



Global retail trends 2018

Global Consumer & Retail

March 2018



Introduction

Over the last few years, we've heard about the **disruption** that is coming. In reality, we are already **disrupted**. The new retail world that we have been promised is here.

The tools, strategies and technologies required to be successful in this new world are available. The toolbox for success is here, and it's up to retailers to choose the right tools from the toolbox in order to grow their business.

In this document, we discuss some of the biggest retail trends impacting our industry and highlight how some companies are responding.

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Contents

Overview of 2018 retail trends	4
Trend 1 – The customer experience is more important than ever	6
Trend 2 – Artificial intelligence will gain more clout	10
Trend 3 – The rise of the conscious customer will continue	14
Trend 4 – The retail world we were promised is now here	18
Trend 5 – A tale of two hemispheres is playing out	22
Top 10 lessons for retailers	28
Contacts	32
Further publications	33



1

The customer experience is more important than ever

The customer experience is more important than ever as retailers are striving to differentiate themselves in a challenging and crowded market. Consequently, experience per square foot will be the new retail metric to measure success.

2

Artificial intelligence will gain more clout

Artificial Intelligence will gain more clout with some executives predicting that 85 percent of all transactions will be AI-based by 2020. 2018 will be the year we see AI being deployed at scale.

3

The rise of the conscious customer will continue

The rise of the conscious customer will continue as consumers base their buying decisions on many factors beyond price. These new consumers, led and influenced by millennials, are exerting influence on retailers and forcing them to take action.



05 trends for 2018



The retail world we were promised is now here

The retail world we were promised is now here – it has changed and will continue to impact the path to purchase. We've arrived at the intersection of elevated consumer expectations and technical possibility.

4

A tale of two hemispheres is playing out

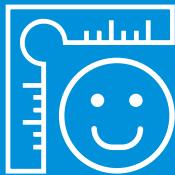
A tale of two hemispheres is playing out as platform players and non-traditional retailers expand their reach and offerings. The juxtaposition between what is happening in the West and the East will dominate the retail landscape with the latter in many cases moving faster than the former.

5

Trend 1:

The customer experience is more important than ever





Welcome to the experience economy where we have a new metric for a new era.

Experience per square foot will become an important metric for retailers.

Traditionally, the primary measure of retail performance has been sales per square foot. However, as stores become experience hubs as well as points of sale, retailers are thinking differently about the metrics they use to measure performance.

According to the 'Customers 2020' study by Walker, a customer intelligence consulting firm:

Customer experience will overtake price and product as the key brand differentiator by the year 2020.



Trend 1:

The customer experience is more important than ever

Successful retailing in 2018 comes down to obsessing about customer experience. Essential to achieving this is digital and physical touchpoints working together seamlessly.

Despite the notion of the demise of brick-and-mortar stores, physical retail isn't actually dead, but boring retail is. Store closures in certain countries hit all-time highs in 2017. The list of longstanding retail brands that shut their door is too long to list. Often overlooked is the fact that many stores opened as well. We will see a similar pattern in 2018. By January 2019, 90 percent of all retail will still be done in physical stores. Iconic retail brands like Apple, Sephora and Costco continue to succeed, despite relying mainly on brick-and-mortar stores.

As a consequence, new classes of retailers are emerging. There are retailers who started online and are moving to physical brick-and-mortar and others are merging "bricks and clicks." Retailers are seeking to understand their share of consumer spending, and how their consumers search, shop and buy in order to devise new retail models. Whether that means, having a show room or only having a strong presence in e-commerce, retailers are reinventing how they do business.

So, why aren't physical stores dead? Put simply, stores that are doing well offer a customer experience that meets or exceeds customer expectations. Joe Mach, the President of North America at Verifone predicts consumers will visit physical stores as long as there are new and interesting reasons to go. Leading retailers take advantage of their physical spaces to maximize experience per square foot and the real-life interactions customers have there. In summary, customers will shop where they enjoy their experience, this could be on a single channel or a combination of channels.





As retailers enter 2018, they are already seeing that if customers are going to visit a store, it needs to be about more than just the transaction. Retailers need to offer something you can't get online. They need to offer an experience.



Case studies

Nike

"Nike's latest store in New York is like LEGOLAND for people who love sports."

Nike opened a new five-story, 55,000 square foot store in New York City. It features a mini indoor basketball court, a treadmill, a system that simulates runs in different locations, a small soccer enclosure, a shoe bar where shoppers can personalize a pair of Nike Air Force and coaches who put customers through drills to test out different pairs of shoes. It is as much a place to play as it is a place to shop. Nike is demonstrating that it understands how brick-and-mortar retail is changing in the age of e-commerce and also how to create a memorable customer experience.

Ulta Beauty

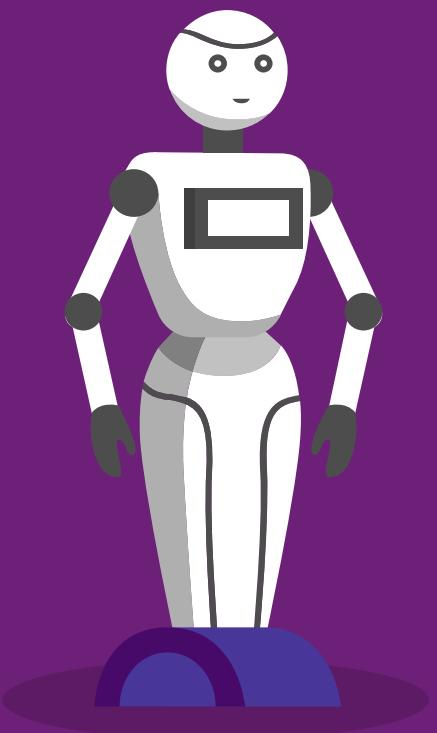
Ulta Beauty is among the largest US beauty retailers and is currently the fastest-growing specialty retailer. In 2016, overall sales grew 23.7 percent. In 2017, Ulta's digital sales grew a staggering 71 percent in the first quarter, contributing to a 14.3 percent increase in comparable sales.

Ulta has a deep understanding of what customers want from their shopping experience. It combines high-end and drug store products to create a beauty superstore for its customers. Apart from this mix of products and beauty support, Ulta's main differentiator is its in-store hair, skin and eyebrow treatments that keep customers in their stores longer.

"The notion of continuing to have a wonderful shopping experience with a great assortment of products and categories and brands, plus services, plus the ability to have a great online experience... we see a plenty of runway for us to continue to be a very relevant both brick-and-mortar and online player," said CEO Mary Dillon.

Trend 2

Artificial
intelligence
will gain
more clout



Retail experts at the National Retail Federation's 2018 Big Show said that retailers should be using artificial intelligence to solve specific problems, not just deploy it for its own sake. In 2018, **retailers will start to discover the value that AI can bring to their business.**



Definition of AI:

An area of computer science that deals with giving machines the ability to seem like they have human intelligence. In short, it is the power of a machine to copy intelligent human behavior.

Example: Robotic process automation (RPA) is being applied to highly repetitive tasks normally performed by humans.

Business examples:

- Machine learning algorithms are being integrated into analytics and Customer Relationship Management (CRM) platforms to uncover information on how to better serve customers.
- Chatbots have been incorporated into websites to provide immediate service to customers.

Charlie Cole, global Chief E-commerce Officer at Samsonite tells Forbes that 2018 is the year that:

“Artificial intelligence will have its breakthrough moment. More and more retailers will start using it to power various parts of the retail and e-commerce experience.”

Trend 2:

Artificial intelligence will gain more clout

Katrina Gosek, Director of commerce product strategy at Oracle, says that AI will "finally (be) something that helps retailers reach that holy grail" of personalization.

Back in 2016, Gartner predicted that by 2020, 85 percent of customer interactions would be managed without human involvement. In 2018 we will see AI adoption continue to rise with chatbots taking the lead. Due to increasing ease of deployment, instant availability and improved quality, chatbots will become more and more common to manage customer service queries and to make intelligent purchase recommendations. We will also see the rise of AI-powered conversational interfaces and voice assistants. Retailers can engage this kind of technology to answer routine questions and supplement human customer support with chat-based shopping or voice commerce.

Alongside having the technology available, retailers now also have a significant amount of data to power AI and deliver personalized, customized and localized experiences to customers. AI will be applied across the entire retail product and service cycle, from manufacturing to post-sale customer service interactions. Retailers using AI to its fullest potential will be able to influence purchases in the moment and anticipate future purchases, guiding shoppers towards the right products in a regular and highly personalized manner.

In order to maximize the impact of AI, in 2018 we will see new partnerships and collaborations between retailers and technology companies emerge. Retailers recognize that building or buying the technology they need isn't the best use of their resources. Instead, we will see a rise in retailers partnering with niche technology players – collaboration will be the key to success.





Artificial Intelligence isn't just for the movies anymore. Customers are now demanding better, faster and personalized experiences. Retailers need to meet this demand and AI technology can help.



Case studies

Taco Bell

Meet Tacobot. Taco Bell's chatbot that will never let you go hungry. Tacobot is currently in private beta mode and requires a quick install. However as soon as it is installed, you can start chatting and ask it questions about the menu, recommendations, special offers and dietary requirements and even ask how Tacobot is feeling.

Tacobot is connected to your ta.co account, so that all your favorites, including locations, are stored and transferred over. You can place your order for pickup or through their partnership with DoorDash, and have it delivered straight to your door.

Amazon

Not only is Amazon using AI, they are also selling it. They are penetrating the mass market with their Echo and Alexa devices, and nearly overnight it has become the norm to speak to a small device in your home, and to many it almost feels like part of the family.

The Amazon bot personality Alexa uses chatbot technology and voice recognition simultaneously. The goal of Echo is to create a seamless user experience anywhere in the user's home. By speaking directly to Alexa, you can place food orders, play music, plan events, check your calendar, make phone calls and so on. The list is endless and all you need to do is talk to her.

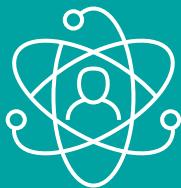
Voicebot estimates that total shipments of Amazon Echo devices were 20.54 million through Q3 of 2017. In Q4 of 2017, it is said Amazon sold "tens of millions" of Echo hardware devices. Echo Dot was the top-selling product on Amazon across all categories.

Trend 3

The rise of the
conscious
customer
will continue



Authenticity is on the tip of the tongue of every marketer today. The question is, why has it suddenly become a major factor in the customer decision-making process?



In an age of authenticity where consumer trust has plummeted, customers are now demanding transparency. Honesty and authenticity have emerged as the attributes that matter most to customers. Consumers, more than ever before, are holding brands to a higher standard.

An international survey by Cohn & Wolfe found that **87 percent** of global consumers felt that it was important for brands to:

“Act with integrity at all times, ranking authenticity above innovation (72 percent) and product uniqueness (71 percent) when asked what they valued most in a brand.”

Trend 3:

The rise of the conscious customer will continue

Customers are demanding transparency as they take an increased interest in the ethical practices of the brands they buy from. Furthermore, customers today who are more tech savvy, have a much keener eye for authenticity versus marketing speak.

Today's customers have a well-developed sense of what is authentic and what is solely intended to drive sales. This has led to a rise in consumers who make values based judgements about what to buy and where to shop. These consumers believe their purchase habits have an impact on the world. To win customers today, businesses need to stand for something and reflect that message consistently throughout the entire business from senior leadership through to front line staff.

The conscious consumer movement is growing. One third of UK consumers, for example, claim to be very concerned about issues regarding the origin of products. In another example, a study from YouGov and the Global Poverty Project revealed that 74 percent of those surveyed would pay a higher cost for their clothes if there was a guarantee that workers were being paid fairly and working in safe conditions.

Authenticity is especially key unlocking the wallets of customers of all ages. Millennials are having a deep impact on the generations that came before them (Boomers, Gen X etc.) as well as the one that comes next: commonly referred to as Gen Z.

A Global Corporate Sustainability Report published by Nielsen indicates that, globally, 66 percent of consumers are willing to spend more on a product if it comes from a sustainable brand. Millennials gave an even more impressive showing, with 73 percent indicating a similar preference. Simply put, customers want the companies they buy from to practice sustainability, strong ethical behavior and transparency. Customers want to buy an honest brand.

Retailers have to be authentic and transparent, but they also need to communicate this in a sophisticated and trustworthy way, or consumers may turn to another brand.





In this business environment, brands and retailers are required to focus more on corporate social responsibility. As Sir Martin Sorrell, head of the world's largest advertising group WPP, said "doing good is good business."



Case studies

Brandless

Brandless is an American company that openly states, "our mission is deeply rooted in quality, transparency, and community-driven values. Better stuff, fewer dollars. It's that simple."

It sells a wide variety of products for a universal flat fee of US\$3. On its website, it says that *BrandTax™* is the hidden costs you pay for a national brand. This is how they have managed to keep costs so low.

Brandless focuses on what matters to their customers. They offer organic, non-toxic, hypoallergenic products that haven't been tested on animals. They believe in helping the consumer and the world at the same time.

Gucci

Italian fashion designer, Gucci has banned the use of fur. The ban will take effect with its spring/summer 2018 collections. The company has now signed up for the Fur Free Alliance, an organization that promises to end the exploitation and killing of animals for fur, as part of a wider sustainability plan. Part of this alliance are competitors, Calvin Klein, Ralph Lauren, Armani and Tommy Hilfiger.

Not only does this decision adapt to changing consumer tastes, but Marco Bizzarri the CEO of Gucci also says, "I need to do it because (otherwise) the best talent will not come to work for Gucci."

Bizzarri went on to say, "Being socially responsible is one of Gucci's core values, and we will continue to strive to do better for the environment and animals."

Trend 4

The retail world
we were
promised is
now here



When retailers analyze shopper behavior, it is remarkably clear that **consumers have changed dramatically**. Retailers need to understand and react to these changes.



Technology has made it easier than ever for shoppers to **consume information, find products or services** and **easily share their experiences**. This has resulted in **new customer expectations** that have created a new retail world.

Paul Wissmann Sector Leader for Media & Telecommunications at KPMG in the US says,
“Technology has become so embedded in our daily lives that consumers now view instant access as the norm.”

*“Over the last ten years, technology has opened the floodgates to a wave of unregulated new entrants that have both changed the way in which we manage the flows in and out of our wallet, **while also dramatically raising our expectations.**”*

*Me, my life, my wallet –
KPMG Customer Insights
Program*

Trend 4:

The retail world we were promised is now here

As more retailers adapt to the changing expectations of customers, we are finally seeing the new retail world evolve. This is the consequence of significant behavioral shifts over the last few years.

Many retailers who haven't met customers demands are simply no longer in the game. Forrester anticipates this challenging new environment will "place harsh and unfamiliar demands on companies, requiring changes in how they develop, market, sell and deliver products and services."

The predictions and attributes that people have been talking about for years have now become customer expectations and have drastically changed the path to purchase. According to Forrester, we're five years into the Age of the Customer, in which newly empowered customers place elevated expectations on every interaction they have with brands.

New technologies have put customers in the driver's seat — they have the power. Apps like Snapchat, WeChat and WhatsApp show we are quickly moving toward a reality in which everything happens in real time. The natural outcome is that people want that instant gratification. This has had a deep impact on customer expectation.

This just in time gratification puts a huge strain on retailers. In a Salesforce.com report, 64 percent of consumers said they expect companies to respond to and interact with them in real time. The need for speed will only increase as technology enables and advances.

The point of engagement and the point of transaction are converging, meaning brands that can offer immediacy, instant gratification, personalization, authenticity and accessibility will win.



Amazon Prime

USA

\$12.99

per month. OR

\$99.00

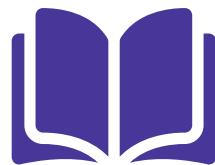
annual subscription.

UK

£79.00

annual subscription.

Well-performing retailers are changing their businesses to adapt to consumer demands. This is setting a new standard for the industry.



Case studies

Amazon

Nearly half of US households are now Amazon Prime subscribers.

Data from Kantar estimates that 45 percent of households in the US are willing to pay Amazon prime membership fees in exchange for the promise of free two-day shipping on eligible items, despite the yearly fee of \$99.

Not so long ago, it was acceptable to wait at least a week for delivery. This is no longer the case. Amazon has adapted to this expectation and Prime membership has boomed because of it. In the UK, Prime members can even receive same day delivery on selected items. Options like this, make consumers switch to brands who offer this just in time fulfillment.

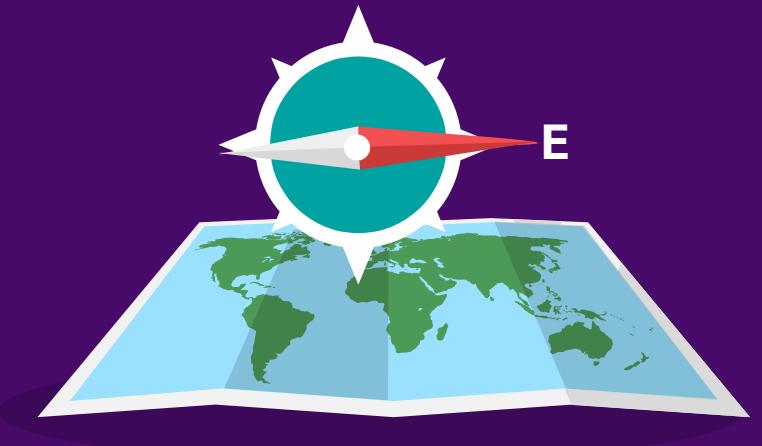
Target

Target has announced that beginning in February with a roll out across the country throughout the year, the retailer will offer same day delivery as the retail wars heat up in the US.

The offering is a new way for Target to compete with other online shopping sites like Amazon, which dominates with 38 percent of all online shopping, and whose customers are now demanding faster speed, greater convenience and lower price. As Darren Seifer, a food and beverage industry analyst for NPD says “Target clearly sees the writing on the wall. If they're going to stay competitive, they need to up their convenience game to remain competitive with the likes of Wal-Mart, Jet, and Amazon.”

Trend 5

A tale of two hemispheres is playing out



An ongoing competition between the hemispheres has been a topic of interest within the retail world. Who is actually leading? Who is growing quicker, and most importantly, who is going to win?



China takes another step towards a service economy.

China's economy continues its historic shift to becoming more consumption and service-driven that could help sustain the country's growth over the next decade and beyond."



It doesn't matter if I failed. At least I passed the concept on to others. Even if I don't succeed, someone will succeed.



*Jack Ma –
Executive chairman
of Alibaba Group*

Trend 5:

A tale of two hemispheres is playing out

For a long time, companies in China were known for taking products and business models from the West and adapting them to their local markets. However, with the move to a consumption-driven economy, home-grown platform businesses are redefining the Eastern landscape.

China has developed a unique innovation ecosystem that has resulted in a revolutionary approach on a mass scale. It is different from that in the West, and it is impacting both emerging and developed economies. China's innovative tech companies are dominating the local market and it may just be a matter of time before they themselves move West.

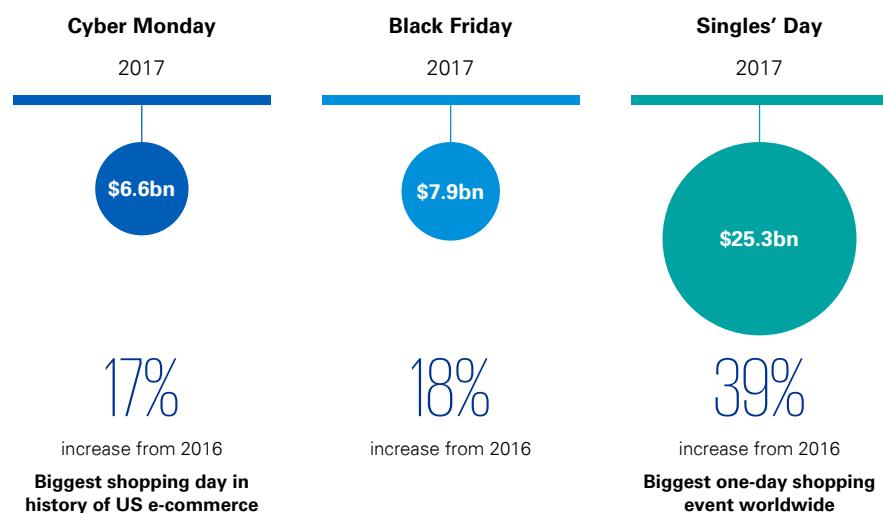
Chinese conglomerate, Alibaba Group, has significantly reshaped the retail world and its own business in a fast-growing economy – a stark contrast to record store closures faced by retailers in the West. Alibaba owned Taobao, an online marketplace, has 580 million active monthly users – mostly in China, demonstrating the incredible pace of growth in the East.





In 2017, we witnessed Alibaba's Singles' Day (11/11) achieving record revenue of over \$25 billion. Single's day was much bigger than Black Friday and Cyber Monday combined.

Singles Day's 201 record-breaking sales represented 39 percent YoY growth. Alibaba processed 812 million orders within 24 hours and its payment service, Alipay, handled 1.5 billion transactions, peaking at an incredible 256,000 transactions per second. Meanwhile, Cyber Monday became the largest online shopping day in US history with a record \$6.59 billion online transactions.



It is projected that by 2030, the Chinese middle class will add 800 million to one billion new consumers and over 200 cities will have populations over 1 million. To put this into context, the OECD has projected that Europe would add 16 million consumers by 2030 and has only 35 cities with populations over a million today.

With the middle class moving from a projected 12 percent to 73 percent of the Chinese population from 2009 to 2030, consumption in China is projected to be 2.5 times that of the US.

Already today, more Chinese consumers use mobile phones to access the internet than those in America, Brazil and Indonesia combined. About half of China's online sales take place via mobile, compared to barely a third in the US.



In China, **Tencent's WeChat** is the dominant messaging force for monopolizing mobile users' attention, via a platform that plugs in all sorts of additional third party services, from ride-hailing to banking to food ordering.



According to their own WeChat Data Report:

- WeChat monthly active users reached **963 million in Q2 2017**, representing YoY growth of **19.5 percent**.
- **Over 50 percent** use WeChat for over **1.5 hours every day; over one-third over 4 hours per day**.
- Users make **100 million calls** per day on WeChat

Users can shop and pay within the App and use WeChat Pay to do so.

By the numbers



Singles' Day

An annual shopping holiday in China created by Alibaba, is the biggest online shopping event in the world.



Alipay:

400m
users



Chinese E-commerce

market pegged at

\$1.7 tn



Alipay:

#1
payment
service in China

Alibaba already accounts for more **than 80 percent** of all online purchases in China. But with just a **53 percent** internet penetration, there is still a great deal of potential for growth.

Top 10 lessons for retailers



one

Customer experience is the key to success. The commercial battleground is no longer just price, product or efficient supply chain. It is now customer experience.

two

New metrics for success are taking over. Experience per square foot will become an important metric.

three

Don't give up on brick-and-mortar. Understand the balance of digital and e-commerce required in order to reach your customer.

four

Understand how AI can help your business. In 2018 we will see more AI adoption. Retailers need to understand where AI fits within their organization.

five

Look externally to help build your technology. The best way for many companies, to achieve successful implementation of technologies is to look outside their own four walls.

six

Stay true to the core of your brand. Customers want authenticity and transparency. They want to know exactly who they are buying from.

seven

Understand that the customer has changed. It is important to understand that the old ways of doing customer segmentation aren't sufficient. You need a multidimensional view of your customer.

eight

Recognize that customer expectations have changed and retailers who don't meet expectations are no longer contenders.

nine

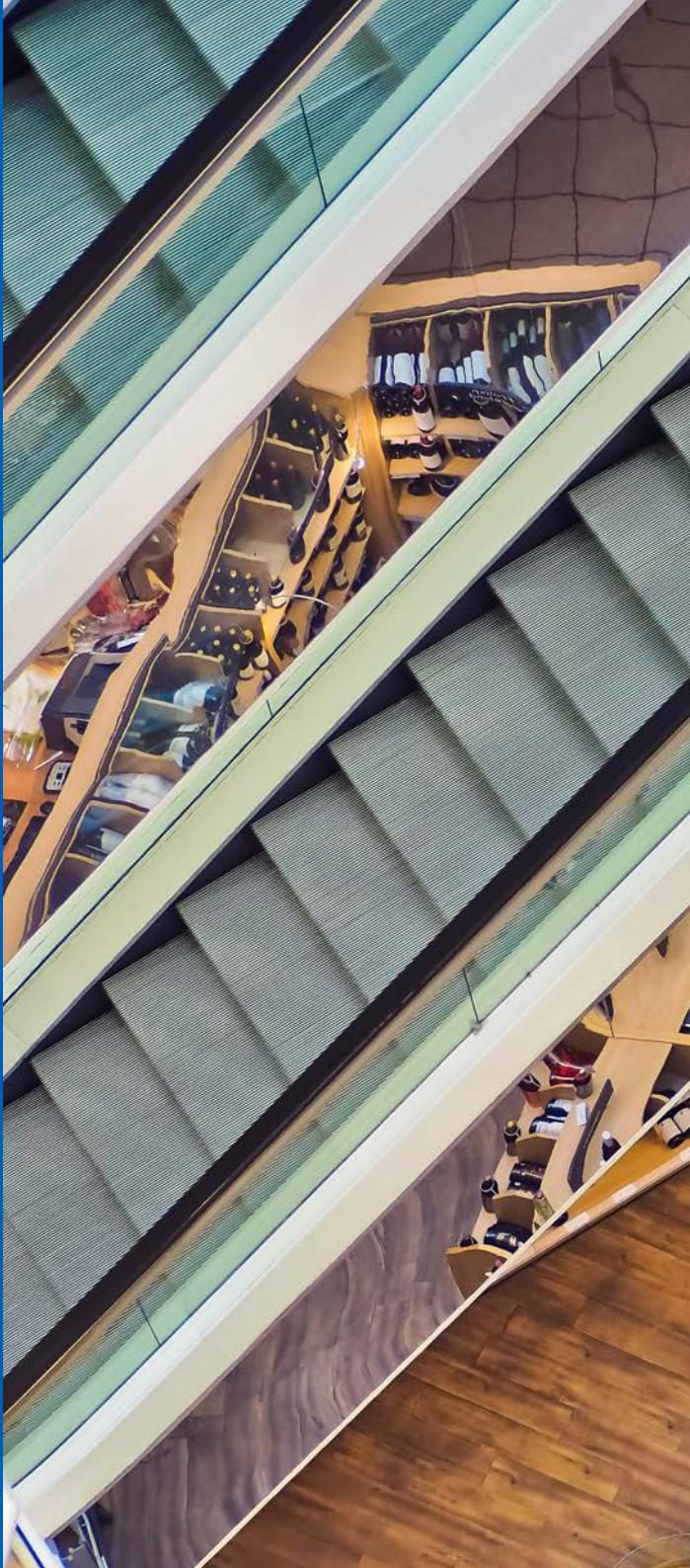
Be knowledgeable about what Eastern retailers are doing. Advances in the East could be an indication of how retail will change in the West.

ten

Embrace the new retail world – it is here. The tools and technologies to transform retail have arrived.

“ When you’re trying to make an important decision, and you’re sort of divided on the issue, ask yourself: If the customer were here, what would she (or he) say. ”

Dharmesh Shah
CTO of Hubspot





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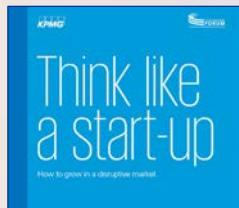
Director,
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Further publications



2017 Global Consumer Executive Top of Mind Survey



The Truth About Online Consumers – 2017 Global Online Consumer Report



Consumer Currents 23



Me, my life, my wallet Customer Insights Program



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Designed by **CREATE** | CRT92741 | March 2018