Top Takeaways from the Microsoft Modern Customer Experience Summit

FLASH REPORT

Microsoft

The Modern Customer Experience Summit

Streaming Live

Deborah Weinswig
Managing Director,
FGRT

#Modern2017

On September 19, the FGRT team attended The Modern Customer Experience Summit, hosted by Microsoft, which explored the future of the customer experience and how digital transformation can give businesses a competitive advantage. Key topics of discussion included:

1) Retail trends over the last year and factors driving retail disruption

2) Global technology trends that are impacting retail in the US

3) Artificial intelligence (AI) is a critical part of a retailer's innovation strategy

4) The evolving retail landscape and changing shopper expectations call for the retail store to reinvent itself

5) The Internet of Things (IoT) has the potential to transform the way brick-and-mortar stores operate

The Modern Customer Experience Summit

The Modern Customer Experience Summit, hosted by Microsoft, focused on exploring technologies that are transforming customer engagement. The rapid development of retail technologies across the online, mobile and in-store channels—along with growing consumer demand for experiences that are more relevant and more rewarding—is prompting businesses to change the way they engage with their customers. Today, shoppers are ready to interact with retailers and brands anywhere and on any device, and they expect experiences that are highly personalized.

Presenters at the summit shared insights on how retailers can prepare for the digital future of retail and gain a competitive edge. The summit was livestreamed from the production studio at Microsoft's headquarters in Redmond, WA, and was hosted by Microsoft writer, host and emcee Kate Yeager.

FLASH REPORT

During the first part of the summit, Deborah Weinswig, Managing Director of FGRT, presented on the recent trends in retail technology. In the second session, Microsoft National Sales Director Durell Leister and Microsoft Worldwide Retail Industry Solution Director Chris Barnard discussed how retailers can enrich the customer experience in the workplace. The next session was led by Ali Dalloul, Microsoft GM of Retail Intelligence, who discussed the role of AI in retail. Jeremy Epstein, CEO of Never Stop Marketing, then showcased innovative solutions for blockchain-based loyalty programs.

In the final part of the summit, Cindy Zhou, VP and Principal Analyst at research and advisory firm Constellation Research, and Ray Wang, Principal Analyst and Cofounder at Constellation Research, discussed the future customer experience and strategies for increasing customer engagement.

Deborah Weinswig
Managing Director

Source: FGRT

Deborah Weinswig: The Retail Revolution and the Future Customer Experience

At the event, Weinswig presented FGRT's work on the evolving retail market and discussed recent technological innovations in the space as they relate to the modern customer experience. Weinswig's presentation focused on five major themes:

1) Retail Trends over the Last Year and Factors Driving Retail Disruption
Summit host Kate Yaeger first asked what factors are driving disruption in the US retail market and what global technology trends are impacting retail in the US. Weinswig said that the retail environment in 2017 has been rather bleak for traditional retailers, noting that the number of store closures and bankruptcies so far this year have considerably exceeded those of previous years. However, conversations are not all "doom and gloom," Weinswig said. Retailers are on the offensive more than the defensive, and there has been significant M&A activity, increased technology investment and changes in management structures this year.

Weinswig noted that the US is currently overstored and said that store rationalization is becoming more important than ever. "The rationalization process that is occurring is healthy and has to happen," she stated. Following an extended period of store expansion, the US led the world in terms of retail space per capita, with 21 square feet

of retail space per person in 2016. This compared with 16.4 square feet per person in Canada and 9 square feet in Australia, according to CoStar Realty Information.

Retailers must provide a more engaging customer experience, Weinswig said, as there is currently a good deal of friction in the purchase process. She said that the physical store is not dead and that pure play e-commerce retailers' forays into physical stores underscore the importance of having a store footprint and an omnichannel presence.

2) Global Technology Trends that Are Impacting Retail in the US
Weinswig also discussed how the retail experience in the US lags behind that of Mainland China. Cashless payments and a checkout-less in-store experience are hot trends in China, and Weinswig expects these trends to be embraced by more US retailers going forward. In China, mobile payments grew to ¥35 trillion (US$5.4 trillion) in 2016, and are expected to reach ¥75 trillion (US$11.5 trillion) by the end of 2017, according to research firm iResearch. In addition, 42.4% of in-store purchases in China are made via noncash payment, according to the firm.

Other major global trends that are impacting US retail include social commerce, the proliferation of the "cewebrity" (Internet celebrity) economy and the livestreaming market. The popularity of Internet celebrities in China has created a cewebrity economy that is set to grow to $17.0 billion, according to iResearch. In addition, since the beginning of 2017, several US platforms have started to experiment with some of the features that have propelled livestreaming into its own industry in China.

3) AI Is a Critical Part of a Retailer's Innovation Strategy
AI enables retailers to drive sales and anticipate consumer demand, gain a better understanding of consumer behavior, and offer highly effective individualized promotions. AI looks to be the best way retailers can capitalize on the abundance of customer data that are made available by digitalization within the industry. Retailers are making significant investments in AI technology, and the retail industry is the third-largest end market for its application, according to market intelligence firm Tractica.

Because consumers are bombarded with an unprecedented amount of information, being able to deliver highly personalized content for each individual customer is crucial to staying ahead of the competition.

Weinswig identified three important applications of AI in retail:

- **Personalization:** AI enables retailers to provide a personalized experience to each customer through customized shopping recommendations, e-commerce and m-commerce portals, layouts, and promotions.

- **Customer service:** AI is used to operate chatbots that mimic customers' interactions with sales associates and customer-care assistants. The technology is able to detect the tone of a customer's message and determine the best way to respond to the customer's need.

- **Inventory management:** Thanks to data analytics powered by AI, retailers can predict what customers are likely to buy in the near future. This enables retailers to maximize the probability of having the right items in stock when customers order them, which results in faster fulfillment and leaner inventory operations.

Source: FGRT

Modern customers have extremely high expectations, and they expect to be provided the same experience online as in-store. Weinswig referred to this idea as the "new retail" experience. AI-powered chatbots should raise the quality of customer interactions, thereby significantly improving the online customer experience. In the future, product searches will likely expand from parametric-based ones to include dialog-based searches, which would enable increasingly personalized product offerings. According to Weinswig, retailers are now only scratching the surface in terms of how they utilize AI and much opportunity remains in personalization and customization.

4) The Evolving Retail Landscape and Changing Shopper Expectations Call for the Retail Store to Reinvent Itself

Consumers are ever more connected, both physically and digitally. According to research from Boeing, air traffic is expected to increase at an annual rate of 4.8% between 2016 and 2035. And the GSMA, a mobile operator trade association, forecasts that by 2020, there will be 5.8 billion smartphones globally, leading to a 49% increase in data traffic between 2015 and 2020. This pace of growth in connectivity means an expanding consumer base for brands, retailers and shopping centers, but it also spells a more competitive landscape and an increasingly sophisticated consumer.

Weinswig discussed four ways in which the retail landscape is evolving as retailers rethink how they deliver experiences to consumers:

- **Curation and novelty:** The pop-up shop format is being used to create a curated mix of smaller stores that add a sense of novelty and urgency to the mall offering.

- **Content and events:** Art exhibitions, performances and exclusive events have proven effective in driving traffic to shopping locations.

- **Locally grown and made:** Consumers are seeking goods that are grown, made and produced locally and that incorporate more regional, artisanal flavors and designs. Kimco Realty has expanded a program that offers small local businesses one year of free rent and reduced property charges.

- **Convenience:** E-commerce companies are partnering with mall operators on more compelling omnichannel offerings, such as drive-up, pick-up service at malls.

5) The IoT Has the Potential to Transform the Way Brick-and-Mortar Stores Operate
The session wrapped up with a discussion of what the future in-store shopping experience might look like. Weinswig commented that the physical retail store will be more connected and seamless and that IoT technology has the potential to transform the way retailers operate their brick-and-mortar operations. It can be used to help retailers manage inventory more efficiently, measure store performance more accurately and improve the customer experience.

In-store connected technology can also increase customer engagement with merchandise. For example, retailers can provide smart mirrors that enable customers to virtually try on items and they can use NFC tags that send information about items to customers' smartphones. Customers should have the opportunity to choose checkout-free shopping and they should have access to store employees who can make personalized suggestions based on their purchase history.

There are two core types of IoT retail technology, which differ according to the main function of the connected device:

- **Technology that tracks inventory and/or customer behavior:** This includes devices with radio frequency identification (RFID) sensors that can track both the location and movement of items in-store and shoppers' behavior in-store.

- **Technology that interacts with customers:** This includes devices that make the shopping experience easier and more engaging, such as smart mirrors that enable customers to virtually try on clothing.

Deborah Weinswig, CPA
Managing Director
FGRT
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Steven Winnick
Research Analyst

Hong Kong:
2nd Floor, Hong Kong Spinners Industrial Building Phase 1&2
800 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:
242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:
1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com