



Frontier(less) Retail

Introducing Frontier(less) Retail—our exploration of the future of retail, created in partnership with *Women’s Wear Daily*.

We’re thrilled to unveil this report, which analyzes not only the current and future state of UK and US commerce, but also the latest innovations and consumer behaviors in China. We’re also thrilled to celebrate our debut partnership with *Women’s Wear Daily*—an iconic brand in global retail news, media and analysis. *WWD* has been at the heart of breaking news for over a century, and we’re excited to work with such a prestigious and authoritative voice.

The inspiration behind Frontier(less) Retail is that the current retail landscape seems to be just that—borderless, blurred and amorphous, with collapsing boundaries everywhere. The physical and digital realms are set to merge in new ways with the introduction of artificial intelligence, virtual reality and the Internet of Things.

Interactions are in flux too, as digital interfaces become increasingly intuitive, touchable and tactile thanks to new cognitive technology and haptic interfaces, and even conversational (with help from Amazon Echo and Facebook Messenger).

Geographic territories are becoming increasingly meaningless as retail goes truly global—seen as Amazon and Alibaba spar in each other’s territories. Even the notion of “product,” which once simply meant a solid, tangible entity, is in freefall. Customers now accept the digital, the nebulous, the ephemeral, and even the borrowed as well worth spending money on, rather than seeking permanent ownership of physical items, and sometimes forgo product altogether in favor of experiences.

What does this mean to retail? Change, challenge, opportunity, and a permanent need for agility. The speed of innovation is so fast today that even companies which embrace transformative innovation are finding that the pace of change, rather than being incremental, is far more rapid than they could ever have imagined.

A seamless commerce experience is paramount; minimal gap between inspiration and purchase is the key to success. Retail today is increasingly anticipatory, cognitive and personalized—while deliveries are expected in an instant, for free, as we found from our consumer survey data.

But technology only goes so far. Successful retailers are seeing technological advances as a given, a channel that needs to be constantly optimized—an indivisible part of brand DNA rather than a supplement or an add-on. Yes, retail is about convenience, ease, and seamlessness, especially when it comes to categories associated with utility, but on the flip side, much of retail is still about immersion, and interacting with physical products.

It’s an exhilarating time to be in business—and will remain so. Join us as we explore the new Frontier(less) Retail.



Lucie Greene
Worldwide director,
The Innovation Group

Frontier(less) retail

Clicks and bricks, online and offline—in the age of ubiquitous omnichanneling, it's not either-or, it's all of the above. Retailers are only now adapting to a world of buying on tablets, smartphones and even Apple Watches—now it's time to get ready for retail that's integrated into every surface of people's homes, cars and even clothing.

“The best retailers don't really differentiate physical from digital shopping,” says Ed Nardoza, editor-in-chief of *Women's Wear Daily*. “They need to offer whatever experience and convenience the shopper demands, when they demand it.” Amazon has set the bar high, and traditional retailers are straining to catch up with heightened expectations of service and delivery.

But it's not just the digital-physical gap that's collapsing, or at least becoming less relevant than previously. As boomers shop more like millennials, mass retailers dabble in luxury, and shoppers scour the globe for the best deals, frontiers both literal and figurative don't mean what they once did. Welcome to Frontier(less) Retail.

Ubiquitous digital commerce

In the age of the omnichannel consumer, digital is infused throughout the buying process, and it's difficult to separate e-commerce from shopping in general. Nonetheless, 2015 saw an inflection point in online shopping that may be a sign of things to come.

Amazon has become the gravitational center of e-commerce to a degree not seen before, setting a baseline for what consumers expect from online shopping. The tech giant increased its US e-commerce sales by \$23 billion in 2015 compared to 2014, accounting for 60% of all online sales growth.

Amazon wants to be consumers' go-to for simple household items for daily use, as seen in its Dash internet-connected buttons, which allow users to reorder household staples with a single press, and numbered more than 100 in March 2016 (JD.com, a Chinese that resembles Amazon, announced JD Now, a similar service, in October 2015). The company also wants to dominate fashion retail: a May 2016 report by Morgan Stanley predicts that Amazon's e-commerce platform will account for 19% of sales in the US apparel industry by 2020.



Our study conducted for this report using SONAR™, J. Walter Thompson's proprietary market research tool, found that 83% of US consumers and 82% of UK consumers had shopped on Amazon in the past year. We also found that 80% of US consumers and 70% of UK consumers prefer to shop at Amazon over other online retailers, with this number rising to a peak of 88% among US millennials.

In 2015, consumers spent more on apparel and accessories than on any other category for the first time, according to a March 2016 report from comScore. This upset the status quo of the past 10 years, during which time computer hardware consistently sold the most of any category. Mainstream, mass-market consumers are finally comfortable with online purchasing when it comes to personal and tactile items such as clothing, as well as standard, interchangeable products like books and iPhones.

Consumers are also newly comfortable with multiple paths to purchase across digital and physical channels. The “click and collect” model, which allows consumers to buy online and pick up in store, was a novelty a few years ago, but today is growing across every sector from grocery to fashion—Amazon recently partnered with luxury outfit Moda Operandi to trial the model, for example. Nearly a third of US holiday shoppers used click and collect, according to a report from the International Council of Shopping Centers, and most went on to buy additional items, boosting in-store sales.

Adapting to a world where fewer consumers own cars, Ikea has been testing “pickup points” at 30 locations around the world, located closer to urban centers for people who would rather not bring merchandise all the way home from Ikea's suburban stores. “They can go to a store if they want to physically see and touch it and try it, and then they can come closer to the home to a pickup point,” says Göran Nilsson, manager of concept innovation at Inter Ikea Systems BV. “If they want to save even more money they can pick it up themselves, and closer to their own home ... you can combine physical and digital meeting places in a more effective way and seamless way.”



Amazon Dash for laundry

Sample digital trend: AI retail

AI has emerged in 2016 as a buzzword throughout the technology sector and beyond. At the 2016 Retail's Big Show, the January flagship event of the US National Retail Federation, more exhibitors than ever before were promoting some kind of AI technology.

As tech giants have developed deep learning algorithms, big data is increasingly being used to power insights in retail that formerly would have only emerged from human intuition.

"The great advantage of the offline world is you have sales people who go up to the customer and say, 'what are you looking for?' It has been very difficult to do that online," says Andrew Robb, chief operating officer at Farfetch. "I do think online we're going to see more and more things designed around providing personalized service, and offline more use of customer data, which typically there's zero available."

The North Face has been an early mover in AI-powered retail. Working with digital shopping company Fluid, it has developed a tool called Fluid Expert Personal Shopper that is powered by IBM's Watson cognitive computing technology.

**72% of US
millennials
believe AI will be
able to predict
what they want.**

SONAR™

Using natural language, online shoppers respond to a series of questions about what they're looking for, and the tool gradually narrows down the available options to suit. For example, a mountaineering adventure in Colorado in the springtime will prompt suggestions for suitable jackets and outdoor gear. The hope is to offer a more intuitive approach that matches what consumers are actually thinking, rather than forcing them to interact with the retailer's own system for categorizing products.

"The retail industry, like many others, is awash in structured and unstructured data, from social media to text messages to customer reviews," Stephen Gold, chief marketing officer of IBM's Watson group, said in a release. "By tapping into Watson, retailers now have the power to turn this data into meaningful insights that can make the shopping experience more intuitive, informed and enjoyable."

AI may be a behind-the-scenes retail technology, but our SONAR™ survey reveals that consumers are interested in how it will be used in retail going forward: 70% of US millennials, and 62% of millennials in the UK, say they would appreciate a brand or retailer using AI technology to show more interesting products; 72% and 64%, respectively, believe that as technology develops, brands using AI will be able to accurately predict what they want.

Machine vision is another AI-related field of innovation that can already benefit brands. "Visual listening" allows algorithms to examine photos on Instagram, Pinterest and other visual social networks to see what consumers are "saying" in visual terms about a brand.

"Traditionally, advertisers look at the people who have purchased something, and they say, oh, what age are they, or what ethnicity are they? They only look at a couple of facets of those people," says David Rose, CEO of Ditto Labs, a visual listening company. "What's really interesting about AI is you can look at a million things about someone and then try to find people who are most like that person, across a million different variables." This allows brands and retailers to take a more psychographic-based approach and reach out to groups of consumers who are much more likely to have an affinity for their products already, Rose says.

AI startups such as Edited and Stylumina are also pitching AI to the fashion industry as a way to identify trends earlier, based on a sea of photos and social posts. Such services could give legacy retailers and others a leg up on Amazon, which can identify unmet demand based on the streams of data flowing into its search box.

"The smartest thing a business can do is partner with a fashion-focused tech company with AI at its core," Geoff Watts, CEO of Edited, told Business of Fashion. "Building AI teams from scratch, or acquiring AI startups and retrofitting them to have a retail focus, requires a substantial investment of time and money."

Why it's interesting: AI is no longer the stuff of science fiction and it is poised to disrupt nearly every industry over the next decade by supplementing human intuition. Retailers should investigate this space, if they haven't already begun to do so.

Sample experience trend: Immersion 2.0

“Digital” and “experiential” used to be seen as mutually exclusive. The digital store experience has often been framed in terms of utility, seamlessness and function, while experiential relied on the more intangible and emotive.

Now, innovative companies are blending the two. Museums, retailers and restaurants are employing immersive technology to tantalize and thrill consumers. The UK’s Selfridges department store on Oxford Street, London, has launched a wellness platform, including digitally immersive yoga with the Yung Club. Fitness brands Equinox and Les Mills in collaboration with Reebok have both introduced immersive exercise concepts where data is visualized from movement, or participants are taken on a journey.

Creatives have taken this offline, with new digital experiences taking over parks, public spaces and flagship stores alike. Experiential agency Moment Factory created an installation for Oakley’s Fifth Avenue store in Manhattan, in which a dynamic image at the store entrance encourages passers-by to wander into the store.





“We want to offer a good experience for the viewer,” says Marie Belzil, multimedia director of Moment Factory. “Instead of being in a billboard kind of rhythm with super-short, flashy messages, we think about longer sequences, spa-like experiences, something that is relaxing. How do you use a lot of pixels so that people will actually enjoy spending time watching it, and not feel that it’s aggressive?”

Retailers are also innovating with digital interfaces. At the 2016 digital innovation show CES, Panasonic introduced high-speed projection mapping in its Future of Retail display, which created light displays in real time, based on consumer movements. It also introduced smart shop windows that can instantly transform from an opaque digital image to a transparent view of real-life products. Users can also tap the window and find out the price of items on display.

“I’m excited about digital immersion in stores to create retail theater,” says John Vary, innovation manager at retailer John Lewis. “We want to create a compelling complement to the online experience which people invest in emotionally. The move into services and cultural events is interesting. You have to experiment and solve real problems for people. I think services will be a big area of expansion. We’ll expect products to be live, evolving service providers.”

Why it’s interesting: Digitizing stores shouldn’t be about slapping screens on every possible surface. It should be about using technology to create a greater sense of engagement with the physical space and the products on display.

CASE STUDY

The Nature of Motion

In April 2016, Nike created the Nature of Motion, a multi-faceted exploration of the brand's approach to movement, exhibited during the Salone del Mobile design week in Milan.

Nike's exhibition, located in a sleepy part of the city away from the rest of the design shows, took over Ex Fabbrica Orobica 15, an industrial space built in 1920. Inside, visitors wove their way through a labyrinth made from stacked shoe boxes.

Nike partnered with eight different external designers to embed installations in the maze, each of whom used different mediums to interpret the idea of "natural motion."

"The future is all about haptic intelligence," said John Hoke, VP global design of Nike, in a release just prior to the design week. It's about "enabling the body to gather information not just from sight and sound but also from feel."

The Nature of Motion reflected this approach. The first installation was a set of drums by Italian designer Martino Gamper, who repurposed Nike's Flyknit textiles to explore the rhythm of natural motion, stretching them over laminated plywood and fastening them with laces.

Nike's internal design team created further rooms, which gave visitors an up-close, immersive understanding of the brand's longstanding research into natural motion. Rooms included an exploration of the Nike Free RN Motion Flyknit, "Nike's most natural ride yet," and experiments in 3D printing.

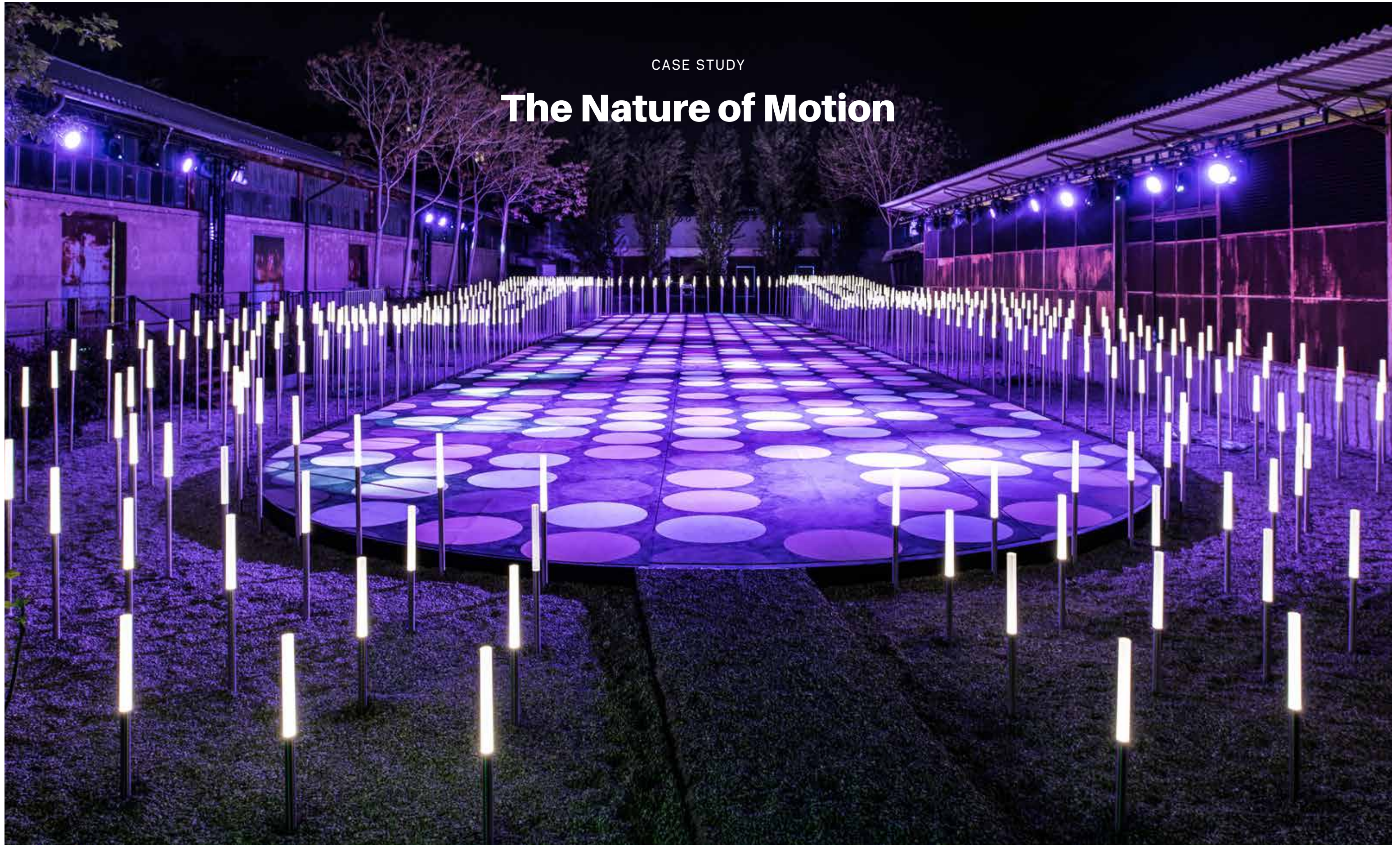
Before leaving the exhibition, guests encountered an installation of multicolored dots covering the courtyard space, designed to help them discover their natural motion. One guest decided to hop out solely on the yellow circles, while another danced across the courtyard.

Retail takeaway: Like Nike's laboratory, the Nature of Motion was created as a place where design, science, technology and emotion meet. Visitors were sent on a journey that left them with a deeper understanding of the brand's mindset on both a practical and conceptual level—going beyond sport shoes.

The Nature of Motion by Nike

CASE STUDY

The Nature of Motion



Physical retail and experience

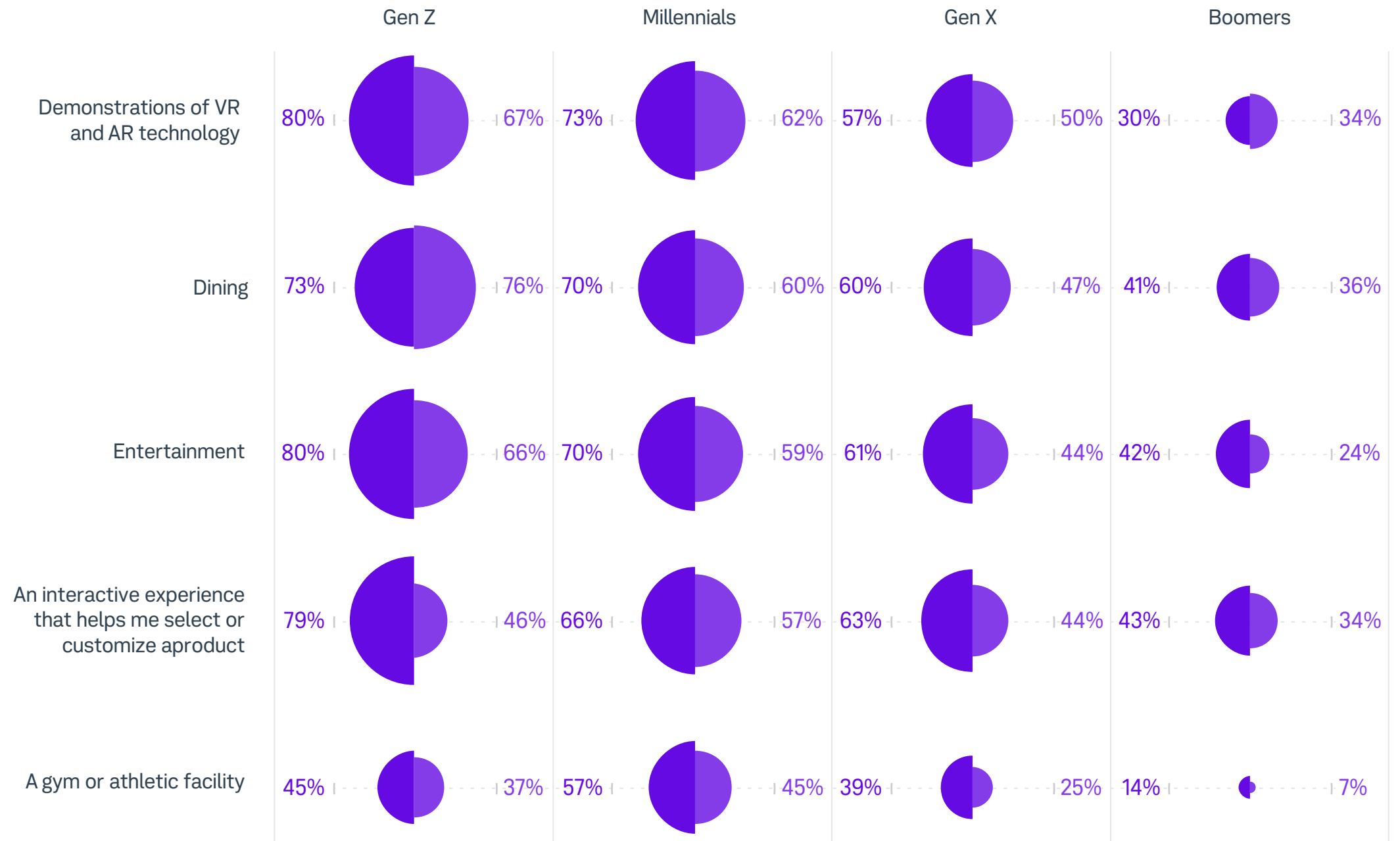
Most purchases still happen offline, but physical retailers are having to work harder to draw the traffic of previous years, especially among younger consumers. We asked consumers what types of experiences would make them more likely to visit physical stores.

It's often said that millennials are more "experiential" than older generations, and our survey confirms this when it comes to retail. While boomers aren't so interested in in-store experiences, millennials think experiences of all kinds would make them more likely to shop.

While entertainment and dining seem to be big draws for US consumers, UK consumers show greater interest in interactive experiences.

"I would be more likely to shop at a physical store if it also included ..."

US ■ UK



Sample China trend: Luxury brands wager on e-commerce

Chinese e-commerce platforms are too big to ignore, and, far from degrading brand image, as some foreign brands have feared, have become allies in the battle against counterfeiters. Luxury brands have recently been responding by opening stores in greater numbers on Alibaba's Tmall and other platforms.

Luxury brands fight an eternal battle in China to protect their image from falling prey to counterfeiters. Failure to do so results in harsh fallout. An astonishing 98% of Chinese millennials are worried that products may be counterfeit, our SONAR™ survey discovered, suggesting that brands must go out of their way to assure consumers this is not the case.

It is of little surprise, then, that luxury brands have been wary of partnering with local e-commerce platforms. The gamble, it would seem, of associating with lower-quality local brandings has been too risky. "Luxury brands share serious reservations about tarnishing brand image by partnering with a platform like Tmall," says Patrice Nordey of Velvet Group, who notes that Tmall, the business-to-consumer platform owned by Alibaba, now claims over 400 million buyers and 70,000 brands.

Yet the prevalence of platforms in the Chinese e-commerce landscape is so great that brands have had to overcome their reservations. "The Chinese e-commerce ecosystem is very much dominated by platforms," observes Nordey. "As such, there's an 'if you can't beat them, join them' mentality. Most brands can't beat Alibaba and are better off joining Taobao (consumer-to-consumer), Tmall (business-to-consumer) or another massive third-party platform." This shift, Nordey says, now includes luxury brands, citing Alibaba's \$100 million investment in luxury flash-sales e-commerce platform Mei.com as an example.



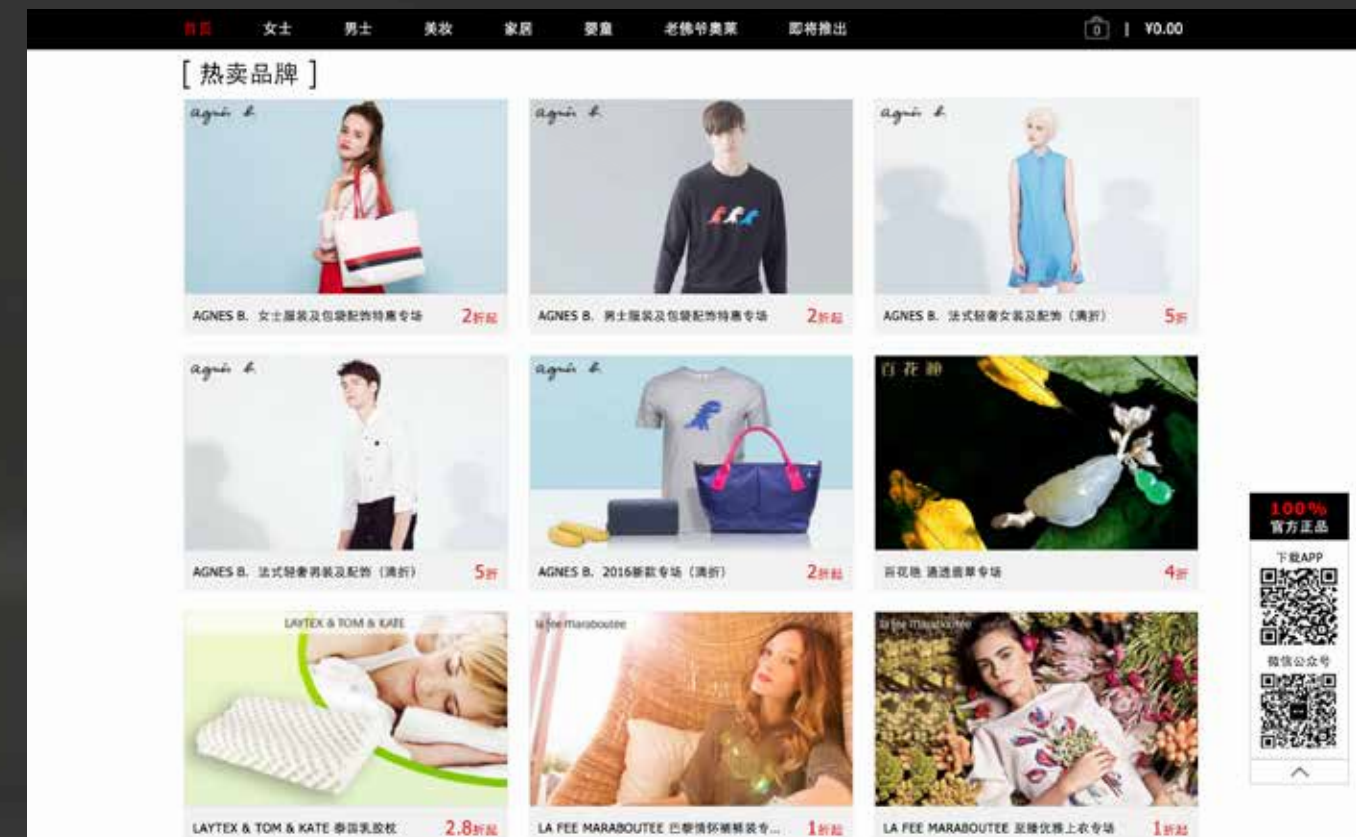
Burberry flagship store, Shanghai

Luxury brands including Cartier and Van Cleef & Arpels launched Chinese e-commerce sites in November 2015, while Tag Heuer launched on the online sales platform JD.com in September 2015.

Mei.com, which launched in 2010, is a dedicated effort to attract multi-national luxury brands to China's platform system. But many luxury retailers have already turned to Tmall, which not only accounts for half of all e-commerce transactions in China, but is also the preferred online store for about 87% of shoppers under 49 years of age, our SONAR™ survey revealed. Showing a clear understanding of this, Burberry became the first international luxury brand to open a Tmall store in 2014, and other brands quickly followed. At the end of 2014, Calvin Klein began selling jeans and underwear on the platform, and Hugo Boss opened a store with its Boss Orange line of casual clothing that targets younger shoppers.

Far from degrading brand image, opening a shop on Tmall might deal a knockout blow to counterfeiters. According to L2, a brand-focused digital intelligence firm, since Burberry's launch on Tmall, all gray-market items have been removed from the platform and any current search for the brand now results only in its official shop.

Why it's interesting: The battle against counterfeit products on third-party platforms will see victories won by brands, helped by the fact that Alibaba and Jingdong, its largest competitor, have both gone public in the United States. The war's main front is now moving into m-commerce, with WeChat proving a hotbed for counterfeiters.

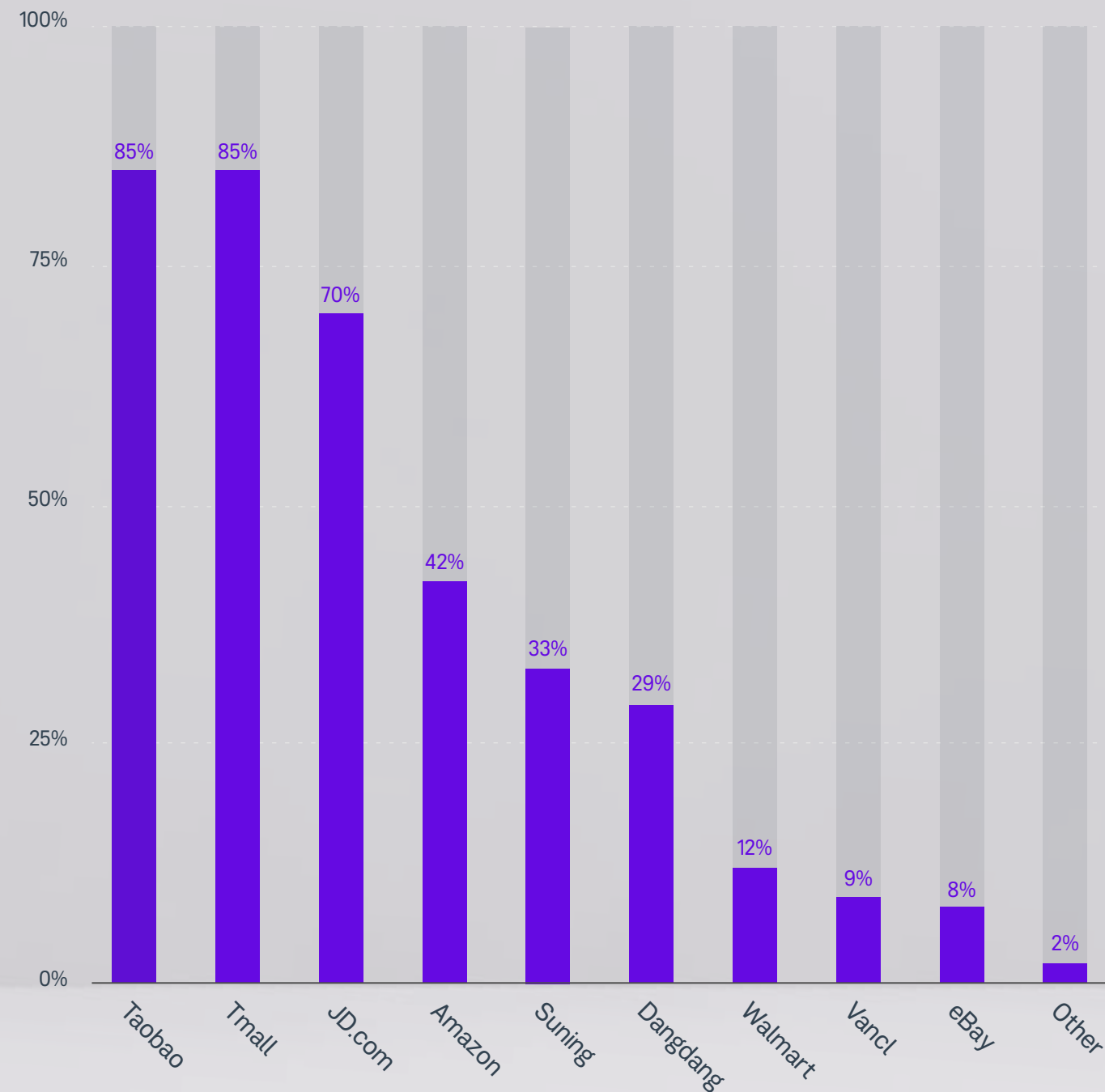


Chinese e-commerce takes off

Nearly all our survey respondents had shopped online in the past year. Alibaba's two platforms—Tmall for B2C sales and Taobao for C2C sales—dominate the market much as Amazon does in other countries.

But Alibaba continues to have a serious rival in B2C online retailer JD.com. And, interestingly, while enthusiasm for Alibaba's Tmall crosses generational lines, JD.com has its most enthusiastic supporters among Chinese millennials and gen Zers.

"I have purchased an item online in the past year from ..."



The full, 136-page version of Frontier(less) Retail includes...

- RETAIL OVERVIEW:** The state of retail in 2016—a review of key contextual drivers with insights from industry leaders.
- KEY MARKETS:** The newest retail developments in Seoul, Bangkok, New Delhi, and Dubai/Abu Dhabi.
- DIGITAL FRONTIERS:** Trends and insights on digital and omnichannel retail, including retail brands as tech brands, subscription retail, same-day delivery, droid delivery, AI retail, conversational commerce, and the future of shoppable media.
- EXPERIENCE FRONTIERS:** Insights for the physical store, including the rise of the experience economy, the new phygital immersion, “peak stuff,” foodie temples, multisensory retail, VR immersion, Unreality retail, and emotional retail.
- EXPERIENCE CASE STUDIES:** Five detailed descriptions of innovative spaces and stores with takeaways for physical retailers.
- BY NUMBERS: US/UK:** 11 pages of original data and infographics on emerging retail trends and behaviors, segmented by generation from gen Z to boomers.
- CHINA DEEP DIVE:** An overview of the current state of Chinese retail, and eight key technology and consumer trends shaping the future of retail in the country, with expert insights.
- BY NUMBERS: CHINA:** 12 pages of infographics and data insights on retail behaviors in China, segmented by generation.

Download the full version at jwrintelligence.com



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About the Innovation Group

The Innovation Group is J. Walter Thompson's futurism, research and innovation unit. It charts emerging and future global trends, consumer change, and innovation patterns—translating these into insight for brands. It offers a suite of consultancy services, including bespoke research, presentations, co-branded reports and workshops. It is also active in innovation, partnering with brands to activate future trends within their framework and execute new products and concepts. It is led by Lucie Greene, Worldwide Director of the Innovation Group.

About J. Walter Thompson Intelligence

The Innovation Group is part of J. Walter Thompson Intelligence, a platform for global research, innovation and data analytics at J. Walter Thompson Company, housing three key in-house practices: SONAR™, Analytics and the Innovation Group. SONAR™ is J. Walter Thompson's research unit that develops and exploits new quantitative and qualitative research techniques to understand cultures, brands and consumer motivation around the world. It is led by Mark Truss, Worldwide Director of Brand Intelligence. Analytics focuses on the innovative application of data and technology to inform and inspire new marketing solutions. It offers a suite of bespoke analytics tools and is led by Amy Avery, Head of Analytics, North America.

About WWD

For 100+ years, Women's Wear Daily (WWD), a property of Fairchild Fashion Media, has been the media of record—and THE industry voice of authority—for senior executives in the global women's and men's fashion, retail and beauty communities and the consumer media that cover the market.

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