Deloitte.

2018 retail, wholesale and distribution outlook

An industry in transition

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Market environment

Retail is in transition, and today's market conditions for adopting innovation and reevaluating traditional profit models or partnerships, combined with a strong economic outlook, couldn't be better.

Digital technologies have removed business barriers for many agile players to enter the fast-moving retail sector; however, digital advances alone will likely not capture customer loyalty or share of wallet indefinitely.

Consumers still wield a great deal of power in the retailer-shopper relationship, and personalization has come back with a vengeance.[1] People can—and often do—much of their shopping online, yet many still prefer retailers to maintain a physical presence. In fact, one-third of last year's holiday survey respondents said it was important that brands offer "both a store I can visit and an online site."[2] While competition among various retail channels and store formats remains robust and consumer fragmentation continues to evolve along demographic lines such as age, income, education level, and location, opportunities for retailers to embrace sophisticated use of customer insight toward creating more customer-centric, outside-in[3] experiences abound for those open to new ideas.

Bolstered by a stronger labor market, as evidenced by an October 2017 unemployment rate of just 4.1 percent,[4] retailers should anticipate confident spending throughout 2018. Overall retail market growth is expected to reach a healthy rate of increase of approximately 3.2 to 3.8 percent in 2017,[5] with heated competition among various retail store formats, channels, and players expected to continue. Challenged to profitably expand growth and retain market share in a global environment bursting with an ever-increasing proliferation of choices—from the larger established brands with both online and in-store operations to the newer online or application-based only entrants[6]—retailers should be mindful that many consumers continue to hold elevated expectations for their shopping experience.

Retail in transition

New challenges are likely to arrive along with opportunities to adapt and adopt traditional retail business models. Taking stock of what extended business ecosystems may offer in terms of procuring and leveraging consumer insights—and creating the acumen and agility to engage with consumers at a preferred touchpoint—may well offer retailers a competitive advantage.[7] Consider focusing on strategic responses by recasting the value proposition and operating model to holistically address and deliver on the implicit as well as explicit desires of the customer. Take into account that these responses are often disruptive in nature and may require time to remodel how the customer's influence should evolve within the scope of a retail ecosystem. Help ensure that strategic responses should strive to be customer-centric by potentially focusing on how the behavioral dynamics of diverse consumer segments[8] may shift, rather than on how the customer interacts with the brand in question. For example, Internet shoppers most often search by item first and category second rather than by full assortment, while in-store consumers are more likely to view merchandise grouped by category. As a result, retailers may wish to consider recalibration of certain business levers such as:

- Customer behavior analysis
- Value proposition recalibration
- Operational model redesign

Fine-tuning operations to better fortify strengths and competitiveness through differentiated responses may also yield benefits. For example, operational responses might focus on capability creation and incremental improvements that resolve gaps in consumer demands or improve the retailer's ability to deliver. For retailers with modern subscription services, such as home delivery of grocery products or curated meals, creating the capacity to create different fulfillment processes may require new business models. Easier to define with explicit execution and market activation plans, operational responses may encompass:

- Services expansion—offering unique experiences via "store within a store" and "concession model" relationships[9]
- Center-store optimization—transforming traditional store layouts into "retail store of the future" models
- Store footprint rationalization—rethinking the proportion of front-to-back square footage and using part of the store as a fulfillment center for delivery of online orders[10]
- Digital strategy enhancement—exploring how expansion of smart-phone centric strategies across channels and platforms could benefit those retailers with the foresight to modernize their digital presence across channels and platforms[11]
- Human capital modernization—deploying robotics for repetitive tasks such as on-shelf availability scanning for inventory, virtual service robots for routing and responding to customer service requests, or in distribution centers as grocery pickers prior to employees packaging and delivering products to customers

Physical retail store formats and the need for human employees will not disappear. For many retailers, maintaining a dual in-store and online presence will remain increasingly important. However, retailers should realize that developing agility, along with an unparalleled ability to understand and target their unique consumers in a highly mixed channel environment may require change. To realize profitable growth in today's highly competitive blended environment—where digital has the potential not only to influence, but also to capture market share—retailers would do well to contemplate a renewed strategy.

Economic outlook

The economy is likely to continue to grow at a moderate 2.0–2.5 percent rate this year and in 2018. A key source of strength is consumers, who have benefitted from a strong labor market and rising incomes. Unemployment is at a record-low 4.1 percent (September), with an average of about 148,000 jobs added every month so far this year. Real disposable personal income is up, albeit slowly, by 1.8 percent so far this year, but is likely to pick up momentum next year and rise by more than 2.0 percent. Consumers are also benefitting from low inflation, which is still below the Fed's target.[12] Households are enjoying growing wealth as well due to rising house prices and strong stock markets.

Natural disasters, especially hurricanes in Florida, Texas, and Puerto Rico, have been in the news recently. While such events dent the (local) economy, much of the impact is temporary. In September, for example, non-farm payrolls fell by 33,000 due to the impact of hurricanes Irma and Harvey.[13] However, this is likely to change in the coming months as normalcy returns and focus shifts to rebuilding. The latter, in particular, will likely impact the housing sector. New permits, for example, are likely to rise where houses are completely replaced, and renovation activity is anticipated to increase. Economic data will return to moderate baseline growth as the temporary impact of the natural disasters fades away by the winter.

Deconstruction leads to reconstruction

Many business headlines continue to fuel the media echo chamber with reports of a "retail apocalypse," "retail meltdown," and numerous store closures.[14] Business reality is that consumer spend is increasing and shifting among a range of formats and channels for differing reasons—an indication that the retail sector is evolving again. While not everything old is new again, what is evident is that people continue to seek out both familiar and differentiated experiences as part of their path to purchase.

Consider how a shopper might visit a brick-and-mortar store for inspiration or a highly differentiated experience, comparison shop online for the best price and delivery option, and then boomerang back to a physical store[15] for the convenience of same day pickup (BOPUS). Conversely, a consumer's path to purchase may begin with online research and conclude by taking action in the physical world to seize advantage of a unique in-store experience such as edutainment, concierge services, free samples, wardrobe stylists, or cosmetic consultations.[16]

Enticing consumers to return to the mall or big-box store on a regular basis may benefit from store-within-a-store partnerships. Designed to be a "win-win" for both brands, these collaborations may be tricky to execute well. For example, if the host retailer's foot traffic shrinks, all of the shops involved miss an opportunity to display their products to a sufficient volume of consumers. Should the "concession stores" become *too* successful, the host retailer may decide to modify or to end the partnership.

JCPenney and Sephora: Store within a store partnership benefits both

After opening 60 shops in 2016, the department store retailer recently announced it would add 70 more Sephora shops this year and expand another 32. By the end of 2017, nearly 650 Sephora shops will be operating inside JCPenney stores.[17]

These retailers also are strengthening their digital connections. Online JCPenney shoppers can now browse an expanded array of Sephora products and order them online for same-day pickup in-store. JCPenney is also planning to add a feature enabling customers to book makeovers with Sephora beauty consultants in its stores.[18] Both brands have continued to realize benefits such as increased foot traffic by providing consumers with differentiated in-store consumer experiences such as group makeovers, beauty classes, and events in addition to expanded BOPUS options.[19]

Remove friction from path to purchase

Pragmatic adoption of technologies designed to remove friction and elevate the customer's path to purchase journey may present retailers with ample opportunities to innovate and partner across their value chain. For example, Deloitte's 2017 Holiday report revealed that shoppers electing to pay via smartphone most often said that they planned to use a retailer's dedicated app (40 percent), a third-party payment app (36 percent), or go directly to a retailer's website (36 percent). Twenty percent of consumers chose to pay for services via an application-only option. Consider how:

- Inventive business partnerships—that extend a retailer's ecosystem via complementary online players such as social media networks, video, music or gaming brands—have the potential to generate additional revenue streams while providing an ever-changing experience where the consumer feels in control of their journey
- Internet of Things (IoT) connectivity could empower consumers to check store inventory online while in transit and reserve products for purchase or pickup by preferred location
- Digital demand and supply networks combined with strategic partnerships might shorten timeframes and reduce costs for at-home or in-store deliveries
- Augmented,[20] virtual,[21] and mixed reality[22] may help retailers further create an endless aisle and offer more enhanced options for providing experiential engagement by operating in either an in-store or at-home environment[23]

Innovation and transformation

In today's fast-paced environment, consumers do not necessarily have to go into a physical store location; rather, retailers should give them a reason to ***want*** to go.[24] Influences such as weather, holidays, or back-to-school shopping season often have a significant impact on whether consumers shop in-store versus online. For example, online spending tends to dominate during winter holiday season, while in-store spending leads during the back-to-school shopping period. Understanding that flexible operational strategies with the capacity to evolve may be advantageous. This is the essence of today's complex retail reality where businesses need to anticipate change, proactively innovate, or lose in the fight for market share. With new entrants every year incrementally siphoning off share of wallet, big brands need to consider strategies to sell through indirect as well as direct channels—by driving top line revenues—and by doing it profitably.

Differentiation is anticipated to play an even larger future role in the battle for market share as consumers have shown a marked preference for convenience over price as everyone discounts. Product uniqueness, engaging experiences, and the convenience of selecting in-store versus online ordering, automated subscription models, and pickup or delivery options are driving consumer choices among many shoppers. For many retailers, serving up eye candy, along with a healthy helping of instant gratification in the form of experiential marketing and technology-fueled immersive experiences, may be one of many ways to win market share. Envision how:

- Augmented reality may be poised to be the next Internet as several consumer brands have recently piloted 3-D augmented reality lenses that allow people to put virtual avatars or Bitmojis[25] in a real-life setting[26]
- Smartphone connectivity could be expanded to enable shoppers to make purchases via text messages directly to store associates or personal stylists
- Artificial Intelligence could potentially enhance the consumer's path to purchase as cosmetic firms[27] have launched various color matching tools that allow shoppers to digitally overlay products on a selfie prior to purchasing products within the app
- New applications specifically designed for mobile devices, such as location-based social networking (LBS) applications, combine location specificity and interactivity, allowing users to connect with friends, family, and influencers based on their current locations

Next generation consumer engagement is likely to extend retail's physical footprint via numerous partnerships, channels, store formats, and mobile applications into a retail universe of endless aisles combined with inventive experiences designed to entice customers back into stores on a regular cadence. Augmented, virtual, and mixed reality innovations have the potential to expand consumer engagement beyond physical, online, mobile, or app by bridging the physical and online store environments—essentially using technology to develop a different kind of connection to consumers—an emotional one comprised of "Intelligence Quotient" and "Emotional Quotient" (emotional intelligence quotient).[28] Several examples include:

- Furniture retailer IKEA developed an augmented reality "living table" as part of its concept kitchen[29] that suggests recipes based on the ingredients on the table and more—such as offering guidance on food preparation, suggesting recipes based on leftovers, charging the phone, and reheating coffee
- Clothing retailer REI[30] offers augmented reality apps that enable shoppers be immersed in a camping site with links to products necessary to bring on a camping trip that leads to a shopping cart
- Consumer product companies are piloting coffee makers that use enhanced digital experiences and the Internet of Things to transform consumer relationships into a two-way conversation by enabling them to choose and automate their pod brand, variety, and time to make it fresh when desired
- Large box retailers have added mobile augmented reality experiences that provide "way finding" while in the store to find an actual product on aisle with point and click phone guidance that provides related options for the consumer to select from and experience while in store

Building a retail super team: How collaboration can underpin success in today's market

We learn from a young age to "play nicely in the sandbox," but how could cooperation possibly be the key to success in one of the most competitive retail markets of all time? Given the necessity of knowing and serving one's customer, aren't the strongest players those who invest in capturing, securing, and analyzing robust consumer insights to which none of their competitors have access? Consider how, in this quick-shifting market, retailers might benefit from merging their own insights with those of other ecosystem players, building a big data analytics and insights capacity alongside an agility that drives retailing to new levels of growth and customer satisfaction.

Alibaba, a third-party marketplace,[31] makes it a point to share its valuable customer and transactional data with its brand sellers and gives them control over pricing and placement on the site. As a result of this data transparency, luxury brands feel empowered to learn more about their customers in the Chinese e-commerce market—as well as how they differ from those in the European or North American marketplace.

In preparation for Singles Day 2017, Alibaba partnered with its brand sellers to deploy technology that enabled payments through facial recognition to more than 100,000 brick-and-mortar stores—essentially transforming them into "Smart Stores." Additionally, the company facilitated an infrastructure upgrade designed to prepare 600,000 "mom and pop" retailers for the increase in traffic as well as to modernize their store operations by transforming them into storage, distribution, and delivery centers. Although these are only two examples of the many inventive partnerships utilized by Alibaba, sales results of $25 billion[32]—recorded at an impressive 39 percent increase over 2016 figures—speak volumes.

Innovating via partnerships, differentiated experiences, and convenience

This 100+-year-old department store chain has spent enormously on perfecting its reputation as **the** customer-service destination with store associates trained to cater to a shopper's every need. In recent months, Seattle-based Nordstrom launched additional strategies designed to attract shoppers to shop at its 345 full-price and discount locations. Initiatives launched include themed pop-up shops, shop-in-shops featuring up-and-coming fashion designers, and Nike concept shops, which debuted in three stores this past fall.[33]

Notable Nordstrom strategies:

- Early investments in digital resulted in ~25% of all sales online
- Rotating pop-up stores provide ever-changing selection and a reason for shoppers to return in store
- Offers an option to make purchases via text message to store associates
- Consumers enabled to check local store's inventory online and reserve products in certain locations
- Provides differentiated experience where consumer feels in control

Shoppers are treated to complimentary restaurant recommendations and sightseeing suggestions from a concierge. Other shopping perks include party-worthy coiffures, one-on-one consultations with personal stylists in a private shopping suite, and deliveries to downtown locations. Surprisingly, these amenities don't come with an eye-popping price tag such as those offered at luxury boutiques most often frequented by the one percent—they're simply part of the consumer experience at Nordstrom.

Consumers are smarter; connect on their terms

Digital advances combined with changes in consumer preferences have helped to transform retail operations more in the previous 10 years than in the last 20. Since the beginnings of online commerce, share of overall retail sales has grown from 3.5 percent in 2008 to 8.9 percent according US Census estimates.[34] Additionally, Deloitte's recent retail forecast anticipates that e-commerce sales will reach $111 to $114 billion—about 11 percent of total holiday retail sales.[35]

So, should traditional brick-and-mortar retailers be worried?

What makes many retailers anxious is not the market share of online channels, but the influence digital channels wield over consumer shopping decisions. Digital influenced $0.56 of every dollar spent by US shoppers in stores during 2015/16.[36] Influence of digital media and devices is expected to remain strong as more than 90 percent of shoppers are planning to use at least one digital device—desktop, laptop, smartphone, or tablet.[37]

Decoding the nature of digital influence on consumers typically requires retailers to understand an extended digital ecosystem consisting of digital content (e.g., reviews, news articles, pictures), digital media (e.g., retailer websites, social media, blogs), and devices (e.g., laptop, desktop, smartphone). Many retailers are investing in online channels and putting out rich digital content on social media to woo customers. Understanding how consumers use their smartphones and the potential these devices offer to enrich customer experiences may be the next logical step in securing additional share of wallet.

- **Smartphones are table stakes**—Smartphones have become an integral part of consumers' shopping journey as they cater to an innate need to access information and make better purchasing decisions with minimal effort. Deloitte's research found that 40 percent of holiday season shoppers plan to use smartphones during their shopping journey. Moreover, retailers stand a 75 percent chance of converting a desktop or laptop shopper into a purchaser—and a 59 percent probability of converting a smartphone shopper into a customer.[38]
- **Consumer path to purchase**—Effortless access to information is often critical for shoppers when it comes to finalizing their decision to purchase. Greater than 50 percent of smartphone users rely on their devices for shopping decisions such as "what to shop" and "where to shop."[39]
- **Effortless experiences**—Many consumers seek to make their shopping decisions based on careful information—without investing additional effort in time or loss of convenience. Additionally, scores of consumers demand effortless shopping experience across channels and have become increasingly intolerant toward perceived inefficiencies. Deloitte's research revealed more than 40 percent of customers are discouraged from shopping at physical stores due to crowds and long lines, especially during busy seasons[40]—while another 40 percent of savvy shoppers will likely cut through busy checkout lines while in-store by placing orders through the "buy online and pick-up in-store" (BOPUS) option and using payment apps—essentially taking advantage of the best of both worlds.

Know that three in five consumers will purchase via smartphone[41]

Facilitated by widespread consumer adoption of smartphones, the use of digital content is on the rise. Retailers may well wish to evaluate their digital strategy in light of its potential to attract shoppers. Smartphone-centric strategies could conceivably benefit those retailers with the foresight to expand their digital presence across channels and platforms. Actions to ponder include:

- Thinking beyond a basic digital presence, such as setting up a mobile app and operating a retailer website
- Weighing the potential benefits of new device interfaces for digital content (e.g., augmented and virtual reality platforms and/or voice assistant apps)
- Examining the value of engaging digital partners for content curation and ecosystem security

Building customer affinity online and in-store

Consumer fragmentation continues to manifest along age, household income, education level and geographic cohorts along with seasonality impact and is expected to significantly affect shopping preferences and behaviors. In 2017, during back-to-school shopping season—from June through August—in-store formats were preferred, while during holiday season, online captured a larger share of consumer spend across all consumer segments.[42]

Reasons that consumers express for shopping either online or in-store also differ by age, income, and education level. Among those preferring to shop in-store, the ability to interact with a product, the absence of shipping costs, and the opportunity to find inspiration top the list of factors driving this preference.

Figure 1: Top three reasons for shopping at a physical store: By generation

	Gen Z	Millennials	Gen X	Baby Boomers	Seniors
Ability to interact with the product	49%	52%	59%	63%	62%
Avoid shipping costs	72%	47%	49%	47%	57%
Gives me gift ideas and inspiration	29%	40%	43%	49%	51%
Easier to make returns later	23%	31%	33%	39%	55%
Need to acquire gifts immediately	42%	34%	33%	25%	31%

Most-selected reason | Second-most-selected reason | Third-most-selected reason

Source: Deloitte 2017 holiday survey.
Deloitte Insights | deloitte.com/insights

Conversely, many consumers cited a preference for shopping online for the time-saving convenience of shopping from home, the ease associated with home delivery, and the financial benefit of free shipping. Free shipping, in fact, topped the list of perks shoppers planned to take advantage of in this year's holiday season (72 percent), in addition to store policies for easy returns (44 percent), and price matching (42 percent).

Figure 2: Top three reasons for shopping online over in-store: By generation

	Gen Z	Millennials	Gen X	Baby Boomers	Seniors
Convenience—comfort of shopping from home	66%	67%	76%	83%	77%
Time savings	64%	66%	74%	75%	74%
Free shipping	68%	61%	72%	75%	80%
Home delivery	48%	56%	71%	72%	77%

Most-selected reason | Second-most-selected reason | Third-most-selected reason

Source: Deloitte 2017 holiday survey.
Deloitte Insights | deloitte.com/insights

Building customer affinity and loyalty—both online and in-store—may require retailers to consider modernizing their capacity for understanding the impact that applied customer intelligence could have on their business. Although many retailers have started down the path of capturing customer data across multiple touchpoints by installing technology solutions, most may fail to realize the full benefits. The potential power of ***"applied customer insights"*** is most often realized only when strategically operationalized with a goal of improving profitability, customer retention, and overall operations.

Strategy and operational excellence should dominate investments

Emerging technologies—from social commerce, facial recognition for POS with e-commerce, to virtual reality and Internet of Things—promise to support transformation of the customer retail experience and day-to-day store operations like never before. Where the rubber meets the proverbial road is in operational optimization—where the potential to improve business processes reigns supreme. In many retail environments, dramatic revamping of demand and supply chain strategies is oftentimes a key lever to pull—especially when adjustments are required to support new business models or innovation initiatives.

Rather than merely optimizing value chains to drive out incremental costs, retailers should be willing to adopt advanced technologies in order to retain market share—which often means that inventory needs to be available where it needs to be. Consumers have been conditioned to expect fast, convenient, and effortless consumption. Speed, price, location, and quality are key.

Enhance supply chain visibility for right place, right time availability

A large global fashion retailer partnered to implement chain-wide RFID-based inventory intelligence and deployed it in 700 fast fashion clothing stores across 22 countries. Considering themselves to be a customer-focused retailer, the company believes having timely, accurate visibility into all merchandise styles, colors, and sizes is critical to their goal of creating precise merchandise plans and tailored product assortments, and to deliver an exceptional customer experience across their distribution chains.[43]

Although real-time inventory technologies have been around for years providing visibility that supports a business's strategic multichannel objectives by striving to ensure that right products are in the right place at the right time, many retailers have failed to take advantage of its potential benefits. As a result of an RFID-based solution, the company is achieving operational efficiencies through improved inventory processes and better controls for reducing shrink. Currently, this retailer is optimizing its inventory investment and maximizing sales and margins, taking advantage of the benefits of RFID-based inventory visibility and controlling shrinkage with robust anti-shoplifting acousto-magnetic technology.

As part of a digital transformation initiative—designed to modernize, automate, and digitize its demand and supply chain—another top, fast-fashion retailer made significant investments in IT systems integration across its enterprise. Initially these investments focused on automating, logistics, and digitizing inventory management—such as warehouse automation combined with metadata analysis. In order to avoid shortages and oversupply leading to unwanted mark-downs and margin erosion, the company plans to introduce RFID technology tagging of its garments in 2018 to better match supply and demand.[44]

Savvy retailers may realize benefits and speed time to market with use of advanced analytics[45] and AI combined with IoT—a type of "guided intelligence" to proactively mitigate risk and address other key issues through global supply chain processes. Moreover, IoT has the potential to enable a two-way dialogue with consumers when intentionally designed to increase brand attachment. By connecting specific technologies that enable adaptive interaction and self-renewing conversations with the consumer, it may hold the promise of becoming an ecosystem that's always drawing in new voices and new customers. IoT has the potential to:

- Harness and deploy cognitive intelligence to supply greater visibility and decision support to demand and supply chain investments combined with procurement strategies
- Change a consumer's in-store experience by offering a "pilot store" with no merchandise on-site—a type of spa experience where shopping is done while being pampered
- Utilize "physical" robots in a physical store to check stock and bring products directly to customers after receiving voice communication (NLP)[46] from shoppers or store associates
- Activate "virtual" robots to process sales transactions, onboard seasonal employees, or update price promotions 24/7, freeing up employees to focus on other value-added activities
- Provide real-time universal inventory visibility required for optimizing collaborative planning, forecasting and replenishment, vendor managed inventory, merchandising, and fulfillment processes
- Streamline consumer engagement via virtual assistants, agents, web-chat, and chat-bots to provide enhanced customer service and support interactions along the path to purchase
- Fulfill the promise of geolocation-based trade promotions and other in-moment or in-store opportunities with greater accuracy and impact than ever before
- Build more intelligent "outside in" merchandising and supply chain strategies through analysis of multiple information sources—encompassing partners, suppliers, and internal systems of record

A clear focus on operational excellence combined with the consumer's and retailer's comfort level for enabling technologies should dominate investments in 2018 and beyond. Defending market share may demand that brands transition from "me too" and "follow the leader strategies" to designing imaginative customer-centric processes conceived through the lens of the consumer.

Contemplate modernization of human capital management

Successful retailers typically have a large re-hire pool to select from; however, with the unemployment rate at its lowest in 17 years, a tight marketplace exists for top candidates. What techniques will make them want to come back each year? Forward-thinking retailers are evaluating and piloting the use of:

- Gaming processes to assess and predict the success of candidates via behavioral profiles
- Analytical techniques that predict success factors for cultural fit and high performance
- Employee and candidate social networks to attract seasonal workers most likely to assimilate and become productive rapidly
- Blending technology with process design thinking when competing for top candidates and for creating effective onboarding programs
- Virtual and mixed reality headsets to educate and train new hires live, in-store while using real-life scenarios in real time

Today's tight labor market creates new challenges that can impact time to hire, time to fill, and time to positively impact business goals. Creating efficiencies through the automation of certain processes is one option. Thinking through the candidate's lens to attract and hire top talent is another. Consider that candidates of the future will likely require a complex mixture of soft, interpersonal as well as detail-oriented digital skills. Tackling recruitment in 2018 and beyond may require new thinking and business processes designed to attract candidates best able to create consumer moments that truly matter.

Proactively address cyber risk in mixed retail environments

In physical, virtual, and online stores, many of today's consumers are finding themselves in new and unfamiliar territory. Thus far, demand for many types of experiential engagement,[47] whether through mobile phones or other connected devices combined with fitness trackers and smart home devices, remains healthy. However, tapping into digital, augmented, or virtual reality engagements for long-term growth may well hinge largely on consumer trust. Consumers must feel confident these digital interactions not only operate flawlessly, but that they do not develop into new gateways for criminal activity.

For example, more than one-third of retailers surveyed do not feel their current cyber risk initiatives and practices around connected stores are effective and yet few seem to be taking the steps necessary to alleviate their risks.

One only need reference recent headlines, where millions of American consumers continue to have sensitive personal information exposed in data breaches. In some cases, hackers accessed people's names, Social Security numbers, birth dates, addresses and, in some instances, driver's license numbers.[48]

News of successful hacking through these devices may not only threaten sales of a particular product, but may also tarnish broader perceptions consumers have toward the retailer who sold them—potentially jeopardizing billions in future sales growth.

Envision cybersecurity as a competitive advantage

In a highly competitive global marketplace, the importance of building positive, long-term consumer trust and managing brand reputation should not be taken for granted. Staying relevant in today's consumer-driven environment often requires businesses to roll out technology initiatives on tight timelines and budgets—where mitigating cyber risk can become a challenge. Retailers need to think about how historical underinvestment in cybersecurity may impact long-term growth. Data protection is something many consumers have come to expect and investments in security are anticipated to create a competitive advantage in today's world of growing cyberattacks.

Next steps

Prior to creating a more advanced, insights-driven organization, retailers should first consider building out the strategies and foundational operational environment necessary to effectively support today's connected consumers' continuously evolving expectations.

Growing fragmentation across numerous demographic segments[49] may create the imperative for retailers to better understand consumers' preferences with regard to:

- Favored retail store formats and venues offering highly differentiated experiences that give consumers a reason to want to shop in a physical store
- Influencers along the path to purchase combined with optimal merchandising techniques and product assortment choices
- Consumer preferred brand and store attributes by venue and channel
- Immersive connectivity across mixed channels with multiple payment options for in-store, online, and mobile
- Consumer-backed polices around delivery, returns, and payment options

Retailing is more than brick and mortar, click and mortar, online, or point and click. Channel proliferation continues to serve as a wake-up call for retailers to envision new ecosystem partnerships, store of the future operations, and inventive use of enabling technologies in order to realize greater profit margins and market share. Over the last decade, many retail businesses neglected to transform their business models in response to the convenience and allure offered by e-commerce. Many failed to recognize the fundamental shift taking place—from traditional retail model operations to an infrastructure network designed to capitalize on supply chain efficiencies while driving down costs. In this new reality, knowing which operational levers to pull may be critical for success. As a retailer, what will your response be?

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