

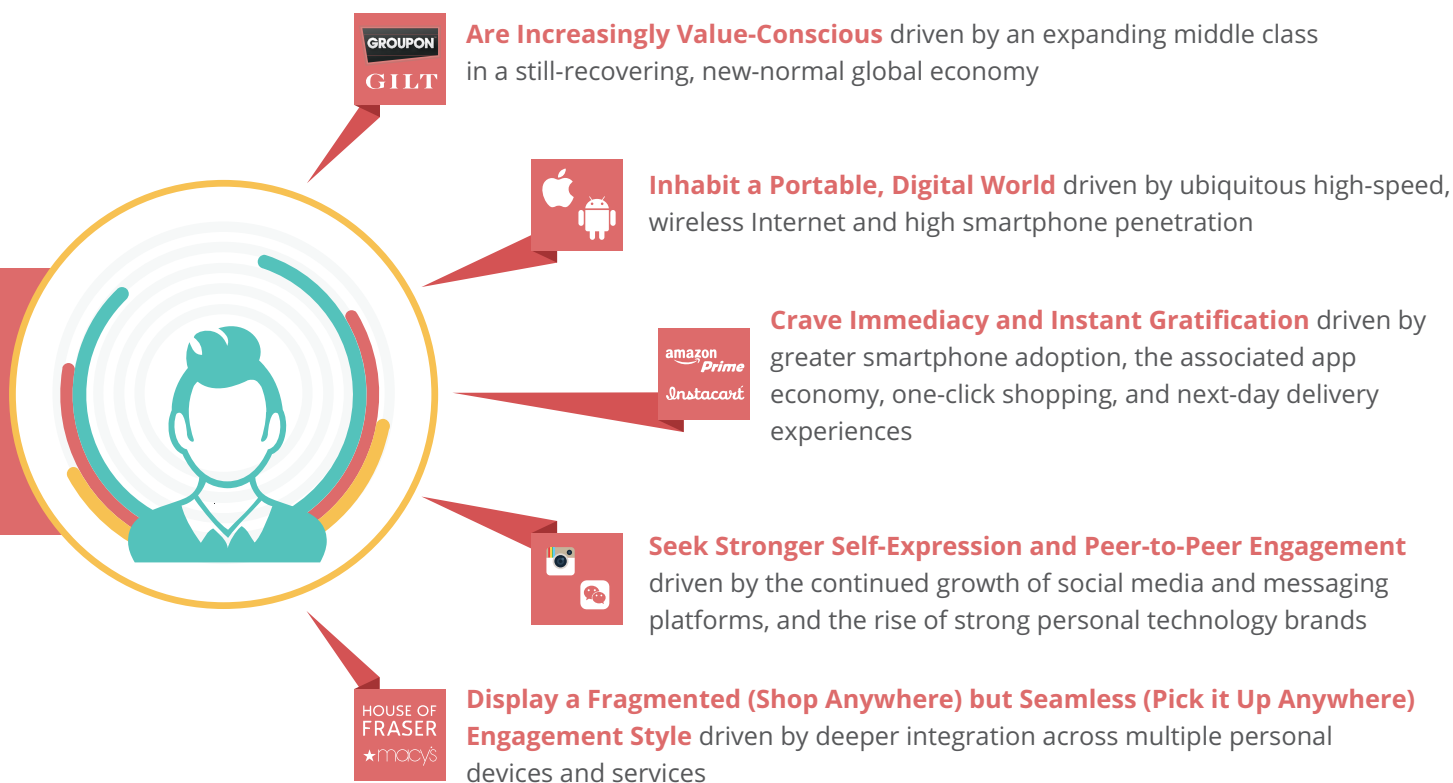
Democratization of Retail

Anytime. Anywhere. Unified.

Several disruptive forces are at work globally — fostering a new-age consumerism that is participative, fragmented and personal. The impact on retail is far reaching as the lines between commerce and engagement continue to blur, obliterating conventional practices and forcing retailers out of their comfort zone.

Democratization of Retail: *With seemingly unlimited access, knowledge and power, connected consumers dictate and control the terms of retailer engagement. In this distributed, disruptive and democratized operating environment, retailers must effectively extend their unique brand experience beyond their physical and virtual four walls to wherever and whenever consumers demand.*

From desktop to mobile, social media to call centers, stores to search, messaging platforms to catalogs, marketplaces to shared economy applications, consumers have a wider selection of retail channels and business models than ever before. This proliferation of consumer choice, combined with the following trends, is reshaping retail. Consumers:



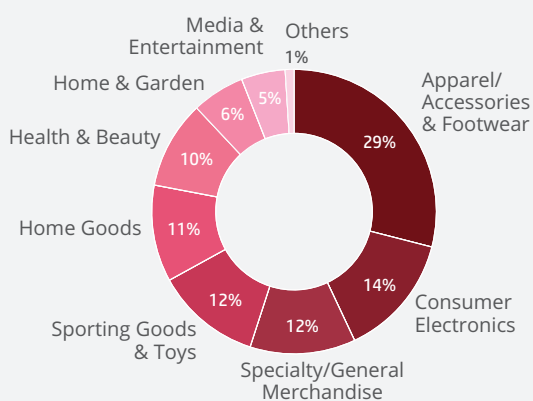
Retailers must also contend with how much of a departure this new reality of retail is from what their organizational fiber — a mesh of leadership culture, organizational structure, business processes and technology systems — is optimized for.

Moving products through the supply chain is muscle-memory for most retailers. Integrating new channels of engagement and commerce, at speed, at scale, isn't.

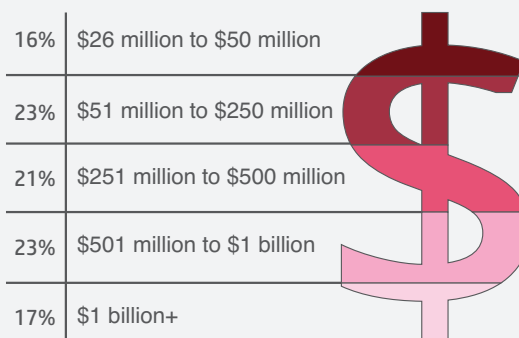
Through a collaborative global research initiative, EKN Research, Li & Fung Research Centre and Demandware set out to highlight the key forces disrupting retail, their impact on the retail business model, and the key capabilities retailers will need to thrive in the age of democratization.

Survey Demographics

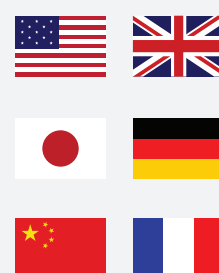
Distribution by Retail Format



Distribution by Revenue



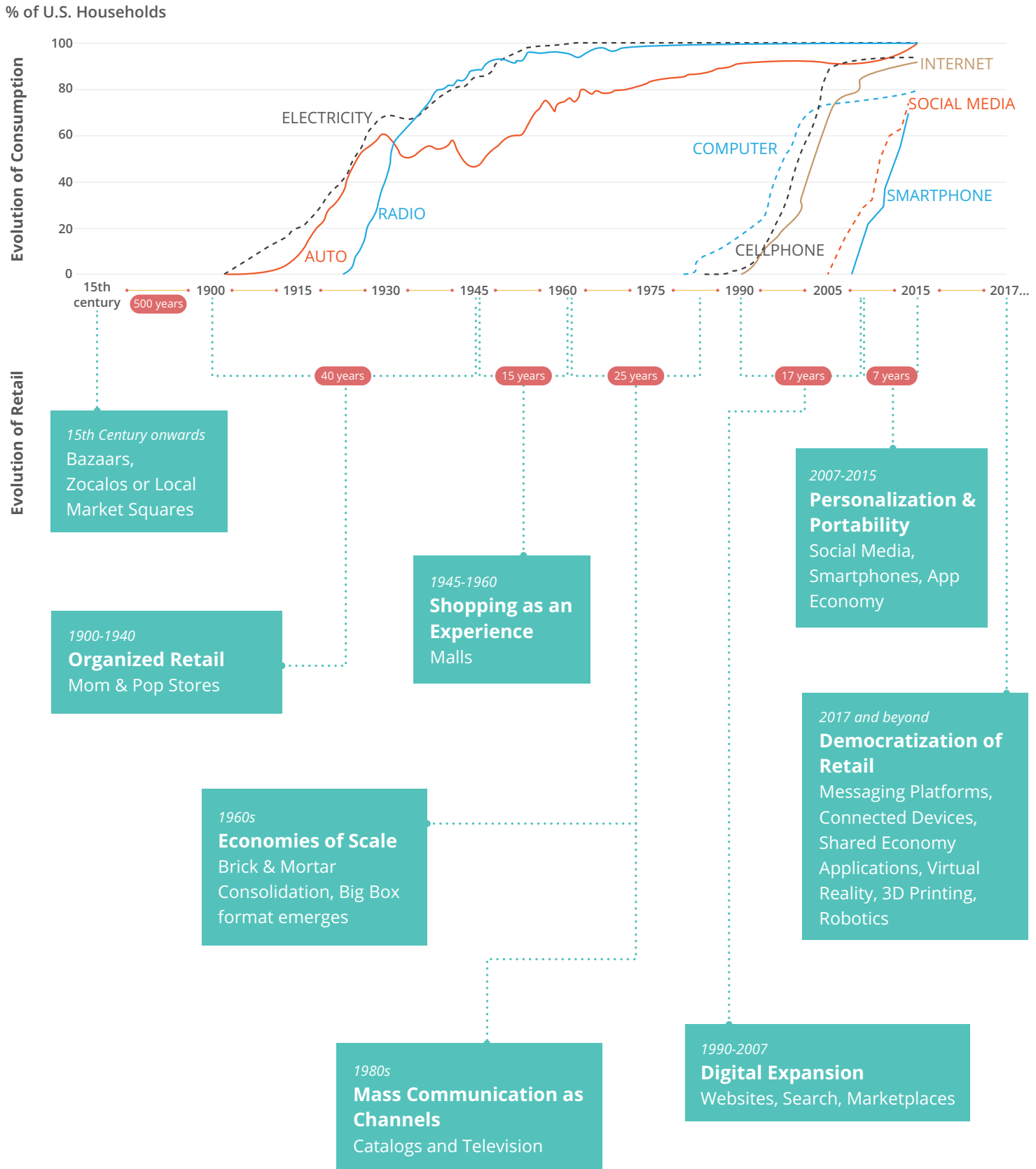
Countries Covered



The Exponential Rate of Retail Disruption

Not only is the scale of change massive; more people now own a mobile phone than do a television; it is occurring at an exponential rate: each wave of disruption — from the Internet to smartphones to social media — achieving mass adoption quicker than the one before it.

Retailers are faced with a humbling corollary of this phenomenon — even as they transform to catch-up with the forces in play today, tomorrow presents an even steeper curve. Those that build capabilities and competitive advantage early will hold a significant edge over those that play catch-up.



Sources: Evolution of Consumption Timeline, New York Times

Channel Interplay Trumps Channel Attribution

Share of revenue by channel or growth rates therein are currently the primary proxies for how important those channels are for a retailer.

For global brick and mortar retailers, the share of store revenue is projected to decline over the next 3 years, yet remain 80%+ of total revenue. Over the same period, online revenue is expected to grow 25% and mobile revenue 188%.

However, this channel-centric view of retail performance is fundamentally broken. It drives the sort of behavior that creates friction in the customer experience — from store managers opposing more space allocation for pick-up-in-store online orders to channels carrying separate inventory.

Growth isn't a zero-sum-game, nor is it the goal to grow a particular channel. Channel attribution is also an increasingly difficult distinction to make. What channel gets the credit if a customer buys using their mobile device while in the store? Or when they buy online but pick-up in-store?

Retailers will do well to get out of the “who gets the credit” business, and get into the “grow the overall pie” business. To do so, they must shift focus to measuring share of wallet and customer lifetime value.

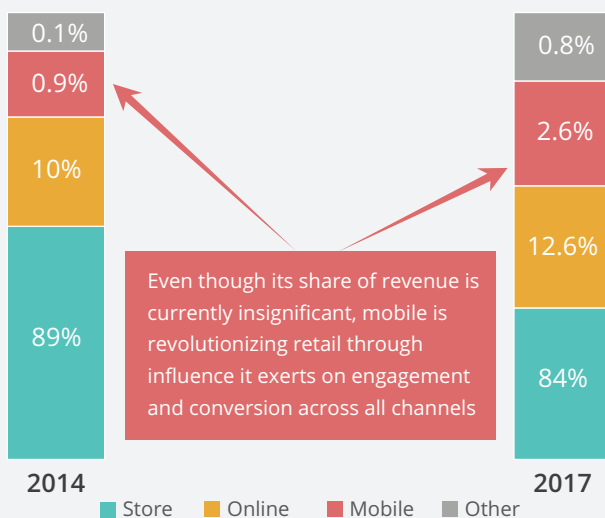
In the age of democratization, the role of channels is to provide seamless entry and exit points within an integrated and unified shopping experience.



Pier 1 Imports' omni-channel experience strategy continues to show strong results — online sales doubled year-on-year to 17% of revenue in Q1 2015. Over 60% of online transactions involved the store as an engagement channel, 36% of online orders were picked up in-store and another 31% were placed in stores.

Retail Channels—Revenue Contribution and Influence

Revenue Contribution by Channels



Note: Vertical bar chart not to scale



25%–50%

The average increase in basket size for US shoppers who use their smartphones in-store



15%

The share mobile commerce is expected to have of all ecommerce sales by 2017



Social media is now mobile-first and emerging engagement platforms are mobile only

- Facebook (32% desktop/ 68% mobile)
- Twitter (14% desktop/ 86% mobile)
- Instagram (2% desktop/ 98% mobile)
- Pinterest (8% desktop/ 92% mobile)

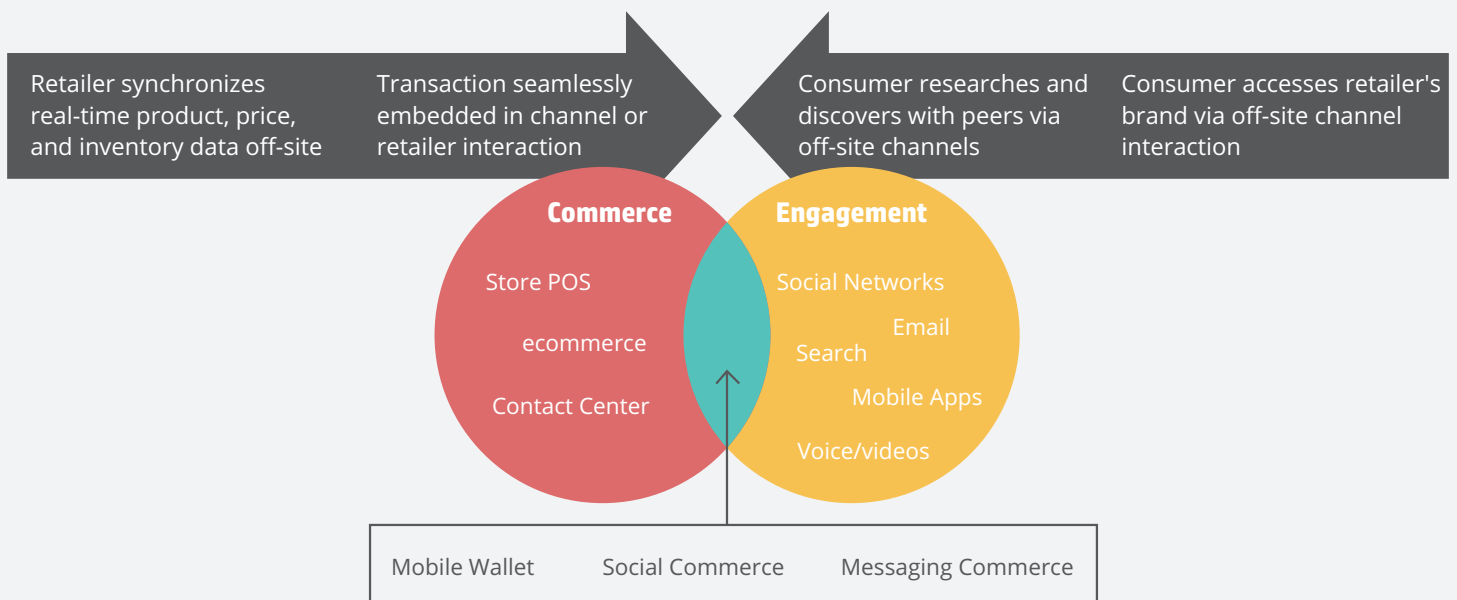
From Path to Purchase to Stream of Engagement

The traditional metaphor for a consumer’s path to purchase — Awareness > Familiarity > Consideration > Purchase > Loyalty — was applicable at a time when retailers enjoyed the benefits of information asymmetry (of pricing, product availability) and controlled the primary means of communication and commerce (stores, retailer websites). Over the next few years, customer engagement and commerce will increasingly occur on platforms not directly controlled by the retailer — 3rd party mobile apps, social media and messaging platforms among others.

This “democratization” of retail has decisively transferred the control of the user experience from the retailer to the consumer. The consumer is more complex than a 5-step process. She is emotional, intelligent and irrational. She is not in your store; your store is in her world.

And, her world is an ongoing, continuous, participative construct — a “Stream of Engagement” more than a path to purchase. You’re welcome to join, but cannot control it.

Commerce and Engagement Converge









Most retailers are ill-equipped to thrive in this new world order. A foreign “currency” is in play and they need to develop new skills and capabilities to acquire it.

	⚡ Immediacy	↔ Frictionless	🤝 Trust	🔄 Flexibility	👤 Personal
Impact on Retailer	Be where the customer is, respond quicker, reduce order-to-ship times	Reduce friction from the customer experience, make it easier for them to engage	Be a part of the consumer’s community, secure their data and respect their privacy	Let the consumer choose where (channels) and how (fulfillment options) they shop	Make an emotional connection with the consumer
New Currency	<ul style="list-style-type: none"> Inventory Visibility Mobile Ubiquity Agile Operations 	<ul style="list-style-type: none"> Advanced Payments Channel Integration Product Synchronization 	<ul style="list-style-type: none"> Engagement Platforms Privacy and Security Authentic Advocates 	<ul style="list-style-type: none"> Product Configuration Fulfillment Innovation Last Mile 	<ul style="list-style-type: none"> Customer Intelligence Next-gen Workforce Digitizing the Store

Mobile as a Force Multiplier

Mobile is increasingly the primary entry point into the Stream of Engagement. It is a channel-of-channels – one that combines with stores, online, social media and apps to offer unique, augmented experiences.

STORE  x 	WEB  x 	SOCIAL  x 
<p>58% of shoppers prefer to look up information on their mobile while shopping, rather than talk to an in-store employee</p>	<p>Mobile traffic to US retail websites is projected to reach 55% of all traffic to retail websites by end of 2015</p>	<p>1.65 billion active mobile social accounts as of January 2015 (176 million in North America; 561 million in East Asia)</p>
<p>~ 5 million of Starbucks' weekly transactions come from mobile devices</p>	<p>Mobile accounted for 52.1% of traffic to retail websites on Thanksgiving day 2014, up 22% from 2013</p>	
<p>75% of shoppers use their mobile devices while shopping in stores</p>	<p>Key activities performed by Americans on their cellphones (2014):</p> <ol style="list-style-type: none"> 1. Send or receive text (81%) 2. Access the Internet (60%) 3. Send or receive email (52%) 4. Download apps (50%) 	<p>40% of cellphone owners use a social networking site on their phone, and 28% do so on a typical day</p>
<p>Smartphones influenced 28% of the total in-store sales in 2014 (\$ 0.97 trillion), up from 5% (\$0.16 trillion) in 2012</p>		

Sources: EKN Research; IBM; eMarketer.com; Pew Research Center; Starbucks Company Website; Deloitte; Digital, Social & Mobile in 2015, We Are Social's

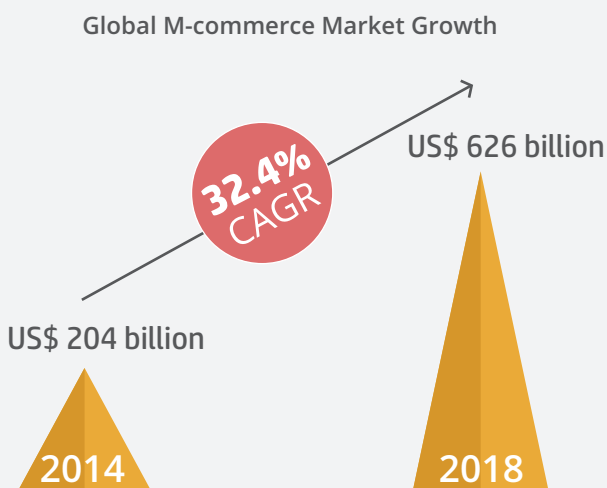
In emerging economies such as India and China, mobile also represents a generational leap allowing a growing middle class to bypass or parallel process, the ecommerce revolution, further accelerating the pace of disruption of retail and giving rise to new, innovative customer engagement channels.

We now live in a decidedly mobile-first world. While retailers such as Myntra (one of India's leading fashion ecommerce retailers) may be putting all its eggs in one basket by shutting their online and mobile-web stores to go app-only, mobile clearly has the potential of being the connective tissue of the shopping experience.

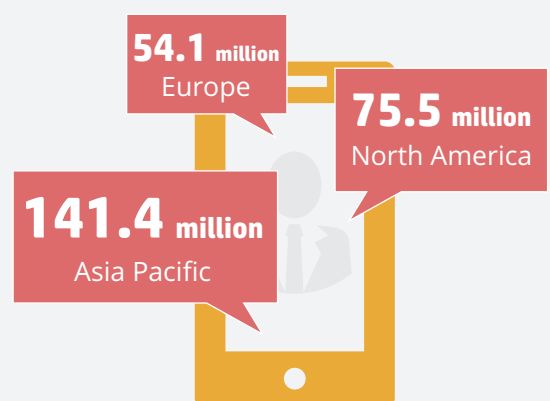
At the heart of this promise are payments — mobile's next killer app that is transformative even in its infancy. There is no global leader in mobile payments, leading to a fragmented market that is ripe for consolidation.

While PayPal and Google Wallet have the most global acceptance, Apple Pay is making significant strides both in terms of penetration and expected adoption.

Global Mobile Payment Trends



Global Mobile Payment Users by End of 2015



Sources: The Mobile Economy 2015, GSMA; Statista.com

The Rise of Emerging Engagement Platforms

From “Buy it” pins on Pinterest to WeChat shops, commerce will increasingly be embedded into engagement platforms — be it social networks, messaging platforms, marketplaces, shared economy applications, browsers or mobile wallets.

Emerging Commerce Ecosystem

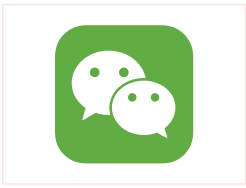
Category	Key Players
Browsers	 Mozilla exploring cross-retailer shopping cart  Mobile apps like Spring aim to be browsers for fashion
Messaging	 WeChat embeds payment for 550 million Monthly Active Users (MAU)  Tango offers shopping for Walmart and AliExpress  ZipDial creates new communication medium via missed calls
Mobile Payments & Wallets	 Apple Pay set to transform to an integrated wallet   Amazon acquires GoPAGO and expands Prime  PayPal to be “digital commerce operating system”  Stripe positions itself as shopping cart utility in cloud  American Express re-imagines loyalty
Search Engines	 Google adds buy button to mobile search  Baidu brings commerce to search with Wanda deal
Social	 Facebook launches Business on Messenger   Social platforms offer native commerce via buy buttons  Houzz aggregates curated designs for purchase
Shared Economy Applications	 Airbnb becomes the biggest lodging provider in the world  Uber’s San Francisco revenues are \$500 million annually. The rest of the taxi industry combined nets \$140 million

While the share of revenue of these emerging engagement platforms is likely to be a meager 1% by 2017 globally, retailers will do well to remember that ecommerce was just 1% of sales in 2001. Mobile was 1% of sales in 2014. These emerging platforms will gain critical mass even quicker.

More importantly, these platforms will become a sharper entry point into the consumers' Stream of Engagement — offering retailers an opportunity to participate in the network effect of their customers' conversations and communities.



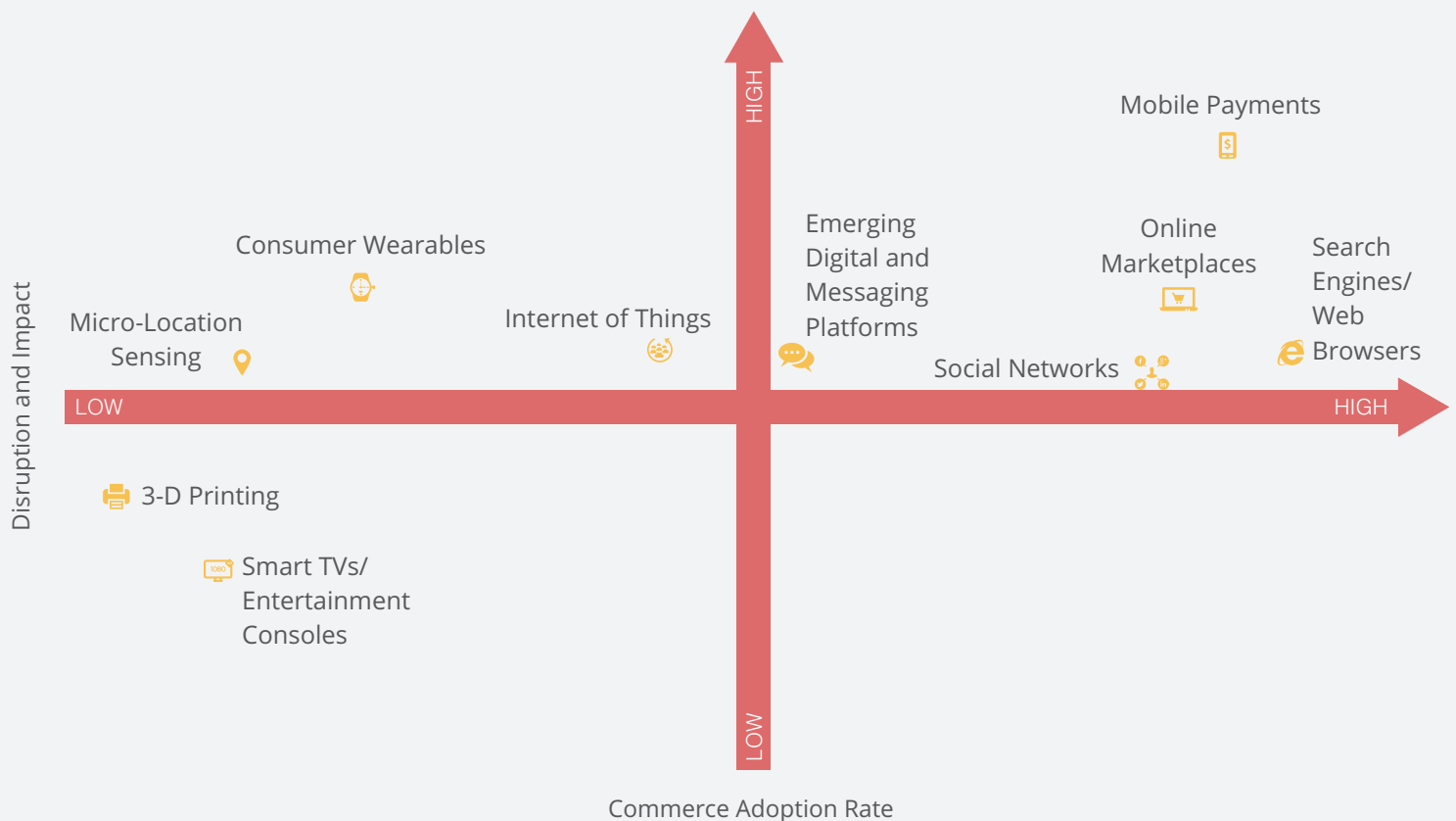
Puma's #ForeverFaster campaign launched on Instagram with a picture of singer (and Creative Director of the campaign) Rihanna. While the picture has received 21.8K likes on Puma's official account, it has clocked 720K likes on Rihanna's. Just one influencer was able to multiply engagement by a factor of 33.



Since its launch in 2011, WeChat has grown to 1.1 billion accounts, and 550 million active monthly users, 55% of whom open the app more than 10 times a day. Shoppers can converse with brands, browse branded "stores" and make payments — all within WeChat, never once leaving the chat app.

The battle for "search" is on. Already, two-thirds of product research related searches happen on Amazon. Apple recently announced deep app and web linking within its mobile operating system's search feature to eliminate the need to even visit a search engine. Browsers such as Chrome, Safari and many others now allow websites to send notifications, including promotions and offers.

Emerging Tech Disruption Matrix



Note: X axis: indicates commerce adoption rate (current and planned) of various customer engagement technologies on a scale of 0-100; Y axis: indicates relative likelihood of technologies to be the most disruptive for customer engagement, on a scale of 0-100.

Engagement to Commerce Case Studies

“We believe that pureplay retail is going away; that ecommerce companies are either going to open stores or go out of business, and retailers need to be excellent at digital or they will go out of business.” — Scott Galloway, Clinical Professor of Marketing, NYU Stern

BONOBOS: Pureplay Online Retailer with a Differentiated Store Strategy

Opened its first unique store concept called “Guideshops” in 2012 and has since grown to 16 stores nationally. Customers make appointments with customer service “Ninjas” – store associates empowered to go off-script and make decisions ranging from promotions to fulfillment. The stores are designed as boutique showrooms where customers can explore products and seek fitting guidance. The stores don’t carry inventory nor do they have a traditional point of sale. All orders are placed and shipped via the Bonobos website.

WARBY PARKER: Democratization of Luxury Threatens a Market Leader

The direct-to-consumer designer prescription eyewear service offers stylish, luxury glasses at a significantly lower price-point than Luxottica, which controls over 80% of the global market. Warby Parker’s 19 stores across the US average \$3,000+ per square foot annually, placing it in the august company of Apple and Tiffany’s.

RENT THE RUNWAY: Business Model Innovation Expands Target Market

Allows customers to rent designer dresses and accessories for a 4–8 day period at 10% of the retail price. Each dress rental includes a back-up size at no additional cost, a pre-paid return shipping label and the cost of dry cleaning. With 200+ designers and 4 million+ customers, Rent the Runway is now expanding its clicks-to-bricks strategy with 5 stores in NYC, Chicago, Washington DC and Las Vegas.

WALMART: Market Leader Looks to New Avenues for Engagement and Growth

After investing in the transformation of its fulfillment capabilities to improve order-to-ship times, the world’s largest retailer continues to demonstrate dexterity in improving how and where it engages customers. Via a recently announced partnership with Tango — a WeChat like messaging and commerce platform — it will make 2 million products available to Tango’s 300 million users.

From Challenge to Opportunity: Action Roadmap for Retailers

The new world order of retail demands that retailers transform how, where and when they engage with shoppers. The breadth and depth of change they need to drive is daunting — from organizational culture to business processes, technology architecture to customer engagement strategy. It is critical, therefore, for retailers to have a razor-sharp focus on specific aspects of the transformation that can deliver the greatest impact on revenue, cost-efficiencies and customer stickiness. Below is a prioritized, prescriptive guide for retailers to focus on.

Retrain the Organizational Fiber

- Redefine KPIs — from store teams to merchandising teams — to be focused on overall growth vs. channel attribution. Use channel influence as a proxy for measuring channel effectiveness
- Transform decision making from intuition-driven to insights-driven
- Institute a fail-fast, fail-cheap innovation methodology. Expand experiments in unproven but emerging technologies such as connected devices (Internet of Things (IOT)) and track future technology innovation such as 3D Printing

Develop a Mobile-First Strategy

- Build a holistic mobile strategy that isn't focused exclusively on the app. Extend mobile-web capabilities and integrate into your consumers' favorite mobile apps
- Make mobile the focal point of your digital customer engagement strategy. Invest in building engagement on the mobile device, not only on enabling commerce
- Invest in voice and other sensory input both natively via the mobile (voice recognition, facial recognition etc.) as well as through connected device extensions (Amazon Echo, Dash etc.)

Amplify the Supply Chain and Build Fulfillment Flexibility

- Use stores as warehouses and distribution centers and focus aggressively on ship-from-store
- Open up the supply chain to customers via innovations such as drive-through warehouse pick-up, which has taken off in Europe
- Focus on reducing order-to-ship time especially for inventory available in the local area. Explore integration with last mile delivery providers such as Uber, Instacart and Postmates
- Aggressively build basic order and inventory visibility into the point of sale and allow customers the ability to split orders and be fulfilled from inventory anywhere in the system



Make Payments Frictionless

- Bring retail to where customers are. Integrate with messaging platforms, social commerce and 3rd party mobile apps
 - Provide multiple payment options most relevant to your consumer demographic
 - Integrate rewards and offers within the mobile wallet
 - Re-invent the store checkout process — be it through mobile POS, geo-fencing or the Internet of Things
-



Invest in Agility

- Shift from technology as an enabler to technology as a business model
 - Rebuild the application architecture to be truly service-oriented, including a heavy focus on API orchestration
 - Balance architecture openness and inclusiveness with performance and security
 - Invest in last mile customer identification and connectivity
 - Build a unified commerce platform to form the backbone of a seamless user experience
-



Personalize Interactions

- Build a single customer profile that spans across all channels
- Add last mile and implicit identifiers such as context (location, time, activity) to augment transactional and behavioral data
- Leverage persistent profile to drive personalization
- Manage the customer profile securely

Regional Variances & Highlights

UNITED KINGDOM

Mobile payments currently accounts for **11% of retail sales**

Most disruptive customer engagement technologies in the next three years: **mobile payments, online marketplaces and location sensing**

PayPal is the **most popular alternative payment method**

UNITED STATES

Mobile payments to account for **10% of retail sales** by **2017**

PayPal is the most popular alternative payment method

Apple Pay to become full-fledged commerce and engagement channel over the next three years

JAPAN

Most **important customer engagement channels** in the next three years: **Snapchat, Line, WhatsApp**

Google Wallet and **Edy** to become full-fledged commerce and engagement channels over the next three years

FRANCE

Online marketplace/social networks to be highly disruptive customer engagement technologies over the next three years

Google Wallet to become full-fledged commerce and engagement channel over the next three years

Most important customer engagement channels over the next three years: **Facebook; Google+; Search Engines**

CHINA

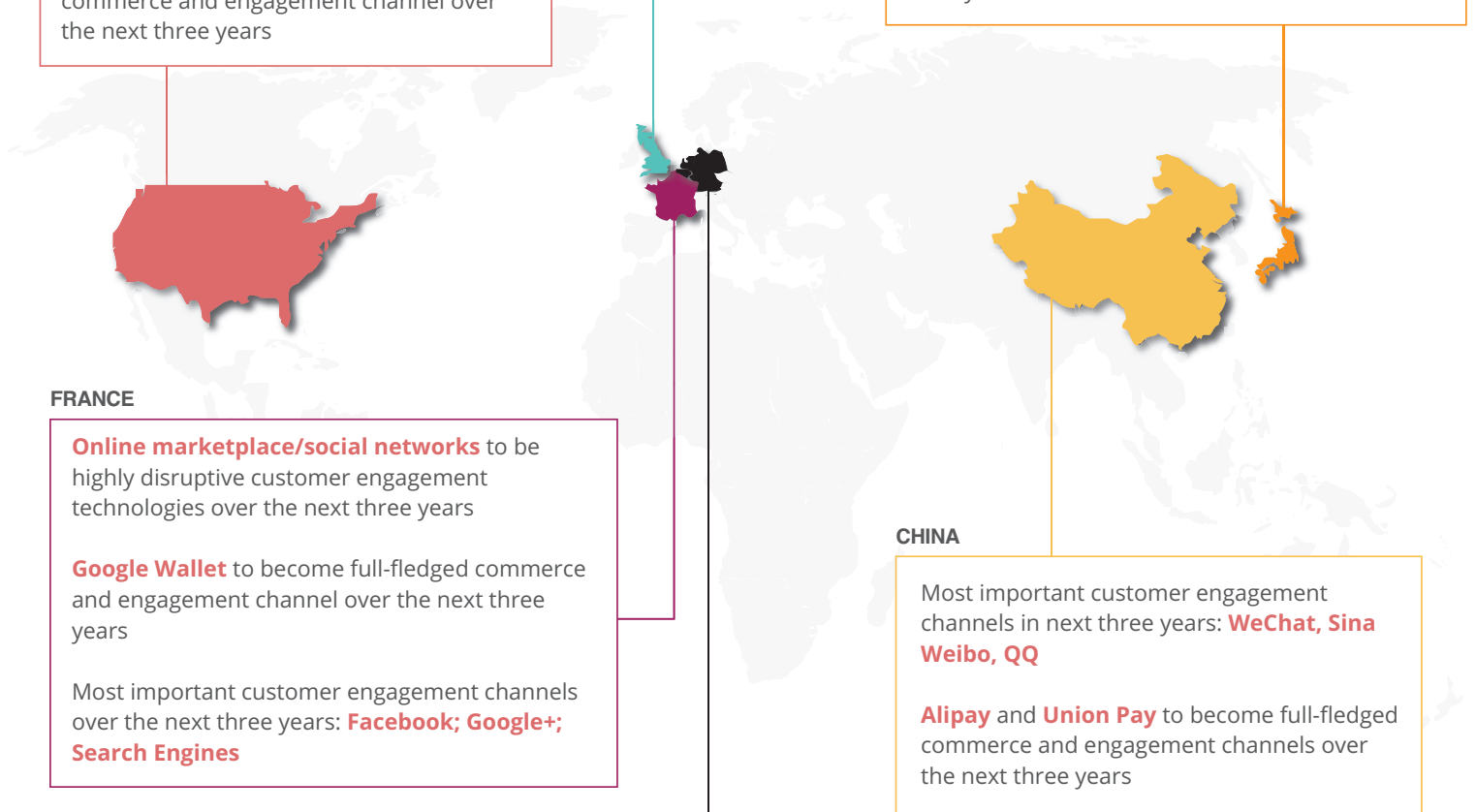
Most important customer engagement channels in next three years: **WeChat, Sina Weibo, QQ**

Alipay and **Union Pay** to become full-fledged commerce and engagement channels over the next three years

GERMANY

Most disruptive customer engagement technologies to evolve in the next three years: **consumer wearables; emerging digital and messaging platforms**

Most important customer engagement channels in the next three years: **meinVZ/studiVZ and WhatsApp**



About EKN

Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the blend of research take-aways are oriented towards a real-world, practical application of insights with community sign-off. For more information, visit www.eknresearch.com. Email us at EKNinfo@edgellmail.com

About Demandware

Demandware, the category defining leader of enterprise cloud commerce solutions, empowers the world's leading retailers to continuously innovate in our complex, consumer-driven world. Demandware's open cloud platform provides unique benefits including seamless innovation, the LINK ecosystem of integrated best-of-breed partners, and community insight to optimize customer experiences. These advantages enable Demandware customers to be market leaders and grow faster.

About Fung Business Intelligence Centre

The Fung Business Intelligence Centre (FBIC) Global Retail & Technology research team, based in New York, London, and Hong Kong, is a think tank that follows emerging retail and tech trends, specializing in the ways retail and technology intersect, and building collaborative communities.

The team, led by Deborah Weinswig, former top Wall Street and retail tech analyst and start up advisor, publishes ongoing thematic and global market research on topics such as Internet of Things, digital payments, omni-channel retail, luxury and fashion trends, and disruptive technologies.

DISCOVER. SHARE. EVALUATE.



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