The Future of Retail Commerce 2018: 7 Key Trends

The Digitalisation of Retail
# Table of Contents

**Introduction**: The Digital Transformation of Retail Accelerates  
Retailers Must Innovate and Adapt – or Face Obsolescence  
The 7 Key Trends Driving the Digitalisation of Retail  
**Trend 1**: Smaller is Better: Experimenting with Smaller-Format Physical Stores  
**Trend 2**: Competition for the Last Mile: Racing Toward Same-Day Delivery  
**Trend 3**: Service On Demand: Adding Value When & Where Customers Want It  
**Trend 4**: Rise of Rental: The Rebirth of Subscription Services  
**Trend 5**: M&A Shortcuts: Acquiring Digital Startups to Catch Up  
**Trend 6**: Surprising Partnerships: Unexpected Alliances Give Smart Advantages  
**Trend 7**: Enhanced Reality: AR Drives Real Outcomes while VR Struggles  
**Conclusion**: Separating Reality from Hype  
**The First Data Difference**
The digital transformation of retail is accelerating. Traditional commerce and technology are converging in transformative new ways.

Like many industries, retail faces tremendous competitive pressure from new entrants whose rapid success derives from technological developments that are changing end-user expectations and behaviour. Innovative companies can thrive under this pressure by viewing competition from technology less as an obstacle, and more as an opportunity.

While there’s no doubt that the rise of online commerce has made it harder for traditional retailers to attract customers into stores, it’s also clear that in-store shopping is far from dead. There are certain qualities inherent to the in-store shopping experience that consumers don’t want to completely abandon as they remain loyal to the concepts of convenience and personalisation. This is causing innovative retailers to turn to disruptive technologies to keep customers happy and to ensure that brick and mortar shopping is at the forefront of the new consumer experience.
Innovate, Adapt — or Face Obsolescence

Retail leaders understand that the key to future success is in merging digital innovation with the traditional shopping experience.

Consumers continue to be drawn to inventive digital shopping experiences, yet still crave the convenience and personalisation inherent in the physical shopping experience. For those retailers who can keep up, the coming years promise more customers and higher sales than ever.

The challenge is clear: the game is no longer the same and winning requires retailers to develop a different set of strengths to survive and thrive in the years ahead.

“Traditional retailers that fail to innovate and adapt quickly, risk becoming obsolete.”
As the leading provider of commerce solutions to many of the world’s leading retail brands, First Data has a unique vantage point from which to observe how consumer shopping behaviours are changing and how digitalisation is influencing and driving these changes. Here, we explore 7 key trends driving the digitalisation of retail and discuss what retailers must do now to stay relevant.

Seven Key Trends Driving the Digitalisation of Retail

1. Smaller is Better: Experimenting with Smaller Format Physical Stores
2. Competition for the Last Mile: Racing Toward Same-Day Delivery
3. Service On Demand: Adding Value When & Where Customers Want It
4. Rise of Rental: The Rebirth of Subscription Services
5. M&A Shortcuts: Acquiring Digital Startups to Catch Up
6. Surprising Partnerships: Unexpected Alliances Give Smart Advantages
7. Enhanced Reality: AR Drives Real Outcomes while VR Struggles
Smaller is Better.
Experimenting with Smaller-Format Stores

While online shopping accounts for an increasing portion of total sales, many retail segments are seeing a gradual resurgence of in-store visits. Many of the most successful businesses—from big-box brands to niche stores—are experimenting with smaller physical footprints. **We believe that this trend will only accelerate in the coming years, as more retailers see the potential benefits of a smaller-is-better approach.**

Target will open 130+ “small-box” stores by the end of 2019, for good reason:

- **Closer to customers:** The “small-box” approach gives big-box retailers a way to move closer to more of their customers—particularly by placing small stores in dense urban areas.
- **Buy online/pickup in store:** Retailers like IKEA are launching smaller stores specifically to serve the “click and connect” or buy online/pickup in store (BOPIS) model.
- **Customised inventory:** Smaller stores force retailers to take a smart, minimalist approach to inventory, focusing items tailored to a particular location. Target is using analytics to match product assortments to the needs and interests of local customers—creating a more authentic, personalised experience.
- **Innovative in-store experiences:** Smaller stores create an agile proving ground for new in-store experience concepts—from layout and design to personal shopper assistance.

---

1. PwC 2018 Global Consumer Insights Survey
2. Target
As big brands evaluate e-commerce threats, they’re focusing on their biggest assets: proximity. Physical stores bring them closer to customers than online-only retailers, allowing them to compete and win where online-only providers still struggle – at the last mile. Companies are focusing on shorter delivery times, with many offering same-day delivery and some even promising two-hour delivery. While more than half of First Data’s major retailers now enable same-day delivery, we see the ‘last mile’ as the next major retail battleground and expect to see more innovative experimentation, partnerships and acquisitions.

### Competition for the Last Mile: Racing Toward Same-Day Delivery

Virtual every retailer now has delivery operations but enabling same-day delivery presents a whole new set of logistical challenges—from real-time inventory management to the physical transportation of products. Instead of developing accelerated delivery capabilities in-house, large retailers are taking a shortcut - partnering with third-party delivery services like Instacart, PostMates and Uber. Target and IKEA both recently acquired third-party delivery services.

### Consumers love same-day delivery

- 65% of consumers say delivery speed trumps brand loyalty
- 88% of consumers are willing to pay for same-day or faster delivery

### Solving the logistical challenges of the “last mile”

Virtually every retailer now has delivery operations but enabling same-day delivery presents a whole new set of logistical challenges—from real-time inventory management to the physical transportation of products. Instead of developing accelerated delivery capabilities in-house, large retailers are taking a shortcut - partnering with third-party delivery services like Instacart, PostMates and Uber. Target and IKEA both recently acquired third-party delivery services.

### Same-day delivery makes consumers:

- **50%** say they would shop online more often
- **53%** of consumers say they’ve abandoned a cart because of slow delivery times
- **74%** say they’re more likely to purchase again
**Service On Demand:**
Adding Value When and Where Customers Want It

As retailers look to revitalise the in-store experience for consumers, they’re increasingly offering on-demand services that complement their products. These services bring more comprehensive value to customers—delivering the convenience and personalisation that meets them where they are, anytime, anywhere. This approach also extends to a retailer’s digital presence, extending customer engagement beyond the product purchase. First Data predicts that more retailers will offer on-demand services in real-time to complement their current product offerings.

“We have a lot to learn about how every company can lean on the gig economy to improve customer’s lives.”

<table>
<thead>
<tr>
<th><strong>Strategic Partnership</strong></th>
<th><strong>Description</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>IKEA &amp; TaskRabbit</td>
<td>Strengthens digital customer service capabilities and enables the retailer to offer real-time assembly and installation services for its customers.</td>
</tr>
<tr>
<td>Lowe’s &amp; Porch</td>
<td>Connects customers with qualified home improvement professionals, and enables customers to chat with an expert via a mobile device.</td>
</tr>
<tr>
<td>Office Depot &amp; Compumax</td>
<td>Creates an omnichannel tech services platform to provide IT support services to business customers.</td>
</tr>
<tr>
<td>Amazon &amp; Amazon Home Services</td>
<td>A marketplace of service providers where customers can shop for professional help.</td>
</tr>
</tbody>
</table>
Rise of Rental: The Rebirth of Subscription Services

Interestingly, some of the most talked about trends are, in fact, not new. That’s certainly accurate in the case of subscription services. Subscription startups are rapidly moving from ‘new kid on the block’ to significant player. Some traditional retailers are picking up on the trend and rolling out their own subscription services for makeup, children’s clothing, and athletic apparel, hoping to create their own box model to attract shoppers. While still in the early stages, we anticipate significant growth in this trend over the next five years.

Top subscription retailers of 2018

1. McKinsey & Company: Thinking inside the subscription box: New research on e-commerce consumers

Subscription Commerce by the Numbers

- 100% Growth in subscription ecommerce over the past 5 years
- $2.6 Billion in sales in 2016
- 15% of consumers have ordered subscription boxes

Retailers Love
Ongoing Customer Relationships
Deeper engagement & loyalty
Robust customer data & insights
Recurring revenue stream

Consumers Love
Convenience + Discovery
Regular delivery
Engaging personalization
Surprising finds
As M&A activity remains at post-recession highs, we’re seeing more of a new kind of deal across every industry: merging traditional business models with digital technologies. Clearly, tomorrow’s winning retailers will ultimately be those with the best software and digital technology. Many retailers see that the easiest or smartest path to ‘catching up’ or ‘getting ahead’ is to acquire and integrate promising new technology. **We are already seeing several major deals impacting the industry, and we expect to see increases in industry convergence in the year ahead.**

### Top Drivers of Digital Deals

**Connecting with Customers**
- Relevant Mobile Apps
- Chat & Video Chat Services
- Personalisation Technologies

**Adding Digital Capabilities**
- Virtual & Augmented Reality
- Big Data/Analytics
- Robotics/AI

**Strengthening eCommerce Reach**
- Enhanced Online Shopping Platform
- Expanded Product Selection
- Advanced Logistics Capabilities

---

Surprising Partnerships: Unexpected Alliances Give Smart Advantages

As retailers size up the competition and face the do or die reality of digitalisation, many are stepping up their game. Driven by the need to stay competitive and to better attract and retain shoppers, retailer are building clever strategies based on surprising partnerships. Many are aligning with traditional competitors, or even partnering with the same disruptive companies that may have directly taken market share. This demonstrates that retailers clearly understand that the key to success lies in winning the customer experience. We expect to see more of these unexpected partnerships emerge in the coming year as retailers seek to generate more customer traffic, grow their online presence, expand logistics capabilities, and get ahead of trends like voice commerce and other technology-driven innovation.

Why Partner? If You Can’t Beat ’Em, Join ’Em

Capturing Voice-Commerce & Smart Home Opportunities
The battle with online giants is becoming less about price, and more about convenience. Dozens of retailers, including Walmart and Target, now partner with Google to make their products available via Google Express. Google’s new online shopping mall connects to Google Home, allowing customers to make purchases via voice order—and even automatically replenishing household supplies.

Enhancing Online Presence
Several major retailers, including Nike, now sell their products directly through Amazon. The carefully considered decision to partner with their biggest online competitor is a calculated move to connect with customers through the channels they prefer.

Increasing Foot Traffic
Bold retailers like Sears and Kohl’s are attempting to use Amazon to combat declining foot traffic in stores. Kohl’s now dedicates in-store space to selling Amazon products—and accepts Amazon online returns, free of charge.
Augmented Reality (AR) applications have evolved dramatically since the 2016 "Pokemon GO" craze. With Apple® offering an AR kit and most smartphone manufacturers embedding AR-capable cameras and sensors in their newest phones, online and physical retailers - from home improvement, to apparel, to cosmetics - now use AR technology in a variety of interesting ways. While retail experts have heralded both virtual reality and augmented reality technologies as having the power to reshape commerce in the very near future, First Data’s inside perspective suggests that only AR will be a long-term winner.

"Forward-thinking retail brands are incorporating AR technology into the customer experience, both in-store and online."

**Enhanced Reality:**
**AR Drives Real Outcomes While VR Struggles**

**Social Media Creates New AR Opportunities**
Several non-commerce platforms now offer AR capabilities through their apps. At First Data, we see this as a significant opportunity for AR to drive more natural or "organic" ecommerce. One example is a new use case for Snapchat’s embedded AR functionalities, In December 2017, Snapchat demonstrated a powerful new case for restaurants: an embedded snap code printed on their menus that enabled customers to view a juicy hamburger sitting on the table in front of them.

**VR Adoption Lags as AR Takes Off**
VR faces a longer path to mainstream adoption in retail. The most obvious hurdle is the need for specialised hardware. More importantly, we don’t believe the use cases are as compelling or as broadly applicable as they are for AR. Though innovative companies including Alibaba, and travel agency Thomas Cook, continue experimenting with fully immersive VR experiences, we expect VR to remain in the realm of retail innovation labs for at least another year—ultimately being abandoned in favour of AR.
Augmented Reality: AR Enabling Transformative Retail Experiences

**Trend: 7**

**WARBY PARKER**
The eyeglass retailer provides personalised recommendations via mobile, based on automatic measurements of your face. Full on AR-driven “try ons” aren’t far behind.

**amazon**
Consumers can visualise how a toaster looks on their kitchen counter, or how a chair fits in their office.

**LOWE’S**
Lowe’s Vision lets consumers quickly measure home spaces, visualise appliances and other products in their home, and can even guide them through stores to easily find the products they’re looking for.

---

1. Digi-Capital

---

AR Capable Mobile Devices Worldwide¹

- 2017: 600 Million
- 2018: 900 Million
As new technologies continue to emerge, companies cannot afford to waste time or money ‘chasing golden apples’.

In this ever-evolving landscape, one of the biggest challenges companies are grappling with is how to separate reality from the hype. It’s important to understand which emerging trends and technologies will gain widespread adoption to become the new standards - and which will potentially be abandoned on the long path to mainstream adoption.

Ultimately, these developing technologies along with changing customer expectations will continue to significantly impact the industry. First Data’s unique insight into the complex evolution of the retail world is helping thousands of businesses to develop strategies for long-term success.

“As brands race to remain relevant they’re changing how they ultimately do business.”
The First Data Difference

We draw on our deep experience, innovative technology and proven solutions to help retailers understand what accelerating digitalisation means for their business—and partner with them to build a strategy that drives success in the new retail landscape.

As a world leader in global commerce solutions, our technologies have enabled the pioneers of ecommerce and mcommerce. Today, our unmatched portfolio of technologies and solutions are driving commerce for the most innovative retailers in the world.

"First Data has a unique vantage point from which to observe how people’s shopping behaviours are changing and how digitalisation is influencing and driving these changes."

Operations in 37 countries

Clients in 100 countries

Business 6 Million+ locations

195+ currencies supported

4,000 financial institutions

2.4 Trillion transactions annually
Ready to transform your organisation’s digital commerce strategy?

Contact us at TalkPayments@firstdata.com or visit www.firstdata.com.