

RETAIL 2019: A YEAR FOR BRILLIANT CONNECTIONS

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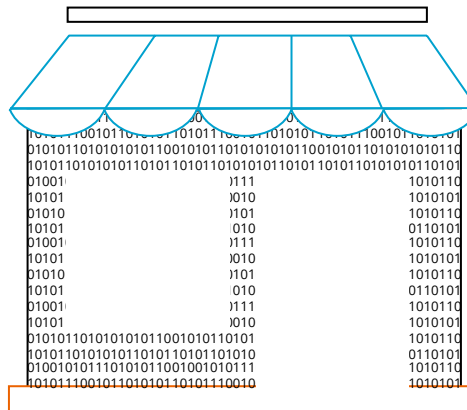
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As retailers approach the final quarter of 2018 and plan for the year to come, which technological priorities belong at the top of their wish list?

Even a cursory scan of retailing news shows a sector bursting with new ideas on how the retail business of tomorrow will look, feel, and operate. Digital retail is doing everything to make the customer journey as intelligent as possible, while physical retail is moving heaven and earth to enrich the customer's physical and digital experiences.

The common theme running through many innovations on the near horizon is the power of connecting: richer-than-ever data and analytics, exhilarating in-store tech, and a slew of new tools retailers can use to connect with customers. 2019 is shaping up to be a year energized with the possibility of brilliant connections, smarter customer insights, and innovative customer experiences in both the digital and physical arenas. Here is a preview.

Rebuilding brick-and-mortar: Better, faster, smarter



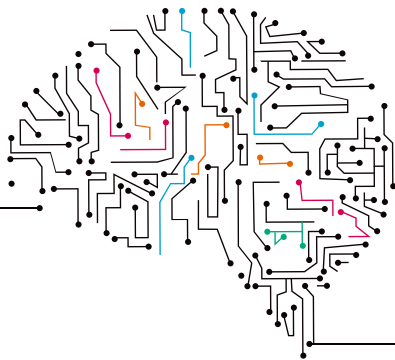
As every retailer feels the pressure from Amazon's prices and delivery speed, physical stores are being forced to reinvent themselves to survive and remain relevant within their category. The good news is that brick-and-mortar stores are making a come-back. Amazon has topped the ranking of leading retailers in the UK since 2011, but a current British consumer sentiment study shows traditional storefronts dominating the 30 most popular UK retailers, with Amazon slipping to fourth position, after M&S Simply Food, John Lewis, and LUSH.

At the core of this transformation are brilliant physical-digital synergies, offering impactful in-store environments. Studies show that many customers are "webrooming," i.e. doing their research digitally before heading into a physical store to purchase the item they found online, because they want to see what they are paying for in real life. What's more, customers who have researched the retailer site before coming into the store are 13% more likely to make a purchase. Another study showed that nearly all members of Generation Z actually prefer shopping at brick-and-mortar retailers. A physical store's seamless connection with the online side of the business is vitally important. As physical stores become more digitized, interactive, and tailored to each shopper, they become more impressive and memorable.

There are many examples of experimentation already underway. An offshoot of the American department store mega-brand, [Nordstrom Local](#) is a 3,000 sq. ft. concept store designed as a “neighborhood hub” for Los Angeles. Instead of a full-stock inventory, it has manicure stations, a juice bar, comfortable hangout space, and a suite of personal stylists on hand. Customers call ahead to book an appointment and are invited to build a Pinterest-style inspiration board.

[Story](#) is another example of the lengths to which retailers will go to connect with customers by creating fresh new retail experiences. This retailer literally reinvents its store layout and inventory every four to eight weeks so that it can “tell a fresh story” to its customers. The [concept](#) has attracted interest and imitation from Timberland, Target, and other major retail chains, including Macy’s, which recently acquired Story.

[OfferMoments](#) has developed dynamic billboards that change as customers walk by. They turn digital screens into an interactive experience with ads customized to each customer. For example, a mannequin in a retailer’s window display could carry a sensor that “talks” to the smartphones of passersby, enabling the store to send each person a personalized offer. It could also mean smart digital screens that use facial recognition to identify the customer and change the display to something tailored to them based on customer data.



AI and retail: Make it work

Not long ago, marketers and retailers structured communication with customers around gross demographic measures such as age, gender, income, and postal code. Today’s retailers are using much smarter tech tools to understand customer wants and needs on a granular level. The main challenge is scaling the one-on-one personal approach to interactions in the millions. This ambitious task would be insurmountable without the emergence of artificial intelligence (AI).

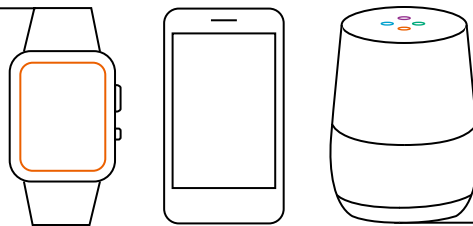
AI is one of the top five tech priorities of retailers in 2018, according to [Forrester Research](#). A recent Google [study](#) also shows that successful marketers and retailers are actively employing AI technologies to connect first-party data across all touchpoints, systems, databases, websites, and channels:

- 72% of leading marketers are investing in improving their first-party data capture.
- 81% agree that machine learning will be critical for personalized customer experiences.
- 89% know that anticipating customer needs is critical for growth.

Building on this foundation of richer data, AI also helps retailers build more brilliant brands that recognize patterns within data, use automation to efficiently process data flows, and leverage predictive models to deeply understand consumer behavior.

What does this process look like in practice? Consider high-end retailer Neiman Marcus, among today's trend leaders, using AI and machine learning to triangulate information from multiple data sources to predict customers' needs. The ultimate goal is what the company calls "seamless retail," where the customer journey is smooth, memorable, and well assisted on all devices, across all touchpoints, at all times.

Other forward-thinking designers such as Tommy Hilfiger, Rebecca Minkoff, and Charlotte Tilbury are also crunching data and experimenting with technology to create personalized, experiential stores of the future. During an average five-minute online session at luxury e-commerce site Farfetch in the UK, 15,000 data points are collected on each shopper. This amount of data allows Farfetch to provide an advanced, personalized experience for shoppers.



Trying on IoT

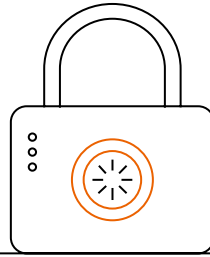
Internet of things (IoT) applications are another area where retailers are experimenting. To provide customers with positive, memorable experiences, retailers are combining IoT apps with AI-powered analytics. In smart stores, mall traffic can be analyzed across several retailers to understand the total shopping journey and to customize the in-store experience. With more customers expecting merchandise deliveries overnight, moving merchandise more efficiently is one of the goals of smart transportation apps in retail, which optimize transport, tracking, and routing.

But again, how do these promising technologies perform in real life? When Amazon Go is fully operational, customers will place items in their baskets and simply walk out of the store when they finish "shopping." Tags on the products, in the baskets, and at the store entrance are read automatically by the peripheral technology, and the customer's Amazon account is charged without the need to queue at the checkout. Since launching an automated packaging service in 2016, Ocado has been able to control and coordinate

the movements of millions of grocery store items and thus accelerate the bagging process when an online order is made. More than one thousand robots scan thousands of crates containing a selection of over 47,000 items.

According to [Global Market Insights](#), voice shopping with the help of smart speakers such as Google Home and Amazon's Echo will be commonplace by 2024, with over 100 million units sold. [The Trade Marketing in Transition](#) report names voice activated assistants like Alexa and Google along with the devices that feature them as "the retail technologies of greatest interest."

Staying connected with security



While trailblazing is key for future retail success, experimentation is not a standalone activity. With security breaches in the news on a daily basis, retailers appreciate the need for robust security. Target made [headlines](#) and lost \$162 million because it failed to properly secure customer credit card data, resulting in over 70 million customers being affected by a breach. In June 2018, [Macy's and Adidas](#) both had to deal with security breaches and go public with them.

As a result, while making a connection with customers is a retailer's first priority, retaining that trust depends on security practices and technologies. The extensive volumes of customer data now being gathered by retailers make them an even more attractive target for hackers and other malicious agents looking to benefit from the sale of stolen data or demanding ransom payments from victim companies. With technology assuming an increasingly pervasive role in the retail sector, the stakes are high, and retailers must do everything they possibly can to protect the data they have, convince customers that their personal data is not vulnerable to misuse, and demonstrate that their practices are fully compliant with the latest regulations, such as the General Data Protection Regulation (GDPR).

Among the [online security measures](#) retailers are taking to protect themselves are storing data off-site via the cloud; updating all software regularly, both in-store and online; incorporating SD-WAN connections and unified threat management (UTM) appliances; and encrypting credit card readers. While point of sale (POS) software or website plugins may serve as protection in specific segments of a brand's security system, retailers must take a proactive and comprehensive approach to anticipate and frustrate ever-evolving cyber threats.

Building robust cyber defenses today is impossible without AI. Tech consultancy IDC in its [Retail Insights](#) report estimates that by 2020, 75% of retailers will have adopted AI-based cyber-defense technologies. AI-powered security tools provide a time advantage. They also allow IT security professionals to shrink the surface for possible cyberattacks by gathering insights and identifying connections and patterns between various types of threats—including malicious files, suspicious IP addresses, and insider attacks. AI and machine learning also strengthen traditional cyber defense tools, such as WAFs (web application firewalls), allowing them to identify behavioral-based anomalies and fend off a broader range of targeted attacks.

IBM's [2018 Future of Identity Study](#) reveals that customers now prioritize security over convenience when logging into apps. Interestingly, the study showed that only 19% of US consumers would trust a retail brand to protect their biometric data, as opposed to 57% who trust financial institutions to guard the same data. Another major conclusion of the study was that young people are often careless with passwords and prefer biometric and multifactor authentication instead. In fact, as many as 41% of millennials reuse log-in and password information to access various sites. If even one site had a security breach, a compromised password would give hackers access to multiple accounts.

New smart security tools now also address traditional non-tech threats retailers have always faced. Among these is the theft of merchandise. According to the “Say No to Shoplifting” campaign sponsored by the [National Association for Shoplifting Prevention](#), retailers lose nearly \$13 billion in stolen goods every year. [In-store sensor security and tracking](#) of theft is now possible due to the use of RFID technology, facial recognition security cameras, GPS trackers in goods, and non-scan POS detection.

Connect with technology to connect with customers

In a [Harvard Business Review](#) article on retailing, economists David S. Evans and Richard Schmalensee conclude that:

It is becoming increasingly clear that retail reinvention isn't a simple battle to the death between bricks and clicks. It is about devising retail models that work for people who are making increasing use of a growing array of Internet-connected tools to change how they search, shop, and buy. Creative retailers are using the new technologies to innovate just about everything stores do from managing inventory, to marketing, to getting paid.

In this environment, so rich with experimentation, making brilliant connections with the customer is critical for success, as is using brilliant technology to enable those connections.

SoftServe works closely with retailers online and in-store, equipping them with the technological platforms needed to best connect with customers—and stay competitive.

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