



March 20, 2019

**VM GLOBAL LEADERSHIP
SUMMIT 2019**

Decoding the Consumer: The New Science of Customer Behavior

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AGENDA

1. ABOUT CORESIGHT RESEARCH
2. RETAIL IN 2019
3. RESHAPING PHYSICAL RETAIL
4. TECHNOLOGY TRENDS RESHAPING RETAIL
5. THINGS WE CAN LEARN FROM ASIA

ABOUT CORESIGHT RESEARCH

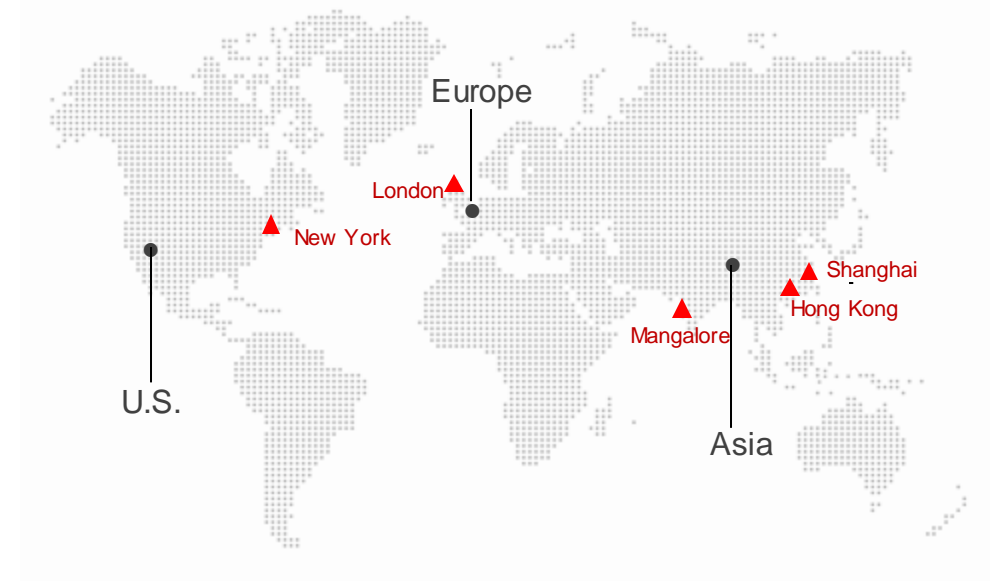
ABOUT CORESIGHT RESEARCH

CORESIGHT RESEARCH

Coresight Research is a research and advisory firm that provides actionable insights to a global network of organizations, empowering our clients to compete with new innovations at the intersection of retail and technology.

- **Our Mission:** Help clients in the retail ecosystem accelerate innovation and growth
- **Our Global Presence:** Offices in New York, London, Hong Kong, Shanghai and Mangalore (India)
- **Our Unique Link to China:** The global think tank of the Fung Group for over four years
- **Our Sector Coverage:** Apparel and footwear; beauty brands & retailers; CPG; department stores; e-commerce; European retail; food, drug and mass merchants; home and home improvement; electronics; luxury; REITs and specialty retail
- **Our Offering:** Research Membership, Advisory, Innovator Intelligence and Coresight Events

Markets and Office Locations



ABOUT CORESIGHT RESEARCH

WHAT WE OFFER



Research Subscriptions

- Global consumer, retail and technology trends
- Proprietary data and analysis
- Custom reports
- Office hours



Events

- C-Suite, key decision makers, innovators and influencers
- Forums, startup pitches, webinars, podcasts, executive learning programs, store tours, market immersion trips



Innovator Intelligence

- Connecting today's retail value chain with tomorrow's Innovators
- Curated database of over 5,000 of the most promising, forward-looking companies in the world



Strategic Advisory

- Better business decisions
- Custom roadmaps for navigating the changing retail landscape
- China market entry strategy, Alibaba/ e-commerce, the outbound tourist segment

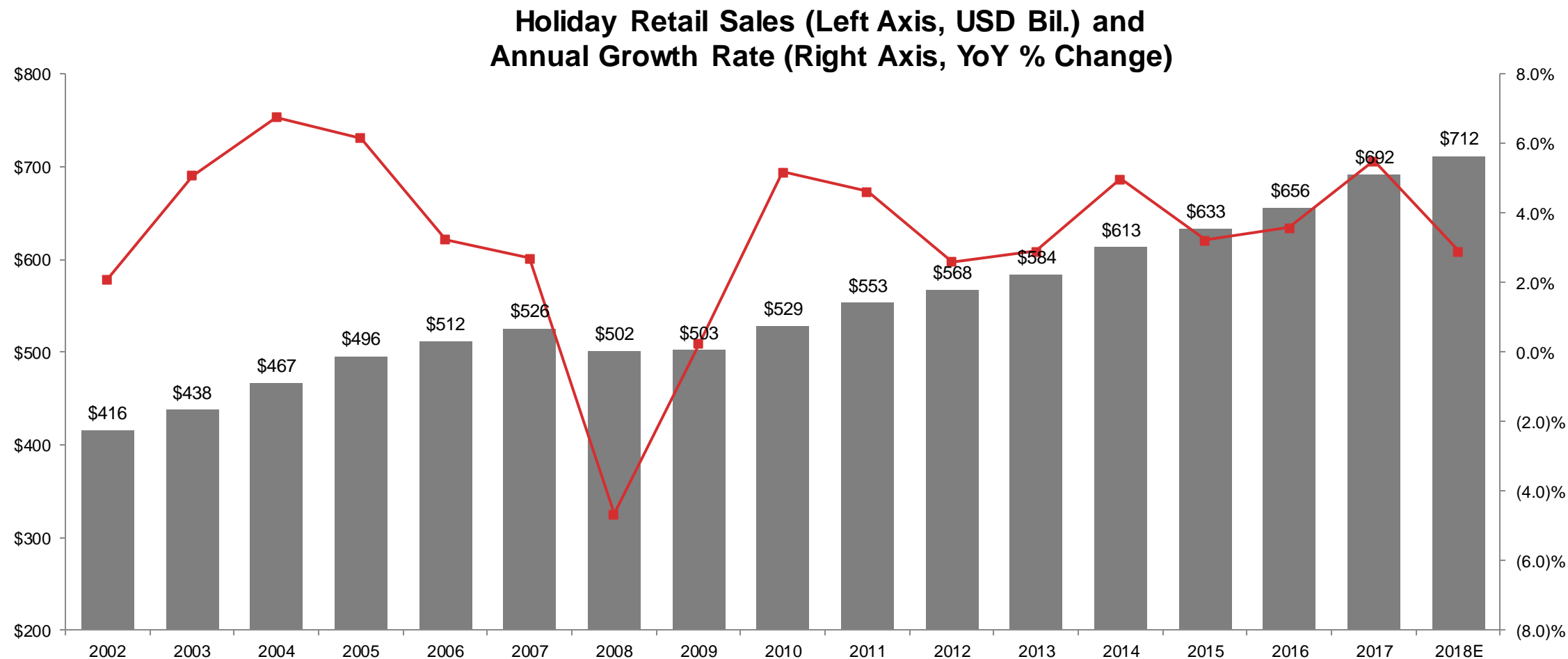
RETAIL IN 2019

1.Tepid Holiday Sales

2.Store Closures Keep Coming

3.Bankruptcies Continuing Into 2019

#1 TEPID HOLIDAY SALES: UP 2.9%, AT LOW END OF EXPECTATIONS



Source: National Retail Federation (NRF)/Coresight Research

#2 STORE CLOSURES KEEP COMING

Payless files for second bankruptcy, closing 2,500 North American stores

Sears to keep closing stores even if it survives bankruptcy

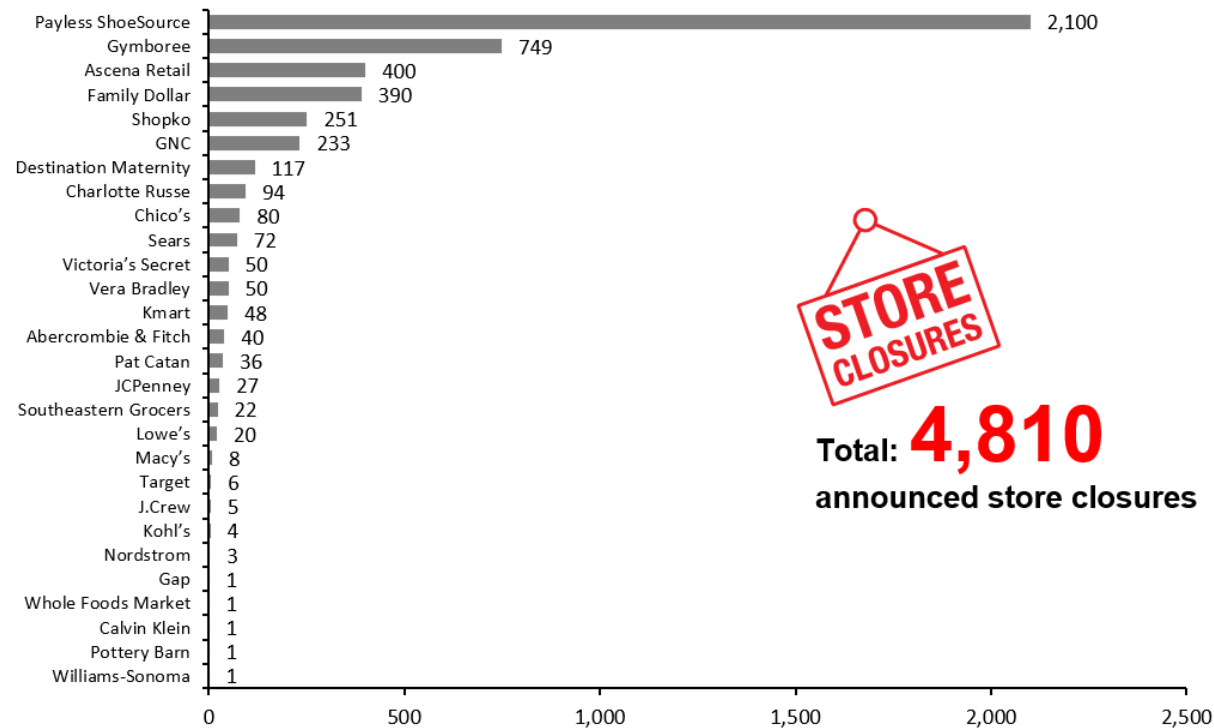
Gymboree is closing 900 stores nationwide

Gap closing roughly 230 stores

Tesla is closing stores, shifting all sales online

Dollar Tree closing hundreds more Family Dollar stores

Year-to-Date 2019 Major US Store Closures



Source: Company reports/Coresight research

#3 BANKRUPTCIES ACCELERATING IN 2019

Selected Retail Bankruptcies in 2018

Month Announced	Company
Jan	A'GCAI
Jan	Kiko USA
Feb	Bon-Ton
Feb	Tops Friendly Markets
Feb	Charlotte Olympia
Mar	Southeastern Grocers
Mar	Claire's Stores
Mar	The Walking Company
Apr	Nine West
May	The Rockport Group
July	Heritage Home Group
Aug	National Stores
Aug	Gump's Holdings
Aug	Brookstone
Oct	Mattress Firm
Oct	Sears
Nov	David's Bridal

Selected Retail Bankruptcies in 2019

Month Announced	Company
Jan	Gymboree
Jan	Shopko
Jan	Innovative Mattress Solutions
Jan	Beauty Brands
Feb	Payless Shoesource
Feb	Charlotte Russe
Feb	Things Remembered
Feb	FullBeauty Brands
Mar	Diesel USA

RESHAPING PHYSICAL RETAIL

Retailers need to offer spectacular experiences and boundaryless retail:

1. Spectacular Retail
2. Flexible Retail
3. “New” Retail & “Boundaryless Retail”
4. Frictionless Retail

#1 SPECTACULAR RETAIL

A new wave of “**Spectacular Retail**” focused on urban flagship stores.

- Companies such as RH, Tiffany, Nike are making improvements to physical flagships.
- Multi-brand retailers such as Walmart and Target are updating portfolios with refurbished environments and new in-store technology.
- Stores will be experience-rich with a huge choice of product and offering add-ons such as customization and personalization.

CORESIGHT BEST FRAMEWORK FOR BRICK-AND-MORTAR STORES

BRAND BUILDING

Stores as more than just distribution points

EXPERIENCES

Deepen engagement and drive traffic

SERVICE

Differentiate through service offerings

TECHNOLOGY INTEGRATION

Reduce the in-store data deficit to enhance service

RESHAPING PHYSICAL RETAIL

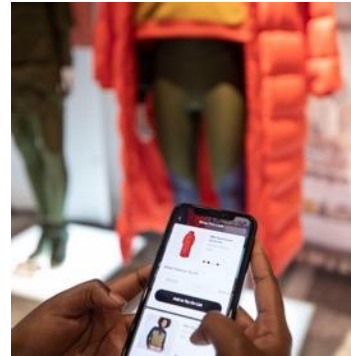
#1 SPECTACULAR RETAIL



NYC House of Innovation flagship, opened in November 2018, aims to provide an immersive experience across six floors.

The store includes:

- A “Speed Shop” that uses local data to stock its shelves, and re-stock them based on what the community wants.
- Two customization studios.
- Mobile integration across reserving, trying on, and paying for products.
- Built to change and evolve; the store is a work in progress.



Scan the code on the mannequin and shop the entire outfit, which can then be purchased immediately through Instant Checkout.



NikePlus members can reserve items on their phones, and have their products held for them at an in-store digital locker.



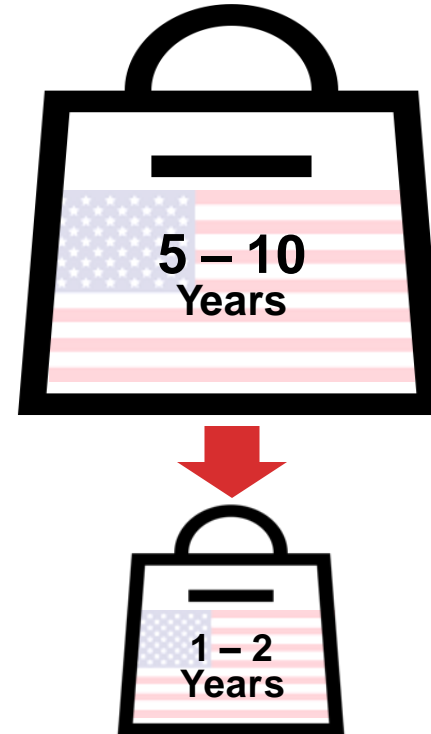
One of two studios offering customization options.

#2 FLEXIBLE RETAIL

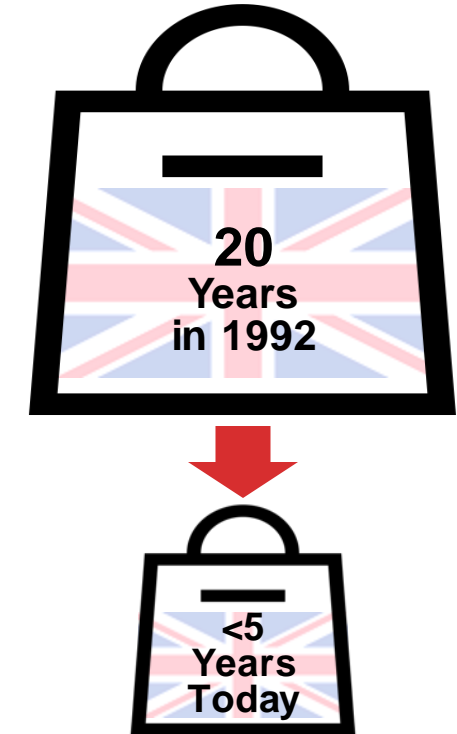
“Flexible Retail” will be marked by shorter leases, more shared spaces, and more short-term stores.

- The physical retail landscape will change at an accelerated pace.
- Shoppers will demand newness.
- Brands—including digital-first brands—will seek short-term physical touchpoints.
- Legacy retailers will look for greater flexibility across their fleets.
- Shopping malls will find new ways to repurpose and sublet space for different uses.

In the US, retailers are pushing lease renewals down



In the UK, average retail length is decreasing



Source: Bloomberg; Appear Here

RESHAPING PHYSICAL RETAIL

#2 FLEXIBLE RETAIL: “CURATORS”



Macy's has reinvented itself through tech-heavy investments and partnerships, and improving its omni-channel capabilities. Technology has improved the customer experience and minimized pain points.



B8ta builds stores that let people experience products the way their makers intended. Nine flagships and 70 shop-in-shops have been opened in its first two years.



Oxford Properties – Yorkdale Shopping Centre a remodelled wing includes modern skylights, lounge seating and fireplaces, and exciting restaurant and patio options.

Source(s): Adweek; dnainfo.com; Medium; Oxford Properties

RESHAPING PHYSICAL RETAIL

#3 “NEW RETAIL” & “BOUNDARYLESS RETAIL”

- Everything is **powered by mobile**: shoppers download the app and use their phone to shop.
- Scanning the barcode gives info on products (e.g., provenance of fresh food) and **recommendations for further purchases**.
- The app is at the center of the shopping experience: **convenience, personalization**, etc.
- Stores also act as **fulfilment centers** for mobile orders.
- Each store serves an area with a 3-kilometre radius and **delivers orders in 30 minutes**.



Source(s): Alizila.com

RESHAPING PHYSICAL RETAIL

#4 FRICTIONLESS RETAIL: UNSTAFFED STORES



Wahaha launched TakeGo, an
unstaffed c-store or
large vending machine



JD's unstaffed stores leverage
technologies such as facial and
image recognition



Bingobox applied **RFID**
(radio-frequency identification) in
its 24-hour unstaffed stores



TECHNOLOGY TRENDS RESHAPING RETAIL

1.AI

2.AR/VR/3D Enhancing The Shopping Journey

3.Computer Vision Technology In Retail

4.Healthtech Is Now For Consumers

5.Data Models To Increase Personalization

6.Using IOT To Gather In-Store Data

#1 AI – UNDERLIES ALL ASPECTS OF RETAIL ECOSYSTEM



Communication: Personalization, chatbots, voice



Optimization: Promotions, competition and dynamic pricing



Rationalized Inventory: Forecasting, planning allocation, and audits



Experiential Retail: Discover, engage, shop, pay

#1 AI – COMMUNICATION

AI IS HELPING RETAILERS IMPROVE THE CUSTOMER EXPERIENCE WITHOUT ADDING STAFF:

- Chatbots are able to understand and respond to customer requests.
- AI voice recognition can help retailers to **surface relevant content** to each consumer.
- Data is analyzed to create a customer profile, and can be compared to other, similar customers to predict preferences, make recommendations, etc.



#1 AI – OPTIMIZATION

AI ENABLES PRECISION:

- Pricing and promotions can be individually targeted based on market conditions, sales, weather, and events.
- Price decisions can be automated for each product, by channel and store.
- Optimal entry price points for newly launched products can be determined.
- AI-powered dynamic pricing to change prices rapidly in response to competition and demand.



#1 AI – RATIONALIZED INVENTORY



AI YIELDS SMARTER BUSINESS INSIGHTS:

- Identifies estimated and actual sales of products.
- Forecasts demand for items suited to each store and displayed with other items that can be cross-promoted.
- Enables automatic replenishment from warehouses.
- Identifies products that are overstocked.
- Reduces markdowns and returns.
- Redeploys staff from the backroom to the floor, where they can help customers.

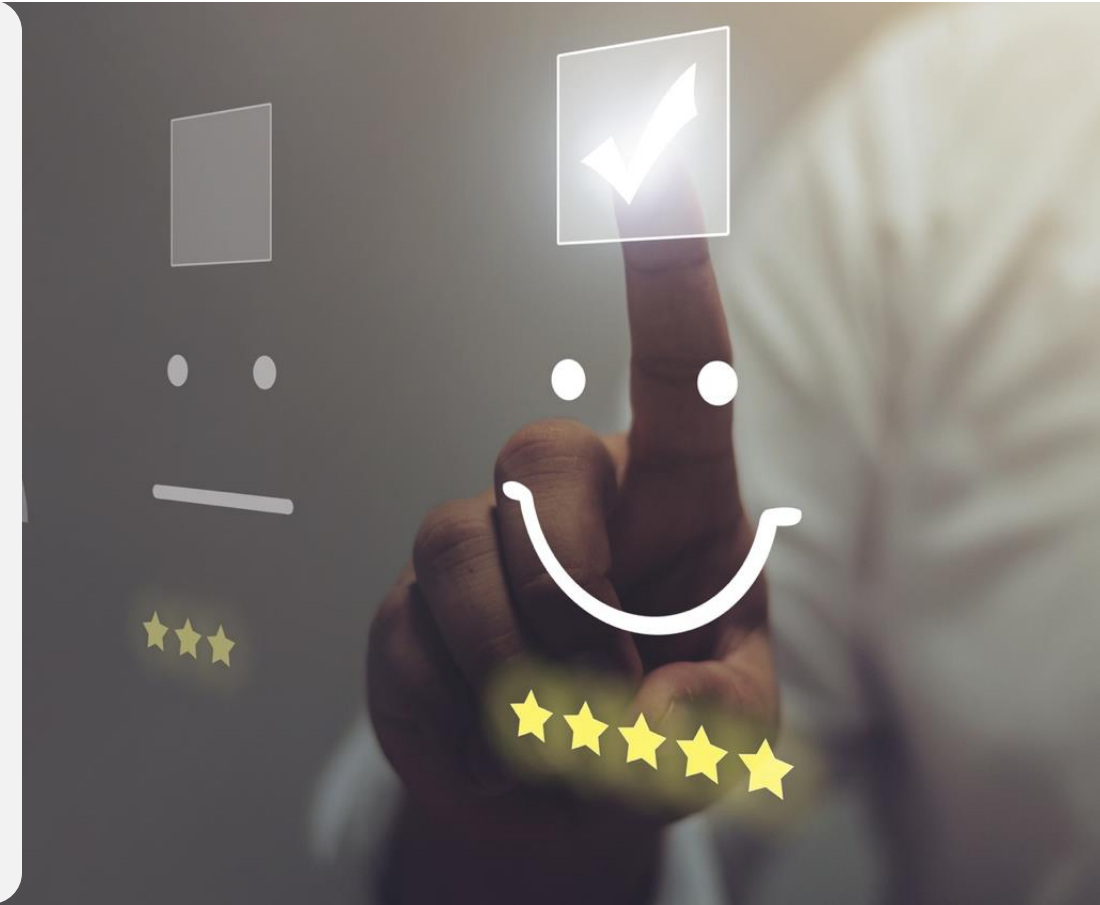


#1 AI – EXPERIENTIAL RETAIL



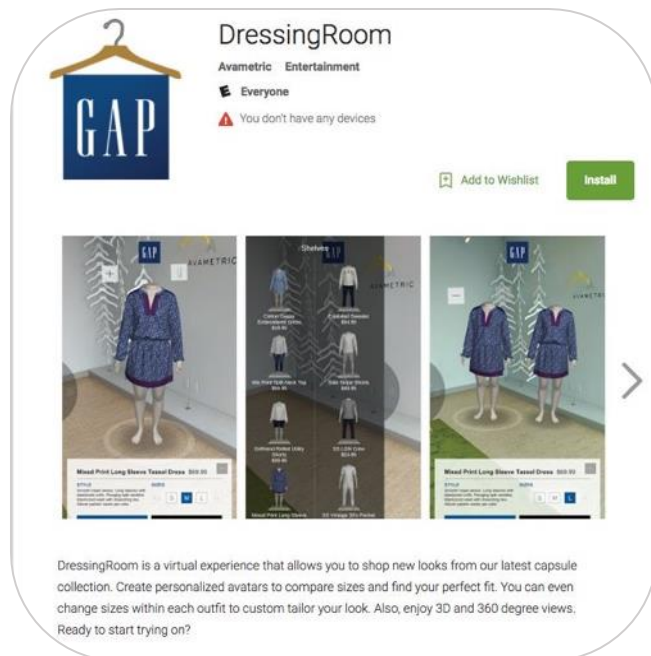
AI CREATES BETTER CONSUMER EXPERIENCES:

- Eliminates friction in the shopping process.
- Deepens engagement with customers.
- Closes the information gap between e-commerce and physical stores.
- Mobile acts as a personal assistant guiding the shopper through the shopping journey in-store.

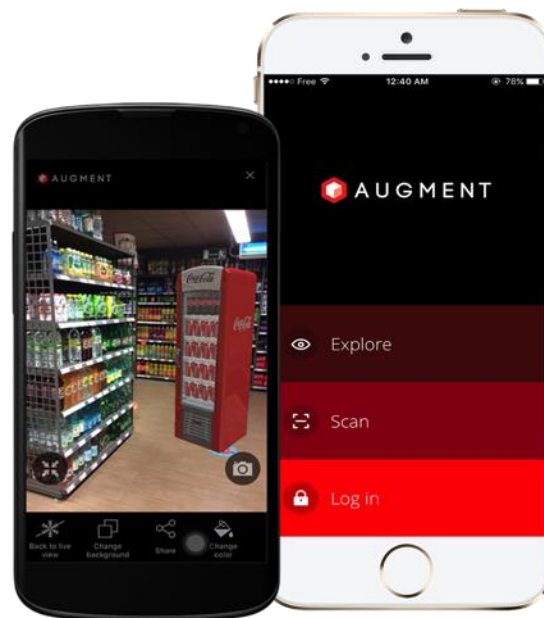


TECHNOLOGY TRENDS RESHAPING RETAIL

#2 AR/VR/3D ENHANCING THE SHOPPING JOURNEY



Avametric enables brands to build virtual dressing rooms, enabling customers to “try on” clothes at home. Shoppers enter body measurement into the app and it projects a 3D model of their body with the clothes.



Augment is a mobile app that enable users to visualize the retailer’s online catalogue through AR, in real time and in their actual size and environment.



Magic Leap, which now has received almost \$2 billion in funding and has a reported valuation of \$6 billion, is building AR hardware

TECHNOLOGY TRENDS RESHAPING RETAIL

#3 COMPUTER VISION TECHNOLOGY IN RETAIL

Retailers are using computer vision to make shopping easier and improve efficiency



Amazon Go stores use an array of cameras and sensors in the ceiling to track items consumers put into their physical shopping carts.



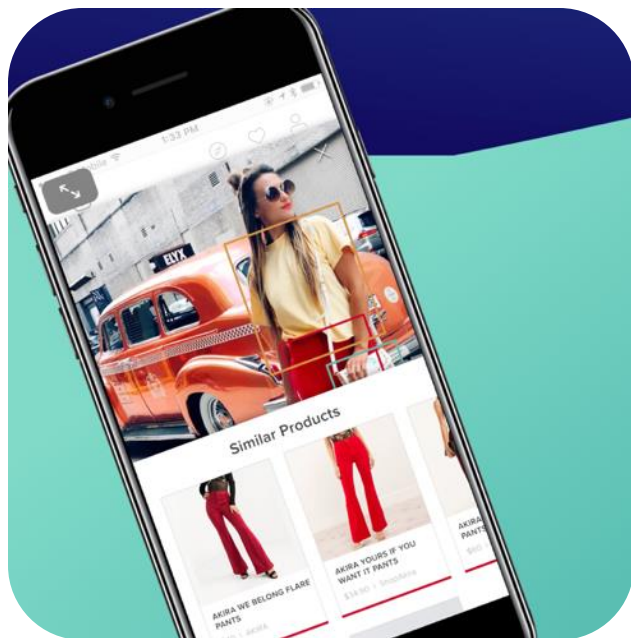
Walmart is using shelf-scanning robots from Bossa Nova to track inventory and out-of-place items.



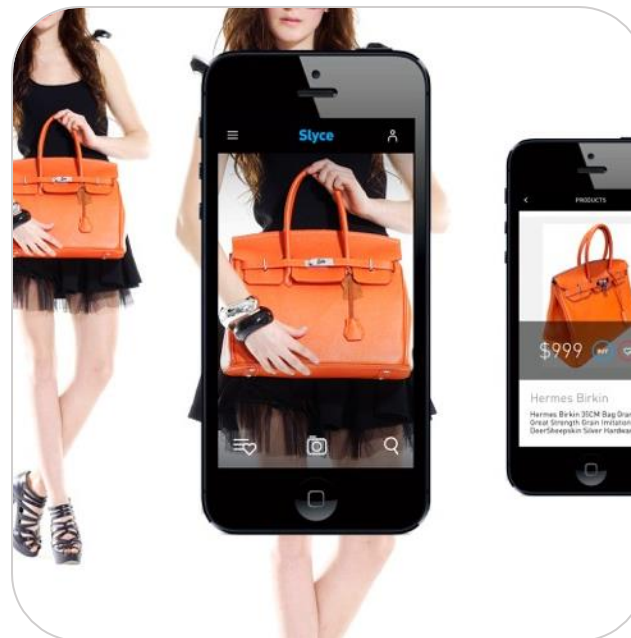
A **KFC** restaurant in China implemented “smile to pay” technology created by Alibaba.

TECHNOLOGY TRENDS RESHAPING RETAIL

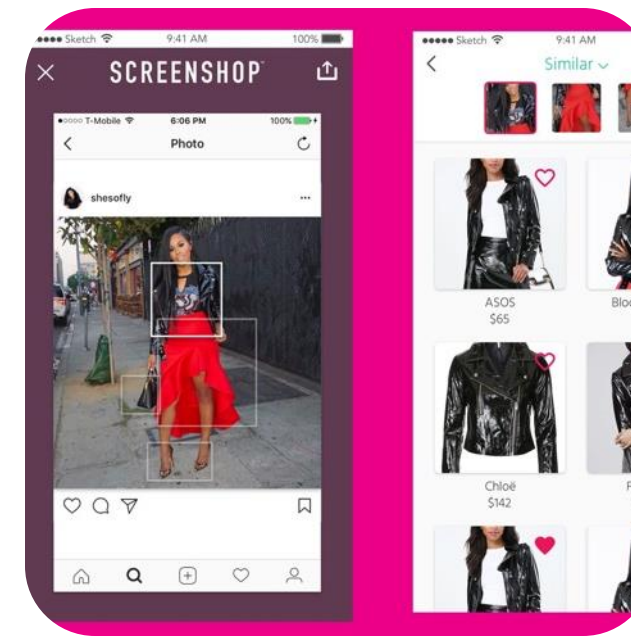
#3 COMPUTER VISION TECHNOLOGY IN RETAIL



Markable.ai, which provides computer vision-based visual-recognition application programming interfaces (APIs) and software development kits (SDKs) to brands and retailers.



Slyce, a visual recognition company, which has partnered with at least 50 companies to date, including Tommy Hilfiger.

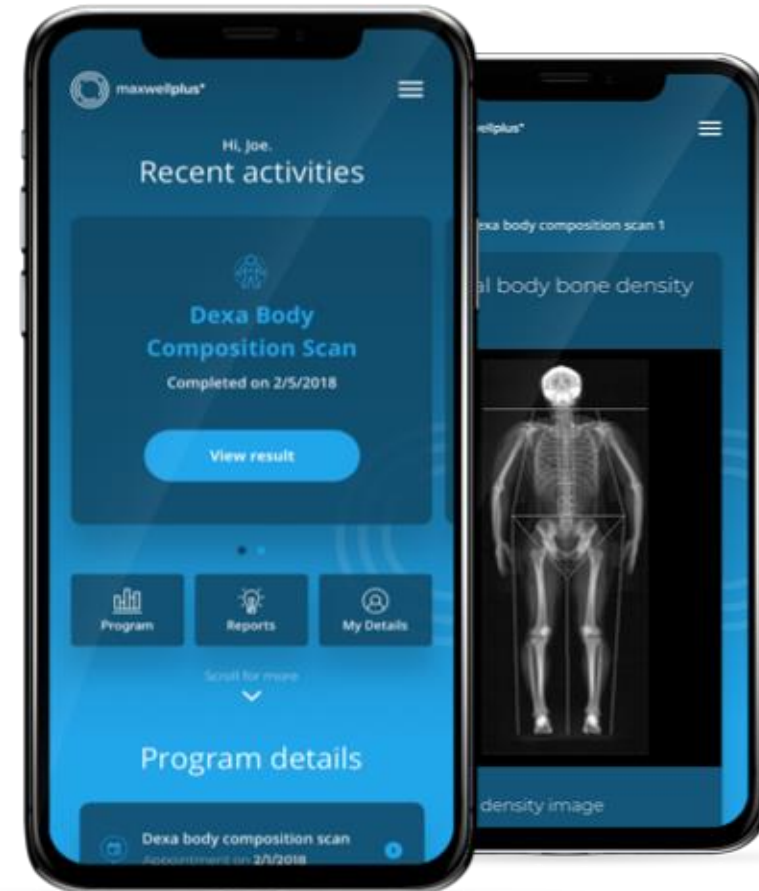


Screenshop, which offers a new solution to shop exact and similar looks from a social media feed by turning screenshots into custom catalogues of products.

#4 HEALTHTECH IS NOW FOR CONSUMERS

Healthcare is currently the most popular AI startup investment category

- AI will continue to fulfil consumers' growing expectations for quick, personalized and affordable service while providing health professionals more accurate diagnoses and deeper insights.
- **Maxwell Plus Health**, an Australian medical technology company that uses AI to combine test results from dexa body composition scans, DNA analysis, blood tests, microbiome tests, and MRIs to generate personalized health profiles and proactive health recommendations.
- **FetchMD** is an app platform that connects individuals and employers to healthcare professionals to schedule same-day house call appointments for a flat fee of \$119 per visit.



#4 HEALTHTECH IS NOW FOR CONSUMERS



Propeller Health is a U.S. tech company that has developed smart, digitally connected products that can more effectively treat chronic conditions such as asthma and COPD by helping users understand symptoms and triggers, and adhere to medication plans.

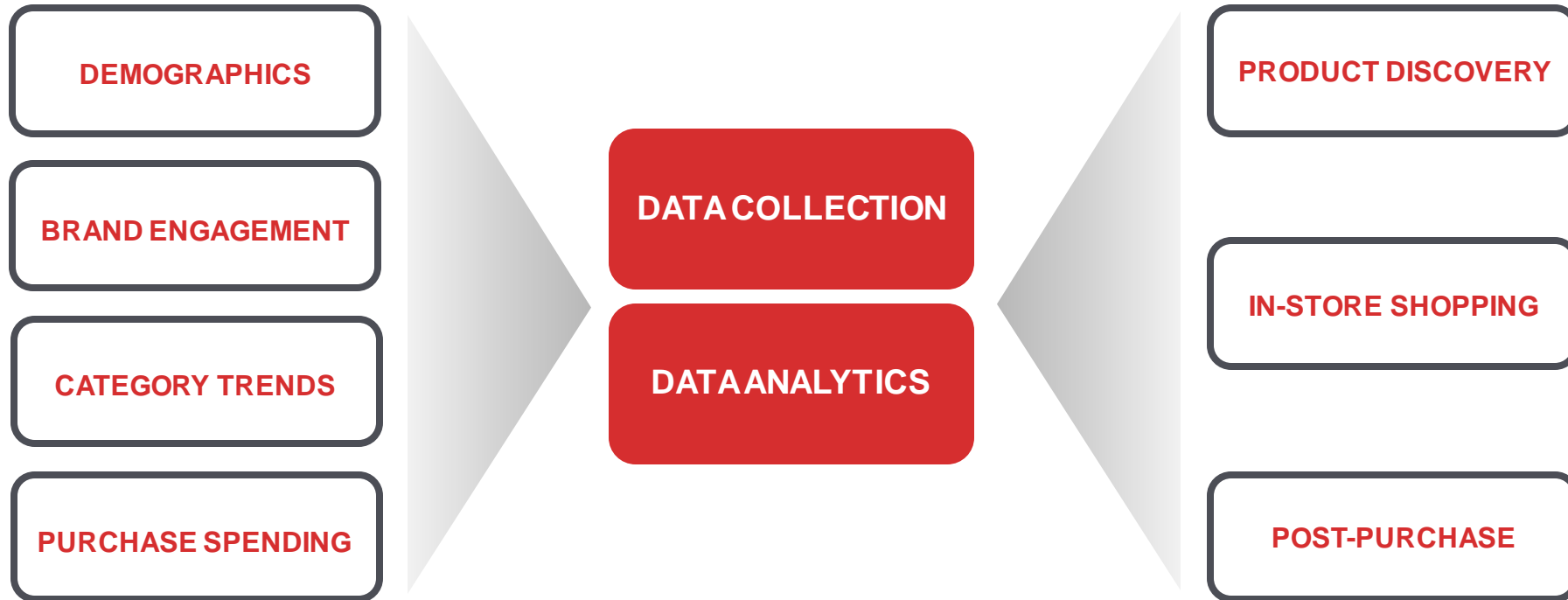


Applied VR, a Los Angeles-based company, has created a therapeutic virtual reality platform to alleviate chronic and acute pain, stress and anxiety patients may experience throughout healthcare experiences or during certain procedures.

#5 DATA MODELS TO INCREASE PERSONALIZATION

Startups are focused on data models to deliver a personalized shopping experience

- Data collection areas include demographics, brand engagement, category trends and purchase spending.
- Startups are focusing on each stage of the customer's purchase journey.



#5 DATA MODELS TO INCREASE PERSONALIZATION

Brick-and-mortar retailers are collaborating with data startups:

- Tulip is an in-store informational data provider that helps retailers deliver personalized shopping experiences and improved customer service by collecting detailed data on products, customer information and shopping habits.
- Tulip's retail clients include **Saks Fifth Avenue**, **Kate Spade**, and **Coach**.
- For post-purchase, **Tommy Hilfiger** launched a new line called XPLORE with Awear Solutions, which develops smart chips embedded in the clothes.
- The XPLORE allows wearers to earn rewards points as they navigate to different locations and collect **Tommy Hilfiger** icons. At the same time, the chips enable retailers to collect data points by tracking the product after it leaves the store.



#6 USING IOT TO GATHER IN-STORE DATA

IoT can be used to identify individuals and gather data on their location and activities within the store:

- With an influx of sensor-based technology, we also expect to see medium and small retailers implement various IoT technologies in stores.
- Small format stores, including popups, will likely showcase more innovative IoT systems, but larger format stores will likely use the most scalable and intuitive products, including beacons, RFID-enabled products and electronic shelf labels with computer vision tracking.
- IoT and NFC technology can also be used for identification and authentication in a world where computers can be hacked and passwords stolen.



Token's Ring can be used for making payments, as a house or car key, transit card or to replace passwords.

The background of the slide features a light gray geometric pattern. It includes several interlocking gears of different sizes, some solid and some outlined. There are also various hexagons and squares, some of which are nested within larger shapes. A large, faint circular arc is visible on the right side of the slide, partially overlapping the gear patterns.









THINGS WE CAN LEARN FROM ASIA

- 1. Smartphone-Connected Consumer Communities
- 2. Walletless Society
- 3. Shopping Festivals
- 4. Brand Adaptations
- 5. Retail 2.0 – New Store Formats
- 6. Marketing Trends

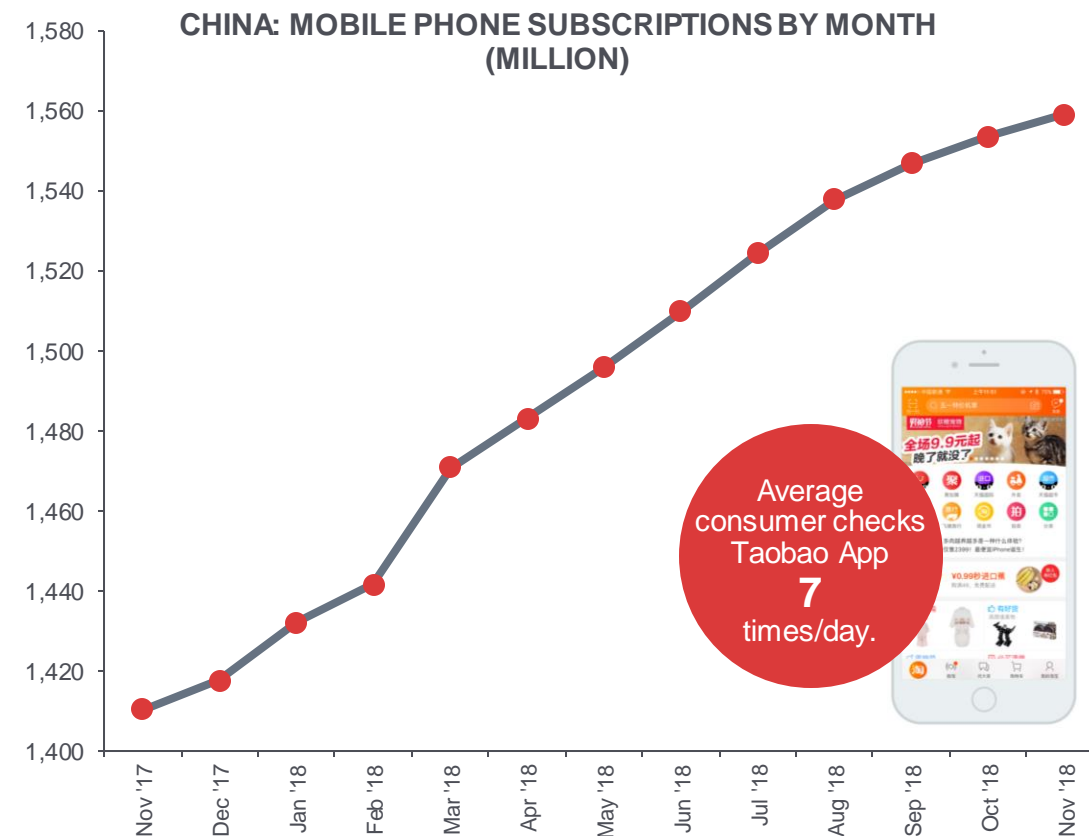
THINGS WE CAN LEARN FROM ASIA

#1 SMARTPHONE-CONNECTED CONSUMER COMMUNITITES

- **98%** of China's total internet user base are on mobile devices in 2018
- **Over 50%** of Chinese consumers shop through mobile devices on a weekly or daily basis

RANK	IMAGE	COUNTRY	TOTAL POPULATION	SMARTPHONE PENETRATION	SMARTPHONE USERS
1		China	1,415,046,000	55.3%	782,848,000
2		India	1,354,052,000	27.7%	374,893,000
3		United States	326,767,000	77.0%	251,688,000
4		Russian Federation	143,965,000	63.8%	91,865,000
5		Brazil	210,868,000	41.3%	87,172,000
6		Indonesia	266,795,000	27.4%	73,155,000
7		Japan	127,185,000	55.3%	70,327,000
8		Germany	82,293,000	78.8%	64,830,000

Source: <https://blog.euromonitor.com/ranked-top-10-digitally-connected-countries/>



Source: National Bureau of Statistics of China

THINGS WE CAN LEARN FROM ASIA

#2 WALLETLESS SOCIETY

WECHAT IS A CHINESE ALL-IN-ONE SUPER-APP

1.08B  2.3 B
 1.0 B
Monthly active users as of Q3 2018

28M/hour

Number of concurrent WeChat
Mini Game players during the
Chinese New Year

6.1B

Avg number of voice
messages sent on
WeChat each day

38B

Avg number of messages
sent on WeChat each day



34%

Of mobile app
traffic in China

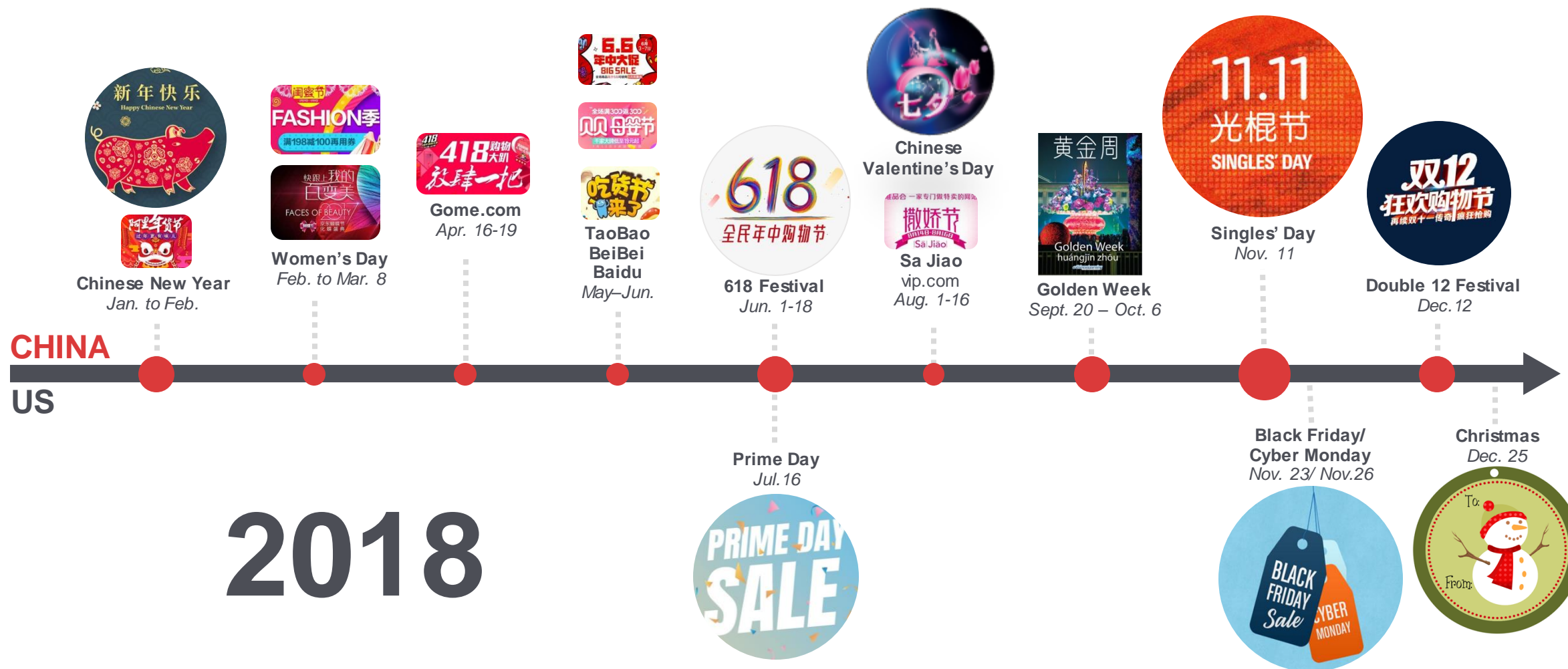
229.7B

Messages sent via WeChat

THINGS WE CAN LEARN FROM ASIA

#3 SHOPPING FESTIVALS

SHOPPING FESTIVALS IN 2018



THINGS WE CAN LEARN FROM ASIA

#4 BRAND ADAPTATIONS

TMALL INNOVATION CENTER ADAPTS BRANDS TO CHINA MARKET



New Manufacturing

A customer-to-business (C2B) approach that taps customer preferences and feedback to develop and design products

Customized

To a selected demographic of Chinese consumers that can be manufactured at scale

576Mil.

Annual Active Users
as of June 30 2018

6 Models

To forecast a product's first
year sales revenue

THINGS WE CAN LEARN FROM ASIA

#4 BRAND ADAPTATIONS



KFC: Chinese Breakfast



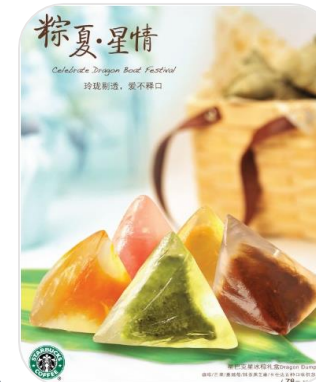
Oreo: Matcha Ice-cream



Listerine: Rosemary Blossom & Vanilla Breeze



P&G: Haifeisi Fragrance Scalp SPA Fragrance Cream"



Starbucks: Dragon Dumpling



KitKat: Sesame

THINGS WE CAN LEARN FROM ASIA

#5 RETAIL 2.0 – NEW STORE FORMATS

New Retail is integrating online and offline— accounted for **22.4% of total consumer commodity retail sales** in China in 2018

New Retail will represent 25% of consumer spending in 2019, and **reach 33% by the end of 2023**

Mobile sales via smartphone **will reach 25% of online sales by 2021** and is even higher when including mobile-influenced offline sales



THINGS WE CAN LEARN FROM ASIA

#5 RETAIL 2.0 – NEW STORE FORMATS

INTEGRATING ONLINE AND OFFLINE: ALIBABA'S "NEW RETAIL" STORE HEMA



THINGS WE CAN LEARN FROM ASIA

#5 RETAIL 2.0 – NEW STORE FORMATS

FRICTIONLESS RETAIL: UNSTAFFED STORES



Wahaha launched TakeGo, an unstaffed c-store or **large vending machine**



JD's unstaffed stores leverage technologies such as facial and **image recognition**



Bingobox applied **RFID** (radio-frequency identification) in its 24-hour unstaffed stores

THINGS WE CAN LEARN FROM ASIA

#6 MARKETING TRENDS

NEW GENERATION OF INFLUENCERS: **KOLs** (Key Opinion Leaders)

\$18.3B

Expected Size of the
KOL Economy

#KOL

Key Opinion Leader

63%

Internet Users in China
are Receptive to KOLs



Melilim Fu's makeup tutorial video, sponsored by Maybelline, passed a million views.



With over **50 million** followers, **Papi Jiang** is arguably the **biggest KOL** in China. Papi has tackled topics that resonate greatly with her **Millennial, Gen X, Gen Z** audience, from gender stereotyping to cheating boyfriends, from celebrity culture to regional dialects.



Gogoboi regularly entertains his legion of **millions of fashion-obsessed netizens** with scintillating gossip and a biting acerbic observations, while raking in, recently, major partnerships with **Cartier, Lancome** and **Burberry**.

THINGS WE CAN LEARN FROM ASIA

#6 MARKETING TRENDS

VIDEO CONSUMPTION IS CRUCIAL IN THE SHOPPING JOURNEY

20.5MIN

Average Time Spend
per User per Day

15S

Short Video

82

Videos per
User per Day

85+%

users are Post-90s
generation / Gen Z



Dou-Yin (Tik Tok)



- **Michael Kors** Launched a “City Catwalk” hash tag Challenge
- **30,000 users** posting their own 15-second catwalk videos using the hashtag



- **Pizza Hut's** campaign features on-brand motifs as the iconic red hat, sunglasses and their storefront as stickers
- The videos featuring Pizza Hut's stickers were streamed for over **1 million** times

887M

Number of downloads
to date on Google Play



150M

Daily Active Users, 66% of
Them are Female

THANK YOU

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