Digital Business

Retail’s Next Frontier

There’s plenty of room in the digital economy for traditional retailers, as long as they shift focus from the products they offer to the experiences they provide, blending the physical and digital worlds to offer distinct and personalized shopping experiences and unleashing the untapped power of emerging new ecosystems.
Executive Summary

Digitization has rocked the foundation of every industry, rewriting the rules of engagement, removing many barriers to entry, widening competition, and overturning business models. This disruption, which exists at the intersection of widespread sociological, technological and economic change, has been swift and at times ruthless.

No industry has felt the brutal force of digital more than retail. And, while change and disruption is certainly not new to the sector, on this occasion retailers have been uncharacteristically slow to react. As a result, the industry has experienced an alarming and nearly unprecedented rate of store closures and bankruptcies, which has many pundits convinced that the beginning of a retail apocalypse is upon us.

Despite the persistent doom and gloom, the retail industry is alive but certainly not thriving. With digital upending the traditional value chain, and new actors wedging themselves between the retailer and the consumer, traditional retailers must redefine where and how they compete. For retailers able to make the necessary adjustments — transform business models, embrace the new paradigm, and unshackle themselves from age-old habits and conventions — digitization represents a pathway to exciting new opportunities for growth and expansion.

At the heart of retail’s ongoing transformation is a shift in focus from the point of sale to the point of experience. Retailers that will thrive and prosper in the digital economy will be those that think beyond the products they sell to providing hyper-personalized shopping experiences that surprise and delight the consumer at each interaction, regardless of channel or touchpoint. With an increasing focus on convenience, community, curation and immersion, these retail experiences will become synonymous with the retailer’s differentiated brand promise and, therefore, core to building consumer loyalty and advocacy.
Henceforth, retailers will need to rethink their underlying business models as they navigate the raging digital tsunami, beginning with a decision about what they want to be and their unique value proposition. While orbiting around the consumer, retailers will need to re-assess their omnichannel strategies, eliminating the walls between channels to engage consumers on their terms, where they are, and how they prefer to shop at each precise moment in time – anytime and everywhere.

Moreover, they will need to make artificial intelligence (AI) and advanced analytics core operational competencies, capitalize on the combined strength of physical and digital assets, and invest in integrated and adaptive digital platforms that unlock the power of emerging new ecosystems and help to better serve consumers.

This white paper illuminates these strategic imperatives and delivers actionable recommendations to established retailers seeking to convert challenge into opportunity amid growing concern that they should merely concede victory to digitally-native companies.

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The upending of retail

“The more technologically advanced our society becomes, the more we need to go back to the basic fundamentals of human communication.”

Angela Ahrendts, Senior Vice-President of Retail and Online Stores, Apple

Digital technology is growing exponentially and driving unprecedented economic change. In many ways, the traditional retail sector has been hit hardest by these disruptions. Digital technologies have heightened consumer expectations, created new value drivers, catalyzed industry consolidation and globalization, and widened competition by removing many traditional barriers to entry.

The rise of e-tail giants such as Amazon and Alibaba and the seismic shift in consumer shopping habits have forced traditional retailers to rethink their underlying business models and explore new forms of consumer engagement. With personalization, convenience, speed and flexibility becoming the uncompromising table stakes of today’s digital economy, the pressure for retailers to “change or die” has never been more real or more urgent.

Is It Too Late?

At first glance, brick-and-mortar retailers may seem to be caught on the wrong side of the digital shift, with many stuck in a dangerous cycle of diminishing foot traffic, declining comparable-store sales and increasing store closures. However, a closer look reveals a different reality. In 2017, the traditional retail sector outperformed the U.S. GDP by more than a full percentage point (3.9% growth for retail vs. 2.3% for the GDP), as it also did the previous year (2.9% vs. 1.6%).

Continuing this trend, early reports by the National Retail Federation project retail sales growth in 2018 between 3.8% and 4.4% against projected GDP growth in the range of 2.5% to 3%. While this may not seem like a sizable increase, 4% growth of a $5 trillion market is a sign that the retail industry, while continuing to transform, is doing more than just surviving.

While it’s true that the general merchandise retail business, including department stores, has declined over the past decade, other categories – including health and beauty, home goods, discount stores and grocery (including convenience) – have enjoyed year-over-year growth within a similar timeframe. And, of course, e-commerce outperformed all categories in 2016 and 2017, with a 16% increase year-over-year.

Even as store closures have dominated the headlines over the past couple of years, a number of retailers across multiple categories have actually announced aggressive plans for new store openings, including Ulta, TJ Maxx, BJ Wholesalers, Ross Stores, Target, AutoZone, Dollar General and Aldi. In fact, the top U.S. retail chains reported a net aggregate increase of over 4,000 new store openings in 2017 and are projecting a net aggregate increase of more than 5,500 stores in 2018.

It would seem, then, that the traditional retail sector is anything but dead. At the same time, however, the industry must change dramatically to keep pace with shoppers. In today’s hyper-competitive, ever-changing, fast-paced, human-centric digital economy, there’s no room for mediocrity. Retailers that find creative and sustainable ways of combining the capabilities of both their physical and digital assets to offer carefully curated product assortments and deliver distinctive, differentiated and personalized consumer experiences – at scale – will be the ones that ultimately prevail.
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Quick Take

Why Retailers Struggle to Adapt

The retail industry has been the epicenter of innovation for almost two centuries. So why have traditional retailers had such difficulty keeping up with and adapting to the forces of digital disruption?

The speed and magnitude of change. The proliferation of new channels and touchpoints, combined with the continuous emergence of innovative technologies – including cognitive computing, wearables, virtual and augmented reality, and digital assistants – has challenged retailers to analyze, adapt and invest at an unprecedented pace. The need to adapt quickly and decisively is made all the more challenging by the fact that much of this emerging technology is unproven in the retail sector and requires a high level of customization and reskilling to drive consumer value. Knowing which technologies to invest in, at what time, in what sequence and with what underlying infrastructure, continues to challenge the ingenuity and analytical capacities of many traditional retailers.

The often uncomfortable and even cynical relationship between humans and technology. The retail sector has traditionally been a high-touch industry, in which consumers have relied heavily on the expertise, sensibilities and emotional intelligence of the humans serving them. So while there’s little doubt that emerging technology provides distinct advantages to the modern retailer, calculating the optimal blend of human and technological assets has proved to be a major challenge.

It’s a delicate balance: Too little technology, either in support of or to supplement store associates, will make it difficult to meet the evolving demands and expectations of today’s consumers; on the other hand, too much technology at the expense of human–to–human interaction can be perceived as cold and impersonal and can weaken the retailer’s underlying value proposition. After all, for now and the foreseeable future, even the most ingenious combination of smart machines, robots and artificial intelligence cannot fully replace the empathetic, emotional and social connections that humans have with other humans.

Digital’s far-ranging impact on retail: Perhaps the most plausible explanation for many retailers’ failure to adapt is that unlike many of the sociological, economic and technological changes that have challenged retailers in the past, digital attacks the traditional value chain upon which the retail sector has historically relied. As the underlying foundation of the historic value chain crumbles, the very definition of retail is eroding.
Traditionally, retailers were the primary connection between the brand and the consumer. Their role was to buy products people wanted and then sell them at a reasonable profit margin. To succeed with this model, retailers needed the right product assortment and the right store locations, and to capitalize on their local geographic monopoly.

In today’s retail ecosystem, new players apply digital technology and innovative approaches to wedge themselves between retailers and their consumers. From this position, they bypass traditional retailers and connect brands and manufacturers directly with consumers. Consider Taobao, an online shopping marketplace owned and operated by Alibaba Group. The Taobao marketplace facilitates consumer-to-consumer retail by providing a platform for small businesses and individual entrepreneurs to open online stores and sell a seemingly endless variety of goods directly to consumers. Taobao also provides a social element of peer selling. Consumers can acquire product information, communicate with each other, raise questions, comments or concerns about a certain product to past purchasers, and receive real-time messages from vendors. With more than 500 million monthly active users, more than two-thirds of which are mobile users, Taobao has transformed the Chinese retail sector.

The digital upstarts are now in a position to influence where and what consumers buy. First, they provide new and unique sources of value to consumers, often through AI and deep learning, which influences shopping behavior by providing the right offer or experience at the right time and place. Second, they make it easier for manufacturers, brand owners and other producers to go directly to the consumer by augmenting their business capabilities (e.g., payment solution providers and social media companies that open online stores through which manufacturers can add “click to buy” buttons in their ads). These practices are dismantling retailers’ traditional place in the value chain and ultimately reducing their importance. Retailers must now redefine where and how they compete.

Now more than ever, manufacturers and brand owners have numerous options to reach consumers. To remain relevant, retailers can’t wait for consumers to decide to buy a product before they engage; they must establish and maintain a strong, personal connection throughout the shopping journey. They must anticipate needs before consumers even know themselves, and they must nudge consumers to an outcome that maximizes benefits. More importantly, to thrive and prosper in the changing digital economy, traditional retailers must first transform business fundamentals, bust through historical ways of working, embrace change, test, experiment and respond with agility to opportunities as they emerge.
The shift to experiential retail

With infinite choices, consumers today demand relevant, compelling and personally curated shopping experiences, whether in-store, online or by subscription. If Amazon, Netflix and Spotify are able to predict what consumers want and when they want it, shouldn’t all merchants? However, perhaps the biggest pain point in retail today is the disconnect between what’s possible and what’s happening – consumers are miles ahead of most retailers in terms of expectations, and unfortunately, that gap is only widening.

Consumers are the driving force behind the industry’s “change or die” reality. No longer are the landlords and merchants in charge of where and what shoppers buy; without geographical or time constraints, consumers have full control over almost every shopping journey. Moreover, as the options for how and where consumers shop continue to proliferate, we’ve seen the battlefield of consumer engagement shift from the point of sale to the point of experience. It’s no longer sufficient for retailers to simply provide convenient and accessible commerce and fulfillment options. Consumer loyalty and advocacy is won and lost through the quality of experiences that retailers can provide across every stage of the shopping journey.

The shift to experiential retail is founded on the premise that retailers need to think beyond the products they sell and instead provide experiences and solutions that support and enable fundamental consumer needs, desires and aspirations. These experiences must address the rational and emotional needs of the consumer, deliver inspired, memorable engagement throughout the shopping journey, and help solve for the underlying problems that consumers are looking to address through their purchases.

This is the practice of value-based engagement: engaging consumers on the basis of what they want to do, not necessarily what they want to buy. This requires a deep understanding and sensitivity to the context and circumstances surrounding consumer motivations, including the frustrations, desires, problems and preferences that led the shopper to engage the brand in the first place.

A key element of experiential retail is the innovative use of technology to provide interactive and immersive experiences. Retailers are employing a combination of AI, Internet of Things (IoT), virtual reality (VR) and augmented reality (AR) to give shoppers experiences that engage, inform and entertain.

Reinventing the store experience

Just as e-commerce pioneers provided exceptional online consumer experiences, experiential retailers are reinventing the in-store experience, creating environments that attract and delight consumers through features such as spas and salons, cafes, cooking classes and wine tastings, celebrity appearances, theaters, art exhibitions and a host of other amenities, along with personalized service, “magic mirrors,” smart changing rooms, in-store kiosks, 3-D experiences, pop-up shops, mobile commerce and more.
The success of brands like Aldo and Rebecca Minkoff shows that consumers are responding to retailers that provide state-of-the-art shopping experiences that are more sensory, information-rich, convenient and personalized.

Shoe and accessory chain Aldo enhances the consumer experience by creating a true omnichannel environment each time a shopper enters a store. Using IoT and mobile technology, Aldo created an interactive and integrated store touchpoint that links to a mobile app. This new consumer experience includes product wish lists, high-resolution product images and descriptions, and social media sharing. By offering an adaptive consumer experience, Aldo is providing high levels of engagement to shoppers, resulting in an increase in sales of 20% year-over-year.

Similarly, Rebecca Minkoff’s stores in New York City and Los Angeles feature an interactive video wall and self-checkout for small items and accessories. Fitting rooms are outfitted with magic mirrors, which enable shoppers to see different styles and colors of clothes, change mood lighting and order a free beverage that’s delivered to their room along with their clothing choices by a salesperson.

Aldo and Rebecca Minkoff are just two of a number of traditional retailers that have looked to drive growth by providing unique, offline consumer experiences. As more consumers choose to invest in experiences rather than products, the retail sector has started to respond by creating consumer-driven strategies centered around powerful experiences that ensure consumers leave their stores not just with their products but also with memories.

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Four categories of in-store experiences

The types of experiences that retailers are choosing to invest in can be grouped into four primary categories: convenient, communal, curated and immersive. For the most successful retailers, deciding on which of these experiences to prioritize and how to connect them typically evolves out of an intimate understanding of the consumer journey and an acknowledgment of the overall brand value proposition.

**Experience type 1: Convenient**

The consumer’s interest in experiences follows a traditional hierarchy of need. As such, before offering sensory experiences that are designed to wow and delight, most experiential retailers have set out to first address unwanted friction and inconvenience in the shopping journey. With time as the new currency, the retailer that removes the most painful features of the shopping journey and increases overall convenience can go a long way toward building consumer loyalty and trust. A number of retailers have leveraged digital technologies, including smart sensors, computer vision, facial recognition and machine learning, to remove checkout delays, make it easier to find items in the store, reduce the wait times to return items or pick up online orders, and provide fast and flexible fulfillment, including same- and next-day delivery.

Earlier this year, Amazon set the bar for frictionless retail when it announced a new humanless grocery concept, Amazon Go, where consumers can walk in, select items and leave without ever going through a checkout line. By leveraging the same technology as self-driving cars, where a combination of video cameras, laser arrays and image-analysis technology identify people and objects in their field of view, this new concept store detects when items are taken from and returned to shelves and tracks them in a virtual cart.

At home, virtual assistants further push the convenience boundaries. In the future, they will proactively alert users that they’re about to run out of a product and suggest buying more. Google’s smart speaker service, Google Home, allows shoppers to complete orders with 50 participating Google Express retailers, such as Costco, Whole Foods and PetSmart, while Amazon’s Alexa has partnerships with more than 100 third-party services.

Recent developments in smart home assistants pave the way for a significant shopping overhaul in which computer vision helps identify desired goods by taking a picture, or the virtual assistant identifies preference patterns from images and videos “liked” online by consumers. Amazon’s Echo Look device, for instance, incorporates a camera into Alexa’s virtual assistant function and recommends styles based on the user’s wardrobe and body shape, combining machine learning and computer vision.

With the standards for convenience continuing to escalate, frictionless retail will soon become table stakes across the category. Retailers will be expected to provide ease of shopping through a combination of mobile PoS, checkout-free technology, virtual shopping assistants, “buy online and pick up in store” kiosks, subscription services, curbside pickup, auto-replenishment, pop-up stores and more. Amazon
and Walmart will continue to dominate this space, and in so doing, will retain a competitive advantage in targeting consumers who prioritize convenience and price above all else.

As large as this segment is, a comparable number of shoppers place higher value on quality and discovery, and are willing to pay more for the right product and/or the right experience. For the majority of retailers, developing loyalty and advocacy among this segment has emerged as a strategic imperative.

**Experience type 2: Communal**

One way in which brick-and-mortar retailers have sought to attract experience-focused consumers is by tapping into the post-modern, tribal need to connect to a larger cause, social network or affinity group by re-imagining the retail experience as a place for building relationships and cultivating community. The expanding focus on communal experiences and the repositioning of retail destinations as centers of local culture also speaks to consumer interest in seeking opportunities for igniting real-world connections in an increasingly digital world.

Community retail seeks to turn physical stores into destinations for gatherings of loyal consumers who orient themselves to particular causes, affinities, interest groups or cultural distinctions. Inadvertently, community retail is a response to what the French sociologist Michel Maffesoli described as the rapid ascendancy of “neo-tribal communities,” in which youth cultures, subcultures and interest/affinity groups are formed that are interstitial, transitive and temporary, and where social media and other Internet activities serve to facilitate and expand such fragmentation.16
In these new communities of shared taste, the individual becomes a provisional member of overlapping groups; the roles played and the masks worn within these groups become the source of the individual’s identity. By tapping into these communities and the individuals who associate with them, retailers can form long-lasting brand relationships that speak to and inspire the consumer’s underlying sense of self.\(^{17}\)

From charming hybrid retail cafes that encourage interaction between consumers, to shopping mall fitness facilities, to idyllic retail lifestyle villages that encourage shoppers to linger, there are plenty of examples of community-focused concepts that speak to the modern function of retail spaces. As brands continue to take note of this shift and use this information to guide more interactive spaces, a number of highly innovative concepts have begun to emerge, spanning a range of engagement levels, from passive (“think “attendance”) to active (“think “creating the experience”).

The different forms of community retail are perhaps best summarized into three categories: education, co-creation and social engagement. While each category of experience is focused on creating a real connection to the physical store, retailers that have achieved the greatest rewards from these experiments are those that have most astutely integrated physical and digital realities.

**Education-based communities:** The idea of leveraging physical stores as education/learning centers has been widely applied in recent months, from Apple’s “Today at Apple” training classes on topics such as art, design, coding and photography, to REI, the employee-owned outdoor retailer, offering in-house and in-the-field classes in kayaking, hiking, rock climbing and more. Another example is Adidas, which has launched a number of RunBase concept stores in Milan, Berlin, Tokyo, Boston and other cities. Conceived as a local runners’ hub, the RunBase stores feature state-of-the-art workout equipment, analysis centers and an official treadmill on which customers can test different products and receive customized training and guidance from store associates ahead of purchase.\(^{18}\) All three of these examples, while applying very different methods of execution, seek to address a widely supported view that existing knowledge and experience gaps often prevent consumers from enjoying maximum value from the products they purchase.

**Co-creation-based communities:** Several retailers have set out to deliver interactive experiences in which customers can actively contribute to an outcome, whether a transaction, user-generated content, an experience or something else entirely. In what is known as retail co-creation, consumers are afforded the opportunity of putting their own creative impulses into the finished product or experience and walk away feeling like they created something personal and individualized. Whether the co-creation takes place through interactions with other consumers or directly with the brand, this emerging retail concept seeks to create value-rich experiences and generate more meaningful and intimate brand connections.

Companies like Nike (NIKEID) and Burberry (Burberry Bespoke) have provided customers with a range of product customization options, while brands like Build-A-Bear and luxury handbag and leather goods brand Mon Purse have built their entire businesses on allowing customers the opportunity to design and customize their own products from scratch.

On the other end of the spectrum, a number of retailers, including Starbucks (My Starbucks) and Sephora (Beauty Talk), have launched co-creation platforms with the intent of encouraging customers to talk openly about their products, experiences and relevant topics in a secure and interactive environment. By tapping into consumers’ desire for more empowerment and inclusion, retailers realize they can use co-creation to turn loyal consumers into brand ambassadors.
The increasing focus on communal experiences and the repositioning of retail destinations as centers of local culture also speaks to consumer interest in seeking opportunities for igniting real-world connections in an ever increasing digital world.
Social engagement-based communities: Community retail, as a form of social engagement, has also enjoyed a number of creative applications in recent months. Athletic apparel company Lululemon has sought to connect local communities through in-store fitness and yoga classes, while high-end grocery chain Whole Foods has turned itself into a community hub by outfitting a number of locations with coffee shops and wine bars. Sonia Rykiel’s flagship store in Paris, meanwhile, has transformed itself into a charming literary café featuring nearly 50,000 books.

In yet another example, IKEA’s Warsaw store recently launched a two-level kitchen facility in which customers can cook and host friends and family. These stylish, apartment-like facilities are equipped with everything customers might need to create a dinner party experience, with a large communal table for guests to gather around and break bread.

Digital’s next phase has often been projected as the “age of convergence,” where the distinctions between industry verticals, between physical and digital realities, and even between supplier and consumer will become increasingly blurred. It’s not surprising, then, that driving today’s community retail trend is a complete re-characterization of the shopping environment, with physical stores converging with and evolving into everything from coffee houses, restaurants and wine bars, to spas and beauty salons, to workout studios, to lifestyle centers and more. The underlying premise is that giving consumers more reason to stick around longer and engage the brand will result in more brand buzz, greater mindshare and, ultimately, more foot traffic.

As the collaborative economy accelerates and transitions into a place where increasingly informed and empowered consumers assume more responsibility and accountability for their choices, even to the point of becoming producers themselves, it is inevitable that more communities will form around the brands we love. Retailers need to invest in data-driven platforms to help organize, engage and mobilize these communities so they become extensions of the brand and integrated members of the retailer’s broader ecosystem.

Experience type 3: Curated

Proliferation of choice is a defining characteristic of post-industrial societies, both in terms of the number of decisions consumers are asked to make every day and the number of alternatives to choose from. On the one hand, we view this as a very positive consequence of the new digital economy; indeed, robust empirical evidence suggests that the provision of choice increases intrinsic motivation, perceived control, happiness and life satisfaction. However, psychologists also widely agree that the proliferation of choice can equally lead to negative states, including regret, dissatisfaction, decision-paralysis, indisposition and a feeling of oversaturation. With this in mind, we may very well live in a world where there is simply too much choice.

In this environment of increasing complexity and infinite possibility, the basic principles of human decision theory still apply. Not least, consumers remain transfixed on an inherent desire to make the best possible decision within the limits of available information and time. However, as the quantity of choices expands exponentially, and the time available in which to research those choices remains static, and individuals express less tolerance for “imperfect choices,” it isn’t surprising that so many consumers are left dissatisfied, disappointed or unfulfilled at the point of transaction.

Against this backdrop, the future of retail will not be about having a large variety of products, as it has been in the past; rather, it will involve winning over consumers with thoughtful curation of products and
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experiences. In other words, the prevailing opportunity for retailers across all categories is to help breakdown, guide and inform the consumer decision process, and in so doing, make the buying experience simpler, more efficient and more relevant.

While curation has become the rule rather than the exception in retail, few companies have applied the concept to its maximum effect. For many retailers, the concept has become synonymous with the careful selection, prioritization or tailored assortment of products that share a common theme or message. They may curate an assortment of products for one specific type of customer (e.g., urban hipsters), around a particular lifestyle activity spanning multiple product categories (e.g., outdoor fitness), or around cultural aspects of a particular geography (e.g., viticulture in Napa Valley).

But this only scratches the surface of the emerging opportunity. Curation must extend beyond a mere passive display. In the broader sense, product curation is about storytelling, editorializing and conveyance. Retailers need to tell the story of the selected products, explain why they were selected or recommended and what meaning or value they provide, either individually or as a combined set – connecting with consumers through core themes, imagery and stories. In essence, curation should serve as the bridge between the consumer, the brand(s) and the retailer that engendered the assortment. In the absence of a supporting narrative, curation does nothing more than filter the choice; by itself, it doesn’t cultivate a meaningful brand connection or inspire the buy.

From an execution standpoint, and with personalized, guided selling as the primary objective, a number of effective examples of curated retail have been showcased in recent months. Perhaps the most innovative form is AI-enabled, where retailers like Neiman Marcus, Nordstrom, Burberry, Apple and West Elm have leveraged a combination of advanced analytics and mobile technology to make personalized product recommendations based on the consumer’s predefined preferences, past purchase behavior and, in some cases, even the content of their published Pinterest boards.

In another form of curation, health-oriented retailers like Walgreen’s and the family-owned supermarket chain Raley’s Supermarkets are using guided-selling techniques to nudge consumers to smarter and healthier product choices. Walgreen’s uses its mobile app to connect with shoppers’ third-party fitness trackers and offer rewards points (Balance Rewards) in exchange for making healthy choices. Similarly, Raley’s Supermarkets incentivizes consumers to select clearly labeled organic, healthy and local products by offering additional points on their “Something Extra” rewards cards for each of these purchased items, which can then be turned into savings on future purchases.
In this new world of e-commerce, the brand promise is prevalent through engaging content (including AR/VR enablement), personalization, social collaboration, gamification, AI-driven recommendations and on-demand customer service.
With the influx of new brands entering the market by the thousands each week, it is inevitable that many consumers will become paralyzed by the paradox of choice. To overcome this challenge, consumers will increasingly rely on trusted recommendations, whether through curated product assortments or AI-enabled product recommendation engines, to discover and select the right products to meet their needs, aesthetic preferences, lifestyles and interests. In this changing milieu, retailers will be expected to sort through an oversaturated market and identify, on behalf of the consumer, the true “best-sellers” among countless options.

This trend opens up a real opportunity for retailers to build relationships of trust and take a leading position as “tastemaker” with consumers. While the consumer is the ultimate winner in this new reality, embracing the shift to a curated future represents the chance for retailers to create true, meaningful engagement with consumers and set themselves up for a sustainable future.

**Experience type 4: Immersive**

Immersive experiences relate to a broad range of consumer-centric experiences intended to surprise, delight and wow the consumer. These experiences range from immersive and interactive displays, leveraging AR and VR, to personalized content, pop-up shops and specialized amenities, all offered in a unique environment emphasizing newness and spot-on service.

Early examples include Nordstrom’s concept store in Los Angeles, which hosts a number of personal styling sessions but with no inventory; North Face’s virtual reality store experience that enables customers to take a virtual tour of a number of outdoor lifestyle destinations, including Yosemite National Park, the Moab Desert and Nepal; Zara’s in-store augmented reality experience, where shoppers can engage their mobile phones to see models wearing selected fashions, and Nike’s New York City SoHo store, which flaunts a basketball court and treadmills that take visitors on virtual runs through Central Park and other routes.

These interactive and immersive in-store experiences are meant to create a more engaging and entertaining retail experience. Consumers are often encouraged to share their experiences on social media, which not only helps to guide them through their purchase decision but also benefits the brand through online buzz and mindshare. While many of these immersive experiences are still in an experimental phase, it’s a safe bet that more retailers are going to invest heavily in this space as the need for experience-based differentiation becomes paramount to either survival or future growth.

The shift to experiential retail is not restricted to brick-and-mortar. Traditional retailers are also investing in powerful online and mobile capabilities to provide exciting sensory experiences throughout the shopping journey. In this new world of e-commerce, the brand promise is prevalent through engaging content (including AR/VR enablement), personalization, social collaboration, gamification, AI-driven recommendations and on-demand customer service. Rather than traditional commerce driving experiences, powerful shopping experiences are now being designed to inspire and generate commerce.
The next frontier of retail will be predictive, contextual, sensitive, adaptive and responsive. Shopper demands and desires will be foreseen, processed and fulfilled before they are articulated or even consciously realized.

In one such example, cosmetics retailer Sephora’s mobile app, called “Virtual Artist,” enables users to digitally experiment with different products such as lipstick shades, eyeshadows and false lashes through the use of AR. \(^{33}\) In another example, high-end home furnishings brand West Elm introduced “Pinterest Style Finder,” an online tool that uses AI to help consumers turn their style inspirations into products that they can buy at West Elm’s stores or directly from its e-commerce site. \(^{34}\)

Looking to the future, retailers will continue to employ technology to enhance the in-store experience, and seamlessly integrate online and offline experiences in a way that creates lasting memories. With further advancements in AI, AR/VR, IoT and home voice devices, retailers will be able to provide ever more sophisticated personalized offerings, feature-rich interactive applications, engaging and immersive environments and elevated levels of service.

Retailers will employ an array of leading-edge technologies, such as chatbots and live-streaming video, to give shoppers compelling new interactive experiences. As home voice devices, such as Alexa and Google Home, continue to proliferate, ever-richer modes of home shopping will be part of the experiential landscape. Small-scale shops, pop-ups and other streamlined establishments will increasingly be integrated with mobile and web channels to facilitate on-demand product fulfillment, including pickups, deliveries and returns. Shoppers will be able to procure rapidly produced and customized products, such as on-demand tailored clothing, individualized makeup and formulated scents, and products created in the moment through AR-aided design and 3-D printing.

The next frontier of retail will be predictive, contextual, sensitive, adaptive and responsive. Shopper demands and desires will be foreseen, processed and fulfilled before they are articulated or even consciously realized. This will be made possible through an increasingly connected and intelligent ecosystem of devices that exchange data at unprecedented rates. Through sensors and unobtrusive technology, entire environments around people will be leveraged to predict and individualize their needs with experiences that are hyper-personalized, accurate, fast and frictionless. After all, immersive retail experiences are still one of the few realities that retailers can perform better than Amazon, the last bastion for sure-fire investments with a shot at preserving margins.
Winning at the intersection of physical and digital

For all the undeniable advantages of digital commerce, it will never completely replace in-store shopping. Across multiple product and retail categories, study after study has shown that the majority of consumers still want to be able to touch, feel and test the product before completing a transaction. Moreover, consumers still have a deep desire to experience brand environments that are synonymous with physical stores.

For most traditional retailers, the ideal scenario is to blend online and offline experiences in a way that creates sustainable advantage. Online and offline retailers recognize the value of each other’s business. Case in point: Amazon’s purchase of Whole Foods and Walmart’s acquisition of a succession of small online companies. By positioning themselves at the intersection of physical and digital realities, retailers can create powerful and memorable consumer experiences that inspire consumers to keep coming back.

We’ve seen this from retailers like luxury fashion brand Burberry, which under the innovative leadership of former CEO Angela Ahrendts (now a senior vice-president of retail at Apple) found a path into the hearts and minds of millennials by integrating digital with its traditional physical and brick-and-mortar business. Having created an outstanding online consumer experience, both through its sleek website and an active social media presence, Burberry introduced a plethora of highly interactive, digital experiences into its physical stores, designed to mimic the online website experience. These experiences ranged from mobile clienteling, to magic mirrors, to live 3-D streaming of runway shows, to product-based RFID tags that provide access to interactive digital content. Together, these elements helped transform and modernize the Burberry brand while greatly boosting performance.

Through a different lens, but with no less impact, cosmetics retailer Ulta implemented several in-store mobile solutions that have reduced back-office work, allowing associates to spend more time helping consumers, offering advice and deepening relationships. With real-time inventory visibility, Ulta’s employees can instantly check whether products are somewhere in their store, in a nearby store or when new inventory will arrive. By empowering employees through technology and freeing them from tedious, back-office activities, Ulta has raised the bar on employee and consumer engagement, and in so doing, created a special bond between the two.

For all the undeniable advantages of digital commerce, it will never completely replace in-store shopping.
The ‘phygital’ paradigm

As we enter the next phase of digital, the convergence of physical and digital experiences (sometimes described as the “phygital” paradigm) will continue to evolve rapidly. In fact, as much as we commonly talk about brick-and-mortar retail and e-commerce as if they were two distinct concepts, the demarcation has been blurring for years. For most consumers, smart devices have become constant companions in the shopping process. More than 60% of retail sales today, from brands as diverse as Target, Williams Sonoma, Nordstrom and Neiman Marcus, start online and then finish in-store. Consumers no longer go online, they live online, even while inside physical stores. And physical stores have become increasingly digitalized, blurring the distinction further (see Figure 1).

In the new world of phygital experiences, retailers can enhance physical experiences through digital technology while at the same time augmenting digital experiences with human connections or physical enhancements. Imagine a scenario in which a consumer’s exact location in a store is pinpointed using beacon technology, geolocation information or even wearable devices. By combining the consumer’s mobile identity with his or her online identity, the retailer can determine whether the consumer has certain items abandoned in his or her online shopping cart and send recommendations, alerts or other personalized information to help complete the transaction in-store.

Similarly, a retailer can leverage social media data to determine that a consumer is either in its store or about to visit a store for a particular purpose, and then leverage a combination of human and digital assets to provide a highly contextualized and interactive experience on the basis of this knowledge.

New technologies will transform the in-store experience

Respondents were asked about the likelihood that the following technology-driven experiences would inspire more store visits and/or increase sales when online sales approach 50% of total retail sales. (Percent of respondents who said “somewhat likely”, “very likely” or “extremely likely.”)

![Figure 1](https://www.cognizant.com/retail/shopper-study)

As retailers continue to evolve amid this new retail landscape, the focus will be less about whether the sale occurred offline or online, and more about optimizing the valuable moments we have with consumers to ensure the highest conversion. This will make it increasingly important for retailers to rethink consumer journeys, agnostic of the channels through which these journeys unfold.

Unlike traditional journey mapping, which primarily reflects the standard way in which consumers shop, often one channel at a time, the next wave of journey mapping will be aggressively proactive, where retailers will look to attract and retain shoppers across the entire end-to-end journey, by creating customized experiences so finely tuned that once consumers get on the path, they are irresistibly and permanently engaged. This will require a deeper focus on the context of consumer interactions: Why did the consumer choose to engage the brand at this precise point in time? What problem(s) are they trying to solve for? What emotions are driving them to buy? What rational and emotional experiences do they most desire? What information do they need, and when, to make a confident decision? In other words, the focus of consumer journeys will shift from the where and how of consumer decisions to the why and when.

The basis of consumer journeys will extend beyond how consumers engage with the brand to a deeper understanding of how they interact with the world, and how the brand aligns to and can provide the most value within this ecology.

As the boundary continues to blur between physical and digital, commonly used KPIs that measure each environment separately are no longer meaningful, such as same-store sales or many other in-store metrics. Physical stores can no longer be evaluated in isolation but rather as part of an entangled ecosystem of channels and experiences.

To this end, newer in-store KPIs will include, at a minimum, same (comparable) trade area sales growth, same (comparable) customer segment growth, opportunity to convert per category/product, repeat visitor ratios, merchandising engagement, time to purchase, and buy-online/pickup-in-store or buy-in-store/order online metrics. Understanding the full 360-degree view of the consumer, online and in-store, will become the new goal and, eventually, the new standard.
Investing in the in-store experience

But to truly compete at the intersection of physical and digital, traditional retailers must look to address the disparity that currently exists between online and in-store experiences. For the most part, traditional retailers have made the mistake of investing heavily in enhancing their e-commerce offering while under-investing in their physical stores, seeming to forget that the majority of shopping still happens in brick-and-mortar locations. With physical stores remaining at the hub of modern retail, and with most consumers still choosing to end their journeys there, retailers must bring physical stores on a par with their online and mobile counterparts.

In order to digitally transform their physical stores, retailers must first overcome many of the common pitfalls and challenges that have plagued early innovators. This includes the ability to adequately understand, track and react to the consumer’s path to purchase within the store, optimizing the blend of human and digital assets to enhance consumer and associate experiences, and stitching together devices and technologies across multiple manufacturers in a way that enables sustainable and scalable, real-time interactions and decisions.

The physical store of the future will be a significantly more digitalized version of what exists today, with multiple smart devices working together on a single IoT platform to deliver hyper-personalized, adaptive and context specific experiences (see Figure 2, next page). While much of the technology will be invisible to the consumer, shoppers will have the opportunity to interact digitally within the physical store environment in a way that provides real-time experiences and addresses their underlying needs and preferences, when they matter most. Moreover, these in-store experiences will be viewed as a seamless extension of the online experience, such that consumers will not be able to determine where one stops and the other starts.

Remembering the human touch

While traditional retailers will continue to look to emerging technology to redefine the future of online and offline experiences, there is as much merit in looking backward as there is in looking forward. When we think of retail’s zenith, we think of a time long before the start of the post-industrial era, when the shop owner greeted you by name and asked about your family, remembered your last purchase and made helpful suggestions based on an intimate knowledge of your likes and dislikes. There were little to no wait times, and you left with a smile on your face, knowing you’d received personalized and trustworthy service from a friend.

Fast-forward to today, and we are confronted with a very different reality. For the most part, that friendly one-on-one relationship with the shop owner has been replaced by impersonal service, long lines and
a lack of connection between seller and buyer. Instead of feeling excited and fulfilled by the shopping experience, many consumers are left feeling confused or uninspired.

As traditional retailers pivot to the new digital reality, they must learn from the past and leverage one of their most important assets: their physical stores and the humans who work in them. Retailers must learn to leverage digital technology, inside the store and beyond, to make the store the center of the brand experience. For, if nothing else, the value of the digital era is the scalable ability to take a human desire, preferably one that has been around for a long time, and to use digital technology to fulfill this desire with greater ease, greater speed and greater reach.

**The physical/digital store: the center of the brand experience**

Stores of the future will combine the physical and the digital, with multiple smart devices working together on a single IoT platform to deliver hyper-personalized, adaptive and context-specific experiences that are a seamless extension of the online experience. Equipped with digital technologies and freed from mundane tasks, store associates will function as knowledgeable and trusted advisors.
Paving the way forward

Retailers on the vanguard of digital innovation have left behind a trail of success factors, common hurdles and lessons learned that can serve as a guiding light for those with the desire, fortitude and resilience to join or even challenge them.

**Decide who you want to be.**

With competition heating up across the retail sector, it’s imperative for retailers to determine their distinctive value proposition: Are you going to be in the business of convenience, lowest price, curated experiences or something else?

Being digital requires a reexamination of retailers’ entire way of doing business and understanding where the new, often hidden, sources of value are. For some retailers, capturing new revenue streams may be about developing entirely new businesses in adjacent categories. For others, it may be about identifying and targeting new value pools or underserved consumer segments in existing sectors. Either way, retailers must evaluate their existing business models from top to bottom in order to identify areas of potential advantage.

As we enter the next phase of digital discovery, it is increasingly apparent that provisioning high-quality products, sold at a convenient location, at affordable prices, is no longer a sufficient value proposition to ensure long-term success. As such, transaction-focused strategies that clear pathways to purchase have given way to processes of interactive engagement with deepening relationships. In building off this trend, retailers must find differentiation through unique positioning and/or exciting new experiences and services.

In reexamining their existing business models, leading retailers are increasingly likely to leverage strategic foresight, “sensemaking” and future mapping to identify, aggregate and analyze the multiple weak signals from the world around them. These weak signals that exist at the intersection of sociological, technological, economic and political currents can reveal and unravel the emerging trends and opportunities in the marketplace, upon which new concepts, value propositions and business models are formed.

Key to future visioning is authenticity. Business models built upon a façade aren’t sustainable. Establish commonalities in your values and passions and those of your brand and your ideal customers, and consider opportunities for enhancing, cultivating and building upon these areas of synergy. Become a critical part of the integrated solutions that customers demand, and shape them productively. Also, engage and collaborate with the consumer throughout the journey of discovery and strategic planning.

As you determine the business your company wants to be in, it is equally important to consider the business that your ideal customer wants – and needs – you to be in. Don’t underestimate the importance of brand permission before making bold changes, and embrace transparency, empathy and authenticity as cornerstones of your strategic planning process.
Put the consumer at the center.

The next decade will be the golden age for consumers, with technology-enabled shopping experiences giving them the simplicity, convenience and excitement they crave. Henceforth, your company orbits around the consumer – not the other way around.

Every retailer talks about being consumer-centric, but few actually do it. For many retailers, organizational siloes, data challenges, misaligned performance metrics and financial incentives create huge barriers to becoming consumer-centric and keeping pace with evolving consumer dynamics.

To achieve true consumer centricity, retailers must first enact cultural change and master empathy – not just collect data. Set the vision and direction at the top, empower and incentivize employees to place the consumer at the heart of daily decision-making, and invest in and align people and processes to what drives the greatest value to the consumer.

On the path to consumer centricity, it is imperative that retailers identify and prioritize the rollout of innovative technologies on the basis of a deep, intimate understanding of the consumer journey and how these technologies will create experiences that matter at critical moments of truth. Retailers must embrace their consumers as business partners by investing in collaborative consumer models that unlock the wisdom of the crowd and give consumers a sense of brand identity and empowerment. They must solicit and leverage direct consumer input and feedback throughout the testing and piloting of capabilities. Moreover, they must seek to turn their loyal consumers into raving fans through carefully personalized and curated products and services.

Whether your company sells online, offline or both, keeping your target customer as the focal point and understanding the broader context of their decisions should always be a top priority. Understand the “why of the buy” in order to provide specific experiences and guide consumers to the product and service decisions they will ultimately value the most, regardless of what they might say or do. In essence, context can be gleaned through any specific information that can be used to characterize the situation of a consumer at any precise moment in time – activity, location, device, challenge/problem, urgency, social setting, time, etc. By understanding how consumers live their lives and make decisions, retailers can become trusted advisors and the conduit through which consumers navigate solution options and make smarter choices.

To achieve true consumer centricity, retailers must first enact cultural change and master empathy – not just collect data.
Think omnipresence, not omnichannel.

The proliferation of digital channels, together with the consumer’s increasing demand for anytime, anywhere experiences, has forced retailers to invest in cross-channel capabilities that ensure consumers can, at a minimum, engage the brand universally and continuously. Omni, from the Latin *Omnis* meaning all or universal, is centered on the premise that consumers value unified shopping experiences where they have the ability to move seamlessly from channel to channel without disruption or loss of information. As such, the omnichannel concept is all about connecting different channels to give shoppers the opportunity to keep shopping, whether in-store, online or on mobile.

While it’s hard to dispute the underlying premise behind omnichannel, its relevance to the next frontier of retail is fraught with uncertainty. First, omnichannel assumes that consumers actually care about the channels they use. In reality, consumers are channel agnostic and care only about experiences, brands and solutions, as well as shopping with ease and simplicity. Secondly, omnichannel rests on the assumption that clear distinctions exist between the channels through which consumers choose to engage. However, as much as we commonly talk about brick-and-mortar retail and e-commerce as if they are two distinct concepts, it’s becoming increasingly clear that this is a distinction without a difference. The demarcations between channels, online and offline, have been blurring for years.

In the new order of things, there is no such thing as pure e-commerce; today, it’s all just commerce. For most brands, online drives offline, offline drives online, and most consumers are active in multiple channels within the context of a single shopping journey. More retailers are beginning to embrace customer-first, channel-agnostic strategies, where the experience itself is seen as the only channel that really matters. To effectively capitalize on this sentiment, the retailer of the future will need to reassess the very essence of consumer behavior and design content-driven experiences that more accurately reflect and respond to the way in which consumers interact with the world around them. Most retailers continue to design experiences that are very linear even though the shopper experience is now non-linear. Similarly, we continue to make the mistake of designing rational shopping experiences for consumers who frequently behave irrationally. Research has revealed that the majority of consumers struggle to articulate what they want, need and desire, and for those who can, an alarming percentage rarely do what they intend.

As traditional retailers plot their future course, it will be imperative that they think beyond the ubiquitous nature of omnichannel to creating experiences that are unique, differentiated and relevant. In a futile attempt to be everywhere, many brands have ended up being nowhere when it comes to a compelling offering. To correct this, retailers must evaluate and respond to the more complex, multiple journeys and life events that lead consumers to engage their brand. They must think beyond the channels themselves to understanding the key moments they have as a retailer to capture consumers’ attention and connect with them.

To this end, retailers must acknowledge that the consumer’s primary motivation for engaging the brand may not be focused entirely on buying products but on a powerful desire to learn, engage, interact, immerse, escape, explore, discover or be entertained. As such, retailers need to provide consumers with a continuous experience across brands, across formats and across devices that is both bespoke and adaptable to the evolution of consumer needs, desires and preferences. And they must shift their strategic
focus from omnichannel to omnipresence, eliminating the walls between channels to engage consumers on their terms, where they are, and how they prefer to shop at each precise moment in time – anytime and everywhere.

**Make AI and advanced analytics core operational competencies.**

Many retailers are already applying AI, machine learning and robotic process automation to major pieces of the value chain. Leaders are using AI to predict trends, optimize store space and location, improve assortment efficiency, optimize warehousing and logistics, set prices and personalize promotions. Some retailers are even experimenting with the use of AI and machine learning to enable “clickless commerce” and anticipatory shipping, whereby consumers are proactively sent products based on predicted need, even without having to place an order.

The use of AI in retail can generate several benefits. First, it helps retailers make smarter decisions, with more accurate and real-time forecasting. Reliable and accurate forecasts help improve supply management, define impactful thematic promotions, and optimize assortment and pricing. Second, AI can make operations more efficient, thanks to a combination of robotic and intelligent process optimization that enhances productivity and reduces manual labor costs. AI will enable retailers to increase their overall number of customers and the average amount those customers spend by creating personalized and convenient shopping experiences.

It is one of the great ironies of modern retailing that today’s retailer typically has a deeper understanding of the consumer’s path to purchase in the digital space than they do inside the physical store, despite having much more experience with the latter. In the future, retailers will need to close this gap significantly. This will start with a more innovative use of location-based intelligence and geofencing to understand how consumers behave within the physical environment of a store, as well as tracking real-time consumer movements, dwell-time, product and display interactions, and even emotional response to engage the consumer at the right time with the right offer to convert interest into purchase (see Figure 3 , page 29).

Eventually, this will evolve and expand into the development of consumer genomes, an imprint of a consumer’s unique DNA that defines his or her past purchases, preferences, passions and needs – essentially a rich data source that defines why the consumer chooses the things they do. By moving beyond what the consumer purchases, often a function of time and cost, to what they value, view, “like,”
It is one of the great ironies of modern retailing that today’s retailer typically has a deeper understanding of the consumer’s path to purchase in the digital space than they do inside the physical store, despite having much more experience with the latter. In the future, retailers will need to close this gap significantly.
“try” and “consume,” retailers can target consumers with offers and content that they really want, when they most want it. Moreover, these genomes follow the consumer, not the channel. As such, they will truly erode the distinction between physical and digital and provide consumers with a more frictionless, personalized and relevant shopping journey.

The rapid rate of technological change, the growing levels of connectivity between individuals, businesses and smart devices, and the increasing volatility and flux in the marketplace all conspire to favor the increased use of non-human systems to identify and exploit AI-driven opportunities. Background trends – such as cloud computing, ubiquitous connectivity, growth in smart connected devices, more and richer data, and the growing acceptance of technology-based solutions – all contribute to the increasing recognition of the vast potential of machines and AI, while providing the infrastructure to support AI, data collection and advanced analysis on a hitherto impossible scale.

**The insight-driven organization**

Retailers now recognize the productivity increases that result from insight-driven decision-making, yet few are equipped to fully capitalize on this opportunity. In the next few years, we’re likely to see a major shift in focus among retailers as they transition toward a more insight-driven business environment. Today most retailers struggle to analyze vast quantities of data, extract meaningful insights, and use them effectively. However, in order to overcome the demands of an ever-changing consumer and technological landscape, the retailer of the future will need to systematically harvest structured and unstructured data across multiple, eclectic sources and develop and apply advanced, predictive algorithms that turn these AI-driven insights into foresights and recommended actions.

**Shopper data: beyond personalizing the consumer experience**

Respondents were asked about the likelihood that retailers would leverage data in the following ways. (Percent of respondents who said “somewhat likely,” “very likely” or “extremely likely.”)

<table>
<thead>
<tr>
<th><strong>Design in-store experiences</strong></th>
<th><strong>Deliver responsive in-store merchandising and messaging</strong></th>
<th><strong>Inform product design</strong></th>
<th><strong>Inform product assortment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>87%</td>
<td>93%</td>
<td>89%</td>
<td>90%</td>
</tr>
</tbody>
</table>

**Figure 3**

Response base: 4,500 shoppers worldwide age 18-plus who own a smartphone.

To overcome the demands of an ever-changing consumer and technological landscape, the retailer of the future will need to systematically harvest structured and unstructured data across multiple, eclectic sources and develop and apply advanced, predictive algorithms that turn these AI-driven insights into foresights and recommended actions.

Becoming an insight-driven organization requires much more than making the appropriate technology investments. It starts with having a top-down, enterprise-wide analytics strategy and operating model designed to harness the power of analytics. At the center of this is the need to infuse analytics into the decision-making process, to devise the processes or system of rules to guide retailers on how to create and use information, to organize and govern analytics capabilities across the organization and, most importantly, to develop and cultivate the right analytics skills and cultural mindset throughout the organization to ensure that the right level of critical thinking, context and logical reasoning is applied to business decisions and to the data that supports them.

The insight-driven organization relies on well-governed data, external partnerships and a sustained commitment from leadership and employees alike. Once these foundational pillars are in place, the organization can move to the next level, where it treats data as a perishable asset that is an essential element of strategy. Then, data guides the development and evolution of commercial offerings, deepens the engagement of employees and consumers, and underpins the design and execution of innovative new business models.

As AI takes the retail world by storm, these basic building blocks will ensure that retailers can meet the challenges of big data and “thick data” head-on. The next generation of retail experiences will see such innovations as gesture and image recognition, virtual mirrors, chatbots and robotics go mainstream. Being able to analyze, disseminate and act upon the wealth of new insights captured through these technologies, including the use of video analytics and natural language processing, will become a focal point for the majority of digitally advanced retailers.

In choosing where and when to invest in AI, retailers must ensure that employees and consumers are all on-board. Understanding the appetite and aptitude for change across these two constituencies will go a long way to ensuring that investments are sufficiently supported on the ground and that the desired level of business and consumer impact is effectively realized.
Capitalize on the combined strength of physical and digital assets.

Most traditional retailers are at an inflection point, desperately trying to determine how physical and digital capabilities can best complement each other. The convergence of AI, robotics and the IoT, together with mobile, social and big data, is transforming current retail business models and organizational structures. This will revolutionize retail during the next few years and redefine the relationship between humans and machines.

Technology is becoming increasingly intelligent, driving experimentation to augment the work of in-store associates. In some cases, replacing human labor can lead to improved profitability through lower costs. In others, human labor can be redeployed to aid consumers and provide a strong, differentiated consumer experience.

Most traditional retailers are at an inflection point, desperately trying to determine how physical and digital capabilities can best complement each other.

Digitally-mature retailers will use robotic process automation and artificial intelligence to identify, optimize and automate many labor-intensive and repetitive activities currently performed by humans, including back-end order fulfillment and distribution, cleaning, inventory management and logistics, shelf stocking and even checkout. Retailers that leverage intelligent technology for repetitive tasks will be leaner and more efficient, and will likely gain competitive advantage. Store associate engagement also stands to improve from emerging technology as machines handle repetitive, less engaging tasks, allowing store associates to focus on more valued activities, including personalized service and customer care, upselling and cross-selling (see Figure 4, next page).

Retail CIOs must explore which consumer processes and value propositions are best suited to humans, best suited to machines, and best handled by a combination of the two. In so doing, CIOs must put this technology to the Turing Test, whereby the technology’s ability to exhibit intelligent behavior equal to or beyond that of a human is carefully measured. Until then, the technology won’t really enhance the consumer experience beyond that of a “cool” novelty.

It is vital to redistribute work between humans and machines to enable humans to focus on consumer engagement and growth. After all, in the world of digital business, growth will depend on human ingenuity, interactivity and engagement, not to mention the human traits of empathy and emotional intelligence. However, as the modern retailer struggles to keep up with accelerating demands for personalization, convenience and speed, the effective application of these human skills will require additional time and a focused effort. For that retailers will need to leverage machines, including automation and machine-human collaboration, to remove the burden of superfluous, non-consumer-facing tasks from the shoulders of the store associate.

To fully capitalize on this store-level convergence of human and digital assets, retailers must be open to repurposing, retraining and “upskilling” store associates. With many non-consumer-facing tasks soon to be automated, store associates will need to be retrained to deliver personalized, added-value services and experiences. The store associate of the future will have a renewed focus on selling to and serving the
customer, providing a customer experience rather than just processing payments. In many instances, associates will also need to play the role of “knowledgeable and trusted advisor.” To do this effectively within the new, digitalized store environment, associates will need to possess an aptitude for technology and analytics as well as the “softer” communication, social and organizational skills required to engage customers in an impactful way.

In many ways, this is easier said than done. With the employment rate at a recent high, staff costs increasing and vacancies on the rise, a tight labor market is making it increasingly difficult for retailers to attract and retain the right talent. Retailers need to develop a digital workplace strategy that is focused on attracting more highly skilled employees while, at the same time, promoting a culture of inclusivity, transparency and diversity to increase retention and drive productivity. Creating a positive employee brand and workforce experience will be key to attracting and retaining the best talent in a physical environment that will depend increasingly on an enhanced level of employee performance.

Invest in integrated and adaptive digital platforms to transform business models and better serve connected consumers.

Among the most profound industry shifts is the transition from retail as a place that sells products to serving as the hub of a connected ecosystem that integrates and optimizes physical and digital assets, data, content, partners, suppliers and more. At the heart of this ecosystem will be an adaptive, digital platform that enables the delivery of personalized experiences and solutions at scale across a broad array of audiences and physical and digital touchpoints. The purpose of the platform will be to keep consumers within the retailer’s ecosystem and target them with multiple propositions to maximize brand engagement, solve for underlying needs and desires, and drive consumer loyalty and lifetime value.

From the consumer standpoint, an integrated digital platform yields a number of distinct advantages, not

The value-added store associate

Respondents were asked how the role of customer service associates would evolve in the future when 50% of sales occur online. (Percent of respondents agreeing with the prediction.)

Figure 4
Response base: 4,500 shoppers worldwide age 18-plus who own a smartphone.
The areas of consumer experience and unified commerce are moving so fast that if a retailer starts chasing today’s norm without the ability to flex and rapidly change, it will be behind the competition by the time changes are implemented.

The least of which is the provision of a seamless and personalized consumer experience across the entire shopping journey, in which quality, price and service are consistent whether they shop online, mobile or in-store. Consumers can start and finish a sale anywhere, anytime and anyway they desire, and are identified and remembered across each device and each channel.

The retailer, meanwhile, enjoys exponentially higher benefits, including a single version of the truth; improved productivity, traceability and visibility across the end-to-end supply chain; faster response times; economies of scale; and ease of management and support. Together, the consumer and retailer can enjoy a more meaningful relationship built on collaboration, transparency and trust.

With retail infrastructure, architecture and applications straining to keep pace with rapidly evolving consumer technology and behavior, the idea of a unified, digital platform continues to gain traction. A unified digital platform stitches together all the devices and channels that serve the consumer across the end-to-end value chain, effectively consolidating and integrating online and offline experiences. As a result, the data captured across these devices and channels can be quickly integrated and analyzed to enable real-time, personalized interactions at the point of decision. Well-connected algorithms built into these platforms will reveal customer relationships from discovery to persuasion, and finally to transaction.

On the flip side, the harmonious integration of retail processes and systems allows the retailer to manage the middle office and back office with greater efficiency, agility, speed and scale.

Due to the increasing proliferation of channels, devices and data, digital platforms must be extensible, resilient and responsive to changing needs. The platform should also provide a pluggable architecture to rapidly deploy point solutions to meet emerging needs and leverage new technologies and devices without overhauling the core systems. The areas of consumer experience and unified commerce are moving so fast that if a retailer starts chasing today’s norm without the ability to flex and rapidly change, it will be behind the competition by the time changes are implemented.

In a world of hyper-connectivity, traditional distinctions between bricks and clicks are of little value. The rise of retail ecosystems and “all play platforms” will soon characterize the next phase of retail evolution as retailers evaluate opportunities to expand their businesses using complementary channels, services and sectors, which can be delivered under one brand umbrella. In the short-term, an increasing level of harmonization between e-tailers and physical retailers will emerge, resulting in a more unified commerce experience. In the longer-term, more partnerships and sharing of data across industries and platforms will arise, which in turn will enable common sets of marketing, supply chain, sales, media, consumer and financial data to be fused across the retail ecosystem.

In this new world of collaborative retail, online consumer communities will integrate with retailers, consumers, suppliers and partners in a virtuous cycle. Consumers will self-select which of these resulting ecosystems to join, not just on the basis of product mix and price but also on the basis of the ecosystem’s perceived collective ability to help the consumer solve for a broad range of problems and challenges. To this end, we expect to see the cultivation of relationships that go beyond the transactional, to creating emotional connections that provide solutions and experiences that have deeper meaning with consumers.
The future is now

Retail’s ongoing transformation is both prolific and unprecedented, and exposure to the brute force of technology disruption brings both challenges and opportunities. The most successful retailers are embracing new human-centric business strategies rather than traditional transformation. Moreover, they are beginning to understand what happens when mind meets machine and the changing psychological dynamics between people and technology in an age when technology is increasingly defining what it means to be human.

The old retail pricing formula – pile it high, sell it cheap – worked well through the 20th century, but in the new experience economy, it has been replaced by the concept of value exchange, where value is measured not just in terms of price and quality but also time, convenience and experience. Retailers must possess a deep understanding of their entire value proposition and, by placing the consumer at the center of this ecosystem, pull consumers into the brand by continuously offering compelling reasons to engage.

Successful retailers of the future will have mastered the art of physical and digital convergence. They will have understood how to best leverage emerging technology to amplify and augment human skills, and how to deliver hyper-personalized, contextual and adaptive human experiences that transcend the online and offline lives of the people they serve. They will have grown to view sales associates not as costs to be reduced but as assets to help transform a brand from mediocre to remarkable and intensely relevant. They will have discovered a way to utilize technology to deliver unique brand value, to create physical and digital moments that matter and to help their consumers and employees arrive at desired outcomes with the
least amount of friction, uncertainty and anxiety. They will have unlocked the power of big data and “thick data” and found ways to apply artificial intelligence and deep learning across the consumer value chain to enable insight-driven, human-centric decisions. Most importantly, they will have embraced and fostered innovation as a corporate mindset and as a core competency throughout their organization to ensure that they continue to shape rather than be reshaped by a rapidly changing economy.

When it comes to digital, we are very much at the beginning of our journey, and for traditional retailers, the pressure to adapt and innovate is mounting. The new standard – social, tribal, digital, curated and instantaneous – has traditional retailers struggling to stand out, capture consumer attention and ring up sales. Over the next few years, there will be more store closures and more bankruptcies. We will continue to see the rise in market share for e-tailers like Amazon and Alibaba. We can expect the number and size of retail stores to shrink dramatically while tomorrow’s leaders navigate a daunting transformation to new formats, touchpoints, business models and underlying technologies.

There will undoubtedly be retail winners and losers in the months and years ahead, but those that thrive will do so by building innovative business models on a foundation of technologies that meet consumer-centric demands for a digitally-enabled shopping experience.

For retailers that are able to embrace the new retail paradigm, bust through age-old habits and conventions and reimagine the very essence of brand value, the future will present a plethora of new, exciting opportunities.

Retailers will be expected to redefine and reinvent their value chains within new ecosystems, to innovate and experiment with new technologies, and to leverage the value of data harvested from the proliferation of the IoT. For retailers that are able to embrace the new retail paradigm, bust through age-old habits and conventions and reimagine the very essence of brand value, the future will present a plethora of new, exciting opportunities. Success will require speed, fortitude, a culture of rapid change and a mindset of inspired execution.
Endnotes


4 According to the U.S. Census Bureau, total retail sales in the U.S for 2018 was $5.08 trillion. Source: “Monthly Retail Trade,” U.S. Census Bureau, https://www.census.gov/index.html.


17 Companies such as Harley Davidson and Royal Enfield have traditionally relied on the concept of building tribes. Today these tribes straddle the physical and digital worlds and expand to create a network of riders, enthusiasts, event organizers and local community outreach programs. See, Susan Fournier and Lara Lee, “Getting Brand Communities Right,” Harvard Business Review, April 2009, https://hbr.org/2009/04/getting-brand-communities-right.


Cognizant is helping retailers design and build digital stores of the future through its Adaptive Spaces™ platform solution. Adaptive Spaces™ transforms physical stores in four critical areas: 1) At the experience layer, by combining physical and digital assets to provide customers with unique data-driven experiences that are contextualized, responsive and considerate; 2) At the operations layer, by enabling intelligent and robotic process automation, letting you redeploy your team to more interesting, relevant and valuable roles; 3) At the platform layer, by deploying a solution platform that connects the dots across sensor hardware and software applications to enable real-time, insight-driven actions, optimize operations, improve uptime and data processing speeds, and deliver memorable customer experiences; and, 4) At the integration layer by linking your digital and your physical presence, connecting on-premises and online activity with back-end systems for CRM, ERP, data management, fulfillment, and more.


Three-quarters of consumers are prepared to share product- and brand-preference related information to retailers, and more than half are willing to share personal data (e.g., hobbies, interests, birthdates etc.) in exchange for a valued experience. See “2016 Shopper Experience Study,” Forrester Research, September 2016.


For the first half of 2018, the U.S. unemployment rate edged down to 3.8%, and the number of unemployed persons declined to 6.1 million. During this same timeframe, the retail sector in the U.S. has added more than 150,000 new jobs. Source: Bureau of Labor Statistics.

Retail workers in the U.S. saw a 2.5% annual wage growth in 2017, with projections rising slightly to 2.9% in 2018. Source: Society for Human Resource Management.

About the author

Scott Clarke

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Scott Clarke is Chief Digital Officer and Global Consulting Leader for Cognizant’s Retail, Consumer Goods, Travel and Hospitality business unit. He brings over 25 years of international, cross-industry consulting experience, helping organizations grow and innovate by understanding the ramifications of sociological and technological change, and how this affects relationships with their customers and creates opportunity for competitive advantage.

Scott’s clients have included many of the largest retailers and consumer goods companies in North America and Europe. He has worked extensively on issues of competitive positioning, differentiation, new business models, customer experience strategy and design, product and service innovation, operational and cost improvement, and enterprise transformation. Prior to joining Cognizant, Scott led global digital and customer experience consulting practices at Gartner, Capgemini, IBM and PwC. He holds a Ph.D. in behavioral economics from the University of Strathclyde, an M.Phil in economics from Oxford University, and a B.A. (Honors) in economics from Queen’s University (Canada). He was formerly Senior Lecturer in Behavioral Economics at London Metropolitan University, where his research focused on the interface between cognitive psychology and economics to better understand the economic decision-making processes of individuals and organizations. Scott can be reached at Scott.Clarke@cognizant.com | www.linkedin.com/in/scott-clarke-0165842.
About Cognizant Consulting
With over 5,500 consultants worldwide, Cognizant Consulting offers high-value digital business and IT consulting services that improve business performance and operational productivity while lowering operational costs. Clients leverage our deep industry experience, strategy and transformation capabilities, and analytical insights to help improve productivity, drive business transformation and increase shareholder value across the enterprise. To learn more, please visit www.cognizant.com/consulting or e-mail us at inquiry@cognizant.com.

About Cognizant Retail and Consumer Goods
Cognizant’s Retail and Consumer Goods business unit partners with retail supermarkets, department stores, specialty premium retailers, and large mass-merchandise discounters and consumer goods companies in the grocery, general merchandise, apparel, home and office, and consumer electronics segments to help both embrace the future of shopping, transform the customer experience in-store and online, and build the capabilities needed to win in the digital world. We work with leading retailers and consumer goods companies around the world including nine of the top 30 global retailers, and six of the top 10 consumer goods companies, and are consistently ranked as a top provider in Consumer Goods Technology’s annual Readers’ Choice Awards. We leverage our deep domain and consulting expertise to provide supply chain, merchandising, store, e-commerce, trade promotions, sales effectiveness, marketing services and analytics solutions across the retail and consumer goods spectrum. Our experience includes social, mobile, analytics and cloud and making meaning from Code Halos – the information that surrounds people, organizations, processes and products – to create unprecedented levels of value for retailers and consumer goods companies. To learn more, visit www.cognizant.com/retail and www.cognizant.com/consumer-goods.

About Cognizant Digital Business
Cognizant Digital Business helps our clients imagine and build the Digital Economy. We do this by bringing together human insight, digital strategy, industry knowledge, design, and new technologies to create new experiences and launch new business models. For more information, please visit www.cognizant.com/digital or join the conversation on LinkedIn.

About Cognizant
Cognizant (Nasdaq-100: CTSH) is one of the world’s leading professional services companies, transforming clients’ business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 195 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us @Cognizant.