

TODAY'S RETAIL MARKET DYNAMICS

WHAT HAS CHANGED IN THE PAST DECADE?

Written by Marco Antonio Soriano

YOUNG CUSTOMERS are prioritizing the purchase of new technology over other goods, and the unseasonably warm weather has left many winter coats, boots, and sweaters on retailers' shelves awaiting even deeper markdowns.

At SG we think that many retailers did not anticipate the change in buying patterns and the negative momentum it would bring to their stores. They did not see the rapid shift toward online shopping, which often occurs in the middle of the night when customers have ample leisure time. Nor did they see how the demand for new technology would cause a shift away from ready-to-wear apparel.

This causes a great deal of preoccupation on what the future profitability of many leading retailers will be in the following year. Retailers are all now defensive against the leading Internet and off-price retailers such as Amazon and TJX Companies. They are login sales productivity in their stores while expenses rise and management bureaucracy grows.

Here are some key facts and figures:

- ✔ **Rapid Internet Market Share Gains.** By all indications Internet sales rose about 23% in 2015, and 27% in 2016 and are likely to increase at that pace in 2017, Capturing 51 cents of every additional \$1 Americans spent online. The New York Times reports Amazon is capturing an ever-growing share of retail sales in the United States. Amazon now accounts for 29% of total Internet sales –up from 26% last year. If this rapid transfer of business from store sales to internet continues, traditionally brick and mortar retailers must look at their business structure and decide where to cut administrative staff, and which stores to close, in order to survive.
- ✔ **Aggressive U.S. expansion of low price international retailers Primark, Aldi and Lidl.** Funded by successful operations in Europe, these fierce competitors are accelerating their growth in the United States. Each will raise the competitive bar for traditional retailers in its path. Primark, an Irish low-price high-quality apparel and home goods retailer, announced 10 U.S. units for 2016 and most recently another 15 units for 2017. Two German discount food/general merchandise retailers, Aldi and Lidl, will each have 2000 new stores in the U.S. by 2018, just two short years from now. As these retailers compress consumer prices, traditional U.S. retailers will have to look at their cost structure and decide how to be lean and competitive in their pricing, staffing and store count.

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JONATHAN SPIRA, CHIEF

ANALYST AT ACCURA, A

RESEARCH AND

PUBLISHING FIRM.

BUT, IS IT ENOUGH?

Constant connectivity, contextual relevance, and a multi-screen world are changing both online and offline shopping. As the digital and in-store experiences blur, it is opening up exciting new possibilities for forward-thinking retailers. Sridhar Ramaswamy, who as Google's SVP of Ads and Commerce oversees the technology behind Google Shopping, explains how combining classic retail truths with digital savvy can help retailers do what matters most: serve their customers better.

✔ **Surge in off-price store openings.** Customers like to shop for value; off-pricers are happy to oblige. Based on third quarter reports about 604 off-price units were opened in 2015, a surge that will continue in the New Year. Nordstrom opened 27 Rack stores, Macy's opened 6 Macy's Backstage Stores, Saks 5th Avenue opened 14 Off Fifth Stores, Ross Stores opened 66 units, Bloomingdale's opened one store, Kohl's is testing one unit, and Lord & Taylor is dabbling with the concept by opening one store. TJX, the industry's dominant player and my pick for 2016 Retailer of the Year, opened 320 units in the United States. Collectively there are now 4,245 off price stores in the U.S., a 12% increase in one year! The broader retail industry is definitely not growing double-digit which means the off-price channel is rapidly taking market share away from traditional retailers

✔ **Consumers prioritize new technology.** Every time Apple introduces a new product, traditional retailers will feel a negative impact. No doubt, Apple and others will introduce new innovative mobile, wearable and portable products that

consumers "must have" every year. Consumers are not likely to spend on technology and apparel at the same time. Stores will have to examine their ability to attract customers when an important new technology product launch occurs. It is a challenge that must be met by both department stores and specialty retailers through innovative thinking.

✔ **Communication with Millennials.** Millennial customers are not confident consumers. They are afraid of a recession or lack of employment. They want to own less and lease more (including suits and dresses. Note: well known designers are rebelling that their clothes can be rented at a fraction of the cost through popular online sites like Rent The Runway). Millennials respond to good service and do research on the Internet before making a major purchase. They are "real-time" consumers, shopping for today's needs and waiting until the last minute to shop for tomorrow's events.

While servicing such demanding real-time consumers, retailers must learn to protect their franchise. A major retailer stated that the most durable franchise in department stores is coats and watches. Millennials

The concept of off-price retailing is not new. In fact it is old – it used to be the basement store in most department stores. Initially off-price stores featured price reductions on branded merchandise that came from the full-price "mother" store; today brands supply merchandise in huge quantities in anticipation of off-price sales. In order to satisfy demand for discounted branded product, the brands either overproduce or repeat last year's designs to ensure the off-price stores are full. The market share shift to off-price is obviously hurting the traditional retailers requiring them to review their cost structures including stores and staffing.

cross-shop brick-and-mortar stores, boutiques and specialty stores, and of course online, for most other classifications of merchandise.

The signs are everywhere; traditional retailers must restructure their organizations now. The cost of operating is escalating as stores become less productive. More stores must be closed. Costs must be cut and reallocated – there are too many chiefs and too few sales people taking care of the customers. There has to be an effort to make productive stores more productive and to recognize that the traditional management structure of retail stores, large and small, must give way to a new, tighter, and more flexible approach. A new industry culture needs to emerge; one that empowers associates by creating a team spirit that will be rewarding for customers, employees, and management.

The New Year has started and we will see more sales promotions and clearance sales as the month continues. On New Year's Day we already saw a one-day sale by Macy's (which lasts two days). All stores want to mark down seasonal merchandise and get ready for the spring season. I see this as more of the "same old" approach. Innovative thinking and serious restructuring is urgently needed but only modest incremental changes are imminent. Dwindling profits will force faster change, but it may be too late for some. I have many reasons to worry

about traditional retailers as 2017 gets underway.

In conclusion, Put Google research and insight behind your thinking.

Consumers no longer see a distinction between online and offline shopping. Whether it's searching on a laptop, browsing main street shops or hanging out at the mall — it's all shopping. To adapt to the competitive new reality, smart retailers are drawing on classic retailing truths of the past and augmenting them for the now. Innovative retailers are embracing this new reality, using digital to extend their storefronts. These are my top five observations on how shopping has changed and suggestions for how marketers can adapt to join the retail revolution.

✓ Shoppers know as much as salespeople

Then:

People came into stores with little to no knowledge and relied on a salesperson to advise them on what to buy.

Now:

Today's shoppers have become accustomed to doing their own research to get the maximum value out of every dollar they spend, and

to feel secure about the purchases they're making. With this power shift comes a great opportunity for retailers; those that use tools and insights from the web have the opportunity to close the gap between the smart online consumer and the offline retailer, and to stand out in a competitive marketplace. Every moment in a consumer's decision journey matters. To win these moments, smart retailers need to be there when inspiration strikes consumers and as they start researching purchases online.

✓ Retailers can deliver personal, relevant suggestions at scale

Then:

Retailing began with shopkeepers who would welcome in people from the neighborhood and then come to learn their customers' needs and preferences.

Now:

In our constantly connected world, a device is just a proxy for what really matters — getting to know your customers. Devices provide context, helping us learn what matters to a consumer in a particular location and at a particular time. Coupled with the intent provided by search, this is incredibly powerful. It can help retailers deliver relevant suggestions, essentially recreating those shopkeeper conversations at scale. The right message at the right moment is the next level in customer service — it can quickly

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and easily turn intent into action. Context also allows retailers to better than ever anticipate what a customer might need based on when, where and how they arrive at their site and help them decide how to respond to them. People are constantly looking for product information, deals, local availability and local discounts online — and retailers who aren't there to supply the right information when people raise their virtual hand will lose out.

✓ **Mobile devices drive foot traffic to stores**

Then:

Finding the right store — and the product you needed — depended on familiarity, or serendipity.

Now:

As the lines blur between online and offline, innovative retailers are integrating mobile into their brick-and-mortar store experience. When shoppers search for a store name or category, they expect to see a map with directions, a phone number that they can easily click-to-call, or special offers that match their location and time of day. Adidas worked with their agency iProspect to evaluate how mobile clicks on their store locator links were driving in-store sales, and found that for a mobile investment of \$1 million, the value brought by store locator clicks in mobile ads generated an extra \$1.6 million in sales.

The search element of shopping doesn't end once the customer walks into a store. At some point, we've all been lost in the supermarket, searching the aisles for an elusive item. Mobile can be a map, a shopping list, a personal shopper, a salesperson and a product finder all at once.

✓ **Opinions carry more weight than ever**

Then:

Retail therapy was an activity shared by friends and family — and word of mouth was a social force

that transformed new products into must-haves and small shops into retail empires.

Now:

This is truer than ever. With YouTube and social networks like G+, people are now sharing their opinion on products not just with a

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group of friends, but with millions of people. This is why Google Shopping incorporates reviews and introduced shortlists to make it easy for people to discuss products and purchases with friends and family. Smart retailers are recognizing the opportunities that lie in digital where instead of basing campaigns on the broadest reach possible they can now zero in and speak directly with the individuals, or communities of fans, who love their products most. Retailers are also seizing the opportunities around online

comments by advertising against terms like “reviews” and working to promote the positive and counteract the negative.

✓ **Products can jump off the screen**

Then:

The Internet was fine for researching, but there was no replacement for holding, feeling, inspecting a physical product on a store shelf or showroom floor.

Now:

Interactive video, 360 views, gestural controls are just a few of the options bringing products alive on customers' multiple screens. Each digital stride opens exciting opportunities to close the gap between an on-screen image and that experience of holding a product in a store. Google Shopping has introduced 360-degree imagery to some product sets to give shoppers a better sense of what an item really looks like. Some innovative retailers are even offering shoppers virtual try-ons. Eyeglasses retailer Warby Parker, for example, invites customers to mix and match frames against their photo. When retailers showcase products online in a unique way, they create opportunities for customers to interact with products on an emotional level. When consumers' emotions are activated, their desire to buy is sparked. We are only beginning to see the possibilities.

As digital weaves itself deeper into the fabric of our lives, smart retailers understand making the most of new opportunities is not about gadgets or technology. It's about human nature. Forward-thinking retailers should be looking at how they are interweaving digital tools like mobile, context, and video with sales, marketing and customer service. When these things are used well, the technology becomes invisible. Customers simply see retailers as being very good at giving them exactly what they want.