

# THE FUTURE OF RETAIL 2019 Top 10 Trends that Will Shape Retail in the Year Ahead

Retail is in the midst of a radical transformation. Rapidly shifting consumer habits, fast-changing technologies and challenging competitive dynamics are all occurring against an overall positive economic backdrop. As we look back on a strong 2018, we consider the 10 retail trends that will most shape the year ahead.

presented by





Dear eMarketer Reader,

eMarketer is pleased to make this report, **The Future of Retail 2019: Top 10 Trends that Will Shape Retail in the Year Ahead,** available to our readers.

This report is a great example of eMarketer data and insights that look at what to expect for the US retail and ecommerce markets in 2019, and highlights the 10 key trends that will have the biggest impact on shopper behavior and retailer performance this year.

We invite you to learn more about **eMarketer's approach to research** and why we are considered the industry standard by the world's leading brands, media companies and agencies.

We thank you for your interest in our report and **Braze** for making it possible to offer it to you today.

Best Regards,

Nancy Taffera-Santos

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## THE FUTURE OF RETAIL 2019: TOP 10 TRENDS THAT WILL SHAPE RETAIL IN THE YEAR AHEAD

Retail is in the midst of a radical transformation. Rapidly shifting consumer habits, fast-changing technologies and challenging competitive dynamics are all occurring against an overall positive economic backdrop. As we look back on a strong 2018, we consider the 10 retail trends that will most shape the year ahead.

- How much will US consumers spend on retail and ecommerce next year? We forecast that 2019 will mark another strong year for the sector, with total retail sales expected to grow 3.3% to \$5.529 trillion and ecommerce sales expected to grow 15.1% to \$605.3 billion. However, emerging economic risk factors dampen the outlook from what could otherwise be expected given the strong US labor market and rising incomes.
- Which retailers will succeed and which will struggle? The retail apocalypse will continue to threaten brick-and-mortar resulting in more store closures from traditional retailers, but it will be offset by the expanding retail footprint of direct-to-consumer brands and other niche retailers better positioned to thrive in this environment.
- Which retail innovations will reshape physical retail? Brick-and-mortar is in the midst of a radical transformation as it transitions from an inventoryled environment to a more frictionless, experiential environment. Emerging trends like cashierless checkout, pop-up stores and data-driven merchandising are causing retailers to reimagine the retail experience for modern consumers.
- Which emerging retail technologies will gain traction with consumers? Voice commerce, social commerce and augmented reality are among several up-and-coming technologies that will gain traction with consumers in 2019, but only in select use cases and category contexts.

**WHAT'S IN THIS REPORT?** This report looks at what to expect for the US retail and ecommerce markets in 2019, and highlights the 10 key trends that will have the biggest impact on shopper behavior and retailer performance in the year ahead.

	2018	2019	% change	% of total 2019 spending	% of 2019 growth contribution
Brick-and- mortar/ in-store	\$4,827.09	\$4,924.12	2.0%	89.1%	55%
Ecommerce	\$525.69	\$605.30	15.1%	10.9%	45%
Desktop	\$317.55	\$334.92	5.5%	6.1%	10%

US Retail Sales, by Segment, 2018 & 2019

Note: includes i	products or	services ord	orod usin	σ the interne	t rogardloss
Total	\$5,352.78	\$5,529.42	<b>3.3</b> %	100.0%	<b>100%</b>
-Other mobile	\$1.64	\$1.74	6.3%	0.0%	0%
—Tablet	\$57.71	\$63.49	10.0%	1.1%	3%
—Smartphone	\$148.79	\$205.15	37.9%	3.7%	32%
Mobile	\$208.13	\$270.38	29.9%	4.9%	35%
Booktop	QC 17.00	¢00∓.72	0.070	0.170	10/0

Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales Source: eMarketer, Oct 2018 243053

**KEY STAT:** US retail spending is poised for solid growth across all channels in 2019, with brick-and-mortar proving resilient while contributing more than half of overall sales growth next year.

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## MACRO FACTORS AFFECTING 2019 RETAIL ENVIRONMENT

We begin our examination of the most important retail trends for 2019 by understanding the context of the overall retail environment. The confluence of these three overarching themes for the retail sector will dictate what changes lie ahead.

## SOCIAL, ECONOMIC AND POLITICAL FACTORS

Despite a heated political climate in 2018, it had little apparent effect at the register. Consumer spending exhibited strength throughout the year across all retail channels as low unemployment, increasing wages and a booming stock market put cash in Americans' pocket.

While economic indicators remain healthy, the 2019 environment involves more sociopolitical risk factors that could produce greater volatility. Growing US budget deficits and rising economic inequality following the 2018 tax cuts are contributing to a bifurcated retail landscape where low-cost mass merchants and higher-margin specialty retailers are succeeding at the expense of mid-tier retail.

Meanwhile, with the 2018 midterm elections putting Democrats back in control of the House of Representatives, cross-party tensions could escalate and create a more gridlocked policy environment on important economic issues like tax cuts and healthcare. The Trump administration's trade wars with China are already imposing costly tariffs on various American imports, the effects of which remain largely unknown. "It can't be overstated how much we've yet to see the macro impacts of the global economic trends with tariffs," said Scott Webb, president of retail consultancy Avionos. "We're just going to expect to see the prices on those tariffs passed onto the consumers at retail checkout."

## LEGACY BRICK-AND-MORTAR AND THE RETAIL APOCALYPSE

Even before these effects are realized, many traditional brick-and-mortar retailers have fallen victim to the so-called "retail apocalypse." Stiff competition from direct-to-consumer brands and private-label offerings and declining mall traffic have chipped away at demand, while debt financing and excess real estate have put a dent in the bottom line.

"There are a lot of economic tailwinds at the moment, [but] the tide is not raising all boats equally," said Jason Goldberg, chief commerce strategy officer at Publicis.Sapient, noting that certain retail segments have "systemic challenges" whose losses are fueling others' gains.

Brick-and-mortar bankruptcies and store closures abound, with 2018 seeing storied American retailers like Toys "R" Us and Sears get caught in the undertow. As mall foot traffic steadily declines, anchor stores and mainstays like Bon-Ton and Claire's have also felt the pinch. And legacy retailers like Mattress Firm and Ascena Retail Group (owner of several women's apparel brands including Lane Bryant, Ann Taylor and Maurices) have struggled to keep pace amid the invasion of direct-to-consumer brands.

#### Top 10 US Retailers, Ranked by Store Openings vs. Closings, Jan 1-Nov 2, 2018

Openings		Closings		
1. Dollar General	900	1. Toys "R" Us	881	
2. Dollar Tree	276	2. Walgreens	600	
3. Aldi	200	3. Sears and Kmart	472	
4. Five Below	125	4. Mattress Firm	388	
5. Ulta	100	5. Ascena Retail Group	267	
6. O Bag	100	6. Bon-Ton Stores	260	
7. Ross Stores	99	7. Best Buy	250	
8. Gap	90	8. Signet Jewelers	200	
9. Walmart	90	9. GNC	200	
10. TJX Companies	87	10. Claire's	132	

Note: total store openings=2,846; total store closures=5,006;

closings/openings are calendarized to attribute them in the year in which they fell or are expected to fall, including an estimation for Ascena Retail Group, Aldi and Gap

Source: Coresight Research (formerly Fung Global Retail), "Weekly Store Openings and Closures Tracker 2018 #44," Nov 2, 2018 243019 www.eMarketer.com

Real estate has been the albatross around the neck of many brick-and-mortar retailers. The US has the most retail square footage per person of any country by a wide margin at 23.5 feet, with only Canada and Australia even in double-digits, according to Cowen and Company. With the benefit of hindsight, it would appear that recent bankruptcy casualties Sears and Mattress Firm doubled down on their physical footprints with acquisitions (Kmart in 2005 and Sleepy's in 2016, respectively) at exactly the wrong time.

Consumers today are rejecting the legacy model of inventory-led retail in favor of experience-led retail that manages to delight, entertain and inspire rather than simply to meet a functional need with product available on the shelves. Controlling distribution of inventory is much less a determinant of retailer success today than being nimble and responsive to the fast-changing preferences of modern shoppers.

## SECULAR SHIFT TO DIGITAL AND DATA-DRIVEN RETAIL

At the same time brick-and-mortar transitions to the future, consumers are adapting to digitally-enabled shopping experiences. More purchases than ever before are influenced by digital touchpoints on the path to purchase, and these engagements provide data that informs inventory management, merchandising and shopper experience.

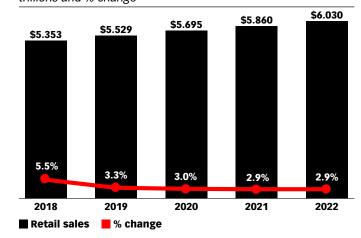
Effective application of customer data has become a required core competency for retailers that want to thrive. It is the surest path to reducing costs, providing what the customer wants, marketing most effectively and accessing new revenue streams.

Consumer habits are changing as a result of data and technology-enabled shopping interactions. Rarely do these behaviors change overnight, but as technologies infiltrate the public consciousness and mainstream consumers adapt, the long-term implications for retail are profound.

### EMARKETER 2019 RETAIL AND ECOMMERCE FORECAST

US retail sales will maintain solid growth in 2019 due to the overall favorable economic backdrop. We expect total US retail sales to grow 3.3% to \$5.529 trillion-not as strong as 2018, but still very healthy.

#### US Retail Sales, 2018-2022 trillions and % change



Note: excludes travel and event tickets, payments (such as bill pay, taxes or money transfers), food services and drinking place sales, gambling and other vice good sales Source: eMarketer, Oct 2018

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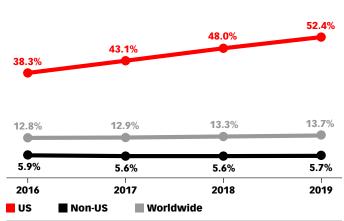
The strongest growth in retail will continue to come from digital channels. Retail ecommerce sales are expected to climb 15.1% for the year to \$605.3 billion. Mcommerce will fuel much of this growth with an anticipated jump of 29.9% to \$270.4 billion. Smartphone commerce will eclipse \$200 billion for the first time, on its way to accounting for three out of every four dollars in mcommerce spending.

2016	2017	2018	2019	2020	2021	2022
\$391.0	\$453.2	\$525.7	\$605.3	\$692.1	\$788.6	\$893.4
14.9%	15.9%	16.0%	15.1%	14.3%	13.9%	13.3%
\$4.471	\$4.621	\$4.827	\$4.924	\$5.003	\$5.072	\$5.137
1.9%	3.3%	4.5%	2.0%	1.6%	1.4%	1.3%
\$4.863	\$5.074	\$5.353	\$5.529	\$5.695	\$5.861	\$6.030
2.9%	4.3%	5.5%	3.3%	3.0%	2.9%	2.9%
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	\$391.0 14.9% \$4.471 1.9% \$4.863 2.9% vel and e ood serv les	\$391.0 \$453.2   14.9% 15.9%   \$4.471 \$4.621   1.9% 3.3%   \$4.863 \$5.074   2.9% 4.3%   vel and event tick bod services and	14.9% 15.9% 16.0%   \$4.471 \$4.621 \$4.827   1.9% 3.3% 4.5%   \$4.863 \$5.074 \$5.353   2.9% 4.3% 5.5%   vel and event tickets, pay pod services and drinking les 4.3% 5.5%	\$391.0 \$453.2 \$525.7 \$605.3   14.9% 15.9% 16.0% 15.1%   \$4.471 \$4.621 \$4.827 \$4.924   1.9% 3.3% 4.5% 2.0%   \$4.863 \$5.074 \$5.353 \$5.529   2.9% 4.3% 5.5% 3.3%   vel and event tickets, payments s pod services and drinking place s les services and drinking place s	\$391.0 \$453.2 \$525.7 \$605.3 \$692.1   14.9% 15.9% 16.0% 15.1% 14.3%   \$4.471 \$4.621 \$4.827 \$4.924 \$5.003   1.9% 3.3% 4.5% 2.0% 1.6%   \$4.863 \$5.074 \$5.353 \$5.529 \$5.695   2.9% 4.3% 5.5% 3.3% 3.0%   vel and event tickets, payments such as b pod services and drinking place sales, gat les 5.5% 3.3% 3.0%	\$391.0 \$453.2 \$525.7 \$605.3 \$692.1 \$788.6   14.9% 15.9% 16.0% 15.1% 14.3% 13.9%   \$4.471 \$4.621 \$4.827 \$4.924 \$5.003 \$5.072   1.9% 3.3% 4.5% 2.0% 1.6% 1.4%   \$4.863 \$5.074 \$5.353 \$5.529 \$5.695 \$5.861   2.9% 4.3% 5.5% 3.3% 3.0% 2.9%   vel and event tickets, payments such as bill pay, t pod services and drinking place sales, gambling a les sambling a sambling a

The largest overall dollar contributions to ecommerce growth in 2019 will come from computers and consumer electronics (\$16.37 billion) and apparel and accessories (\$14.81 billion). However, the fastest growing ecommerce categories will be food and beverage (up 17.9%), health, personal care and beauty (up 17.2%), and furniture and home furnishings (up 17.1%). The US ecommerce market in 2019 will once again be dominated by Amazon, which for the first time will fuel more than half of ecommerce spending. Total ecommerce sales at the retail giant will approach \$317 billion, good for 52.4% of the market.

#### Amazon Share of Retail Ecommerce Sales Worldwide, US vs. Non-US, 2016-2019

% of total retail ecommerce sales\*



Note: includes products ordered using Amazon.com or international Amazon platforms (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets, Amazon Web Services (AWS) sales, advertising services and credit card agreements; \*% of total sales in each geography; e.g., in 2016, US Amazon sales comprised 38.3% of total US retail ecommerce sales and in non-US countries, Amazon comprised 5.9% of total non-US retail ecommerce sales Source: eMarketer, Nov 2018

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## TOP 10 TRENDS THAT WILL SHAPE THE FUTURE OF RETAIL IN 2019

Retail is undergoing a series of dramatic changes, but it can sometimes be difficult to separate the substance from the hype. While brands and retailers can't ignore long-term shifts and must anchor their thinking in the future, it's critical to focus strategies and prioritize execution on what's most likely to materialize over the near-term to midterm future. With that in mind, here are the 10 retail trends we believe will most shape retail business and consumer behavior in the year ahead.

## TREND NO. 1: DIRECT-TO-CONSUMER BRANDS WILL GO FROM CLICKS TO BRICKS

Emergent ecommerce brands' ability to go direct-toconsumer via the internet comes with many advantages. Barriers to entry are low, there's no need for huge capital investment in real estate, and the ability to quickly reach a global customer base through targeted digital ads has never been easier. As many brick-and-mortar retailers failed to keep pace with changing customer shopping habits, legacy retail brands struggled to innovate or simply became stale. This created an opening in the market for fresh new brands to capitalize on unmet customer needs, reduce retail friction and take advantage of current industry economics.

Warby Parker created a brand around the increasingly popular "hipster chic" aesthetic, significantly undercut the eyewear industry's inflated prices with fashionable \$99 prescription frames, and let customers try out new frames and get them delivered without ever needing to leave the comfort of their home. Casper pioneered the mattress-in-a-box concept with an innovative foam design that easily compress into a box that could be shipped to your door at price points beginning well below \$1,000. Perhaps that's why a recent YouGov survey found that 40% of US consumers expect that more than 40% of their spending will go toward direct-to-consumer brands in the next five years.

#### How Much Do US Internet Users Expect to Purchase from Direct-to-Consumer (D2C) Companies in the Next 5 Years?

% of respondents, Aug 2018

1%-19% of purchases	36%
20%-39% of purchases	24%
40%-59% of purchases	22%
60%-79% of purchases	13%
80%-100% of purchases	5%
Note: ages 18+	

Source: Diffusion, "2018 Direct-to-Consumer Purchase Intent Index" conducted by YouGov, Oct 4, 2018 241963

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The well-documented online success of these brands is only the first part of this story. Digitally native brands are now landing and expanding their brick-and-mortar footprints at a furious pace, with 850 stores expected to open over the next five years, according to commercial real estate firm JLL. They are investing in a future where consumers want to align with these brands, whether that's online or at physical retail. Direct-to-consumer brands have positioned themselves to capture this growing demand wherever and however their customers like to shop. Unencumbered by legacy store footprints and physical infrastructure, they can use a more laser-guided approach to real estate selection. According to JLL, the average clicks-to-bricks store in the US is more than 2,800 square feet. By comparison, the average US store location in 2017 was more than 8,800 square feet, according to Euromonitor International.

"Brands today don't have to think like brands yesterday ... [and] try to open 47,000 stores," said Aaron Magness, CMO of Brandless, a direct-to-consumer packaged goods company. Instead, they should opt for "smart, strategic locations where you can truly interact ... where you can give people the sensory appeal, learn from your customer and really build that community."

## TREND NO. 2: POP-UP STORES WILL Retool retail to capture demand

Merchants might be downsizing bloated real estate footprints, but they're still relying on a physical presence to capture consumer demand. The combination of healthy consumer spending and cheap retail square footage has driven a number of retailers to try pop-up stores. "Brick-and-mortar's definitely not going away," said Erin Jordan, senior director and partner at Walker Sands Communications. "It's just shifting into more experience-led opportunities, and that looks different for every store."

Once a pillar of primarily seasonal retailers—think Halloween costumes and Christmas decorations pop-ups are now being used by some of the trendiest names in retail. Direct-to-consumer beauty brand Glossier recently hosted a pop-up concept in Chicago that attracted droves of Gen Z and millennial brand enthusiasts to come and try makeup and skincare products. "People were going crazy for it because they already like the products [they've encountered online]," Jordan said.

Meanwhile, Brandless recently unveiled its own pop-up concept in New York. Behind its push into pop-ups specifically, and physical retail more broadly, is the desire to be close to its customers. "Brands today ... want to have real relationships [with their customers]," Brandless' Magness said, noting that having a physical presence gives customers a chance to sample products, provide feedback and build community. "Whether [brands] just do pop-ups here or there, or very quickly jump into permanent physical stores, physical interactions will be a big deal for ecommerce companies."

Today's pop-up shoppers are not your traditional brick-and-mortar shoppers, and that's what makes them such a prize. These digitally-inclined shoppers are often much tougher to lure into stores. A 2018 Euclid study indicated that 50% of shoppers interested in checking out pop-up stores pay for monthly subscription boxes and 38% shop online every week, while just 29% prefer the traditional brick-and-mortar shopping experience.

#### US Internet Users Who Are Likely to Check out a Pop-Up Store, by Shopping Habits/Preferences, March 2018

% of respondents

	50%
Shop digitally wee	kly
	38%
Prefer the traditio	nal brick-and-mortar shopping experience
	29%

Note: ages 18+; in the next year; read as 50% of respondents who subscribe to monthly subscription boxes are likely to check out a pop-up store Source: Euclid, "The Store of the Past Meets the Shopper of the Future: Can

Retailers Adapt to Modern Consumer Expectations?<sup>th</sup> April 11, 2018 236880 www.**eMarketer**.com

Perhaps that's also why we see the similar trend at traditional brick-and-mortar retailers inviting digital-first brands to open a "store within a store." Walgreens has partnered with Birchbox, Target with Casper, and even Macy's with Facebook's small business pop-up shops featuring products from hundreds of the "most-loved brands" on Instagram. The luster of these newer, more innovative brands can provide a halo effect for the merchants that partner with them, and these upstart brands get the benefit of increased brand exposure and a low-cost, low-risk means of putting their products directly in front of consumers.

With the glut of available real estate and surprising receptivity to pop-up concepts from younger consumers, the trend remains hot despite "frankly being funded by a number of retail closures," Avionos' Webb said. He cautions that while standalone pop-ups are an interesting trend, it is also not likely to be the new normal for retail. "It's something that probably rationalizes over the next couple years," he said. But for now it's getting the younger generation excited about retail, and the trend shows no signs of slowing down.

## TREND NO. 3: CASHIERLESS CHECKOUT WILL SPEED UP BRICK-AND-MORTAR

Amazon's recent foray into brick-and-mortar picked up steam in 2018 with the introduction of Amazon Go locations in Chicago, San Francisco and Seattle. Part-convenience store, part-grab and go meals, this innovative store concept is built on a series of technologies to virtually eliminate friction at checkout. In fact, there is no checkout. Customers scan their mobile app at entry and can then select any item from the shelves and simply walk out of the store. A sophisticated camera and sensor system allows Amazon to link the app-authenticated customer with the items selected from the shelf to properly credit their account.

Other retailers have experimented with cashierless checkout but typically in the form of scan-as-you-go technology or cashierless kiosks that still put the onus on the customer to scan individual items. Amazon's technology removes that obligation on the part of the shopper.

The economic opportunity of frictionless checkout is significant. According to Usabilla, 22.5% of US digital shoppers cited long checkout lines as the primary reason for leaving a physical store without making an intended purchase–second only to not being able to find the product they were looking for.

#### Primary Reason that US Digital Shoppers Have Left a Physical Store Without Making a Purchase They Had Intended to Make, April 2018 % of respondents



Note: ages 18+; numbers may not add up to 100% due to r Source: Usabilla, "Retail Nightmares," June 18, 2018 238915

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Perhaps unsurprisingly, consumers are palpably excited about this flavor of cashierless checkout. According to RIS News, grab and go stores with mobile self-checkout rated as the most sought after shopping technology among digital buyers, with 59% of survey respondents indicating their interest.

#### What New Shopping Options/Technologies Would US Digital Buyers Like to Use? % of respondents. May 2018

Grab-and-go stores with self-			in using
heckout from your phone	59%	9%	32%
nteractive, shoppable screens	56%	6%	38%
Iome delivery	45%	8%	47%
Order-only stores (products only shipped to your home)	44%	23%	33%
rirtual (computer-generated) ry-on for glasses, clothing, eauty, etc.	43%	4%	53%
AR in a store (e.g., overlay urniture on floor plan)	40%	3%	58%
emote services (e.g., using nteractive screens/displays)	38%	9%	53%
n-home product order outtons so you never run out	38%	5%	57%
orone delivery	38%	2%	60%
ubscription orders of hopper-selected products egularly delivered	36%	15%	49%
ubscription products selected or me regularly delivered	31%	12%	57%
Ordering while in a smart car connected to the internet	29%	3%	68%
obot services in stores	28%	2%	70%
/R in a store (e.g., using VR to ee different environments)	36%	2%	72%

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This technology may be more conducive to certain shopping contexts than others. According to Ethan Whitehill, managing director at Sandbox, "For task-oriented shopping, like grocery shopping, grab and go, convenience stores, drug stores, those categories are great for frictionless [shopping], where it's more about getting in and out and less about the experience."

Retailers trying to keep pace with Amazon Go will drive checkout innovation in 2019. 7-Eleven announced it is rolling out a mobile self-checkout feature to 14 stores in the Dallas area that will allow customers to bypass the register. Walmart-owned Sam's Club has announced plans for a new concept store, Sam's Club Now, focused on grocery and grab and go offerings. The store will function as a laboratory for new in-store innovations like mobile scan-and-go, self-service returns and digital price tags. Jamie lannone, CEO of SamsClub.com, said in a blog post announcing the company's effort, "You can expect to see a new level of convenience at this facility, and the technologies we use will continue to evolve." Customers will also be able to prepopulate their grocery list on their mobile app and leverage in-store wayfinding technology to efficiently navigate the aisles. "The No. 1 guestion we get from our members in the club is: 'Where is an item?'" he said.

Reducing friction is the name of the game for task-oriented retail, and efforts like 7-Eleven's self-checkout and Sam's Club Now illustrate how seriously brick-and-mortar retailers are taking this challenge. Amazon Go was not the spark that ignited these competing efforts, but it has almost definitely accelerated their timeline.

## TREND NO. 4: DATA-DRIVEN MERCHANDISING WILL MAKE RETAIL **MORE RELEVANT**

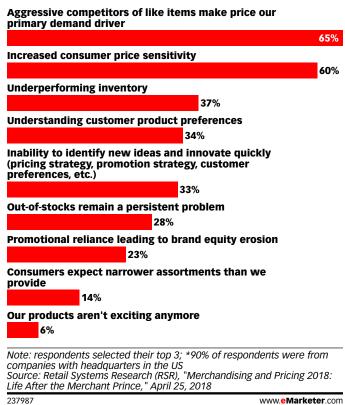
Physical retail's technological transformation has given retailers more data than ever before to better understand their consumers. Digital storefronts for shopping and searching, ratings and reviews, and buying and returns all leave behind trails of data, but that doesn't always immediately translate into insights. Many retailers are only now developing the competencies and practices to put this data into action.

Amazon's second big brick-and-mortar concept to debut this year, Amazon 4-star, brought data-driven merchandising to life by featuring the most popular, highest rated and trending products according to a store's specific geography. By using data to give customers exactly what they want and relying less on a merchandiser's individual whims, the retail experience becomes more relevant and engaging while assisting with new product discovery.

Retailers are still grappling with merchandising. A Retail Systems Research (RSR) survey indicated that while price considerations top the list of merchandising challenges, managing inventory according to customer demands were also significant issues: 37% cited underperforming inventory, 34% cited understanding customer preferences and 33% cited inability to discover new ideas.

This is exactly where data can help fill the gaps. "Algorithms are getting exponentially better and, at best, humans are getting linearly better," Publicis Sapient's Goldberg said. "At some point the software's going to be overwhelmingly better than the people in picking the merchandise."

#### **Business Challenges Around Merchandising and** Pricing According to US\* Retailers, Feb 2018 % of respondents



Other digitally-native brands are data-first enterprises and have built their customer experience around that. "One of the great things about being a direct-to-consumer brand is we know so much more about our customer than you would if you [only] had a store," said Josh Wolff, vice president of customer at intimate apparel brand ThirdLove. "It gives us this extraordinary luxury to really personalize for the customer. ... We also use our data to make sure that we know which products are most popular with consumers."

Wolff recalled an instance where observing a spike in returns at one end of the sizing range for a certain bra style allowed the company to discover that the underwire was causing discomfort at that size. ThirdLove was able to quickly identify the problem, retool the product and re-release it to the market.

Leveraging data to make shopping less of a chore, give customers exactly what they want and keep them happy builds stronger retail brands with more loyal customers.

## **TREND NO. 5: SMARTPHONE COMMERCE** WILL ACCELERATE THROUGH STREAMLINED APP EXPERIENCE

Mobile has been the undisputed growth channel for commerce the past few years, and 2019 is shaping up no differently. Increasingly, mcommerce will be driven by smartphones, which we expect to grow 37.9% year over year and will account for 76% of mobile spending. Smartphones have long since overtaken tablets in driving mcommerce sales-despite converting at approximately half the rate (1.61% vs. 3.28% in Q2 2018), according to Monetate.

#### **US Retail Ecommerce Performance Metrics: Conversion Rates**

by device, Q2 2017-Q2 2018

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Desktop/laptop	3.98%	4.06%	4.52%	3.88%	3.91%
Tablet	3.06%	3.13%	3.69%	3.07%	3.28%
Smartphone	1.31%	1.29%	1.63%	1.52%	1.61%
Other	0.20%	0.21%	0.23%	0.16%	0.07%
Total	<b>2.62</b> %	<b>2.56</b> %	<b>2.96</b> %	<b>2.60%</b>	<b>2.63</b> %
Note: represents activity on Monetate's network, broader industry metrics may vary Source: Monetate, "Ecommerce Quarterly Report: Q2 2018," July 31, 2018					
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That said, smartphone conversion rates are rising and incremental mobile dollars in 2019 will come from subtle vet meaningful improvements in the smartphone app experience. According to Adobe, the last purchasing step-from cart to order-is 20% lower on smartphones than desktops. Bringing this metric to parity with desktop represents \$9 billion in potential mcommerce spending during the 2018 holiday season, a 7.3% increase that translates to an additional Cyber Monday's worth of sales.

#### US Retail Ecommerce Performance Metrics Conversion Rate, Desktop/Laptop vs. Smartphone, Jan-Sep 2018

Desktop/laptop	43%
Smartphone	33%
Note: represents activity on Adobe's platform	proader industry metrics

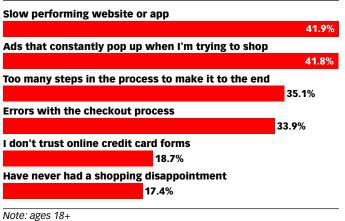
may vary; read as 43% of people who added an item to their cart via desktop placed an order Source: Adobe, "Retail Unwrapped: 2018 Holiday Predictions Report," Nov 1.2018 243005

www.eMarketer.com

These improvements can't come soon enough: Mobile shoppers are frustrated with latency. According to an Instart Logic survey conducted by Propeller Insights, the biggest disappointment experienced by US internet users while shopping online is a slow performing website or app.

#### **Disappointments US Internet Users Have Experienced** While Shopping Online, Jan 2018

% of respondents



Source: Instart Logic survey conducted by Propeller Insights, Feb 14, 2018 235592 www.eMarketer.com

The good news is that mobile shopping is primed for major improvements next year. Advances in retail app personalization are going to remove unnecessary steps from the shopping process and make sure customers don't have to begin each new engagement from square one.

Michael Langguth, co-founder and COO of mobile app commerce platform Pog, believes there's still low-hanging fruit with apps, such as user-submitted information. "The difference is it's a departure from the web, which is inherently built to be anonymous, to an app, which is inherently built to be personalized to you." In the same way that Uber remembers your home and other routine destinations, he said, commerce apps can commit to memory customer specifications like size, fit and shipping preferences.

Removing steps can be an effective way to increase conversion, but so can streamlining transition time between steps. And recent upgrades to smartphone hardware and network speeds should make material improvements to this performance vector. Langguth suggests that we've not yet seen the full benefits of the summer 2018 introduction of Apple iOS 12, which focused on making apps faster and more responsive. Along with the early phases of 5G mobile network roll-outs planned for 2019, shoppers will begin experiencing step change improvements to latency that bode well for smartphone commerce. "If you can make the actual speed faster," Langguth said, "that's the holy grail of mobile shopping."

## TREND NO. 6: SOCIAL COMMERCE WILL HAVE A REVIVAL AS USE CASES FINALLY EMERGE

In the early days of social commerce, many salivated over its potential. Predicated on the idea that as conversation moved to platforms like Facebook and Twitter, and the fact that so many people followed brands on these platforms, of course they would be inclined to organically converse about these brands. And this word-of-mouth activity would translate into product sales. However, because users weren't spending time on those platforms with this intent in mind, it's perhaps not surprising in retrospect that this incarnation of social commerce never quite took off.

Fast forward to today and for the first time we are seeing legitimate green shoots in social commerce–albeit not on the platforms we had originally expected. Instagram, Pinterest and Snapchat–all platforms that originated in 2010 or later–emerged as the next generation social media, all designed around a more visually-oriented experience.

"When it comes to product purchases, it's natural for people to want to see things visually, have a better understanding of what the product looks like, and how it fits," said Sanjay Tamhane, digital marketing intelligence manager at Nike. "The growth of Instagram, and to a lesser extent Pinterest, over the past five years or so has really helped address that need, enabling people to feel inspired and more comfortable about their purchases before actually buying." The visual aspect of these platforms offers a more hospitable, well-lit environment for shopping, making the branding benefits pretty clear for lifestyle brands. They also function as discovery platforms, driving serendipitous encounters with interesting styles, trends and brands that can create incremental shopping demand. According to Cowen and Company, nearly 30% of Facebook, Instagram and Pinterest users in the US said they had purchased a product from a brand they discovered on the platform.

#### US Internet Users Who Have Purchased\* a Product from a Brand/Business They Discovered via Select Social Media Platforms, by Age, Dec 2017 % of respondents in each group

	Facebook	Instagram	Pinterest	Snapchat	Twitter
18-24	32%	34%	28%	21%	25%
25-34	38%	37%	32%	26%	32%
35-44	34%	24%	31%	25%	22%
45-54	26%	17%	22%	13%	14%
55+	15%	8%	15%	20%	4%
Total	30%	<b>29</b> %	<b>28</b> %	23%	<b>22</b> %

Note: n=2,700; \*over the past 3 months Source: Cowen and Company, "Gen Z and Millennials Reshape Apparel, Footwear, and Accessories" conducted by Dectiva, March 8, 2018

Combined with consumers' desire for immediate gratification, the enormous power of influencers and trust in friends, Tamhane believes social commerce has finally found its groove. "Looking forward, it will continue to play a very influential role in the path to purchase, but it remains to be seen in the US exactly where the transactions will take place. Is it going to be on the platforms themselves, or on the retailers' and brands' sites?"

Indeed, many potential customers harbor reservations about buying directly on social media platforms. According to a 2018 survey by digital commerce consultancy Sumo Heavy, the top concern cited among US internet users about making purchases on social media was security (71%), followed by privacy (65%) and purchase legitimacy (64%). With Facebook caught in the privacy cross-hairs throughout 2018, consumers may now be even less willing to fork over their customer data.

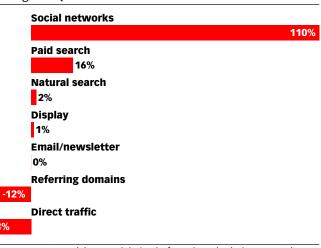
#### What Concerns Do US Internet Users Have About Making Purchases Through Social Media? % of respondents, May 2018

Security (credit card information, banking info, etc.) 71.1% Privacy (personal information, shopping history, etc.) 65.0% Legitimacy (you're not sure if you're making a valid purchase) 64.0% Customer support (no one is there to help or assist you) 36.2% Familiarity (you're not sure how it works) 20.0% Awareness (you're simply unfamiliar with the concept) 19.8% None 10.4% Note: n=1,046 ages 18+

Source: Sumo Heavy, "2018 Social Commerce Revisited," Sep 20, 2018 241693 www.eMarketer.com

But despite some continued resistance to transacting directly on these platforms, their ability to influence purchase is on the ascent. According to Adobe Analytics, social has seen a 110% spike over the past two years as a referral source for shopping visits-at the same time that direct navigation methods are declining. This means brands are more reliant than they've ever been on social as a marketing channel even as they want to position themselves for growth.

#### Growth in Visit Share to US Retail Sites, by Last-Touch Channel, Q3 2018 % change vs. Q3 2016



Note: represents activity on Adobe's platform, broader industry metrics may varv Source: Adobe, "Retail Unwrapped: 2018 Holiday Predictions Report," Nov 1.2018 243132

www.eMarketer.com

The confluence of these market enablers and alignment between platforms, brands and users suggests that social commerce finally appears ready for primetime. Add to that the intense spotlight that will be on Instagram (as a key growth lever for Facebook), Pinterest (as it reportedly eyes an IPO) and Snapchat (as pressure mounts to grow revenue) and you have the right conditions for next year to be the year of social commerce.

## **TREND NO. 7: VOICE COMMERCE WILL** EMERGE FOR REPLENISHMENT GOODS

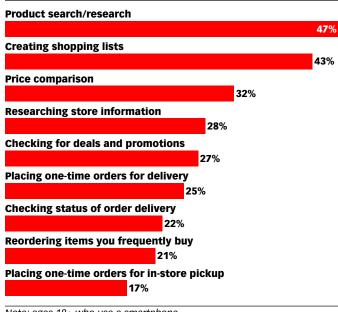
Voice commerce has become one of the most talkedabout trends in retail with Amazon's big push around Echo smart speakers and other Alexa-enabled devices. While it's not hard to envision a Minority Report-like future with voice as the primary digital interface, how and when this future materializes remains to be seen. Because of Amazon's centrality to this market, the voice conversation often turns to shopping as prognosticators ready for the next major retail channel shift. But evidence suggests we're not there yet.

While an Adobe Digital Insights survey found that 32% of smartphone users own a smart speaker and another 16% plan to purchase one this holiday season, hardware ubiquity does not necessarily predict adoption of all associated behaviors. Jamie Shuttleworth, chief strategy officer at mcgarrybowen, acknowledges the power of voice but if its value is "really about streamlining, fluidity and taking out steps, the question becomes how much of a pain is it for me vs. the way I'm already doing it." The jury is still out as to where voice makes life easier.

In August 2018, tech business publication The Information reported that internal data from Amazon showed that just 2% of Alexa-enabled device owners had completed a voice-enabled purchase, and only 10% of those buyers had repeated the behavior. This suggests voice commerce is still in the experimental phase, where the novelty factor compels some early adopters to try it out, but most don't appear ready to commit it to habit. Perhaps they don't see it as removing enough pain from the process.

While smart speaker owners are engaging in a variety of shopping-related behaviors, according to Adobe, they just aren't buying. They are most likely to use their devices for product search/research (47% of respondents) creating shopping lists (43%) and price comparison (32%). Actual purchasing activity falls much further down the list, with 25% saying they have placed one-time orders for delivery and 21% saying they have reordered items they regularly buy.

#### How Are US Smart Speaker Owners Using Voice Assistants for Shopping? % of respondents, Aug 2018



Note: ages 18+ who use a smartphone Source: Adobe Digital Insights, "State of Voice Assistants," Sep 10, 2018 241421 www.eMarketer.com

Even though one-time orders are more prevalent today, reordering is where voice commerce will gather momentum in 2019. Millions of Amazon Prime users already order replenishment goods on a recurring basis, including household staples like dog food, coffee pods and contact solution. There's a more natural transition of these purchases from online to voice because there's no need to see the product, comparison shop or hunt down coupons. Consumers who acclimate to the voice interface will begin to realize that for these purchases, spoken word is the path of least resistance. According to Digitas, consumers are most receptive to smart speaker purchases in health, beauty and personal care–in other words, replenishment goods.

#### Product Categories that US Smart Speaker Voice Buyers Would Consider Purchasing via Voice Assistant, June 2018

% of respondents

Personal care/wellness products		<b>39</b> %
Beauty supplies		38%
Small home appliances		35%
Clothing/accessories		34%
Technology/consumer electronics		33%
Sporting goods		33%
Large home appliances	25%	
Note: ages 18+		

Source: Digitas, "A Brand's Guide To Taking Back Control in a Voice-Driven World" conducted by The Harris Poll, Aug 8, 2018 240250 www.eMarketer.com

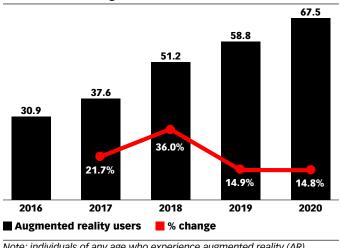
Tamhane from Nike believes that "it will take some more time for people to adopt voice as a buying platform more broadly" but that consumers are testing the waters in categories like household goods and digital content. "It'll probably start off with products that are less complex, require less thinking and have less room for error."

## TREND NO. 8: AUGMENTED RETAIL WILL ADD DEPTH OF PRODUCT UNDERSTANDING

Sandbox's Whitehill suggests that in an increasingly Amazon-dominated landscape, merchants need to double down on experiential retail, because "Amazon is going to beat you at task retail every time. You've got to lean into that and deliver something beyond the utilitarian purchase," he said. "That could be customer service. That could be just the human connection. That could be old school atmospherics. [Anything that can] increase somebody's dopamine level, get the adrenaline going or help them relax."

Emotive experiences are difficult, if not impossible, to recreate through digital storefronts alone. But digital technology incorporated into physical store environments can produce engaging retail experiences. No technology holds more immediate potential for this than augmented reality (AR), because of its wide availability on shoppers' smartphones. We estimate that the number of AR users in the US will grow 14.9% to 58.8 million in 2019. But also, the more than 20 million users who began using AR between 2016 and 2018 will have grown more accustomed to its use in everyday life.

#### US Augmented Reality Users, 2016-2020 millions and % change



Note: individuals of any age who experience augmented reality (AR) content at least once per month via any device Source: eMarketer, March 2018

236227

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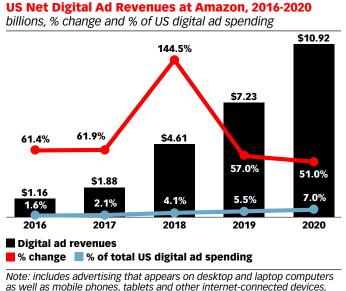
Unshackled by physical constraints or imagination, AR can be highly immersive and help bridge the digital and physical divide at retail. The technology is already in use for visualizing clothes and makeup on oneself or furniture inside one's home, to the surprise and delight of many customers. But a more universal and accessible application of AR is to provide enhanced product information, which works across any retail category. Adding a textual and visual information layer to products in the store, to get a quick view of product ratings, reviews, features and attributes, brings utility to shoppers when and where they need it.

Whitehill is also excited by more novel applications where "you can actually see the mechanics behind the skin of that machine, which is cool because that gives you the ability to call out certain things that might be a benefit or an advantage of the product," he said. "It's letting people see beyond the visible."

## TREND NO. 9: RETAILER MEDIA Networks will deliver improved Bottom lines

The biggest shift in digital advertising this year has been Amazon's emergence as a disruptive force, surpassing Oath to become the No. 3 player in the US market. We forecast that Amazon will grow 144.5% in 2018 to \$4.6 billion and to \$10.9 billion by 2020 as it begins to challenge the Google-Facebook duopoly. For more information on Amazon Advertising, see our September 2018 report: **"Amazon Advertising 2018: The New No. 3 US Digital Ad Firm."** 

Why has Amazon become such a viable long-term threat to the two digital advertising titans? Not only is it the point of engagement when shoppers are ready to buy, but it also possesses the most valuable data–what people have actually bought and are looking to buy.



as well as mobile phones, tablets and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites Source: eMarketer, Sep 2018

241078

www.eMarketer.com

Amazon's ad revenue growth is impressive, but it's the fat profit margins that has other retailers paying attention. While they may not be able to match Amazon's breadth and depth of customer data, they possess customer data sets that are valuable in their own right. And in a generally thin-margin business of retail, the potential to add a meaningful revenue stream with attractive margins can completely transform the financial profile of their business. "If I think about retailers utilizing their own data and bringing all of the media in house, that vertical integration is certainly going to have potential cost-leverage," said Chris Lundquist, managing director of retail consultancy Dutton Management Consulting.

Amazon is providing the model, and several other leading retailers are following suit. Walmart, Target, eBay, Best Buy, Kroger and Albertson's all have their own versions. These retailers will look to ramp their businesses in 2019; whether or not they develop traction is an open question. Success likely depends on the depth of the retailer's data and its applicability to advertising use cases. But Lundquist is optimistic that other players are viable in the space. "I don't think it's necessarily just the largest retailers who can leverage that [capability]. A midsize retailer can leverage it as well, depending on its ability to capture, manipulate and monetize that data." If there are limitations to the depth of their data and operations, however, Lundquist suggests the possibility of data consortiums involving multiple non-competitive retailers that pool together anonymized customer data for use in a media network.

At a time when there is more price transparency for consumers and the shopping landscape is as competitive as ever, retailers need to pursue these lucrative ancillary revenue streams. Expect certain retailers to watch their media networks achieve escape velocity next year and alliances to be forged in other segments of the market.

## TREND NO. 10: DIGITAL LAYAWAY WILL GAIN POPULARITY IN HIGH AND MID-TICKET CATEGORIES

Despite American consumers being relatively flush with cash at the moment, affordability always comes into play. But positive consumer sentiment has even cash-strapped consumers feeling better about spending into the future. Recently, the digital version of layaway–or "buy now, pay later"–has grown in popularity as a means of shoehorning discretionary purchases into a monthly budget. Current options vary but typically involve zero-interest installment plans paid over regular intervals of time.

Who does this option appeal to? Many millennials who came of age during the Great Recession are wary of taking on high-interest credit. Also, a large numbers of US consumers are unbanked lower-income consumers. To these two groups, alternative financing options make a lot of sense. There has also been a big shift in consumers' willingness to make big-ticket purchases in a digital setting. Research firm Comscore reports that furniture ecommerce sales grew 38% in Q3 2018 vs. the prior year, demonstrating the inroads that traditionally high-ticket categories are now making online. Comscore also reported that during the 2017 holiday, 23% of consumers spent at least \$500 on an item purchased online. In a blog post, Ian Essling, director of survey innovation at Comscore, said that big ticket purchases "hit an inflection point last year, as significantly more consumers were completing transactions for these items on mobile devices. Our data show that this trend has not only continued, it's accelerated."

Without financing options for big-ticket purchases, many transactions won't find their way to completion. According to a 2017 FuturePay study, of the nearly two-thirds of US digital shoppers who had abandoned a big-ticket online purchase, 15% had abandoned that purchase due to lack of financing options and 8% due to the digital payment process being too complicated.

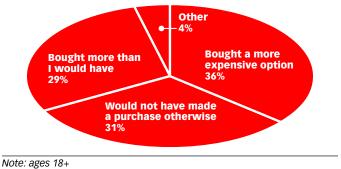
While installments fill an obvious need for high-ticket purchases, there's also been a surprising shift toward its use in mid-ticket categories. "We're seeing invoicing, or 'buy now, pay later'... take off massively in verticals like fashion," said Maria Prados, vice president of global retail and B2B at Worldpay. She explained that one of the biggest consumer hurdles for buying apparel online is the need to try on different items, but these larger initial outlays can be hard to afford for younger and lower-income consumers lacking other credit options.

Installment financing creates a win-win scenario on both sides of the transaction. "From the retailer's perspective, there isn't any impact on their cash flows," Prados said. "And from the shopper's perspective, they want to buy more online without having to go through the hassle of paying [the retailer and getting] money out of the bank."

An October 2018 study from BigCommerce underscores the impact of making consumer purchases more accessible: 36% of internet users in the US, the UK and Australia said the main effect of financing purchases is that they bought a more expensive option, 31% said they would not have made a purchase otherwise and 29% said they bought more than they would have without the availability of that option.

#### What Is the Main Way Financing Influences the Buying Decisions of Internet Users in Australia, the UK and the US?

% of respondents, Oct 2018



Source: BigCommerce, "2018 Omnichannel Buying Report" conducted by SurveyMonkey, Oct 24, 2018 242562 www.eMarketer.com

Digital layaway has already emerged as a major retail trend for younger consumers abroad, indicating its potential to catch on domestically. Afterpay has caught fire with millennials in Australia who use the popular payment plan to pay for everything from airline tickets to clothing. The US has its own burgeoning market with startup Affirm leading the charge, having inked partnerships with brands like Casper, Wayfair and Expedia. Payments company Square has recently gotten into the act with a competitive offering for financing purchases of \$250 to \$10,000. As availability and awareness increase, consumer adoption is sure to gain momentum in the year ahead.

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### **The Secret to Long-Term Customer Engagement** Brand Humanity increases campaign conversion by 900%.

This post was contributed and sponsored by Braze.

At Braze, our mission is to create strong bonds between people and the brands they love, joining people, technology, and teams together to deliver brilliant experiences at every turn. We believe human beings want to be spoken to like human beings, and that technology like ours can help brands do that at scale. We turned to Forrester Consulting and commissioned a study, the Braze Brand Humanity Index (BHI), putting this mission to the test. We found that consumers want brands to communicate with them in a way that feels human, and when brands succeed, they'll be rewarded with their customers' purchases, engagement, and loyalty.

#### **Putting Brand Humanity to the Test**

We looked at tools Braze supports that lend themselves to the emotional and functional attributes that Forrester identified as the strongest predictors of whether consumers perceive brands as human. Forrester summarizes the emotional attributes as "supportive, authoritative, and helpful." The functional attributes were separated into three groups: Natural Communication, Considerate Communication, and Personal Communication.

#### **Connect Content & Open Rates**

Connected Content can be used to make your brand interactions more personal, helpful, and considerate by providing great recommendations based on a user's previous behavior or interests and linking out to them.

#### **Liquid Personalization & Open Rates**

This supports the idea that brand experiences that are perceived as personal and use natural communication (such as campaigns that use name or gender filters, rather than, for example, a more automated "Hello, user") are preferable to users over less personalized, less relevant campaigns.

#### **Schedule Types, Open Rates & Conversion Rates**

Action-based and API-triggered campaigns have higher conversion rates than time-based campaigns. Action-

based and API-triggered campaigns personalize messaging to 1) be responsive, 2) communicate at the right/most convenient times, and 3) provide great recommendations based on the user's prior actions (e.g. leaving an item in cart), echoing Forrester's findings about consumer response to more "human" brand communications.

Check out the Braze Brand Humanity Index, based on a commissioned study conducted by Forrester Consulting on behalf of Braze at http://www.braze.com/humanity.

#### **Emotional & Functional Characteristics**

Rank	Emotional Characteristics
1	Responsive
2	Social
3	Friendly
4	Thoughtful
5	Helpful
6	Personable
7	Intelligent
8	Honest
9	Reassuring

Rank	Functional Characteristics	Category
1	Speaks like a regular person would	Natural
3	Communicates with me in the tone I want them to	Natural
5	Send me clear, understandable messages	Natural
2	Shows they value my time and business	Considerate
4	ls responsive to me when I need it	Considerate
7	Communicates with me at convenient times	Considerate
8	Communicates with me using preferred contact method	Considerate
6	Shows they understand what matters to me right now	Personal
9	Provides great recommendations	Personal
10	Understands my preferences, avoids what I don't like	Personal

Source: A commissioned study conducted by Forrester Consulting on behalf of Braze. 3081 consumers 18+ who shop online at least once per month.



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