Retail trends and takeaways 2016

Global Consumer Markets
This document is designed to serve as a high-level industry trends reference for 2016 and to support background research for your client discussions.

The information presented in the following slides was drawn from KPMG attendance at the 2016 National Retail Federation Big Show in New York. Secondary research was sourced from publicly available information.
What we saw motivating the consumer in 2015

Shoppers in the 21st century are connected wherever they happen to be and expect the world at their fingertips – whenever and wherever they choose.

‘Going shopping’ is an obsolete concept thanks to connected young consumers who ‘are shopping’ 24/7 via mobile devices and social media – whether purchasing, browsing social media for reviews on new products, sharing experiences or looking for hot deals.

This seismic shift in buying behavior is prompting retailers to get products to consumers precisely when and where they want them, while constantly innovating to make the shopping experience authentic, personal, memorable and worth sharing across social media channels.
Five trends consumers are drawn to:

1. Imperfection and authenticity
2. Creativity
3. Mindfulness
4. Accessibility
5. Convenience

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2016 Executive summary
Retailing isn’t facing disruption… it’s already disrupted

There’s no longer any doubt about the role digital is playing to reinvent retailing’s ecosystem.

Retailers are navigating an increasingly competitive environment that demands innovation and technological transformation at every turn.

Retailing success today means much more than just a positive transactional experience. Today’s consumers – many of them ‘digital natives’ – expect a lasting impact from their favored brands, one that they can relate to, engage more deeply with and share on social media.

In response, smart retailers are forging a distinct ‘brand persona’ – an integrated platform that reaches consumers on a personalized level while providing a seamless experience across diverse content channels.
Multi-channel retailing is obsolete

The concept of omni- or multi-channel retailing – selling through a variety of integrated or non-integrated sales channels – is obsolete, industry thought leaders warn.

 ✓ Today’s connected, multi-device-equipped consumer no longer interacts with retailers from a traditional ‘channel perspective’ but through ‘touchpoints’ - not just stores, call centers and websites but apps, social media, text messaging and interactive ads viewed via smartphones, tablets, even cars.

 ✓ Customers as the ‘new Point of Sale’ can research, shop, purchase, receive and share content on products and services everywhere, all the time.

 ✓ In this exciting new age of agile commerce, organizations are dedicating more resources to adapting and keeping up with changing markets and consumer behaviors. Make no mistake, it’s a customer-centric world and smart organizations are making major gains to differentiate themselves.
Eight retailing trends to watch
1. Distributed commerce

It’s being called a ‘buy here and now’ approach. And it’s here. Now.

Typical e-commerce is giving way to a more universal and agile ‘distributed commerce’ ecosystem that capitalizes on the capabilities of mobile devices, social media and the endless stream of content being shared on popular social channels.

In essence, e-commerce now means instantaneously reaching out to consumers - via social sites, tweets, text, blogs, flyers or articles - wherever they work, live or play in today’s mobile, content-rich ecosystem.
Retailer spotlight: Distributed commerce

- Outdoor Voices (OV) goes beyond fostering a brand image to portray its unique ‘brand personality.’
- OV social media ads replace the typical ‘pro athlete’ spokesperson with engaging images of OV ‘friends’ who are hiking, jogging or skateboarding in the latest OV active wear.
- Instagram pictures of ‘OV friends’ feature details on the OV products shown, letting viewers instantly share or purchase products they’ve viewed.

Image source: http://instagram.com/outdoorvoices
2. Predictive analytics

Connected consumers now enjoy endless instant access to digital content offering product reviews, comparison shopping, easy purchases and convenient delivery options. Retailers are responding with predictive analytics designed to:

✓ Optimize pricing;
✓ Accelerate the speed products are delivered to stores;
✓ Personalize customer service;
✓ Improve the bottom line.

Analytics are providing ‘markdown optimization’ insights that suggest the best time to cut the price of a particular item in a particular store. Many retailers are thus discovering that sooner is better than later for pricing: Analytics can predict the advantages of selling a popular item at a discount today rather than waiting for the next seasonal promotion. Analytics can also deliver customer data on buying habits, allowing sales staff to make smarter product recommendations.

Sometimes sooner really is better than later
Retailer spotlight: Predictive analytics

Clothing and accessories retailer **StitchFix** has a unique sales model, asking users to take a style survey, then using predictive analytics to match customers with clothing or accessories that they might like.

What happens whenever customers don't like a product they've received? Simple - they can send back any item using free return shipping.

Source: [https://www.stitchfix.com/](https://www.stitchfix.com/)
3. Pricing

Retailers explore ways to escape the ‘race to the bottom’ on pricing.
Retailers often go all out featuring the ‘lowest prices’ or ‘best bargains.’ Some observers call the discounting phenomenon a ‘race to the bottom,’ thanks to pricing promos that include:

- Buy one, get one free’ or ‘buy one, get one half price’;
- Couponing and price matching;
- Loyalty programs;
- Daily ‘online only’ deals.

While the discounting pulls in new customers, it also erodes margins.

Smart retailers are focusing less on deep discounts and more on customer experiences. They are also turning to dynamic, or time-based, pricing, sophisticated algorithms and computing programs called shopping bots, and service providers to monitor real-time prices on items sold by competitors. The result can be instant discounts or higher pricing upward on hot products.
Retailer spotlight: Pricing

Amazon

Retailing giant **AMAZON** is among the big players leading the charge on dynamic pricing and credits its use with rising sales. Amazon says it conducts price changes on average every 10 minutes.

Walmart

**WALMART** is another winner in the dynamic pricing game, with sales increases attributed in part to making 50,000 price changes monthly.

Best Buy & Sears

Giants like **BESTBUY** and **SEARS** are also using dynamic pricing to drive sales and preserve or boost profit margins.
4. Artificial intelligence

Today, most purchases begin with an online search.

In response, retailers are turning to ‘digital shopping assistants’ or ‘virtual personal shoppers’ – intelligent computer programs designed to interact with consumers by conversing, answering queries or posing questions in order to make purchasing recommendations.

In a typical month, about a third of shoppers with smartphones are already interacting with digital assistants and predictions are that $2 billion or more in sales in the next year will be conducted exclusively with digital assistants.
Retailer spotlight: Artificial intelligence

Specialty outdoor retailer The North Face launched online shopping tool XPS – Expert Personal Shopper – to help customers find everything from ski jackets to winter hats.

Built using IBM’s Watson cognitive computing technology and aimed at boosting e-commerce, XPS quizzes shoppers to determine their specific needs and tastes before recommending a product.

The goal is to prompt a ‘conversation’ that customers typically have with in-store staff.

The North Face reports positive results since the beta project launched on its e-commerce site and most customers say they would use XPS again.

Image source: https://www.thenorthface.com/XPS
5. Payments

No customer likes waiting in a checkout line to pay.

Mobile apps and other touchless digital payment technologies are soaring in popularity by improving convenience and speeding up payment via a quick button tap or card swipe. Two key considerations for retailers creating a ‘friction-free’ payment experience:

1. Cash is not going away soon but it’s getting a run for the money from digital payments.

2. Data breaches have hurt some retailers and brands along the way but mobile technology and new payment systems are having a huge impact overall.
Retailer spotlight: Payments

✓ MasterCard and Amex card carriers can now pay for products and services via Apple iPhone or watch.

✓ Apple announced that at the start of 2016 its Apple Pay network already had more than 900 banks and financial institutions supporting its contactless payment service in North America.

✓ Starbucks is forging new paths to easy pay with its popular ‘Mobile Order and Pay’ app. And the list keeps growing, including Android Pay, Visa Checkout and Samsung Pay.

Retailer spotlight: Payments

Walmart recently launched Walmart Pay an application that allows customers to pay with any iOS or Android device, at any checkout lane, and with any major credit, debit, pre-paid or Walmart gift card.

6. Partnerships

Partnerships between retailers, brands and financial institutions are growing fast.

With today’s connected, mobile, well-informed consumer viewed as the new Point of Sale, retailers are urgently seeking innovative new ways to stand out or differentiate themselves in the marketplace.

Effective partnerships offering convenience and reliability can open doors and lead to new services and offerings that strengthen brands for everyone involved.
Retailer spotlight: Partnerships

American Express is innovating with partnerships designed to bring consumers new levels of payment services and convenience:

- Leveraging mobile technology in a big way, Amex is forging powerful partnerships with brands like Twitter, UBER, Amazon and Trip Advisor, and with social and digital networks, all with the aim of deepening consumer use, trust and loyalty for digital payments.
- Eliminating ‘friction’ in the payment process is the endgame.
- In the words of American Express CEO and Chairman Kenneth Chenault: “You innovate or you die.”

Image source: https://get.uber.com/amex/
Influencer marketing involves a soft-sell approach that’s having a remarkable impact in driving more consumers to pull the trigger on purchases.

Known as ‘marketing-induced, consumer-to-consumer word of mouth,’ it’s essentially a soft-sell in which retailers combine the reach of customers, bloggers, media or celebrities with ubiquitous social media channels like Instagram, Facebook and YouTube to spread the word instantly on noteworthy products, services, sales or experiences.

Influencer marketing using ‘branded,’ or sponsored, editorial content is overtaking paid advertising in making resonant connections that activate consumer buying. Praise from a blogger, Twitter commentary by a celebrity, or shared information and encouragement to buy from a Facebook friend all have a huge influence on today’s purchasing decisions.

Digital tools like SocMetrics and Appinions are helping retailers analyze the social media landscape to identify powerful influencers by demographics, geography or product category.
Influencer marketing (continued)

Retailers attempting this approach should consider the following:

1. Don't "spray and pray" influencers
   Choose selectively and wisely. Do manual research to understand influencers and what makes them tick.

2. Ask them about their metrics
   When reaching out to a social media influencer says Sparkle and Shoes blogger Kelly Donlin, “ask about their demographics, how much of their viewership was obtained organically versus through sponsored content, or have they ever promoted a competing brand?”

3. Be specific
   Provide influencers with a campaign brief including objectives, key messages and coded URLs so activity can be tracked and measured.

4. Don't let low cash flow deter you
   Provide influencers with engaging experiences they can share enthusiastically. For example, a Disney product retailer could send bloggers on a trip aboard a new Disney cruise ship, giving them plenty of timely and useful content that’s worth sharing with their audiences.
Retailer spotlight: Influencer marketing

**Gap** has developed a microsite called “**styl.by**” which features different fashion influencers in their Gap outfits. Partnered with the pictures is a short description of how the influencer feels in their outfit or about the brand. The site is interactive, making it easy for visitors to shop the outfits and share features to their social networks.

**Image source:** [http://www.stylid-by.com/en-uk](http://www.stylid-by.com/en-uk)
8. Physical or digital? Both!

Consumers expect retailers to integrate their physical and digital environments to provide a much broader, deeper experience.

Today’s state-of-the-art store is no longer a simple ‘retail outlet’ but an inviting, highly designed ‘urban space’ that functions as a store, showroom, activity area and warehouse.

The result is a new spirit of ‘collaboration over competition’ among developers and retailers. These players are sharing data and market intelligence as never before to develop and apply new technologies that converge digital and physical shopping, ultimately creating a highly unified, intuitive, personalized customer experience.
Retailer spotlight: Physical or digital?

Nike now has a ‘community store’ in Los Angeles that’s giving shoppers an interactive experience that transcends a typical purchasing transaction. Nike ‘Store Ambassadors’ are trained to help consumers use in-store computer displays to sign up for product and promotion updates. The information is then conveniently made available on shopper smartphones, tablets and PCs.

Retailer spotlight: Physical or digital?

Fitness retailer Under Armour (UA) has gone all out in the race to leverage digital technology within the existing brand and has done so under the mantra ‘Connected Fitness.’

Their ‘Under Armour Record’ app is an innovative, easy-to-use ‘lifestyle dashboard’ that tracks, summarizes and reports a user’s fitness level, sleep patterns and overall well-being statistics. UA also partnered with IBM Watson on the ‘Just Like Me’ app, inviting users to compare ‘Under Armour Record’ stats with other customers and explore ways to improve performance and results.

Under Armour has also purchased two hugely popular fitness tools:

- Endomondo, a ‘personal trainer in your pocket’ fitness app;
- Mapmyrun, a running-route tracker and record-keeping app;

Image source: http://www.underarmour.jobs/talent-areas/connected-fitness/
Lessons for retailers
Top five lessons for retailers

1. **The customer is the new point-of-sale today.** For today’s connected consumer, the shopping 'experience' can be endless. Smart retailers are keeping up with today's mobile consumer by providing timely information and live support available anywhere, anytime.

2. **About half of consumers will actually enter retail stores.** The trick is to entice them with a shopping experience that’s meaningful, memorable, shareable and personalized. A shopping experience that extends beyond four walls is key to success.

3. **Incorporating technology into a brand persona - influencer marketing across Instagram, for example - can be a powerful tool in driving consumer habits.** Retailers should make sure it’s relevant to the product offering and meets related consumer needs.

4. **Pricing models and strategies are evolving rapidly** and when it comes to competitive pricing, sooner can be better than later. Analytics and IT platforms that tap into ebbs and peaks of consumer activity can help retailers inform timely strategies much better than tradition or existing policies.

5. **Brand building on the retail front has become a team sport for many firms that are generating significant results via partnerships that deliver competitive advantages.** Strategic partnerships deliver competitive advantages like enhanced consumer loyalty programs and payments that are faster and more convenient. Banks and financial firms are getting into the act by extending their capabilities and services to meet the changing needs of mobile consumers via instant pay technologies.
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