



Shift

2020

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A practical guide for retailers on surviving and thriving in a decade of massive change.

Trends  
Impacting  
Retail  
2010-2020

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## ABOUT RETAIL PROPHET

Retail Prophet is a future focused retail consultancy that specializes in strengthening independent retailers, their buying groups and associations. We're not big fans of the word *expert*. It's a term that's overused and difficult to substantiate. We prefer to consider ourselves lifelong learners in all aspects of retailing, including business planning, financial management, marketing, green retailing, store operations, merchandising and customer experience. It's this continual level of study that enables us to deliver cutting edge programs based on current best-practices.

*We believe the world is a better place with independent retail. We're simply here to keep it that way.*

Our business was founded on the sincere belief that the world *needs* independent retail and that it's something worth fighting for. We also understand that the future of independent retail hinges on its ability to do two things; deliver remarkable consumer experiences *now* and adapt to new trends and market changes in the *future*.

To that end, our ten year reporting system is a unique aspect of the value we deliver. By continually scanning the horizon ten years out, we're able to identify key trends as they emerge. Our role is to make sense of these trends from a retail standpoint, educate our clients on their implications and develop practical solutions that can be affordably implemented in-store.

## ABOUT THIS REPORT

### *WHAT'S A TREND?*

Webster's defines the word *trend* as follows:

**1 a:** to extend in a general direction: follow a general course <mountain ranges *trending* north and south> **b:** to veer in a new direction

In keeping with this definition, our report examines two kinds of key trends impacting retailing. Some are existing trends that have reached a tipping point. Others are emerging concepts that will have a growing influence on consumer behavior and retailing into the future. All will have a profound impact on the life of the independent retailer.

## *RESEARCH PROCESS*

Ask ten retail experts what the future holds and you'll get different answers. Bearing this in mind, we leveraged numerous sources to research this report. Our goal was to gather the widest possible perspective and ultimately develop a clear and supportable view of the future. Our sources included:

- Blogs
- Trade association publications
- Newspapers
- Internet newswires
- Twitter "Tweets"
- Books and texts
- Government data
- Primary research with senior retail professionals
- Scholarly reviews
- Professional online network discussions

Like opinions, statistics too can vary. Wherever we have provided statistical data, we have made every effort to verify both its legitimacy and accuracy. Despite this, we encourage you to consider all statistical data in this report as directional in nature only.

## *FORMAT*

We figured you'd get more out of this report if you actually read it, so to be honest; our first goal was to keep it from being boring. We've incorporated stories and anecdotes, to break things up a bit while providing useful context to support the ideas. Secondly, we've tried to provide you with valuable information to build understanding. Finally, we've tried to deliver concrete tactics that you can actually implement in your business, whether you're the president of a trade association or a single-store owner.

*The aim is to  
highlight the  
trends most  
likely to impact  
retailers.*

If you feel we've failed to meet any of these objectives, please let us know at [www.retailprophet.com](http://www.retailprophet.com).

## *PROPHET, PEOPLE, PLANET*

Please refrain from printing this document unless absolutely necessary and please recycle. Thanks.

## INTRODUCTION

By Doug Stephens

I came across an executive summary of an online business trending report recently. It said the report provided readers with a detailed account of 40 key trends for the future. That was not a misprint, “40 key trends”. On the one hand, I commend the authors for developing such an exhaustive report. On the other hand I’m skeptical that the average business owner could convert an awareness of 40 trends into a cohesive strategy; I know I couldn’t. Imagine a personal fitness program that required you to focus on 40 different aspects of diet and exercise simultaneously. I think most people would find it nearly impossible to manage such a program.

The aim of this report is not to speak to *all* projected trends but only those we believe will most impact retailers; particularly independent retailers as we move forward to 2020. We’ve tried to distill the universe of change into a manageable set of key shifts that retailers can internalize and build into their business plans. Knowledge that leads to nothing is trivia, so we’ve supplemented each section with *key next steps and ideas* to help promote action.

Similarly, within each trend, we focus only on the statistics, examples and supporting material that are necessary for aiding understanding and action. Our objective isn’t to make the reader an expert in the trend but rather equip them with the information they need to adapt to and capitalize on the trend; two very different outcomes.

Finally, as you read this you will naturally speculate about the validity of our projections and the degree to which these trends will actually play out. With that in mind, there’s an interesting film clip you should take a look at. It’s a low budget 1967 film produced by the Philco Ford Company, starring would-be game show host Wink Martindale, called 1999 A.D<sup>1</sup>. You can find it on YouTube. The film shows a day in the life of a family living in the year 1999, which in 1967 must have seemed like light years away. I’m sure at the time, the film was received as wildly futuristic in it’s portrayal of many of the household conveniences

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<sup>1</sup> 1999 A.D. produced by the Ford Philco company, 1967

and systems available to the average family. Here's the sobering part; the film depicted amazingly close representations of things like the internet, e-commerce, on-line banking, video technology, prepared food items, smart appliances and more. They were unbelievably accurate despite having comparatively little data or available research.

Well here we are in 2009 with a wealth of information and global dialogue at our fingertips trying to project ten measly years into the future. Odds are we're going to be right. So, as you read this report know that while there's no such thing as a sure thing, the trends discussed in this report are *almost* certain to transpire. In fact, many are already happening and building momentum.

## EMBRACING THE CHANGE

American statistician, professor and author W. Edwards Deming once said, "It is not necessary to change. Survival is not mandatory." While being somewhat tongue in cheek, there's an uncomfortable truth to this.

Over the last 10-20 years we've seen unprecedented changes and shifts in demographics, global economies, manufacturing and sourcing of goods. There have been fundamental changes in media, technology and consumer behavior. It's all added up to a redefining of what retail is and how it's carried out.

Through this period of enormous change however; four distinct groups of businesses have become identifiable and even statistically predictable.

1. Those that simply would not change and got wiped out.
2. Those that reluctantly adapted only as much as necessary to survive and now face a daily battle with extinction.
3. Those who, although not necessarily at the front of the curve, have risen to meet most challenges and have adapted quite well.
4. Those that have embraced and in some cases even led the change, making it work to their advantage and growing their businesses as a result.

*The amount of  
technical knowledge  
in the world is  
reportedly doubling  
every two years.*

In preparation for the next 10 years, it will be important to identify yourself and your tendencies with respect to change according to these 4 groups. Which group describes you best and is that change management position or strategy working for you? If you thought the last 10 years were a roller coaster ride, hold on to your hats.

It should come as no surprise that everything is still changing and will continue to do so more rapidly than in the last decade. The good news however, is that many of the changes could actually constitute an advantage for the independent retailer over larger competitors.

The key lies in really understanding these key shifts and then taking action to address them in a meaningful way in your business.

The important thing to remember is that change is a moving target and the speed with which it's moving is increasing daily. Evidence of this is all around us. For example, it's estimated that the amount of technical information available in the world is doubling every two years. So, for a student in a four year technical or college program that means that half of what they learn in their first year of study will be outdated by their third year. Put another way; by the time you see this presentation, internalize the information and execute it in your business, new changes will have taken place that will once again require your understanding and response.

Change is continual, rapid and gathering speed. The retailers that survive and thrive will ultimately be those who embrace change as a new opportunity to grow and re-invent their business.

## THE BACKDROP TO CHANGE

It would be difficult to present any report on major trends into the coming decade without acknowledging the current economic downturn. We won't attempt to discuss all its implications here but there are a few general consequences that we need to be aware of and temper our actions as retailers against:

### **Economic uncertainty**

World markets remain speculative and uncertain and economies are struggling to reconstruct flows of capital and consumer spending. The impact on most retail has been negative. Economists differ on the timing of recovery but many seem to agree that 2010 should be a year of relative economic stability and perhaps even modest growth, compared to the last two years. For now, retailers across all categories but particularly those selling non-essential and luxury goods are feeling the pinch.

### **Made in North America**

North Americans now find themselves reflecting on the irrational levels of consumption that led to the ramping up of foreign manufacturing over the last 20 years. In the cold light of day issues of domestic unemployment, product quality/safety and an enormous trade imbalance are being called into question. Some are projecting a modest but steady return to North American production on certain products. This could bode well for the independent retailer and their ability to source goods from domestic suppliers in manageable quantities.

## Post-Consumerism

Conspicuous consumption is (for now anyway) not chic. We're waking up from a decade of binge buying and will likely adopt a more down-to-earth approach when it comes to borrowing and spending. An overwhelming number of North Americans have watched their investments wither and their debt balloon over the last 3 years, resulting in a distinct pause in consumerism. Whether by necessity or desire, consumers are reshaping their behavior and retailers will have to work harder than ever to convince them to spend.

### THE KEY TRENDS

Our research uncovered 8 key trends, that we feel will greatly influence retailing in the coming decade. These trends will have implications for virtually every aspect of how retailers approach and carry out their business.

To provide a framework for understanding, we've chosen to assemble them against the backdrop of four very familiar business planning questions.

- A. Who is the target customer(s)?
- B. What do they want?
- C. How can we communicate with them?
- D. Who are we competing with?

Against this backdrop, we can overlay what we see as the 8 prevalent trends of the coming decade.

<b>TRENDS</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
<b>E</b>	The Disappearing Middle	Personalization and individualization	The growth of social media	A World of Competition
<b>D</b>	Demographic Divide	Clarity of Value Proposition		
<b>S</b>	Importance of Ethnic Markets	Green-tailing		
Technology				

In the following sections, we'll explore each of these trends in detail. We'll also determine the extent to which each of them represents an opportunity or a threat to independent retail. Lastly, we'll provide key next steps and ideas to address and capitalize on the trend.

## *COURAGE NOT INCLUDED*

The thing you'll need most as you face a new decade of change is courage. It seems to be a trait all great business leaders share. Courage helps you challenge current paradigms. It pushes you to learn new ways of doing things. Ultimately, it's courage that moves you to change, grow and become stronger.

While this report can't imbue you with courage, the very fact that you're taking steps to peer into the future, suggests you've probably got the courage you need already. All that's left to do is tackle the future head on.

I wish you the best of success.

Doug Stephens



## SHIFT

Not so long ago, consumer segments were relatively easy to identify and target. Marketers relied almost exclusively on demographic data to zero in on target markets. Geography, income and family composition were all you really needed to know. So, if you sold televisions for example; targeting young, middle-class, families with children and \$50,000 per year in household income, was a pretty straightforward task. Furthermore, major media operated according to the same basic segmentation rules, so marketers would only have to pick from the handful of television, radio or print media vehicles that reached the segment, in order to communicate to it effectively. Life was simple and the marketing highway, if you will was long, straight and smooth!

Then In 1964, psychologist and social scientist Daniel Yankelovich, forwarded a new idea in the March/April issue of the Harvard Business Review. He suggested that marketers should also consider non-demographic means of segmentation. He asserted that things like consumer values, preferences and attitudes should also be considered during segmentation analysis -fresh thinking at the time and an innovation that suddenly turned the smooth road of marketing into a two-lane highway. Now we not only had to consider who the consumer was, where they lived and how much money they had but also what they felt and thought about the brand, the category and the product. Although this added a degree of complexity to segmentation, the driving on the marketing freeway was still relatively smooth and easy.

*There's a virtual  
traffic jam of  
consumer segments,  
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communication  
technologies.*

By contrast, today's marketing landscape looks the L.A. freeway in rush hour. Now traffic of every sort is coming from all directions. There are very few rules of the road and everybody is trying to go as fast a possible without regard for anyone else. There's a virtual traffic jam of consumer segments, messages, media and communication technologies. Identifying target customers in this mess is becoming increasingly difficult. Adding to the complication is the fact that both the demographic and non-demographic traits of consumers are evolving and blurring together more quickly than ever.

To make some sense of all this, we can start by dividing the traffic into separate lanes. The first lane is demographics. Here we see three key trends that retailers everywhere will be impacted by. They are:

1. The Disappearing Middle
2. The Demographic Divide
3. The Rise of Ethnic Markets

## 1: THE DISAPPEARING MIDDLE

T R E N D S	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
	The Disappearing Middle	Personalization and Individualization	The growth of social media	A world of competition
	Demographic Divide	Clear retail value propositions		
	The Rise of Ethnic Markets	Green-tailing		
Technology				

Over the past 25 years there’s been fervent debate surrounding the disappearance (or at least the contraction) of the middle-class. Studies on the issue have yielded disparate results. Some experts have asserted that the middle-class is shrinking because more of its members have moved up. Others maintain it’s because any increases in real income have been shared among the rich. However, even among polarized opinions there is agreement that there’s been a distinct shift in class structure.

It’s worth noting that the concept of the middle-class however, is a relatively modern one. Paul Krugman, the New York Times columnist and Princeton University professor who recently won the Nobel Prize for economics, has written that the American middle-class was in fact, not the norm at all and that a majority middle-class America was a relatively brief condition that existed between the 1930s and about 1980.<sup>2</sup> Despite it

<sup>2</sup> From an article by Tom Eblen Kentucky Herald-Leader 2008

being a relatively new concept, the idea of the middle-class has become almost synonymous with North American values and lifestyle.

The majority of data suggests that over the past 25 years, significant disparities in the growth of real incomes have arisen. A 2007 U.S. Congressional Budget Office study found that between 1979 and 2005, the poorest 20 percent of American households saw their annual income rise by an average of \$900 as measured in 2005 dollars. The second-poorest 20 percent increased by \$4,800 and the middle 20 percent, by \$8,700.

Among wealthier segments the news was considerably better. The upper-middle 20 percent of households saw annual income increase by \$16,000 and the richest fifth, by \$76,500. The wealthiest 1 percent of households experienced an average annual after-tax increase of \$745,100, from \$326,400 to \$1,071,500.<sup>3</sup> In Canada, a similar picture has evolved, with real incomes among the middle-class barely keeping up with inflation over the past quarter century.

*What used to be  
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dividing them.*

The result is further stratification. What used to be three very distinct class groups have become four groups with blurry lines dividing them; poor, near poor, near rich and rich. Some residents of the middle have moved down to become the near poor. Others have moved up to join the near rich. And yes, the rich have clearly gotten richer.

Now here's where it gets really confusing for retail marketers, the near poor sometimes buy luxury items and the rich and near rich sometimes shop at discounters. Consumers will pay a premium for some items but want the lowest price on others but which is which depends completely on the individual consumer. We call this, trading up or down based on perceived value. For example, a single male earning \$40,000 per year may trade up to a Mercedes S-Class but live in government assisted housing, while a Connecticut couple with \$200,000, in household income may buy clothing at Wal-mart. Would segmentation on the basis of income help marketers accurately target these consumers?

Precisely why and to what extent the lines are blurring is the subject of on-going study but a couple of things are apparent;

- The composition of the North American workforce has changed. As our economy sheds manufacturing and middle-management jobs in favor of specialized and knowledge-based roles, the distribution of wealth becomes polarized.

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<sup>3</sup> 2007 bi-partisan Congressional Budget Office Report

- Unprecedented borrowing, whether via credit cards or lines of credit have given consumers a dangerously inflated sense of buying power.

In the end, it's clear that reliability of household income as a predictor of buying behavior is diminishing.

The victims of this fragmentation of the middle have primarily been mid-tier retailers and manufacturers.

*...revenues for mid-tier products trailed the market by nearly 6 percent a year.*

A McKinsey quarterly study found that from 1999 to 2004, the growth rate of revenues for mid-tier products and services trailed the market average by nearly 6 percent a year. The big winners have been premium retailers and discounters. This is not to imply that discounters or luxury retailers are immune to problems - the recession has not overlooked Wal-Mart or Neiman Marcus - but it simply indicates that

the consumers taste for the middle of the road has waned. The losers, in general have been department stores - the very stores that grew their empires serving the middle-class family.

The call-out to retailers is that it's more critical than ever to decide which segment you're targeting. It is no longer viable to target the middle with a bland product or service offering. The lessons of General Motors, JC Penny, Macy's, Bombay Company, Bed Bath and Beyond etc. are that the middle is not a safe place to be.

This does not necessarily mean that you have to declare yourself either luxury or discount. There is room in between for what we'll call value retail on the lower end and premium retail on the upper end.

## *KEY NEXT STEPS AND IDEAS: THE DISAPPEARING MIDDLE*

- Markets evolve; if you are not completely clear on the demographic composition of your local market, you may need to begin by studying it.
- Declare which segment of the market your store is targeting. Become expert in your knowledge of the segment. Know their demographic and psychographic characteristics. In addition to preferences within your category, familiarize yourself with the other kinds of products and brands they favor.

- Assess your products and your brand for their ability to get people to trade up or trade down to your offering. Does this avail other potential target customers?
- Be very specific with respect to the positioning of your business relative to primary competitors. Don't get forced into the middle.
- Assess every brand touch point in your business to ensure that it reinforces your chosen positioning. Anything that doesn't will serve to confuse your target consumer. This includes your website and on-line store if you have one.

## 2: DEMOGRAPHIC DIVIDE

T R E N D S	Who is the target customer?	What do they want?	How can we communicate with them?	Who are we competing with?
	The Disappearing Middle	Personalization and Individualization	The growth of social media	A world of competition
	Demographic Divide	Clear retail value propositions		
	The Importance of Ethnic Markets	Green-tailing		
Technology				

We are witness to the greatest age-based demographic change in history; the aging and retirement of the baby boomer. Baby boomers are those people born between 1946-1964. Most retail experts are in agreement that few changes will have such a profound effect on retailing as the migration of over 70 million baby boomers into their senior years.

The economic horsepower of this group is unprecedented. As a group, they control 50% of all consumer spending in North America. While this demographic shift is not news what will be are the evolving needs of this key group and the changes to products, services and stores that will be required to maintain their loyalty. What is very clear however is that they will not simply settle for the *seniors discount* their parents were delighted with.

## *KEY NEXT STEPS AND IDEAS: DEMOGRAPHIC DIVIDE*

To successfully maintain and grow business with this segment you'll need to address the following needs and realities:

### **Physical Needs**

- Stores must provide easy access in convenient locations, as boomers seek to drive less and shop where it's convenient to do so. Will they drive around the parking lot numerous times to find a spot? Not likely.
- Home delivery of your product could provide a much appreciated value.
- In-store lighting must accommodate changes in vision, improve in-store visibility and prevent eye strain. Similarly, in-store signage and point of purchase materials must be clearly printed and easy to understand.
- As more consumers will begin using hearing aids, unwanted ambient noise should be reduced or eliminated. Excess ambient noise can cause distraction, disorientation and anxiety all of which will have a negative impact on the customer experience in your store.
- Packaging designs should be convenient, ergonomic and easy to open.
- Waiting in line to be served should be minimized and where this is not possible, seating or other accommodation should be available.

### **Economic Realities**

- Boomers have a reputation as prolific spenders but are not as well known for their saving tendencies. Retailers will have to be cognizant of the fixed and planned nature of their customer's retirement income and develop promotional and financing programs that take their spending cycles into account.

### **Psychological Needs**

- Retailers will have to be particularly strident in their efforts to create comfortable environments and build relations with their customers. This comfort and familiarity will bode well for an older consumer. Build familiarity into your relations with customers at every turn. Older consumers gravitate to familiar environments that put them at ease and can become part of their daily or weekly routine.
- Contracts, agreements and other written documents will have to be extremely clear and easily understood.
- Customer Relationship Management Systems (CRM) to remind customers of important dates, renewals and offers will be required and moreover appreciated, as memories become less than razor sharp.

## Emotional Requirements

- Baby boomers are aware of their buying power and their importance to the economy. With that in mind, they will expect to be treated accordingly. Simply, they will demand respect, courtesy and a show of appreciation for their business.
- Their minimum expectation will be that staff is well trained and knowledgeable. With more and more major retailers employing efficient self-checkout and kiosk type information systems, the expectation of human staff will be that they add value to the shopping experience.

The challenge for retailers in adapting to the aging consumer will be two-fold; firstly they will need to make the necessary changes to accommodate and comfort these consumers. Secondly, and perhaps as critically, they will have to do so very subtly. Baby boomers may be *aging* but they don't believe they're getting *old*.

## GENERATION Y

Generation "Y" or Millennials as they are often called, are those consumers born between 1980 and 1994. By 2010, their numbers are projected to reach 100 million dwarfing Generation X.

These children of the boomers will demand very different things of retail than their parents did. Initially their effect was felt largely in the fashion, entertainment and toy categories but as they age, their influence is being experienced in all categories.

*As a group, Gen Y is wary of hard-sell or traditional branding campaigns.*

The aspects of this group that make it unique offer some clues as to their potential buying behaviors. Understanding these traits will be crucial in preparing to retail to them.

- They are completely technologically integrated. They have always known the internet
- They are consummate multi-taskers who can do homework, answer text messages and update their Facebook page at the same time

- One in three is non- Caucasian
- One in four lives in a single-parent household
- Three in four have working mothers
- They are sometimes referred to as trophy kids, whose parents placed high expectations on for success in sports, academics and social life
- They are achievement-oriented and often crave attention.
- They are notoriously disloyal to brands, switching quickly from one to the next as trends emerge
- They do not like being associated with Gen X and hence the term Millenials
- They will experience significant unemployment resulting from their sheer numbers, relative to a significantly smaller Gen X population
- This significant unemployment will result in increased crime
- They will gravitate to becoming small business people and skilled trades as a career path, due in large part to the shortage of employment available to them
- They are currently spending at a rate that is 5 times greater in adjusted dollars than their parents did at the same age
- By 2010 they will account for 1 in 4 auto sales<sup>4</sup>

For manufacturers and retailers there are two inherent risks. The first is that they ignore the needs of this enormous group. Alienating Gen Y is essentially a wind-down strategy.

The second is that they address the needs of this group in an insincere manner. Gen Y tends to be extremely wary of things that appear fabricated or unauthentic.

So, how *should* retailers work to attract and retain the Generation Y generation? Here are 5 key ideas.

### *KEY NEXT STEPS AND IDEAS: GENERATION Y*

#### **Be honest**

The segment is wary of hard-sell or traditional branding campaigns. As a group they reject the types of campaigns that marketers aimed at their parents. They also reject anything that seems to pander insincerely to them

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<sup>4</sup> USA Today 2009, quoting Deloitte Consulting

as a segment. They respond to things that appear simple, unvarnished and truthful.

## **Be on-line**

If you are not online, you don't exist. It's just that simple. You don't have to be on page one of Google but if you're not on-line, you may as well forget about generation Y.

## **Be in tune**

Stay close to emerging trends in fashion, technology and entertainment. Start an advisory group of people 17-25 years of age and meet with them regularly to discuss their needs and your business ideas. See what they think. Know what they like, what they don't and why.

## **Be ready**

...to change that is. Their connection to the internet exposes this group ideas and trends as they evolve. What was fashionable yesterday is...well...yesterday. For the retailer, this means being ready to change assortments, merchandising and media plans. Not easy but essential.

## **Be Green**

The notion that a company would jeopardize the environment for business purposes is inconceivable to this generation. They simply won't accept it.

### 3: THE IMPORTANCE OF ETHNIC MARKETS

T R E N D S	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
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Technology				

There is now approximately a 1 in 5 chance that your consumer wasn't born here. Immigration isn't new but retail companies are still struggling to understand how to reach and build following within these new consumer populations.

Perhaps no where else has the growth in ethnic population and buying power been more profound than in the United States among Hispanic Americans.

Fueled over the past 20 years by the availability of jobs in the US, the emigration of Hispanics has been nothing short of historic. As this segment of the population has grown and naturalized, they have become an enormous cultural and economic force.

Here are a few key statistics that are keeping retail marketers up at night:

*A smaller Gen X population led to a shortage of skilled labor and entry level management, fueling immigration.*

- By the year 2020 the Hispanic population in the United States is projected to reach 53 million<sup>5</sup>.
- One out of every two people added to the US population between July 2006 and July 2007 was Hispanic
- There are more Hispanic speaking individuals in the United States than there are in Spain
- Hispanic families tend to be larger and younger with more children under 18, than non-Hispanic families. This suggests that the replacement spending cycle for Hispanic families may be longer and greater than that of non-Hispanics
- The buying power of Hispanic Americans is expected to surpass the US\$1 trillion dollar mark in 2010. In fact, the percentage growth in buying power of Hispanic households has been dramatically outpacing that of non-minority households

*The buying power of Hispanic Americans is expected to surpass the 1 trillion dollar mark by 2010.*

The question for marketers and retailers alike is how to target and win the loyalty of this robust segment of the population.

There have been a multitude of studies examining the shopping habits and preferences of Hispanic Americans. One such study in 2005 by the Journal of Shopping Center Research looked at several dimensions of the shopping experience and revealed the following:

Hispanic shoppers cited the following as negatives associated with shopping in the United States...

- Discrimination
- Negative judgments by sales associates based on their dress, race etc.
- Language barriers

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<sup>5</sup> Bnet, American Demographics Author Joan Raymond

- Distance of shopping from home
- Cameras in store and the resulting fear of being mistaken for an illegal alien.
- Lower quality and poor workmanship of some products

Their favorite stores, in no particular order included...

- Sears
- Circuit City
- JC Penny
- Lowe's
- Home Depot
- Marshall's
- Old Navy
- Victoria's Secret
- Wal-Mart

Product categories in which they indexed above the purchase rate of the general consumer population included...

- Home improvement
- Crafts
- Toys
- Fabrics
- Pets
- Children's items

When asked how retail could be improved Hispanic respondents said...

- Stores need at least one bilingual associate
- Store operating hours should accommodate the schedules of customers that are shift workers
- Consideration should be given to adding social elements to the shopping venue such as café's, entertainment areas, play areas and daycare

A recent example of a business successfully targeting and winning over the Hispanic community is that of McDonald's restaurants. Through a steady internal and external campaign of activities they reshaped the organization to understand, and connect with the Hispanic customer. Here is only a partial list of the tactics they employed.

- Extended store hours
- New menu items
- Hispanic language advertising and packaging
- The appointment of Hispanic senior executives at McDonald's Corp
- College scholarship funds for Hispanic youth
- Promotional events such as the Fiesta Tour
- Sponsorship of important entertainment vehicles such as the Hispanic music awards

To McDonald's, this community represented a significant business opportunity and one worth investing in. In addition, McDonald's approached the segment in a sincere and authentic way, by avoiding stereotypes and generalizations. They built a true understanding of the articulated and unarticulated needs of the Hispanic consumer and delivered on them.

In Canada, the boom in immigration is no less dramatic but is spread across more ethnic groups including Chinese and South Asians. In fact, Canada has become the second most ethnically diverse country in the world and with its foreign born population growing at a rate that's 4 times faster than the Canadian-born population. This trend is projected to continue. According to a recent Ipsos Reid study "By year 2017, it is projected that there will be 7 to 9.3 million immigrants living in Canada, an increase of 24-65% over existing levels. This means that in 2017, roughly 1 in 5 Canadians will be a member of a visible minority (in British Columbia, that ratio will be more like 1:3). Vancouver and Toronto are major destinations for new immigrants: over two-thirds of new immigrants locate in these cities"<sup>6</sup>.

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<sup>6</sup> Ipsos Reid, [www.ipsos-ideas.com](http://www.ipsos-ideas.com) 2007

These new Canadians are disproportionately computer savvy and wired to the internet and their buying power is significant. Statistics show that 54% of South Asians have household incomes of more than \$60K compared to 46% of mainstream Canadians, and that 48% of Chinese Canadians have investible assets of \$50K or more compared to only 36% of mainstream Canadians<sup>7</sup>.

Clearly these are important markets that wise retailers will want to capitalize on.

#### *KEY NEXT STEPS AND IDEAS: THE IMPORTANCE OF ETHNIC MARKETS*

- Understand the foreign born community in your market. Enlist people from within the community to help you build this understanding if necessary
- Determine if there are particular products that should be offered that appeal to their foreign born customers
- Surveys to determine the aspects of the shopping experience that are important to them
- Build diversity training into your store's policies
- Offer bilingual and where necessary, trilingual service
- If possible, increase the amount of bilingual packaging in-store
- As much as possible, tailor operating hours to accommodate shift work and other customer needs
- Become involved in the community and the lives of these consumers

So, the question "Who is My Customer?" can be answered with four major points:

1. The middle is disappearing both in class system and in retail. As a retailer you will have to choose which side of the value line you're on. You *can* play in both markets but instances of this being successful are rare.
2. Your core customer is aging and retiring and will have special physical and psychological needs that you'll have to (subtly) take into consideration in order to maintain their loyalty.
3. A new generation of consumer, the Millennial will continue to grow in buying power over the next decade. Depending on your category of product, you will have to make a decided shift in your approach to this new power consumer. The internet will continue to be a major force in this groups shopping behavior.

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<sup>7</sup> Ipsos Reid 2007

4. Your customer's ethnicity is changing and will likely continue to do so over the next ten years. In order to grow your business with them, you will need to work to understand their culture and how it impacts their wants and needs.

## WHAT DO THEY WANT?

Now that we understand the forces shaping *who* the customer is the next question is what do they want? We've identified three significant trends we feel will have a growing impact on the products and services sought by consumers.

1. Personalization or individualization of products and services
2. Clear retail value propositions
3. Green Retailing or Green-tailing

## 4: PERSONALIZATION/ INDIVIDUALIZATION

TRENDS	Who is the target customer?	What do they want?	How can we communicate with them?	Who are we competing with?
	The Disappearing Middle	Personalization and Individualization	The growth of social media	A world of competition
	The Demographic Divide	Clear retail value propositions		
	The Rise of Ethnic Markets	Greentailing		
TECHNOLOGY				

As little as 40 years ago, monogramming a shirt was about as close to product customization as we got. Products for the most part were standardized. Services such as radio, television, air travel etc., were largely one-size-fits-all. Since then, technological and manufacturing advancements have enabled what we now refer to as the *mass customization* of products and services. In some cases the customization may take place at the point of manufacture and in other cases it's up to the consumer to design and personalize their product.

*The goal is to tailor customer offerings and experiences based on data.*

The consequence is that we as consumers are increasingly conditioned to getting exactly what we want, when and how we want it. Our choices, like our needs, seem boundless.

Here are a just few examples of customizable products and services.

### AMAZON

Amazon uses previous purchase information as well as information from other customers to provide specific product recommendations to its users.

### M&M's

Yes, you can personalize your candy. By visiting mymms.com, users can have personalized phrases and even photos printed on their M&M's. They can also choose the color and the packaging and have their order shipped next day.

### *MY YAHOO*

Yahoo allows customization of the users' home screen and the information that uploads to it at log-on. Specific feeds such as business, news, sports, weather etc., can be chosen by the individual user.

### *STUMBLE UPON*

This free -internet service provides content that aligns to specific preferences based on feedback provided by the user. The user provides feedback by indicating if they like the content suggested or not. This feedback helps the system to better identify and deliver preferred content. As likes or dislikes change, so too will the content the system delivers.

### *NIKE*

Nike allows consumers to go on-line and custom design their own running shoes. Color, pattern and style are all variable and the shoes don't really cost significantly more than they might off the shelf.

### *LANDS END*

Using a U.S. military algorithm, this furniture and clothing retailer is able to sort through a large database of pant sizes to produce a pattern for custom-fit pants. More than a dozen measurements are fed into the algorithm to produce the custom-fit pattern. It is then sent to the manufacturer to produce pants designed to fit one customer.

### *SCION*

Recognizing the desire, primarily among young men to customize or "tune" their cars, the company began to offer levels of vehicle customization directly from the factory. Their website includes a section called "Build Your Scion" where users can mix and match parts and components to build their ideal car.

Feeding the ability to customize products and services is a deluge of customer information. In fact, until recently there was so much information being captured, retailers couldn't sort through it quickly enough to do very much with it. However, with improved and more powerful systems, the coming decade will see a quantum leap in the ability of retailers to capture, synthesize and action this data. This will enable further precision in defining and customizing to meet consumer needs.

*The ability to offer customers the ability to express themselves will go beyond personal service*

The advantage for the independent retailer is the direct connection they have to the customer. This first hand knowledge of the consumer and their preferences allows for insights larger competitors struggle to maintain. The key is building levels of choice and customization into the product and service offering to address as many varying needs as possible.

#### *KEY NEXT STEPS AND IDEAS: PERSONALIZATION/INDIVIDUALIZATION*

- At a minimum, your store should be using customer relationship management software. Even a simple CRM system will track the data required for developing knowledge of the unique shopping preferences of different customer types and offer you the ability to respond to them.
- You may find that your marketing plan targeting a single group of customers could be further broken down into 2 or 3 approaches targeting groups of customers with similar needs. For example, your business that currently targets women 18-34, could be further broken down to address those with or without children, workers or students or any other dimensions that will help you better customize your products and services.
- Staff must be trained to go beyond *service* and to actually *sell* based on the unique needs of each customer. They should be trained to identify individual tastes and preferences and be capable of combining products and services to create unique, personalized solutions. This is a skill that goes well beyond service.
- Assortments should be built with customization and cross selling in mind. Look for opportunities to build in upgrades, accessories or modifications to your product. Also look for other products or services you could offer to help customers make their purchase unique and personal.
- Store policy should allow for exceptions wherever possible to account for unique needs and constraints. Build policies that allow for changes, substitutions and combinations wherever possible.

## THE EMPEROR HAS NO TIME

Earlier we discussed the shrinking of the “middle-class” and the resulting polarization of retailing. Manufacturers and retailers have had to draw clear battle lines with respect to which end of the market they’re appealing to.

In order to better understand the next trend, we need to step back and look at two additional factors that have further heightened the need for retailers to be crystal clear about who they are and what they offer.

## *THE CONSUMER IS KING*

Today the consumer calls the tune and retailers and manufacturers respond willingly. But it wasn’t always like that. In fact, from the Industrial Revolution until the mid 1850’s, it was the manufacturer who made the rules. Product features were distinct, brands were strong and manufacturers had great latitude with decisions as to who would carry the product, how much of it they’d get and of course what they’d pay for it. Advertising of the time was highly focused on product features, patented designs and one-of-a-kind breakthroughs. Consumers had little reason or facility to dispute their claims. All of this put the manufacturer in complete control over the message, the demand and the distribution of their products.

Then, in the mid to late 1850’s something changed. Large urban department stores began to rise like giants on the horizon. The original “category killers”, these massive stores put numerous product departments under one roof for the first time. Richard S. Tedlow, a professor at Harvard University explains the change as follows, “The department store began in an era of a hub-and-spoke transportation system for cities, before the automobile,” Tedlow says. “In Chicago, for instance, the large downtown department store, Marshall Field’s, became in and of itself *the brand*. And for a store like that in, say, 1870 or 1880, the competition was basically mom-and-pop shops. Department stores were a new mode of retailing. They became destinations—they became places where you shopped not solely for procurement but for entertainment.”<sup>8</sup>

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<sup>8</sup>Newyorker.com, Under one Roof 2003

The popularity of department stores soared, as did their buying power. For the first time retailers truly began to dictate terms with the manufacturer. What got sold to whom and how was largely in their hands and manufacturers had little choice but to do as they were told. For the next 70 years or so, the downtown department store ruled the land.

The baby boom of the late 1940's through to the mid 1960's sparked unprecedented suburban development. People were vacating city centers in favor of suburban spaces. In response, developers created the first enclosed indoor shopping malls. The first enclosed, shopping center was the Southdale Center in Edina, Minnesota. In most cases, these malls were anchored by large department stores, making them even more powerful. In and around the late 1980's department stores began giving up ground to growing big box retailers and they too began to exert their influence over manufacturers. Companies like Wal Mart, Target, Costco and others exerted tremendous dominance over their suppliers. Their buying power was so compelling and their focus on price so keen; it would eventually initiate a revolution in off-shore manufacturing.

Then in 1992 something remarkable happened; something that would forever change consumerism. For the first time, commercial providers began offering a service called the Internet to the general public and...well you know what happened next.

Suddenly, the power of information was in the consumers' hands and neither the manufacturer nor the retailer could pull the wool over their eyes. Today, it's entirely possible for the consumer to know more about the product than the retailer and even the manufacturer. Comparison shopping, product reviews, demo videos, re-sellers, auction bargains are all just a click away! False product claims, unfair pricing practices or unethical manufacturing processes can be publicized in a heartbeat.

The consumer is king and the transfer of power has required retailers and manufacturers to be more honest and transparent in their how they make market and price their products.

*Suddenly, the power of information was in the consumers hands and neither the manufacturer nor the retailer could pull the wool over their eyes.*

### *TIME PERCEPTION*

You know the old adage, "time flies when you're having fun"? These days it might be more appropriate to say, "Time flies when you're having an historic socio-economic revolution accelerated by quantum technological developments."

Whether or not North Americans actually have less leisure time is a source of debate amongst experts and hence our use of the term *Time Perception* as opposed to time compression or time starvation as it's sometimes referred to. What is widely agreed upon, however, is that the nature and number of forces competing for our time are significantly different than they were thirty years ago. It's not how *much* time we have it's the demands on how we *spend* it that's the issue.

Here are some quick facts:

- On average we sleep approximately 2 hours less per night than we did in 1920
- A quick scan of a local book store indicated that there are currently 685 titles available treating the subject of time management.
- A quick scan of business headlines reveals the headlines ...
  - "Grocery industry courts time-pressed consumers with home meal replacements"
  - "Papa John's to Offer Time-Pressed Consumers Quality Pizza Faster"
  - "Visa Helps Time-Pressed Americans Get Back an Additional Five Hours a Year"
  - "The Whirlpool Duet steam dryer boasts cutting-edge drying and refreshing technology aimed at meeting the needs of time-pressed consumers..."

So, the nature of how we value, measure and ultimately spend our time has changed dramatically. Time is extremely precious to us and we are wary of anything or anyone that looks like they might rob us of it.

These two factors; the consumer as king and time perception conspire to form one enormous implication for retailers. The consumer will not spend the time to figure out your value proposition...nor are they obliged to. The days of the desperate consumer seeking out the often obscure retailer in order to acquire the exclusive brand are simply over.

*The Consumer will  
not spend time  
figuring you out, nor  
are they obliged to.*

## 5: CLEAR RETAIL VALUE PROPOSITIONS

<b>T R E N D S</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
	The Disappearing Middle	Personalization and Individualization	The growth of social media	A world of competition
	The Demographic Divide	Clear retail value propositions		
	The Importance of Ethnic Consumers	Green-tailing		
Technology				

As a result of this transfer of power to the consumer, retailers need to be increasingly clear in their value propositions. Furthermore, the value proposition must be guided by two immutable laws; The consumer gets exactly what they want – always and you need to be able to deliver on the value proposition every day.

In their book, *The Myth of Excellence*, authors Fred Crawford and Ryan Matthews offer a method by which a business can develop clarity regarding its value proposition. They begin by offering the idea that there are essentially five competitive dimensions or competencies along which businesses compete as shown in the following chart.

<b>Competitive Competency</b>	<b>The business may dominate in the following areas</b>
Product	Quality, selection, brand name, unique patents, design etc
Service	Staff knowledge, personal attention, satisfaction guarantees, easy return policies, fast shipping
Convenience	Easy to find, good access, ample parking, extended hours, open 7 days, on-line store, delivery service
Store Experience	Fun to buy from, promotes a connection to the brand or sense of community, visually interesting or exciting, a sensory experience
Price	rock-bottom prices, will routinely undercut competitors, guarantees lowest prices, able to operate on short margins

They maintain that companies often make the mistake of trying to be excellent at all five. In the process, they become an amorphous question mark to the consumer. In trying to be everything, they become nothing. Once this occurs, they languish in the middle, wavering between watered-down brand messages.

*Think of some top retailers and chances are you'll be able to quickly identify their dominant competency.*

According to Crawford and Matthews the key is to *clearly dominate* in one of these competencies and accept performing at par with competition in two others.

Think of some top retailers or hospitality brands and chances are you'll be able to quickly identify their dominant competency as we have in the chart below.

Neiman Marcus	Product
Starbucks	Store Experience
Wal Mart	Price
Ritz Hotels	Service
7-11	Convenience

Where these companies have chosen to dominate and where *not* to dominate is very clear. It's a safe bet that the folks at Neiman Marcus won't spend a lot of time trying to woo customers with competitive prices. Similarly, Wal Mart won't waste ad dollars promising great service. Like them or not, these companies operate according to our two previously stated rules; the customer will get what they want and will not waste time figuring you out.

This does not make these companies immune to business challenges or competitive forces. It simply makes them easily identifiable and understood to consumers. You may not like the service at a discounter but your probably won't be disappointed either. You'll get exactly the service you were promised - none.

The question for the independent retailer is "how does *my* business dominate?" and moreover "Does my target market know it?" Understanding that you can't dominate in more than one competency, which one is it?

First, let's define dominate. To dominate suggests that you...

- are known by target consumers and competitors as a leader in this competency

- are significantly differentiated from competitors as a result of your strength in this area
- are consistent in your execution of this competency every day

Understanding this definition very clearly will prevent you from falling into the trap that so many independents succumbed to over the previous twenty-five years, which for lack of a better term, we'll call *competitive delusion*. During the early to late 1980's as the big box format gathered strength, there was a growing contingent of independent retailers who looked smugly at these new competitors and said, "sure their prices are low but they can't offer service like my store does." Even the press picked up on this David and Goliath-esque story and while it sounded good, there was only one problem; the independent *wasn't* really offering good service. They just didn't have any major competition to press them on it and if they did, the competition wasn't very good at service either.

*Even the press picked up on the story. There was only one problem; the independent retailer wasn't really offering good service.*

The result was consumers, as expected migrated to a stronger, clearer and more consistent proposition- "low prices every day" or "best selection every day" or "open 24 hours every day". It was a massacre across virtually every category of merchandise, from books and apparel to housewares and electronics. In the end, many retailers simply didn't own the service competency to the extent they needed to in order to survive. To be fair, even in cases where they did, the gravitational pull of the big box was sometimes just too great for consumers to resist.

Over the next decade, large retailers will look more and more to in-store technologies to enable their customers to better self-assist. Self-checkout, price lookups, interactive displays and kiosks will become even more pervasive as large retailers struggle to streamline customer experience maintaining or lowering operating costs.

For the independent, it's key to establish their dominant competency and be certain that they arrive at the right value equation for their target consumer groups.

### *KEY NEXT STEPS AND IDEAS: CLEAR VALUE PROPOSITIONS*

Here are some steps you can take to establish your unique retail value proposition. You will likely learn a great deal about your competitors, your customers and your own business in the process.

1. Survey existing customers. Be sure to cover four key questions:
  - a. Why do they shop in your store?
  - b. Which competitors do they also shop and why?

- c. If there was one reason why they'd *stop* shopping in your store, what would it be?
  - d. Would they refer a friend or family member to your store? If so, why?
2. Shop your competitors. Leave your assumptions at the door and get a genuine sense your competitors' strengths and weaknesses. Become very familiar with how they operate. Complement *your* experience by speaking with other people who shop there.
3. Establish where you simply *can't* compete or where it wouldn't pay to try. A few of the more obvious challenges for the independent are price and product selection; purely factors of store size, volume and buying power. Furthermore, even if you can compete on price, it may not be a fight you can win in the long-term.
4. Select one competency where you can not only dominate but also differentiate relative to competition. Then select two other competencies where you will settle for being at par with competitors. Perhaps you'll choose to dominate in service and maintain par with respect to pricing and in-store experience. Whatever combination you select, you'll need to answer the question, "What will it take for customers to recommend me to their friends?"
5. Once you've established your value proposition, measure it relentlessly both in your store and your competitor's stores. You may find that using a professional secret-shopping service is useful in this regard.
6. Stick to it. It will take time for consumers to associate you with your area of dominance. Reinforce the key message at every touch point and in every business communication. If your service is the best in town, then declare it and live up to it.

## 6: GREEN-TAILING

<b>TRENDS</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
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	The Importance of Ethnic Consumers	Green-tailing		
Technology				

It's easy to regard the green movement as a relatively new phenomenon. In fact, its roots can be traced back as far as the early 19<sup>th</sup> century. *Conservation* as it was then known rallied around many of the same key environmental issues that we struggle with still, albeit without the clarity of scientific evidence we now enjoy. While it's true that economic and political shifts have at times interrupted the public's fervor, the movement has remained a constant and growing concern.

The point here is two-fold; firstly the green movement is not the flavor of the month or the century for that matter. It's a global issue that's at least 170 years in the making and of mounting importance. In fact, to call it a "trend" is in itself somewhat misleading. Secondly, if we frame the green movement simply as an environmental issue, we're missing a significant portion of what it's all about and will not be completely effective in addressing it.

*(Green) is a global issue  
that's at least 170 years*

Today, the term "green" encompasses all aspects of how we design, produce, market, use and dispose-or don't dispose of the things we consume. It also includes concern for the people and the countries that produce these things. Until now, the majority of public scrutiny has been placed on government and industry to legislate and manufacture to support sustainability. In the future, we also see growing focus on the manner of distribution at retail. Consumers and watchdogs alike will be looking for retailers to operate their stores in

*in the making and of  
mounting importance*

a responsible and sustainable way, taking a conscious stewardship role for the items they sell. Many of the largest retailers have already taken major steps toward meeting this new expectation and we expect this to accelerate as generation Y begins to take the wheel of consumerism.

For the small to mid-sized independent retailer, greentailing signifies both a challenge and an opportunity. The challenge will be to implement greentailing practices without the vast levels of expert support, financial resources and planning that their larger competitors are throwing at the issue. Furthermore, they will have to avoid what is known as *green-washing*- simply declaring themselves green without truly meeting any of the requisite standards - a practice met with certain death by informed consumers.

The opportunity however lies in the fact that for the astute retailer, green is a chance to win consumer loyalty and grow market against large competitors. Implementation, management and measurement of green business practices are infinitely easier in a small business model than they are across multi-national chains. The key will be taking some key initial steps toward building sustainable practices.

## *KEY NEXT STEPS AND IDEAS: GREENTAILING*

### *RESEARCH GREEN*

It's extremely difficult to support, much less believe in something you don't completely understand. It's particularly important because today the term "green" has implications beyond the environment. It also encompasses issues of fair trade in manufacturing countries, consumer health and general business ethics.

### *BUILD A POLICY*

This does not have to be a lengthy exercise but putting your greentailing practices into policy will make managing them far easier. Articulating the policy will give you and your staff a reference point if ever in doubt. And like all beliefs, putting them in black and white shows honest commitment to them. As more and more companies start jumping on the green wagon, consumers will become more and more wary of pretenders. Having your policy in place and perhaps even displayed in your store will give you added credibility.

### *KNOW YOUR STANDARDS*

As the green movement gathers momentum, consumers will look for reliable standards and trusted measures of sustainable practice. It's certain that standards like FSC (Forestry

Stewardship Council) and LEED (Leadership in Energy and Environmental Design) are top of mind with big box buyers.

Moving forward, consumers will be more and more on the lookout for these kinds of trust-marks. Depending on what you sell, the key certifications may vary but take the time to know what they are.

### *START BIG*

We're usually told to start small but in this case, look for the big wins first. Focus on the big three - products, paper and power.

**Products:** Ensure that you're either selling green products or at least offering green alternatives where it makes sense. Hopefully your green alternates are neither prohibitively priced nor of lesser quality. Make an effort to convert customers to the environmentally friendly choice wherever possible. To top it off, do your best to assure yourself that the people who make your products are treated fairly, wherever they live.

**Paper:** We've heard people say that in the course of doing their job, they've been processing a form for years that no one ever looks at or seems to need. Eliminate unused forms from your business process. On small sales, ask your customers if they need a receipt. Do you ever really use that third carbon copy that you have on your packing slips? If not, move to a two-copy system. Do you use direct mail? If so, are you address-correcting before mailing to ensure every piece is sent to a valid address? Are there opportunities to reuse paper in your business? These are just a few of the questions you can start off asking.

Once you've pared down the volume of paper used, ensure that what paper you must use is FSC compliant.

**Power:** Review your store to see if there are lights left on unnecessarily (backrooms, offices, restrooms etc.). Install motion detecting switches to automatically turn lights off when not in use. Have someone look at the kind of light bulbs you're using. There are really incredible lighting systems on the market today, such as metal halite or compact fluorescent that can not only lower operating costs but also improve the look of your merchandising. You may not be able to re-fit the entire store at once, so take it a section at a time if necessary. Have someone look at your HVAC system for efficiency. There may be huge long-term savings available to you or your landlord by tuning up or replacing the unit.

### *SET REALISTIC GOALS*

Don't promise yourself or anyone else that you'll do more than you realistically can. Set out a series of manageable objectives over a 5 year period with clear milestones. Plan the steps you'll take each year to reach your goals. Above all, live up to the standards you set.

## *STATE YOUR POLICY*

In a clear way, make customers aware of your commitment to the environment and responsible business practices.

Offer small discounts for helping your cause: As little as a 10% discount offered to customers who bring their own bags or ride a bike to your store might be enough to influence behaviors.

Finally, don't look at greentailing as a threat to your business. Treat it as an opportunity to lower operating costs, improve profitability and do the right thing. If anything, it could represent a distinct advantage for smaller Retailers over large competitors. After all, it's easier to manage any practice in one or two locations than it would be in a thousand.

The fact is, responsible, healthy and ethical products and business practices are becoming table-stakes and astute retailers will take the opportunity to get ahead of the curve. It's just smart business.

## 7: THE GROWTH OF SOCIAL MEDIA

<b>T R E N D S</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
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	The Demographic Divide	Clear retail value propositions		
	The Importance of Ethnic Consumers	Green-tailing		
Technology				

To understand the power of social media, you need to understand Julia Nunes. No, she's not a media expert; nor is she a marketer-not in the conventional sense anyway. Julia Nunes is a teenager who plays the ukulele. What do a teenage ukulele player and social media have in common you ask?

The 19 year old musician, from Fairport New York attracted worldwide attention after filming her own series of YouTube videos singing original and popular cover songs. In a short period of time she went from a state of obscurity to one of relative notoriety and today, she has over 27,000 fans on her YouTube site, opens for touring bands and has already sold thousands of copies of her debut CD, all without one dollar of traditional media - an enviable success by any measure.

Social media is information and content created by ordinary people using highly accessible and scalable publishing technologies. Blogs, newswires, podcasts, videos, RSS feeds, tweets and e-newsletters are only a few of the platforms employed. The information is then spread in a viral way through *social networks*. Social media has two things going for it that print and television media lack - the speed of the internet and the trust of word of mouth.

The influence of social media can be seen all around us and stretches far beyond the entertainment world. On August 1<sup>st</sup> 2007, during rush hour, the I-35W Bridge in Minneapolis collapsed. Within seconds of the collapse, photos, descriptions and commentary began to flow from the scene, all via Twitter and other social media networks. It wasn't until a full hour later that the press caught up to the story and began reporting on

it. The scoop, as it's called had had been stolen by the public itself. This is only one example in a sea of thousands of the reach of social media.

The prognosis for mainstream media is, not surprisingly, grim. Newspaper and television advertising is declining rapidly as marketers awaken to the intoxicating potential of social media. Radio is also on a downward slide, albeit at a slightly slower rate. The numbers speak for themselves:

- 22% of Internet users have traded their print news subscription for an online news subscription<sup>9</sup>
- Online news reading accounted for an average of 53 minutes in 2008; an increase of 12 minutes from the prior year<sup>10</sup>
- Spending on local newspaper ads declined 10.2% in 2008<sup>11</sup> continuing a steady year on year slide.
- Overall U.S. ad expenditures (on TV advertising) declined almost \$3.7 billion, or 2.6%<sup>12</sup>
- One prominent analyst estimated that major broadcast networks could be down as much as 15% to \$7.4 billion for prime-time advertising sales for the fall season 2009<sup>13</sup>
- Since March 2007, ten US metropolitan daily newspapers have shut down. Eight more appear to be poised for a similar fate.
- Digital Video Recorder (DVR) sales are growing exponentially every year. DVR allows users to playback programs while fast-forwarding through commercials.
- Satellite (commercial free) radio subscription is growing significantly year on year.

(All figures in \$U.S.)

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<sup>9</sup> University of Southern California Annenberg Study 2009

<sup>10</sup> USC Annenberg study 2009

<sup>11</sup> Neilson Company 2008 report

<sup>12</sup> Neilson Company, neilson.com March 2009

<sup>13</sup> Los Angeles Times latimes.com 2009

As for social networks, perhaps no other name has become more the poster child for the technology than Facebook. Facebook, the 2004 brainchild of Harvard sophomore Mark Zuckerberg, has become the gold standard for the medium. Initially developed as a private network for Harvard undergrads to keep in touch, the site was expanded within 30 days to include 3 more Ivy League Universities. The rest is history and today...

- In 2009 Facebook has more than 200 million active users.
- More than 100 million users log on to Facebook at least once each day
- More than two-thirds of Facebook users are outside of college<sup>14</sup>, with the fastest growing user demographic being those 35 years old and older
- If Facebook were a country, it would be the fourth largest in the world, just ahead of Indonesia

Social media has enabled us to produce our own content, news and information and social networks have changed the way we share it.

As the world's largest retailers struggle to determine what social media means to them and their marketing efforts, how can the small retailer cope? We believe the first important step is to accept the reality- the conventional forms of advertising you've depended on will become more and more marginal in their returns. There will be no bounce back.

*The conventional forms of advertising you've depended on will become more and more marginal in their returns.*

Secondly, understand that this is not to suggest that you drop all conventional media advertising entirely or immediately. In the short term, you may have an opportunity to negotiate better media buys as more and more major retailers vacate space and airtime. While there may be fewer readers or listeners to advertise to, you may be in a better position to own the medium in your category and therefore get

noticed.

In the longer-term however, successful retailers will become conversant in social media and establish means of making it work for them as an integral part of their marketing mix.

The best way to picture the difference between the way you advertise now and social media is to think of conventional advertising as a duck call. Thirty years ago, retailers would blow the duck call; ducks would hear it and fly in. Social media is more like putting out food for the ducks. They might not fly in immediately but eventually they will and once they do, their delighted quacking will alert other ducks and they'll come too. Eventually you'll have a lot of ducks and your competitors will wonder why their duck calls don't work anymore.

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<sup>14</sup> Facebook Pressroom

The first step is to map out the essential pieces of your campaign. For many small businesses a professionally built website, a blog to distribute content, and a Facebook group are all that's necessary to begin marketing. If your business lends itself to quick video demonstrations, then YouTube is a great way to distribute useful content. The key word though is *useful*. Try to shy away from blatant self-promotion that doesn't educate or provide value.

The buzz-phrase in social media is, "content is king." You need to develop content, even bite-sized content that people like and see value in. We're not all Ernest Hemingway but there are alternatives to writing your own content. The key here is developing a clear strategy to get your content in front of the people that will find value in it and hopefully spread it to others who feel the same.

*You need to develop content, even bite-sized content that people like and see value in.*

For example, if you own a floral shop write a blog on which types of flowers are appropriate for certain occasions. If you own a printing shop, offer advice on how certain documents such as brochures can be printed for best impact. You are an expert at what you do, so share your knowledge. Invite customers to become part of your network, to join your business' Facebook page or to subscribe to your blog.

There are definitely accepted norms, courtesies and conventions that are important to understand in order to be successful. A failure to observe these can work against you very quickly. There are two key things to remember. Be transparent and honest about who you are, what you and how you do it. The success of social media is based in trust. Violate this trust and you will quickly become an outcast. Listen a lot-especially at first. This idea is not to broadcast your message but rather to help where necessary by providing useful input, content or links to information. The more helpful, useful and interesting your information, the more of a fan base you'll build.

Initially you would be wise to manage your social media yourself. In time, you may find that you'll need to hire someone to manage it for you full time. Beyond the essentials, you can put as much or as little work into your program as you choose to.

The forms of conventional media you've relied on are diminishing in their effectiveness and return.

## *KEY NEXT STEPS AND IDEAS: THE GROWTH OF SOCIAL MEDIA*

- Social media is rapidly growing as a trusted source of product and service information
- Conventional media, and particularly newspaper is declining in its effectiveness as an advertising vehicle
- In the short term retailers may be able to buy more presence in conventional media due to lower rates.
- In the long-term a presence in social media will likely be essential
- Social media differs from advertising in the sense that it is not based on broadcasting messages about your company. Rather, it's about sharing useful, valuable content about what you sell in a way that helps people
- A move to social media need not be prohibitive for the small retailer, either from cost or management standpoint
- It's important to identify the key pieces of your social media program and be consistent in delivering information through them

## 8: A WORLD OF COMPETITION

<b>T R E N D S</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
	The Disappearing Middle	Personalization and Individualization	The growth of social media	A world of competition
	The Demographic Divide	Clear retail value propositions		
	The Importance of Ethnic Consumers	Green-tailing		
Technology				

Prior to 1992 and the advent of the internet, competition was fairly easy to identify. Apart from the odd catalogue business or mail order house, your primary competitor was usually within walking distance of your store location. If you were really fortunate, they were across town.

Today your primary competitor may be located half way around the world but they may as well be in your parking lot. The consolation is that your next best customer might be half way around the world too. A few figures paint a very clear picture of the power and trajectory of global ecommerce.

- Amazon.com processes as many transactions every second as many independents perform in a day, perhaps a week.
- EBay allows users to browse millions of listings world-wide, many of them for new items not simply re-sales.
- Craigslist, the online want ad service, provides links to thousands of products and services around the world.

- In 2000 online retail sales in the United States tallied \$45 billion dollars<sup>15</sup>. This number is estimated to reach 300Billion by 2012<sup>16</sup>.
- Even in 2009 amidst vast economic uncertainty, online shopping is projected to gain 11%.

The competition is everywhere and they are open 24 hours a day seven days a week. The lines dividing competitors and categories are increasingly obscured as mass merchants expand into new categories of goods and services through their online markets. In a few clicks, you can purchase everything from new shoes to a trip to outer space!

*Amazon.com processes as many transactions every second as many independents perform in a day, perhaps a week.*

In 2007, 44% of Canada's e-commerce spending was with businesses located in the United States<sup>17</sup>; further evidence of eroding market boundaries. Consumers are increasingly comfortable shopping online. Broadband networks are continually being expanded, making the technology faster and more convenient and measures have been put in place to make transactions more secure.

This probably doesn't come as news. What is curious however is that despite the consumer's appetite for e-commerce, a 2007 study found that only 40% of retailers surveyed were generating even a portion of their revenue from e-commerce<sup>18</sup>. In fact, up till now many small to mid-sized retailers have managed to dodge the internet entirely. A surprising number still operate without a website of any kind.

We see this as perilous for three reasons:

1. There may be enormous opportunities for you to sell your products beyond your current geographic market right now.
2. For the Generation Y consumer within your market tomorrow, your store will not exist.
3. Over the next 10 years, we believe that on-line shopping will evolve to new heights using virtual reality technology to make it more engaging and experiential. When this occurs, even current on-line shopping technology will look outmoded.

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<sup>15</sup> Forester Research, 2001

<sup>16</sup> Computerworld.com

<sup>17</sup> Statistics Canada 2008

<sup>18</sup> 2007 Small Business Research Board and Business Today Magazine

In short, if you fail to capitalize on e-commerce now, you will lose in both the short and longer-terms.

Fortunately, the technology to establish basic e-commerce is substantially less expensive than it was only a few years ago. What used to cost tens of thousands can now be built for the cost of a few ads in the local newspaper. The important thing for the independent is to get on board.

### *KEY NEXT STEPS AND IDEAS: A WORLD OF COMPETITION*

- Redefine your market without regard for geographic or political boundaries
- Regard all forms of trade in your category as direct competition, regardless of where they're located
- Study your on-line competitors and develop an understanding of best practices.
- If you do not have a website, hire a reputable business to build one for you - homegrown websites most often look homegrown.
- Include an on-line store for your customers purchase from
- If for some reason your product cannot be sold via the internet, which is rare, at least allow customers the capacity to make product choices on line before coming to the store or phoning in their order

## 9: TECHNOLOGY

<b>T R E N D S</b>	<b>Who is the target customer?</b>	<b>What do they want?</b>	<b>How can we communicate with them?</b>	<b>Who are we competing with?</b>
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<b>Technology</b>				

Retail technology can be broadly categorized under two headings; *customer experience enhancers* and *operational efficiency drivers*. As major retailers have grown their enterprises, they have increasingly looked to technology to support them in both of these areas.

Here we'll explore those advancements we feel will have the most significant impact on the consumer and consequently retailers. Some of these technologies are clearly better suited to large format stores where personal customer service is limited or problematic. Others are certainly more relevant to any size of operation.

### THE ANTE

Before we examine emerging technologies, it's worthwhile reviewing some of the basic tools and systems that every retailer should already be using.

#### *POS SYSTEM*

- It's hard to imagine any retail business today operating without the use of a POS system. A good POS system facilitates streamlined transactions while providing accurate and user-friendly back office reporting. Ideally you can set up a customized dashboard of key figures and ratios that help you operate your business. Trustworthy data will allow you to make improvements to your store operations, marketing and sales activities.

One key thing to consider is, if you only use your POS system for tracking actual results, it will be the most expensive rearview mirror you'll ever own.

The advantage of a POS system is in using the data to make strategic decisions about your business to influence the results, not simply to measure them.

Also, don't forget that the mark of a great POS system is that it should *enable* remarkable customer experiences not bring them to a grinding halt. Slow checkouts are one of the consumers' biggest complaints. Your system needs to accommodate fast checkouts while garnering accurate and timely data.

## *INVENTORY MANAGEMENT PROGRAM*

- One of the most critical elements of retailing is maintaining positive cash flow and one of the best ways to do this is by selling inventory quickly and for top price. All too often however, retailers violate the basic law of supply and demand by either buying more or less of a given item than they need.

Supplier "loader programs" are notorious for getting retailers into overstock situations. The double-whammy comes when the retailer can't order core items they sell lots of because their money is tied up in an overstock of slow moving items. The result is a loss of revenue and a direct hit to cash flow. This is a recipe for disaster.

A good inventory management system won't replace solid judgment but it will provide guidance against which decisions can be made. With a system in place you should be able to limit out-of-stocks and over-stocks. In other words, manage inventory closer to a point where supply equals demand.

## *A CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEM*

- In essence, a CRM system enables you to cluster customers according to their needs, tendencies and preferences and then service them accordingly. A CRM system can mean more successful direct marketing, better add-on or cross selling and even provide and early warning on factors that may be costing you customers, such as new competitors.

It's important to note here though that the majority of CRM implementations fail. In most cases it's because the data required to fuel the system, simply isn't being gathered. Sales Associates are naturally reluctant to ask customers for information and customers are wary of providing it. The fact remains however that the more robust and complete your data, the better your CRM return on investment will be. Consider giving your customers reasons to want to provide the information proactively. Attach some real

benefits to opting in. Use the data you *do* receive to offer your loyal customers something of real value- which doesn't always mean discounts.

While we still hear stories of the remarkable retailer who knows every customer by name, they are clearly the exception. For us mere mortals, a CRM system is an invaluable tool for understanding the needs, wants and behaviors of our customers.

### *TRAFFIC COUNTERS*

- One of the first key metrics we look at in any store productivity assessment is conversion rate. Conversion rate is the percentage of customers who buy something in the store as a percentage of the total number that come into the store.

Surprisingly few retailers have access to this data because they're not counting traffic into the store. Imagine if the NFL didn't measure completed passes or if the MLB neglected to measure batting averages. Having a basic understanding of your stores performance in this area is essential. The technology to measure foot traffic is now wireless and is not an expensive venture compared to the return on investment the data can provide. Consider that if you found your conversion rate was 4 in 10 customers and with some improvements to merchandising and staff sales activity you could make that 5 in 10, it actually represents a 25% improvement in conversion rate- an improvement any retailer would kill for.

### *A WEB SITE AND ONLINE STORE*

- As discussed earlier, a website today is like the business card of yesterday. It has become the minimum expectation of any business. Furthermore, if you're not selling product from your website, you're giving up revenue. It's just that simple.

Building a website with an on-line shop does not need to be prohibitive from a cost standpoint. The vast majority of websites are built off pre-existing templates and e-commerce solutions are off-the-shelf. Where you'll have to invest some time is in setting up your product and pricing files but the effort should be well worth it.

## NEW AND EMERGENT TECHNOLOGY

### *RADIO FREQUENCY IDENTIFICATION (RFID)*

RFID operates using tiny tags containing a special radio frequency-emitting microchip. The microchip wirelessly communicates information about itself, such as its current location and its origin. Because each tag is unique it can be tracked through the entire supply chain. Inventory management and replenishment can be completely automated.

RFID has benefits beyond inventory control. The technology also enables retailers to automate aspects of in-store sales assistance such as companion product recommendations or promotional activity on specific products.

Many large retailers are working with their manufacturers and systems providers to move to completely automated supply chains courtesy of RFID technology. It's quite conceivable that within the next 20 years, RFID will become the standard means of managing retail supply chains. With that in mind, technology providers like Microsoft are now offering scaled solutions for smaller retailers.

*As RFID becomes more ubiquitous, its reach will extend into the home*

As RFID becomes more ubiquitous its reach will extend into the home, where appliances will be fitted to receive RF signals and help consumers manage stock of the items they need.

### *PERSONAL SHOPPING ASSISTANTS (PSA'S)*

Personal Shopping Assistants or PSA's are handheld devices that are provided to shoppers allowing them to check pricing, retrieve product information and get complete advice on alternate or companion products. The PSA can also be used to communicate promotional activity, guiding customers to items that are on sale within the store.

PSA's mark the coming together of the on-line and in-store shopping experiences. They allow customers to browse the store in a traditional way but with computer assisted intelligence in-hand. The same technology is being used to power "smart carts" or intelligent shopping carts that can store personal shopping lists and recommend complementary products as the consumer places items in the cart.

### *MOBILE MARKETING & COMMERCE*

Increasingly, the one possession we take wherever we go is our cell phone. In 2008, 1.2 billion cell phones were sold worldwide<sup>19</sup>. This fact has not escaped marketers and retailers. The third screen as it's now called (TV, Computer and now Phone) provides a direct line between the brand and the consumer- the ultimate point of convergence. Once established, the connection provides a means of delivering product and promotional news, links to brand websites and e-lets to special events. Companies will connect with

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<sup>19</sup> Plunkett Research, Ltd. 2009

consumers no matter where they are or what they're doing. And with advancements in wireless application (WAP) browsers, the internet is becoming more mobile with each passing day.

Some companies have employed mobile marketing to stage unique surprises for unwitting consumers. In one such marketing campaign, Honda Ireland mounted an interactive, large -format billboard in Dublin's Wexford Street, a popular nightspot for young people who go to enjoy the music and bar scene. The campaign features a large billboard with the tagline: 'Wake the Beast. By texting a code, the car on the billboard would light up and smoke would start to plume from the exhaust. The public could interact directly with the billboard and in doing so engage in a cool way with the Honda brand. As a follow up, the consumer also received a link via text message, leading them to the Honda website.

*The cell phone, or the third screen as it's now called, is the point of convergence where companies can carry on a dialogue with consumers.*

In another example, Starbucks is running a mobile marketing campaign in which 2 dimensional barcode coupons are sent to loyal customers via text message. The aim is to reward loyal customers and gather new customers at the same time.

For the consumer, store location lookups, product information and branded social networks are all accessible from their cell phone. It's foreseeable that the cell phone will also become a means for the consumer of capturing in-store information, such as how-to, technical information and product brochures in store for later viewing at home.

With all this in mind, we see mobile marketing as one of the most significant technological trends of the coming decade.

### *VIRTUAL RETAILING*

Second Life™ is a virtual world built by a company called Linden Lab. Within Second Life, members create characters, or Avatars as they're called, that enable them to interact, communicate, travel and carry out business. What began as futuristic escapism is rapidly growing into a legitimate means of communication, education and commerce.

A growing number of companies have established a corporate presence in Second Life. In a recent example, IBM actually hosted a 2008 world virtual conference with over 200 participants. For some companies, this unreal world is yielding very real revenues with brands such as Reebok, Adidas and American Apparel, to name only a few setting up virtual shops. While they're definitely managing their expectations for what success looks like, they see a very clear future for virtual shopping experiences.

A few recent figures<sup>20</sup> from the Second Life economic statement provide solid evidence of the growth of virtual experiences.

- 124 Million User Hours, an increase of 42% from the same quarter last year
- Peak concurrent users of 88,200, an increase of 33% from the same quarter last year
- US\$120M in user-to-user transactions, up 65% from the same quarter last year

Even hard-core “bricks and mortar” retailers such as Wal Mart are now using virtual store environments to conduct consumer research.

Similar to the initial skepticism of the early 1990’s toward e-commerce, there are those that remain dubious about VR’s ability to capture a significant percentage of bricks and mortar sales.

*In 2008, \$120M  
U.S. changed  
hands in the  
virtual world of  
Second Life- an  
increase of 42%*

We see two compelling reasons to consider virtual retailing a legitimate threat:

1. Traditional on-line shopping, while functional, is not highly engaging or experiential. Virtual retailing marries the best aspects of traditional e-commerce, with personal experiences happening in real time.
2. An entire generation of consumers (mostly male) who grew up with gaming technology will soon be active consumers. They will not hesitate to shop in a virtual world. It’s entirely possible that video games in fact, will be the thin edge of the wedge, in allowing brands to experiment with selling in virtual environments.

## *ARTIFICIAL INTELLIGENCE*

Imagine if you had a sales associate who knew everything. With just a few questions, they could solve even the most complex customer dilemma and guide them to the exact product or service to meet their needs. To top it off, they’re correct over 99% of the time, don’t take breaks and never ask for a raise. Interested? Well allow us to introduce you to *Hunch*.

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<sup>20</sup> Linden Lab, Second Life Economy- 1<sup>st</sup> Quarter 2009

Hunch, a project out of the Massachusetts Institute of Technology, is an artificial intelligence and decision making program that literally gets *smarter* each day. Using a system of algorithms, Hunch will propose a concrete answer to hundreds of different questions: What kind of car should I buy? Should I switch to a Mac? Should I dump my boyfriend? Where should I go on vacation? Should I get a tattoo? You name it...Hunch knows it. As more users interact with the system and give feedback on the responses Hunch provides them with, the system hones its decision-making ability, becoming even more accurate.

Picture your local big box store with a Hunch or two in every aisle. With just a few short questions, consumers can get exactly the right advice on products and services.

Whether it's Hunch or some other form of AI, we see an enormous potential for this technology at retail. It not only has the potential to reduce operating costs but if done well, could dramatically improve the shopping experience.

#### *KEY NEXT STEPS AND IDEAS: TECHNOLOGY*

- Make sure your business is using or at least exploring all *basic* forms of retail technology; POS, customer relationship management, traffic counters, inventory management systems
- Stay current with innovations in retail systems and technologies
- Store systems should not create roadblocks or inconvenience. Make sure all technology is either transparent to the consumer or enables a superior experience. Question all manual processes or activities that waste time
- Have a website built and sell from it
- Consider more advanced technology where a scaled solution is available to fit your operation
- Make sure that the *people* in your store are truly adding value to the consumers' experience. Technology preys on low value staff positions

## CONCLUSIONS

There are those who have up until now survived a landslide of change without considering it, much less embracing it. While this may have worked in the past, we only have to look at the North American auto industry to know that change-aversion is not a good long-term strategy. In the end, change wins.

Our fear of change is often the result of a misguided belief that it has to be absolute; that the new has to eradicate the old. A look at retailing through the ages suggests otherwise; the industrial revolution was hailed as the end of the country market, the department store was heralded as the death of small retail shops, big box discounters were supposed to kill all

*Retailers that have survived the ages have been remarkable for some reason.*

department stores and the internet was projected by many to replace bricks and mortar retail entirely. The truth is that *every* form of retail that has ever existed exists today; from the market stalls of Turkey to e-commerce and everything in between.

What is clear is that the future has no stomach for mediocrity. In virtually every case the retailers that have survived the ages have been extraordinary for some reason. They earned their survival by delivering remarkable experiences to consumers and in most cases, by adapting to and embracing change.

In addition to providing evidence that real change is taking place, we hope this report demonstrates the growth opportunities that await businesses that have the courage and foresight to capitalize on them. Each of these important trends and changes is an opportunity to evolve your business and in doing so, secure *your* place in the future.

As Charles Darwin once wrote, "It is not the strongest of the species, nor the most intelligent that survives. It is the one that is the most adaptable to change."