

THE ROAD TO 2025

Retail, Reimagined

Retailers that emerge successfully from the shock waves hitting their industry will be those that reinvent their physical stores and supply chains to meet digital consumer needs.

EXECUTIVE SUMMARY

In 2025, the retail store as we know it is dead.

The digitization that swept through books, music and travel has blown an equally chill wind through all retail categories. As predicted, one-third of malls have shuttered,¹ and Amazon has passed the 50% mark in its share of e-commerce.²

As for shoppers, the preferences of millennials and Generation Z have taken precedence, and both demographics now move fluidly from “experiencing” products in stores to ordering them online. Their smartphones and wearables buzz with customized assistance from virtual agents.

Surviving retailers are the ones that have embraced digital and envisioned new ways to serve their customers. Physical stores have morphed into lively, immersive environments. They rely on sensors to capture and analyze data in real time, and all boundaries between online and offline shopping have blurred. Collaboration is the order of the day.

Supply chains have moved to starring roles. Digitization has rewritten the rules of competition in every retail function, and after much trial and error, supply chain operations now hum efficiently as a result of connected, automated elements, including inventory, logistics and fleet management systems. Airborne fulfillment centers and drone-launching delivery trucks have closed the last-mile gap.

In the following pages, we examine what retail will look like in 2025, as a result of the changing customer, and re-imagined stores and supply chains. We lay out key strategies and a potential roadmap for facing the future, including how retailers can make shopping easier and more convenient in 2025, in part by creating a solid omnichannel foundation.

Change can be daunting, but it brings with it enough opportunities for retailers to move ahead, unfazed by the gloom that pervades much of the traditional sector.





Millennials expect not only immersive and interactive customer journeys but also fun, one-of-a-kind experiences.

THE CHANGING CUSTOMER

Make no doubt about it: In 2025, millennials will rule retail. Representing a quarter of the U.S. population in 2015, and overtaking baby boomers as the largest generation,³ their numbers are expected to swell to 80 million by 2025 as young immigrants expand their demographic ranks.

The characteristics that define millennials include:

- **A love of convenience.** The easier and more effortless the retail experience, the better. Millennials expect the latest technology to be applied from the time they start researching products, through purchase, shipping and delivery. Convenience will accelerate, powered by the rise of innovative payment methods, such as mobile checkout in the fitting room, and emerging fulfillment technologies (think airborne warehouses⁴).
- **A preference for visual and experiential retail.** Millennials expect not only immersive and interactive customer journeys but also fun, one-of-a-kind experiences, supported by technologies such as augmented reality (AR). Home improvement chain Lowe's has been quick out of the gate on AR, taking the wraps off several tools, including an in-store smartphone app that layers a to-do list over a store map and also lets shoppers click on product reviews.⁵
- **Desire for complementary products and services.** Based on their expectation for convenience, millennials see services such as banks, dry cleaners and bistros to be natural extensions of retail.
- **Disdain for traditional sales events and promotions.** By 2025, millennials' response to time-constrained deals will have had a major impact on sale season. For millennials, promotions are digital, communicated one-to-one and in real-time via mobile devices in-store and online. Store sales events, as a result, will become highly personal and immediate; as shoppers enter a store, they will receive alerts for price breaks on items they purchase regularly or have browsed online. Retailers will use the same avenue to offer discounts on slow-moving inventory.
- **Enthusiasm for content, and lots of it.** With attention spans collapsing, it's imperative for retailers to quickly captivate millennials. The key to success will be custom content. Retailers such as Bloomingdale's and Sephora already gather images, videos and text and share them with followers on Snapchat Stories.⁶

Stores that thrive in 2025 will be those that let millennials be millennials.

- **Interest in creating their own content.** Stores that thrive in 2025 will be those that let millennials be millennials. They'll indulge their desire to snap photos, take videos and share their experiences. "Buy" buttons embedded into social media posts will likely become more lucrative. After a successful pilot in late 2016 that included Kate Spade and Macy's, Instagram is now expanding its e-commerce program. Shoppable images on brands' Instagram posts eventually take consumers to a "shop now" button and then to the brand's website to complete the transaction.⁷

Generation Z: Coming Up Fast

Retailer will need to turn their attention to Generation Z, born between the mid-1990s to early 2000s. This demographic will represent one-quarter of the population and by 2020 will account for 40% of consumers.⁸

Unlike collaborative-minded millennials, Gen Z is said to be more private and focused despite this cohort's short attention span. Frequent watchers of YouTube tutorials, they're confirmed do-it-yourselfers.⁹ More important for retailers, they like to shop in stores. According to a report by HRC Retail Advisory, these individuals are mall shoppers, with 72% visiting malls at least once a month.¹⁰ They stay for at least an hour, visit 4.4 stores per trip and often make a purchase for themselves.

While it's yet to be seen whether these shopping practices will carry into adulthood, the under-20 demographic clearly presents retailers with a target-rich environment to encourage.

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New Ways to Manage Demand: Economic and Revenue Models

Retail is a supply and demand business. Tilting the pendulum between supply and demand are economic factors such as job automation, which is estimated to threaten 47% of jobs over the next 20 years and will likely impede consumers' purchasing power.¹¹ Frost & Sullivan projects household income will decrease 5% over the next 10 years.¹²

Given the changing customer and the economic swings ahead, how can retailers manage demand in 2025? Emerging economic and revenue models are paving the way.

- **Circular economy.** In a circular economy, industrial systems funnel waste from one production process into input for another. This closed-loop system results in cost savings of raw materials and waste management processes.

With their combination of high-turnover clothing and environmentally minded youthful customers, fast-fashion giants have taken the lead among retailers in adapting to circular economies. H&M has invested in textile recycling technology and runs a take-back program for used clothing, regardless of brand or condition.¹³ In September 2016, Zara launched its first sustainable line of clothing made from recycled wool, organic cotton and Tencel, a fabric that includes regenerated wood.¹⁴

Given circular economies' potential savings and consumer appeal, we predict participation in such closed-loop systems will be a must-have for retailers in the coming decade. Retailers will likely adopt attributes of the Goodwill Industries model - which funnels proceeds from its thrift shops



We envision retailers embracing the sharing economy principles in their own businesses as a way to expand into on-demand services.

into job creation and training programs - and begin using circular economies for their own brands, businesses and social cred.

- **Sharing economy.** Millennials' fondness for collaborative consumption is fueling the rise of sharing-economy retail entrants. A notable example is Rent the Runway. Launched in 2009, the online service has six million members, and in early 2017 opened its first physical store in New York City.¹⁵

Other models will link consumers directly to each other via peer-to-peer (P2P) networks. The idea behind P2P is for consumers to become producers, sellers and distributors, making money by sharing the assets they own, and gaining lower-cost access to those they don't. In retail, several closet-sharing P2P efforts have been tried.

Because of the widespread acceptance of car- and home-sharing, we envision retailers embracing the sharing economy principles in their own businesses as a way to expand into on-demand services. For example, retailers like IKEA might create platforms to manage bids for furniture-assembly services.

The subscription economy turns the tables on brands, requiring them to focus on successful outcomes, not the number of units sold.

- **Subscription economy.** Subscription-based companies like Birch Box (beauty), Blue Apron (meal kits) and Stitch Fix (clothing) have cracked the code of personalized services. Their business models emphasize customer preferences and needs, based on behavioral data, rather than products and transactions.

The subscription economy turns the tables on brands, requiring them to focus on successful outcomes, not the number of units sold. For retailers, it's a huge opportunity to convert transactions into long-term relationships and sustained revenue streams. To succeed, they will need to better manage personal, responsive and omnichannel customer relationships, and bank on machine-learning techniques to improve personalization accuracy. (See Quick Take, page 7.)

To develop brand loyalists in these new business models, retailers will also need to maintain the seemingly endless reserves of customer data that Netflix and Spotify have turned to gold. We foresee retailers in the subscription economy categorizing their services in lifestyle categories, such as sports and fitness, rather than in product segments. The new service extensions would attract shoppers through ongoing education, support and service packages.

QUICK TAKE

Stitch Fix: Smart Shopping

Stitch Fix applies AI to personal shopping. It matches its clients with boutique-brand clothes and accessories recommended by a combination of data science and human stylists.

Customers pay a \$20 fee, and then stylists for the wildly successful San Francisco start-up work with a team of 60 data scientists to choose the five items the company will pack into orders, either on-demand or at regular intervals. Customers pay the full retail price for items they keep and return the rest.

By applying machine learning to the shopping process, Stitch Fix's systems become smarter as they handle more data.¹⁶ More than 80% of clients return within 90 days for a second order, and one-third spend 50% of their clothing budget with the subscription service, according to the company.

Stitch Fix earned \$250 million in revenue in 2015, according to Forbes, and was expected to reach half a billion in 2016.¹⁷

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Green Is the New Black: Why Sustainability Is a Retail Must-Have by 2025

To stay relevant with environmentally concerned consumers, retailers in the coming decade will have to focus on the so-called “triple bottom line,” which adds environmental and social results to the financial profits of the traditional bottom line.¹⁸ Environmental credentials will no longer be a nice-to-have. They'll be a business imperative.

Already, two-thirds of consumers say they avoid specific brands or products due to environmental concerns, representing a 26% increase in the last six years, according to Tetra Pak.¹⁹ And an extensive report by Nielsen found the number of consumers willing to pay more for brands committed to positive social impact shot up to 66% in 2015, from 50% in 2013.²⁰

To encourage consumers to feel positive about their purchases, retailers are offering products made with recycled materials. Retail giants such as Patagonia and Nike take back used items and recycle them for use in other products. (To read more on how sustainability can benefit your organization, read our report, “[Beyond Green: The Triple Play of Sustainability](#).”)

THE STORE RE-IMAGINED: TECHNOLOGY TO RESPOND TO CHANGING CUSTOMERS

In 2025, physical retail stores will require a good reason to exist. Digital interactions will already have replaced many routine exchanges. Gartner predicts that by 2020, customers will manage 85% of their relationships with enterprises without interacting with a human.²¹

Demand for large-footprint physical retail space will continue to fall, as improved logistics for online delivery and the click-and-collect model reduce the need to keep complete inventories in stock at all stores. (To learn more, read our white paper “[The Click & Collect Path to Omnichannel Success](#).”)

As real estate costs no longer make economic sense and leases hit their end dates, more physical stores will be converted into retail fulfillment centers or used for other purposes. Adopting the store-to-warehouse trend will add points to the supply chain and enable faster delivery times. But stores' decreasing space needs will step up the pressure to be more efficient and effective. It's more likely many spaces will be repurposed for healthcare, shared working environments, restaurants and other community service facilities.

Adopting the store-to-warehouse trend will add points to the supply chain and enable faster delivery times.

Retailers will move to a showcase model that leverages differentiated fulfillment services. Men's retailer Bonobos started online and now operates 30-plus brick-and-mortar locations. These "guide shops" offer highly personalized attention and let shoppers try on merchandise. Rather than stocking merchandise, the store arranges for free home shipment.²² The same goes for Samsung's new flagship store in New York City's Meatpacking district. Samsung bills the 55,000 square foot store as a "digital playground" where consumers can explore Galaxy gadgets and then go elsewhere to buy them.²³

Such flagship stores will serve as important marketing vehicles. Take eyewear seller Warby Parker. After a gangbusters launch that saw Warby hit its year-one target in three weeks, the online-only retailer began fielding inquiries from customers about where they could try on its eyeglass frames. The startup has since opened dozens of stores and built strong customer relationships.²⁴

By 2025, more new retail businesses will follow in the footsteps of such online pure-plays, gradually testing physical retail space, first with pop-ups and then with networks of showcase stores.

Omnichannel: The Path to Instant Gratification

Enormous profits await retailers that focus on omnichannel, or unified, commerce. Customers who deftly move among multiple channels have a 30% higher lifetime value than those who engage with only one.²⁵ ²⁶ As formats converge - physical retail, digital services and e-commerce channels - it's clear retailers need to deliver a fully integrated shopper experience, with all channels sharing common marketing, merchandising and supply chain strategies, as well as data formats.

By 2025, integrated efforts will be the norm. Instead of planning and executing by channel, retailers will support a consistent brand experience by viewing consumer touchpoints in more holistic ways. Consumers will engage with brands simultaneously across connected devices and on various platforms. Instant gratification will be paramount, and integration will be the path for providing it.

Integration requires significant investment in technology and logistics. While the technical aspects are challenging, the organizational and mindset changes prove much more difficult for companies, and require a strong top-down mandate from the CEO. (For more details on retail's digital business models, read our report, "[The Work Ahead: How Digital Thinking Separates Retail's Leaders from Laggards.](#)")

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Stores Go All Digital, All the Time

In 2025, much of the data and analytics available to e-commerce sites will also inform physical store activities. The Internet of Things (IoT) will be a workhorse technology for stores, with broad applications throughout store aisles and operations.

By adding the in-store information to data lakes, retailers will be able to more accurately predict and anticipate customer trends and demands.

Outfitted with instruments such as sensors and RFID tags, physical stores will be ground zero for IoT advancements, capturing and analyzing data in real time. By adding the in-store information to data lakes, retailers will be able to more accurately predict and anticipate customer trends and demands.

Sensors have huge implications for retailers.²⁷ As processors' clocking speeds improve and boost performance and capabilities, the use of sensors will explode exponentially. Everything from holographic mirrors to electronic shelves will be instrumented and given an IP address.

Also fueling sensors' robust growth will be consumer acceptance of wearable devices. The market for wearables will reach \$70 billion in 2025, up from \$20 billion in 2015, reports IDTechEx.²⁸ IoT is already generating increased sales for innovative retailers like fashion label Rebecca Minkoff, which credits its use of sensors and smart mirror technologies for boosting sales in its New York store (see Quick Take, page 11).

Amazon Go expects to take sensors to another level, with staff-free brick-and-mortar storefronts. The e-tail giant plans to outfit its convenience stores with sensors that identify pre-registered customers and the items they select, and then automatically charge their accounts.²⁹ In 2025, operations like this will be the rule. Technology advancements that will support the associates-free, checkout-free model include image recognition with high-resolution cameras, and machine learning to correctly identify specific items.



QUICK TAKE

Sensors in Soho: How Rebecca Minkoff Puts the Newest Technologies to Work

For its flagship store in New York City's Soho neighborhood, retailer Rebecca Minkoff created an interactive retail experience that it credits with tripling sales.³⁰

The 2,000-square foot store combines the best of in-store and online retail. On a large touchscreen, shoppers swipe and view in-store products, look up color and size availability, and virtually try on items via the mirror function.

Sensor-equipped dressing rooms identify each garment and accessory that customers bring in. Mirrors have four light settings that let shoppers view their look at different times of day. The store reports 30% of customers who try on clothes tap the fitting-room touch screens to request additional items.

"That's substantial," the brand's CEO and co-founder Uri Minkoff told online marketing publication Digiday.³¹ "Trying something on signifies intent, and the customer may not have been thinking about buying a dress, but they see it suggested on the screen and know to ask for it."

Minkoff adds that data on how customers respond to certain items has helped the store change the direction of its collections. For example, customers' mixing and matching of items in fitting rooms led the brand to incorporate more date-night and weekend wear into its mostly business attire collection.

Leveraging Shoppers' Devices

There's no doubt retailers will leverage consumers' mobile device technologies in an effort to engage with them digitally and in person. The trick is how. While one-to-one engagement is a business objective for many retailers, hyper-personalized real-time promotions - especially those that make use of sensor technologies and electronic beacons - still seem to cross privacy boundaries for more than a few consumers.

Less intrusive but equally helpful are AR solutions. Apps deployed by Lowe's and other retailers enable stores to connect with consumers through the mobile device and help them locate what they're looking for and even virtually find expert help. The sense of autonomy and remaining in control of the experience is appealing to shoppers.

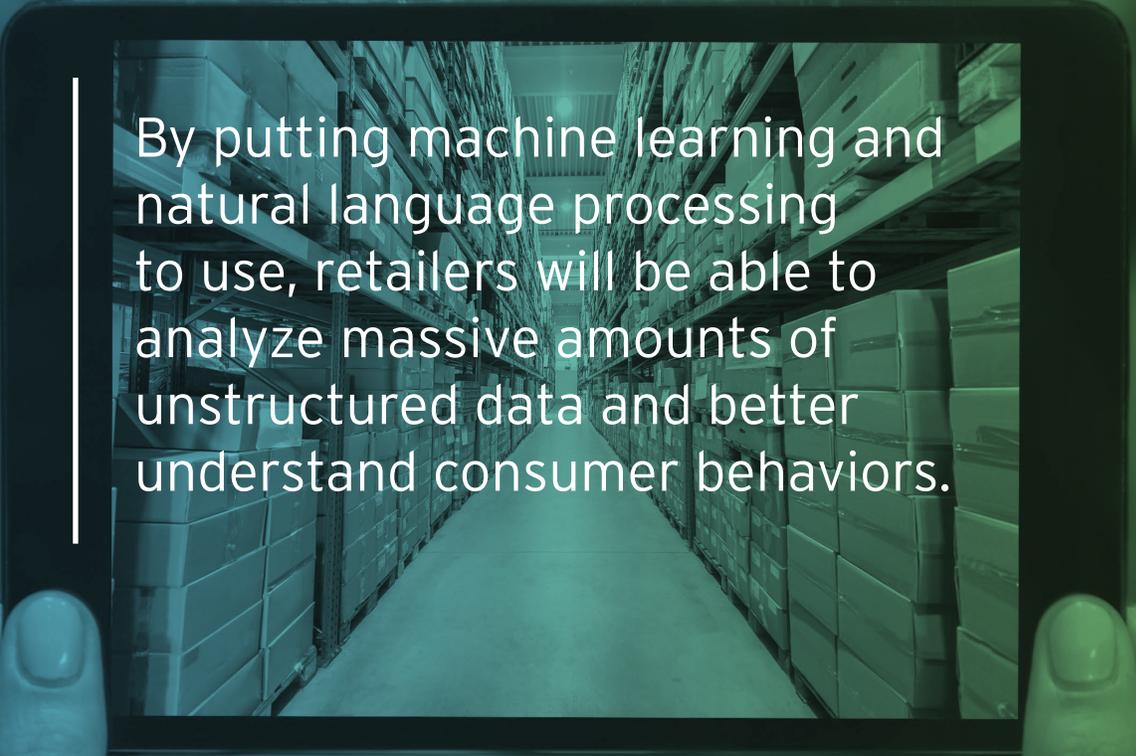
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By 2025, retailers will also utilize cognitive technologies that mimic the way humans think. By putting machine learning and natural language processing to use, retailers will be able to analyze massive amounts of unstructured data and better understand consumer behaviors.

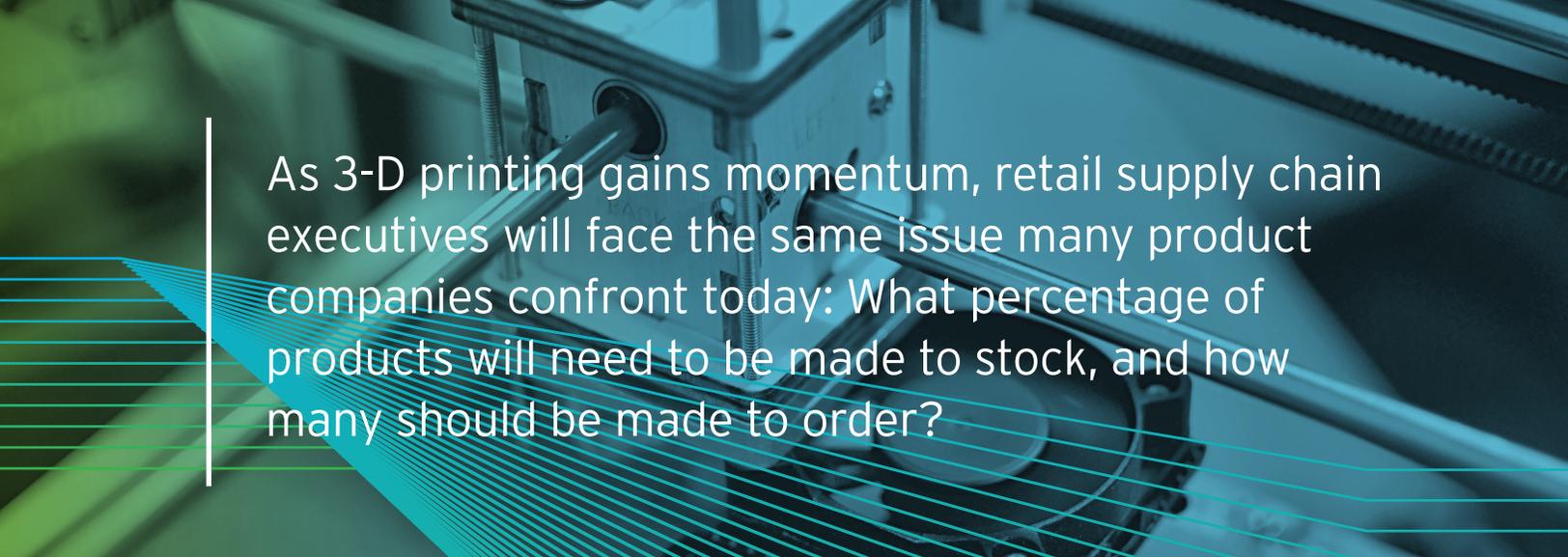
Cognitive computing will enable retailers to instantly sift through prospective customers' data - their online behaviors, social posts and in-store activity - and know precisely where they are in the buying journey and serve them relevant content. While retailers are already taking the first steps in this direction, by 2025, systems will automatically serve customers content that matches precisely where they are in the buying journey.

A retailer of bicycles, for example, might provide prospective first-time buyers with online tips for getting started, and as those customers become more experienced cyclists and return to the site, it will serve up race schedules and maintenance tips.³²

Given their potential for remaking the shopping and customer experience, cognitive technologies are commanding retailers' attention: In a study by Zebra Technologies, 68% of retail executives familiar with cognitive computing say they're likely to invest in the technology in the near future.³³

A person's hands are shown holding a tablet computer. The tablet screen displays a perspective view of a long, brightly lit warehouse aisle with high ceilings and rows of shelving units filled with boxes. Overlaid on the left side of the screen is a vertical white line, and to its right, the following text is written in white: "By putting machine learning and natural language processing to use, retailers will be able to analyze massive amounts of unstructured data and better understand consumer behaviors." The background of the entire image is a blurred, green-tinted scene of a retail or warehouse environment.

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As 3-D printing gains momentum, retail supply chain executives will face the same issue many product companies confront today: What percentage of products will need to be made to stock, and how many should be made to order?

THE SUPPLY CHAIN IN 2025: GETTING IT TO CUSTOMERS, WHEREVER THEY ARE

Supply chains will be front and center in 2025.

Often thought of as little more than the back-end machinery that moves boxes, supply chains will evolve into critical touchpoints for the customer experience, especially for millennials. Technology will be at the heart of some of the changes. Robots are already adding new efficiencies to warehouses and fulfillment centers, and blockchain's ability to secure transactions and guarantee the authenticity of goods shows great promise for smoothing retail and consumer goods supply chains (see Quick Take, page 15).

For retailers to deliver on the tailored products and services customers are growing to expect, the supply chain will become an important factor in optimizing inventory and processes to make such personalization cost-effective and profitable. At the National Retail Federation show in January 2017, for example, Intel "printed" tailored sweaters in 45 minutes.³⁴ In addition to apparel, we see toys and jewelry representing significant portions of the on-demand printing market.

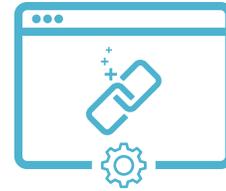
As 3-D printing gains momentum, retail supply chain executives will face the same issue many product companies confront today: What percentage of products will need to be made to stock, and how many should be made to order? These options will force retailers to start stocking raw materials close to their markets, raising different kinds of inventory optimization challenges.

Supply chains will become automated and yet also more human. Increasing personalization will mean more frequent interactions with customers during product customization and delivery. Against the backdrop of these changes, customer service can no longer be a separate, standalone organization, but will be seamlessly integrated into supply chains.

The focus on optimization will nudge retail and consumer goods players to adopt new models of collaboration to reduce costs. We envision the rise of "physical Internet" solutions, which embody physical and technology infrastructures, as well as data science capabilities, to enable high levels of collaboration and extreme visibility into events and inventory across the supply chain network (see Quick Take, page 16).

Quick Take

Blockchain: Retail's Jack-of-All-Trades?



While our research shows the industry is woefully behind the financial services sector in all areas of blockchain (other than the use of Bitcoin rewards in loyalty programs), blockchain has the potential to address retail's needs in multiple functions, including the supply chain.

Blockchain is a decentralized software mechanism that functions as an immutable digital ledger. It records transactions between two parties - purchases, contracts, and records - and arranges them in data batches called blocks. The blocks are distributed across a chain of computers, each of which approves transactions before they are verified and posted.

Because blockchain brings transactions into the digital era, it's attracting industry-wide attention in the retail industry. Our readiness survey of retail executives found a healthy 87% of respondents describe the technology as important or very important for the industry. A total of 39% of respondents said their organization has identified the functional areas and business processes that could be impacted by blockchain, and an additional 55% said they are currently making this assessment.

In addition to speeding up financial transactions, blockchain could streamline and secure interactions among manufacturers, retailers, financial institutions and government organizations. Its ability to certify authenticity gives it an important role in combating fraud in the high-end fashion and luxury markets, as well as in the food industry. It also offers improved visibility and transparency that benefits supply chains for consumer goods. (For more on this topic, read our report "[How Blockchain Can Help Retailers Fight Fraud, Boost Margins and Build Brands.](#)")

In our survey, 82% of respondents said blockchain adoption would result in cost savings of more than 2.5%, mainly by streamlining operations and automating manual tasks. This is because blockchain eliminates intermediaries such as payments processors and central counterparties.

Top internal barriers to blockchain revealed in our survey include evaluating its cost benefits for use cases and communicating the technology to key decision makers.

Smart contracts and immutable records kept on a distributed ledger will change the equation for retailers by streamlining operations. Connecting legacy systems to blockchain's shared infrastructure, however, is likely to pose formidable systems integration challenges for retailers and their partners.



QUICK TAKE

Collaboration: A New Way to Share Store Costs

How will retailers repurpose their physical stores in 2025? For starters, big retailers will gain economies of scale by sharing space and infrastructure with other industries. In addition to sharing costs, they'll drum up new partnerships that will drive store traffic. Shoppers, especially millennials, see the addition of complementary products and services as natural extensions of retail. Medical services, financial planning and government offices are all candidates for leasing retail space and leveraging retailers' expertise in location maintenance and security. Their addition to store rosters dovetails nicely with consumers' burgeoning desire for convenience.

Collaboration will go beyond floor space. In 2025, retailers will also share data much more freely, collaborating with competitors and suppliers to exchange real-time demand information. To gain a 360-degree view of business operations, they'll even exchange traditionally closely guarded shopper-focused insights, such as customer segments, promotional analytics and offer redemptions.

Expect to see partners across the retail ecosystem band together to drive innovation in the supply chain and last-mile distribution. Retailers are already expanding their value chains in innovative ways, including partnerships with nontraditional players. In Japan, online retailer Rakuten teams up with local post offices to establish lockers for consumers who can't be at home to accept delivery of online purchases.³⁵

We envision the rise of third-party services that will help small retailers gain scale and compete with the likes of Amazon. Instant access to dedicated third-party providers with retailer transaction data will offer services that range from simple home delivery and shopping list administration to more complex functions such as financial management.

All of the services will be attributed to the retailer and its brand regardless of the actual provider name. The retailer will control, and retain ownership of, the customer experience. For retailers, this collaborative, full-service brand offering will be an important avenue for gaining wallet share and building brand awareness.



Supply Chains Bring the Store to the Customer

In 2025, supply chains will hit the road - literally. We foresee enthusiastic adoption of mobile stores and distribution centers modeled along the lines of Amazon's recent patent of an airborne fulfillment center³⁶ and UPS's drone-launching delivery trucks. Think of stores on wheels aided by drones. These free-floating supply chains will enable the movement of stores closer to the customer.³⁷

Together with AR/VR technologies, mobile stores will address millennials' desire for instant gratification, enabling customers to interact with retailers' service professionals such as stylists or electronics experts.

We see data science capabilities helping retailers make mobile stores and distribution centers a reality over the next decade. Data from IoT-driven, demand-sensing technology in consumer homes has the potential to become a key input into supply chains, providing retailers with the stream of information they need to anticipate consumer demand and determine product mixes in mobile stores and distribution centers.

First, however, retailers and brands will have to address consumers' worries regarding privacy. A recent survey found 73% of U.S. shoppers surveyed express concern about the security of personal IoT devices such as smartwatches and fitness bands.³⁸ While it's still unknown how that skepticism will translate to the retail and consumer goods sectors, it's clear that in order to reap the benefits of IoT, retailers and brands will need to build consumer trust with stronger privacy policies regarding sensitive customer data.

Solving the Last-Mile Dilemma

Start-ups and established companies alike are leveraging the sharing economy to bridge gaps in their service offerings, especially for the last-mile dilemma. Amazon hires freelance drivers to deliver packages for Amazon Flex, which lets consumers order and receive items from Prime Now within an hour. Walmart is partnering with Uber and Lyft to test its grocery delivery service.

Yet such services also pose a threat to retailers. While companies such as Postmates and Instacart deliver retail purchases to customers within a two-hour window, they also become the point of contact for end customers - and threaten to cut retailers out of the transaction.

3-D printing will bring tremendous changes to the last-mile challenge. It's possible retailers will begin to supply raw materials that allow customers to "print" items on-demand in nearby centers. New issues to tackle will include pricing. How much will a retailer charge a shopper to "print" a dinner set from Williams Sonoma? Copyright is also likely to arise as an issue.

Think of stores on wheels aided by drones. These free-floating supply chains will enable the movement of stores closer to the customer.

GETTING A JUMP ON 2025

By understanding the different needs of future customers, and rethinking the role of the physical store and supply chain, organizations can lay out more effective strategies and create potential roadmaps.

- 1. Know why customers come to your store.** By 2025, the in-store experience will be a game-changer, as long as retailers understand what draws them to their store in the first place. Depending on the market segment, shoppers may shop for specific needs or for entertainment. The term “retailment” has been coined to describe this new hybrid environment. Explore whether the retail store experience matches customers’ needs and expectations. Retailers should conduct an in-depth study of what draws customers and how they interact with their store.
- 2. Ensure customers can find what they’re looking for.** Stores are elevating the ability to find products in stores to rival that of the online experience. That’s good news for retailers, given that in-store conversion rates are enviably higher than their online counterparts, approximately 20% vs. 2% to 3%, according to research by ShopVisible, now part of Aptos.³⁹ Easier to find merchandise should translate to higher sales.

The in-store modes of many mobile apps can already direct shoppers to the right aisle. Over the next decade, stores will advance those efforts, with accurate tracking of foot traffic and awareness of when customers are in-store. Today’s best in-store customer experience often involves associates who greet shoppers, listen to what they need and accompany them to select the necessary items. In 2025, we foresee retailers using AI to replicate personalized assistance in a self-service model. Next-generation tools will enable smartphone-wielding customers to interact with virtual experts (see Quick Take, page 19).

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- 3. Make it easy to shop.** Retailers should be ready to engage wherever customers are, whether on mobile devices or in stores, and staffing styles should match shoppers’ needs. Segments such as home improvement will tightly integrate home-installation services with improved last-mile customer service levels. Retailers need to consider cost-effective ways to remove barriers to convenience; for example, rather than staffing each store floor with highly trained associates, businesses can explore the option of a centralized team that supports multiple stores through kiosks.

QUICK TAKE

Artificial Intelligence as Your Proxy?

Amazon has built Alexa to be a virtual assistant to answer questions and direct users to whatever they need. Over time, virtual assistants will become “smarter” and embedded with even more artificial intelligence (AI) to understand what users need and provide it. However, Amazon’s initial efforts are largely for the company’s benefit, with customer needs a distant second.

Imagine instead a virtual assistant that works in the interest of consumers. Third-party applications might include fee-based options that find the best deals, merchandise and services according to each customer’s criteria, be it price, availability or preferred brand. The app would interact with e-commerce and mobile commerce sites or even other companies’ AI services on behalf of the customer.

We foresee company-agnostic AI devices holding broad appeal for consumers who feel trapped by captive assistants like Alexa. Independent bot companies are already at work on next-generation bots. (For more information, read our report “[The Chatbot Imperative: Intelligence, Personalization and Utilitarian Design](#).”)

- 4. Consider subscription-based models.** Such models are fueled by personalization. Investigate the feasibility of packaging curated products based on customer preferences. For example, apparel retailers might offer regular deliveries of items from shoppers’ preferred clothing lines. A home improvement store that serves suburban communities might offer monthly delivery of seasonal lawn and garden products. The challenge for subscription models will be getting the demand signal right on when to replenish.
- 5. Build a solid omnichannel foundation.** People and processes are just as vital as technology in supporting omnichannel retail. The first step in building a foundation that suits customer needs is understanding the service levels they expect. For example, compare customers’ expectations for delivery of online orders with your own delivery benchmarks. How long does it take to deliver to a store or customer home?

Most retailers are striving to close the expectations gap between them and their customers, and that starts with accurately tracking inventory across the customer supply chain. Omnichannel depends on new capabilities, such as reserving inventory when orders are placed, and well-defined processes to manage in-store fulfillment. For example, are there assigned physical places for in-store deliveries to be picked and gathered? Is there a clearly signed staging area where customers pick up their orders? It’s also vital to define key metrics and how your organization will measure them.

- 6. Use analytics to extract insights.** Analytics is about looking ahead, not behind, and that starts with questions. Retailers should pose precise queries regarding customers and their shopping experiences, and then see if the data supports their hypotheses. They need to be prepared to fail fast: The data - including online reviews and store feedback - will likely challenge long-held assumptions. Retailers may find they need to return to the drawing board, as the issues that matter to shoppers don't always align with merchandising plans.
- 7. Prioritize and modernize your supply chain.** Retailers need to understand service-level expectations by channel. For example, if customers expect next-day delivery, they need to examine how inventory is deployed and whether they can support the expected service levels. In the end, organizations might find that the cost to maintain certain service levels is too high.

To keep up with customer expectations and reduce costs, retailers will also need to modernize the supply chain to accommodate large-scale picking of individual pieces rather than cases and pallets. Many retailers still rely on outdated or homegrown systems. How will your organization set up its warehouse to accommodate the growing number of small e-commerce orders? Has the warehouse management team allocated space wisely to accommodate it? Has it leveraged automation to minimize labor-intensive aspects?

FOOTNOTES

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ACKNOWLEDGMENTS

The authors would like to thank the following from Cognizant Business Consulting's Retail Consumer Goods Practice for their valuable contributions to this paper:

Ramkumar Kannan
Joydip Lahiri
Steven LaSchiazza
Suhel Mukherjee
Jacob Roth

Aditya Singh
Anukriti Singh
Caroline Styr
Sivakumar Venkataramani
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