Introduction

Enjoy this 2018 Retail Report covering consumer behaviors and preferences shaping peak trends in retail technology.

In December of last year we surveyed 500+ online shoppers across the United States. In addition, we interviewed leading retailer 1-800-Flowers.com, along with industry experts, to deliver this comprehensive report.

The enclosed information highlights where retail's biggest waves of change are occurring, as told by consumers and retailers alike. We invite you to "rethink" retail with us as you continue engineering experiences for your customers.
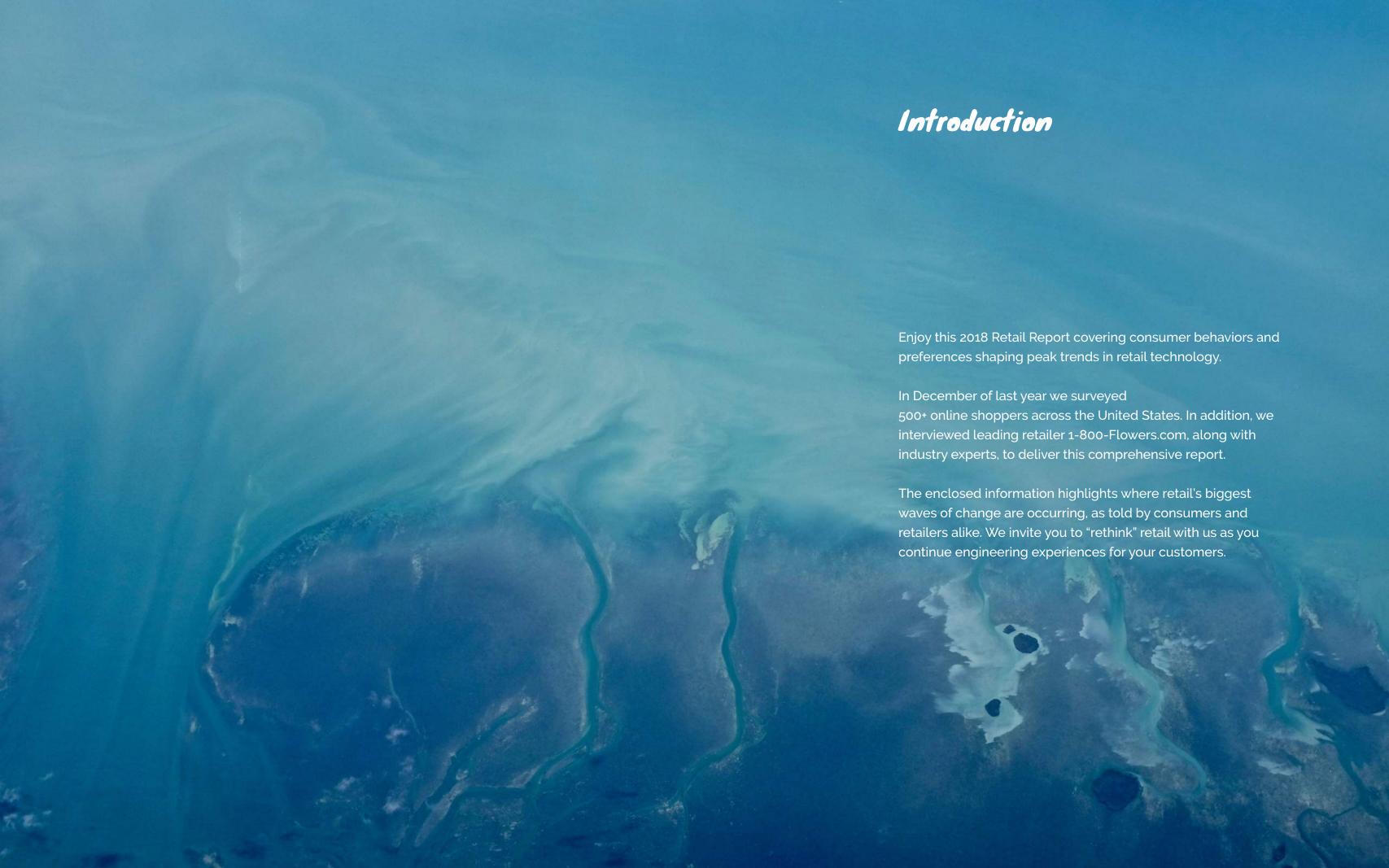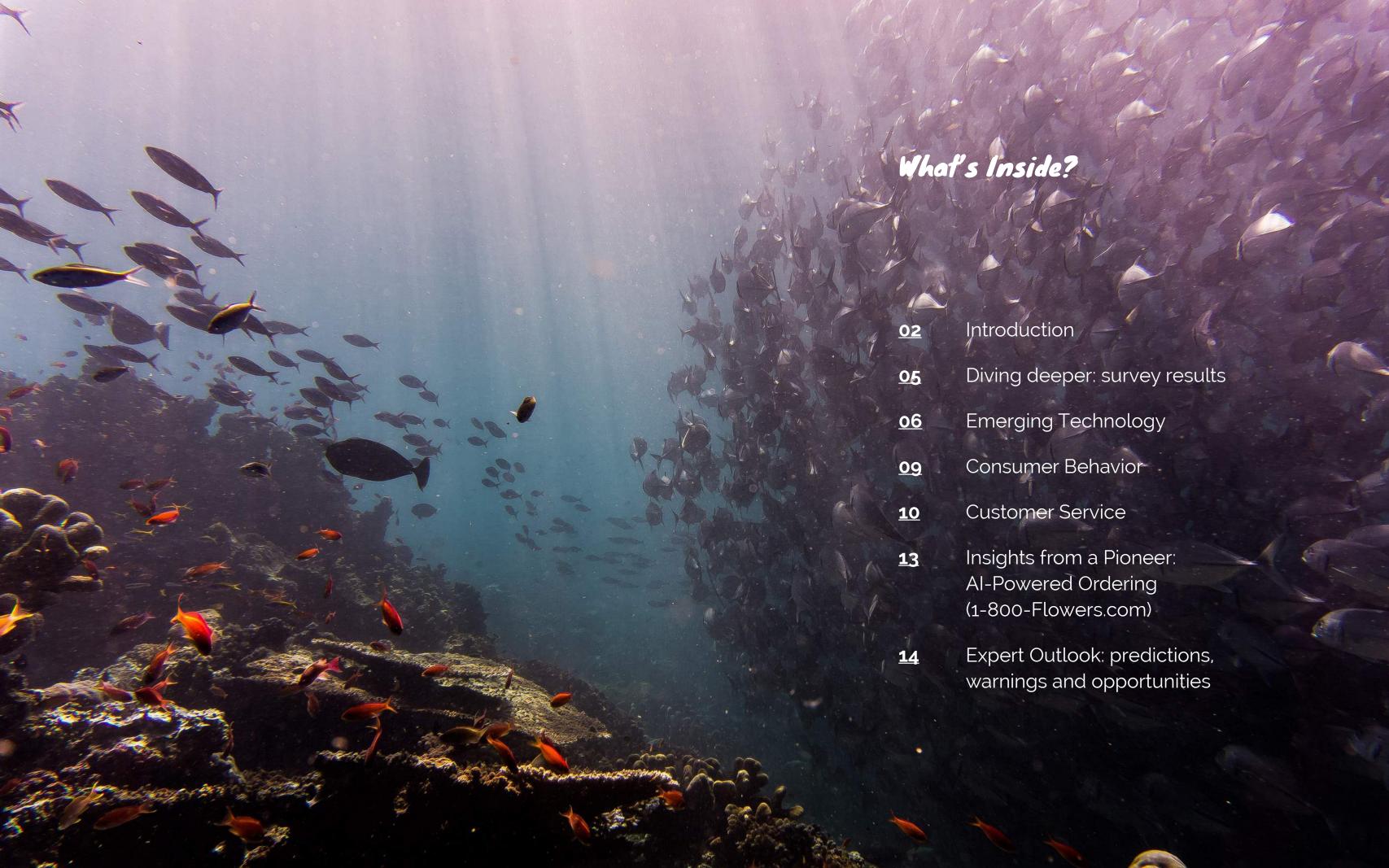
What's Inside?

Waves are not measured in feet and inches, they are measured in increments of fear."

~ BUZZY TRENT
Pioneer of big wave surfing

Surfers are always on the lookout for big waves.

The most desirable waves often occur when the weather is stormy and uncertain. Surfers courageously enter raging swells and "take the drop." Just one epic ride provides motivation to keep trying and to perfect the approach.

And so it goes with Retail Innovation. It seems simple. But underneath the simplicity is an incredible amount of hard work that requires us to get back on that board and try again. The voice of consumers and markets are the wind building into the waves that entice industry leaders to innovate and produce new solutions. These "waves" then propel new ideas to the market.

Are you ready to ride retail's waves of change?

Cowabunga!

Survey Results

"Your surfing can get better on every turn, on every wave you catch. Learn to read the ocean better. A big part of my success has been wave knowledge."

- KELLY SLATER

World Surf League Champion

If you observe the highest-performing retailers you'll notice shared commonalities in both terms of core values and business approach. These best-in-class, digital-first retailers exhibit unwavering dedication to customer satisfaction and a knack for correctly anticipating where things are headed.

As change is constant, the bottom line for any retailer looking to prosper is that no matter what disruption is being faced, you need to anticipate this disruption and identify the (often) hidden opportunity and seize it!

Yet where to begin? This report helps guide you through new data around consumers and insights from leading retailers, with a focus on 3 core topics: emerging technology, consumer behavior and customer service.

Emerging Technologies

Keep your eyes on the horizon.

"We're all equal before a wave."

-LAIRD HAMILTON

American big-wave surfer & co-inventor of tow-in surfing

Emerging technologies such as Artificial Intelligence (AI), Augmented Reality (AR), Virtual Reality (VR) and chatbots, to name a few, now impact almost every industry to some degree. Yet when it comes to retail, we're experiencing these impacts in perhaps the most widespread, profound and personal ways.

The latter is especially true when it comes to AI - it's on the phone in our pocket and the smart assistant speaker in our home. Technology of this kind offers consumers what the technology from yesteryear could not: immersive, personalized experiences at nearly every touchpoint - now featuring your living room.

Continuing with this sentiment, consider for a second that by 2020, 85% of customer interactions will be managed without a human.[1] Companies such as Apple, Google and Amazon have led the wave of AI integration, but companies like Dominos, 1-800-Flowers and Cosabella (among others) quickly followed suit, adopting this emerging tech. into their business model.

In this report, we explore findings from the "2018 Retail Report of Retailers and Online Shoppers," and focus on three key areas in retail: emerging technologies, consumer behavior and customer service. We balance

the interplay among these three areas by presenting both the consumer perspective along with the retailer perspective.

In addition, we bring you original interviews from both a leading retailer and industry expert in this space. We encourage you to apply these insights as you continue examining, reimaging and optimizing your digital strategies, including efforts to prioritize digital investments that support new ways of connecting with your consumers.

...and we're facing a tsunami of disruptive tech:

Artificial Intelligence (AI)

Augmented Reality (AR)

Virtual Reality (VR)

Chatbots and virtual assistants

Blockchain

Grab-and-go offerings

and much more...

2018 shows promising growth for adoption of in-home virtual assistants.

Artificial Intelligence

Businesses are extensively using AI chatbots and voice-based personal assistants to interact with their customers. The reason being that the new generation of millennials prefer chat messages and voice commands over communication with real people. Why? Because it is simple and saves time.

It's estimated that 20% of all user interactions with smart devices will involve virtual assistant by the year of 2019.[2] According to Juniper Research, smart speakers like Amazon Echo and Google Home will be common in 55% of all households in the United States by 2022.[3]

Furthermore, according to our study approximately 1 in 5 online shoppers currently own an in-home digital assistant, with more than 1 in 10 planning on purchasing one.

This technology simplifies and personalizes each user's experience, making the consumer experience exceptionally efficient and tailored.

According to the Director of Global Business Development, Retail & Shopping at Google, Michael Haswell, "Voice is natural, and it can have a huge impact on retail because it can mirror the real world," "But people speak in sentences instead of lists...things get more complicated when you ask, for example, 'What should I wear today?'"[4]

The takeaway? Along with numerous advantages, all virtual assistants still struggle with one common difficulty. Users sometimes have a hard time communicating with a smart device, since it can only handl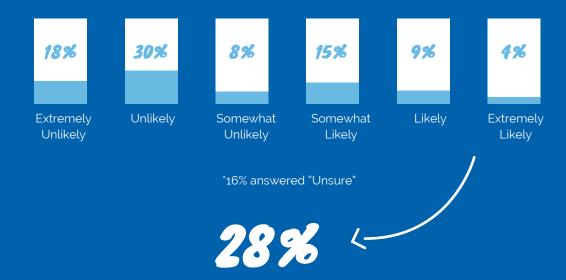e one question at a time. This elementary talk leaves the feeling that the customer is still talking to a machine rather than to a real person.

But despite these issues, we are at the brink of the next communication revolution. Many retailers are developing solutions to facilitate decision making and provide customer support. In the near future, merchants will offer a new level of communication as VAs become smoother, more intuitive and personal.

Yet not every retail category will take off immediately. As the Global Chief eCommerce Officer for luggage retailer Samsonite, Charlie Cole, explained "...categories like consumables will start to take off in voice, but categories like fashion may have a harder time," he continued, "No one is going to say 'Hey Google/Alexa, order me a $1,200 cashmere sweater.'"[5]

How likely are you to buy groceries or other products with a smart assistant?

Extremely Unlikely	Unlikely	Somewhat Unlikely	Somewhat Likely	Likely	Extremely Likely
18%	30%	8%	15%	9%	4%

*16% answered "Unsure"

28%

Would likely buy products using a smart assistant.

> *"Each month will bring about a new disruptive AR/VR/MR experience. Retailers need to brace themselves, stop creating PowerPoints and start making prototypes."*

-DAMIEN LEFEBVRE
Vice President, North America
Major Accounts and Innovation, Valtech

Augmented and Virtual Reality

Retail giants like Apple, Google, Microsoft, Alibaba, eBay, Amazon and others are racing to deliver new and engaging AR/VR experiences to customers. These top players set the standards high and the spend even higher. By 2020, retailers' total investment in AR/VR will increase at a compound annual growth rate of 238.7%.[6]

Retail companies can greatly benefit now and in the coming years from this kind of technology. Our study finds that 53% of online shoppers are open to the idea of shopping using AR, with 20% answering "yes" and 33% answering "maybe."

Though while VR will continue to grow, AR will overtake it in popularity and user adoption in the immediate future because everyone will have access to it, according to Lefebvre at Valtech.

"With machine learning, IoT and augmented reality—the retail experience will never be the same. The future of retail is now." [8]

– SAP

If in doubt, paddle out.

Our study examined how people, who currently shop online, use their mobile devices when shopping in a physical store.

There's no denying that today's digital consumer has forever changed the contours of the retail industry. As consumer behavior continues to evolve expectations around customer service do, too. We cover both areas in these next two sections.

In-store Behavior

Of those who shop online, more than half also shop in store and via mobile device. Currently only 1% shop using a voice assistant, though we expect this number to grow as adoption of this technology increases over the next 5 years.

When shopping in store, how do you primarily use your mobile device?

19%
Comparing Prices

15%
Looking For Coupons Or Discounts

14%
Researching Product Information

9%
Reading Product Reviews

*42% answered "None" and 1% answered with "Other"

A few survey respondents left comments in the "Other" answer field choice, see a few below:

"Calculation"

"To find aisle location"

"To check my grocery list"

"To search for shipping info."

"I only grocery shop in store, I haven't been in a department store in like...years"

Of those who shop online...

52%
Also Shop In Store

1%
Shop Using Voice Assistant

55%
Shop Via Mobile

"56% of all in-store purchases are influenced by digital interactions."

- Facebook

You should have been here yesterday.

> "Surfing is a secret garden, not easily entered. My memory of learning a spot, of coming to know and understand a wave, is usually inseparable from the friend with whom I tried to climb its walls."
>
> **-William Finnegan**
> New Yorker staff writer and surfer

Social Media

Customers are no longer limited to a 1-800 call center line and in-store visits to connect directly with brands. We now engage in real time through chat bots, direct messaging and even social media platforms.

In fact, according to Twitter, 60% of consumers expect a brand to reply within an hour.[7] The social network also found that if a customer receives a response in less than six minutes, their willingness to pay increases by nearly $20. It's no surprise that social media has changed the retail industry, along with the world itself. Every 15 seconds someone new joins social media,[9] and nearly half of the world is on one or more social media platforms.[10] For retail brands, this means social media strategy is more important to their overall digital strategy than ever before. Consumers have come to expect instantaneous replies, personalized interactions and a constant stream of creative content.

To further that point, 52% of all businesses report that social media positively influences sales and revenue, and that number is only expected to rise over the coming years.[11] It is crucial that brands understand and adapt to the changes of the social media world in order to maximize its potential, especially when it comes to customer service.

Our study found that:

1 in 4 online shoppers like, share or comment on a brand's social media post at least once a week.

For 18-24 year olds, 15% said they engage with a brand on social media multiple times per day, with females more than twice (2X) as likely to do so than males.

Communication Channels

To better streamline the communication process, brands have begun launching their own chatbots. For example, Sephora uses business messaging platform Assist[12] to determine which customer messages can be handled by a bot. If a bot can't respond, the message will then be passed along to a live agent. Until now, bots and human agents have typically been disconnected, leading to a disjointed, inefficient customer experience.

Mark Mathews, NRF Vice President for Research Development and Industry Analysis agrees. At the recent NRF 2018 conference he posited, "Consumers today want what they want when they want it and they don't expect to pay a premium to get it fast. And whether it's next-day or pickup-in-store, quick delivery of online purchases at little or no extra charge is growing so fast that it's something shoppers are coming to expect."[13]

Technology and automated solutions make it quicker, more efficient and easier for brands to help customers at scale. They also allow customers to get service with convenience, speed and comfort. For

many companies, gone are the days of generic answering systems, and here to stay is a flawless customer experience that is always several steps ahead. Flawless is the name of the game, after all. According to our findings, assuming survey respondents could get their questions answered faster, the majority said they would prefer web chat to contact customer service; meanwhile, 23% said Facebook Messenger and 22% said voice assistant.

Assuming you could get your questions answered faster, how would you prefer to contact customer service?

55%
Webchat

23%
FB Messenger

22%
Voice Assistant

Overall, males were approximately 2X as likely as females to prefer a voice assistant.

Among the 35-44 and 65 or older age groups, approximately 28% said they'd prefer to use a voice assistant. Among 18-34 year olds, 32% said they'd prefer to use Facebook Messenger.

As conversational commerce continues to grow, we note that multinational e-com-

merce giant eBay launched its smart shopping assistant "ShopBot," powered by AI, just over a year ago.

According to eBay SVP and Chief Product Officer, "Facebook Messenger is helping create a seamless experience for shoppers who

want to quickly 'Shop Now,'" he continued, "The new button will help drive users from our Facebook page to an engaging experience with our eBay ShopBot. We see this as another opportunity to meet users where they are without having to leave Facebook."[14]

Payment methods

Of respondents ages 18-44,
1 in 4 use mobile pay at least once per week.

With the ever-growing demand for instantaneous results with minimal interaction and wait times, payment methods such as scan-and-go, self-service kiosks and mobile pay are becoming crucial in the retail world.

Huge retail chains like Kroger, Wal-Mart and Sam's Club have already rolled out scan-and-go technology that improves a customer's shopping experience by streamlining the buying process.[15]

Likewise, these stores and several others offer self-service kiosks that allow shoppers the freedom to purchase items without having to interact with a single person.

One study found that 66% of shoppers find self-service checkouts "easy to use",[16] with 91% of users being 35 and younger.[17] Intuitively, it seems that those heavy or frequent users of self-service checkouts are more inclined to adopt various forms of mobile payment. The age range of a typical mobile payment user falls roughly around 30 to 44 years old.[18] This observation is also supported by our study.

Not only does this type of technology make for a superior customer experience, it also allows companies to collect consumer data, which in turn creates an even better, more individualized shopping experience. We find that 84% of those surveyed report using some form of in-store self-checkout. To elaborate, 70% have used a kiosk, while at least 4% have also used a smartphone to checkout (i.e., "scan-and-go" mobile apps), and 10% have used both a self-service kiosk and smartphone.

AI-Powered Ordering

Interview with Amit Shah, CMO of 1-800-Flowers.com

Where are you investing most from an innovation perspective?

1-800-Flowers.com is continuing to invest in technologies to deepen the customer experience across all touchpoints. We are very bullish on artificial intelligence and believe that our early investment in AI is providing beneficial for personalization and voice search. We see a trend in customers seeking more personalized experiences with brands, leveraging data to create deeper engagement.

What retail technology are you most excited about right now?

At 1-800-Flowers.com, voice is the most exciting platform.

What have you learned from offering your Alexa skill? How has consumer behavior changed since launching?

First, I will tell you about the company background to provide some context. 1-800-Flowers started out in 1976 as a single floral shop in New York. Even then it was all about the customer experience as we were involved in the ebbs and flows of our customers' lives. Over the years we made a number of moves. We were one of the first retailers to begin using a toll-free telephone number (1-800-Flowers), which allowed us to engage and transact with customers at scale. Then in the 1990s we embraced online retailing with CompuServe and our first e-commerce website. Customers could access the online catalog, but this channel resulted in fewer conversations with customers. Nowadays, we see more and more retailers giving up on the

core relationships they worked so hard to build with their customers.

Our goal is to maintain and grow our customer relationships. In support of this, we were one of the first retail brands to offer a voice-enabled skill on Amazon Alexa. The ability to reach customers at scale and have distributed conversations is critical for us. Early adopters in Alexa and voice assistants enjoy a critical advantage over competitors. Why? Because the AI is learning how to better service customers on the platform and therefore provides useful insights for retailers. For example, customers engage better if you say "hello" versus "hi" on Alexa. Over time, the experience becomes more personalized as the platform learns and tunes the experience based on who is engaging with the platform. For retailers, AI-enabled voice assistants offer personalized conversations at scale.

What advice would you give other retailers interested in offering/implementing voice ordering capabilities?

At 1-800-Flowers.com, we never make choices about technology. We let our customers tell us which choice they make - and we think our customers have spoken and they are adopting voice. Retailers need to be ready to service their customers on their platform of choice. We believe the LQ (or learning quotient) of the company is critical. In order to stay competitive, it's important for retailers to hire people who are interested in learning and keeping up with these new technologies. Everyone's business is going be machine learning in a few years time. If companies are not open to learning, they will not be able to keep up. In fact, we believe that voice will dominate in less than 10 years.

> *"Customers have spoken and they are adopting voice. Retailers need to be ready to service their customers on their platform of choice. In less than 10 years, voice will dominate."*

-Amit Shah
CMO of 1-800-Flowers.com

Expert Outlook:

An industry strategist weighs in on the future of retail

INTERVIEW WITH LINE TOUSIGNANT, SENIOR DIRECTOR OF GLOBAL RETAIL, VALTECH

How do you see augmented reality impacting the industry in the next 3 years?

Augmented reality is about to become mainstream and will highly impact consumers' behavior. Google, Apple, Facebook and Snapchat are all in the race for AR. As an example, Apple launched an AR kit allowing developers to easily build augmented reality apps. This means that anyone using an iPhone 6s, 7 or 8, or an iPad Pro can use these applications; that is millions of devices. Expect to see people pointing their phone at everything, and it will no longer be simply to play Pokémon Go. Augmented reality will apply to education, manufacturing, healthcare, real estate and, of course, retail.

In terms of emerging technologies and trends, what should retailers be focusing on over the next 1 to 5 years?

Artificial Intelligence is definitely on the rise and will strongly impact customer experience and personalization. It allows for a level of data management that was simply impossible not too long ago. AI also empowers technologies such as voice recognition used with home devices like Google Home, Apple HomePod and Amazon Echo. As a result, marketers can now consider the consumer home as a point of sale or customer service touchpoint, which will significantly impact consumer behavior and expectations.

Although still in the early stages, blockchain is a promising technology to watch. The rise of personalization means the rise of personal behavior tracking, which continues to intensify conversations around the topic of privacy. Consequently, we can expect blockchain to grow in importance primarily due to its potential to solve various needs in areas such as authentication, trustworthy transactions and sensitive information sharing, to name a few.

In terms of trends, it's important to note the increasing collaboration between brands and consumers for the definition and design of new products/services. Likewise, we see a proliferation of affiliate business models as each and every consumer can become a micro-influencer

> **"...marketers can now consider the consumer home as a point of sale or customer service touchpoint, which will significantly impact consumer behavior and expectations."**

through a presence/voice on social networks. In brief, disruption increases as barriers to entry decrease across markets and industries; and it's clear that the retail industry will continue to be highly impacted.

What warnings would you provide retailers?

Technology has highly impacted consumer behavior, consequently creating opportunities for new value propositions, leading to constant evolution of all industries and markets. A recent example comes from fashion weeks around the world. Suddenly, this well-established approach for launching designers' new collections has stopped working so well. This shift is largely due to designers changing their go-to-market approaches to better meet consumer needs and demands. It's important for retailers to anticipate change by identifying warning signs. Of

course, some risk is out of retailers' control such as the global moving economy; other threats stem from competition, would it be startups or the giant Amazon; warning signs may also stem from socio-cultural trends or changes in consumer behavior/demand. Retailers must anticipate change early, adapt their market approach and iterate as needed. Many will need to consider becoming entertainment and experiential centers, instead of distribution centers. Those who succeed in adapting to new consumer expectations will unavoidably offer personalization coupled with high-end service. In turn, this will commoditize luxury. Retailers who do not succeed in offering appealing experiences, due to either a lack of vision or paralyzingly heavy infrastructures and processes, will disappear or end up selling online only with Amazon as a direct competitor. Actually, this scenario is already happening.

What opportunities would you provide retailers?

Opportunities lay in data analytics, AI and innovation. When combined, these can lift the consumer experience to new levels free of friction and available for all, regardless of a consumer's location: mega city or suburb.

LINE TOUSIGNANT
Senior Director of Global Retail, Valtech

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About Valtech

Valtech is a global digital agency where experiences are engineered. We are revolutionizing how our clients connect with their consumers, closing the experience gap and orchestrating omni-channel customer journeys. We are innovators, design thinkers, marketers, creatives and developers spanning 5 continents with offices in 16 countries (France, USA, UK, Canada, China, Germany, Netherlands, Sweden, Switzerland, Denmark, India, Australia, Singapore, Argentina, Brazil, Ukraine).

While our expertise is in technology, marketing and experience design, our passion is in addressing transformational business challenges for our clients. With a strong belief that differentiation comes from orchestrating seamless experiences around the customer, we close this gap by redesigning the customer journey and implementing the right, fully connected solution.

With a renowned commitment to innovation and agility, Valtech creates unprecedented success for our Global 500 clients while optimizing time-to-market and return on investment. For more information, visit www.valtech.com. Valtech. Where Experiences are Engineered.

RETHINK RETAIL

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