interact Retail



From experience to engagement

www.Interact-lighting.com

01. Introduction

Several major trends are driving radical changes to the retail landscape today. Some, but certainly not all, of the more provocative new directions in retail include:

- Merging of the digital into the physical
- Store becomes a marketing channel, not a distribution channel
- Application of entertainment and other approaches to physical retail spaces
- Adoption of new connected digital technologies
- The role of the Internet of Things (IoT) in delivering new customer experiences and giving retailers new insight into their customer behavior and preferences
- Data collection and analysis for streamlining store operations
- Data collection and analysis for increasing customer engagement and intimacy
- Predictive analysis and the changing conceptions of privacy

Retail is now undergoing a metamorphosis that extends far beyond the changes that we have already seen in the transition to physical shopping to online shopping. The transformation of the retail industry is complex and is moving in many directions at once.

This report takes a view over the current situation in retail, and surveys a few key developments: the transformation of the brick-and-mortar store, the shifting balance between the physical and the digital, the new non-linear customer journey, the growing influence of the Internet of Things, and importance and challenges of collecting customer data.



From experience to engagement Ø3

02. Retail is dead, long live retail

Reports of the death of retail have been greatly exaggerated. To be sure, retail as we have known it, loved it, and been disappointed and frustrated by it appears to be coming to an end. But retail is not going away—and neither are brick-and-mortar shops.

Most online stores began as digital analogues of physical stores, but they soon began to add features and capabilities that physical stores couldn't offer—searchability, larger selections, the ability to quickly compare items, complete product information at the customers' fingertips, and personalization based on past behavior, to name just a few.

Now the trend is reversing: retailers are beginning to model physical stores after online stores, and are using new and connected technologies to offer in-store capabilities that equal the digital experience. In fact, when retailers intelligently integrate smart retail approaches and digital capabilities into their physical stores, they can create immersive, hands-on experiences that far surpass onlineonly experiences, the way that the experience of eating a cake far surpasses the experience of looking at a picture of a cake.

"The Internet is something that we're going to 'step into," says retailing and consumerism futurist Doug Stephens. "Physical stores are becoming a vital media channel through which brands can deliver unique and remarkable customer experiences that generate step changes in revenue. Plenty of studies that show that there is a tangible throughline to increased sales, profit, and customer satisfaction." [1]

Part and parcel of the current retail transformation is a change in the idea of what a physical store is. More and more retailers are starting to conceive of their physical stores as marketing assets rather than distribution assets. People go to this new breed of retail stores to be entertained, immersed, stimulated, and inspired, not necessarily to fill orders from a shopping list. Some retailers are opening shops without any merchandise at all, or shops that allow (or require) you to place orders digitally using a smartphone app, a kiosk, or some other form of interactive digital display.

Still, the need for traditional shopping experiences is not going away any time soon. There are times when a consumer wants a particular item, with the goal of getting in and out of the shop as quickly as possible and with as little friction as possible. Smart retail and digital capabilities can help here, too, offering new levels of convenience, guidance, and personalization.



"The Internet is something that we're going to 'step into'. Physical stores are becoming a vital media channel through which brands can deliver unique and remarkable customer experiences that generate step changes in revenue..."

Doug Stephens

Retailing and consumerism futurist

03. What we talk about when we talk about smart retail

If you take anything away from this report, take away this: smart retail is not necessarily digital retail.

Let's be clear: digital experiences and technologies are an important trend in retail and retailers will have to know how to use them to be successful. But it isn't about using digital for digital's sake. Just because you can have a robot trained to answer product question in store doesn't mean that you should go out today and replace your human associates with their digital similars. Just because you can automate the checkout process with a smartphone app doesn't mean you're doomed if you hang on to your cash wrap counters.

The promise of transformation in physical retail has to do with the intelligent and targeted use of digital assets. The first question to ask is what in-store experience do you want your customers to have. The last question to ask is how to deliver that experience.

Doug Stephens expresses this perfectly near the end of his 2017 book, Reengineering Retail: The Future of Selling in a Post-Digital World. "The fact is that no one needs a digital experience at all," writes Stephens. "What retailers should be setting out to do is to design unique, memorable, valuable experiences—some of which may be supported or enabled through digital technologies." [2] The implication here is clear: some of these unique, memorable, valuable experiences may not employ digital technologies at all. To be smart is not necessarily to be digital.

So if smart retail isn't digital retail, what is it? Among other things, for retail to be truly smart, it must:

- Be customer-focused
- Put the emphasis on experience and delight
- Use data on customer behavior and preferences collected via apps and IoT applications to increase customer happiness satisfaction

- Employ technology to streamline operations, keep costs down, and give customers what they want
- Personalize customer experience via loyalty apps and customer knowledge, which can be gained both online and offline
- Offer high levels of customer service and customer memory
- Deploy automation where necessary to reduce friction

Some of these objectives may benefit from the use of digital technologies, and some may not be possible without them. But how a retailer gets there is secondary to understanding where that retailer needs to go. What impression or mood do you want to create? Where do you want your customers to go in the store? What do you want them to do while they're there?

All that said, retailers have many options to improve their instore environments short of totally reinventing themselves. When retailers view physical spaces as theatrical scenes, they begin to look at every aspect of the store, from the interior design to the lighting to the customer experience. Incremental improvements can be made with high-quality illumination and staging geared toward telling an intriguing story and engaging with shoppers emotionally.

While new technologies and digital features have an important role to play, "there will be no single formula for success," as the National Retail Foundation (NRF) puts it. According to the NRF, success "will come in all shapes and sizes, formats and channels. We will continue to see the blurring of sectors as well as single product retailing," [3] along with other non-traditional approaches such as pop-up stores and made-to-order direct from the manufacturer.

04. Many channels, many journeys

While the turn toward customer engagement and delight promises to be usher a dream-world of new experiences for shoppers, traditional retailers may find that the new rules of engagement are more like a nightmare. Where the shopper journey used to be simple and linear, with a predictable sequence and well-known touchpoints, the new shopper journey is complex and non-sequential, with no predictable sequence and a proliferation of touchpoints, including websites, mobile apps, social media channels, traditional media channels, and retail stores.

To date, most retailers have responded to the digitalization of retail with an "omni-channel" approach, which deploys multiple customer journeys, both online and offline. And it's true, for the most part, that retailers who sell directly to consumers must have some sort of an online presence. But there's nothing about the omni-channel approach that guarantees integration across the various channels. Customers can, and often do, have very different experiences on a retailer's website, in one of their stores, on the phone with a customer service representative.

It's looking more and more like the omni-channel approach is a transitional phase between traditional bricks-and-mortar retailing and a truly integrated approach that offers what consumers really want: a seamless and consistent experience, regardless of whether that experience is taking place in-store, online, at home, or on the street. Retailers who know their customers, who remember all of their previous interactions, and who can therefore personalize every touchpoint based on a shared history, will have an enormous advantage. A customer can start her journey from any point along the way. Because the path from the starting point to eventual purchase is non-linear, every touchpoint is equally important, and an opportunity to promote the company's brand and gain the customer's trust and loyalty.

Technology is an essential component of making the new customer lifecycle work, but smart retailers know that it should serve a sense of customer intimacy, and is not a replacement for the human touch or an end in itself. "Technology should further enhance humanization and facilitate connection, bringing us closer to the human experience rather than removing us from it," writes Anthony Simon on dlAmeter, the Interior Architects blog. [4]



05. The Internet of retail things

The Internet of Things (IoT) has been called the next industrial revolution, and it is already transforming the way people interact with the physical world. By blending the physical and digital realms, the IoT is profoundly changing the way we relate to our environment, to each other, to information, and to goods and services.

According to Gartner, the IoT is "a network of physical objects that contain embedded technology to communicate and sense or interact with their internal states or the external environment." [5] The sensing is done by sensors of various types—whether these are motion sensors in the ceiling of a retail space, temperature sensors in refrigeration units, or RF sensors that can track packages by unique ID.

Connected devices generate data of various kinds, which is often aggregated in the cloud. This aggregated data can be processed and analyzed to extract knowledge and actionable insights that retailers can use to achieve their goals.

The IoT is still a fairly young technology, and its infrastructure is still developing, but its potential impact is enormous. The McKinsey Global Institute (MGI) predicts that "the Internet of Things has a total potential economic impact of \$3.9 trillion to \$11.1 trillion per year in 2025 . . . equivalent to about 11% of the world economy." [6] Business Insider predicts that 24 billion devices will be connected to the Internet by 2020—in other words, "four devices on average for every human on Earth." [7]

Microsoft has created an IoT Maturity Model to describe the level of IoT adoption in businesses, in three stages: operational efficiency, business intelligence, and business transformation. The name is a little misleading, as it implies that all businesses are evolving, or should evolve, toward the business transformation stage. But the model is useful to describe different ways that retailers can deploy IoT solutions in stores and warehouses to achieve whatever objectives they happen to have.

In the first, or operational efficiency, stage, retailers use sensors to collect data on various aspects of the physical environment or the activities taking place within it. By monitoring in-store traffic, for example, retailers can determine which hours of the day, days of the week, or times of the month or year have peak activity and react accordingly—by staffing checkout and other areas appropriately, altering store hours, or timing special promotions. Sensors can also deliver purely operational advantages—reporting temperatures in refrigeration units to alert managers of failures, or sending automatic notification when a lighting fixture stops working properly.

IoT lighting platform

IoT (application) software



Shelf sensors, RFID, and other sensors can be used to keep track of items on shelves in stores and warehouses. Automatic reporting of inventory levels and out-of-stock situations allows operations managers to more efficiently replenish items, saving time and money.

In the second, or business intelligence, stage, retailers apply analytics to IoT data and data from other sources to discover meaningful patterns and derive business insights. IoT data can be combined "with several diverse data sets like weather data, information about events within a specific radius of the store, holidays and so on to more accurately predict in-store traffic over time," according to an article posted on the Microsoft Corporate Blogs. "This prediction could help with workforce optimization, inventory and campaigns." [8] Business intelligence can also support predictive maintenance of physical assets to enhance store performance.

In the third, or business transformation, stage, retailers use data and analytics to offer new services and create new revenue streams. Behavioral data and historical data on previous interactions with the retailer, both in-store and online, can suggest changes to store design and layout that will encourage shoppers to visit. Mobile apps that combine in-store positioning data in real time with historical customer data can offer shoppers in-store guidance, point-of-sale promotions, and many other new experiences that integrate the power of digital access to data with the immediacy of the in-store experience.

The sheer volume of data that can now be collected from sensors and other connected devices requires a special combination of technologies, analytical approaches, software platforms, and computing power. This combination is known as Big Data. Big Data poses novel data management challenges that can't be resolved with traditional approaches. It therefore poses novel risks, especially while enterprises are still learning how to avoid pitfalls and adopt emerging best practices. "Big Data analytics is now being applied at every stage of the retail process," writes Bernard Marr for Forbes. "Retailers are constantly finding innovative ways to draw insights from the ever-increasing amount of structured and unstructured information available about their customers' behavior." [9] On his Retail Prophet blog, Doug Stephens identifies another important role for the IoT in retail transformation. "If stores truly begin selling experiences, then we need new means of quantifying and qualifying their success and productivity at doing so," writes Stephens. "That entails using completely new technologies that allow for the measurement of the store as a media form." [10] In addition to many of the technologies mentioned above, Stephens sees a role for video analytics to measure dwell times and engagement with products and in-store features. With social sharing tools, shoppers can share that fabulous new find with a community in real time. Retailers can monitor this in-store social activity to measure its impact on brand and customer experience. Platforms that can combine online activity with in-store behavior, perhaps collected through an opt-in loyalty app, are especially valuable for delivering a seamless customer iourney.



06. Getting to know all about you

For retailers who believe that the future of retail means selling experiences instead of products, extreme personalization is the key. And for that, retailers need customer data—lots of it.

Traditionally, retailers segment customers based on demographics. The best such segmentation can do is to place an individual shopper in a broad category. It can do very little to recognize or address that individual shopper as an individual.

It sounds a bit like Big Brother, but if retailers can use sensors, in-store mobile apps, and other means of data gathering to collect detailed and specific information about every action an individual shopper takes when on the premises, that retailer can craft a shopping experience that caters to that individual shopper's unique tastes and preferences. The upside for the retailer is obvious enough. The upside for the customer, if he doesn't feel that his privacy is being compromised, is a far more delightful, meaningful, and—if one may be allowed to say it—genuine relationship with a brand.

Of course, retailers must give customers the choice of opting out or opting in. If someone wants to shop anonymously and forgo the special treatment and perks that go along with allowing herself to be tracked, then so be it. But studies show that, in some cases at least, the majority of customers would be willing to trade data for the opportunity to have a better relationship with a company that they value. "In the U.S., 62 percent of Generation Z and Millennials are happy to share personal information with companies," reports Tom Ryan at RetailWire. "Globally, 68 percent of Millennial and Generation Z respondents said they understand why they have to share personal information with companies to receive better offers." [11] The fact of the matter is that our behavior is already being tracked in detail online. Visit any major brand with an online presence and you can be sure that they are tracking where you come from, which pages you visit, the order in which you visit them, how long you stay on each page, what you clicked, what you put in your shopping cart, what you purchased, and how often you return. Now that the sensor and beacon technologies are maturing enough, companies can gather the same level of detail on your visits to their bricks-and-mortar stores. The savviest retailers will combine online and offline personal data, treating them as equivalents and helping to erase the distinction between the digital and physical worlds.

Physical stores that can leverage Big Data analytics on customers have an advantage that virtual stores can't touch: the presence of actual human beings. Entrepreneur, speaker, trainer, and content strategist Diraj Singh writes that personalization can be better delivered to customers by in-store associates than by systems. "For instance, consider a scenario where an in-store sales person can view product recommendations for a customer, based on past purchases," Singh writes at YourStory. "When these recommendations are clubbed with the store associate's intellect, and verbal and non-verbal cues from customers recommendations become truly meaningful." [12]

As consultants Accenture point out in their 2015 report, Accenture Technology Vision for Retail: Changes in Store, leveraging customer data to deliver personalized experiences is just the beginning. "As the Internet of Things converges the digital and physical worlds, it will . . . eventually result in an interconnected environment in which businesses build products and services specifically for the individual." [13] Diraj Singh writes that consumers will soon be able to buy "exactly the right sized cereal box for their family, foods with the right nutritional balance for their health, and crème with the exact ingredients for their type of skin." [14]

References

- 1. Stephens, Doug. *Reengineering Retail: The Future of Selling in a Post-Digital World*. Figure 1. 2017: p. 35.
- 2. Stephens, p. 239.
- "2015 top 250 global powers of retailing." NRF website, 11 January 2015: http://nrf.com/blog/2015-top-250global-powers-of-retailing

IPhone 7

- 4. Simon, Anthony. "Retail in 2017: The Irony of Technology." *dlAmeter*, 31 January 2017: http://www. interiorarchitects.com/blog/retail-in-2017-the-ironyof-technology/
- 5. "Internet of Things." Gartner IT Glossary. http://www. gartner.com/it-glossary/internet-of-things/
- 6. The Internet of Things: Mapping the Value Beyond the Hype. McKinsey Global Institute, June 2015: p. 63.
- Greenough, John. "34 billion devices will be connected to the internet by 2020." Business Insider, 26 January 2016: http://www.businessinsider.com/34-billiondevices-will-be-connected-to-the-internetby-2020-2016-1
- Microsoft Corporate Blogs. "The Microsoft vision for IoT, and what it could mean for retail." Microsoft Internet of Things website. 7 May 2015: http://blogs. microsoft.com/iot/2015/05/07/the-microsoft-visionfor-iot-and-what-it-could-mean-for-retail/
- 9. Marr, Bernard. "Big Data: A Game Changer In The Retail Sector." *Forbes*, 10 November 2015: http://www.forbes. com/sites/bernardmarr/2015/11/10/big-data-a-gamechanger-in-the-retail-sector/#d18e4c79f37c
- Stephens, Doug. "The Future Of Retail: Experiences Per Square Foot." Retail Prophet website, 18 March 2014: http://www.retailprophet.com/blog/the-future-ofretail-experiences-per-square-foot/
- 11. Ryan, Tom. "Millennials, Gen-Z willing to share, for a price." *RetailWire*, 14 September 2015: http://www.retailwire.com/discussion/millennials-gen-z-willing-to-share-for-a-price/
- 12. Singh, Diraj. "The future & beyond: What lies beyond digital marketing?" *YourStory*, 2 April 2017: http://yourstory.com/read/37bda8f4ae-the-future-beyond
- 13. Accenture Technology Vision for Retail: Changes in Store. Accenture, 2015: p. 4.

14. Singh.





Learn more about Interact Retail

www.Interact-lighting.com

© 2018 Philips Lighting Holding B.V. All rights reserved. Philips reserves the right to make changes in specifications and/or to discontinue any product at any time without notice or obligation and will not be liable for any consequences resulting from the use of this publication.

interact Retail

Date of release: March 2018