revieve

REPORT

The Retail Landscape in 2022: Conquering Future Challenges

Content

02

Uncovering Future Opportunities: Taking the Market by Storm

02.1

Set a New Standard to Win Customers Back

02.2

Augment the Experience, Not the Product

02.3

Rethink the In-store Experience

02.4

Consider Social Commerce

02.5

Respond to Unpredictable Staffing Demands

02.6

Craft an Authentic Purpose Linked to Inclusion and Diversity

02.7

Become a Single Player for all Verticals Across all Channels

02.8

Find the Right Technology Partner

Intro

Augmenting the Retail Experience in 2022 and beyond

2022 looks like it will be a new beginning for retail; in fact, it may be the biggest year for retail sales in years. The pandemic's trajectory and vaccine rollout will undoubtedly shape the 2022 retail landscape. The old rules and playbook will have to be rewritten, and differentiated action will be required to stand out from the competition.

Retailers will face new challenges and opportunities: understand the changing consumer patterns and expectations, the point and purpose of the future retail space, the technological innovation it has resulted in, and ways to adapt to these challenges in years to come.

In the following report, we look at some of the current retail trends and indications of how things could move in the foreseeable future.

01

Retail Trends Shaking the Global Beauty and Wellness Landscape

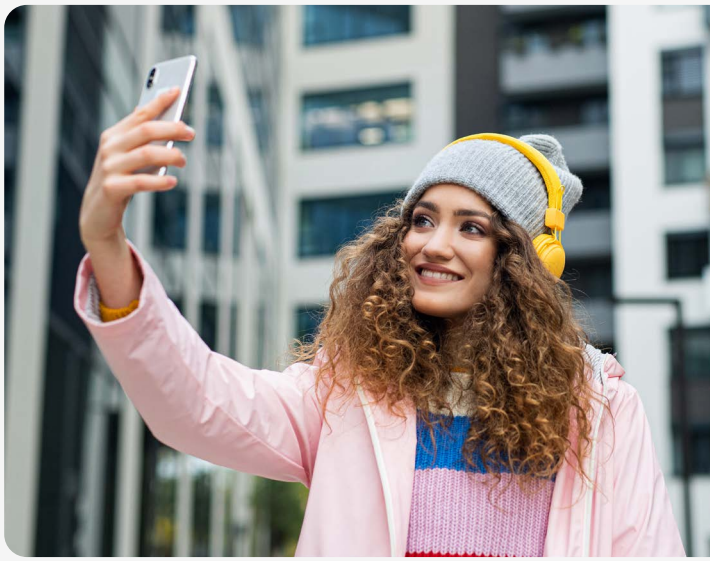
Retailers are under pressure to keep up with a continuously evolving consumer landscape. In this chapter, we have identified key trends and changes we expect to see in the years to come.

01.1

Gen Z Drives Beauty Retail Forward

Gen Z expects and demands specific standards to be met by brands to align with their values: they want something unique, exclusive, and different. For that reason, the young generation is driving innovation in beauty, from product value to marketing and more holistic ways of thinking about beauty. As a result, brands have the pressure of responding faster and proactively to current and upcoming trends.

Revieve's proprietary user engagement data from January and June 2021 with Revieve's AI Skincare Advisor in the US shows that Generation Z is more pragmatic than millennials, especially when introduced with new technologies. For example, Gen Z was more engaged with Revieve's AI Skincare Advisor, with 80.26 percent completing the experience to receive product recommendations compared to just 67.95 percent of Other Generations.



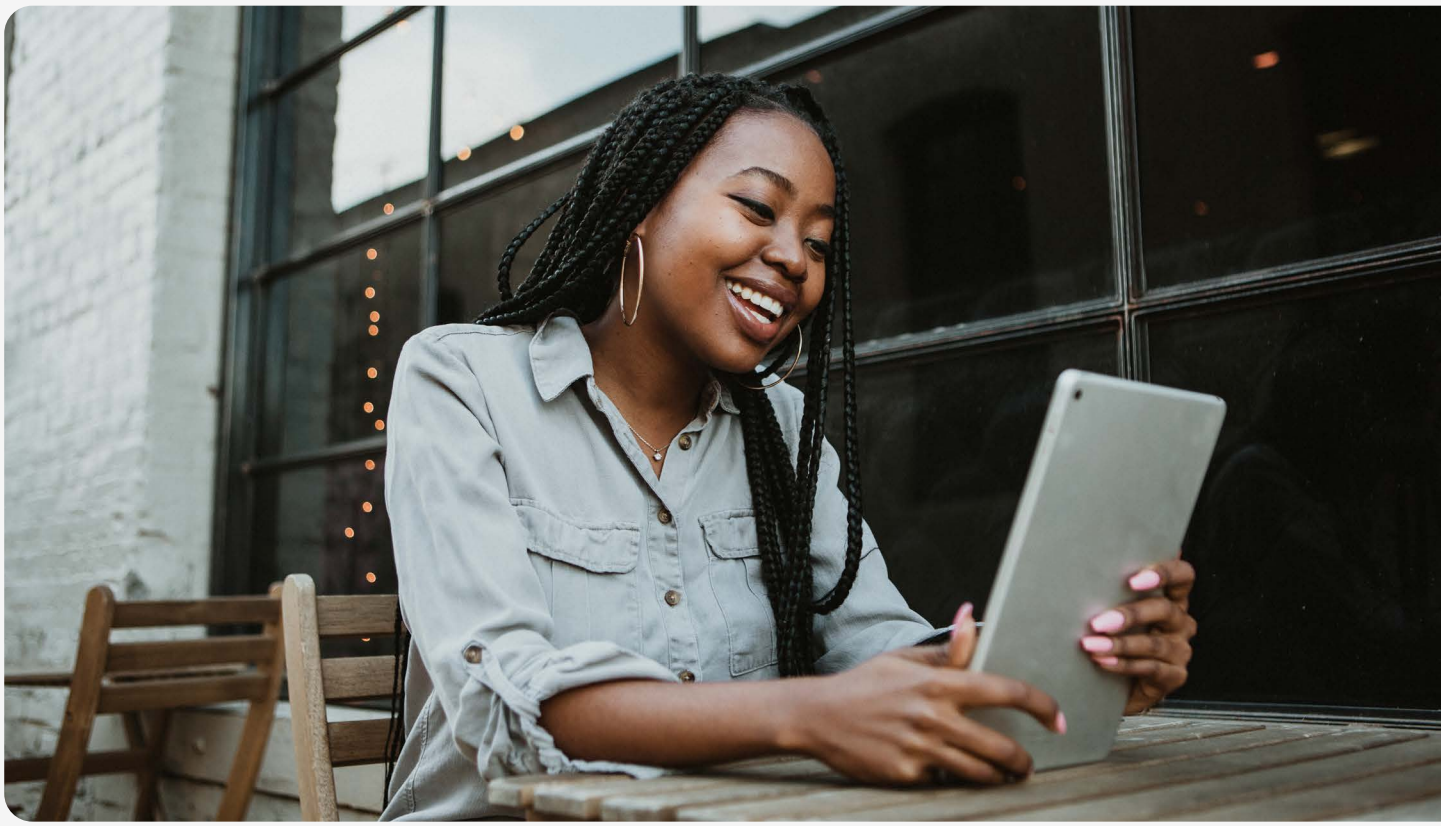
According to Viacom's study, 8 in 10 Gen Z teens and millennials said, "being yourself" is the phrase "that best fits their definition of beauty, but they don't simply want to be

themselves; they want to be their best selves." Gen Z views brands as complementary to who they are. Core to their identity are issues around diversity, inclusivity, sustainability, transparency, and trustworthiness. In other words, Gen Z will not buy products from a brand they wouldn't be friends with.

Gen Z is also a generation prioritizing skincare and is shopping for health and beauty products earlier than any other generation. For that reason, Gen Z is arguably the most self-educated and tech-savvy generation to date, with tutorials, information, and evidence at their fingertips 24/7. This informed generation of 'skintellectuals' is both seekers and distributors of knowledge via social media and other online platforms.

01.2

Diversification Of Retail Spaces



As consumers began shopping online more, brands and retailers were handed a huge opportunity – the chance to switch their operations online at a scale. This change was a massive success for those prepared, and retailers learned from the brands already excelling, to the point where nearly one in three (30%) US customers now see no difference in the experience between buying online from a DTC company versus a traditional retailer.

Traditionally solving consumers' problems is always a focus; today's challenge is doing

it across all brand touchpoints. For instance, Walmart's app is already playing a leading role in the physical shopping experience—whether it's about navigation, scanning, drive-by pickup, or payment—helping to remove pieces of friction that traditionally slowed the retailer down.

At the same time, while cost and quality are standard purchasing drivers, a bad online experience can turn customers away just as quickly as a high price tag. For that reason, prioritizing a diversified product offering and new online experiences can provide opportunities for a brand to take a competitive advantage.

Lastly, retail is also reaching a point where digitally native brands won't have the same opportunities as the traditional retail giants. Coming out of the pandemic into the next evolution of the retail landscape, we'll see that the winners will be the conventional heavy giants: branded manufacturers and retailers who have the experience and capital to re-invent themselves to deliver on according to the changing consumers' needs across all channels. Consumers will be looking for trust, ease, and stability, and digitally native brands will either earn their place or be left behind.

Today's challenge is solving customer's problems across all brand touchpoints

01.3

A New Baseline for Hybrid Shopping Experiences

Despite the growing demand for digital experiences, brick-and-mortar stores will not disappear. They will, however, serve as an experiential hub to better support an omnichannel retail strategy.

Offering consumers personalized shopping experiences in-store and the speed and ease of an online marketplace, regardless of channel, will put a retailer ahead of its peers. Most importantly, understanding consumer patterns – why a customer is buying a particular product, online or not – can give a business an emotional edge and access to information its competitors don't have.

As a result of the shifting environment, we see a new baseline between store shopping, digital shopping, and hybrid shopping combining elements of both. For that reason, brands and retailers will have to look into their omnichannel strategy to consider a new hybrid retail model that seamlessly combines in-store and online shopping and aligns inventory, pricing, and purchase information.

Today, leading retailers have already implemented some hybrid shopping experiences to connect with today's consumers. For instance, Revieve's partner

A.S. Watson Group set the new "O+O (online+offline)" retail standard, where shoppers feel a part of an ecosystem powered by technology, big data, and artificial intelligence, whether in-store or online.

"The traditional strategy of O2O from the past generation drove customers from one channel to another; however, O+O is different. It is more about creating an integrated experience to serve customers' needs better, enabling them to shop across any channel, anytime, anywhere." - Malina Ngai, Group COO of A.S. Watson Group & CEO of A.S. Watson (Asia & Europe).

Moreover, other leading players like **Home Depot** and **Lowe's** have started providing integrated online and offline experiences by tying inventory and in-store locators to their mobile apps.

As a result of the shifting environment, we see a new baseline between store shopping, digital shopping, and hybrid shopping combining elements of both

01.4

The New State of a Consumer's DNA

> Beauty consumers are more likely to make a purchase when they are recognized, remembered, rewarded, and receive relevant recommendations.

We see a new standard being set: personalization in retail, omnichannel, cross-selling, and upselling support. Thus, a critical aspect for every brand and retailer will be to collect product attributes (for example, in beauty: skincare ingredients) across all verticals to get an extensive and descriptive data library to uncover customers' intention to buy specific products to deliver on personalization needs across demographics.

Combining these attributes across all touchpoints with traditional data (such as demographics, purchase history, and loyalty programs), alternate data (from sources such as social media profiles and community-based data), and derived data (including insights describing an individual obtained from analysis of the selected data sets can help businesses build customer genomes. In simple words, a living profile of the unique aspects of each individual as they evolve in real-time.

However, developing a customer genome requires more advanced methods and technologies, such as Artificial Intelligence and Augmented Reality, to determine the most relevant metrics of the customer genome to drive personalized recommendations, advertising, messaging, offers, and other following interactions.

Combining the genome and advanced technologies, such as Artificial Intelligence, will enable brands and retailers to deliver personalized brand experiences, thus helping them garnish first-party data to keep feeding the consumer genome building cycle.

Another essential principle is to uncover customer needs versus shopping habits to understand an individual's needs and passions, which go far beyond the limitations of current merchandise, offers, and services. In an interview for Business of Fashion, **Sampo Parkkinen,** founder and Chief Executive Officer of Revieve, shared his insights about beauty's big data opportunities. Parkkinen believes that brands have to think about who and what, precisely, the data collected represents, then interrogate what biases could be built into each set.

Additionally, brands can centralize their data to see a full view of the individual and understand their motivations and habits when making decisions. "There is a big opportunity for the very large established brands to leverage the data because they're able to collect data quickly at scale," said Parkkinen. "And that's a big advantage."

For instance, Beauty brand No7 has made "personalization at scale" a priority, according to Anisha Raghavan, No7 Beauty Company's Chief Marketing Officer. The brand recently worked with Revieve to collect customer skin concerns and combine them with location data to offer product guidance. Conversion rates jumped once the project was implemented, Revieve found.

With the help of technology, the beauty industry has become more inclusive and accessible than ever before. Thanks to technological advancements, the customer genome can enable highly scalable yet personalized experiences for everyone across both online and offline interactions.

01.5

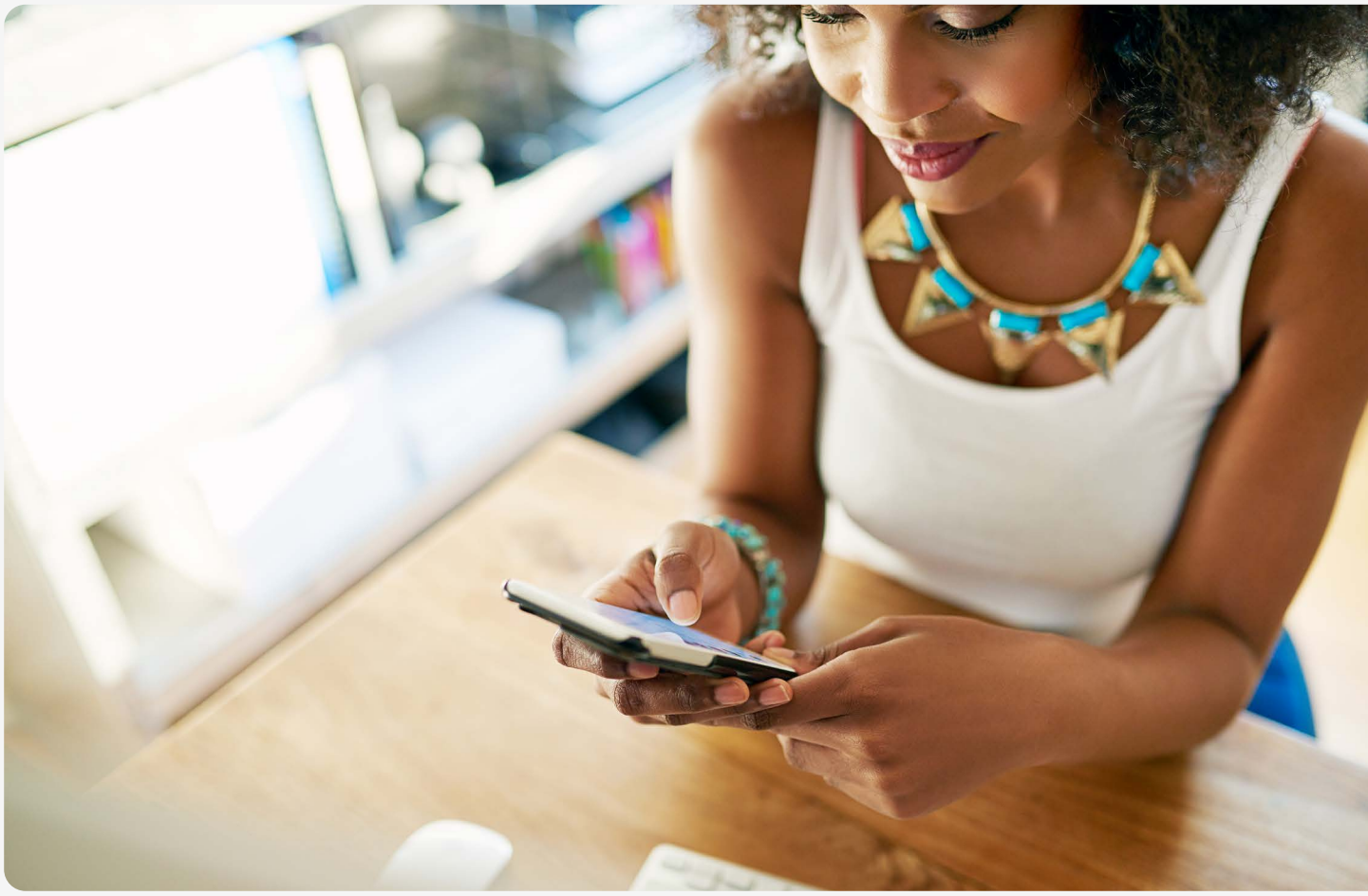
Building Brand Intimacy is Key to Building Brand Loyalty

What does the brand experience mean to brands and retailers? Our partner, No7 Beauty Company, said that it's more important than ever to provide a personalized brand experience and product offering that enables every customer to shop how they want because growing brands through relevant product differentiation alone aren't enough. "Today's consumers don't just buy products; they buy experiences; they are empowered and expect personalization," said Kiran Sandhu, the Global Innovation Manager for Skincare, No7 Beauty Company.

Retail brands now have an opportunity to build strong and lasting relationships with their customers by creating experiences that are relevant, inclusive, intimate, and fun. In the retail market, the emphasis has shifted from the retailer having all control, setting the price to the customer-centric approach, to consumers taking control. They have more than the physical shop to purchase from – they have online channels as well, where they can shop the world from right within their living room or on the train on their way back from work. Whether in-store, mobile, tablet, or social, consumers want an experience, not just a transaction.

When "a brand or retailer goes beyond thinking about the products or the services they're selling you," she said, "they're adding in those layers of surprise, and delight, and discovery to the experience," said Melissa Gonzalez of the Lionesque Group in the interview with PWC.

Consumers want a personalized experience that will engage, delight, and connect them to the brand. And as they have access to buy from whomever, whenever – they are the ones calling the shots. Consumers are now seeking experiences that make them feel part of a brand ecosystem, assisting with their wellbeing rather than simply making a transaction. This is where the brand experience you provide becomes essential.



> “Today’s consumers don’t just buy products; they buy experiences; they are empowered and expect personalization.”

Kiran Sandhu,
Global Innovation Manager for Skincare
No7 Beauty Company.

02

Uncovering Future Opportunities: Taking the Market by Storm

Every retailer, to some degree, has had a sense of what the future of retail could look like: consumers shopping from anywhere and anytime on their computers or mobile devices, stores transforming into showrooms or fulfillment social hubs, products being shipped for home delivery at ever-increasing speeds, and digitization everywhere.

But how can retailers thrive in 2022 and beyond, even amid continuing uncertainty? Revieve identified key areas that can help retailers in 2022 to adapt to a changing consumer landscape while pursuing new opportunities.

02.1

Set a New Standard to Win Customers Back

Today's consumer has more choices than ever before. When the pandemic made physical shopping impossible, the ability to stay close to customers will decide which retailers survive and which become obsolete.

The world's best-known digital giants have set the gold standards. The benchmark is a simple-to-use, consistent, personalized omnichannel experience that keeps individual customers connected while leveraging large volumes of data to adapt continuously.

02.2

Augment the Experience, Not the Product

From Augmented Reality (AR) and Artificial Intelligence (AI) to robotics, retailers now combine online and offline, digital and physical, to survive in turbulent times. But the approach most likely to reshape the retail landscape is the focus on enhancing customer relationships and the brand experience powered by a combination of artificial intelligence and Augmented Reality to garnish first-party customer data to keep a constant feedback loop between consumers and brands.

US stores such as Lowe's incorporate AI technologies, trialing VR rooms, and even voice-controlled robot assistants to transform the customer experience. Machine learning will allow retailers to use data from their customers to offer personalized services. "When you are shopping on retail platforms, you are giving them [retailers] a huge amount of information. If you can crunch those numbers against an AI platform, they can start making accurate predictions, backed up by very targeted advertising on social media. That's incredibly powerful," says Will Robinson, CTO at Advanced Supply Chain.

According to a report by NatWest this year, the future stores will provide experiential environments rather than simply focusing on selling stock. For example, US luxury retailer Nordstrom has already trialed the concept of "stockless" stores, where customers can get advice from stylists but don't walk out with clothes.

02.3

Rethink the In-store Experience

> Both experiences and fulfillment are important uses for brick-and-mortar stores. We will continue to evolve the role of the store on our continued omnichannel strategy evolution.

Mary Dillon
Former CEO
Ulta Beauty.

According to McKinsey's analysis, when the pandemic harmed the in-store environment, 44 percent of stores served partially or entirely as fulfillment centers. By 2022, survey respondents expect that number to jump to 57 percent, with stores focused on curbside and ship-from-store services.

Dollar General has rapidly expanded its contactless shopping capabilities, combining the launch of its BOPIS initiative in 17,000 stores with the rollout of an app with scan-and-go technology. Dollar General CEO Todd Vasos said, "For us, some e-commerce priorities that were previously five years out are now more on a three-year horizon. We need to more quickly understand how to satisfy the consumer and accelerate our timelines accordingly."

Shiseido has also introduced the first Skin Visualizer: a contact-free device that measures and visualizes skin's beauty circulation, to provide personalized beauty advice and product recommendations to consumers in over 1000 stores across 15 countries. By leveraging in-store digitally enhanced contactless experiences such as skin analysis, Shiseido delivers bespoke personalized in-store wellness experiences for its customers across the globe.

During a recent webinar hosted by **RetailX**, executives representing packaging, supply chain operations, data and analytics, digital optimization, and in-store experience discussed the potential future of the in-store "Store as Media" model, how it will operate and what is required for success.

Based on their findings, retailers will need to think about new ways to embrace digital initiatives and provide a remarkable customer experience that lasts. For instance, use a combination of QR codes, smart mirrors, digital signage, and personal smartphones to make the store a more attractive place for any individual, "not to move product but to move the hearts and minds of consumers; to sell the idea, essence, and values of that brand."

Creating this constant loop of engagement is what makes the "Store as Media" model most effective. "From the supply chain to the store, "the product itself has to have a voice. Consumers want to know more about the products they're bringing home and understanding what they're doing at home plays a critical role in understanding these consumers on a deeper level."

As a result, brands and retailers have to build a digital media network in the store that is end-to-end intelligent: intelligent in the cloud and intelligent at the [shelf] edge.

02.4

Consider Social Commerce

During the pandemic, more consumers found themselves engaging in online shopping via live streams. According to Coresight Research, Livestream e-commerce is poised to reach $25 billion in sales in the U.S. by 2023.

Social commerce became one of the most vital tools in generating ROI for many leading retailers and brands, and this tendency is expected only to move forward.

Brands ranging from luxury house **Dior** to fast fashion giant **H&M** have been actively engaging celebrities and influencers to get dozens of their followers to make purchases off online stories or posts by asking them to "swipe up to purchase."

For example, **Gucci** ranked as one of the most popular luxury brands online in 2021.

The brand leverages live-streaming, digital storytelling, and elevated commerce with a constant drive to experiment online. From AR-powered try-on technologies to digital gifting, the brand drives innovation forward. The brand records over 10 million engagement actions per month, on average. Only **Dior** and **LVMH** are doing better with 13.2 million and 11 million, respectively.

Viacom's study found that more than 30% of Gen Z teens and millennials believe that YouTube is a primary channel to educate themselves, including reviews and tutorials. Video streaming has become a new platform for makeup and beauty-related content from beauty influencers, vloggers, and bloggers that carve their niche in the industry.

Moreover, Gen Zers and millennials want to have a tactile and exclusive experience from beauty brands. Attending events like Winky Lux's "Experience Store" and Sephora's Sephoria - an interactive beauty house pop-up shop, can help deliver the brand experiences Gen Z is craving.

In a new era of consumer expectation for shared values, retailers should curate platforms to function as tastemakers to enhance their experiences in the broader cultural world. Brands and retailers can create even more powerful storylines and collections by stocking and promoting products or investing in technologies.

02.5

Respond to Unpredictable Staffing Demands

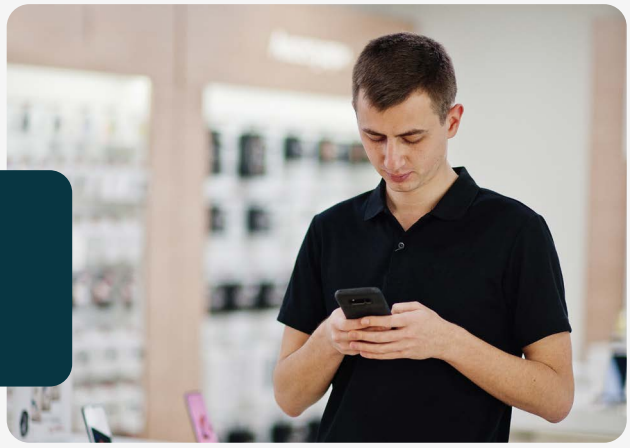
The retail landscape is crowded for both e-commerce and brick-and-mortar brands. Every touchpoint in the customer journey, from in-store functionality or quality online chat engagement to the enthusiasm of the greeter at the store door, can be a defining moment for winning the hearts and wallets of consumers.

However, the biggest challenge for retailers is to understand consumers' needs and predict demand. Trying to gauge all their preferences is a tricky business, said David Marcotte with Kantar Consulting. "The biggest failure for the last two years is predicting demand," he said. That's where staffing comes in. "[Be]cause you need to make up for all the variables that you can no longer predict with people that are more flexible in terms of their response," Marcotte said.

And since retailers are already gearing up to hire staff for the holidays, retailers should be looking for organized workers who have an eye for detail that have the physical capacity to be running back and forth between the aisles and the backroom for packing things and shipping them out.

To cope with the unpredictability, retailers need to serve customers and meet their desire for a seamless shopping experience across all touchpoints, whether in-store, eCommerce websites, chat, text, mobile apps, or online marketplaces.

Retailers need to serve customers and meet their desire for a seamless shopping experience across all touchpoints,



02.6

Craft an Authentic Purpose Linked to Inclusion and Diversity

The retail industry is making strides in I&D, and customers are noticing, which creates a tremendous opportunity for retailers. Successful retailers invest time and effort in understanding, examining their facts and data, acknowledging their starting point, and reflecting on the unique change they can create.

To develop more meaningful relationships with customers, retailers must orient themselves around a solid and authentic purpose linked to Inclusion and Diversity (I&D) values.

For example, Gap has committed publicly to closing the space between its employees' diversity and the US population's diversity by doubling the representation of Black and Latinx employees in its US headquarters by 2025.

European company Zalando released its first report in 2020 on diversity and inclusion that insisted on seeing inclusion and diversity as an opportunity rather than a challenge.

Macy's has also accepted the pledge, which, alongside the retailer's "Workshop" project

to educate women- and minority-owned businesses on growth, represents the dedication and cross-category commitment to diversity.

Walmart and the Walmart Foundation are also striving to create more equitable opportunities through giving initiatives such as "a five-year, $100 million philanthropic commitment to creating a new Center for Racial Equity."

McKinsey's recent survey of shoppers reveals that not only do they expect retailers to engage in conversations around social issues but that I&D influences their purchasing and switching behaviors. Retailers can expect better performance when offering products, services, and experiences that reflect shoppers' wants and values.

And with diversity and inclusion considered important to 60 percent of consumers when making a luxury purchase, brands not meeting consumers' social and ethical expectations risk being left behind, according to the Vogue Business Index.

02.7

Become a Single Player for all Verticals Across all Channels

To continuously and sustainably manage evolving demand and consumer expectations, retailers need to become a single platform for all their products accessible anytime, anywhere.

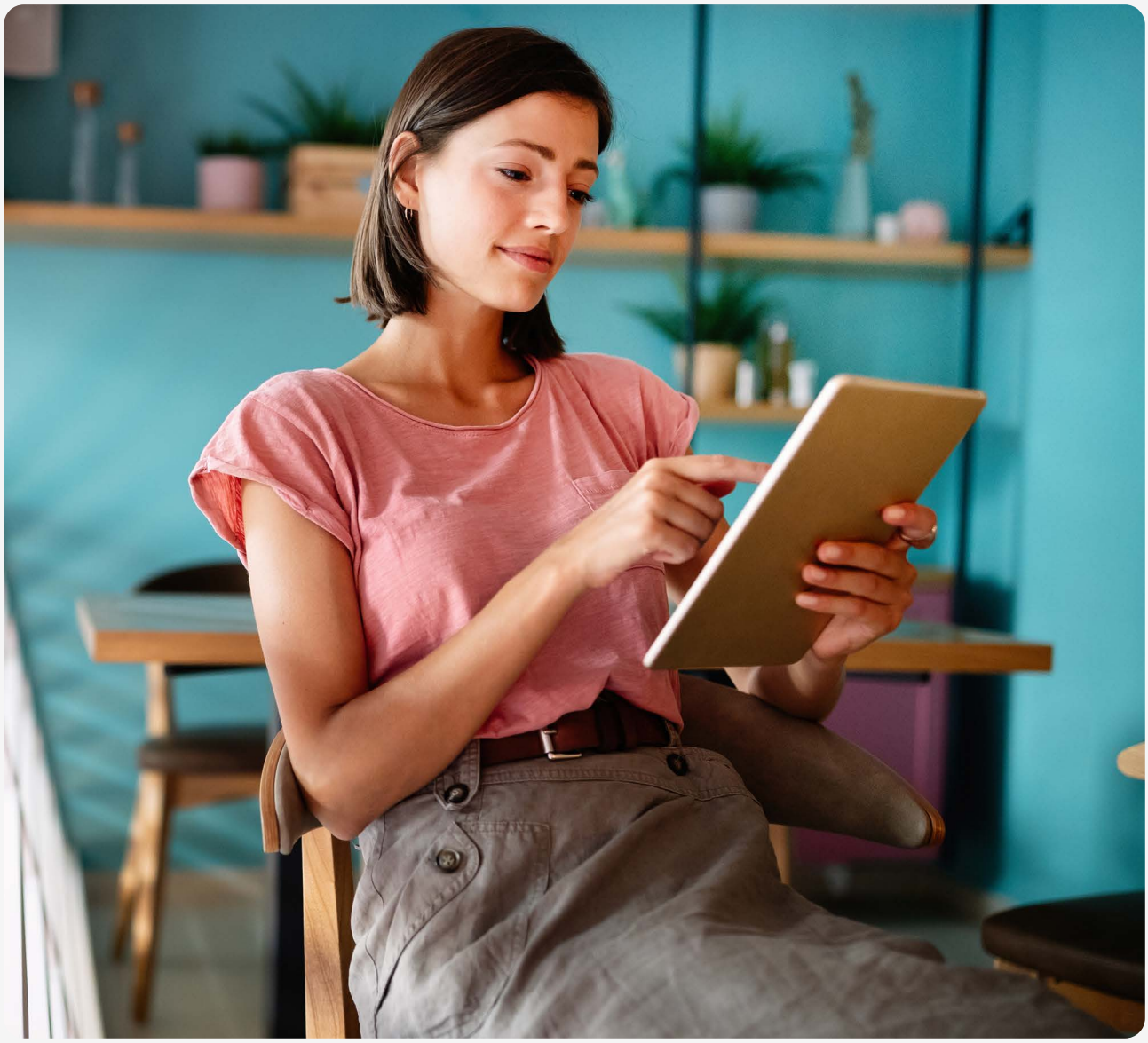
For instance, Nordstrom has now linked its digital and physical product offerings in its top ten markets to offer four times the selection available for next-day delivery while expanding pickup options. Nordstrom CEO Erik Nordstrom expects the unexpected, saying, "I can't imagine anybody knowing for sure what will happen in the future—the takeaway is that our businesses have to be agile and flexible."

Retailers will be forced to provide a 'one size fits all approach to innovation and product portfolio. Today the focus is very much on retail platforms. According to Tim Denison,

director of retail intelligence at **Ipsos Retail Performance**: “today’s reality is very different; the battle cries have been replaced by courtship and now marriage [between on and off-line retailers]. Shoppers have turned out to be channel agnostic, wanting a frictionless customer experience in which quality, price, and service are consistent, whether they shop online, mobile or in-store”. This, he said, has given way to the “era of the all play platform.”

The NRF members believe that the creation of platforms was an extension of retailers aiming to be more multi-platform, with both a physical and online presence.

But the driving force behind these platforms is a complementary business (technology partner) that will help provide faster access to new sectors and channels than organic growth – a key driver for any business.



02.8

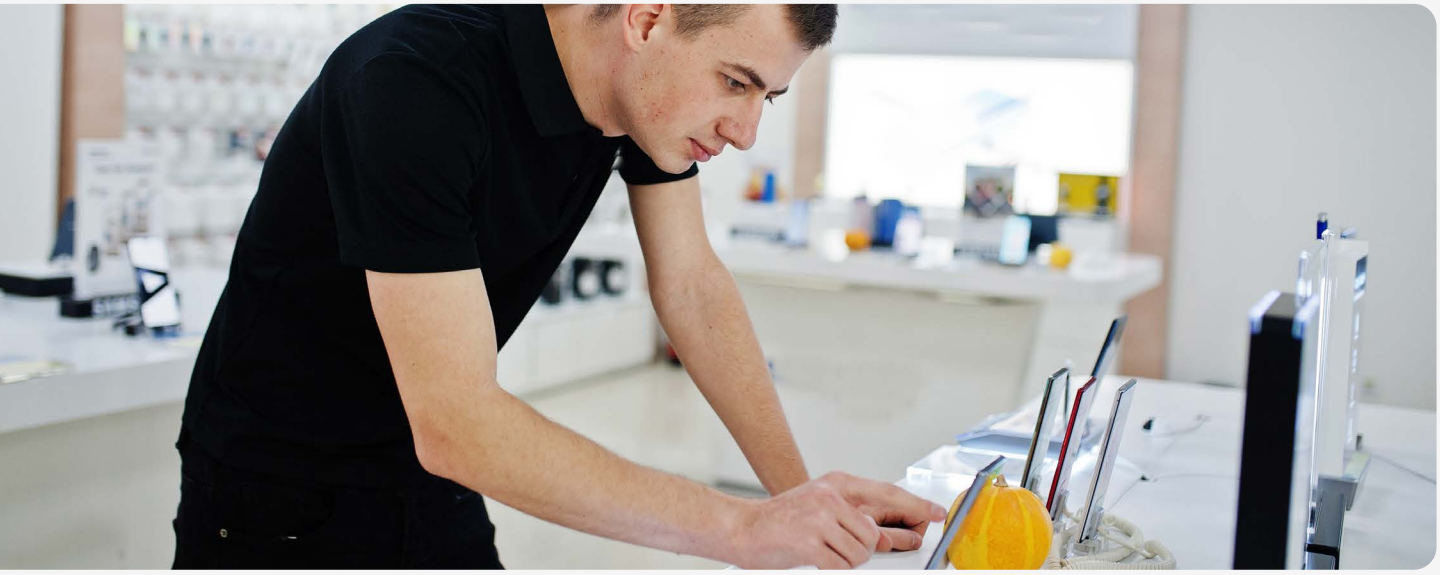
Find the Right Technology Partner

The fundamental changes needed to serve customers' needs successfully in a market increasingly driven by the demands of a new generation of consumers result in the traditional retailer-supplier relationships shifting into something much more strategic.

This has led to the rise of the number of retailers partnering with technology providers. These partnerships are driven by the need to provide seamless brand experiences for their customers and a fast route to accessing transformative solutions to improve their business models and results.

This is why it has become essential to find the right technology partner to fulfill all retailers' requirements for complex innovation projects. Whether the purpose is to create a better in-store experience or fuel the growth of metrics with new technology capabilities, it is critical to conduct due diligence on potential technology partners.

When researching and conducting due diligence on technology partners, you must understand the type of technical support you need, the benefits and results you're looking for, and the questions you need to ask potential partners. Ideally, your future technology partners should respond to the needs you have today and in the future



Conclusion

With all these changes converging at once, retailers must steer their businesses forward, providing hybrid shopping experiences within next-generation retail ecosystems. Disruption will impact retailers and CPG companies alike as the industry follows consumers' ever-changing wants and needs.

The best suppliers will establish direct-to-consumer relationships, where retailers will no longer serve as the gatekeeper to the customer—having made that strategic choice, retailers must embark on a transformation journey, combining people, organizational and technology streams.

Those who can differentiate themselves will continue to survive and thrive.

rev:eve

REPORT

The Retail Landscape in 2022: Conquering Future Challenges

www.revieve.com