NRF 2020

Top takeaways from the Retail's Big Show

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Future retail success will depend on your ability to develop a "human-first digital strategy," said Kevin Johnson, CEO of Starbucks, while speaking on the main stage at NRF Retail's BIG Show 2020. Over 40,000 retail operators and experts from 99 nations attended the conference and expo in New York City on January 12-14.

NRF 2020 introduced a major shift from the old adage that "every retail company is a tech company" towards a more human-centric vision of retail, where **high tech helps become high touch**.

Customers are still in control, and they are more demanding than ever. They expect brands to offer simple, convenient solutions to complicated lives; to help solve, rather than worsen, global pollution and environmental degradation. All with a human touch. Thankfully, technology can help. Tech such as artificial intelligence (AI), cloud, and tools that make employees mobile can support brands to create deeper, more meaningful connections while still delivering seamless, convenient experiences.

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Looking for simplicity and convenience

We live in complex times. We fear for the environment and our children's future. We are afraid of the next financial crisis. In a digital world with flexible working hours, we feel disconnected from our families and peers, and are at constant risk of burnout. With all these stressors, what consumers really do not need is to spend 10 minutes in front of the toothbrush aisle at the supermarket, trying to understand which product is better – the soft toothbrush, gentle on the gums? The pro-environmental one with the bamboo handle? Or perhaps the one with the silver bristles that eliminate 99% of bacteria?

"Consumers don't want to give up the convenience and simplicity of a disposable world, even if they aspire to live in a sustainable one."

Tom Szaky, CEO, Terracycle

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When it comes to stock, less can be more

Enter brands that make lives simpler. Walmart is one of the retailers who have decided to reduce the number of SKUs in an attempt to simplify decisions and **decrease consumer fatigue**. Reducing the product line also means you can offer a more curated selection, and better underline your brand's core offer – with the added bonus of a more streamlined inventory.

Brands joining forces

What's more convenient than getting all your shopping done at once, without having to go to different stores? Forward-thinking retailers are **joining forces with competitors** to provide consumers with the quick, convenient shopping experiences they demand.

Beauty products subscription service Birchbox teamed up with established pharmacy retail chain Walgreens. In the shops-in-the-shop customers can test the Birchbox products and get exclusive samples. The cooperation came as a surprise to many, but not to Birchbox: after all, "our customers already shopped there," explained Pooja Agarwal, Chief Operating Officer at Birchbox.

Home furnishing retailer Crate & Barrel joined forces with Zola, a one-stop website for couples getting married, for a wedding registry collaboration. The unlikely partnership (the two brands sell comparable items) **was prompted by data**: for a long time, Crate & Barrel had been the top external brand consumers added to their Zola registries. "Control is in the consumers' hands," said Neela Montgomery, CEO at Crate & Barrel, underlining the importance for retailers to accept the story that data tells, and that customers write. "If you try to resist it, you'll lose," she warned.

The mainstream of voice

Voice-based queries are becoming mainstream - and voice shopping will be next. 20% of US consumers are likely to make a purchase using voice in the next three years, Patrick Gauthier, Vice President of Amazon Pay, announced. Why the success? **Voice shopping removes friction**. It's natural. It's faster than typing. It doesn't require consumers to learn how to use any device. For retailers, this new way of browsing and buying goods will require changing the structure of their e-commerce sites. Voice is contextual: when speaking, people tend to skip some information, and to ask follow-up questions. Retailers will have to consider a new way of navigating the catalog. They will also have to **move from keywords to context**, and **from shopping journeys to micro-moments, Gauthier advised**.

Stores as a human experience

As online gains ground (this holiday season was the first when most of Crate & Barrel's sales happened online), physical stores are changing. They used to be places where you entered, purchased, and left. In an increasingly lonely and isolated society, Starbucks' CEO noted, brick-and-mortar locations can gain an important new role as that "third place" (after your home and workplace) where engagement, and **true human connections**, are forged. And technology will help bring forth the change. Starbucks' very own AI project Deep Brew was developed with the goal of freeing staff members so they can spend more time in meaningful customer interactions instead of wasting it on inventory forecasting and staff scheduling.

And when you create human connections, your business benefits. In his opening keynote, Microsoft CEO Satya Nadella underlined how important it is to hand transformational technology to store employees. "**Giving data to employees** is probably the single most ROI-intensive thing you can do," he said. "It increases your conversion rate by 15 percent and your satisfaction rate by 10 percent."

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"Our colleagues in stores are probably the most important people in the company, because from an engagement perspective they touch our customers the most. It's also about them having the right technology, so that if one of their customers is coming in, they can connect with that customer's online shopping [history]. Equipping associates with knowledge of their customers is increasingly important, because the time people spend in-store is shrinking."

**Parinda Muley, VP Innovation and
Business Development, Macy's**

HOW WILL AI FOSTER HUMAN CONNECTIONS?
Starbucks' goal is to "make a positive contribution to humanity" – and AI will play a key role. "If a customer comes up to our point of sale to place an order and they're placing their order, right now the barista is heads down and typing in that order," Kevin Johnson, CEO of Starbucks, explained. "We're doing some research that says, 'what if that barista had a microphone with some AI Deep Brew natural language behind it, and they're having a conversation with the customer'. [...] Neuroscience will tell you that that eye contact and conversation is a much better connection with another human being than sitting there typing on a Point of Sale. So we're trying to invest in those things that we know can enable our Starbucks partners to spend more time connecting with one another, and connecting with customers," he concluded.

I have data, what now?
Discover what technology you need to make sense of the business and consumer data you harness.

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Accounting for sustainability and meaning

85% of the apparel that is produced is landfilled. One third of the food we produce is wasted. These are just some the alarming numbers that were mentioned during the show. As people are increasingly aware of the needless waste and environmental and social dangers caused by unrestrained consumption, consumers are torn between these worries and the deeply human desire to buy and use products as a means of self-expression.

For businesses, the question for the future is: **how can you give consumers the variety of products they desire without causing more waste and pollution?** The answer, some suggest, may lie in transforming the concept of *retail*.

Digital before physical

What if you could produce items that have **no environmental footprint**, don't produce carbon emission, and create zero waste? Digitally generated clothes tick all these boxes – and more. Norwegian company Carlings has launched a digital-only fashion collection. You purchase an outfit, get it digitally fitted onto your photo by the company's 3D designers, and voilà – you can post it on Instagram, or your favorite social page. The overwhelmingly positive response has led some companies to go even further, linking social channels with their supply chains. New designs are **tested as digital-only items** first, and only the top downloaded pieces are put into production, reducing both risk and waste.

Replacing ownership with use

Rental has been around for a while, but on the fringe of consumption. Recently it has gone mainstream; renting clothes, in particular, has gone from cheap to chic thanks to services like Rent the Runway, an online rental for clothes and accessories that includes luxury items. 80% of the clothes in the average American's closet are worn three times or less, Jennifer Hyman, CEO and co-founder of Rent the Runway, explained during her keynote. Rental enables consumers to **reconcile their desire for new styles and environmental concerns**. "Fast and sustainable don't have to be in conflict," she said, and consumers seem to agree: in 2019, Rent the Runway was valued over $1 billion. Evolving **technology** is behind the success of this kind of service, with Rent the Runway describing itself as a "fashion company with a technology soul." "Rent the Runway has had to pioneer 100% reverse logistics of physical goods," Hyman explained, hinting at the tech power and innovation that are needed to deliver what the company defines a "**closet in the cloud**."

"The pride of ownerships is getting replaced by the pride of access."

Jennifer Hyman, CEO and Co-founder, Rent the Runway

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HOW DOES RENTAL DIFFER FROM TRADITIONAL RETAIL?
The transaction is at the heart of retail: once a customer has bought an item, the goal is to ensure that the customer will return and buy again. Not in rental. When you rent products, your relationship is built not just on the quality of the product, but on your **overall process**, from your quality control, to support, to the speed and simplicity of delivery and returns. If you want consumers to choose you again and again, you must create a simple, straightforward way to return items. You must ensure that products are checked before they recirculate, so they are always in top shape. You must keep a large enough variety of products on hand. And you must have the **technology to track everything** –what's out or coming back, what are the specific conditions of each single item, what is popular, and which kind of consumers like this kind of item.

These new challenges represent a great opportunity to gain **valuable information** on consumers' preferences and tastes. Rent the Runway has been using the feedback that customer send every time they return an item to optimize the selection, even expanding to new product lines. "Create a **customer feedback loop**," Jennifer Hyman suggests retailers.

Recommerce

You may know recommerce by its old name - "buying second-hand". But while "second-hand" evokes images of dusty thrift stores and charity auctions, recommerce smells of sustainability, and has the allure of cool. In the past three years, the overall resale market has grown **21 times faster** than the retail apparel market, according to a report by thredUP, the largest online thrift store. This year, 33% of Generation Z-ers (teens to twenty-somethings) and **25% of luxury customers** will buy used products.

Why the sudden interest? **Sustainability** plays a role: buying used enables consumers to get a variety of items without the environmental impact. The **price-quality** ratio matters, too. "It's the democratization of luxury," proclaimed Charles Gorra, CEO and founder of Rebag, a second-hand marketplace for designer handbags.

Leading with values

Brands have been talking about values, transparency, authenticity for a long time. The time for talking is over. As consumption intertwines with politics, identity and sustainability, brands that **take a clear position** and **drive real change** are the ones that are winning consumer loyalty.

During his keynote, Starbucks' CEO Kevin Johnson described how the company achieves its purpose of **bringing positive change in the world**. They have been employing veterans and army wives, empowering employees with tech so they can spend more time chatting with customers who need a friendly smile, and even building fairer supply chains. Starbuck's "From bean to cup" **traceability program**, built on Microsoft technology, enables customers to see in which farm the coffee in their cup was grown and roasted. The program has been delivering unexpected social returns: being a certified Starbucks supplier has enabled farmers to obtain better financing conditions, and a brighter future.

Phil Graves, Head of Corporate Development at Patagonia, described how the outdoors clothing brand has been **repairing clothes** to keep them in use since the 1970s, even if that may have led to lost sales. The company, whose advertisement slogans include "The best jacket you can buy for the planet is the one that already exists," now runs over 70 repair centers.

A focus on ethics has transformed outdoors gear brand Cotopaxi **from a start-up to a success story** in just few years. The brand aims to "create innovative outdoor products and experiences that fund sustainable poverty relief, move people to do good, and inspire adventure." On the Cotopaxi website, shoppers can learn where the materials for each garment come from, including origin of the textiles, details of the factory where the items were (sustainably) produced, and the company's giving-back model. The strength and authenticity of the Cotopaxi brand story has helped build a community of faithful customers/fans who share the same values, and want to do good. "30% of our customers tag on a donation when they make a purchase," said Annie Agle, Director of Impact and Brand.

"Recommerce is on the same trajectory that e-commerce was in the 90s."
Andy Ruben, CEO, Yerdle

"In a few years, resale and rental will be how everyone shops."
Jennifer Hyman, CEO and Co-founder, Rent the Runway

SHOULD YOU ENTER THE RESALE MARKET?
As the recommerce market booms, traditional retail brands must take a bet, or leave their items, and brand control, in someone else's hands. "[With third-party marketplaces] there is no longer brand control of how the products are showing up in the world," warned Andy Ruben, CEO at resale platform Yerdle. His advice is that "**brands and retailers must own their re-commerce**." When brands manage first-hand their second-hand resales, they get the chance to control and curate the whole experience. They can deliver authenticated items that are in optimal conditions, and they can ensure that each product reaches consumers with the correct branding. It's also an effective way to maintain relevance with old and new customer segments. Since launching an official website to sell and buy branded used gear, outdoor clothing brand Patagonia has managed to attract customers that are on average 10 years younger than their usual customer. The assurance that the items are authentic and brand-approved may have contributed to the success of the initiative. "Whenever our customers buy on wornwear.com, they receive authentic and certified pre-owned items that have been inspected multiple times for quality," said Phil Graves, Head of Corporate Development at Patagonia. "And as a brand, we love that we get to control the entire customer experience and ensure it's top-notch," he added.

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What the future holds: words of advice

So what will the retail of tomorrow look like? What should you, as a retailer, do to stay on top, keep your customers happy, and stop worrying for a moment about all the new trends, technology, and consumer demands waiting behind the corner?

Here is the best advice from the retailers, tech experts, professionals and gurus who shared their knowledge at NRF 2020.

Develop your own tech to achieve your own goals

"If you think about the needs for the 2020s, every retailer will need to build their own tech intensity. It's not about taking away the art of retail. If anything, it's about reinforcing that core art of retail, the core operational excellence of retail with tech intensity." Satya Nadella, CEO at Microsoft.

## Have a strategy – and be ready to rethink it, constantly
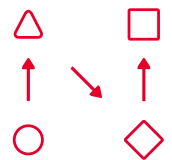
''One thing you never want to do in retail, and I want to be really careful of this, is you never say, 'We have the answer. We've figured it out.' Because our customers are always changing. Regardless of how well you think you're doing, a week from now, a month from now, there will be much more to do.'' John Furner, CEO at Walmart U.S.

Rethink the physical store as a digital space
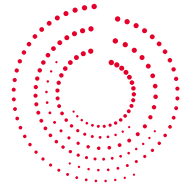
"What if you took the entire store and effectively thought of it as a computer? You kind of do that with your website. You do that with your mobile app. What if the physical space itself had all of the computing signal, all of the analytical signal, that you now have on your website?" Satya Nadella, CEO at Microsoft.

Consider the growing role of sustainable modes of consumption

''In the future of retail, the brands that win are the ones that offer repair, they offer resell and they offer recommerce programs. […] These circular supply chains and circular business models used to be a competitive edge for brands like Patagonia. But going forward, I firmly believe that they are going to be the means for companies, brands and retailers to survive.'' Phil Graves, Head of Corporate Development at Patagonia.

## Build trust for long-lasting customer-brand relationships

''If there is no trust [in your brand], you are a commodity – and you can be replaced.'' Patrick Gauthier, Vice President at Amazon Pay.

## Your physical stores are still important –

but they might play a different role tomorrow. ''The future of retail is digital, but the future of brand is physical.'' Russ Kahn, Sr. Vice President of Retail at Puma North America.

You need data to understand your customers –
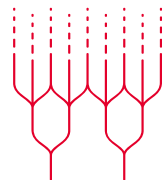
but in order to use the data, you need it in an unsiloed, meaningful format. ''People overstate the analysis element with data and underestimate the plumbing. The data plumbing is just as important. Connecting the pipes can be harder than writing the algorithms.'' Jeff Weiser, CMO at Shopify.

If you use data the right way, nothing can stop you in your path to success
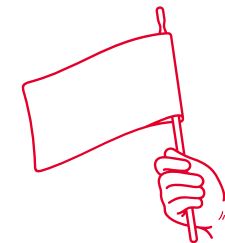
''As retailers you have the most valuable asset – commercial scale consumer behavioral data. You have the power to shape your business models, to transform your business, and build your own future.'' Satya Nadella, CEO at Microsoft.

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There's more to learn.

It can be tough to keep up with quick-moving technology and ever-new consumer trends.

That's why we organize conneXion.

conneXion is the official LS Retail and Hospitality conference dedicated to LS Retail partners and retail, foodservice and hospitality operators. You can get the latest on the industry, dive into the LS Retail products, and ask questions to peers, decision-makers, and LS Retail key staff. See the trends, share your challenges, and find solutions.

Join us on May 18-19, 2020
in Reykjavik, Iceland.

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