

# 10 RETAIL TRENDS FOR 2019

## GET READY FOR RETAIL REINVENTION

We expect 2019 will not be the year of retail apocalypse or even decline. Instead, it will be a year of reinvention — for the retail sector as a whole and for physical stores in particular.

Here are our 10 trends for 2019:

- 1) Cities will see more spectacular retail from a new generation of flagship stores.
- 2) “Fast Retail” will be marked by shorter leases, more shared spaces and more short-term stores.
- 3) Western retailers will borrow from “New Retail” with data-driven online-to-offline ventures.
- 4) Technology will continue to strip friction from brick-and-mortar retail.
- 5) Artificial Intelligence will become retailers’ go-to technology.
- 6) Startup partnerships will fuel new product development, digital improvements and operational efficiencies.
- 7) Supply chains will become more responsive, and switch from lines to loops.
- 8) More consumers will seek out environmentally and socially engaged brands.
- 9) Shoppers will increasingly expect “Smart Retail” interactions.
- 10) Consumers will look for more inclusive offerings, impacting the apparel and luxury markets.

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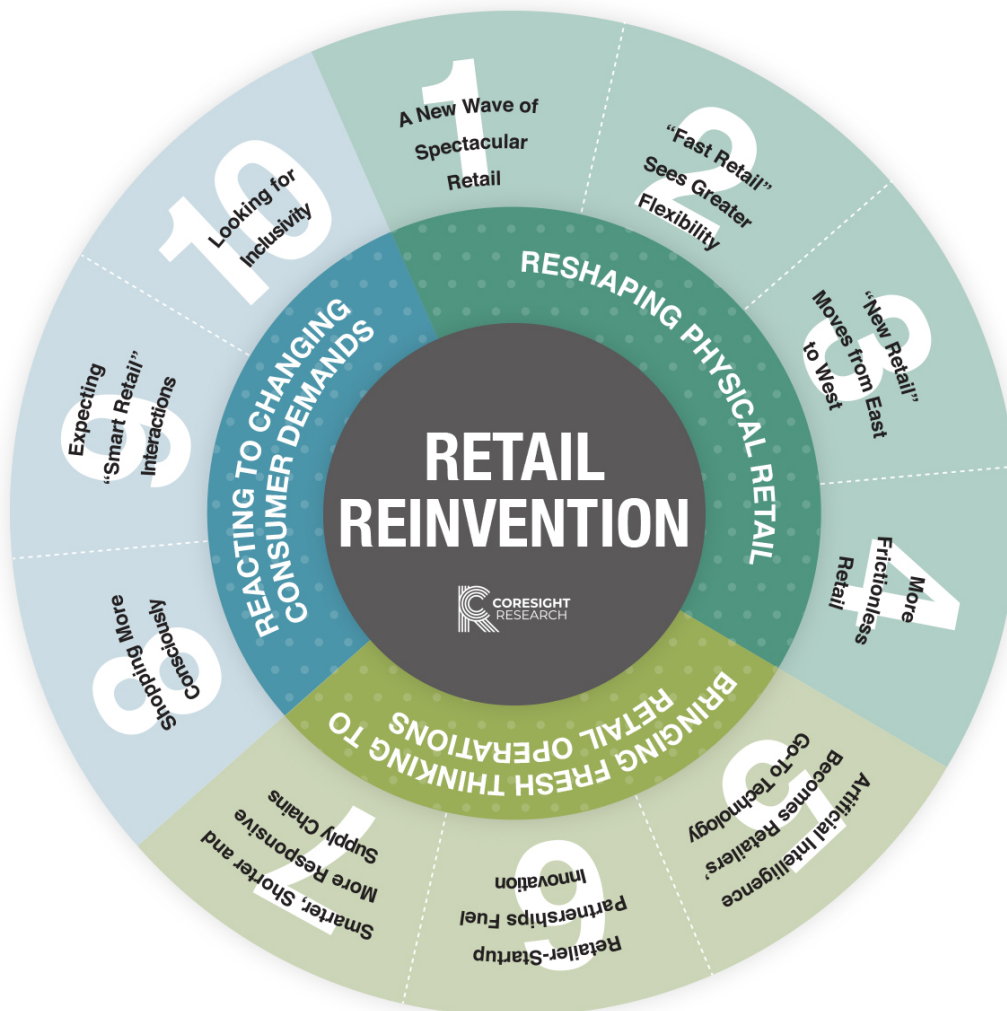
*We expect 2019 to be a year marked by spectacular retail, fast retail and smart retail.*

## 2019: Prepare for a Year of Retail Reinvention

Get ready for better stores and better retailing. We expect 2019 to be a year of reinvention — and not just for the retail sector as a whole, but for physical stores in particular. As we outline over the following pages, we anticipate that the year will be marked by spectacular retail, fast retail and smart retail.

By the end of 2019, we expect to see spectacular new flagships, many more online-to-offline ventures and smarter supply chains. We also anticipate that companies will embed artificial intelligence across retail functions, yielding improved communications and better experiences for customers, while enabling smarter decisions on inventories and pricing. The result will be a global retail sector that is stronger and better equipped to serve rising consumer expectations.

Over the following pages, we outline our 10 retail trends for 2019, sponsored by Prevedere, EnterWorks and Norihiro Kondo's Silicon Valley New Business Development Center of Panasonic Ventures.



*Urban consumers will enjoy access to experience-rich stores offering a huge of choice of product and offering add-ons such as customization and personalization.*

## 1. Cities Will See More Spectacular Retail

We expect a new wave of investment in physical stores to be core to the reinvention of retail. Already, we are seeing major multibrand retailers such as Walmart and Target freshening portfolios with refurbished environments and new in-store technology. We also expect monobrand retailers will launch a new generation of flagship stores that offer “spectacular retail.”

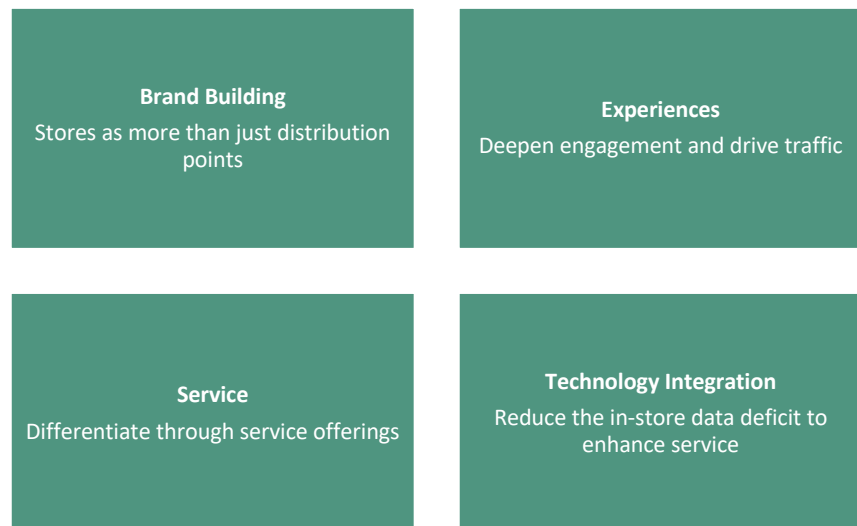
Urban consumers will enjoy access to these “temples to brands” — experience-rich stores offering a huge choice of product and add-ons such as customization and personalization. The emergence of spectacular retail reflects single-brand retailers’ recognition that stores are as much about building the brand as about generating sales.

### What we’ve seen:

- **RH** (formerly Restoration Hardware) recently opened a new flagship store in New York City. RH CEO Gary Friedman said he expects the flagship store to turn over \$100 million once sales densities reach maturity.
- **Nike’s** New York City flagship, opened in November 2018, aims to provide an immersive experience on six floors. The store includes a Speed Shop that uses data to localize ranges, offers two customization studios and incorporates mobile integration across reserving, trying on and paying for products.
- **Tiffany** will spend \$250 million to renovate its flagship store on New York’s Fifth Avenue. Such is the scale of the renovation that it is expected to be completed only in late 2021.

This renewed emphasis on destination retail stores aligns with our proprietary BEST framework, which is designed to help retailers frame their approach to physical retail around four themes: Brand building, Experiences, Service and Technology integration.

**Figure 1. The BEST Framework for Brick-and-Mortar Stores**



Source: Coresight Research

*Just as fast fashion keeps shoppers coming back to see what's new, fast retail should support traffic and shopper excitement for physical retail.*

## 2. "Fast Retail" Will Have Shorter Leases, More Shared Spaces and More Short-Term Stores

Brick-and-mortar retail will become more flexible and faster-changing than it has traditionally been as retailers and shopping-center owners recognize the need to be more fleet of foot. The physical retail landscape will change at an accelerated pace as shoppers demand newness, brands — including digital-first brands — seek short-term physical touchpoints, and legacy retailers look for greater flexibility.

This "fast retail" trend will manifest as shorter lease terms as retailers seek to avoid being locked amid a quickening pace of change. We'll see more pop-up stores — including from digital brands. We'll also see greater collaboration between retailers, notably in sharing spaces to create traffic-driving synergies, as well as large-store retailers seeking covenants to repurpose excess space.

The result will be a more appealing proposition for consumers and an enhanced ability to adapt to changing consumer behavior. Just as fast fashion keeps shoppers coming back to see what's new, fast retail will support traffic and shopper excitement for physical retail.

### What we've seen so far:

- In the UK, the average retail lease length was 20 years in 1992. Today, it is less than five years, according to Appear Here, a marketplace to lease short-term retail space. In the US, retailers are pushing for leases as short as one to two years, down from a previous average of five to 10 years, according to Bloomberg.
- A number of US property owners are carving out space for changing offerings. **Simon Property** launched The Edit @ Roosevelt Field, a permanent space within which brands and retailers can showcase products. **Washington Prime Group** launched its Tangible format, which provides space for digital brands and retailers to bring products into its centers. **Brookfield Properties Retail Group** (formerly GGP) brought the pop-up concept to food service, with its FOMO ("fear of missing out") space, which features a changing roster of restaurants.
- In the UK, apparel retailer **Next** has collaborated with complementary retailers, including stationery chain Paperchase and variety store Hema, to open "sub-stores" in its new Oxford Street, London, location. Next is introducing complementary retail partners into other stores, too.



FOMO space by Brookfield Properties Retail Group  
Source: Brookfield Properties Retail Group

*The flow of retail concepts from East to West looks set to accelerate, with more e-commerce players in the US and Europe adopting data-driven online-to-offline ventures.*

### 3. Western Retailers Will Borrow from “New Retail” with Data-Driven Online-to-Offline Ventures

The flow of retail concepts from East to West looks set to accelerate, with more e-commerce players in the US and Europe adopting data-driven online-to-offline ventures. These will resemble “New Retail,” Alibaba Group’s model for integrating online retail, offline retail and logistics across a single value chain powered by data and technology.

In 2019, we expect to see Western digital retailers adapt this model with variations of online-to-offline migration and cross-channel integration — what we term an “Alibaba-fication” of online retailing. Already, Amazon is moving toward more physical stores and experiences, both permanent or temporary. In 2019, we expect online retailers to offer more physical experiences around major calendar events such as Black Friday and (in the case of Amazon) Prime Day. We also expect further moves into permanent retail formats, with online data driving decisions about format, product range and location. This is not only about Amazon: We think the biggest names in online platforms, such as eBay, Zalando and Cdiscount, could well move into more physical locations.

#### What we’ve seen so far:

- In later 2018, **Amazon** opened more pop-up stores in the US and Europe. And, in the US, it opened more checkout-free AmazonGo convenience stores and a new banner called 4-star, which sells nongrocery products rated four or more stars by online customers.
- In the summer of 2018, Amazon brought in a new element of “real-world” experiences for its annual Prime Day.
- In October 2018, Groupe Casino’s online banner **Cdiscount** opened a product showroom in the group’s new “Le 4 Casino” concept store in Paris.
- In July 2018, **Zalando** opened a new beauty store in Berlin.



Amazon 4-star Store Soho

Source: Amazon

*The time-pressured nature of convenience stores makes them a natural choice for unstaffed formats, but in 2019 we expect just-walk-out stores to extend more fully into nongrocery sectors in which speed and convenience are important to shoppers.*

#### 4. Technology Will Strip Friction from Brick-and-Mortar Retail

Aiming for frictionless in-store transactions, retailers will turn to technologies that remove the traditional pain points of brick-and-mortar retail. At the vanguard of this shift will be the burgeoning segment of automated, checkout-free convenience stores.

AmazonGo is the flagbearer for this trend in the US, and its ventures so far may just be a hint of what is to come: In late 2018, the *Wall Street Journal* reported that Amazon is testing its checkout-free technology in larger stores — which could point to an eventual roll-out to Amazon’s Whole Foods chain. Reuters reported that Amazon was looking at bringing its AmazonGo checkout-free stores to airports.

A number of players have already emerged in Asia, including Auchan Minute and BingoBox. In China, checkout-free stores dovetail with the ubiquity of apps such as WeChat, which enable both shopper identification and payment. The time-pressured nature of convenience stores makes them natural choices for unstaffed formats, but in 2019 we expect just-walk-out stores to extend more fully into nongrocery sectors in which speed and convenience are important to shoppers.

#### What we’ve seen so far:

- **Amazon** may be planning to open as many as 3,000 new AmazonGo stores across the US by 2021, according to an unconfirmed Bloomberg report.
- **Bingobox** expanded its store network in 2018, from 200 units to more than 500 outlets across Mainland China, Taiwan, South Korea and Malaysia.
- In late 2018, Reuters reported that **Amazon** was testing AmazonGo’s “just walk out” technology for larger store formats.

**Figure 2. Factors Encouraging the Rise of Unstaffed Stores**

Tech Enablers	Business Drivers
<ul style="list-style-type: none"> <li>• Disruptive new technologies</li> <li>• Smartphone ubiquity</li> <li>• Mobile payment</li> <li>• Lower cost for mature tech</li> </ul>	<ul style="list-style-type: none"> <li>• Improved shopping experience</li> <li>• Improved operational efficiency</li> <li>• Reduced operational cost and increased profitability</li> <li>• Competition in a multichannel environment</li> </ul>

Source: Coresight Research

*More retailers will turn to AI to help them make better decisions on inventory and pricing, communicate more efficiently and more effectively with their customers, and personalize offerings.*

## 5. AI Will Become Retailers' Go-To Technology

AI will cement its position as the preeminent new technology and the leading technological enabler of in the industry. More retailers will turn to AI — and vendors of services based on AI — to make better decisions on inventory and pricing, communicate more efficiently and more effectively with their customers, and personalize offerings. This is not simply about improving customer interactions and data management: AI offers real opportunities to increase operational efficiency through inventory management and price optimization.

In our proprietary CORE framework, we identify four major areas of opportunity for retailers to use AI: Communication (which includes personalization), Optimization of pricing, Rationalization of inventory and Experiential retail.

**Figure 3. The CORE Framework for AI in Retail**



Source: Coresight Research

### What we've seen so far:

- **Amazon** uses AI to make better operational decisions, to create a seamless user experience on its website and app, to communicate with customers through its Alexa personal assistant, in its robotics warehouses and in its unstaffed AmazonGo stores.
- **Alibaba** deploys AI in its smart speaker assistant Tmall Genie, in its FashionAI digital consultant to give shoppers fashion and dressing tips, in its software E-Commerce Brain which personalizes recommendations, deals and offerings on the company's online marketplaces and in supply chain and logistics with ASSC and Cainiao.
- **Walmart** uses AI and machine-learning algorithms to organize inventory data, to price merchandise, optimize routes for delivery and solve other operational problems. The retailer is working on a facial recognition algorithm to recognize customers' facial expressions to assess their levels of satisfaction.



*Brands and retailers will seek partnerships and sign vendor agreements with nascent digital enablers; and these legacy firms will launch their own accelerators and funding programs.*

## 6. Startup Partnerships Will Fuel New Product Development, Digital Improvements and Operational Efficiencies

In increasing numbers, established brands and retailers will lean on startups to provide the expertise in digitalization they need to compete with online-native rivals. Though we expect to see further acquisitions, we also expect more legacy firms to seek out partnerships and vendor agreements with nascent digital enablers. Brands and retailers will launch their own accelerators and funding programs, too, in order to gain exclusive first rights to innovations developed by emerging startups.

We expect a flurry of activity around startups that can contribute to areas such as new product development in CPG and beauty; digital service improvements, with a strong emphasis on the point of customer interaction, including payments; and, operational efficiencies such as productivity and logistics.

**Figure 4. Focus Areas of Startup Partnerships**



Source: Coresight Research

### What we've seen so far:

- **JD.com** announced the launch of a global accelerator program to support startups focusing on AI.
- **Farfetch** announced the launch of Dream Assembly, a fashion and retail-tech focussed incubator.
- **LVMH** announced the launch of La Maison des Startups accelerator program at Station F startup campus in Paris.
- **Beiersdorf AG** launched a beauty accelerator program based in Seoul.
- **Ulta Beauty** announced a strategic partnership with Iterate, a technology solutions company and an innovation workflow platform that provides access to startups.

*Digital tools such as 3D design and sampling will dovetail with greater nearshoring and onshoring to add responsive capacity.*

## 7. Supply Chains Will Switch from Lines to Loops

Retailers will ask technology vendors and product suppliers to help rebuild sourcing models into smarter, more flexible and more responsive supply chains. In industries such as apparel, the sourcing pathway will shift from a traditional linear, planned chain to a digitalized, reactive feedback loop.

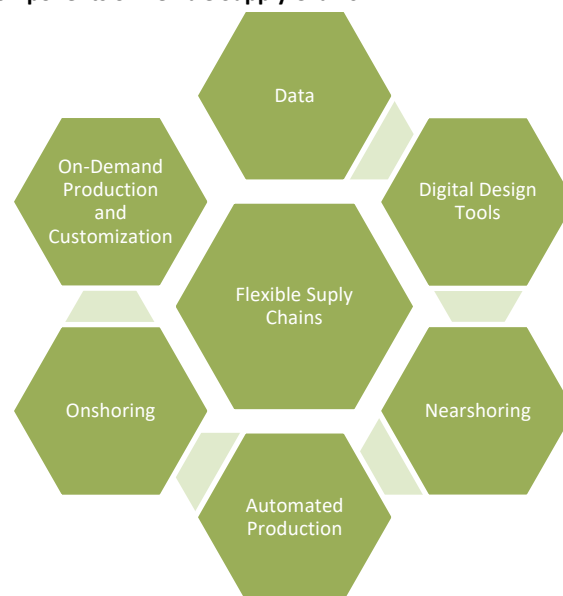
Digital tools such as 3D design and sampling will dovetail with greater nearshoring and onshoring to add responsive capacity, while the sustained increase in data — and the growing ecosystem of vendors that can turn this data into insights — will drive downstream decision making.

Automation will drive an onshoring of some production, as the unit costs of domestic production will come to look more favorable. The accelerated rollout of automated, on-demand and limited-edition production, 3D printing and point-of-sale customization will add further flexibility and complexity. In short, in 2019, less and less of what shoppers buy in US stores and on US websites will simply be what has been shipped from a Far East factory a few months beforehand.

### What we've seen so far:

- **Adidas** is piloting the automation of its product sourcing cycle with SpeedFactory facilities to produce tailored, limited-edition, high-end sneakers. Currently, the company operates two SpeedFactory sites, one in Germany and one in the US.
- **H&M** is overhauling its supply chain to make it more customer driven. This will include greater speed to market through 3D sampling, closer collaboration with suppliers and prebooking components. It is also deploying advanced analytics in product development and allocation.
- **Levi's** is testing laser technology to automate the finishing phase in jeans production, to achieve faster speed to market and greater flexibility to respond to changing consumer demand. The technology will be adopted at full scale in 2020 at the firm's distribution center in Las Vegas.

**Figure 5. The Components of Flexible Supply Chains**



Source: Coresight Research

*The gradual but sustained shift toward more conscious shopping, whether driven by environmental or social concerns, are likely to fuel further collaborations.*

## 8. Consumers Will Look for Environmentally and Socially Engaged Brands and Retailers

Consumers will shop more consciously, looking for ethical, sustainable and values-driven brands and retailers. The recent past has seen a whirl of conscious consumption trends, from the rise of veganism to outsized growth in organic food sales to fightbacks against single-use plastics. This trend will not go away, and in fact will expand into more retail sectors in 2019.

Demand for more sustainable models will push shoppers toward alternative models of acquisition. Recommerce (resale) platforms such as ThredUP and The RealReal and rental services such as Rent the Runway will benefit from the trend of consumers wanting to reduce the environmental impact of their shopping. Brands will increasingly recognize recommerce and rental as acquisition channels, serving as entry points for first-time luxury shoppers.

This trend encompasses more than just environmental impact. Political and social values will influence consumer behaviors, too. A growing proportion of consumers — many of them younger consumers — will turn away from brands whose values do not align with their own and toward firms whose values do align with their own.

The gradual but sustained shift toward more conscious shopping, whether driven by environmental or social concerns, are likely to fuel further collaboration as retailers and brands look for fresh thinking and endorsements from influential figures, and, in turn, the cachet of being seen to respond to shoppers' concerns.

### What we've seen so far:

- **H&M's** newly opened experimental store in London includes a Repair and Remake service that allows H&M Club customers to have garments mended free of charge.
- **The RealReal** and **Stella McCartney** extended their partnership through 2019. Stella McCartney shoppers who consign with The RealReal receive a \$100 store credit to spend at Stella McCartney stores or online.
- Virgil Abloh, Founder of fashion brand Off-White and Creative Director of Louis Vuitton's men's line, was appointed Creative Adviser for Sustainable Innovation Design at mineral water company **Evian** as part of the brand's intention for its packaging to be "100% circular" by 2025.
- "Buy one give one" firms such as **Yoobi** in stationery and **Bonas** in socks tap into the "giving back" trend.
- **Nike's** controversial ad campaign featuring Colin Kaepernick in September 2018 yielded a surge in social media likes and followers, according to Wedbush Securities, and it was followed by a boost in the share price.

*This is about retailers taking a holistic “smart retail” approach that integrates AI automation, human intervention and data sharing to provide personalized and predictive interactions across multiple channels.*

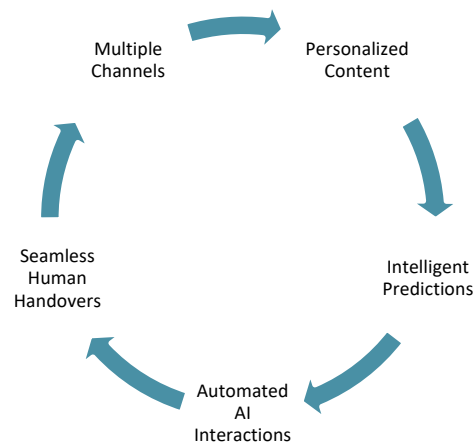
## 9. More Consumers Will Expect “Smart Retail” Interactions

Just when legacy retailers have got to grips with the heightened consumer expectations created by e-commerce, new technologies will raise expectations even further in 2019. Shoppers’ growing familiarity with voice assistants, chatbots, personalization and other forms of AI-powered communications will intensify demand for smart, anticipatory interactions that are cohesive across multiple channels and touchpoints.

Catering to these expectations will not be about retailers shoehorning in a voice shopping option through Amazon’s Echo or Google Home, or chasing shoppers across the web with retargeting ads. Nor will it be served by simply rolling out personalized landing pages on retailers’ websites. Instead, it will require retailers to take a holistic “smart retail” approach that integrates AI automation, human intervention and data sharing to provide personalized and predictive interactions across multiple channels.

Companies will need to leverage customer datasets with AI to anticipate customer needs and react intelligently across multiple channels. Increasingly, retailers must predict what individual shoppers may want to suggest relevant products or add-on services such as financing; to provide personalization in apps, website homepages, emails, voice interactions and other communications; and, be equipped to respond to customer contacts with seamless handovers between automated AI processes (such as through chatbots and voice assistants) and human interactions through intelligent data sharing.

**Figure 6. The Cycle of Smart Retail Interactions**



Source: Coresight Research

### What we’ve seen so far:

- US beauty retailer **Ulta** said its main focus is personalization and connecting online and offline experiences to help consumers navigate the beauty space. Ulta also acquired QM Scientific, an AI startup with capabilities in computer vision, recommendations, natural language processing and visual search.
- **Birchbox’s** beauty boxes have long been based on personalization. In 2018, the company relaunched its website to offer rich content that aligns with its offline experience. In 2019, the site will offer greater personalization, more closely lining up real world and online experiences.





*Inclusivity and equality of access will trump exclusivity and aspiration in 2019.*

#### 10. Shoppers Will Seek More Inclusive Offerings

Inclusivity and equality of access will trump exclusivity and aspiration in 2019. This will be most evident in the apparel industry.

Increasingly, brands and retailers will look to traditionally marginalized fashion customers, most notably plus-size shoppers and those with disabilities looking for adaptive fashion. Midmarket retailers such as department stores — searching for every pocket of opportunity — will broaden offerings with niche sizing and adaptive ranges. Aspirational brands will seek to showcase their inclusive credentials through engagement with nontraditional, “body-positive” influencers and celebrities.

At the high end, we will continue to see a democratizing trend, with demand for streetwear, sneakers and casual styles eroding the traditional hierarchies of luxury. Meanwhile, younger, values-led shoppers will seek out brands that inspire and stand for something more than exclusivity and craftsmanship. Established luxury brands will have to collaborate with atypical influencers, artists and cultural leaders to tap these demands.

#### What we’ve seen so far:

- In the UK, **ASOS** and **Marks & Spencer** launched adaptive clothing ranges for consumers with disabilities in 2018.
- In 2018, **Walmart** acquired plus-size apparel brand and retailer **Eloquii**.
- **Kohl’s** announced it will launch a new plus-size private label, **EVRI**, in spring 2019.

**Top Takeaways**

Reinvention awaits physical retail in 2019. Consumers are likely to enjoy better stores and product that gets to market more quickly, as well as smarter, easier shopping experiences. But these changes will demand substantial expenditures — on flagship stores, remodeled supply chains and new technologies. In the face of sustained competition from high-growth, low-margin online rivals, brick-and-mortar retailers must stand ready to make selective deep investments that will support their fight for relevance and share of wallet.

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