



DIGITAL NATIVES DEMAND SMART STORES

Retailers look to a new generation of technology to stay a step ahead of e-commerce sites.

Younger people love in-store shopping, but they'll look elsewhere if the experience isn't tailored to their digital needs.

TAKEAWAYS

- 1 More than anything, shoppers today expect convenience.
- 2 Advanced analytics and AI allow retailers to tailor personal experiences for consumers
- 3 Consumers want retailers to move from transaction to interaction

Whitman Davis spots yet another person at the bookstore surreptitiously checking her phone.

He knows she is comparing prices on Amazon.com, perhaps even ordering a copy of the book right there in the bookstore aisle. Davis is proud of himself for making it to the register with his purchase and supporting a local business.

Yet the 32-year-old admits his shopping is not usually so principled. "If I know I need something specific, I will choose the path of least resistance by purchasing online," he said.

Davis found himself in Seattle's Lamplight Books because he doesn't always know what he wants. He prefers to wander through the aisles, observe what others pick up, and dust off a book to skim a few pages. He believes that "the experience of finding the book in a great shop adds to its value."

While this may sound old fashioned, romantic even, Davis is far from unique. According to multinational accounting firm EY, 93 percent of purchases are still made in shops¹. EY predicts online shopping will only account for 19 percent of transactions in three years.

This means brick-and-mortar is here to stay. But as brands close thousands of locations across the country, the retailers of the future are designing a new breed of store—one that caters to people accustomed to online shopping.

Experience vs. convenience

"Physical retail spaces need to focus on facilitating experiences that can't be replicated in an online setting," said Shepherd Laughlin, a trend forecaster at research group J. Walter Thompson Intelligence. "Otherwise, the convenience of [online shopping] will ultimately win out."

¹ EY, "Gen Z is Connected, Informed and Ready for Business," 2015

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—Shepherd Laughlin
Trend Forecaster,
J. Walter Thompson

Rachel Mushahwar, Intel's general manager for retail, hospitality, and consumer packaged goods, puts it this way: “Young shoppers want retailers to move from transaction to interaction.”

Some brands have taken bold steps, such as introducing brainwave-reading devices to match customers to products. Originally developed for medical testing and scientific research, this technology is leveraged by brands like Uniqlo, who combine it with artificial intelligence to help you find the right shirt. Uniqlo's UMood booth shows you a series of T-shirts, and helps you pick one based on your emotional reaction to the product images.

In 2015, air freshener and candle maker Glade built The Museum of Feelings in New York, which transformed its physical structure in response to visitor data. Installations, projections, colors, and smells changed according to algorithms that tracked movement, social media mentions, and even local weather conditions.

When powered by advanced analytics and artificial intelligence, new tools like electronic shelf labels and inventory sensors can boost sales by tailoring the store to each customer.

But consolidating all this data can be difficult and expensive. This is especially true for brick-and-mortar retailers saddled with giant investments in real estate, distribution centers, transportation, and legacy systems.

Web rules for the real world

Adam Meiras, director of retail at consulting firm AlixPartners, points out that web companies moving into brick-and-mortar have the opportunity to start fresh.

“They are purposefully creating their retail footprint to enhance their product catalogue, get their branding out there, educate their customers, and interact with them,” he said.

Some retailers are using virtual reality to make their stores more engaging. Tools like InContext Solutions' ShopperMX let retailers visualize new layouts in VR.

“Rethinking the design of retail in today's world is very laborious. It takes a lot of people and time to build fixtures, bring products together, and set up a mock design of the store,” said Mark Hardy, CEO of InContext Solutions.

“What we've done is cut the costs and time in that equation with VR,” Hardy said. “Allowing rapid prototyping means that retailers can drive the bottom line with faster, better decisions.”

After making its name as an online retailer of just about everything, Amazon surprised the world and opened physical bookshops. The company cut the ribbon for its first location in Seattle in November 2015 and has launched six total.



“RETAILERS ARE CONSTANTLY FOCUSED ON EXPERIMENTING WITH NEW INNOVATIONS BOTH ONLINE AND IN-STORE TO REMAIN RELEVANT TO EVOLVING CONSUMER DEMAND.”

—Matthew Shay
President and CEO,
National Retail Federation

Amazon Books aren't ordinary stores. Unlike a regular bookstore, these include visual elements familiar to visitors of its website. Books are laid flat, rather than spine out, so that the cover catches your eye. Each work is accompanied by a personal review from the website, replacing the handwritten recommendations of store employees.

Then there's the less obvious difference: Algorithms, not people, are the primary curators of its collection. Items are displayed on the shelf only if they exceed a four-star rating, and artificial intelligence scours website data to identify local consumption trends.

Amazon's decision makes perfect sense when you look at the group raised on smartphones and social media—those born after 1995, sometimes known as Generation Z. According to global consulting firm Accenture, a whopping 77 percent of these so-called “digital natives” prefer to shop in stores to preview products².

But a recent study from the National Retail Federation (NRF) demonstrates that they are fickle consumers, shifting loyalties quickly if brands don't offer quality products, a competitive price, and an entertaining shopping experience.

“With technology constantly evolving but some shopping habits remaining the same, retailers need to be agile enough to serve both needs,” wrote NRF president and CEO Matthew Shay. “Retailers are constantly focused on experimenting with new innovations both online and in-store to remain relevant to evolving consumer demand.”

Other major players are adapting to the needs of Gen Z and millennials, who collectively spend more money shopping than any other group.

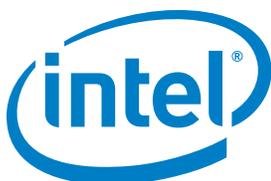
MasterCard is trying to make checkout fun, as well as faster and more secure. It has a pilot project that uses facial recognition on mobile phones to confirm purchases, meaning that you can use a selfie instead of a signature.

These shoppers have more faith in technology than any previous generation. According to J. Walter Thompson Intelligence, 72 percent of millennials say that as the technology develops, brands using AI will be able to accurately predict what they want. Only 35 percent of baby boomers share this view³.

Seen in this light, it's no surprise that Amazon Books translates the logic of its website into the physical bookstore, carrying over its visual style and data-driven recommendations. And, of course, the prices are the exact same, with corresponding discounts for Prime customers.

Mushahwar said that a blend of the best that online and offline can offer will be what successful brick-and-mortar retail will look like in the not-so-distant future.

“Winning retail will be an engaging customer experience anywhere,” said Mushahwar. “It shouldn't matter if the customer is in her home, in the store, in her car, or on a hike.”



² Accenture, Global Consumer Shopping Survey, 2017

³ J. Walter Thompson