

# DRIVING FORCES

The trends that are redefining retail

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# Summary

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September 2017

The themes we put forward as critical to retail in 2017 are:

## **The next generation of consumers**

The 20-year history of ecommerce has seen shoppers evolve, first buying online and then via mobile devices. The upcoming generation of shoppers has never known anything different from this. Now it's a question of attitude, as consumers look towards retail that reflects their values as well as their lifestyles.

## **Putting the customer at the heart of the retail business**

The customer is now more important in retail than ever before and understanding their behaviour is key for retailers and brands looking to satisfy their needs. Traders from House of Fraser to Shop Direct and Asos are interrogating their data in order to gain insights into the way shoppers buy, and want to buy.

## **Rise of the machines: from AI to robots**

From drones to chatbots and from robot warehouse helpers to automated delivery drivers, traders are enlisting the help of machines to help meet the scale of shopper demands. These solutions are also moving towards enabling the personal approach that educated consumers now expect.

## **Brands reinvented**

Brands are moving away from their original role of suppliers to retailers in order to now sell direct. In doing so, they're responding to consumer pressure but also gaining the chance to learn from and answer customer demand. Selling direct brings significant logistical challenges, while also offering enormous opportunities.

PFS is a global commerce service provider of solutions including digital strategy consulting, digital agency and marketing services, technology development services, business process outsourcing services, and a complete omni-channel technology ecosystem. The company provides these solutions and services to major brand names and other companies seeking to optimise every customer experience and enhance their traditional and online business channels.



# Introductions



**Chloe Rigby**  
editor,  
[InternetRetailing.net](http://InternetRetailing.net)

## Opening the conversation...

**W**elcome to the first edition of *Driving Forces – the trends that are redefining retail*.

This InternetRetailing white paper, published in association with PFS, steals a march on the traditional January rush of new ideas for the year ahead. We think that September, when retail executives and planners are back at their desks feeling fresh after a relaxing summer, is the best time to start considering the key ideas of 2017 that will still be primary concerns for the retail board in 2018.

We're pinpointing current trends that we believe multichannel retailers will want to consider in a calm and measured way well ahead of next year. It's worth remembering here that some trends aren't trends at all, just ways of doing business. Both ecommerce then mobile were trends in their time until they became business as usual. That's why we're looking for similar trends that are worthy of long-term executive focus.

This year, we're looking at the next generation of consumers and what customer-centric retail means in practice. We're considering the rise of the machines, from AI to robots, and we're also analysing the way that brands are continuing to reinvent themselves as retailers.

We hope to return each year with a similar look ahead to the future, in which we take a long, hard look at the newly emerging ideas that are having an effect on the ways that shoppers buy and retailers sell. We'll then weigh them from different perspectives to judge their impacts.

In this coverage, we've enlisted expert contributors from across the InternetRetailing stable of magazines and websites, as well as the professional opinions of PFS. We'd also welcome your thoughts as we both reflect on the trends that we've singled out here and as we look ahead to developing our analytical approach in years to come. Please do get in touch. ●



**Stephanie Raven**,  
content marketing  
strategist, PFS

**T**echnology and consumer behaviours are evolving simultaneously and the result is that we have customers who are increasingly harder to win, easier to lose and more demanding on user experience. Social selling, artificial intelligence technology, personalisation, mobile first design, big data, conversational commerce... the list goes on. With so many new trends and innovations to consider, it can be hard for brands and retailers to remain focused on the wider picture – on what really matters – when creating their business strategy, and not get

caught up in the marketing speak and countless retail buzzwords. This white paper focuses on four overarching retail advancements that are steadily driving change in the industry, including that of the customer being so much more at the centre of business strategies. Now is the right time for retailers to rethink or fine-tune their strategies accordingly to ensure they remain ahead of the curve. ●

**PFS**  
[www.pfsweb.com](http://www.pfsweb.com)

# Next-generation shoppers

*The consumers of the future will make very different demands of retailers, writes* **Chloe Rigby**

**F**orward-thinking retailers are already considering what the next generation of consumers will demand of them. Being ready to meet their expectations will give these businesses an advantage in the decades ahead as they develop and maintain brand awareness. Younger and more affluent shoppers have generally led the way in shopping online: by 2008, according to ONS figures, 72% of shoppers aged 24-35 bought online. That's since risen to 89% in this age group. Enthusiasm for technology and new ways of browsing and buying have been highly influential here. Now, people of all ages use the internet to access goods, with, says the ONS, 75% of those aged 55-64 now shopping online. The transparency made possible by innovations such as online price comparisons means that shoppers of all ages are now confident enough to regularly go online to buy in a convenient and cost-effective way.

Today, conversion is less about technology and access (90% of the UK adult population has the internet at home, says the ONS), and more about behaviour and expectation: we buy online if the goods meet our needs and can be delivered in ways that fit around our busy lifestyles, for a reasonable price.

What's most interesting about the upcoming generations of consumers is that they defy simple characterisation. There's been much talk about the millennial shopper - loosely, aged between 22 and 37 - and its Generation Z counterpart, now starting to come of age, and how these new and emerging groups will expect to buy. The argument runs that these are the shoppers of the future, who were never consumers in the years before the internet, so they now simply expect to shop seamlessly across channels.

But 'millennial' and 'Generation Z', we'd argue, are psychographic rather than demographic descriptions of these consumers. To understand how they want to buy, we need to think about the characteristics of their consumption rather than their socio-demographics. Authenticity, transparency and the experience are emerging as important issues for these consumers. Networks are important too. These shoppers are used to planning and documenting their lives over social media, so recommendations are important. Mobile phones have always been important but what's changed is that everyone now uses them as shopping tools without hesitation.

So what does this all mean for retailers? It's important to be an authentic trader that's consistent across touchpoints, whether that's the mobile phone or the store. Now that all retailers are doing ecommerce, it's important to stand for something that resonates with the next generation of shoppers. Just as price has become transparent and easily checked, so too has other information. Ethical questions have been raised about the materials and labour used in industries from fashion to smartphones. Now retailers must state how they plan to act against the risk of human slavery in their supply chains, while traders such as Apple now offer even more detail about the way they source materials.

Satisfying the next-generation shopper may well be a question of attitude. Those retailers that are open and lead with their values will win the loyalty of emerging groups of shoppers as the market in which they operate becomes ever more competitive. ●



### Stephanie Raven

Content marketing strategist, PFS

Let's shift our focus to the newest wave of consumers – Generation Z. The sheer amount of technology available to them while growing up is actively shaping their current and future consumption habits, which are set to become tomorrow's reference in retail. Through their ample use of all these technologies, their social media fluency and overall digital know-how, this generation has developed high expectations that retailers need to meet – and fast. Please them and you'll please everyone. But how?

Gen Zers don't want to just buy a product or service – they value the overall experience. They view shopping as a fun activity, not a necessity, so they want it to be smooth, meaningful and exciting. It's all about 'me' for this generation, which is not necessarily a negative but does mean that brands and organisations need to work harder to understand their interests, hobbies and goals, before delivering custom experiences. Just as their own digital and physical worlds are entwined, Gen Zers expect the same of their shopping journey, which is why making that experience consistent across all channels is important.

As smartphones become their primary entertainment hub and digital tool for social interaction as well as for purchasing, brands that communicate through mobile and social media will find it easier to engage with this target audience. Gen Zers value their time and convenience, so will move on quickly if they find that a site isn't mobile optimised, user-friendly, or easily navigated. What's more, with their constant connectedness, they are accustomed to consuming large amounts of media from multiple touchpoints, so providing engaging content is king when selling to this generation.



### Paul Skeldon

Mobile editor, InternetRetailing

The interesting thing about the next generation of consumers is that they are, well, everyone.

There has been much talk about the various tribes of shoppers and, in particular, about the impact that millennials and Generation Z are having and will go on to have on retail. But this is somewhat misleading. While millennials are certainly changing how people shop, that change is now sweeping through all age groups. Millennials were merely the vanguard.

Research by online smartphone retailer Mobiles.co.uk found most over-50s use their smartphone every day, for purposes that include shopping and social media. Indeed, only over-70s show low confidence in such devices.

But what of the over-35s to 50s, the so-called Generation X? While they may have slightly different generational demands on retailers ethically, they are the sweet spot. They are, perhaps more than their younger counterparts, drawn to personalised interactions, marketing messages and engagement and are driving much of the consumer keenness for AR, VR and mixed reality. And they have more money to spend – not just on the mobile and home tech gadgetry that will drive ecommerce, but on goods and services too. According to an Ovum earlier this year, Gen X account for 'at least 30%' of mobile commerce but they spend disproportionately more. In contrast, Klarna research finds millennials experience higher levels of anxiety, impulsiveness and impatience than their older counterparts, with two-thirds (68%) reporting excitement when adding items to their online basket. But 52% of millennials then decide they can't afford the purchase during checkout, and one in five abandons for this reason.

## Trend one: the future customer



**Liz Morrell,**  
Editor, eDelivery.net

There's one thing that is certain about the next generation of customers and it's that they are demanding. Their expectations are higher than any generation of shoppers ever has been because they have grown up with some of the most rapid change and most exciting innovations the retail industry has seen.

Theirs is an 'I want it now' philosophy which they want satisfied at any cost – as long as that cost isn't one borne by them. Research by NetDespatch in 2016 showed that one in six millennials wanted the fastest delivery and the option for same day delivery on their purchases. They don't want to wait. They want convenience and choice and are not afraid to go elsewhere if that's not being offered.

This is especially important when it comes to delivery of their goods. For a generation that has grown up with delivery boundaries pushed ever further by the likes of Amazon, simply being offering a standard delivery that will take a few unspecified days is practically antiquated, while the idea of delivery by drones – a seemingly far-fetched concept for many of us – is for them just a natural progression of the industry.

It's important therefore that retailers do all they can to satisfy this need for speed and convenience among their next generation of customers when it comes to their delivery offers. They must offer a range of services – from delivery to click and collect – but they must also appreciate the value of newer services, such as subscription-based delivery services. These are already used by retailers such as Boohoo and New Look, who sell primarily to millennials. For the shopper, this can satisfy completely their need for convenience as well as offering great value for money.

But this is also a generation that has more of an ethical focus than ever before. Retailers have offered greater transparency into their supply chains but the last mile is becoming a more important focus too. It doesn't stop with the goods getting to their door. The next generation of customers want the same flexibility and choice around their returns too.

### Useful links

- **The ONS on the changing behaviour of shoppers, thanks to growing internet access** (<http://internetretailing.net/2017/08/changing-behaviour-uk-online-shoppers-changed-since-2008/>)
- **How millennial and Generation Z online shoppers differ** (<http://uk.businessinsider.com/millennials-vs-gen-z-2016-8/#teens-are-even-more-frugal-than-millennials-but-in-a-different-way-1>)
- **What retailers are doing to target Generation Z** (<https://www.econsultancy.com/blog/68554-how-retailers-are-targeting-generation-z>)
- **The Generation Z marketing conundrum** (<https://hbr.org/2015/05/how-to-market-to-the-igeneration>)

### In summary...

Speed and convenience are as important as ethics and transparency for an emerging generation of consumers. But as more people of all ages go online to shop, it's also vital to consider changing attitudes and expectations across the age spectrum.

# Customer-first thinking

Retailers that look hard at how their customers shop can find ways to improve the experience, writes **Chloe Rigby**

Putting the customer at the heart of retail. While it's certainly an overused phrase, perhaps that repetition reflects a real need for retailers to learn from their customers as they seek to offer them the cross-channel experience and services they want. Right now, every category is becoming more competitive as more traders, including new international entrants to the market, sell online. Gaining a real understanding of what shoppers want – and delivering on that demand – can be a point of differentiation, and one that gives a much-needed competitive edge.

Traditionally, retailers found out what their customers wanted by asking them, whether that was through surveys, in-store conversations or, more recently, through focus groups. All of these continue to play an important part today but digital has given traders new tools for their work of understanding the customer as part of the crowd. They can now look at the data, using tools such as analytics and by gaining insights through the single customer view, tracking multichannel journeys, to find out not what a few shoppers think about the experience, but what shoppers really do, and at scale, when they visit a store or website.

Retailers that have asked strategic questions in this way have gained real advantages over their competition. House of Fraser, for example, kept a keen eye on its mobile and desktop visitor figures and, as a result, was able to move quickly and ahead of the competition to mobile-first design when traffic from mobile devices overtook that of desktop during Christmas 2013. Their new website, launched in 2014, was a first in the competitive UK department store sector and finally put House of Fraser on the front foot, after the company's initially slow response to multichannel retailing. Today, mobile-

first design is commonplace, yet House of Fraser continues to benefit from its early move in this direction, continuing to build on its advantage with a mobile app that consistently outperforms in IRUK Top500 research.

Last year, Shop Direct looked to customer data to create a new 'hero' brand for a core group of customers. The V by Very womenswear collection drew on customer insight to target 25 to 44-year-olds with relevant styles, rather than relying on trends seen on the catwalk. At the time, the retailer described its approach as a "data-driven fashion brand that would be truly relevant" for its customers.

It might seem to make common sense for retailers to rationalise their stores in the light of online after growth but retailers from Argos to Pets at Home look to their data in order to be able to see the importance of stores to their multichannel businesses. Pets at Home said recently that 60% of its omnichannel sales involved a store or help from a member of staff, and that those omnichannel sales grew by 80% in the first four months of its financial year. Argos has previously and repeatedly said that 90% of its sales involved a store at some point, even as it made transactions worth more than £1bn via mobile devices.

Just this summer, Asos used its understanding of how its shoppers were buying from it – 80% of traffic and 70% of orders are via mobile – to add visual search to its iOS app, a move designed to make it easier for shoppers to act on inspiration. At the time, Asos digital product director Andy Berks said that its innovation-driven technology approach had always been in the service of customers "and never just for its own sake".

That's an important point. Investment in technology costs money. Ensuring that this expenditure is well directed is all about a real understanding of what customers want. ●

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## Trend two: the shopper-centric experience

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### Emma Herrod

Editor, InternetRetailing Magazine

How shoppers behave online does not always align with what they believe they do and the things that influence their purchasing decisions are not necessarily factors that their conscious mind has registered. Ask someone what has influenced an impulse purchase and they may simply say that they saw the item in a magazine and liked it. What they haven't registered is your retail brand's billboard advert which they pass every day, the similar item they saw someone wearing on the Underground on their way to work that morning or the email showing the item as they deleted it from their inbox.

The same is true when looking at a product page online. Does an individual customer look at the price, product image or description first and which do they spend the most time looking at? Does it consciously matter to them if the buy button is rectangular or has rounded corners – and what impact does this have on whether or not they buy the item?

In order to optimise every aspect of the digital experience, retailers need to understand their customers even better than they know themselves. Technology, user experience labs and continual testing are enabling retailers and brands to truly understand their customers, how they act on the surface, how their mind works and even the smallest changes that will turn a browser into a customer and a customer into a brand advocate.



### Stephanie Raven

Content marketing strategist, PFS

Because customer-first thinking is becoming a standard in retail, the consequences of not getting it right are huge. Shoppers nowadays click, buy and then expect to have merchandise in hand the next day – if not sooner. At PFS, we call this 'click and expect'.

Retailers are striving to provide consistent and convenient journeys that meet the needs of their customers but the reality is that they are often faced with a lack of integrated technologies – meaning there's not much of a joined-up approach to clicking, picking and packing their orders.

This is mainly due to the presence of legacy systems involving multiple partners and suppliers, where channels are not connected and customer-facing systems can't talk fluently to back end technology, impeding effective order management and efficient fulfilment.

A successful customer-centric strategy is one that is driven by data all the way through. At the end of the day, it's all about engaging customers, which you can only do if you have a holistic view of your customer's journey through the collection of accurate, comprehensive and up-to-date data at each touchpoint. The key is to then identify any gaps to success and determine where you have a compelling offering.

With a clear vision of their buyers' behaviour and an understanding of why some needs are not being met, retailers are able to make more informed marketing decisions and optimise their strategies for a flawless execution of click and expect.





**Liz Morrell,**  
Editor, eDelivery.net

Once upon a time, not so long ago, it was the retailer that dictated what customers would get and when they'd get it. This confidence was largely thanks to a lack of competition. But no more.

Today, a huge corporate retailer can be threatened by the tiniest of online rivals, if that rival is doing a much better job of serving the customer than they are. Retail has become customer-centric rather than retailer-centric.

Customers will make their voice heard when they are not satisfied and especially so in sometimes controversial areas such as delivery, where they have little patience or understanding of how and why things can go wrong. Numerous studies have shown that customers will quickly shift their allegiance from a brand that gives them a poor delivery experience to one that delivers what they want, most importantly when they want it.

Listening to the delivery services your customers want today is vital. Look at your peers but look too at what your customers are demanding and whether this is something you can deliver for them – whether that's a same day offer or greater click and collect options. If you aren't able to offer the range of services they want, the chances are that they will start to shop elsewhere. Get that experience wrong and if you don't deal with your customers honestly and openly with regards to any problems, the fact is you're likely to lose them. It's a risk you simply can't afford to take because the customer voice is the strongest it has ever been.

### Useful links

- **Andy Harding, then of House of Fraser, tells InternetRetailing about the department store's move to mobile-first design** (<http://internetretailing.net/2014/02/interview-andy-harding-of-house-of-fraser-on-the-retailers-new-mobile-first-website/>)
- **Very.co.uk learned from customer data to find out what shoppers wanted from a new fashion brand** (<http://internetretailing.net/2016/06/co-uk-looks-data-customer-insight-fashion-label-brand/>)
- **PFS's Paul Lynch on the culture of 'click and expect'** (<https://www.raconteur.net/sponsored/mastering-the-culture-of-click-and-expect>)
- **Pets at Home on the importance of the store to its omnichannel success** (<http://internetretailing.net/2017/08/pets-home-emphasises-importance-store-omnichannel-retail/>)
- **How Asos customers can now use visual search to find the item they're looking for** (<http://internetretailing.net/2017/08/asos-customers-can-now-use-visual-search-find-product-theyre-looking/>)

### In summary...

The most responsive retailers are putting the future of shopping into the hands of their customers. They develop innovations to meet customers' demonstrable needs. That makes sense in a competitive, connected world, where the way shoppers actually behave, rather than how retailers imagine they ought to behave, will provide a fast track to success in selling both online and across all the channels that shoppers now use.

# Rise of the machines

*More retail businesses are turning to robots for help, writes* **Chloe Rigby**

**F**rom drones to chatbots and from robotic warehouse helpers to artificial intelligence, there's been a step-change in the use of intelligent machines in UK retail businesses over the last couple of years.

Robots are being put to work in many different areas of business but some common themes in their use are to improve customer service and to make fulfilment and delivery more convenient.

Technology pioneer and online grocer Ocado is now using robots in both fulfilment and call centres. An army of small robots enables automated picking and packing, while it is working towards the development of a much larger SecondHands warehouse assistant, that will ultimately take the load in lifting and carrying goods. In its call centre, artificial intelligence (AI) is helping staff to deal with customer enquiries. Machine learning is used to sort and prioritise incoming messages for human staff to deal with. The retailer has said that its aim is not to take away jobs from humans but rather to ensure the jobs its staff do are the more interesting ones, in this case removing the need to manually sort through communications so that call centre staff can focus instead on problem solving. Nonetheless, it's predicted that machines will replace staff in many parts of retail over coming years.

Fulfilment use cases also include department store John Lewis' automation of its warehouse and online giant Amazon's work to develop, with the support of the UK's Civil Aviation Authority, drones that it plans will deliver lightweight goods over short distances.

In customer service, online department store Shop Direct has introduced a virtual assistant chatbot to its fashion brand Very's mobile app, which uses machine learning to answer shoppers' questions around orders and payments. It is now working with IBM Watson to develop ways of offering personalised recommendations.

That's a theme also being explored by Net-A-Porter, which is working from tech centres in London and Italy to put AI to use in areas ranging from individual, machine-driven fashion recommendations to natural language search. Further afield, Amazon has experimented with automated payment in its till-free Amazon Go store in Seattle.

Retailers are largely using machines in ways that will help them to deal with the sheer scale of customer demand and expectations. Robots of all types will ultimately help retailers move towards ever-more immediate deliveries, and to ensure that no enquiry goes unanswered.

The indications are that more retailers envisage using such approaches in the future. An IMRG Benchmark study from May 2017 found, for example, that 52% of fashion retailers planned significant investment in AI in the coming year, while a further 19% planned to follow suit in the following 12 months, with merchandising and personalisation their priority areas. Fewer than a third had no plans to use AI in merchandising at all.

If retailers are to hand over large parts of their workloads to machines, it will be important that what they do works properly. We know from past experience that recommendations are only any good when they are truly relevant. Using machines of all types to deliver on the customer experience and in customer service must meet and exceed already high expectations. It will be important to identify potential use cases and problems that robots might solve in a business, before tailoring those solutions to meet the needs of the business. While some retailers such as Ocado, Amazon and Net-A-Porter are developing their own solutions in dedicated technology divisions, we predict it's likely that many more will be working closely with specialist technology suppliers in order to find what will work for them. ●



**Stephanie Raven**

Content marketing strategist, PFS

The focus on customer experience is driving change in retail, with one of the results being the regular introduction of technology as a way to improve the purchasing journey. This isn't about how cutting edge those technologies are, it is about how well they benefit the customer. The latest trend to emerge is the use of intelligent machines as part of this commitment to an easy, fun and valuable experience.

'Conversational commerce' is the perfect example of how technology is becoming more deeply woven into our lives and affecting the way we interact with brands. The term, first coined by Uber's social technology expert Chris Messina in 2016, can be loosely defined as the intersection of brands, bots, apps and AI, where messaging is no longer just a communication tool but a transactional one as well. Conversational commerce promises a more convenient interface for customers and deepens brand relationships with their audience. With increasingly human-like features such as personalities and language adjustment, messaging apps will be viewed more and more as a fun, friendly way to connect the day-to-day activities of life to commerce.

What's more, with logistics playing an increasingly important role in differentiating a great retailer from their competition, it's no wonder we're seeing businesses experimenting with AI and other advanced robotic technologies in the supply chain as ways of reducing costs and improving efficiencies.

As the industry matures, artificial intelligence will bring huge commerce opportunities to retailers in the years to come and truly change the customer experience. That said, success with these initiatives will depend very much on the quality of execution by each individual retailer and their ability to adapt to this changing environment.



**Paul Skeldon,**

Mobile editor, InternetRetailing

Consumers today expect an ever-more personalised experience when interacting with brands and retailers. The challenge for retailers is how to do this at scale. This is why machine learning and artificial intelligence (AI) are on the rise across the entire sector.

Personalisation is driven by data and, thanks to smartphones and the growing digital footprint of every person out there, most retailers are currently already awash with data. Their problem is how to handle all this data for hundreds, if not thousands, of customers, work out what it all means and find trends, groupings and all the other things it can tell you.

This is where data processing machines come in and where AI is increasingly being seen as the way to monetise data and, from this data, deliver personalisation at scale.

But what AI can really deliver in the personalised world is the subtlety that transforms today's rudimentary engagement from creepy to perfect.

According to research by the Direct Marketing Association (DMA), what consumers want is technology that not only acts on their historical data but which also 'understands' them. Its latest research shows that 28% of people are interested in a service that detects how they are feeling and send them surprise offers or deals based on their mood.

"Current engagement methods often seem clumsy, like 'brand stalking', where items follow a consumer around on web banners," says Rachel Aldighieri, DMA MD. "Instead, consumer data could be used in virtual or artificial intelligence systems."

Adding the almost human element of mood reading through the power of AI is set to transform how retailers interact with consumers. In many ways, it is the next big leap forwards in technology that our industry demands.



**Emma Herrod**

Editor, InternetRetailing Magazine

Machine learning, AI and chatbots have taken over the column inches from big data. From collecting data into a single repository, retail has moved on to being able to draw insight from omnichannel customer data, products, sales and behavioural information to now enabling machines to act on patterns from an ever increasing amount of data.

On one level, AI and machine learning can reduce the monotony of tasks, enabling people to take on more creative or business-leading aspects. They can also optimise processes such as predicting where products should be located. Ocado, for instance, utilises AI to decide on the location of fast-moving goods at a manual pick face.

Alex Alexander, CIO of luxury retailing business Yoox Net-a-Porter Group believes that AI is set to transform retail. He says, “Every decade, there is a game-changing technology which comes to the landscape. I see AI as one of those game changers which will help us give our customers a personalised experience – not looking at customers as a segment but at each one as an individual.”

The group has envisioned a number of uses for AI, including returns optimisation, pricing optimisation and more targeted marketing. Its goal for this year is to focus on natural language search.

Speed is where machine learning and AI have the advantage over the human brain in that patterns can be seen, decisions made, impacts analysed and actions taken far faster than we could ever be able to do. Understanding how to set the rules for the right outcomes will be key to the machine-enabled future.

## Useful links

- **How Ocado is using technology to disrupt retail** (<http://internetretailing.net/issue/internetretailing-magazine-march-2017-issue-63-irm63/ocado-disrupting-technology/>)
- **The technologies reshaping retail this year** (<http://www.retaildive.com/news/5-technologies-reshaping-retail-in-2017/433954/>)
- **Amazon lands its first drone delivery – in the UK** (<http://internetretailing.net/2016/12/amazon-lands-first-drone-delivery/>)

## In summary...

Retailers are still in the discovery phase of machine learning and robotics. They're working out how automation can help their businesses to better serve the customer. It's important to get this right by taking it slowly and finding the correct solution, rather than rushing to automate and adopting technology for its own sake rather than for the sake of the shoppers.

# The reinvention of brands

*Selling direct means new challenges, and opportunities, for brands, writes* **Chloe Rigby**

**T**he way that brands sell is changing rapidly under the twin influences of fast-developing retail technologies and evolving customer demand. Now that it's possible to buy directly from a brand via the shopper's sales channel of choice, be that a store or their smartphone, customers increasingly expect to have the opportunity to do so.

Apple was one of the first of today's mega-brands to sell online. It launched its e-store back in 1997 and by 2002 had already completed a million transactions through that channel. The brand has been a trailblazer in selling direct to customers, with whom it's forged a close relationships.

It's an approach that more brands are now adopting. Like Apple, each one stands to benefit from direct relationships that give them valuable insights into customer buying habits and preferences. The customer insight, indeed, is arguably much more important than the extra sales, which may only be incremental.

For what customers want more than anything is choice, whether that's to buy a brand direct from its own website, via a marketplace or from a third-party retailer. They want to buy the brand that they like in the way that is simply the most convenient for them and each of those customer touchpoints can form an important source of brand sales, in a multichannel world. InternetRetailing has previously reported how Lego, for example, seeks to ensure its customers enjoy strong service whether they buy its products via its own website, via its own stores or via third-party retailers.

Just as brands are now selling direct from their own websites, brands that previously sold predominantly online are now also selling in

stores. Boden, which operates one shop of its own, built its name first through mail order and more recently by selling online. From this autumn, it will be selling via five John Lewis department stores, with plans to expand that reach over the course of 2018. For Boden, this represents an opportunity to put its wares before new shoppers while also giving loyal customers the chance to touch, feel and try in a store before they buy. For John Lewis, it's a chance to give its customers brands that they can't find elsewhere on the high street.

Whether brands are moving online or in-store, this cross-channel move opens up opportunities to find new customers from different sources. But changes in the way they sell will inevitably bring with them a whole new set of challenges.

Logistics, for example, will suddenly need to change dramatically. Brands used to supplying to stores or wholesale will find that supplying single items direct challenges their existing organisation. This may not be an issue for some, where volumes remain small. But once direct sales become significant, there will necessarily be a reworking of the way operations are organised. Some will outsource to a trusted supplier, while others will find efficient yet effective ways of handling fulfilment in house. The solution that works today will no doubt need to evolve over time, to meet the demands of a fast-moving environment, and to ensure that retail operations not only respond to customer demand but do so profitably.

In the end, change is inevitable. Brands are adapting to new ways of selling because technology has changed the way that customers think about buying. It's now vital that brands respond by changing the way they think about selling. ●

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## Trend four: the new retailers

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**Jonathan Wright,**  
Editor, InternetRetailing  
Top500 reports

There are moments when developments are underway that change an entire industry. The entry of brands into the direct-to-consumer space represents one of those moments for the retail sector.

To understand why, consider the nature of digital technologies that enable businesses to gather huge amounts of data about customers. Those in charge of brands fully understand this and they want access to this rich data, information that has previously been closely guarded by retailers. But how can brands get at this data? A simple first step is for them to set up their own website.

This doesn't necessarily mean that brands are going toe-to-toe with retailers in search of consumers' cash by setting up ecommerce operations. No, something far more interesting is happening. Many brands are primarily looking for ways to engage with consumers in order to learn about them.

The big picture also needs to take in technological developments. The Internet of Things (IoT) is opening up the possibility of all sorts of devices having an internet 'presence'. The long-promised era when your fridge automatically orders your milk really may be here at last. The sheer amount of data this could provide is leading to brands and retailers alike designing, for example, new kinds of offerings based around subscription models.

Should retailers be worried? Yes they should, although it's not all bad news. We're entering an era when brands and retailers will both compete and cooperate, sometimes sharing information, other times going toe-to-toe. In a world of 'coopertition', the notion of what constitutes retail will change. The businesses that prosper will be those that embrace this idea. Forward-looking retailers, with their access to rich customer data, are at least as well placed to do this as brands.



**Stephanie Raven**  
Content marketing  
strategist, PFS

Brands need to reinvent themselves if they wish to excel in the digital age. The goal is to communicate successfully with a whole new generation of consumers who are going after an all-encompassing experience that goes beyond simply shopping into engaging with their favourite brands.

Take brick and mortar stores, for instance. In the UK, ecommerce growth has been deemed the cause of a 4% reduction in footfall on most high streets and malls – and the closure of many stores. The reason for this in many cases is that this channel, which is the most expensive for retailers to operate, is failing to live up to its customers' expectations. For this offline channel to survive, brands and retailers need to reinvent their in-store value proposition and spend time modelling the interaction to meet the connected customer experience. This can go from the increasing use of mobile devices by store staff – as a way of encouraging interactions with customers and to provide useful information on products, such as stock availability – to other initiatives by innovative brands such as Anya Hindmarch, who recently organised various pop-up events and dinners in its stores. They even had a sleepover for shoppers!

By focusing on creating positive customer experiences through all their channels, companies can turn their existing customers into brand ambassadors who do the selling for them. The answer therefore, is for brands to start revitalising their marketing strategy with activations to better engage their audience. Technology is set to play a major role in optimising the way brands market and sell their products or services. From AI and chatbots to apps and beacons that provide shoppers with information about the things they want to buy in-store, the ways that brands communicate to their customers are rapidly evolving.



**Ian Jindal**

Editor-in-chief,  
InternetRetailing

There's a longstanding competition between brands and retailers around awareness, availability and experience. Brands used to use marketing to drive awareness, the retailer controlled availability, and they largely neglected experience that wasn't at the moment of sale. The growth of brands selling direct has been a shock both to retailers and to brands. Brands benefit from top-down marketing where the customer now wants to go direct, but they are currently struggling to learn skills that retailers have honed over decades.

Retailers are struggling because they no longer control access to brands, and both are struggling with the consumer's demand for an improved experience before, during and after the sale. For retailers, this means knowledgeable staff, a focus on the selling environment, and on KPIs that aren't to do with the sale. For brands, it's about exhibiting a consistent, authentic behaviour that is less remote than that global single message advertising and starts being more local, relevant and appropriate to each consumer and their experience of the brand product. This means developing new retail experiences that focus on trying, understanding and even living with goods.

At the luxury end, brands are adept at clientelling one-on-one in the boutique. But now millions of customers want clientelling via social media. Brands are now having to invent and resource these new modes of behaviour.

Finally, brands also used to produce one product to suit millions. How do they now look at products, variation, localisation, segmentation and differential service as they get ever closer to their customers?

## Useful links

- **How Lego developed its omnichannel shopping experience** (<http://internetretailing.net/2016/12/irbx-consistently-awesome-lego-developed-omnichannel-shopping-experience/>)
- **Boden widens its presence on the high street, working with John Lewis** (<http://internetretailing.net/2017/04/boden-moves-widen-high-street-presence/>)
- **The millennial effect on brand marketing** (<http://www.socialmediatoday.com/marketing/how-millennials-are-changing-way-brands-market>)
- **How brands are using technologies from VR to AI to change the way they market** (<https://www.marketingtechnews.net/news/2016/oct/28/reinvention-brand-storytelling-vr-ar-and-ai-age/>)
- **Customer expectations of the store are changing** (<http://www.chainstoreage.com/article/store-experience-evolves-customer-expectations>)
- **Footfall down as ecommerce grows** (<https://www.theguardian.com/business/2016/apr/23/uk-high-street-spending-shoppers-slowdown>)
- **How the in-store experience is changing in a digital age** (<https://www.retailcustomerexperience.com/blogs/reinventing-the-in-store-customer-experience/>)

## In summary...

Brands are learning new skills as more of them move to to sell direct, both online and through stores. This is a development demanded by customers, but it's one that's forcing both brands and retailers to respond in new and often innovative ways.

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# Conclusion

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## Next step?

*The shopper will stay firmly in control, writes* **Chloe Rigby**

**T**he customer is the one who will always have the last word in retail. Even if the customer likes a product a retailer is selling, if they don't like the way they are selling it – that's to say, if delivery is inconvenient or expensive, the customer service is lacking, or product information and images are sparse, then they'll click away and shop elsewhere. But when consumers do adopt a new or emerging way of shopping, they change the retail environment for good. In recent years, we have moved first towards online shopping and then towards mobile – changing the way we shop, as a society. Both have made it easier and more convenient for customers to buy, while also making the process, from stock availability to price comparisons, more transparent.

It's not surprising, then, that the customer should be central to the big trends that we've identified in this white paper. Modern retail is just as much about the person as the product. It's about how people want to shop, and how retail can ensure that this will guide the future development of their industry in the coming years. We've written about the rise of the machines in shopping but even where these are in use, it will remain important to retailers to connect with shoppers in a very human way.

Brands, meanwhile, will see the shopper as a customer but also as an ambassador in years to come. The trends that we've focused on this year are ones that we fully expect to become ever more central to the way we all buy – and sell – in the future. We therefore hope that this report gives food for thought to everyone planning the strategies of their own retail businesses.

What's stood out for me is the sheer range of opinion that we've included. We've heard from editors across the InternetRetailing universe who have expertise in areas from strategy to delivery and mobile retailing. We've also heard from PFS, our partner on this report, that has a professional opinion on the way that retail is developing and how traders can stay ahead of that curve.

I'd like to take this opportunity to thank all of our contributors for the insights that they've brought to this white paper. We've opened a conversation that we want to continue. Get in touch and tell us what you think about our take on these trends. Are these the right trends? What should we look at in future? We always want to hear your feedback and thoughts. ●

### Let's talk

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**Email us:** [editor@internetretailing.net](mailto:editor@internetretailing.net)

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