

Top 10 Takeaways from the NRF Retail's Big Show Day 1: The Exponential Pace of Change Demands More Reform in 2017



- 1) On Sunday, January 15, we attended the first day of the National Retail Federation (NRF) Retail's Big Show 2017. We met with and heard from a wide range of retailers, all of whom discussed the challenges they see for retail in 2017 and the rapid pace of change the industry is currently experiencing.
- 2) There is more complexity in the retail business now. Consumers want to shop on their own schedules—when they want, where they want and how they want. The exponential pace of change demands more reforms in 2017.
- 3) James Rhee, CEO of Ashley Stewart, pointed to his company's transformation in the last few years as an example of the potential for retailers to improve and transform themselves despite facing numerous challenges. He said the story of Ashley Stewart provides hope that change is possible.
- 4) Some retailers discussed the importance of going back to basics and focusing more heavily on offering differentiated product. Retailers need to boost the emotional content of their product and experience in order to better engage with consumers.
- 5) We heard from two companies that are addressing the market with personalization: Shoes of Prey and Indochino. Both companies are giving customers something they did not know they needed or wanted, and both have seen success.



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Sunday, January 15, was the first day of the NRF Retail's Big Show 2017, and members of the Fung Global Retail & Technology team attended conference sessions, met with retailers and walked the show floor.

We will publish additional wrap-ups and reports as the show progresses. In this note, we provide our top 10 takeaways from the first day of the show.

1. The Rapid Pace of Change in Retail Demands More Reforms in 2017

The retail industry has experienced dramatic change in recent years. Rod Sides Vice Chairman and Retail, Wholesale and Distribution Leader at Deloitte, noted that the retail industry is in slow growth mode, consistent with US GDP growth. Declining in-store traffic and increasing e-commerce penetration are two underlying changes that are happening at a faster-than-expected pace. Sides said there is still room, though, for retailers to improve the customer experience in the fast-changing environment. In a seamless shopping journey that combines digital and physical channels, more than \$1.8 trillion in retail sales are digitally influenced. Sides reviewed a Deloitte survey that found that only 47% of customers are satisfied with the basic offering in retail, including product and checkout speed.

Lunch keynote speaker Captain Scott Kelly, who has made history as a NASA astronaut, shared his personal journey and stressed the importance of being willing to take risks and embrace change in all industries.

2. A Positive Culture Drives a Successful Company, as Ashley Stewart Exemplifies

James Rhee, CEO of Ashley Stewart, talked about how he focused on the company culture and its employee base in order to transform the business when he first joined as CEO. He said he brought the culture that had been pervasive in stores for a long time into the corporate environment. Store employees were loyal and many were friends, he said, noting that loyalty and friendship cannot be bought. The store culture was about respect and stores had deep ties to their local communities.

With those embers, he restarted the company from scratch. He measured success based on customer loyalty rather than on sales. He infused the atmosphere with kindness and compassion and created an environment where employees felt safe and had a sense of trust in the company and in each other. Rhee commented that, with all the challenges and changes the retail space is currently undergoing, Ashley Stewart serves as a positive example and provides hope that change is possible: the company was able to reinvent itself and turn itself around to be profitable and successful.

3. Back to Basics: Product Comes Back into Focus with Increased Transparency

Amid increasing complexity and change in the retail space, the product itself is coming back into focus. There is renewed importance being placed on offering a differentiated product, particularly as Amazon and other online retailers have allowed consumers an increased level of pricing transparency. That has resulted in more challenges for retailers and brands that offer commodity products and/or try to compete on price. Retailers need to boost the emotional content of their products and experiences in order to better engage with consumers.



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4. Loyalty: Customers Like a Relationship with Retailers, Not Just Perks

Executives from a number of retailers, including the Vitamin Shoppe and GameStop, discussed what they are doing in terms of driving customer loyalty. Both companies are focusing on engaging customers on a deeper level. The Vitamin Shoppe is using deeper, more specific data to engage and relate to customers, rather than just categorizing them as male or female and parent or nonparent, and according to their hobbies.

GameStop is working to relate to its customers and loyalty members with highly targeted communications based on the data it has gathered. GameStop has 50 million loyalty members across 13 countries, and the retailer has launched new concepts based on its data on these loyalty members. One such concept is selling pop-culture collectibles and licensed merchandise in stand-alone stores that do not sell video games. The concept is called Zing in Australia and ThinkGeek in the US. The company also continues to survey customers to find out what it can do better.

5. Consumers Value Transparency and Want to Know What Companies Stand For

The prevalence of online shopping and social media has brought more transparency to retail than ever before. In addition to having information about price, consumers have much more visibility into retailers' supply chains and processes, and they are more interested in what retailers stand for and what their values are as a company. Ashley Stewart CEO James Rhee noted that when you have great values, you attract great people, which further boosts the quality of a company.

6. Investment in Talent at All Levels Is Critical to Continued Success in Retail

Greg Foran, President and CEO of Walmart US, stressed the importance of robust training programs and fair compensation for employees, and shared some of the employee initiatives under way at Walmart. The company's Pathway program is an entry-level-associate training program that will extend to more than 200 locations and 50,000 new hires. Walmart has paid a total of \$2.7 billion to increase employees' minimum wage from \$9 to \$10, Foran said. In addition, the company has also started to offer paid time off to more employees.

Hiring the right talent to accommodate the changing landscape of the retail industry is also key to success. Terry Lundgren, Chairman and CEO of Macy's, noted the increasing demand for digital and data analytics in the face of growing e-commerce penetration. He said that those in traditional retail roles, such as merchandising, need to understand social media and data analytics in order to follow consumer trends.

The retail industry is facing a training and skills gap, where companies cannot find enough quality hires to keep up with the job growth generated: retail jobs have grown by half a million since 2012 and another million retail jobs are expected to be generated by 2022. The NRF is attempting to help close this gap by offering its Rise Up program to train people to work in the retail industry regardless of age, education background or prior skill set.

7. The Mainstreaming of a Wellness-Focused Lifestyle Brings Opportunities

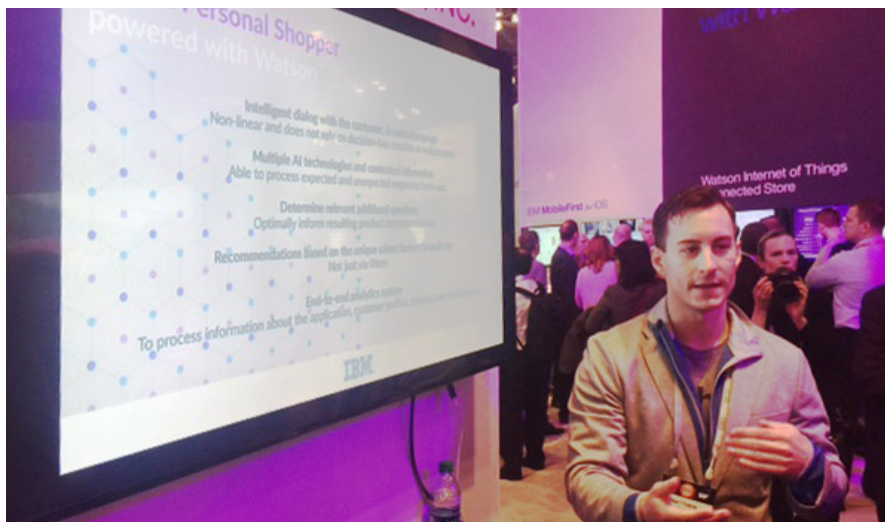
Consumers in various demographic groups across the US have been focusing on health and wellness. The trend differs from food and exercise trends that have influenced particular groups in previous decades. The CEO of the Vitamin Shoppe, Colin Watts, described this as a “transforming trend for [its] customer base.” Eating healthy, exercising regularly and monitoring one’s health has become a lifestyle choice and a permanent change of consumer preferences. Health and wellness retailers such as the Vitamin Shoppe are seeing increasing competition and significant opportunities in this sector. Core product offerings such as health supplements and sports nutrition foods are becoming commoditized as big-box stores, grocery stores and drugstores enter the market.

8. New Formula for Success: Personalize, Customize, Digitize and Socialize

Personalization, customization, digitization and socialization transcend age, consumer type and demographics, and apply across a variety of groups. Retailers must anticipate the needs of consumers and be forward-thinking rather than accepting the status quo or assuming historical patterns will apply in the future. We heard from leaders at two retailers that have seen success in the personalization space: Shoes of Prey and Indochino. Shoes of Prey is a women’s footwear company that enables women to customize and personalize shoes with trillions of potential options. Indochino focuses on men’s suiting and tailors suits for individuals. Both concepts incorporated online and offline components until recently, when Shoes of Prey decided to exit the offline channel given the stronger growth it had seen online. The company also noted the increased acceptance of shopping online and that customers had less of a need to touch and feel the shoes before purchasing.

9. Data Analytics to Play a Larger Role in 2017

Shoes of Prey Cofounder Jodie Fox shared her view that data analytics could have a significant impact on her own business and on retail overall. She envisions using data across social media, identifying patterns to get much more specific about customers’ likes and needs and using that data to target consumers on a more personal level.



Source: Fung Global Retail & Technology



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10. A Number of Potential Uses for IBM's Watson Artificial Intelligence in Retail

The Fung Global Retail & Technology team recently visited IBM's demo center in New York City. IBM, which is also exhibiting at Retail's Big Show this week, demonstrated how Watson can help leaders in a variety of industries make better decisions that are free of human bias (such as personal experience bias). For example, in the field of medicine, Watson can help a doctor make a diagnosis by factoring in symptoms that the doctor might be likely to dismiss as everyday occurrences. Watson is also able to use natural language processing to absorb data in larger amounts than the human brain can. For instance, Watson is able to process all of the roughly 350,000 articles published annually in medical journals, whereas a doctor can typically only read 100–200 of them. Watson can be used in the food-service industry to create recipes based on a few input ingredients. Companies across industries can license Watson as a service in order to help them make better business decisions once Watson "learns" their industry.



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