched seven private-label apparel brands. Amazon's push in the category is being driven by increased private-label offerings, Amazon Prime benefits, new brand relationships, and Amazon's superior fulfillment infrastructure.

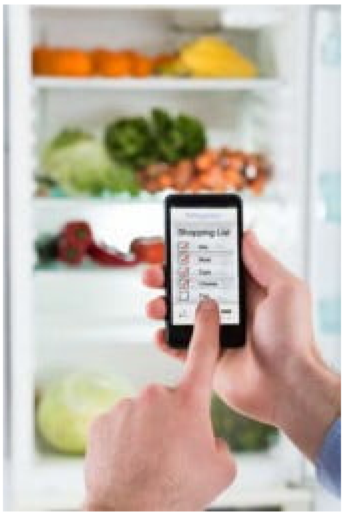
Although many brands previously refrained from selling their goods on Amazon, the eCommerce giant has recently improved its fashion profile. Now, brands such as Kate Spade, French Connection, 7 for All Mankind, and Vince sell their goods on Amazon's website. According to Internet Retailer, Amazon increased the number of apparel and accessory products on its site by 87% from 2015 to 2016.

We expect these kinds of competitive pressures in grocery and apparel to continue in 2017. Expansion by Aldi and Lidl is likely to increase competition within the value-oriented grocery segment. This competition may lead to downward pressure on the sales and margins of US retailers that skew toward a more price- sensitive customer, as they have in the UK. To combat margin pressures, we expect grocers to increasingly invest in private-label brands, which typically offer high product margins and cheaper prices for consumers. We also expect traditional grocers and big-box retailers to work to combat this increasing competition by offering enhanced online solutions such as buy online/pick up in-store, providing shoppers with ease and convenience.

Meanwhile, in apparel, we expect brands and department stores will feel intensified competition due to Amazon's increased focus on the category. Department stores have clearly seen negative momentum in 2016 and we expect that to continue in 2017. We believe Amazon will continue to increase its apparel market share, thanks to consumers' increasing comfort with purchasing online, the convenience Amazon offers, and the value of its private-label offerings.

The MonarchFx Alliance, a new operating paradigm, which is directionally the future state for smarter logistics, links all points of contact as a supply network, including multiple channels and multiple ways to distribute on a collaborative platform. The MonarchFx Alliance allows retailers to sell beyond their current channels in support of their business objectives. Jim Tompkins founded this preeminent supply network and recorded a video, which explains the future state of the supply network.

THE YEAR OF ONLINE GROCERY



Online grocery is set to grow rapidly in the US and China in 2017 as the battle between major players becomes even fiercer. The US is a particular laggard in grocery eCommerce, but we are now seeing major online activity from the biggest American grocery retailers. At the same time, the Chinese online grocery segment is likely to be boosted by moves from online giants JD.com and Alibaba Group, as well as by the growing involvement of Walmart.

Given its heritage of large grocery stores serving as convenient, one-stop destinations, the US is notably late to grocery eCommerce. The online channel now looks set for a boom, as average basket sizes are increasing. Survey data show that, so far, American consumers have been overwhelmingly using online grocery services to buy only specific items, not to undertake regular, big shops, just 15% of online grocery “trips” were for major shops in the fourth quarter of 2015, according to research firm Brick Meets Click. We expect new moves by mass-market retailers to change that, and make online shopping more about conventional, big-basket shopping.

America’s offline market leaders, Walmart and Kroger, continue to expand their pickup service to new locations. AmazonFresh is fighting back by lowering the cost of its service and is set to launch drive-through pickup stores in 2017. FreshDirect is growing the coverage area for its one-hour delivery service, while Ahold Delhaize has identified scope to grow the coverage area of its Peapod operation. Retailers such as Whole Foods Market, Target, and Publix are using or trialing Instacart’s delivery service.

THE ROBOTS ARE COMING… TO BOOST PRODUCTIVITY

Rising labor costs are incentivizing retailers to decrease costs and boost productivity through greater investment in innovative technologies such as robotics, automation, and Artificial Intelligence (AI). In 2017, we expect to see more self-checkouts, self-scanning, chatbots, and robotic customer service assistants and warehouse systems. Amazon will continue to lead the pack in terms of technological innovation.

Retailers in the US and UK are grappling with higher labor costs due to higher minimum wage legislation, pension contributions, and warehouse worker labor strikes during critical periods such as the weeks leading up to Christmas. US retailers also face the burden of health insurance costs, which have been rising. At the same time, some big retailers such as Walmart, are actively hiking wages for their lowest-paid workers in order to retain and incentivize staff. Retailers are being forced to seek new ways to leverage technology in order to lower costs and progressively decrease their dependence on human employees.

Later 2016 saw a flurry of retail technology developments, which included:

- Robots: In November 2016, French supermarket chain Auchan announced that it will trial robots that follow customers in stores, carry, and check out groceries. Walmart has patented a system of self- driving shopping carts that scan, retrieve, and deliver products, as well as, check inventory.

- Chatbots: A growing number of retailers are using these automated customer-service agents help online shoppers resolve standard queries about product recommendations, prices, promotions, and availability. Ahead of Christmas 2016, Nordstrom launched a chatbot on Facebook Messenger to help shoppers select gifts. The company joined a suite of fashion and beauty retailers that are using chatbots, including ASOS, Nordstrom, Sephora, H&M, Macy’s, Tommy Hilfiger, Burberry, and even Swiss luxury watchmaker Jaeger-LeCoultre.

- Self-scan and self-checkout: As we note elsewhere in this report, Amazon Go a new convenience store concept that has no staff, checkouts or cash registers, and uses technology to detect what products customers take off shelves. In the UK, an increasing number of mass-market retailers are adopting self-service checkouts and handsets that allow shoppers to scan their own purchases.

- Warehouse automation: More and more companies are using robotic systems to improve eCommerce fulfillment.

- In November 2016, Canadian retailer Hudson's Bay Company introduced a new robotic distribution center/fulfillment system that is 12 to 15 times faster than manual handling. The system can locate and ship an item in 15 minutes, whereas it might take a human 2.5 hours to complete the same tasks.

- In September 2016, Walmart announced it was testing Symbotic's warehouse system, which uses robots to drop off and retrieve product cases five times faster than a human can. The system allows food retailers to decrease labor costs by 80% and operate warehouses that are 25%- 40% smaller, saving on real estate costs.

- Electronic shelf labels: Whole Foods 365 stores introduced digital price tags. These allow the retailers to change prices almost instantly instead of having to assign store staff to replace each ticket by hand.

- We will see greater adoption of self-scanning options within aisles, especially at grocery and mass- merchandise stores, as well as, machines that bag items. Sam's Club in the US and Sainsbury's in the UK are already testing scan-as-you-shop solutions. Self-checkout will also spread to more retailers.

- Chatbots will become more sophisticated and easy to use.

- More service robots will be used to locate inventory.

- As AI evolves, the need for human shop assistants will decline. Warehouses will become more automated as online sales continue to grow, and distribution centers will become smaller. Automation could include more Internet-connected forklifts, drones, and voice-activated order picking solutions, and sensors on trucks.

DIGITAL TOOLS TO IMPROVE CUSTOMER SERVICE

The use of technology from the supply chain to delivery is transforming retail structures and shopper experiences. Mobile technology has changed the way consumers interact with brands and retailers, as integrated mobile platforms in the hands of store associates are essential for a true multi-channel customer experience. Beyond personalization services, these mobile technologies integrate hassle-free, on the spot- payments, eliminating long checkout, and waiting times.

From supply chain to purchase delivery, digitalization will continue to remake the entire retail experience this year. Retailers increasingly will incorporate end-to-end digitalization, including the use of radio- frequency identification (RFID), block chain technology to speed the supply chain, in-store price tags that can be changed with a click, mobile technology for store associates, self checkouts, and new equipment such as drones to expedite package delivery.

Jim Tompkins continues to shape and grow the supply chain industry through innovative ideas and insights into the disruptions that have led to rapid change within the industry. Tompkins newest video Supply Chain Revolutions: Responding to Digital Disruptions discusses the disruptions that are affecting the supply chain industry.

These digital disruptions are affecting the way business is being done. Businesses cannot be successful in the digital era with yesterday's supply chain practices and technologies. Businesses must be able to respond to the top 11 digital disruptions:

- Artificial Intelligence (AI)
- Big Data
- Cloud Computing
- Customer Experience
- Digital Payment
- eCommerce
- End-to-End Visibility
- Internet of Things (IoT)
- Mobile (mCommerce)
- Social Interaction
- Uni-channel

NUMBER OF MALLS TO CONTINUE TO DECLINE AND RETAIL REAL ESTATE EVOLVING FORMATS

According to the International Council of Shopping Centers (ICSC), the number of malls in the US grew by more than 300% from 1970 to 2016, reaching 1,221 shopping centers. Many of these are B, C, and D malls, which used to benefit from their proximity to sufficiently large-enough populations, and provided a go-to place for people to shop, socialize, and entertain themselves. With much of social interaction moving online and with the ubiquity of eCommerce free delivery options that have proliferated over the past ten years. It is easier than ever for consumers to avoid going to lower-tier malls altogether. In fact, B and C malls account for only 28% of all mall sales, despite representing 45% of all shopping centers of this type.

Malls that do not occupy prime locations and cannot offer creative entertainment are no longer attractive from a consumer’s viewpoint. Naturally, operators have already started repurposing B malls as A malls, and closing many C and D malls altogether. It is highly likely that at least 30% of US malls, or more than 350 of them, will go down as casualties of the retail revolution, in our opinion.

Against this backdrop, the winning retailers, or the new guard, are those that are extremely consumer centric, highly integrated and make smart use of technological innovation.

The consensus that has formed among retail professionals is that the biggest opportunity for brick-and- mortar retailers is in improving the in-store experience, including through the use of new technologies. We agree better service offerings, in-store events, and improved store environments are all weapons that brick- and-mortar retailers can wield in the battle against the growing threat of players such as Amazon. There is significant potential for some of America’s major department-store chains to improve their proposition.

In addition, brick-and-mortar retailers also have an ever-increasing arsenal of technologies available to use to their advantage in creating better experiences such as mobile payment solutions, chatbots, robots, augmented (AR) and virtual-reality (VR) entertainment, and location- based technologies, to name just a few.

Experience is not the only opportunity for stores. In our view of the future of retail, three core functions will drive shopper traffic once eCommerce has established a major share:

- **The new convenience:** Shoppers will make distress purchases of goods needed quickly, often at stores close to home.
- **Collection:** Shoppers will go to a store to pick up online purchases.
- **Destination:** Leisure shoppers will still make trips to those stores that they *like* to visit rather than *have* to visit.

Our vision of the future includes a mix of formats, store sizes and retail propositions. Smaller, more local stores will serve demand for convenience, and maybe collection, too; we are already seeing retailers such as Target open these kinds of stores.

Meanwhile, high-quality flagship stores will be the ones that focus on the customer experience in order to attract leisure shoppers who are looking to spend some enjoyable time browsing and buying.

Large-store retailers that offer relatively few compelling reasons for shoppers to visit will face the most difficulty in this retail landscape. These include the hard-hit department stores and other retailers who are traditional Unique Selling Propositions (USP) have been breadth of choice or low prices. These kinds of retailers must consider how their stores will meet shoppers’ needs in the future. This may mean not only fewer stores, but also stores that cater to how consumers shop in a digital age. By focusing on one or more of the themes of convenience, collection, and destination, we believe such large-store operators may be able to successfully reposition themselves for the future.

As 2017 is expected to bring a more uncertain global trade environment, we expect retailers to explore ways to create speed and agility in their supply chains. Retailers are expected to collaborate more, use more technology, and adopt new delivery models. Retailers need to cater to consumers’ near-insatiable demand for immediacy and convenience, and ongoing development of marketplace eCommerce formats, third-party sellers using conduits such as Amazon.

RETAIL STORE CLOSING AND CONSOLIDATING

Many department store chains are consolidating and closing stores. Department stores have traditionally served as mall anchors, but they have been challenged on a number of fronts, mall operators have closed some malls and changed others into A malls, eCommerce has seen rapid growth, fast-fashion retailers and outlet stores have provided much competition, and smaller store formats have lured shoppers away from bigger stores. In 2016, Macy’s announced that it would close 100 stores, or 15% of its fleet. Sears announced that it would close 50, or 7% of its stores, and JCPenney said it would close seven stores.

Some specialty retailers have also announced store closures over the past year. The women’s apparel and teen categories have been hit hard. The mid- tier women’s apparel category is struggling with a lack of differentiation in a saturated market. Additionally, fast-fashion and off-price retail are proving to be tough competition as consumers are finding on-trend pieces at affordable prices at these stores. Specialty retailers such as The Limited, Banana Republic, and Gap, where women traditionally shopped for wardrobe staples, have all announced store closures. The teen category has also struggled, with five retailers declaring bankruptcy in 2015 and 2016. Express reduced its store count by 21% and American Eagle Outfitters reduced its store count by 10% from 2015 to 2016.

There have been a significant number of store closures in the last few years. Store formats are changing, and becoming smaller to serve shoppers’ demand for convenience. Malls will continue to see reorganizations, more closures, and tenants asking for smaller format. Strip malls have been outperforming department stores, but that they are not taking market share away from eCommerce.

As the department store channel shrinks, and more brands fight for less space, brands will need to be more creative, flexible, and diversified in their approaches. One way brands can disrupt the more traditional wholesale channel without taking on the significant real estate risk that comes with opening their own stores is to open pop-up stores.

BRICK-AND-MORTAR PRESENCE IS STILL NECESSARY

As mentioned companies such as Amazon, Bonobos, and Warby Parker opened a handful of physical stores in 2016, and other pure-play eCommerce companies will follow suit in 2017.

A brick-and-mortar presence is necessary, as consumers still enjoy the experience of going to stores. The importance of retailers balancing their brick-and-mortar and online presences is critical as their needs to be seamless brand experience across all channels as shown by Sephora.

The requisite is that online to offline commerce is a business strategy that draws potential customers from online channels to physical stores. This is evidenced with the recent strategic partnership formed with Alibaba and the Bailian Group in China. Online-to-Offline commerce (O2O) identifies customers in the online space such as through emails and internet advertising, using a variety of tools and approaches to entice the customer to leave the online space. This type of strategy incorporates techniques used in online marketing with those used in brick-and-mortar marketing.

Some companies that have both an online presence and an offline presence treat the two different channels as complements rather than competitors. The goal of O2O commerce is to create product and service awareness online, allowing potential customers to research different offerings and then visit the local brick- and-mortar store to make a purchase.

RETAILTAINMENT IS ESSENTIAL IN DRIVING STORE TRAFFIC AND BRINGING THE STORE TO LIFE

Retailers must continue to look for opportunities to remove friction during the in-store shopping experience by piloting low-risk, low-investment technology concepts. Some of the main sources of friction during the shopping journey include inventory management, merchandising, and labor cost. Companies have tested “magic mirrors” allowing customers to order new sizes and check out merchandise from the fitting room.

Ralph Laruen and Rebecca Minkoff have piloted these mirrors with great success and saw increased conversion rates during the pilot.

AI is the next wave to enhance the retail experience. The technological innovations that are forecasted enable WIFI for connectivity between devices, AI solutions that enable store associates to look up products in real time, and recommend products via an earphone.

ONLINE PARADIGM IS DIFFICULT FOR LOW-MARGIN PLAYERS, ESPECIALLY DEPARTMENT STORES

Large-format stores are utilizing square footage and inventory more productively by doubling as fulfillment centers. However, as minimum wage costs rise, store labor that is being used to package offerings for ship- from-store and buy-online, pick-up-in-store service is becoming more expensive. It is more difficult for midmarket retail players to be profitable online due to their business paradigm, as it is driven by moderate average order values and gross margins. Rising labor costs are incentivizing retailers to decrease costs and boost productivity through greater investment in innovative technologies such as robotics, automation, and AI, as well as, partnering with supply networks such as MonarchFx to minimize costs and enable consumer focus with optimal delivery options.

THE DECISION TO BUILD VS. BUY TECHNOLOGY

For retailers looking to innovate, the decision whether to build or buy technology is challenging. Building custom software can unlock benefits, such increased productivity, competitive advantage, and faster reaction time. However, companies cannot always replicate the software or solution, and doing so takes time and can often require a level of technical proficiency that cannot be hired or found within the company. It is often smarter and more cost-effective to buy rather than build software, as emerging technologies are changing so fast.

Today retailers are turning to technology to give their customers what they want, improve business operations, and increase internal team efficiency. Increasing customer demands require businesses to invest in technology, as customers want rich, intuitive digital experiences.

SUPPLY CHAIN VISIBILITY – A KEY THEME FOR RETAIL IN 2017

Digitalization, is gradually transforming the structure of supply chain management. Digitalization comes in different forms, and supply chain visibility is one of them. Supply chain visibility related to order processes, shipping, transportation, logistics, inventory, and risk management allowing all information to be readily available to all stakeholders, including clients. This is driven by collaboration across multi-tier, supply chain partners and is expected to be the fastest growing sector.

RADIO-FREQUENCY IDENTIFICATION TECHNOLOGY

Expect more companies to adopt RFID in 2017. New technology with embedded RFID into yarn and textiles will increase the scope and usability of RFID in relation to creating supply-chain visibility in multiple industries.

EXPECT TO SEE MORE VIRTUAL REALITY SHOPPING

A number of VR devises hit the market in 2016, HTC’s Vive, Samsung’s Gear VR, Facebook’s Oculus Rift, and Sony’s PSVR and VR. These applications generated hype across industries, from gaming, to entertainment, to retail, throughout 2016 with the major growth being realized in 2017.

WEARABLE’S MAKING A COMEBACK SPECTACLES AND THE CASE FOR WEARABLE CAMERAS

We see wearable’s jumpstarting with snap driving the inspiration behind the consumer adoption of these products with its spectacle camera glasses. As these types of products become more mainstream, the adoption rate becomes greater. Customers are more willing to wear technology devices that serve a particular purpose fitness trackers, specialized smart watches, cameras, and eyewear.

CONCLUSION

Retailers today are confronted by a more complex and diverse business environment than at any other time. With more information at the hands of consumers, new ways they engage with products and brands and a more dynamic competitive landscape, traditional retail is going through a period that is more akin to a revolution than an evolution. The old guard of retailers will need to take drastic measures to remain relevant in this new retail order that is defined by information and technology.

There is no single strategy that is right for every company. The start is the business strategy needed to define required capabilities since the future is uncertain. Businesses need to design for flexibility and speed of execution applying best practices and design to meet objectives and achieve excellence.

The digitalization of a business refers to the strategy, planning, and execution of the right digital initiatives that align with, and enable, the business strategies of the enterprise. Digital is a broad topic, composed of numerous new technologies, new business processes, new business models, and customer experiences. In short, it is a new way of doing business, both externally with customers and internally, including with trading partners.

Companies of all types are facing challenges that are unprecedented, in terms of digital disruptions, competitive innovations, and customer-centric advances. Supply chains are not excluded from these disruptions. In fact, smart digitalization of supply chains can be the foundation for responding to (or getting out in front of) these threats. Amazon is the perfect example its supply chains are fast, efficient, high performing, and customer-centric.

Digitalization of supply chains is not only a defensive measure against disruptors; it is also an offensive strategy for profitable growth. It can yield substantial internal efficiencies, provide much higher agility and flexibility, and radically transform the operational performance of a company for measurable value creation.

We at Tompkins International have developed a Service Line that leads and facilitates a company’s strategy, planning, and execution into the Digital Age. It can take companies at any level of digitalization as far forward as their business strategy envisions.