2020 RETAIL TRENDS

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As we navigate the start of 2020, the retail industry continues to be dominated by a push towards frictionless, channel-agnostic experiences.

The term “omnichannel” has been fractured and replaced by endless new buzzwords that describe the customer’s desire to have in-store, online, and mobile experiences all work together – each bringing something to the table but in a unified, brand-consistent manner.

What we continue to see though is the ever-growing influence of younger generations, both millennials and Gen-Z, in how retailers and brands go to market. These influences will continue to grow as the purchasing power of these groups evolves and creates a very real incentive to retailers to meet their needs. Lastly, the lasting impact of COVID-19 on retail cannot be overlooked as most retailers have had to shut their doors temporarily and focus solely on their digital channels.

PUSHING FOR INNOVATION IN CONVENIENCE

Last year's holiday season saw a bigger push for convenience for the consumer in their shopping options. Services like buy online, pick up in store (BOPIS) were dubbed the winner of the season with a big uptick in usage, especially for those merchants offering same-day service. Between BOPIS and same-day delivery, Target estimated that these services were up more than **50%** from November-December last year.

While obviously important during the craziness that is the holiday season, these same services are going to be vital for retailers who seek to bounce back quickly from the impacts of COVID-19. When the country has returned to some form of normalcy and consumers are able to go out and shop again, the big question is... will they? It's very likely that people will still be very hesitant to immediately run back out to stores and spend their disposable income. However, retailers who can guarantee that their customers will leave with what they came for, via a service like BOPIS, will have a leg up on their competition. Creating a frictionless return or exchange process will be just as vital for digital-native brands as consumers are looking to avoid (or simply cannot make) trips to a shipping location for returns. Returnly launching **Instant Gift Exchange** for Shopify Plus was a big step forward in the world of simplifying online exchanges. Having a simplified "drop and go" return policy that partners with a major national carrier like UPS or FedEx should also be considered table-stakes at this stage with many retailers' doors to their own stores closed. While these capabilities offer merchants much needed near-term resiliency, their benefits will extend well into a post-Coronavirus future.

THE EVOLUTION OF THE STORE FORMAT

Lost in the noise of the “Retail Apocalypse” and stories of retail store closings is that the majority of store closures in 2019 belonged to a small number of legacy retailers that shuttered their doors for good. The remainder of closings were largely balanced by openings and are part of the natural life cycle of a retailer. The fact is retail stores are not dying – they are however under a microscope, and their roles are evolving with the times. Mall traffic continues to decline, and low-tier malls have a skyrocketing vacancy rate of **25%, as compared to 5%** for top-tier malls.

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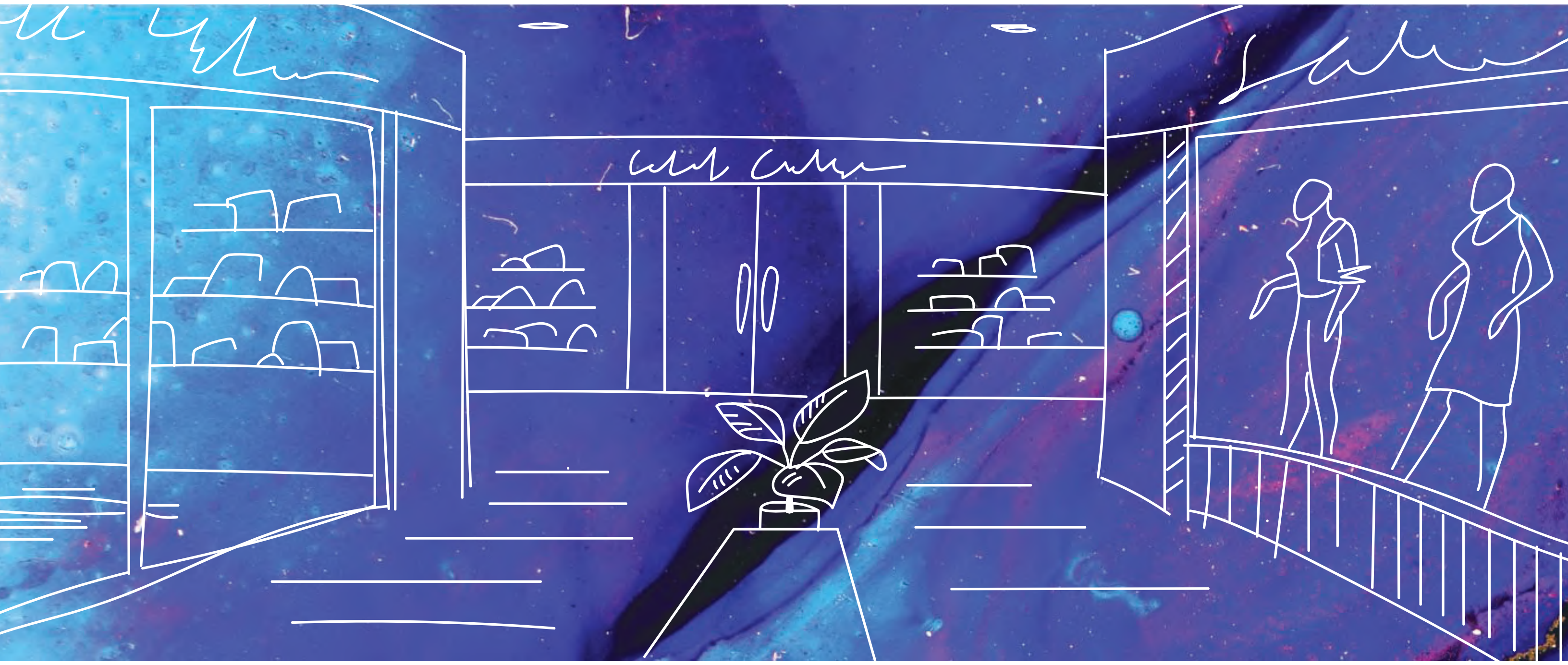
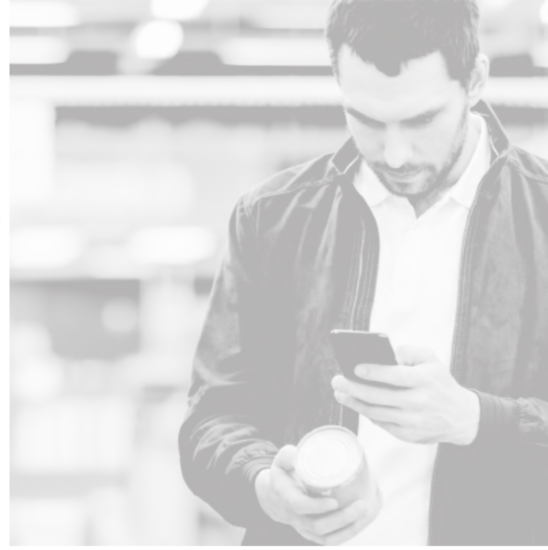


While traditional malls are struggling, new small-format stores are thriving. Target is planning on rolling out more small-format **stores** during a multi-year strategic transformation focused on creating new and convenient experiences for its customers. Nordstrom continues to roll out its Nordstrom Local stores, saying that customers who visit them spend **2.5x more** than in their traditional stores. Amazon continues to innovate and explore different store types, most of which (excluding Whole Foods) focus on smaller store formats and very specific product offerings. All of these **store types** rely on a laser focus on the customer by providing services that they cannot get elsewhere, or a relevant, localized product offering. The synergy that exists between a brand’s online presence and its retail footprint also cannot be overlooked, with store openings leading to a **37% spike** in web traffic for a retailer on average. Simply put, retailers need to continue to innovate their store formats, creating relevant experiences for their customers and ensuring a collaborative approach with their online channel.

DIGITAL EVOLUTIONS ALL AROUND

Rather than talk about “digital transformations” for retailers – another well-established buzzword in the lexicon – retailers should be evaluating how technology can be evolving each area of their business – whether it’s channel specific (online, in-store) or behind the scenes in different functional areas (supply chain, customer service).



We've previously discussed how **5G cellular data** will open up new options to retailers as they'll have more speed than ever before over the air, supplying faster data to both customers and store associates alike. From a **payments** perspective, the focus will continue to shift from contactless-checkouts to checkout-free stores altogether. Amazon Go brought the focus to this space, but the technology that drives the required underlying infrastructure has been growing with start-up **funds** to make these experiences even more widespread. Spending on AR/VR technology, which can be used to enhance both online and in-store experiences, is projected to grow **79% in 2020** from the previous year. With the impact of COVID-19 on in-store visits, these are the exact type of new experiences that can generate excitement and brand engagement, bringing the store to the consumer while the consumer can't get to the store.

With regard to digital channels, investments in visual search will continue to rise. Letting consumers search by images rather than text was growing in importance already, but with shoppers unable to interact with store associates in the current COVID-19 environment, it's even more critical that product questions are able to be answered virtually. The ability to get recommendations, find complementary products, or search for something that was found on social media or television can be major drivers of top-line revenue gain. Research shows that **62%** of Gen Z and Millennial customers want to have visual search capabilities, and that websites that are early adopters to visual and voice search will increase digital commerce revenue by **30%**.

Customer service can also be improved through a digital evolution. Chat programs, whether via text or in-app, can help keep customers when things go wrong and help build brand loyalty with customers who increasingly view retailers as needing to be available 24/7. In fact, **44%** of customers say that having questions answered by a live person during an online purchase is one of the most important features a website can offer.

UNTAPPED DATA AND ANALYTICS POTENTIAL

Analytics continues to be a topic of discussion across the business as we move into 2020 and retailers look to drive consumer intimacy and gain cost efficiencies. Having the right product, in the right place, at the right time, and for the right person all relies on truly knowing the customer and what their needs are. Retailers, now more than ever, face pressure to have an intimate knowledge of their customers so that they can target them effectively and personalize the experience where appropriate. This focus is even more critical in a time where most shoppers are only able to interact with a brand online or through social channels. Building a true 360-degree view of the customer and then taking the action to tailor messaging to a customer will make the most of each precious interaction. Beyond the customer, though, is this untapped potential of data throughout a retail organization. Driving into critical use cases such as **optimizing store operations,** fraud detection, robot process automation, and merchandise planning – analytics can bring to light vital levers that organizations should be looking into to **save costs** during revenue downswings.

SUSTAINABILITY'S MASS APPEAL

Retailers, like all companies, have often been faced with the balance of cutting costs and increasing sustainability, both environmentally and socially. In the past, cost-cutting methods seemed to win, however with the rise of the younger generation, sustainable practices for retailers are becoming a more critical business practice.

A 2019 **report** shows that 54% of Gen Z and 50% of Millennials are willing to spend an incremental 10% or more on sustainable products. Reformation, Everlane, and Levi Strauss have all placed a focus on **sustainability** in the apparel space. Imperfect Foods has challenged traditional grocery norms with the mission of eliminating food waste by selling "imperfect" produce and other food items. Eileen Fisher and Patagonia both have product lines that feature **used items**, and these revenue streams have been found to not cannibalize their existing product lines but to bring in net new customers that don't match the typical demographic.

Rent the Runway hit unicorn status in 2019 with its **circular economy** foundation, and it may not be the only one to do so moving forward. Gartner has gone so far as to predict that circular economies will replace linear ones **within 10 years**. Retailers that ignore this trend and focus solely on costs might have a healthy COGS line today but are putting their top-line revenue at risk as younger generations become bigger spenders in the marketplace of tomorrow. That time isn't far off either – millennials already are spending **more** than any other generation, and are projected to spend **$1.4 trillion in 2020.** Gen Z, at a 'measly' **$143 billion** of spending power, will continue to grow in both dollars but also influence as they grow in the workplace and pay off student debt.

FOSTERING DIVERSITY & INCLUSION

Retailers that haven't yet integrated diversity and inclusion in their **business** are at serious risk of hurting their long-term brand growth. As younger, more diverse generations become increasingly powerful in both spending power and influence, it is increasingly important that retailers match this diversity and inclusion in their marketing and brand image. Apparel retailers like Bonobos, J.Crew, and H&M have all put a priority on **more inclusive** size options. With 56% of Gen Z shoppers shopping outside of their gender, retailers are also reacting and putting a focus on gender-neutral **beauty** and **fashion.**

Simply putting a diverse or inclusive product offering on the shelf isn't enough though. Retailers need to foster a diverse and inclusive organization, from the top down. Macy's announced a five-point plan to promote D&I in the last year, and luxury retailers CHANEL and Gucci **both** named new heads of diversity and inclusion. Retailers should embrace positions with authority of diversity, equity, and inclusion, but it is also important to ensure that there is diversity embedded throughout all business units, work roles, and teams, whether it be design, marketing, operations, or store associates. These initiatives are multi-faceted – organizations that focus on D&I are going to be better able to attract and retain talent and are going to have a better reputation amongst socially-conscious consumers. They're also going to be able to better understand the diverse consumer base of 2020 and beyond, creating more meaningful connections and ultimately increasing brand loyalty as a result. Simply put, a focus on D&I is not an option any longer, but a strategic imperative for retailers.

CLOSE

Uncertainty and disruption continue to radiate throughout the retail industry, even more so as businesses steer through the environment created by the COVID-19 pandemic. The growing importance of digital tools and capabilities has been propelled forward at hyper speed, as has the need to demonstrate a firm understanding and demonstrative commitment to the ideals and values that mean the most to consumers.

As we move forward through the year, retailers must continue invest in efforts and resources that help them understand, engage, and relate to consumers to a deeper and more nuanced degree.

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