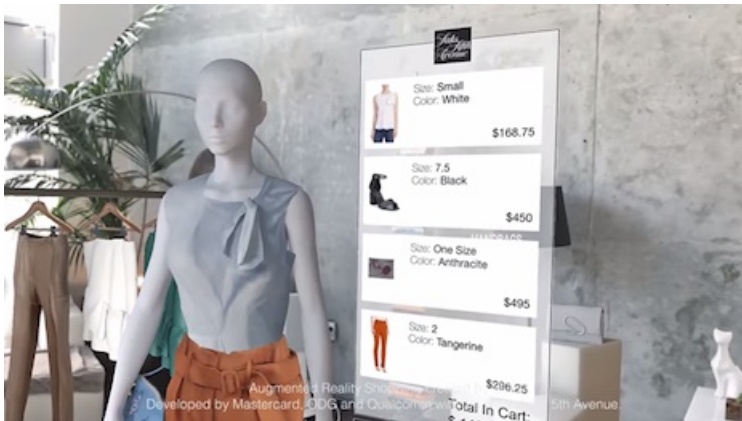


STRATEGY

## Store of the future Luxury Memo special report

November 3, 2017



Mastercard and Saks bring AR to shopping. Image credit: Mastercard

By BRIELLE JAEKEL

The purpose of the traditional bricks-and-mortar store is evolving, with a variety of themes pushing the physical retailer into a future vastly different from its long-established roots.

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While bricks-and-mortar still counts for roughly 90 percent of sales, consumers' expectations of the in-store experience have dramatically changed, which is greatly impacting luxury retailers. Now that millennials and Generation Z consumers have aged to become significant segments of the buying population, an omnichannel experience is vital with customer service at the forefront.

"The three major disruptors of the in-store experience are all centered around one thing: convenience," said Anne Mercogliano, vice president of marketing & business operations at IFTTT, San Francisco. "Pop-up shops, robotics and virtual reality are just a few advancements we've seen that are changing the potential of the in-store experience.

"And as millennials and Generation Z - two generations that are well accustomed to online shopping - acquire more buying power, we'll see retailers put a major focus on convenience and creating more in-store experiences for customers," she said. "Pop-up shops, for example, have enabled traditional online retailers to make their brick-and-mortar debut, helping brands build their identity in a convenient location for their primary customer base.

"Additionally, robotics aren't just helping online retailers with supply chain management but are moving in-store. Virtual reality and the in-store experience is still in its infancy, but it's something that consumers are very excited about. IFTTT recently found that 48 percent of consumers would take a virtual shopping trip in-store to browse items and 36 percent would use it to try on apparel virtually before purchasing."

Top five trends in the store of the future:

- The threat of online shopping  
While the majority of sales still occur within a physical store, online sales are becoming a major force within the industry, prompting retailers to change their bricks-and-mortar strategies.
- Digital in stores

Digital has become a force within retailer beyond simply online shopping. Retailers now need to incorporate digital into the store shopping experience to appeal to the consumer of today.

- Shrinking bricks-and-mortar footprint

It is no secret that department stores and retailers' physical store closures are abundant. Retailers are now looking to smaller but more efficient physical footprints, with smaller and less stores.

- Convenience is key

In every aspect of the shopping experience, no matter what the channel, customers now have much higher expectations when it comes to service. Consumers want to be able to shop where and how they want, with exceptional service.

- Payment

Technologies for payment are also changing, with customers looking for a fast and easy checkout above all else. With mobile pay and EVM technology growing, payments will likely look much different in the future.

### Insight on today's store

There are a variety of disruptors in the bricks-and-mortar world, which will see the store of the tomorrow looking very different from its roots.

Luxury retailers may see the greatest effect by this change, as consumers have higher expectations for customer service, which is luxury's speciality. The pressure for luxury brands and retailers to provide innovative and exceptional customer service is significant.

Retailers need to weave a completely seamless omnichannel experience for customers that allows them to shop where, how and when they would like. While digital is a vital aspect of retail, in-store associates are not obsolete and are proving to be an essential part of the customer experience, according to consumers

A report from Astound Commerce shows that 52 percent of consumers think it is vital for store associates to be able to place an order and 46 percent believe they should have access to inventory information. However, online shoppers are having extremely positive experiences as well, with 86 percent claiming their customer service interactions were great, and 42 percent saying excellent ([see story](#)).

Engaging with customers on the shop floor is one of the best ways of improving that experience and mobile technology can help sales associates accomplish that goal more effectively. But a report from NewStore found that only 51 percent of brands empower their associates with smartphones or other mobile devices to help customers ([see story](#)).



Personalization is also key and many luxury retailers are innovating in this area in stores. For instance, LVMH-

owned Sephora is ranked as the top customer experience provider as it continues to stronghold the digital and in-store retail experience, based on what its audience wants.

The beauty retailer is finely in tune with what its audience finds exciting and is making the customer experience more enjoyable and convenient, earning its spot as Sailthru's top brand in its Personalization Index rankings. Net-A-Porter and Nordstrom also rank in the top five, but mass-market brands and startups do hold the majority ([see story](#)).

#### Purpose of the store

The purpose of the store is changing drastically, with consumers looking more toward experiences and conveniences rather than a place to find products.

While it is still unclear what the store of the tomorrow will exactly look like, experts believe it will center on special happenings, consumer-brand connections and convenience.

For convenience, in-store pickup is becoming prevalent with many luxury retailers, allowing shoppers to order items online and stop by the store to pick them up. In the future, this could be the main purpose for store locations.

As customers become increasingly reliant on the conveniences of modern technology, more than half of retailers currently implement same-day delivery and more are expected to do so within two years, according to a report from Boston Retail Partners.



*Same-day delivery and other fulfillment features will be key to the future of luxury retail. Image credit: Boston Retail Partners*

Boston Retail Partners surveyed retailers to gauge their thoughts on the state of digital commerce in 2017. According to the report, quick and autonomous fulfillment is the next step in modernizing the digital retail landscape ([see story](#)).

"Retailers need to rethink the way the brick-and-mortar store experience to reflect today's omnichannel environment, which means delivering a consistent experience between all shopping touch points, including online, mobile, social and call center," said Debbie Hauss, editor in chief at [Retail TouchPoints](#), New York. "Retailers also need to consider what motivates their target customers to visit the store and complete purchases.

"Millennial shoppers, for example, may be looking for more of a personal connection with their brands including social consciousness as well as experiences that resonate with their lifestyles," she said. "The store is no longer just four walls where people find the products they need.

"Store brands also need to take convenience to the next level, even if it seems like they might be motivating shoppers not to enter their stores. Buy online pickup in-store (BOPIS) does motivate impulse purchases if it's handled well.

"Mobile ordering and delivering also can boost the brand reputation and increase overall sales," she said. "Those shoppers might not be coming into the store anyway, but at least you have their business."

#### Technology in-stores

Technology is being used in stores now to create a special experience for consumers that not only empowers them with a multitude of information but also makes a lasting impression through uniqueness.

Fitting rooms are becoming smarter, with many luxury retailer implementing connected mirrors and technology in the rooms. Shoppers are able to learn more about the item, receive product recommendations and interact with various other personalization features.

For instance, Nordstrom, Bloomingdale's and Ralph Lauren are a few of the retailers who have played with smart

fitting rooms.



*EBay's smart fitting room concept. Image credit: eBay*

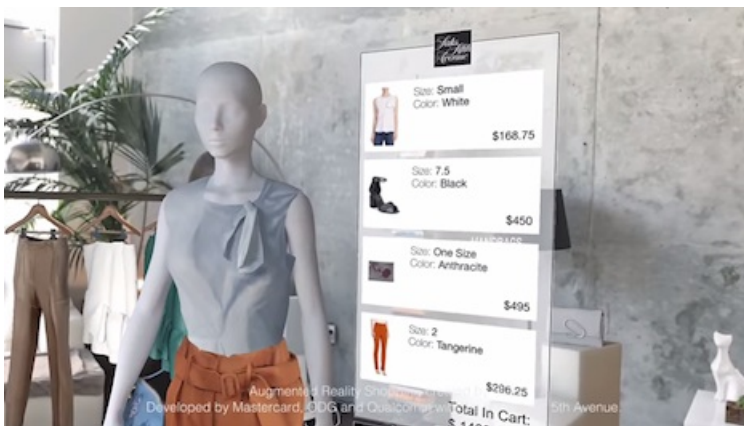
Nordstrom tested these at two locations in Seattle in which it used eBay technology to turn its mirrors into interactive touch screens.

Bloomingdale's also opened a fully mobile store in 2014 to appeal to the "digitally sophisticated" tech community in Silicon Valley, CA. The store features smart dressing rooms, mobile checkout, consumer-facing tablets and sales associates armed with mobile devices, the store in the Stanford Shopping Center to heighten the omnichannel experience for shoppers ([see story](#)).

Virtual reality and augmented reality are also being used in stores to enhance the experience and at-home to recreate the in-store experience.

For example, Saks Fifth Avenue is helping to usher in a futuristic payment solution using augmented reality.

Mastercard has worked with Osterhout Design Group and Qualcomm Technologies to develop an AR payment program debuting with Saks. The solution will allow for shoppers to gain greater insight on products and recommendation but will also authorize payments through eyeball scanning ([see story](#)).



*Mastercard and Saks bring AR to shopping*

Also, French department store chain Galeries Lafayette recently inaugurated a new experience-led store concept at the Carr Smart shopping center in the Paris region. The new store features a reserved space for its premium services such as electronically booking products and next-day click-and-collect, a digital showroom pilot that will be rolled out in several Galeries Lafayette stores in the near future, tablets and mobile-only checkout ([see story](#)).

"Technology is a key part of creating a more seamless and effortless shopping experience, but it should not be the starting point," said Kristin Schoenstein, program director at **Future Stores**, New York "We have seen retailers over the past couple years investing in technology without first assessing their customer's unmet needs and speaking with their associates.

"But, we are seeing examples of successful roll outs on the back end as well as with associate and customer facing tools," she said. "A lot of testing and piloting is happening with some of the newer technologies like AR, VR and AI, but I don't think anyone has mastered it or even fully understands the possibilities.

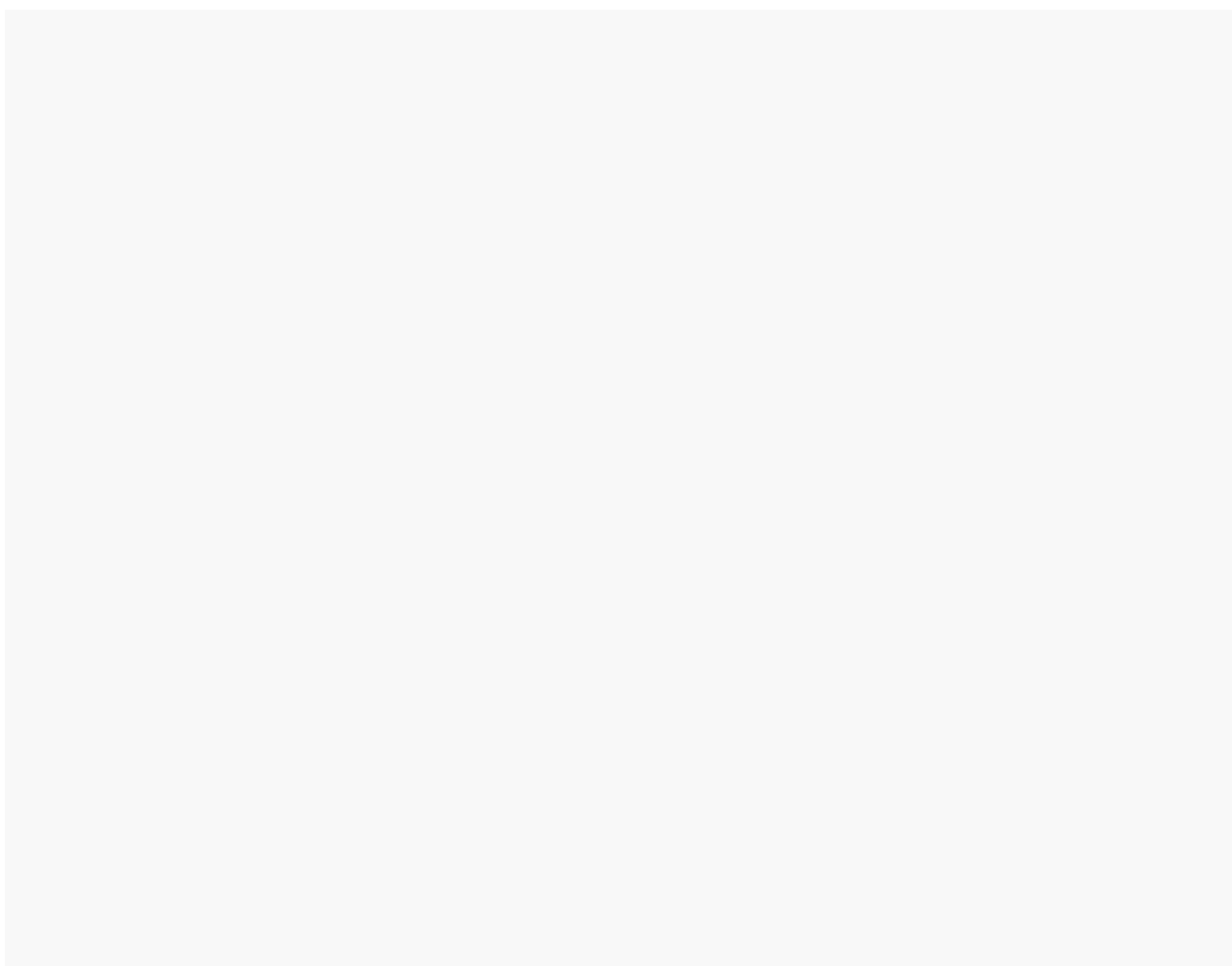
"One of the big goals of all this technology is to automate processes so that associates can spend time on customer engagement versus tasks. We are also seeing how automation is allowing for greater levels of personalization enabling retailers to get closer to that one-to-one customer relationship."

Concierge services are one way in which retailers are implementing a branded connection for consumers in stores while also manifesting convenience.

For instance, shopping mall operator Westfield announced its plans to introduce what it calls, "Service with Style" to assist consumers who visit its United States shopping centers. As with hotel concierges, the service will provide insights and advice for consumers to ensure enjoyable shopping trips ([see story](#)).

Brands and retailers often use special events to solidify a bond and cater to affluent consumers who are now more interested in experiences over goods.

Saks took this strategy with a celebration of its 10022-Shoe Salon when it created a visual installation at its flagship with interactive touchpoints named "10 Galleries: A Decade of Shoes. The installation featured 10 exhibits that celebrated all things shoes in which visitors could interact with ([see story](#)).



Supercharge your summer wardrobe with these electric sandals from @JimmyChoo. #10022Shoe // Link in bio.

A post shared by Saks Fifth Avenue (@saks) on Jun 18, 2017 at 2:16pm PDT

To celebrate the Fourth of July across the pond, where it is popular in British culture to throw American-themed parties, department store Harvey Nichols created an in-store party for the holiday to connect with its shoppers and drive traffic.

The event included live DJ sets, cocktails, live street art, makeup masterclasses, personal styling from swimsuit



brands, luggage customization and a themed menu at its bar and brasserie ([see story](#)).

#### Artificial intelligence takes over

Recommendations are extremely important in the future of retail. While currently this is harder to implement on a bricks-and-mortar level compared to digital, the future will be thoroughly integrated with artificial intelligence sorting through data for greater personalization.

Many experts have looked at a future in which facial recognition and other surveillance tactics will allow a store to immediately recognize a consumer and tailor a personalized experience based on their history.

Retailers are also using AI to streamline their in-store experience by having these systems comb through data to steer the store in the right direction.



*Artificial intelligence will open new doors and opportunities for luxury. Image credit: Amazon*

With advances in artificial intelligence technology, 45 percent of retailers are planning on using AI to improve the shopping experience in the next three years, according to another Boston Retail Partners report.

Boston Retail Partners' "2017 Customer Experience/Unified Commerce Survey" looks into shopping behavior and trends for the upcoming year. What the report found was that AI will serve as a key bridge between the physical reality of shopping in a store and the endless possibilities of shopping online ([see story](#)).

#### What lies ahead in payments

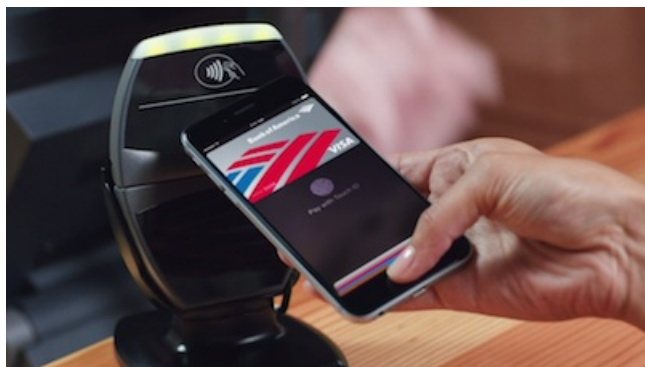
Payment technology is where retailers and developers are seeing some of the greatest innovations, likely able to transform the store of the future completely.

With stores similar to Amazon's Go concept, in which customers use their phones instead of going to a checkout line, becoming closer to mainstream reality. However, this use of mobile and checkout is just one of many new concepts in relation to payments.

For starters, currently the EMV chip technology has been a major theme within retail today. While the new chip concept in credit cards has made fraud more out of reach, the process creates a longer checkout, the exact opposite of where the rest of the industry has been headed.

However, in the future there will be a much faster version of the chip technology that will be safe while also speedy.

Mobile pay is becoming more integrated as well, with luxury retailers adopting solutions such as Android and Apple Pay in stores.



*Apple Pay makes for a speedy checkout. Image credit: Bank of America*

It is possible that the store of the future will mimic Amazon Go completely, eliminating the cashier and checkout, opting for mobile-only payment.

Peer-to-peer payments through message applications such as Facebook Messenger, Venmo and even bitcoin are coming into play as well.

It is likely that in the future payments can even be primarily controlled through voice commands, in which consumers will simply speak a command such as "pay with credit card."

Since the actual process of checking out and payment is among the most daunting aspects of shopping, it has the biggest potential to be completely transformed in the future.

"The payment process is often one of the most frustrating parts of shopping in-store, especially during the holiday shopping season," IFTTT's Ms. Mercogliano said. "With customers abandoning their purchases over long lines, retailers are searching for a way to make the checkout process more convenient.

"Amazon Go is proving just how convenient consumers want the checkout process to be; customers want to completely avoid the checkout process, preferring products be tracked from the shelves to carts via Amazon's just walk out' technology," she said. "Separately, we'll see more retailers take the cashless' approach by no longer accepting cash in-store and focusing just on credit, debit and other electronic methods of payment such as ApplePay and Android Pay.

"This is a trend that we've seen take off in 2017 in small businesses and restaurants, but it will make its way into retail, especially if credit card companies continue to offer companies perks for doing so. Plus, with Facebook's peer-to-peer payment option via Messenger and companies such as Venmo, consumers are going to come to expect retailers to offer this integrated, seamless experience."

#### Shrinking store footprints

Retailers have been continually shrinking their bricks-and-mortar footprint, including reducing square footage, shutting down stores and pulling back on inventory.

The majority of sales are happening in stores but this new digital focused landscape has severely impacted the bricks-and-mortar industry. Extreme rent hikes are also a contributing factor to the lean toward a smaller footprint.

For instance, retailer Hudson's Bay Company entered a global, multi-faceted strategic relationship with communal workspace network WeWork.

One of retail's primary stressors is the operational cost associated with bricks-and-mortar storefronts now that so much of the market share has moved online. HBC's strategic partnership with WeWork and Rhne Capital, an affiliate of WeWork Property Advisors, hopes to lessen the burden by maximizing the productivity and value of the retailer's global real estate assets while also positioning its brands as being on the forefront of experiential retailing ([see story](#)).

Luxury retailers are trading their massive storefronts for smaller concept or pop-up shops. Others are using their stores as a consultation and experiential space, but with the bulk of their inventory happening online.



*Window display for Prada's Galeries Lafayette pop-up. Image credit: Prada*

The concept of the "endless aisle" is a major strategy for retailers of today, in which their inventory never runs out thanks to the digital sphere.

Location convenience is no longer enough to carry a retailer. Simply having many locations in convenient proximity will no longer be a selling point with so many other convenient ways to shop through digital.

Concept and pop-up shops are becoming much more popular with retailers showing off different ways the store of future could look like.

For instance, Hearst magazine Marie Claire's first-ever "The Next Big Thing" concept shop opened on Sept. 23, offering consumers a new way to shop, powered by Mastercard technology and other innovative touch points that are revolutionizing the retail sector. The concept shop, in addition to selling innovative products, demonstrated how in-store retail is becoming smarter thanks to advances in digital technologies that mirror the online experience with smart mirrors in both dressing rooms and for beauty and cashless transactions.

Neiman Marcus, which still lacks a New York location, was on site with stylists to help dress shoppers in a more personalized manner, along with many other events and personalization tactics ([see story](#)).



*Sketch of Marie Claire's first-ever The Next Big Thing concept shop. Image credit: Hearst's Marie Claire*

Luxury retailers are looking to popup stores for a niche and personalized experience that focuses on the experiential aspect of shopping, rather than the act of shopping itself.

Porsche recently opened its own pop-up shop, or "pop-up experience," in Liverpool, Britain to give customers a taste of owning a Porsche vehicle. The pop-up experience offers customers the chance to inspect a Porsche car as well as browse a variety of related products and images all related to owning a Porsche ([see story](#)).



*Porsche's pop up experience in Liverpool*

Also, Spanish fashion house Loewe opened a pop-up shop in Ibiza's Museum of Contemporary Art in celebration of an exhibit of vintage pieces from the iconic Paula's Ibiza boutique.

The fashion house hosted the pop-up shop for the months of July and August, allowing customers to buy products related to the Paula's Ibiza exhibit and pieces from Loewe's collection. The partnership shows how the luxury and art worlds can come together to jointly service the large overlap of patrons between the two ([see story](#)).

"I anticipate that there will continue to be consolidation in the retail space, as evidenced by the retail store closures in 2017," said Kenji Gjovig, vice president of partnerships & business development at [Content Analytics, Inc.](#), San Francisco. "I also think that small regional players who are traditionally bricks-and-mortar, and thus slow to adapt to new technology and trends, are going to fall further behind those who are able to meet the customer demands for technology solutions that optimize the experience."



"A convenient physical location is no longer a differentiator because there are so many options for pickup and delivery," he said. "Price is also becoming less of a differentiator because of the price transparency that ecommerce provides, and the way that this has driven prices down.

"Experience and assortment are the key differentiators in today's market, and retailers such as Amazon have such a huge lead on both that others will have a long way to go to catch up. However, it is possible."

Best practices and tips for the store of the future:

- Bill Demas, CEO of Shopkick:
  - "Creating a personalized experience. The store should know your product, taste and style preferences, past purchase history, the influencers that inspire you, the stores you typically frequent and in what order. So much of brand marketing has been decided by the physical structure of an actual in-store aisle, but as tomorrow's shoppers look to locate and buy from anywhere, at any time, retailers will need to deliver the endless aisle: highly personalized, extremely customized and seemingly frictionless. Whether that means viewing recommended products while in-department or an Uber-like tracking of sales associates en route to shoppers on the floor, marketers win by imagining the same behavioral elements that drive purchase now, and extending that across screens, beyond the store and around the clock."
- Kenji Gjovig, vice president of partnerships & business development at Content Analytics, Inc.
  - "One of my first recommendations to brands is to optimize content on your ecommerce item pages (e.g. the product detail pages of your items on your key retailers). Better content leads to a better customer experience which leads to more traffic (clicks on the item pages); conversion (adding to cart); and reduces buyer's remorse (buying a product only to find that when it arrives on your doorstep it isn't what you thought it was so you return it, which is very expensive for retailers). Make sure each page has multiple images, robust product titles, robust product descriptions, product ratings and reviews and enhanced copy elements."
  - "Invest in your ecommerce business like you do for your bricks-and-mortar business by obtaining the tools necessary to manage your business in a sophisticated way. Quit using emails and spreadsheets to run your business and instead invest in a robust set of analytics tools that can monitor performance and a content management tool that can optimize content."
- Kristin Schoenstein, program director at Future Stores:
  - "Stores are going through major transformations. The store now serves as a fulfillment center, a pickup location for online orders, a place for brand building, community building, a showroom for products, etc. Overall, the goal of the store should be focused on brand building and customer engagement, not necessarily sales. We are seeing more innovation and creativity than ever before. It's certainly an exciting time for stores who are adaptable and willing to embrace change."
- Jie Zhang, Ph.D., professor of marketing at University of Maryland:
  - "Bricks-and-mortar stores and shopping malls need to enhance the experiential aspect of their operations. Offering interactive activities is a great way to promote products and to deepen customer relationships, which will give shoppers reasons to keep on coming back to the store. Introducing more entertainment establishments and recreational facilities is another way to attract and retain shoppers."
- Andrea Kayal, chief marketing officer at Signpot:
  - "From our perspective, no matter the size of the store, or number of locations, it's important the technology uses machine learning to know each and every customer on a personal level. The bot/AI should be learning the best practices for driving marketing outcomes and customer relationships."
- Debbie Hauss, editor in chief at Retail TouchPoints:
  - "Best practices range from the c-suite to the front door of the store. First, there has to be c-level buy-in in order for retail companies to head in the right direction moving forward. That means embracing important new strategies and technologies, then motivating all business units to work toward the long-term goals. Traditional bricks-and-mortar retailers can learn a lot from their pureplay ecommerce counterparts regarding agility and ability to change with consumer preferences and technology updates."

- "Retailers also must celebrate their first-line brand advocates the store associates and managers. Those people can be the first real contact a consumer has with the brand; and in today's competitive and challenging environment, retailers can't afford that first contact to be negative. Plus, with Amazon hanging over many retail businesses like a black cloud, the human element can be a key differentiator. Make it count!"

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