16 GLOBAL RETAIL TRENDS FOR 2016

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16 FOR '16
GLOBAL RETAIL TRENDS FOR 2016

Smarter malls, online fashion resale, loyalty programs, off-price shopping and 12 other trends will influence the retail industry and play a larger role in everyday life in 2016. Our analysts identify and outline these 16 trends and share their thinking on what to watch for this year and why.

1.

SUSTAINABILITY AND ETHICS: YOU ARE WHAT YOU BUY

Socially conscious retailers that sell sustainably produced, ethically sourced products will perform well, especially among millennials. Etsy, TOMS and Warby Parker are leading the way in ethical retailing.

More retailers will adopt sustainability practices as they strive to satisfy younger consumers' demands for ethically sourced products and transparent business practices.

What It Is

Consumers are increasingly looking for products and services that provide them with trustworthy information, reflect a mission to do good, and are produced using socially conscious and ethical practices. This trend is primarily driven by millennials, who are likely to choose brands that reflect their values and personalities. Demand for sustainable products will grow in importance as millennials mature in the marketplace and increase their spending power.

Why It Is a Trend

Millennials weigh corporate responsibility and sustainability more heavily in their purchasing decisions than do other generations. Information on ethically sourced products used to be hard to come by, but technology now puts such information at consumers' fingertips and democratizes access to niche products.

- Apps such as GoodGuide, Buycott and aVOID (billed as a "plug-in for fair online shopping") allow users to scan barcodes in order to get detailed information about how a product is made and whether any ethical issues are related to the product or the seller.
- Etsy, the online marketplace and community for handcrafted goods, is also a B corporation, which means it has earned a certificate for adhering to "the highest standard for socially responsible businesses." The company registered year-over-year growth in gross merchandise

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sales of 21.7% in the third quarter of 2015 and revenue growth of 37.9%.

- Fashion brand Reformation designs and manufactures sustainable apparel, sourcing sustainable fabrics and vintage garments. Meanwhile, TOMS and Warby Parker have both successfully employed a "one for one" business model in which they give away one pair of shoes (TOMS) or one pair of eyeglasses (Warby Parker) for every pair sold.
- Social innovation hubs, such as the Impact Hub and the Good Lab in Hong Kong, provide social entrepreneurs with resources, inspiration and collaboration opportunities to help them expand their impact.
- In the food and beverage segment, Shake Shack is winning over millennials with a local sourcing strategy, while Panera Bread announced that it would remove all artificial colors, flavors, sweeteners and preservatives from its menu by the end of 2016.

What to Expect

More retailers will adopt sustainability initiatives in order to create a brand that satisfies the younger generation's demand for socially conscious products and practices. Locally sourced products and handmade and crafted goods are the categories that stand to benefit most from the sustainability trend, and they will likely perform well.

THE EXPERIENCE ECONOMY: BUYING FUN, NOT STUFF

Traditional businesses, including apparel brands, will add experiential elements such as dining, travel and live events to their offerings, and technology firms and startups will continue to innovate within the experience economy.

Smartphone technology is a key enabler of the new experiential business model.

What It Is

Consumers who value acquiring experiences more than goods fuel the experience economy. Millennials lead this trend, preferring to attend live events, travel and dine at hip venues instead of spending on stuff—and they enthusiastically record and curate these experiences via smartphone cameras and social media platforms. Older consumers tend to spend more on travel and tourism, as more of them are leading healthy and active lifestyles even as they age. Naturally, the retailers benefiting most from the trend are those that present consumers with experiential offerings. However, many technology and sharing economy startups have also capitalized on it by democratizing the travel and lodging industries.

Why It Is a Trend

In 2014, Harris Poll conducted a survey of millennial consumption habits on behalf of Eventbrite. The survey found that:

- Of the millennials surveyed, 78% said they prefer to spend money on an experience rather than buying something desirable.
- Meanwhile, 69% of respondents said they believe attending live experiences helps them connect better with their friends and community and people around the world.

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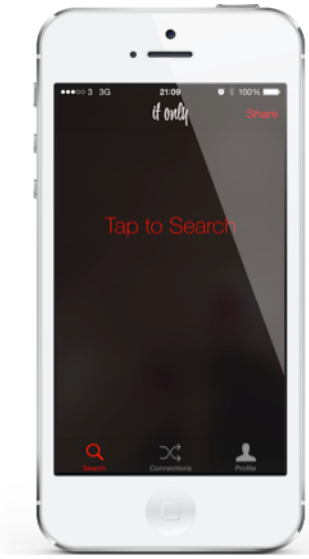
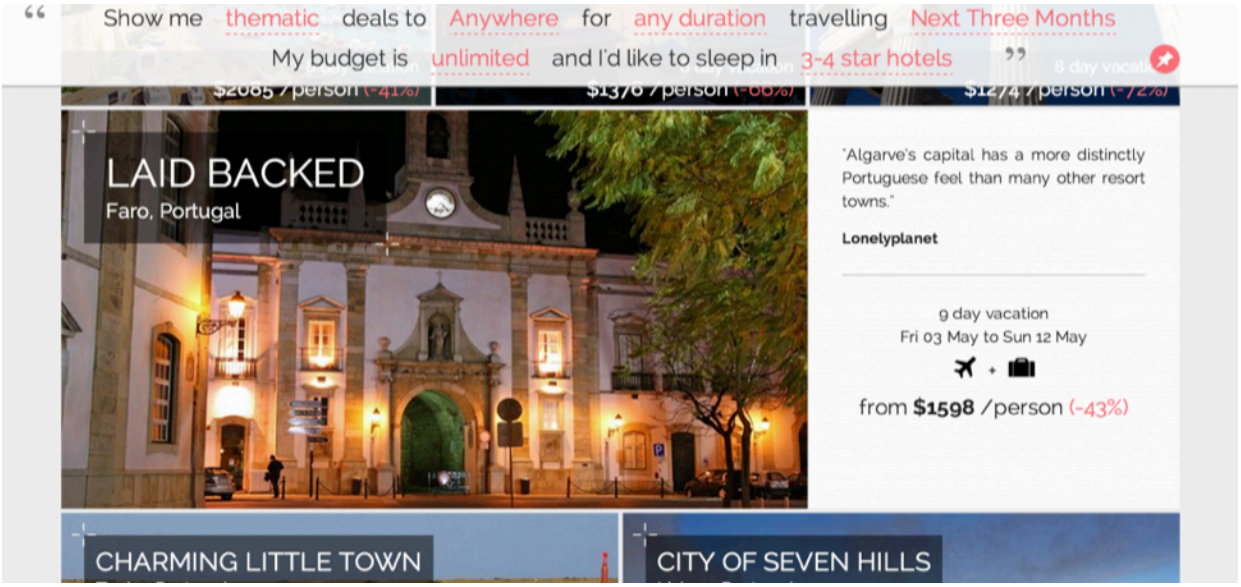


Mintel's *American Lifestyles 2015* report provided further insight into the behavior of US consumers, and it included a forecast of the expected developments in key spending categories over a five-year time horizon. According to the report:

- In 2014, the greatest spending gains were mostly in nonessential categories such as alcoholic drinks (in home), dining out, and vacations and tourism.
- Spending on vacations and tourism will outpace all other categories between 2014 and 2019, increasing by 27%.
- Over the same period, spending on dining out at restaurants will also increase, by approximately 27%.

Multiple startups have entered the scene with new business models that aim to capitalize on these shifts in consumer behavior:

- Gigzolo is a curated network of musicians and DJs available for hire for events.
- Zaptravel is a digital travel agent that uses a semantic search engine to scroll through its database.
- IfOnly is an online marketplace for unique experiences that range in price from $50 to $5,000.



What to Expect

The experience economy will grow significantly. More and more traditional businesses, such as apparel brands, will begin to incorporate an experiential element into their offerings and stores. At the same time, the number of consumers who prefer spending on experiences rather than on goods will continue to grow. The trend will become more popular not just with millennials, whose disposable income will continue to grow as they age, but with all demographic groups as smartphone technology (a key enabler of the experiential business model) is adopted more readily across generations.

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3 · THE SILVER ECONOMY: 65-PLUS, TECH-SAVVY AND HEALTH-CONSCIOUS

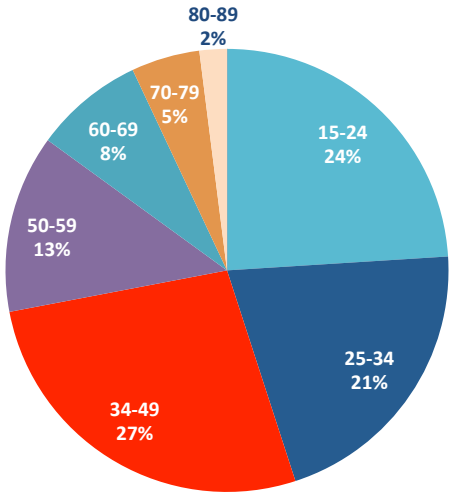
Retailers will focus more heavily on the fast-growing "silver" demographic, developing technologies, goods and services that specifically target consumers aged 65 or older. Investment in telehealth, retail clinics and wearable devices will increase.

Silvers face unique challenges in using new digital devices, and they are an underserved market when it comes to fashion and apparel.

What It Is

Silvers are consumers aged 65 and over, and they constitute nearly 23% of the world's population, or 1.7 billion people. Data from the United Nations suggest that the cohort will grow 2.5 times as fast as the total global population from 2016 to 2050. In developed countries, this group accounts for a disproportionate percentage of spending relative to its share of the population, which presents an attractive opportunity for retailers and brands that can market products and services that meet the aging population's needs. Data from the US Federal Reserve's 2013 *Survey of Consumer Finances* indicate that people aged 55 and older control more than three-fourths of America's household wealth of $81.5 trillion.

Figure 4. World Population, by Age Group



Source: FBIC/US Census Bureau

Why It Is a Trend

- According to data from the United Nations, the number of people aged 50 or older has reached 1.64 billion globally, while the number of people aged 65 or older has reached 608 million globally. The latter group has doubled in size over the last three decades and it continues to grow rapidly.
- That growth is reflected in seniors' Internet usage. In the US, 58% of seniors aged 65 or older are online; in Europe, 41% of seniors aged 65 to 74 are online.
- As the Internet penetration rate in developed countries has increased, so has smartphone use. According to UK communications regulator

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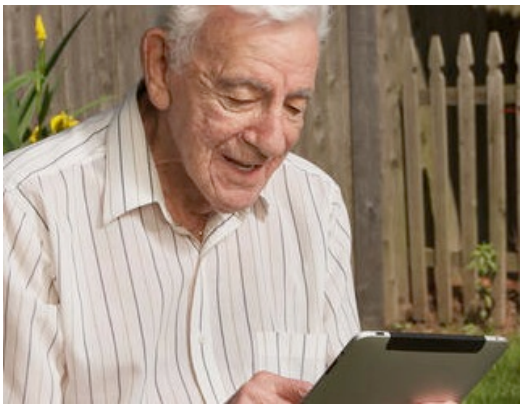
Ofcom, smartphone ownership among those aged 65 or older in the UK increased from 5% in 2012 to 18% in 2015.

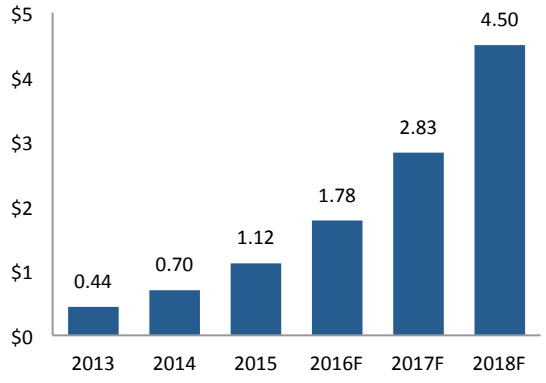
- Many retailers have focused their growth strategies on serving millennials, keeping the young demographic top of mind as they adopt new technologies and respond to trends. However, silvers face unique challenges in using new digital devices, and they are an underserved market when it comes to fashion and apparel.
- In 2015, CVS Health acquired Target's pharmacy and clinic businesses, committing to opening 20 new clinics in Target stores within three years of the close of the transaction.



What to Expect

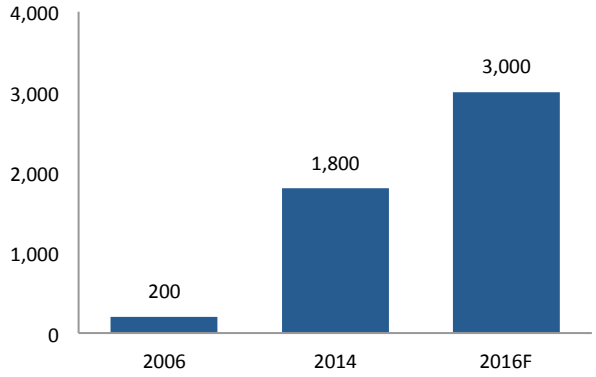
More companies will focus on and develop technology for the silver demographic. Telehealth services and retail clinics will proliferate, driving additional traffic to retailers. Moreover, we expect to see rapid growth in investment in wearables for seniors and in companies that "uberify" the doctor-patient experience.

Figure 5. Global Revenue: Telehealth Devices and Services (USD Bil.)



Source: IHS

Figure 6. Number of US Retail Clinics



Source: Convenient Care Association/Merchant Medicine

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4. BUYING FOR BABY: CHINA'S SECOND-CHILD BOOM IS COMING

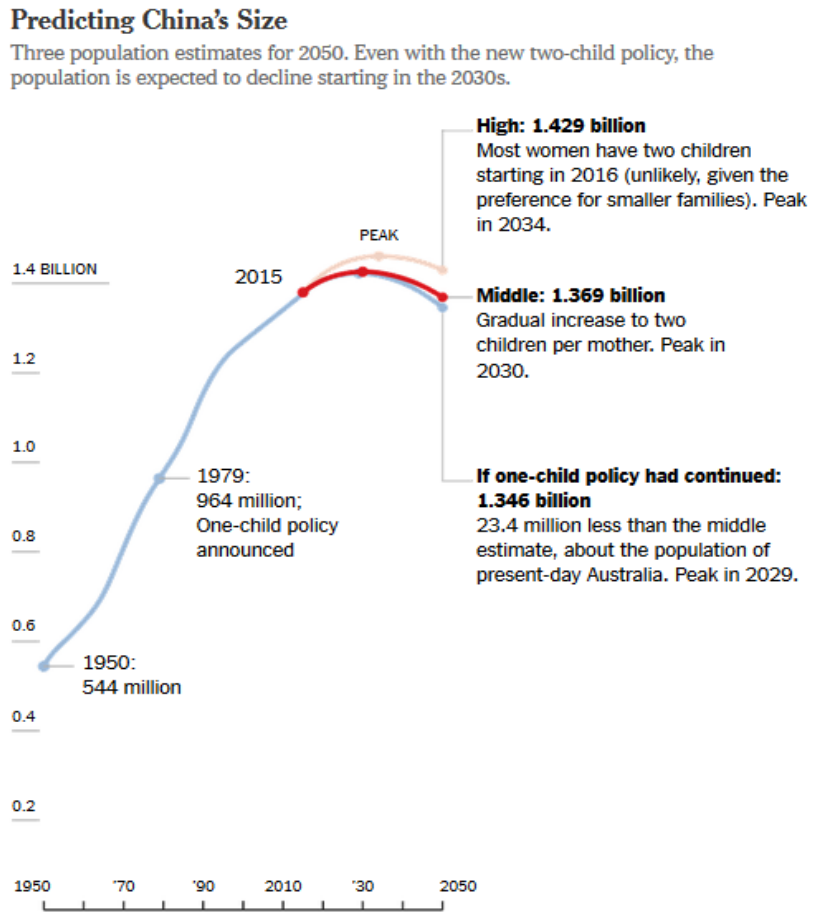
Purchases for expectant moms and new little brothers or sisters will likely increase in China as the country's one-child policy is lifted this year.

The baby boom in China will initially impact the sales of maternity clothes and mother care goods.

What It Is

The one-child policy imposed in 1979 by the Chinese government will be officially lifted in the first quarter of 2016. This means that couples in China can have two children without being fined. In the long run, this will likely help relieve China's aging population problem; in the short run, it is expected to boost the economy.

Figure 8. Projected Population Growth in China



Source: The New York Times*/United Nations Population Division/Kristin Bietsch, Population Reference Bureau*

Why It Is a Trend

Lifting the one-child policy makes 90 million couples in China eligible to have a second child. Experts predict a second-child boom, with the number of newborns increasing by 3 million to 8 million each year.

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Even under the one-child policy, the childcare market was a huge business in China. According to BaoBei360, the 0–12-year-old childcare market was worth about $178 billion in 2013. Huatai Financial estimates that the relaxation of the one-child policy could create a $15 billion market. In terms of industries, the second-child boom will benefit a wide range of categories, including food and dairy (over 75% of Chinese mothers use infant formula to feed their babies); healthcare (mother and baby care products); garments (baby and maternity clothes); automotive (families purchasing their first car or switching to a larger SUV or MPV); and education (private education starts with play groups for children as young as six months in China).

Figure 9. China: Child-Related Consumption of Total Family Daily Expenditure, December 2014

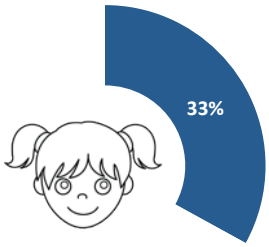
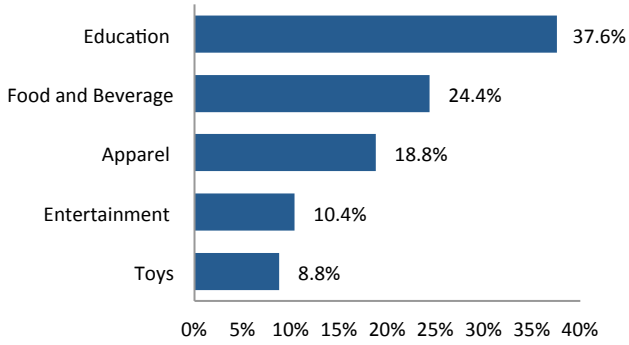


Figure 10. China: Breakdown of Child-Related Consumption, by Category, December 2014



Source: Insite/FBIC Global Retail & Technology

What to Expect

The first wave of the second-child boom is expected in 2017, but the impact on consumption could hit this year, driven mainly by expectant parents purchasing mother care products and maternity clothes. Given the surging cost of living in China, the second-child boom might be limited to the emerging middle class. This demographic is mostly located in top-tier cities such as Beijing, Shanghai and Guangzhou and in rapidly developing second-tier cities in the coastal areas. Families in this group tend to have higher incomes and more spending power, which will enable many of them to raise a second child. Their above-average purchasing power also means that they will look for higher-quality products, especially given recent product safety scandals, such as the 2009 Chinese milk scandal.

5 · HOME IMPROVEMENT: FROM HOUSE TO HOME

As the US housing market improves, the home improvement market will show strong growth compared to other retail sectors.

What It Is

Home improvement categories will continue to benefit from the recovery of the housing market in the US, from new household formation by millennials and from favorable employment statistics. Home categories will show strong growth in comparison to other retail categories such as apparel and footwear.

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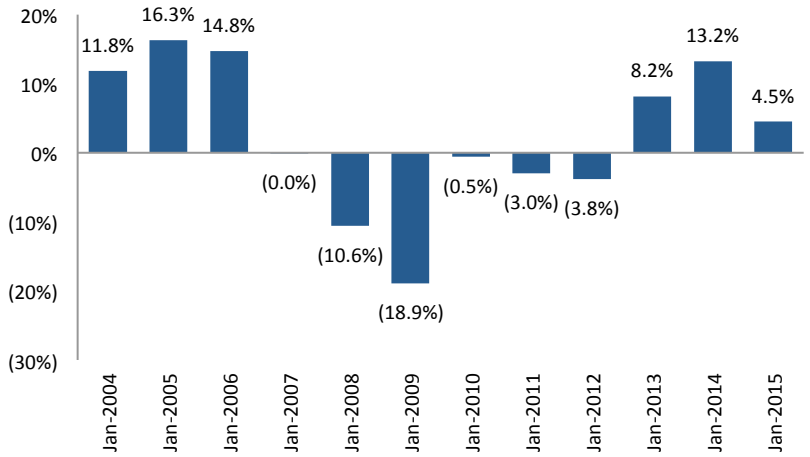
Why It Is a Trend

In 2015, the US housing market experienced an accelerated recovery, and consumers are starting to spend more money on home projects.

National home prices have increased by 27% since 2011, according to the S&P/Case-Shiller US National Home Price Index. Recent home price appreciation has resulted in a "wealth effect" for consumers, who are increasingly viewing home improvement projects as investments rather than as expenses.

E-tailers such as Wayfair will challenge traditional home improvement retailers by offering strong innovation and customer service. In turn, traditional retailers will focus on digital to boost sales, offering buy-online, pick-up-in-store services.

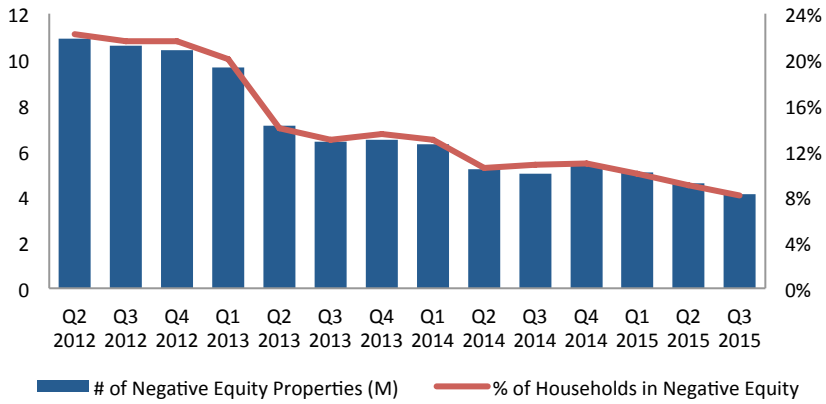
Figure 11. US: S&P/Case-Shiller Home Price Index: YoY % Change



Source: S&P Dow Jones/Moody's Analytics

- The number of homeowners in negative equity positions has also improved significantly over the last three years. About 4.1 million, or 8.1% of all mortgaged properties, had negative equity in the third quarter of 2015, according to CoreLogic. That's down from 5.2 million, or 10.4% in the third quarter of 2014.
- Home price continued to lift borrower equity positions and increase the number of borrowers with adequate equity to participate in the mortgage market.

Figure 12. US: Negative Equity Properties (Mil.) and % of Households in Negative Equity Position



Source: CoreLogic/US Federal Reserve

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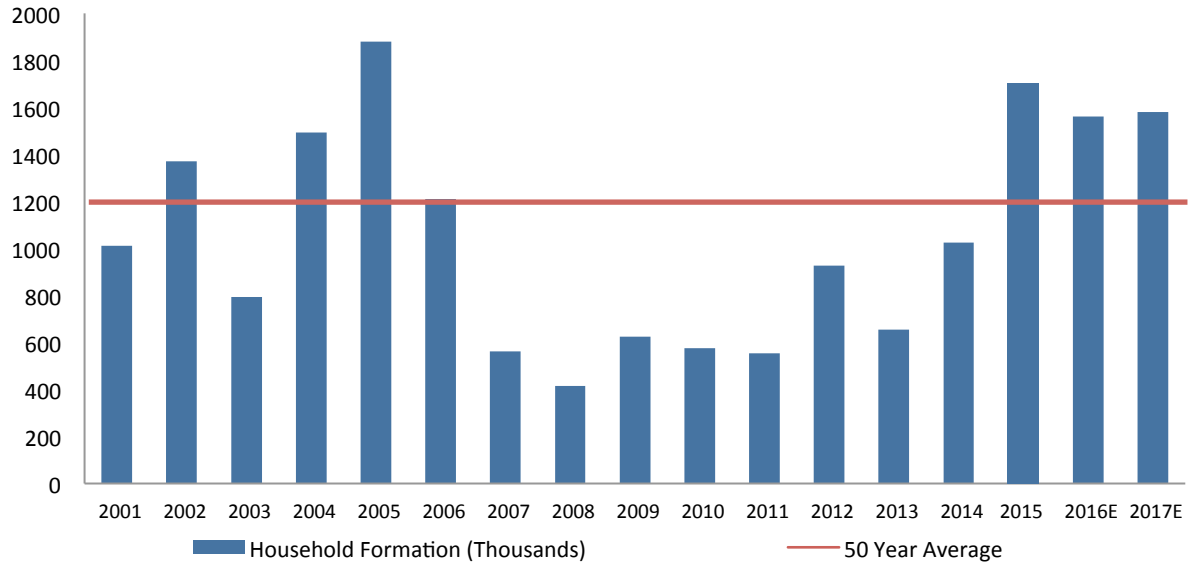
- Moreover, the rate of household formation in 2015 rose above the 50-year average for most of the year. As of the end of the fourth quarter of 2015, US households were being formed at a rate of 880,000 per year, a slight improvement from the annual rate of 800,000 that was registered in September 2014 but below the historical annual average of 1.2 million. Many newly formed households are headed by millennials.

Figure 13. US: Household Formation (Thousands)



Source: US Census Bureau/Moody's Analytics

The housing market recovery has boosted sales in the home improvement category. The Home Improvement Research Institute forecast annual growth of 5.7% for the US home improvement market in 2015 and predicted that the market will grow at a 4.5% annual rate between 2016 and 2019.

- Big home improvement retailers such as Lowe's and Home Depot have delivered solid comps of nearly 5% in recent quarters. Comparable sales growth at Lowe's has been driven by increases in both average ticket size and number of transactions. Home Depot is seeing faster-than-average growth in big-ticket items such as appliances.
- Home and garden was the fastest-growing category in e-commerce during the 2015 holiday season, delivering over 15% year-over-year growth, according to comScore. Consumers took advantage of holiday deals to improve their homes.
- Home e-tailers such as Wayfair and Houzz are offering unique shopping experiences and targeting young millennial shoppers.
- JCPenney recently announced that it will reintroduce appliances into its stores in a test program in 22 locations. The rationale behind the decision was that the vast majority of JCPenney shoppers own homes and frequently shop for appliances on the company's website.

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What to Expect

The positive trends in the home improvement market will continue. Digital will be increasingly important for omni-channel home improvement retailers as they compete with e-commerce pure plays. Omni-channel retailers will continue to leverage their physical store spaces, though, and will look to boost sales by offering buy-online, pick-up-in-store services. Meanwhile, home e-tailers such as Wayfair and Houzz will challenge traditional home improvement retailers in terms of product innovation, customer service and the overall shopping experience.

6 • ATHLEISURE: A LOOK BECOMES A LIFESTYLE

As more consumers commit to healthier lifestyles, athleisure is moving fashion from the yoga mat to the office.

Tory Burch, Derek Lam and others have launched athleisure lines.

What It Is

Athleisure is no longer just a trend—it is a lifestyle. Fashion looks inspired by yoga and athletics are being embraced by all kinds of people who are striving to live healthier, more active lives. Moreover, companies such as Under Armour are combining athleticwear and technology, and creating fitness communities in which members report and share their statistics and competition results on leaderboards.

Why It Is a Trend

Sales of athletic footwear and apparel in the US grew in the mid-single digits in 2014, and more and more designers and consumers are taking the activewear plunge:

- Rebecca Minkoff, Tory Burch and Derek Lam have all launched athleisure lines, and athleisurewear can be found at plenty of big department stores, such as Nordstrom and Kohl's, in both branded and private label offerings.
- Athleisurewear has become more acceptable attire for casual occasions and the office—and has become more versatile along the way. Millennials, who are considered frugal shoppers, find garments with multiple uses particularly appealing.
- The casualization of the workplace is a driving factor: as Americans have become more casual in their attire, the athleisure category has grown.

What to Expect

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The athleisure trend will continue to grow as more consumers embrace a healthier lifestyle, and athleisure will soon be everywhere, all the time. Much as denim entered the mainstream in the 1970s—showing up for the first time in men's suits and sport coats, women's dresses and swimsuits, and everyplace from the office to the opera—athleisure will be incorporated across apparel categories and environments. The clothing will be much more visible in stores, and the technical businesses that offer a specific type of athleisurewear, such as Nike and Under Armour, should do fairly well.

7 • REFOCUSING LUXURY: CHINESE STILL BUY, BUT OVERSEAS

Luxury shoppers in China will increasingly buy overseas due to the better prices and experiences offered in foreign locales, and brands in Asia will adjust their strategies to meet these buying habits.

Chinese consumers are looking for more exclusive and subtle items: Why shout when a whisper will do?

What It Is

The luxury market took a hit in China and Hong Kong in 2015, but growth in overseas luxury purchases by Chinese travelers remained strong. This bifurcation will continue in 2016, and major luxury brands in China will likely respond by shutting stores, cutting prices and focusing more heavily on digital channels.

Why It Is a Trend

Chinese customers led eight years of consecutive growth in luxury spending in Asia, but the tide turned in 2014, and 2015 was another tough year. In Mainland China, luxury spending fell by 2% in 2015, according to Bain & Company's annual report on global luxury retailing, while in Hong Kong and Macau, it fell by fully 25% during the year.

Yet demand from Chinese consumers traveling internationally remained buoyant, with overseas sales up 10% year over year. Surging luxury sales to Chinese tourists in Japan were underpinned by beneficial currency effects, but even in the US and Europe, Chinese travelers continued to spend big on high-end products, according to Bain. Global Blue, a tax-refund company, found that Chinese tax-free purchases (including nonluxury) increased by 64% in Europe.

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As a result of this trend, and after years of tapping growth in Mainland China through aggressive store-opening plans, some major luxury brands are now reconsidering their space needs. According to Bloomberg, luxury giant LVMH said in late 2015 that it would review eight stores in second-tier cities in China, equivalent to around one-fifth of its total network in the country.

The latest results from major luxury brands suggest that the Chinese slump may have already reached its nadir: Burberry and Tod's have both recently noted an improvement in Mainland Chinese demand, while the latest figures from Richemont suggest its declines are easing. But, even if this easing continues in 2016, the Chinese domestic market will likely remain a long way from its heyday of strong growth.

What to Expect

Chinese demand for luxury goods will remain bifurcated in 2016: overseas growth will likely remain substantially stronger than domestic demand, even if domestic demand turns positive. Overseas spending will be underpinned by the relaxation of visa requirements in some countries, such as the UK, and by Chinese shoppers buying in Japan in order to beat a planned sales tax hike that Japan will implement in April 2017. Luxury brands will likely follow one of three scenarios as they adapt to this changing demand:

1. Follow LVMH's lead and reshape their Mainland China store portfolios, particularly in smaller cities.
2. Follow Chanel and Gucci in cutting prices in China to reduce the disparity with other regions (a 2015 cut in import taxes makes it easier for brands to do this).
3. Focus more heavily on e-commerce to serve Chinese consumers. Bain noted that online shopping contributed to falling sales of luxury goods in Chinese stores in 2015, and Burberry recently noted the outperformance of its digital channels. Meanwhile, Tod's stated that it was paying increasing attention to e-commerce.

If the robust demand for luxury goods in China does not return, big luxury brands may have a smaller presence in the country, and work to become more digitally adept by the end of the year.

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8 OFF-PRICE US SHOPPING: EVERYBODY LOVES A BARGAIN

More US shoppers than ever will turn to off-price retailers that sell high-profile brands for up to 60% less. These include Primark, Target, Walmart, T.J. Maxx and Nordstrom Rack.

What It Is

The biggest budget retailers, including grocery, apparel and general merchandise sellers, are flourishing—and expanding into new markets. The key to their success is not simply low prices; they are raising standards in discount retailing and thus drawing in more shoppers.

Why It Is a Trend

As discount retailers continue to shake off their down-market image, they will become not only a respectable alternative to midmarket rivals, but also destination stores in and of themselves.

The budget boom was a major theme of 2015, and the trend is not likely to abate. In grocery, Aldi and Lidl continue their global expansion. Lidl stated it will join Aldi in the US market in 2018, and some speculate that it could be even sooner. Aldi and Lidl have built recent success by adding stores and flexing their hard-discount proposition. New store formats that are tailored to specific markets and improved food offerings have made these retailers' discount grocery stores appeal to more consumers.

In apparel, Primark launched in the US in September, announcing that it will eventually open eight stores. Other value-positioned apparel players, such as H&M and boohoo.com, continue to grow strongly. These retailers unite low prices and fashionable offerings, catering to younger shoppers' appetite for short-lived but stylish clothing.

In the US, off-price has been another element in the discount apparel boom, bringing more brands to the discount segment. In 2015, Macy's launched its off-price Backstage concept, with plans for around 50 stores; Kohl's unveiled its Off-Aisle concept; Hudson's Bay Company announced its Find @ Lord & Taylor format; and Nordstrom opened 27 new off-price Nordstrom Rack stores across its first three quarters.

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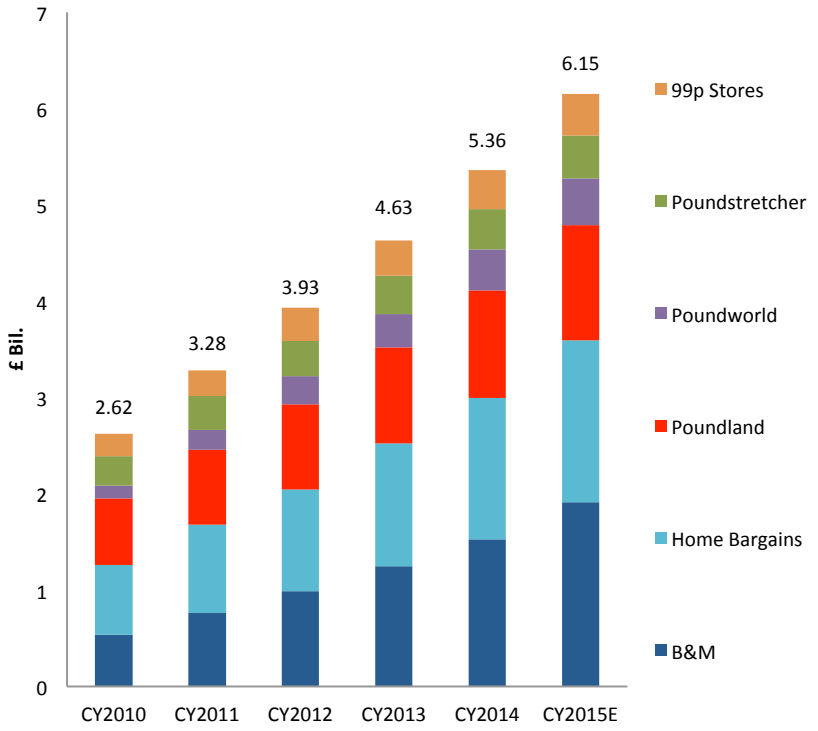
In mixed categories, the dollar stores in the US and the pound stores in the UK have flourished. Our research recently found that the UK's major discount mixed-goods retailers (including pound shops) grew total revenues by around 135% between 2010 and 2015. In the UK, these stores are now a major channel for grocery products, selling an estimated £3.6 billion in grocery categories in 2015 as they improved their offerings in branded products.

Figure 14. UK: Big Six Mixed-Goods Discounters' Total Sales



Source: S&P Capital IQ/company reports/FBIC Global Retail & Technology

What to Expect

Budget retailers have been successful where they have innovated and raised standards, and this will likely continue through 2016. More brands will pursue growth through grocery discounters, mixed-goods discount shops and off-price stores, and stores across these sectors—from flagships at Primark to concept stores at Lidl to online ventures by Aldi—will continue to improve the customer experience.

As a result, more shoppers than ever will likely turn to discount stores. As discount retailers continue to shake off their down-market image, they will become not only a respectable alternative to midmarket rivals, but also destination stores in and of themselves. This year, we will get closer to the point where every shopper is a budget shopper.

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9 · ONLINE FASHION RESALE: GUILT-FREE BUYING

Online marketplaces for secondhand apparel will continue to thrive, offering a consistent mix of branded goods in verified "like new" condition at large discounts to retail prices.

Driven by the growth of the sharing economy, the online consignment model is attracting consumers who historically had reservations about purchasing secondhand fashion.

What It Is

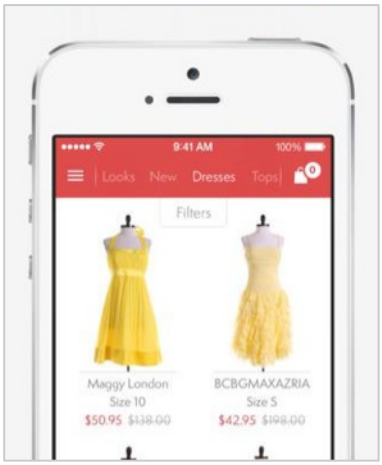
Online marketplaces for secondhand apparel were a big story in 2015, and they will continue to thrive. Driven by the growth of the sharing economy and facilitated by advances in technology and logistics, the online consignment model is capitalizing on consumers who historically had reservations about purchasing secondhand fashion. Upfront Ventures, one of the investors in online consignment platform ThredUP, highlights the following findings from its research, which underlie the rationale behind online consignment:

- In the US, 70% of the items in the average woman's closet go unworn each year.
- The average American generates 60 pounds of apparel to be recycled annually.
- Parents will recycle more than 1,800 items on average by the time their child turns 18.

There is a big imbalance in the way people consume clothing, and online fashion resellers are looking to fix the equation. These retailers offer a consistent mix of branded products in verified like-new condition at large discounts to retail prices.

Why It Is a Trend

In the US, the online consignment market includes startups such as ThredUP, The RealReal, Tradesy, Twice and Swap.com. The size of the online resale industry is estimated to be $34 billion, according to ThredUP, and SnobSwap estimates that the market is growing at a compound annual growth rate of 10%. Patagonia, Eileen Fisher and H&M are also running their own resale programs.



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- ThredUP raised $81 million in series E funding in September 2015, led by Goldman Sachs Investment Partners, bringing the company's total capital raised to over $131 million. ThredUP saw significant user growth before its latest investment round, reporting that its site visitor numbers had grown from 700,000 in 2014 to 1.8 million in the first eight months of 2015.
- In April 2015, luxury consignment site The RealReal raised $40 million in funding. Tradesy secured $30 million in funding in January 2015.
- In December 2014, e-commerce company Rent the Runway raised $60 million, bringing its total funding to $114.4 million.
- Smaller consignment players Threadflip and Bib + Tuck were acquired by Le Tote and Crossroads Trading, respectively, showing that consolidation in the space has already started.

What to Expect

The online consignment business model is clearly favored by venture capital investors, and 2016 will likely be a key year for this business sector. We see rapid growth for the leading marketplaces and will not be surprised if some of it comes through acquisitions as the industry consolidates.

10 · MORE SHARING: THE DISRUPTORS GROW UP

Healthcare will be the next entrant in the ever-evolving sharing economy.

The big players in the sharing economy—Airbnb and Uber—will grow even larger and more sophisticated, and a sharing-economy IPO may be near.

What It Is

The sharing economy has been a hot topic over the last few years, and the growing momentum of peer-to-peer businesses across the globe is undeniable. Uber, Didi Kuaidi, Zipcar and Airbnb now have valuations that are much higher than those of the incumbents in their respective markets, and many people now earn a living through freelancing and the sharing economy.

Figure 7. Selected Sharing-Economy Companies and Their Valuations

Company	Industry	Valuation (USD Bil.)
Uber	Car Sharing	$62.5
Airbnb	Peer-to-Peer Accommodation	$25.5
Didi Kuaidi	Car Sharing	$16.5
WeWork	Office Sharing	$10.0
OLA	Car Sharing	$5.0
Lyft	Car Sharing	$4.0
HomeAway	Peer-to-Peer Accommodation	$3.0
Instacart	Logistics/Delivery	$2.0
Prosper	Peer-to-Peer Lending	$1.9
TransferWise	Finance	
Funding Circle	Finance	

Source: Company reports/TechCrunch.com/VentureBeat.com

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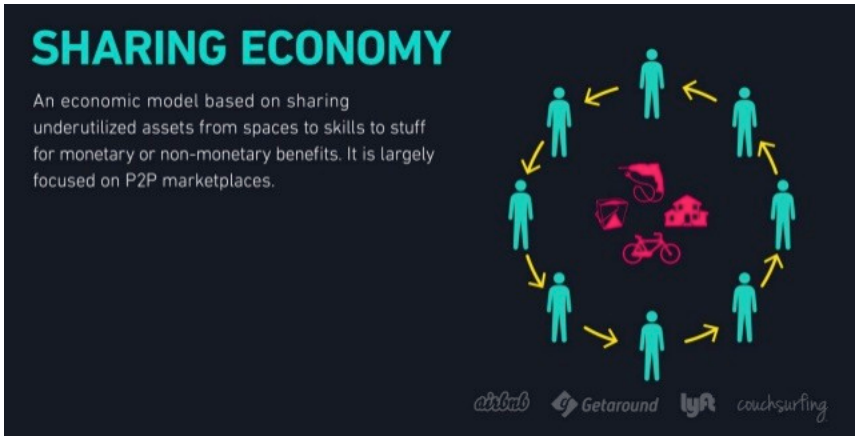
Why It Is a Trend

- The sharing economy model has continued to make its way across industries, and healthcare is likely to be the next big industry it disrupts. In the US, startups such as Doctor On Demand, Pager, Studio Dental and MedZed are betting that consumers will eventually be receptive to "uberifying" their doctor visits.
- Leading sharing companies have become more sophisticated in how they service their markets, showing that the sector has started to mature. Airbnb and Uber, for example, have launched separate apps for business and personal customers.
- At the same time, Airbnb and Uber have faced some challenges resulting from their scale, mostly related to ensuring the safety of their customers. In addition, both companies have hit regulation battles in some of their markets, as legislators have been slow to come up with policies governing the peer-to-peer model and as incumbent competitors have looked for ways to stem their loss of market share.
- PwC estimates that the sharing economy will grow at a compound annual growth rate of 32.6% until 2025, to reach $335 billion.



What to Expect

The big players in the sharing economy will become even bigger, and we expect to see strong growth from the leading companies in the sector. This might even be the year of the first big sharing-economy IPO, which would set the tone for the rest of the sector; Airbnb is the most likely sharing-economy company to go public this year. The most interesting developments will be in the healthcare industry, which is ripe for disruption by an Uber-type business.

11. SMARTER MALLS: USING TECH TO BATTLE COMPETITORS

As their numbers of visitors continue to decrease, shopping malls will need to become "smarter" in order to attract shoppers.

What It Is

Shopping malls face fierce competition in attracting tenants, and the double-digit growth of online shopping worldwide has worsened the situation. To help differentiate their properties, some developers are upgrading their malls, leveraging technology to make them smarter. China

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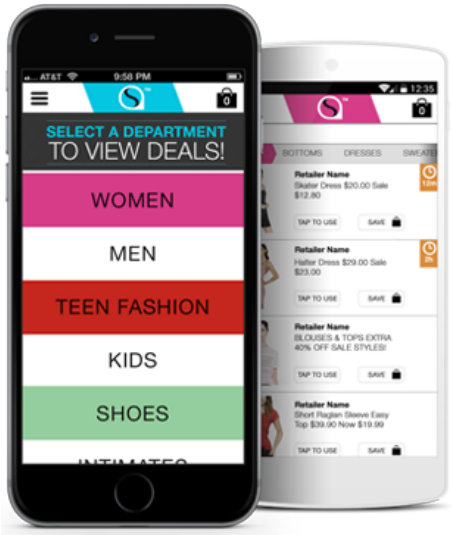
and the US have been at the forefront of technological innovation inside the mall, and mall operators in Europe have been experimenting, too.

Malls will increasingly turn to technology to track consumer behavior, enhance marketing and engage customers.

In the past decade, real estate developers in China have poured billions of dollars into building shopping malls, and mall retail space has grown almost fivefold in the country. In 2014, 44% of all new shopping malls opened globally were in China, which is also home to the world's largest shopping mall. However, as economic growth in China slows, retailers are becoming more conservative about opening outlets.

In the US, the overall number of malls is declining, but high-end malls are striving to succeed. Premium mall operators have been experimenting with technologies that allow them to better understand consumer behavior and traffic flow inside their properties. Some have also deployed location-based marketing technologies to improve the shopping experience.



Why It Is a Trend

Companies are actively experimenting with consumer behavior analytics and consumer engagement in China and the US. RetailNext, a US in-store data analytics company, provides real-time analysis of shoppers' movements, behavior and preferences, which mall operators can use to make better business decisions regarding leasing and marketing. The company also formed a strategic alliance with StepsAway, which provides in-mall mobile retail solutions, to offer relevant promotions to shoppers and measure their conversion rates.

Many malls are attempting to interact with shoppers digitally via their smartphones, too, trying to add a personal touch to the shopping experience. For example, Shanghai's Cloud Nine and Shenzhen's SEG Plaza use the social-messaging app WeChat for their news and loyalty programs. This helps to create stronger bonds with customers and increase repeat visits to the malls. Such platforms allow malls to engage with customers and extend their relationships with them, even when those customers are not at the mall. In some Macerich and Westfield properties in the US, shoppers can text questions to the mall's information desk and get answers in real time.

Mall operator Scentre recently rolled out a customer engagement platform at 27 locations that uses a SmartScreen network of 1,200 interconnected digital screens to show advertisements. The network also utilizes QR codes, near-field communication and beacon technology. The Westfield San Francisco Centre offers charging stations and free wi-fi throughout the mall as well as an experimental co-working office that features a space for retail pop-up stores. The space is outfitted with wall-mounted and mobile touch screens that brands can use to test products and showcase new technology. Westfield Century City in Los Angeles was the first mall in North America to offer Park Assist, an electronic parking management system that uses a series of lights and signs to reduce the time shoppers spend looking for a parking spot, so they can spend more time shopping.

Other malls are taking their customer engagement programs to the next level. Shenzhen Rainbow owns over 30 department stores and shopping malls across China. It recently launched a proprietary app that delivers promotional messages to its members, and it is collaborating with tech giant Baidu to run big data analysis. The company aims to use retail, shopping

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mall and Baidu search engine data to deliver promotions that match customers' needs precisely, in order to increase sales conversion for its retailers. Baidu has also announced tie-ins with real estate developer China Vanke to work together on 20 new digitally smart malls and with Dalian Wanda to launch one-stop-shopping app Feifan for in-mall use.

US premium malls are also introducing location-based marketing. Some US malls have incorporated touch screen displays, augmented-reality selfie videos and other fun digital experiences to better engage shoppers. For example, Macerich partnered with HGTV to launch Santa HQ, an immersive holiday pop-up attraction, in 10 properties during the 2014 holiday season.

What to Expect

More shopping malls will apply smart technologies in 2016, as they will be a key to maintaining competitiveness and attracting both consumers and retail tenants. Mall operators will also work more closely with their retail partners to enhance the customer experience. We believe there is an opportunity for operators and tenants to share data in order to target the customer on a more personal level. Wi-fi connectivity will be more prevalent at shopping centers this year, although beacon adoption will remain low. Chinese shopping centers are likely to be some of the fastest adopters of smart technologies. More developed markets, such as the US, will pick up the trend, and premium malls will continue to lead innovation in both in-store analytics and shopper engagement.

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12 · RETAILTAINMENT: DRINK, DINE AND DISCOVER

Brick-and-mortar retailers will grow into entertainment destinations in a bid to differentiate themselves from the online shopping experience.

Brands hope to give customers a reason to come back to the physical store, even though most purchases can now be made online.

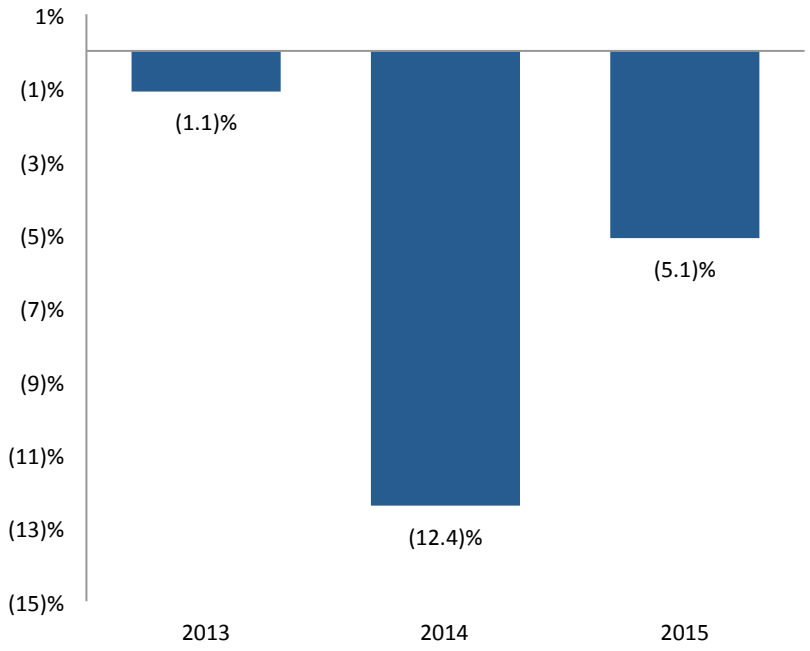
What It Is

To help drive in-store traffic and provide a more meaningful customer experience, many brick-and-mortar retailers are adding an element of "retailtainment" to their stores. They are incorporating in-store events, more interesting and decorative store interiors, and interactive elements that fully involve customers in a way that is unique to the brand. This allows brands to provide a personal, tangible experience and engage with customers, and gives customers a reason to come back to the physical store even when they can choose to make their purchase online.

Why It Is a Trend

RetailNext reported that traffic during the 2015 Thanksgiving weekend decreased by 5.1% in the US, and more and more customers are shopping for and researching products online.

Figure 1. US Thanksgiving Weekend Foot Traffic: YoY % Change



Source: RetailNext

In December 2015, traffic continued to decline, decreasing by 5.8% on a year-over-year basis, even though the average transaction value (ATV) at stores increased by 3.6%.

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Figure 2. US Retail Averages: YoY % Change, 2015

	Sales	Traffic	Conv.	ATV	SPS	Tran.	% Return
Dec.	-0.4%	-5.8%	0.4%	3.6%	5.7%	-3.8%	-0.3%
Nov.–Dec.	-2.0%	-6.4%	0.3%	3.3%	4.8%	-5.0%	-0.2%
Thanksgiving	-4.7%	-5.1%	-0.5%	3.1%	0.3%	-7.0%	-0.1%
Nov.	-5.6%	-7.6%	0.0%	3.2%	2.3%	-8.3%	0.1%
Oct.	-12.2%	-10.7%	-0.7%	3.8%	-1.1%	-15.1%	0.2%
Sept.	-8.7%	-8.1%	-0.1%	1.1%	-0.5%	-9.6%	0.1%
Aug.	-7.3%	-9.9%	0.2%	1.6%	2.9%	-8.7%	0.2%

Source: RetailNext

To entice shoppers back into physical stores, shopping centers and brands in the US are betting on a variety of retailtainment concepts:

- Urban Outfitters, Club Monaco and Kohl's have all joined the trend of retailers opening coffee shops in their stores. Urban Outfitters took the concept one step further in 2015 by acquiring the Vetri Family group of restaurants, and it is reportedly now working on opening restaurants in a number of stores.
- The King of Prussia Mall in Pennsylvania is adding about 250,000 square feet of space connecting its Plaza and Court sections. Reports suggest that none of the new square footage will be devoted to traditional retail; it will all be food and experiential space.
- Apparel retailers Rebecca Minkoff and Tommy Hilfiger have provided shoppers with virtual reality (VR) headsets that allow them to experience the brands' runway shows virtually.

What to Expect

Brands and retailers will experiment with unconventional food and beverage offerings this year. More retailers will use in-store technology such as VR to make the shopping experience more fun and entertaining. And we anticipate a proliferation of mobile apps that improve the in-store experience by giving shoppers access to customizable shopping lists, location-relevant promotions, and product and inventory information.

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13 · OMNI-CHANNEL RETAIL: MEET THE CUSTOMER EVERYWHERE

Omni-channel retail will require that e-commerce, brick-and-mortar, click-and-collect and offline-to-online all work together seamlessly, and Amazon will set the standard.

Online-only players will open brick-and-mortar shops, and brick-and-mortar players will upgrade digital buying options.

What It Is

Several years ago, retailers were discussing a multi-channel business model. The discussion has now shifted to omni-channel, and retailers must now reach customers wherever they are, whether in stores, online or on mobile phones. Customers want a seamless experience and for all channels to be connected.

Why It Is a Trend

In 2015, the merging of physical and digital retail continued. Retailers that formerly operated as online pure plays opened brick-and-mortar spaces, while traditional retailers invested heavily in e-commerce. In the eyes of consumers, however, online and offline do not compete, as each channel offers complementary value: digital offers information, choice and the convenience of shopping anywhere, anytime, while physical stores remain a unique touch point with a brand's identity and products.

- Amazon has started to dip its toe into omni-channel retailing by opening a brick-and-mortar bookstore in Seattle and by testing Amazon stores. The company has followed other online pure plays, such as Warby Parker, Bonobos and Birchbox, all of which have ventured into the physical space with omni-channel store concepts.
- In 2015, Amazon's market capitalization hit approximately $317 billion, surpassing Walmart's, which was about $196 billion. As the stock prices of these two companies headed in opposite directions, it clearly showed how investors valued the growth potential of each.
- The US lags European countries such as the UK in terms of offering click-and-collect, but US retailers are quickly adopting the service as a distribution option for consumers.

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What to Expect

Omni-channel retailing will mature and, once it does, the term will be less associated with the notion of integration. Instead, it will simply refer to customer-focused retailing—servicing the customer the same way across all channels. E-commerce, brick-and-mortar, click-and-collect and offline-to-online will all work together seamlessly in the new retailing landscape. Amazon will likely have the leading edge, but Walmart, Target and Macy's will provide plenty of competition.

14 • SOCIAL SELLING: SNAP, CHAT, BUY

Social media and the power of its celebrities, or "influencers," will become increasingly important. Facebook, Twitter and Pinterest will continue to play a part, but Instagram, Snapchat and WeChat will drive innovation.

What It Is

Many social media companies are already including "buy" buttons in posts.

Social media will become increasingly important for retailers in two major ways: as a selling channel and as an improved marketing channel that can amplify consumer engagement and sway shoppers' buying decisions. Many social media companies are already including "buy" buttons in posts, allowing customers to purchase directly through their platforms. In terms of marketing, social media influencers have become the celebrities of the digital world, and companies are looking to maximize the power of these trendsetters.

Why It Is a Trend

- Major developments took place in US social media in 2015, including Pinterest's launch of a "Buy it" button and Instagram's expanded ad program. Twitter, Facebook and YouTube also became more commerce-friendly by experimenting with buy buttons.
- Pinterest users can already buy directly from Macy's, Neiman Marcus and Nordstrom, and the platform is integrated with Shopify and Demandware. Pinterest users' average order value is $123.50, which is about 126% higher than Facebook users' average of $54.64, according to Javelin Strategy & Research.
- Chinese messaging platform WeChat leads the way in social selling. It successfully integrates brands' commercial accounts and digital influencers, reaching shoppers directly through an app that many of them check constantly throughout day.
- Before Singles' Day 2015 in China, brands and retailers engaged shoppers actively on WeChat by offering mobile reward vouchers and coupons and by launching stickers, such as the one created by key opinion leader and artist Zhang Xiaobai for The Cambridge Satchel Company**.** Research by InSites Consulting indicates that influencers "are over 40% more likely than average to trigger others to look up information on products/brands [and] 90%...more likely to convince others to choose a certain brand."
- Fashion bloggers gained prominence in 2015. Bloggers such as Man Repeller and Chiara Ferragni are more influential on Twitter than Taylor Swift is, according to SocialBro, a social-marketing company.

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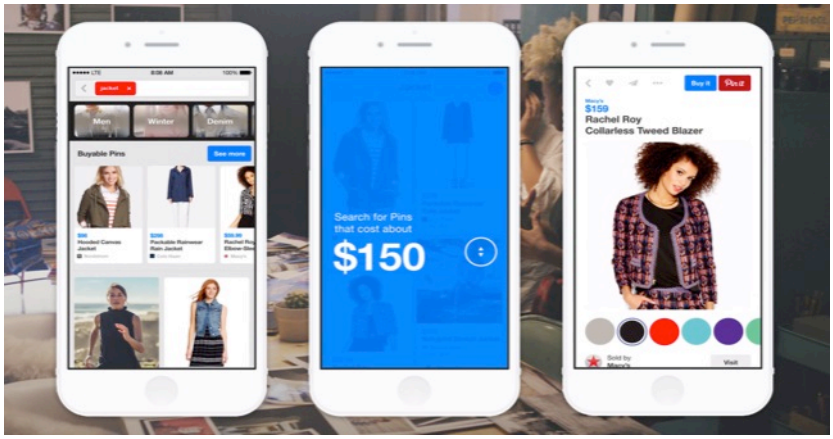
- In China, brands such as Burberry, Tommy Hilfiger, Gucci and Diane von Furstenberg greatly benefit from the influence of "verified" key opinion leaders who generate content for the microblogging platform Weibo. Many of these influencers have more than 1 million followers.

What to Expect

"Social selling" will reach a new level of importance. The combination of instant social media buying and the rise of influencers' marketing power will make social media an even more important channel for brands and retailers. Adding to the complexity, most of the transactions will be done on mobile platforms, similar to what is already happening with WeChat in China.



15 · TECH INVESTMENTS: FEED THE DIGITAL SHOPPING HABIT

Retailers will boost investments in technology in order to meet consumer appetite for researching and buying products online.

What It Is

Many US retailers will increase their spending on technology in order to expand e-commerce and omni-channel capabilities, allowing them to better provide the seamless experience consumers expect.

Improved mobile apps, faster fulfillment capability, and more secure payment systems and data are on the menu.

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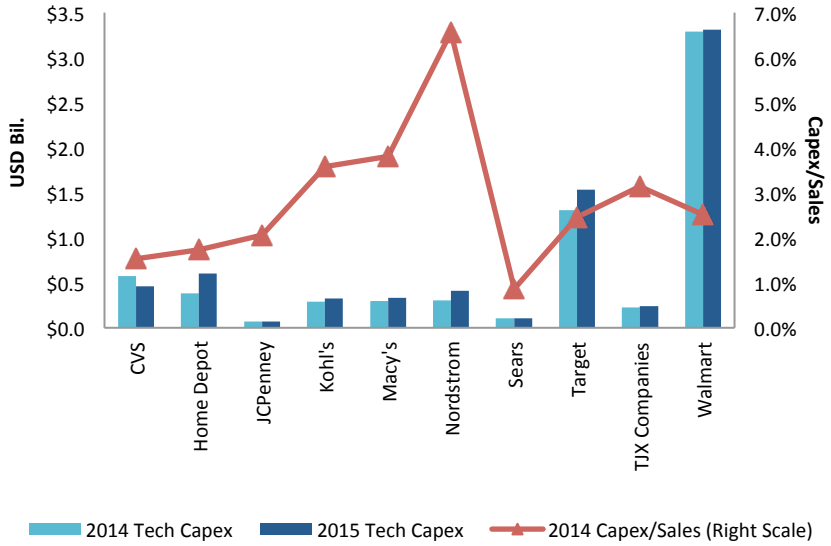
Why It Is a Trend

In 2015, online sales surged during the holidays. Growth in the online channel handily outpaced growth in brick-and-mortar sales, spurring many retailers to increase investments in digital capabilities.

Figure 3. Selected Major US Retailers' Technology Capex



Source: Company reports

- In a few highly visible incidents during the 2015 holiday season, retailers' websites were overwhelmed by traffic and orders.
- Walmart's strong mobile growth was driven by recent efforts to improve its app and simplify the checkout process on Walmart.com. The retailer cut its checkout load time from 7.2 seconds to 2.9 seconds, reportedly increasing conversions by 2%. Walmart also opened two automated fulfillment centers in the third quarter to scale fast delivery to customers across the US.
- Home Depot increased its online presence with initiatives such as buy online, ship to store; buy online, pick up in store; and buy online, return in store. The company is also investing in its supply chain to support online growth by completing a fulfillment center in Ohio. The center will allow Home Depot to ship parcels to 90% of US customers within two days.
- Amazon launched Amazon Underground, a new app for Android phones that includes the same functionality as the Amazon iOS mobile shopping app, plus over $10,000 worth of apps, games and in-app items for free. The company added Prime Now service to eight metro areas in the third quarter of 2015. Prime members can now choose from tens of thousands of daily essentials with free two-hour and paid one-hour delivery in 17 locations around the world.
- Warby Parker's move into the offline channel has been effective. The company has seen in-store sales of over $3,000 per square foot. These offline sales are feeding back into its e-commerce growth, as over 85% of shoppers who visit a physical store later visit the company's website.

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What to Expect

Consumers will continue to shop online and be influenced by e-commerce and mobile sites. Most e-commerce growth will come from mobile, and consumers will research products and prices on their mobile devices, even when they are shopping in stores. Retailers will have to boost their technology investment in order to compete successfully. Relevant spending areas will likely be mobile app improvement, fulfillment capability, and payment systems and data security.

16 · LOYALTY PROGRAMS: KEEP THEM COMING BACK

Retailers will refocus on loyalty, which has become increasingly difficult to generate and maintain in the omni-channel world.

What It Is

Generating and maintaining customer loyalty has become a bigger challenge for retailers, and shoppers expect superior customer service these days. Operating a retail business has become much more complicated, but customers are not aware of that—and they do not care about what happens on the back end. JDA's *2015 Consumer Survey* found that:

Smartphone apps are set to become more prominent in loyalty programs, and many members are likely to use their smartphones in place of plastic cards.

- Of the shoppers surveyed, 35% said they had experienced a negative delivery issue with an online order and that they were not likely to shop with that retailer again.
- Of the shoppers who had experienced an issue with a retailer, 51% said they would not shop with that retailer during peak holiday shopping times such as Black Friday and Cyber Monday.

In light of the more complex relationships that retailers now have with customers across multiple channels, many are focusing on improving customer loyalty by making the shopping experience more personalized via membership and loyalty programs.

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Why It Is a Trend

Retailers frequently use clubs, memberships and elements of gamification to help increase customer loyalty. Many retailers also work to personalize their offerings in order to strengthen their bond with individual customers. Such efforts particularly resonate with millennials, who tend to view themselves as unique individuals and demand that the products and services they receive be customized to their wants and needs.

- Currently, only 37% of retailers use internal and external data to gain insights on their customers, according to SAP. According to Accenture, nearly 60% of customers want real-time promotions and offers, yet only 20% want retailers to know their current location.
- During its Investor Day on December 17, CVS announced that one of its five strategic themes for 2016 was customer-driven personalization.
- In 2014, Walmart launched Savings Catcher and the Savings Catcher app. The loyalty program allows members to automatically receive the difference in price on a product if the member finds it cheaper elsewhere.
- In May 2015, American Express launched Plenti, a rewards program that allows customers to earn rewards points from multiple companies. American Express also offers a Plenti credit card, but members can participate in the rewards program without being a Plenti cardholder.
- In October 2015, Marks & Spencer launched its members club, Sparks, with over 2 million cardholders in the UK.

What to Expect

More retailers will embrace and facilitate personalized experiences for customers at all discovery, consideration and purchase touch points. Brands and retailers will achieve this by investing in improved loyalty and membership programs and by implementing in-store and e-commerce data analytics technologies. In addition, smartphone apps are set to become more prominent in loyalty programs, and many members are likely to use their smartphones in place of plastic membership cards in the years ahead.

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About Global Retail & Technology, Fung Business Intelligence Centre

We are Fung Business Intelligence Centre's (FBIC) New York-based Global Retail & Technology Team. Since its establishment in 2000, FBIC has served as the knowledge bank and think tank for the Fung Group. We identify and follow emerging global retail and technology trends. Our specialty is to provide comprehensive insights and analysis by observing and studying these trends as they intersect at the retail interface worldwide. Our goal is to stay at the forefront of the retail revolution brought upon by the newest technology and be the leader in the collaborative knowledge communities.

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