RETAIL executive

SEPTEMBER/OCTOBER 2017

ERIK CALDWELL
SVP, Supply Chain
& Digital Operations
Hudson's Bay Company

The Modern Supply Chain:

Extraordinary Is The New Ordinary

p. 12

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Syncing The C-Suite Mindset

ERIN HARRIS Editor in Chief

Based on its 2017 "Total Retail Survey," which surveyed more than 24,000 shoppers, PwC developed 10 areas retailers should consider investing in to stay ahead of the competition:

- Mobile Site
- Talent
- Big Data Insights
- Amazon Strategy
- Telling the Brand Story
- Secure Platforms
- Loyal Customers
- Showrooms
- Authenticity
- Health & Wellness

This list, or portions of it, likely matches your list of short- and long-term strategic objectives. Everything on this list requires its own thoughtful strategy, but for the sake of this article, let's focus on the ways the C-suite must sync its collective mindset in order to tackle any one of these strategies.

PwC advises retailers to strengthen the digital and operations talent within the C-suite to manage shrinking store networks, complicated supply chains, and digital innovation and launch new services to keep currently loyal customers. While U.S. retail sales are expected to grow 3 to 4 percent in 2017 after 3.8 percent growth in 2016, most of this growth is coming from online sales, as store sales revenue growth is only about 1 percent. While the "Retail Apocalypse" is absurdly overstated, change is necessary. Retailing today is all about relevance, and the most relevant retailers are the ones whose C-suite comprises people who eat, sleep, and breathe the dire need for digital savvy. Take Neiman Marcus, for example. From CEO Karen Katz to CIO Sarah Miller to Head of Innovation Lab Scott Emmons, the executive team is rich with knowledge of and appreciation for digitalization. The luxury retailer's Snap, Find, Shop feature on its mobile app speaks to the retailer's understanding of a mobile strategy, but more importantly, the executive team's understanding of a mobile strategy.

Let's continue with the mobile strategy theme. Ask yourself, "Is your executive team on the same page regarding, for example, a mobile site? Are the stakeholders in agreement on the capital expenditure, development, design, innovation, and creativity necessary to build a robust mobile site?" If the answers are anything other than yes, consider that 26 percent of PwC's respondents state that mobile sites are simply not easy to use; ergo, therein lies retail executives' opportunity to empower their mobile team to execute and deliver a user-friendly mobile site with responsive web design that accounts for screen size (PwC states among daily and weekly shoppers, a higher percentage of respondents say they are shopping more frequently with their smartphone than with a tablet). As a stakeholder, consider what it takes to effectively execute mobile site implementation—and what's at stake if you don't. Lose the mobile app in favor of developing a robust mobile site. According to Forrester, users have 200 mobile moments per day, and retailers take up just 5 percent of those moments. Big box brands or large CPG companies may afford the capital expenditure for app development, but if funds are lacking, advise your team to skip the app and invest in improving your own mobile site. Optimize for mobile and focus on responsive web design, or quickly fall behind the retailers that do.

The mobile app versus mobile site discussion is just one of the countless examples that require a unified C-suite. The executive teams who succeed with any of the aforementioned strategies are the ones who stop thinking about sales and instead work together to identify other ways to determine value. That's a promise. Ⓡ

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Retail Executive is honored to present its Editorial Advisory Board, which is comprised of some of the retail industry's best and brightest. Keep your eyes on our EAB that will continue to grow to include additional retail industry luminaries.

Q **What's your best advice for retail's C-suite regarding partnering with early- and growth-stage retail technology companies?**

A FIRST, RETAIL EXECUTIVES should never look at technology companies just because they're trendy. There has to be a specific problem (e.g., optimizing store-level merchandise mix and inventory level vs. improving store sales), and then the executives should be looking for a technology that could help their teams solve that problem. Second, it's people who solve problems, and technology is just an enabler. Executives must make sure they have the team and process to implement the technology. Finally, once a technology vendor is selected, executives need to make sure that their teams fully utilize the technology. No matter how powerful a technology platform is, if it's not properly used, it won't generate the desired results.

JANIE YU
Janie leads deal sourcing and manages portfolios at Fung Capital, whose investments focus on early- to growth-stage B2B technology companies that enable omni-channel commerce and improve supply chain efficiency.

Q **According to IDC.com, "By 2019, robotics and IoT technologies will increase in-store, in-warehouse, and in-distribution center productivity by 1.5x for early-adopting retailers and by 3x for later adopters." How does this vary among tiers-one and -two versus small to midsize retailers?**

A THERE ARE MANY CONSIDERATIONS that impact precisely how much more productive an organization will be after implementing robotics or IoT technologies. Companies with tens of thousands of items under management and with rapid inventory turnover will find that robotics and IoT reduce complexity, improve accuracy, and increase customer satisfaction, while increasing productivity, and are essential to keeping the business running efficiently and profitably. Small to midsize retailers may find that robotics and IoT are essential to meet customer expectations and maintain a competitive edge, however. How the individual retailer defines ROI for robotics and IoT will likely depend on business complexity — not revenue.

LESLIE HAND
Leslie Hand is responsible for the research direction for IDC Retail Insights. She provides fact-based research and analysis for IDC Retail Insights Omni-Channel Retail Execution Strategies.

Q What is the most promising retail technology and why?

A IF YOU ARE A RETAILER faced with operating and growing your business today, you may think that technology may — at best — address only some of your moves. That's where you would be mistaken. The technology and retail worlds are colliding, and new retail startup technology is emerging and making its way into the marketplace. Getting the most out of your store is no longer about location, location, location, but rather community, community, community. The challenge is how to engage with your community through physical and digital (and even virtual) channels. Today you can find physical store technology that uses data-driven techniques such as intelligent and interactive mirrors and displays. Technology like actiMirror gives a real-time, content-powered, personalized experience for shoppers. Oak Labs has started transforming the in-store experience starting in the fitting room. Retailers like Bonobos and Warby Parker are using their understanding of their communities as they enter physical markets, and new omni-channel technologies like Bulletin are emerging to provide e-tailers with a real-world solution.

Today retailers are faced with a post-retail world, and it's no simple task to take advantage of the opportunities, but the emerging technology from Silicon Valley will be found in stores soon and will help retailers make a lasting impact in their stores and communities from Main Street to High Street.

SAEED AMIDI
Saeed founded Plug and Play, the ultimate startup ecosystem, in 2006. Since then, the Plug and Play portfolio has raised over $4B and created thousands of job opportunities in the tech sector.

Q Overall, is retail's C-suite tackling digital transformation? Why or why not?

A ALTHOUGH OVUM HAS SEEN RETAILERS APPLY their digital strategies to existing business processes, they often do so without assessing the interconnected omni-channel nature of the deployment throughout all facets of their enterprises. Retailers that can evolve their business processes to fully leverage digital technologies to deliver seamless cross-channel, cross-device customer engagements will establish a foundation for revenue growth. In doing so, they must also not overlook the importance of culture in successfully digitally transforming their enterprises. True digital adoption means that employees, partners, suppliers, and customers clearly understand their individual roles and potential in helping to facilitate digital change.

MILA D'ANTONIO
is a principal analyst in Ovum's customer engagement practice. She specializes in enterprise customer experience, omni-channel engagement, as well as digital marketing and customer service.

Q According to RSR's recent research, what's the one stat that shocked you the most and why?

A THIS YEAR, I WAS MOST SHOCKED by how much retailers have lost their way around brand value to customers. It's no wonder stores are in trouble when 40 percent of retailers say their biggest internal strength is powerful brand marketing, and yet their primary value proposition to customers in stores is low price and convenience. Only one retailer can win in a fight for low price, and that's either Amazon or Walmart. Retailers need to have more confidence in their brand value — and need to do a lot more to bring it to life in stores.

NIKKI BAIRD
is a managing partner at Retail Systems Research, an industry market intelligence firm specializing in retail and technology. She focuses on trends impacting the consumer-retailer relationship, along with their marketing and operational implications.

Q Other than the members of your own team, what other C-level executives (and departments) do you learn from most and why?

A THE COO, BECAUSE HE OR SHE understands all operational initiatives and challenges facing the folks in the trenches — what's working, what's not working, and the inevitable impact (i.e., customer satisfaction, cost, inventory turns). In my experience, the COO "lives the brand" and understands all the moving parts of the business. Staying close and attuned to the COO means you are directly and positively impacting sometimes thousands of associates and millions of customers annually with IT efforts.

THOMAS J. SCHUETZ
is currently CIO of hhgregg. Prior to joining hhgregg, Tom was chief technology officer for Luxottica's Americas & Asia-Pacific enterprise. Tom has 30 years of retail and healthcare technology experience with companies such as Macy's, Hudson's Bay, Lord & Taylor, and more.

Q As CFO of Cavender's, what is your number one goal for the remainder of 2017?

A WE HAVE SEVERAL KEY GROWTH INITIATIVES in progress in operations, marketing, and business development. Our number one goal is to bring them to completion as soon as possible. We don't like to have too many things undone as we head into the fourth quarter. Second, there is a road map of initiatives for 2018 that we need to begin planning for as we bring 2017 to a close. With all of the uncertainty in retail, our teams have to be focused on strategy execution, knowing that things may change fast. Our goal is to give them the information and tools they need to be nimble but stay on course.

JIM THOMPSON
has been CFO of Cavender's since 1998. He has over 30 years of financial professional experience in public and private company environments and has worked in retail, wholesale distribution, and public accounting.

Cardinal Innovation Challenges

The Retail Industry Leaders Association (RILA) has developed (R)Tech, a new term that describes the confluence of retail and technology. An (R)Tech company embodies the strongest values of both industries, global and local, nimble and entrepreneurial, to delight profoundly empowered consumers.

In 2017, the (R)Tech Center distributed an online survey to its founding members to develop a baseline of companies' organizational structures for innovating. The data is from 27 respondents, 80 percent of which have annual revenues of $6 billion or more.

Four Cardinal Challenges emerged from the survey and interviews; these factors inhibit the growth of innovation in retail companies.

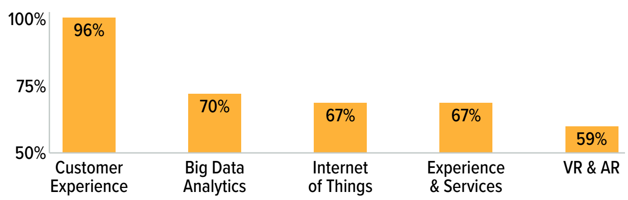
Visit rtech.org to learn more about (R)Tech Center for Innovation's activities.

1. PRIORITIZING

Assessing consumer insights, futures planning, and visiting other innovators are the most used techniques for sourcing new ideas and identifying trends.

TOP CHALLENGES:
Identifying highest value projects and scaling them

INNOVATION FOCUS AREAS

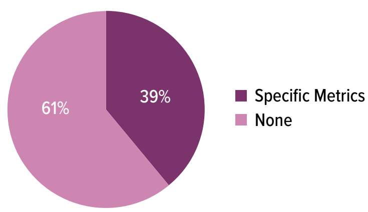


2. FUNDING

Sample metrics for illustrating the value of innovation projects to obtain future funding include customer perception, customer count, % new product, sales/orders, and innovation project milestones and budgets.

TOP CHALLENGES:
Securing funding for and measuring successes for innovation

WHAT INNOVATIONS METRICS DOES YOUR COMPANY TRACK?

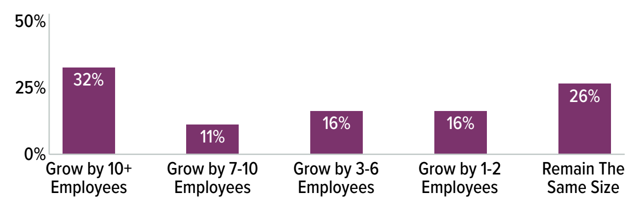


3. TALENT

Innovation teams mostly have technology, design, and engineering backgrounds. Senior leaders most often come from operations.

TOP CHALLENGES:
Dedicating resources and attracting the right talent

INNOVATION TEAM GROWTH IN NEXT 2 YEARS

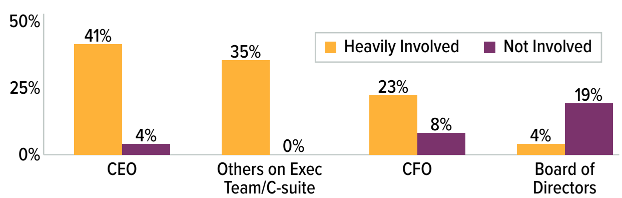


4. CULTURE

19% of companies focus on higher-risk innovation projects.

TOP CHALLENGES:
Breaking free from legacy structures, established processes, and operating environments

LEADERSHIP INVOLVEMENT IN INNOVATION PROGRAMS



10 Things Retailers Should Know When Hiring Millennials

By A. Braun

Adam Braun founded MissionU in response to his wife's inability to pay back more than $100,000 in student loans. Frustrated with the U.S. education system, Braun built MissionU to provide a forward-thinking, world-class higher education program that prepares its students for the real world — debt free.

Academic scholars and advisors from Harvard Innovation Lab, Stanford Graduate School of Business, MIT Media Lab, and more help craft MissionU's curriculum. Students should expect a full-time commitment for one calendar year that includes experience with actual companies. MissionU's student-centered approach means no upfront tuition and no high-risk loans. Instead, students contribute 15 percent of their income for just three years after the program ends, and only if they're earning $50,000 per year or more. Learn more about higher education for the 21st century at www.missionu.com.

1 THEY'RE FOCUSED ON THEIR CAREERS

Millennials are forward thinking and see retail jobs as a stepping stone. They'll take the job seriously but will think of their path above all.

2 THEY WANT TO BUILD OUT THEIR SKILLS

Contrary to their lazy reputation, millennials are always looking for ways to improve their résumés. They will cherish an opportunity to learn new skills, especially technical ones.

3 THEY WANT THE JOB FOR DIFFERENT REASONS

Some millennials want to develop their client interaction skills while others are just looking for a paycheck. Understanding their motivation is key to successfully managing them.

4 THEY DON'T LIKE BEING ORDERED AROUND

Millennials want to feel like humans, not resources. If they make a mistake, a soft approach, like gently pulling them aside, is most effective.

5 THEY WANT TO TALK TO CUSTOMERS

Millennials enjoy building relationships with customers, especially those around their age. It's a way for them to spice up their day. See it as an opportunity for the customer to put a friendly face to the brand.

6 EXPECTATIONS ARE IMPORTANT FOR THEM

Don't surprise millennials with a demand outside of their job description. It's always better to give them an option: They will feel in control.

7 THEY TAKE PRINCIPLES SERIOUSLY

They need to feel good about the company they work for and prefer brands that have a commitment to social causes. Even if they have an entry-level job, working for a brand with a social commitment will give them purpose.

8 THEY WANT THEIR OPINIONS TO BE VALUED

Millennials don't want to feel like tools but as valued parts of the company. Give them a chance to express their opinions: They will appreciate seeing you respect them intellectually.

9 THEY'RE FOCUSED ON THEIR QUALITY OF LIFE

Millennials value their schedules and work-life separation. If you need them to work more hours, ask far in advance: They won't appreciate the last-minute surprise.

10 THEY WANT TO BE VALUED INDIVIDUALLY

They want you to know that this list doesn't apply to all of them. Millennials are very self-aware and know that no mold fits all. For example, ask them for their personality type; it will show them you appreciate their uniqueness. R

The Modern Supply Chain: EXTRAORDINARY Is The New Ordinary

ERIN HARRIS Editor in Chief @ErinOnRetail

Erik Caldwell, SVP of supply chain and digital operations at Hudson's Bay Company, talks making omni-channel fulfillment profitable, capacity concerns, and the A-word.

You wouldn't expect a retail executive with degrees from both West Point and MIT and who is a former Army cavalry officer to boot to sweat much of anything. So, when I asked Erik Caldwell, SVP of supply chain and digital operations at Hudson's Bay Company (HBC), what keeps him up at night with regard to his job role, I was intrigued by his thoughtful yet emphatic response: "Ensuring our supply chain can handle our company's future growth. Nothing else matters if we miss that mark."

Indeed, modern retail supply chains need real-time data about capacity, availability, and scheduling to accelerate performance and, in turn, scale accordingly. Rest assured, under Caldwell's direction, HBC's supply chain is in good shape. With 10 DCs in North America and seven in Europe, HBC occupies more than 6 million square feet of distribution center space. The company relies largely on automation to fulfill orders from its leading banners across North America and Europe, including Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Gilt, Saks OFF 5TH, Galeria Kaufhof — the largest department store group in Germany — and Belgium's only department store group,

> Our supply chain feels its super power is invisibility — if we do our job right, no one will know we're there, and that's just what we want.

ERIK CALDWELL
SVP, Supply Chain
& Digital Operations,
Hudson's Bay Company

Galeria INNO. When it comes to omni-channel fulfillment, competing with Amazon, and fostering speed and agility inside the DC, Caldwell has some pearls of wisdom for other retail executives looking to elevate their supply chains from ordinary to extraordinary.

MAKING E-COMMERCE PROFITABLE

Omni-channel fulfillment is of growing importance to retail executives, and Caldwell's no exception. It's no secret that the consumer's love affair with e-commerce is completely incongruent with the profits it generates. Costly fulfillment space, free shipping and returns, and more hurt e-commerce profit margins significantly. According to RILA's 2017 *The State of the Retail Supply Chain (SRSC)* report, supply chains are not as efficient at fulfilling individual orders as store orders. Picking "eaches" versus cases, packing individual boxes versus assembling pallets, and delivering to homes versus stores are the most visible omni-channel fulfillment inefficiencies. Retail supply chain executives regularly experience these pain points as their teams take on more and more of the fulfillment activities previously done by customers and store operations. The problem for most retailers, according to the survey results, is the inability to recover these added supply chain costs.

> Retail is a changing market, but we have always applied the fundamentals of customer service. Always will. You want the secret to centuries worth of success — there you have it.

Yet, Caldwell and his team have their fingers on the pulse of the ways to help bring profitability to their e-commerce channels via the supply chain. "Consumer demands are changing, and the e-commerce landscape has become much more complex over the years," he says.

HBC AT A GLANCE

- Founded in 1670
- HBC is the oldest company in North America.
- HBC's current portfolio includes 10 banners in formats ranging from luxury to better department stores to off-price fashion shopping destinations, with more than 480 stores and 66,000 employees around the world.
- In North America, HBC's leading banners include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Gilt, and Saks OFF 5TH. In Europe, its banners include GALERIA Kaufhof, the largest department store group in Germany, Belgium's only department store group, Galeria INNO, as well as Sportarena.
- HBC has significant investments in real estate joint ventures. It has partnered with Simon Property Group Inc. in the HBS Global Properties Joint Venture, which owns properties in the United States and Germany. In Canada, it has partnered with RioCan Real Estate Investment Trust in the RioCan-HBC Joint Venture.

"Companies need to adapt to this growth and rapid pace of change and plan further in advance in order to be prepared to meet consumer demand at its peak. In particular, the digital growth in the industry has been around 13 percent, which means every five years companies have to double the size of their supply chains and DCs. It is pretty common now to see more than 25 percent growth in certain markets, which gives companies less than three years to double their DCs and networks. This is even more challenging when you consider the lead time necessary for new buildings, automation, and training."

Caldwell's point is corroborated in RILA's SRSC report, which states that as retailers seek to find balance between omni-channel costs and revenue growth, they realize that the supply chain is the key to profitably serving customers. To achieve success, the supply chain team must continue to excel at its primary fulfillment role, figure out how best to utilize stores that were never designed for large scale fulfillment, and develop strong capabilities in areas previously managed by other groups. Supply chain success will enhance retailers' financial vitality and outlook.

By E. Harris

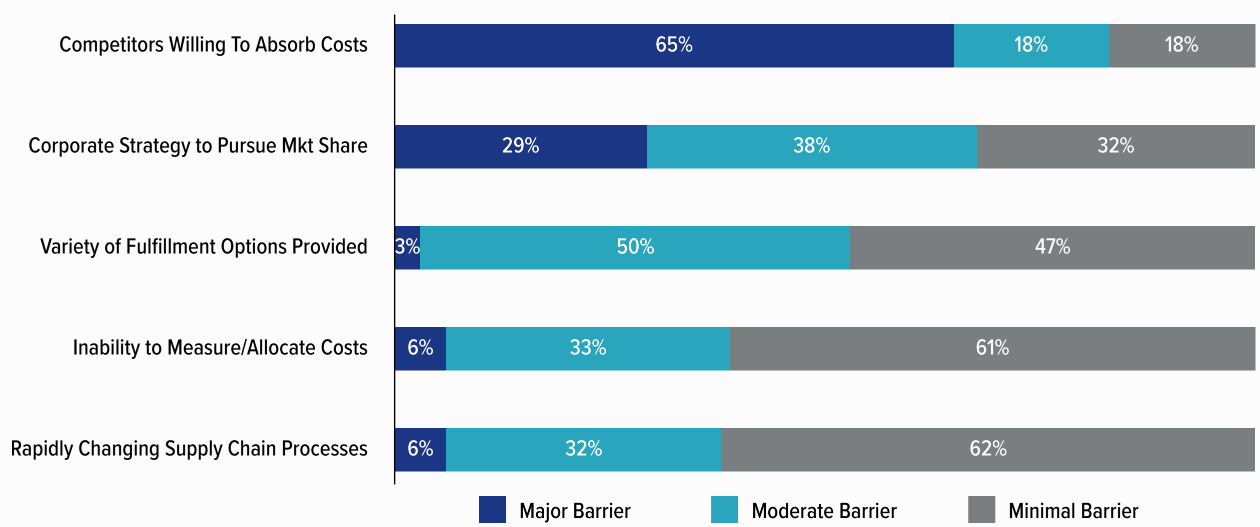
THE NEED FOR SPEED IN THE MODERN RETAIL SUPPLY CHAIN

A fast, nimble supply chain is the key to keeping pace with ever-changing customer demand. Caldwell agrees by stating, "Companies need to find ways in which they can differentiate themselves in a fragmented marketplace. Consumers are demanding tailored experiences not only in-store but also online, including customized products, personalized packaging, and tailored interactions. Being nimble requires a company's supply chain to anticipate customer needs. Understanding what your customers want and communicating to them regularly will help, whether it's delivering more SKUs or quicker delivery times. HBC's all-channel model utilizes many levers to meet customers' fulfillment needs: store fulfillment, direct shipping from vendors, and increased DC capabilities with inventory visibility across the supply chain. We have specifically invested in robust automation to allow increased storage of SKUs in a vertical case shuttle and the ability to pick orders more than five times faster than our legacy pick environments. This translates to more accurate and faster customer experiences."

Caldwell and his team realize the supply chain is a company's most important supporting role. Yet, he does not view the supply chain in a singular, linear flow ending with a product on the shelf. Instead, he focuses on not only product availability but also refined, dynamic trade-offs among deliverability and margins. "The supply chain is no longer just about reducing cost; it's about changing the customer experience," he says. "In our most automated system in Canada, it takes under 15 minutes from the time an order comes to our distribution center for processing to the time it's sent to the outbound network. That's because we've invested in optimizing our DCs, and as a result, they have become more effective (i.e., reduction in delay, reduction in backlogs during peak seasons, etc.). Our supply chain feels its super power is invisibility — if we do our job right, no one will know we're there, and that's just what we want. Our team coined the motto, 'Extraordinary is the new ordinary.' We do it for the customers."

> We own our product; we touch the product; we buy the product; we guarantee the product.

PRIMARY BARRIERS TO FULFILLMENT COST RECOVERY



SOURCE: RILA The State of the Retail Supply Chain report 2017

BUT WHAT ABOUT AMAZON?

In retailing, there's Amazon, and then there's everyone else, seemingly anyway. To some retailers, Amazon is a four-letter word. The A-word. Many retailers are quick to identify Amazon as the main reason why consumers expect to receive supply chain services at little to no cost. What does a retailer's supply chain need to look like in order to win customer wallet share? "In order to win wallet share and be at the forefront of e-commerce distribution, supply chains need to contribute to the broader organization's goal, including being able to offer customers a seamless shopping experience both in-store and online," says Caldwell. "Timeliness is key, and being able to deliver orders faster and more efficiently will help gain an edge against the competition." For HBC, as it is for so many merchants, that competition includes Amazon.

> The supply chain is no longer just about reducing cost; it's about changing the customer experience.

Caldwell goes on to explain that in addition to supply chain efficiency, a unique and quality product offering is a key component to success. "A major differentiator is to offer something our competitors do not. Consider how your company differentiates itself in the retail marketplace — and that needs to be around product offering. For example, Saks has a distinct product offering: branded beautiful products that customers cannot find elsewhere, coupled with our experiential shopping environment. We own our product; we touch the product; we buy the product; we guarantee the product."

REDUCING RETURNS

Perfecting the shopping experience can help overcome one of retail's major hurdles — returns. High return rates stymie the retail industry, and solving the issue isn't easy. Of all products sold, an average of 8 to 12 percent are returned, and the cost to return those units is two to three times more than bringing them to market. Further, the number of returns directly impacts the amount of inventory. With too many returns, inventory can be built up, even freeze production, if the returned product can go back to market. Recoverable inventory is considered for remanufacturing, and remanufactured products are considered "like new" items, which have the same quality and the same price as new merchandise. According to RILA, beyond customer delivery, the most popular fulfillment cost recovery area is returns, with a third of survey respondents collecting fees for return shipments. Very few manage to generate fees for order handling, store order fulfillment, or returns processing. Caldwell explains that detailed, robust product information written for the target market coupled with high-quality product images can cut down on returns. "When it comes to online shopping, customers return products for one or two reasons. Either the product they received wasn't what they were expecting, or it doesn't fit. Our goal is to provide customers with the right tools and information so that they can make educated purchases and, in turn, reduce the need for returns," says Caldwell.

HBC was founded in 1670 and is North America's oldest company and one of the most highly regarded. "We've survived the Revolutionary War, the Civil War, World Wars, depressions, the Great Recession — our company has seen it all and survived it all," explains Caldwell. So, what's the secret to HBC's longevity? "Retail is a changing market, but we have always applied the fundamentals of customer service. Always will. You want the secret to centuries worth of success — there you have it," confirms Caldwell. "We are constantly considering how to make our customers' experiences easier and more enjoyable. Technology is essential, and our existing logistics network does things dramatically differently from what we've done in the past. Bottom line — we are constantly rethinking how to affordably and effectively evolve with our customers."

Scalability and capacity are legitimate, ongoing concerns for Caldwell, just as they are for most tier-one retail executives. I've met Erik in person, and I've seen him deliver a compelling presentation about supply chain efficiency. Capacity and growth strategy may keep him up at night, but his days are filled with the demand-driven forecasting data he needs to make the sound business decisions that foster an extraordinary supply chain. C

RETAIL According To Uri Minkoff

ERIN HARRIS Editor in Chief @ErinOnRetail

In a one-on-one Q&A with Rebecca Minkoff's CEO and cofounder, Uri Minkoff, it's clear why he is a highly sought-after luminary on the nexus between fashion, retail, and emerging technologies.

Uri Minkoff is CEO and cofounder of Rebecca Minkoff, one of the fastest growing brands in the fashion industry and the largest global fashion label led by a female millennial designer.

Uri is well known as the most forward-thinking CEO in fashion, especially when it comes to the innovative use of new technologies and the omni-channel customer experience. In 2015, Uri was credited with leading the fashion industry towards a "see now, buy now" calendar for runway shows. Uri is also the driving force behind what Morgan Stanley describes as the "stores of the future." He founded the company in 2005 with his sister Rebecca and serves as the creative director for the Uri Minkoff men's accessories, footwear, and apparel line. As of today, Rebecca Minkoff is a full lifestyle brand distributing accessories and apparel to over 900 stores, with retail locations in New York, Los Angeles, San Francisco, and Chicago and international retail stores in Korea, Hong Kong, and Dubai. In 2017, Rebecca Minkoff is on target for substantial year-over-year growth and expansion in markets around the world.

Rebecca Minkoff, and specifically, you, Uri, are known for industry-leading social media strategies. How are you further engaging your best customers via social media?

MINKOFF: Regarding both digital and social media, I'm not saying social is a mature platform today, but Rebecca Minkoff was already at the height of the social media discussion four or five years ago. Since then, best practices have been documented and implemented, and yes, retailers and brands have done some innovative things on social media. When we launched Rebecca Minkoff, social media was a new outlet, and a few key editors, buyers, and brands were controlling the fashion world. Twenty to 30 people had influence over the fashion industry. Coupled with the 18 to 34 age demographic, there was little competition, and brands had the ability to own a customer segment. The internet, but in particular social media, completely changed everything. All of a sudden, anyone can have a voice; we've evolved from the power of a few to a peer-to-peer network. In George Orwell's *Animal Farm*, all pigs are equal, but some are more equal than others. Retailers are all similar, but some are just better. We saw this in the computing space and in the music industry, and all of a sudden, it happened in fashion. The power went from having the ability to run a six-figure sum advertisement as the only way to be seen by your audience to utilizing social media every day, every time — ungated — to reach your audience directly.

People got excited about social media as the new shiny toy. Originally, it was the place to be seen by your audience; the truth is that social became the first place for brands and retailers to see their audience. And that's how we're engaging our audience. It's about data science, analytics, and math. We analyze where and when she responds, what she likes, what yields engagement growth, and her patterns of behavior. We're able to see our customer, and this has become a major focal point for us. Early on, we started noticing people were tagging us 225,000 times on social media. We partnered with Curalate to analyze the data. We took social media images from real people, not just models, and put them on the website and in the store, and the results were staggering. We generated millions of impressions — and the average order value is 30 percent higher when someone interacts with these images. And, more than 50 percent of our customers view our products on mobile devices. They're coming to us via mobile, interacting with our brand, and we've seen a 30 percent uptick. We've synchronized stores and the website, which has proven to provide impactful marketing leverage. Also, social media has taught us that people are now comfortable telling us who they are. Consumers now feel that retailers are more like them than they thought. They want to be treated a certain way; for example, don't target me as an 18 to 34 Caucasian male. I am an individual with 50 parts to my personality, and brands should talk to a portion of my heart and understand why I don't identify with only one store.

I'm a believer in all but abolishing "touchpoints" in favor of focusing on the customer journey. How does Rebecca Minkoff define and identify the customer journey?

MINKOFF: I have a background in software development, and there's a way in which software developers go about creating the user experience (UX) via a decision tree (e.g., user enters here, if she chooses this, then this). We employ that methodology in our thinking at Rebecca Minkoff and work through the series of decision trees that our customers may use. With decision tree formatting for our stores, we begin by isolating five to seven consumer pain points. We went through the same decision tree practice with the online experience, but we noticed that those pain points were actually advantages, because we are able to evaluate cart abandonment, bounce rates, etc. We realized the store has none of that data. How do we layer the efficiencies and success of e-commerce into the store environment? In the store, we only know how many people came in and what they purchased. But there is vast room for opportunity based on the data crumbs customers drop during their in-store experience. Retailers need to identify the points where she's dropping crumbs of data.

We believe that it's never good to be in the middle. Retailers need to focus on extremes, as the opportunity lies in the extremes. You can't make money in the middle. Learn to identify the shopper's behavior; for example, consider the customer who feels she should be treated like a celebrity or a VIP. Then consider catering her experience to that extreme. On the other hand, how do you treat the person who wants to be anonymous? We focus on the consumer extremes, and we use decision tree processing to better her experience.

When it comes to the depth and breadth of your product assortment, what are some of the things you've learned along the way? How have you honed your product assortment strategy?

MINKOFF: Regarding our product assortment strategy, we use data to impact assortment. Consider this example using touchpoint data from the store: A jacket went into the fitting room 70 times; there were 36 size change requests but zero purchases. This shows us there is a high degree of interest and purchase intent, but something is off due to lack of purchase. Half of our guests tried to make the item work through size change requests, so it's not a problem with styling. Therefore, we began analyzing which items on the floor made it to the fitting room and converted to a purchase. We uncovered that clothing was performing or converting better in stores than in wholesale. It became a combination of what went into fitting rooms with the winning combination being higher priced merchandise mixed with lower priced merchandise. Mid-range merchandise did not make it into the fitting rooms as often. We presented the data to the design team, and they began designing to the right price points.

Rebecca Minkoff's website is very well done. It has a Wow-factor. How does RebeccaMinkoff.com digitize brick-and-mortar and simultaneously deliver a personal online experience?

MINKOFF: We're undergoing a major redesign of our website. We've researched tools that will make our site more efficient. We partner with Bronto for email messaging, and our email messaging is very personal. Going forward, we plan to generate and send 50 versions of emails (e.g., we know that if you bought this item, chances are you will be interested in this item). We have identified our customers' purchase cadence and have delivered personal, intentional messaging along the way. Next year, we will add personalization and prescriptive analytics tools so the website experience will reflect each individual customer's needs, and we will include personalized product recommendations.

We have an advanced experience in digitizing brick-and-mortar. Our customers want additional product information or extra experiences beyond what's there, for example, the fitting room mirror that comes to life and provides product recommendations by scanning your mobile device.

Rebecca Minkoff is an iconic, global brand. Explain the intricacies of global expansion and the why behind your global expansion success.

MINKOFF: Our customers understand that Rebecca is a real person. We've made public the narrative of her life and how it is compatible with a global consumer's. Understanding that Rebecca herself started with humble beginnings — the boyfriend who moved out, three roommates, electricity about to be shut off — has become a point of reality for the global consumer. She's relatable; she had to hustle, and our customers appreciate that she's not much different from them. Also, we identified early on that we had a strong Asian consumer, and today, we have stores in Korea and Hong Kong to build brand awareness in those areas. We've also identified a rise in European consumers, and we've begun aligning with influencers and investors there as well.

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Omni-Channel In 2017: From Measurement To Action

Digital influence, store-level insights, organization, and scale and automation drive offline/online success.

MATTHEW SEITZ Head of Retail Insights and Analytics, Google

Leonardo DaVinci said, "The noblest pleasure is the joy of understanding." For years retailers have been measuring the internet's impact on customers. In this difficult year, they are putting this knowledge into action. Retailers are succeeding through (i) better measurement, (ii) store-level insights, and (iii) scale and automation. They are also making key organizational changes needed to succeed.

TIMES ARE TOUGH

2017 has been a difficult year for brick-and-mortar retailers. Changing consumer buying preferences plus the rise of e-commerce have led retailers like Sears, JCPenney, and Macy's to shutter stores while other brands (e.g., Bebe, Limited) have fallen into bankruptcy. Analysts are forecasting U.S. store closings to outpace post-recession 2008 when retailers closed over 6,000 locations.

DIGITAL'S INFLUENCE IS ACCELERATING

These market shifts are a symptom of the continued integration of online and store worlds. The trend is accelerating: Internet sales are growing four times faster than brick-and-mortar, and 77 percent of in-store sales will be influenced by online in 2017. An additional $86 billion in non-grocery retail sales is expected to be digitally-influenced this year (that's the size of the entire furniture category).

Retailers are seeing sales affected by customers' multichannel shopping behavior. To understand this impact, Kohl's studied the results of 19 store closures in 2016. Kohl's retained only 34 percent of physical sales to nearby locations, and e-commerce sales in those locations dropped by 10 percent.

Some retailers are building their e-commerce presence via acquisition — headlined by Walmart's acquisition of Jet.com, Modcloth, Moosejaw, and Bonobos. Amazon's purchase of Whole Foods is a much-feared move that gives it a brick-and-mortar presence to complement its online strength.

GOOGLE'S OMNI-CHANNEL SOLUTION

Google has tremendous capability and scale to drive foot traffic and store sales. There are trillions of searches on Google every year, over half of which happen on mobile devices. Nearly one-third of these searches are location-related and are growing 50 percent faster than all mobile searches. Google's search and shopping products provide the right information at the moment customers need it.

Best Buy is using these solutions as part of its overall omni-channel strategy. It has dramatically increased its investment in Google's local inventory shopping ads. These ads provide product in-stock availability at nearby stores based on the customer's location. Now, when a person is looking for Beats headphones, they know Best Buy sells them, the price, and where they are available. In 2015, Best Buy announced these ads drove over 1 million visits to its stores.

FROM DMA TO STORE-LEVEL IMPACT

Historically, there has been a geographic disconnect in how retailers understand the effect of marketing on offline sales. Media evaluation through marketing mix modeling is almost always performed at the regional or designated marketing area (DMA) level. (Amazingly, some retailers' marketing mix modeling [MMM] is based only on national data.) This is often due to data limitations, and the deepest granularity for offline media like TV and radio is DMA-level. Many digital analyses like brand vs. category development (BDI vs. CDI) are also typically performed at a market level.

Market-level insights have significant limitations, however. While small and midsize DMA regions are homogeneous, America's top 20 DMAs contain significant diversity within their boundaries. As an example, consider the differences between downtown Schaumburg, Wauconda, and Gary in the Chicago DMA or Manhattan, Brooklyn, Long Island, and New Jersey in the New York DMA. Retailers have many stores in these markets, each serving distinct groups of customers.

Last year, Google began working with retailers to bring insights to their store level. Retailers have in-house store data like same-store sales, foot traffic, revenue per square foot, inventory stocking, local promotions, etc. Google's platform adds digital insights like own vs. competitor search interest, category and product demand, and online buying propensity, as well as physical proximity and digital-influenced foot traffic. Google combines this data with public datasets like population and demographic insights to provide a comprehensive view of a store's health.

TAKING ACTION

Retailers are using these insights in four ways. First, they are tailoring category and product store offerings to local preferences. A retailer has its own sales and inventory data for existing SKUs but can introduce new brands, products, and even sizes to capture sales based on online search demand for SKUs not stocked at a location.

> **"Digital organizations focused only on e-commerce sales neglect store impact, reducing customer satisfaction and store performance."**

Second, they are optimizing marketing tactics to address competitor threats and consumer preferences. If a store is struggling with awareness, retailers can target consumers in that area with digital campaigns. Stores facing strong competitive threats can fight back using targeted media toward sought-after consumers and/or categories.

Third, smart retailers are personalizing their digital marketing based on customer location and relationship. Consider these scenarios: A customer 20 miles from a store should receive messaging and call-to-action toward e-commerce, while consumers one mile from a store are better served with an in-store coupon and driving directions. Customers near a competitor's store can be served a brand or price comparison message. Finally, if an existing customer is inside a store, they can be shown information to encourage cross-category purchasing.

Fourth, in the difficult case where a retailer must close stores, they are using digital to soften the impact. Digital messaging is a highly effective way to direct consumers to the next-nearest store and/or retain the customer via e-commerce. Digital can also help accelerate inventory relief, minimizing the loss of revenue from scrap or obsolete products.

SCALE AND AUTOMATION

2017 is an exciting year for activating omni-channel media. For many years, companies have believed in omni-channel, but the tools to activate have been limited. Because of this, retailers have taken basic steps like establishing a ratio of e-commerce to online sales (e.g., 5:1 — for every online sale, I drive five offline sales). Some retailers make manual adjustments for winning tactics like raising investments in mobile advertising or store-weighted categories like appliances or apparel. These are positive steps; however, they rely on basic insights and implementation.

This year, advanced retailers are going beyond these basic steps to automate their media to omni-channel ends. For example, many retailers will increase spend on consumers within 1 or 5 miles of a store. Others will leverage first-party audience insights to encourage store customers to visit their website (and vice versa). Finally, some consumers are plugging store visit and sales data into their buying algorithms to invest in and optimize to e-commerce and store sales.

ORGANIZATION IS THE KEY

These innovations are exciting; however, the most important step for retailers is to revisit their organizational structure and KPIs. Most physical retailers ventured into e-commerce by creating a separate organization incentivized exclusively on internet sales growth. This created focus and enabled these teams to grow quickly in their infancy, but consumer research and buying behavior have changed, and these siloed organizations now hinder performance. Digital organizations focused only on e-commerce sales neglect store impact, reducing customer satisfaction and store performance.

Leading retailers are making the difficult changes to adapt. A study of Google's top performing retailers found 90 percent have integrated digital and offline media budgets. Home Depot combined its online and store marketing teams into unified category teams handling all activities on a cross-channel basis. These changes have enabled Home Depot to move quickly and share insights about how to provide better assistance to shoppers. Now they're using existing stores in better ways, such as shipping direct and designating online order pickup zones.

THE TIME IS NOW

2017 is a critical period in the life of retailers. The importance of omni-channel is undisputed, but as DaVinci said, "Knowing is not enough; we must apply. Being willing is not enough; we must do." Retailers who want to thrive in this difficult time must embrace online/offline by acting on insights through an integrated omni-channel organization. R

Take The Guesswork Out Of Payment Security

The PCI Security Standards Council discusses upcoming standards that affect retailers of all sizes.

A Q&A WITH RETAIL EXECUTIVE

The PCI Security Standards Council exists as a body to create standards and best practices to help retail executives. By now, you should be well aware of the PCI DSS (Payment Card Industry Data Security Standard), as it's the most exhaustive standard that's received the most attention. However, in speaking with Troy Leach, CTO, and Mauro Lance, COO, of the PCI Security Standards Council, there are other standards on the horizon worth noting, as well as other initiatives built to help you navigate the payment security landscape.

Retail Executive: What new payment updates/standards are forthcoming that affect retailers?

Troy Leach, CTO, PCI Security Standards Council: This year will probably be one of the busiest years for new standards and new requirements, as we have five new standards, two revised standards, and another significant initiative.

Most of these standards are focused on the payment solution developers and vendors that create the solutions that merchants use. Our goal is to help merchants of all sizes improve security and possibly, at the same time, reduce their overall responsibilities of demonstrating security through compliance.

As we look at the payment ecosystem, we're seeing the market developing and using third-party services, products, and software. In fact, 80 percent of all software today uses some form of third-party code, hosting, or services. It can become difficult for a retailer to demonstrate that it's done enough due diligence on the security of a payment environment when there are third-party pieces being used.

As a result, our focus is on initiatives to improve payment software security, so two upcoming standards will target vendors developing the third-party payment apps that retailers use. Essentially, we want to simplify compliance for retailers by having third-party software validated independently by software security professionals and experts.

We also have two other standards related to 3DS (Three-Domain Secure) for merchants leveraging e-commerce and a mobile presence. Last year, EMVCo created a spec related to a new, more secure version of 3DS, which provides significant improvements. The new standards will help ensure that customers are authenticated all the way to the issuer. It will create less friction in the overall customer experience and give retailers confidence in the legitimacy of transactions. Note these 3DS standards are intended for those that provide 3DS services and applications and not for merchants simply using 3DS services.

Lastly, we have a new standard that will probably be more relevant to smaller merchants, but could be applied to large merchants as well. The new standard is related to using commercial off-the-shelf mobile devices to do PIN entry onto the device's glass. While we already have legitimate certified PIN-on-glass devices, merchants were asking for clarification about the security. Public drafts and requests for comment for all of these new standards will be released later this year.

Retail Executive: How does the public comment process work?

Leach: The request-for-comment period typically lasts from two weeks to six months. On larger standards like DSS, we might go to request for comment several times with changes we're considering and longer open periods. Other standards closer to release are from 14 to 30 days. Our PIN entry standard will probably have three rounds of comments (not including our community meetings we have worldwide).

We have a dedicated working group made up of subject matter experts and task forces that are typically from our membership base. Also we have 3,000 other security professionals (i.e., qualified security assessors [QSAs]). All said, we get a variety of feedback from thousands of different stakeholders. This process is much different from how other standards bodies work.

Retail Executive: What special initiatives are you working on that affect retailers?

Leach: Last year we created and published an educational resource for small retailers. We worked with the NRA (National Restaurant Association) and merchants to create our Payment Protection Resources for Small Merchants, including the Guide to Safe Payments with basic security guidance and the Common Payment Systems with use cases for 14 different payment device scenarios. The scenarios eliminate technical jargon and confusion, and one of the 14 scenarios is likely to match a retailer's situation.

The document provides the 15 to 30 security controls that will be relevant to a retailer based on its situation. It pares down the 200+ controls of the PCI DSS standard and provides a practical set of controls that are actionable and able to be addressed by a non-IT person.

In the year since the document was published, half a million merchants have been contacted with the materials, and they've been well received. We're now updating the document to include information on how a retailer can show its financial partners and customers that it has taken these basic security steps and applied them. The update should be released in the first half of next year.

Retail Executive: What programs exist to help retailers address payment security?

Mauro Lance, COO, PCI Security Standards Council: Our QIR initiative is designed for smaller merchants who rely on technology resellers to implement payment technology. Launched in 2012, the QIR program seeks to ensure that resellers have the necessary skills and understanding to properly implement Payment Application Data Security Standard payment applications in a way that supports their PCI DSS compliance efforts. Later this year, the council is expanding the scope of the QIR program to allow more solutions providers to benefit. This will provide the ecosystem with more qualified professionals and raise the collective security IQ of the industry.

For large retailers, we have our QSA program. However, QSA companies have been telling us that there's a shortage of security professionals. Our qualification requirements are stringent, and QSAs have been asking how we can help bring new professionals into the industry. We recently did a soft announcement of our new Associate QSA program, which is a way to cultivate security professionals earlier in their careers and get them into the QSA pipeline. The Associate QSA program includes similar training as full-blown QSAs, but doesn't require all the certifications and tenure. Associates receive mentorship and learn in the field about PCI DSS assessments. Eventually, they will graduate to a full QSA.

Retail Executive: What are the areas of security that you find most retailers struggle with?

Leach: First, let me point out that we've noticed that larger retailers have matured over the past few years to develop good security practices that consistently meet the PCI requirements. This is a great upward trend and a positive note for retailers.

That said, one challenge is that criminals and malware targeting retail systems today aren't targeting solely large retailers. The data suggests that criminals don't care or even know if the target is large or small, as the malware is indiscriminate.

Retail Executive: What will payments look like five years from now?

Leach: The PCI Council and our related bodies are going to continue to pursue innovative ways to devalue data and reduce exposure to fraud. We've introduced point-to-point encryption (P2PE), payment tokens, and dynamic authentication that have all been very effective already. In fact, we've had numerous retailers reveal that they were breached, but the criminals couldn't collect any valuable data because it was all encrypted.

Analysts anticipate that by the end of 2017, 97 percent of retailers will have some form of payment data encryption implemented. That is success, but we still have work to do. The next few years will be a renaissance for payment security. It's exciting.

The Great Retail Bifurcation

Consumer confidence is high, but retail sales remain flat.

JACOB BRUUN-JENSEN Principal, Monitor Deloitte

Deloitte looked at the structural changes that are occurring in the retail industry. Our recent research shows these transformations are so profound, we call it the Great Retail Bifurcation. This division within the retail market is taking place along two dynamically shifting, yet interrelated, dimensions: Consumers and Competition.

THE CONSUMER BIFURCATION

We see several major shifts influencing consumer behavior in ways that directly compel retailers to adapt and respond with greater agility in meeting their expectations. While some segments have more sway than others, the sheer numbers and accompanying discretionary spend of the following are significant.

1. The rise of the Yemmie (young, educated millennial mother)

Retail appears destined to rapidly trifurcate along household income, age, and education lines that are driven in part by the values of the Yemmie. Over the next decade, the baton will be passed from one mega-generation to the next. Millennials over the age of 25 will make up roughly 20 percent of the U.S. population by 2020, up from just over 5 percent in 2010. The baby-boom generation, on the other hand, will fall below 20 percent of the population in the next eight years.

Millennials often shop differently from baby boomers. They are willing to search for the lowest price on an item or patiently wait for the right deal to pop up. They contemplate each purchase, rather than buying products easily available and in front of them. At the same time, these millennials tend to be less brand-loyal, less aligned with traditional retailer store destinations, and are more willing to shop across online and physical store channels.

2. Products lose traction, experiences gain

Consumers continue to shift how they spend disposable income by transitioning away from product ownership toward craving experiences and events. For example, leisure spending on air travel hit record levels in 2016. Significant increases in spending on all things digital — such as connectivity, data, devices, subscriptions, live streaming content, and related services — have been documented. In 2016 alone, millennials were on track to spend an average of $750 annually on media, including video games and streaming services. Rising demand for cooking classes, health and wellness sessions, and makeup tutorials mean that retailers should consider changing what they offer and how.

3. Exponential growth in digital

More than 60 percent of in-store sales are influenced by digital — curtailing the concept of e-commerce as a separate kind of retail. Historically, we discern that when technology disrupts an industry and drives significant structural, business model, and process changes, these transformations are often misunderstood, misinterpreted, or underestimated. Retailers often overlook how the exponential advancement of technology not only serves to create an easier way for consumers to shop and businesses to automate or innovate on existing processes, but how technology has also reduced competitive barriers to entry. This has unleashed an onslaught of new competitors on the retail industry, many with intriguing business models at their core.

THE COMPETITION BIFURCATION

Meanwhile, the competitive battle in retail continues to accelerate. Deloitte's 2016 Retail Volatility Index report illustrates that technology continues to reduce barriers to entry, enabling a torrent of new competition all fighting for market share. In this broadly volatile and globally competitive market, certain retailers continue to win on value and convenience by competing on low price, discounts, and delivery options, as well as experimenting with smaller store formats. At the other end of the spectrum, we find a group of retailers that have successfully combined highly differentiated products and experience offerings. These retailers have successfully integrated experiences into unique products or services that address, or even surpass, buyers' needs and expectations.

In dividing retailers into three cohorts along this value-proposition spectrum, we found that those that have been the most aggressive in targeting a low-price and convenience proposition have outperformed the retail market with a compound average revenue growth (CAGR) of 6.5 percent over the last three years. Retailers that have successfully differentiated with unique product, service, and experience offerings also outperformed the competition by achieving CAGR revenue growth of 8.1 percent within this time frame. Conversely, retailers that fit neither of these two categories are “stuck” in the middle and delivered average CAGR revenue growth of just 1.4 percent. To thrive in uncertainty, however, retailers may want to rewrite the playbook and focus on three main levers.

1. Rethinking the operating model

Retailers should start by understanding that success is driven by the willingness to constantly reexamine and develop the operating model, structure, and supporting tools and technologies.

Deloitte’s annual research study with MIT Sloan Management Review found that more than two-thirds (68 percent) of surveyed retailers believe they have moved beyond the early stages of digital maturity. Still, less than half (44 percent) believe they are adequately preparing for digital transformation. Across the marketplace, leading retail executives are simplifying their operating structures by making fundamental changes to how they organize and operate with a goal of orienting themselves around the customer.

2. Recasting the cost structure

Creating headroom for growth involves retailers taking a fresh look at spending, investing to support the new growth agenda while simplifying the core business model, and diverting resources from areas that do not drive market differentiation. Rethinking the cost structure to drive profitable growth is more critical than ever before and requires a balanced and integrated approach to be effective.

Fifty percent of companies surveyed that have gone through a margin improvement program found costs “bounced back” after the reduction, and more than 30 percent of cost-reduction efforts substantially weakened the company. Recasting the cost structure is not about looking where to cut costs; instead, retailers should consider a nontraditional perspective on major cost themes based on the strategy.

3. Embracing organizational agility

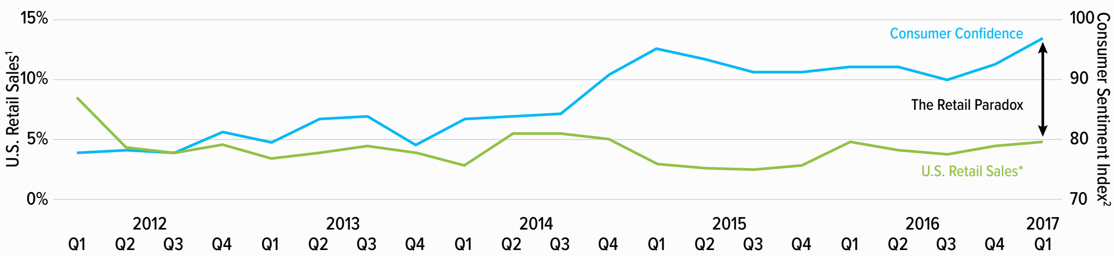
To be able to thrive in uncertainty, retailers should improve the speed of operations and decision making. In the past two years, stock returns of the top U.S. retail innovators outpaced the market by 38 percent. These retailers, who grew up in the age of technology, are 31 percent less likely to get bogged down in the hierarchy, and 17 percent more likely to make quick decisions.

THRIVING IN UNCERTAINTY

The retail industry’s future is evidently in some state of flux. However, retailers can thrive in this uncertainty if they know how to achieve profitable growth by continuously adapting to consumer demand. Consumers will likely continue to spend on items, services, and experiences, even as their preferences and behaviors change. Online retail aggregation and new digital platforms will continue to offer smaller retailers greater influence without requiring enormous capital investment, upending traditional barriers to entry. Global players will continue to find new channels of influence, even as consumers adopt and use new technologies that affect upstream manufacturing and downstream distribution channels once thought to be the basis for all retail.

However, volatility and bifurcation are not the end for retail. Quite the contrary. An ever-evolving marketplace may spell opportunity for retailers who are the most-informed, best-prepared and, perhaps most important in a fast-changing, competitive environment, best able to adapt. R

THE RETAIL PARADOX: CONSUMER CONFIDENCE HIGH, RETAIL SALES FLAT



SOURCE: [1] U.S. Census Bureau, Seasonally-Adjusted Retail and Food Services, ex. Auto;
[2] University of Michigan: Consumer Sentiment Index; 1966 Q1=100

5 Ways To Bolster Your Team's Professional Development

Motivation and inspiration are earned in drops and lost in buckets. Here are five key steps to keep your team on their toes.

TAMMYLYNNE JONAS Retail Executive

Everyone wants to win. That's what drives us to do well in the workplace or to root on our favorite sports team. We want to do our best, but we also hope that our best is better than everyone else's best.

That mood turns sour once the team starts losing. Teammates start to snip at each other. People start to point fingers. Camaraderie among teammates turns hostile as the team starts to lose. Just like winning is a habit, so, too, is losing. Have you seen a losing team that tries so hard they actually get worse? They are so worried about making more mistakes that they lose their confidence and forget the elements that made them win in the first place.

The same thing happens in retail. Everyone loves to be in retail when times are good. People ask where you work, and you beam as they shower you with compliments about how much they love your business. We take pride in where we work, and we like to know that our customers love our brand as much as they do.

How does that change when your company isn't doing well? I'm not sure that employees at Sears or The Limited were beaming with pride in 2016. If our executive teams aren't holding their heads high, what does that do to our teams?

"WINNING IS A HABIT. UNFORTUNATELY, SO IS LOSING." VINCE LOMBARDI

For anyone who thinks that being in retail isn't about "winning," I hate to break it to you. Retail is absolutely about winning. There is a finite share of wallet, and if you aren't "winning" the customer's sale, that means someone else is. If we want to drive our teams to greatness and build the types of teams that win in retail, we have to do a few things.

1. TELL STORIES OF HEROES

Especially for younger team members, it is important to give them context around current financial performance. In most businesses, there are peaks and valleys from a sales perspective. In retail, there are many examples where sales were tight in Q1 to Q3, but then a knockout campaign for holiday/Q4 made the entire year's plan.

Help your teams remember examples from your own company's history when you were down for the count, but still came up with the win.

Even providing some storytelling about these examples of when your company had some historic and heroic efforts can help bolster morale and provide some empirical examples of how your company has handled these tough times. Going back to the tape can inspire your younger players and remind your veterans of how great it felt to be a winner.

Every company has folklore they can be proud of and share. Highlight the unsung heroes who saved the day. Share their stories in the company newsletter. Create a culture that celebrates heroes, and you will create more heroes.

2. CHANGE THE GAME PLAN

When sports teams struggle, the winning teams don't keep doing the same old thing. They mix up their drills, their playbook, and their coaching staff. Examine your team and identify which variables can be adjusted. Your teams are watching the executives; showing that you are changing how you approach business will inspire them to do the same.

Making a decision by not making a decision is the worst possible example. Don't wait until it is too late to change; try new things, take risks, and encourage innovation. Create a culture that celebrates risk taking, and you will create a culture that demonstrates bravery.

3. ADMIT THE STRUGGLE

There is a difference between being optimistic and being oblivious. Your teams need to see you acknowledge the challenge before they will buy into your game plan. Nobody trusts a coach who consistently underestimates the competition. First, acknowledge the task before them before you inspire them with what's about to happen.

Taking a few minutes in a staff meeting or a town hall to acknowledge the tough sales climate can assure your teams that you know what you're up against. Setting that context before you launch into the playbook will assure everyone that you are honest and transparent.

4. INFUSE HUMOR

A good joke can make anything better. Keep it light and fun. If you take the time to entertain your team, they will appreciate your efforts, and they will go the extra mile for you. During your meetings, take the time to prep it with some fun. Show them you're not just going through the motions. Make them feel like you have invested your time, and your peers and your team will return the favor.

5. LOOK LIKE A TEAM

If you want your team to act like a team, you have to start looking like a team. You don't have to don the same jerseys or colors (however, some teams need remedial help and should start here). Great teams support each other. They take on tasks that aren't theirs, and they encourage people when they fall. You'll never hear about a first baseman who complains about being asked to play shortstop.

The best thing about sports is that there are lots of stats to share. Every player has something to celebrate. While a given player might not have the most hits on the team, perhaps they've drawn the most walks. Even players that get hit by a lot of pitches are still getting on base. Find things to celebrate for all your team players. Hold a potluck "awards banquet" to keep people motivated and cheering for each other.

More than anything, your job as a coach is to invest in your team and be aware that morale may be low. Even if your specific work group is performing well, the overall mood in retail is somber. Stay focused on keeping your employees charged and ready to go. A good team plays well for the big game. For a great team, every day is game day. R

The Next Wave Of Automation

Retail leaders who embrace how automation will impact the industry in the next five years will position their companies for long-term success.

STEVE BROWN CEO, Baldfuturist.com

As a futurist, I spend a lot of time thinking about how businesses will be transformed with new technology. No business, including retail businesses, is immune from the next big wave of automation. And that wave is hitting right now.

A rich alphabet soup of technologies will change the way businesses operate: AI, IoT, AR, and 5G (fifth-generation wireless) will combine with advanced sensing, robotics, and analytics to automate or semiautomate most business processes. Retail leaders who embrace this next wave of automation will position their companies for long-term success. Those who avoid it risk decline and irrelevance.

Automation is coming in many forms. Following are four different ways automation will show up in retail within the next five years.

1. ARTIFICIAL INTELLIGENCE REPLACES THE GUT

Many jobs today require a human being with relevant experience and skills to make a set of decisions. Retail examples include designing a store planogram, picking next year's fashions, or laying out an advertisement. People in these roles use their training, experience, and judgment to make decisions they hope will optimize business results. Often, they use their gut, calling on wisdom they can't quite explain. They might call it intuition.

That's going to change in the next decade. Artificial intelligence (AI) algorithms are improving at a rapid rate. Tasks that formerly relied on the guts of humans (who were judged successful if they were right perhaps 50 percent of the time) are potential candidates for AI to take over.

2. SEMIAUTOMATING BUSINESS PROCESS

The Internet of Things (IoT) is perhaps an overused and overhyped term, but it will have profound implications for every business in the near- to medium-term. Smart retailers will embrace IoT as a way to semiautomate every business process. A good approach is to look at each business process and break it down into the tasks best done by a human, the tasks best done by an algorithm, and the tasks best done by a robot.

Think of it as building teams that include humans,

> **"Embracing IoT requires a totally new labor strategy. It's time for HR and IT departments to become best friends."**
>
> **STEVE BROWN**
> BALDFUTURIST.COM

algorithms, and robots, all working side-by-side. For example, a smart fitting room can sense which garments a customer has decided to try on using RFID, then look up information on a customer by identifying their phone with a Wi-Fi hotspot. Analytics can use a "goes with" database to recommend accessories and other garments that might look good with items the customer is trying. After checking to see the items are in stock, the algorithm pushes a pick list to the store associate, mapping the items on a store map using the planogram. The store associate quickly picks the items and brings them to the fitting room. This approach maintains the humanity in the brand, but augments the store associate's fashion sense and speeds their ability to pick product. Embracing IoT requires a totally new labor strategy. It's time for HR and IT departments to become best friends.

3. AUTONOMOUS MACHINES

The robots are coming! For years, robots have built our cars for us. Beyond that, robots have been confined to science fiction. Advances in sensing, AI, batteries, and mechanics are finally making robots broadly viable.

You can already find robots in many areas. Amazon purchased Kiva robotics to automate its warehouse picking processes. Bossa Nova robotics has been building and testing exciting new robots able to do stock-taking. Lowe's Orchard Supply Hardware has experimented with robot greeters, able to recognize what customers are looking for and escort them to the correct aisle of the store.

One of the most transformational robotic innovations comes from Starship Technologies, which has built fleets of delivery robots able to autonomously navigate sidewalks to deliver items direct to a customer's front door. The six-wheeled robots live inside a specially converted van, which acts like a mother ship. Algorithms guide the (human) driver of the van to the optimally central, safe place to deploy the robots. The robots then scatter to do their deliveries and return to the van ready to go to the next drop-off point. Starship claims its technology will ultimately enable deliveries for a dollar.

Every retailer needs to be asking themselves what their one-dollar-one-hour delivery strategy is. How many people will still come to your store when you can deliver in an hour, for a dollar?

4. AUGMENTED WORKERS

There are still many tasks robots just aren't suited for, and that will be true for the foreseeable future. Robots have strength, reliability, and endurance on their side. They're great for repetitive tasks, but they just don't have the dexterity or empathy most human beings are born with.

Augmented reality (AR) technology holds great promise. In the January/February edition of *Innovative Retail Technologies*, I reviewed virtual, augmented, and mixed reality technology. A headset with augmented or mixed reality can be used to guide workers on how to perform a task, essentially offering real-time, on-the-job training. This enables complex tasks to be performed by pairing the insights of algorithms and AI with the physical dexterity of a person. What you have created in this scenario is an augmented worker. Trials of augmented reality task management are already underway in the construction, maintenance, and logistics sectors. Applications in retail are bound to follow, including in the stockroom, distribution centers, and beyond.

No company is immune from the next big wave of automation. Both blue and white collar jobs will be transformed. Smart leaders will find ways to maximize the effectiveness of their employees rather than seeking to replace them with automation technology.

The best retail teams will be made up of people, algorithms, and robots working closely together. The digital intelligence of algorithms and robots will support the emotional intelligence of retail employees so that they can optimize the shopping experience for customers. At the end of the day, brands are about trust. And trust comes from the humanity in your brand. R

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Immersive Brands: The Highest Level Of Brand Equity

As the connection between retail and brands strengthens, retailers must be aware of how immersive brands influence and foster customer loyalty.

CHAS HERMANN *Retail Executive* Consultant

Think about all the brands you come across in your lifetime — brands you see and use every day. They can be viewed in one of three categories or brand levels:

- **FUNCTIONAL:** brands that compete on "what" the customer gets, very much like a commodity
- **EMOTIONAL:** brands that compete on "how" they make the customer feel
- **IMMERSIVE:** brands that connect so deeply with the customer they help define "who" you are and, more importantly, what you believe in, often becoming a badge of honor, creating a cult-like following of like-minded people living similar lifestyles

The higher the level a brand reaches, the greater the bond and deeper the relationship the brand enjoys with the customer.

DELIVERING ON THE CONSUMER'S FUNCTIONAL NEEDS

Think of the three levels as like the brand, love the brand, and live the brand. As the pyramid illustrates, the three brand levels build upon one another, with every brand having a functional foundation by which it delivers its product or service to the customer. A majority of brands move up a level and connect with customers emotionally, eliciting feelings that differentiate their brand's functional offerings. Some brands are able to reach the highest level of branding, connecting to a set of beliefs their customers hold to become an important part of their lives.

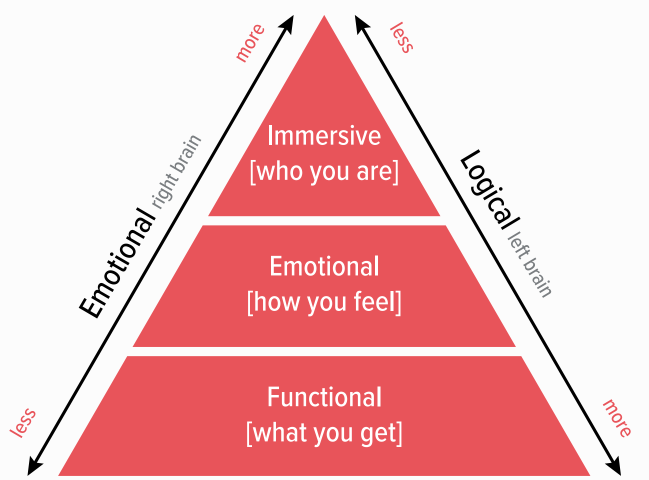
Looking a bit deeper into each brand level, we can better understand how brands operate at each level and how the focus might change as brands progress up the pyramid. To be successful, every brand and business must be able to satisfy a customer's basic functional needs with its product or service and, as a result, establish a very logical connection between the brand and the customer.

Brands operating at a functional level behave more like commodities and are forced to compete in literal terms, usually on price and convenience. Functional brands often compete to get customers to "like" their brand and usually operate in highly crowded categories, making these products and services more easily substituted for one another. Not surprisingly, these brand types rely heavily on marketing and advertising — running promotions and discounts on their products and services. These brands might not be all that exciting and mainly focus on fulfilling basic customer needs. The important thing is these brands must be reliable and consistently deliver on the functional needs of the customer.

INSIDE THE EMOTIONAL BRAND

The next brand level is an emotional brand, which goes

3 LEVELS OF BRAND CONNECTION



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For questions, please contact Kim Zablocky at kzablocky@rvcf.com or (646) 442-3473.

GO TO RVCF.COM FOR MORE INFORMATION AND AGENDA beyond the functional level and creates emotional connections. More than what these products do for you (functional), it's about how they make you feel (emotional) when using the brand. The emotional brand level elicits feelings the customer associates with the brand and the product and is where most brands strive to be spending a significant amount of time and money positioning brand communications to trigger those feelings in the customer.

Brands like Bounty or even Walmart try to stand out in what can be viewed as commoditized categories. Most of these companies spend significantly on media to deliver their message, build loyalty, and sell their products. Emotional brands have connected when customers begin reciting their brand messages whenever they see the brand logo or hear the brand jingle.

Most brands recognize the value of building deeper connections with their customers beyond meeting functional needs. They strategize and develop ways to reach the customer on an emotional level with service, product exclusivity, environment, or other benefits that can be intangible, making the customer feel the brand is a better choice than the alternatives. They win by leveraging emotional connections through advertising and marketing and conveying their brand as a uniquely better choice.

Emotional brands are generally "stickier" than functional brands, becoming preferred choices for customers and lessening the influence of functional benefits such as price and convenience. In fact, building a more emotional connection often allows a brand to have higher pricing because the customer believes it is worth more. Building an emotional connection releases feelings toward the brand much like people experience with friends or family. It also helps make the choice more comfortable for customers, as they believe they are getting more than just a product or service.

IMMERSIVE BRANDS AND THE MEANINGFUL CX

The third and highest brand level is an immersive brand. More than what they do or how they make you feel, they actually help define who you are and what you stand for — like a badge of honor. These are brands like Disney, Nike, Apple, Patagonia, lululemon, Under Armour, and Starbucks — often classified as lifestyle brands viewed as premium in their category. These companies build meaningful experiences with the customer, immersing them into their brand. The brands have solid functional products and services that satisfy customer needs, create positive feelings for the customer, and, on top of that, they immerse their customers in a sense of purpose — something meaningful the customer believes in.

These brands have employee cultures that are equally as immersive as the customer brand connections. In fact, it is almost impossible to separate the corporate culture from the brand culture, one of the unique traits of immersive brands. The brand transcends both the customer and employee culture, bringing them together as one with the product or service, thereby becoming a means to the brand experience.

All of these companies are connecting with customers at the highest emotional level, becoming an important part of people's life stories. These brands understand the power of storytelling and how that helps customers connect with them, derive meaning and purpose, build experiences which they can share, and recruit like-minded customers through word-of-mouth marketing. Employees are a critical part of the brand storytelling and are treated as important — sometimes more important — than the product itself.

Immersive brands almost always spend less money on marketing and advertising, have limited or no discounts, and instead invest in the brand experience through customer engagement.

So how do immersive brands build these environments? They all have a functional level grounded in logical connections, and the expectation of the customer is that the product will work the way they expect it to. Like every other brand, they have a basic promise they are "selling" and sort of a nonnegotiable position the product or service is expected to deliver.

They build brand marketing and advertising campaigns that reflect the emotional connections between the customer and the brand. What is different and unique is having a brand purpose driven by a desire to change something for the better — to right a wrong, so to speak. The brand engages the hearts and minds of their customers and employees on a mission to make the world a better place. It's that sense of purpose and tribal, cult-like community that creates an immersive environment.

Immersive brands trigger a deep sense of love for the brand and what it means in the customer's life. These brands occupy a special place in a customer's heart and mind that is uplifting to the human spirit. Their trust, expectations, and advocacy for the brand can be so high that customers reach a point of vulnerability.

In today's hyperconnected, social media-driven society, immersive brands can be born overnight. Equally, without strong leadership, understanding, and experience, brands can also quickly unravel. The most important element in building a lasting, immersive brand is ensuring the organization has a sense of purpose, values, and beliefs appealing to a cause higher than what you are selling. By listening to and encouraging customers and employees for constant feedback, leaders can remain good curators of the brand, best serving the brand community and helping change the world for the better. R


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Pandora Courts Retailers With Data Points

Streaming services like Pandora deliver real-time, personalized audio advertisements to your customers via carefully curated listener data.

JOHN GREGORY Retail Head of Industry, Pandora

The human species has a long history with music entertainment. After solving the most immediate need for food, shelter, and the warmth of fire, discovering a means to celebrate that achievement was likely the next important development for cave people.

Fast forward 40,000 years — not much has changed in that equation, as humans have continued to use their auditory sense as a means to identify, explore, communicate, and entertain. For Pandora, or any music enterprise along the way, it's the primal and emotional connection to music that facilitated our growth and success. Not until the first radio station was launched less than 100 years ago was music and voice content shared far beyond the family living room, town square, or local music hall. It wasn't long until advertising was sold as a means to support the free distribution of audio content, and the retail industry has long been an important partner in this media channel. Whether it be the use of jingles to identify prominent local department stores or aggressive promotional messaging over local radio stations, audio ads have always been an integral part of the communication strategy to drive interest and consumer traffic to retail establishments.

Until the early 2000s, radio advertising planning and strategy for retailers was fairly straightforward with predicable outcomes. However, with the emergence of the internet, continued technical innovation, and, most recently, the proliferation of mobile devices, our understanding of the media world has been shaken to its core. In a relatively short period of time, terrestrial radio has given way to digital streaming music services such as Pandora, which had developed the technical capability to deliver a personalized music experience to a registered user base, all with limited advertising interruption. In addition, the collection of billions of data points from our registered listener base helped Pandora evolve in digital audience development and targeted media distribution.

AUDIO IS THE NEW USER INTERFACE

But the world doesn't stand still, and while Pandora led the charge in developing the first ad-based, personalized music experience, we're on an even greater mission to build a next-generation audio ad experience to maximize advertiser effectiveness and listener enjoyment. We accept this challenge with the realization that we are living in a world where audio is the new user interface, and the way we engage with technology is rapidly changing. Touch is being replaced by voice and other natural user interfaces, and this will have a huge impact on advertisers. We are testing, creating, and learning to disrupt the industry once again. So, what's next in audio advertising innovation? Given the importance Pandora places on delivering the right message to the right person at the right moment, we are enabling the next level of personalization for audio ads with the introduction of Dynamic Audio Ads. In an exclusive partnership with a U.K.-based company, A Million Ads, we have recently begun testing two different offerings.

> **"Imagine if we could combine artificial intelligence and voice activation to enable a conversation with your favorite fashion influencer, celebrity chef, or garden expert, all through an advertisement."**

First, Personalized Audio, which will enable us to serve tailored audio ads *in real time* to listeners of different genders, ages, regions, etc., based on Pandora's proprietary listener data. Imagine hearing an ad that knew it was the first sunny spring morning in suburban Chicago and called that out in a manner most relevant to a targeted audience. An audio script could be delivered as follows: "Good morning, Arlington Heights! The beautiful taste of spring is finally in the air, and it's time to start planning the garden. Head down to The Outdoor Store on West Campbell Street to browse our full line of small garden tools." In this example, the time of day (morning), location (Arlington Heights), topic (planning the garden), address (West Campbell Street), and product content (small garden tools) could be dynamically altered in thousands of variations without the need for individually created copy. This gives advertisers the ability to tailor audio advertising messages in a more personalized manner without the operational complications of a manual creative versioning process — a win-win scenario for all.

The second key innovation in our product road map this year is Sequential Audio, which will allow advertisers to tell a story through sequentially targeted ads. Imagine hearing a story told over time. In the first spot you meet the protagonist, a busy professional person like you who decides it's finally time to buy the new suit you've needed for so long. In the second spot, they explore different fabrics and styles and land on their favorite, highlighting why the choice was best for them. And in the third spot, they're at the office receiving compliments on their new look, talking about the great wardrobing advice provided by the store. This storytelling approach provides more personal interest, situational context, and helps the retailer push the target customer down the purchase funnel to transact.

These are just two examples which further illustrate digital streaming capabilities far beyond what traditional terrestrial radio can provide. But this is only the beginning, as voice is replacing touch as "the new click-through," especially in the connected home. This is an important consideration, as connected-device usage is growing across the audio industry, up 31 percent from 2016. Pandora has seen even more growth in connected home devices, and, as a result, Connected Home usage on our platform has grown to over 9 million unique monthly users, a 43 percent year-over-year growth. For advertisers, the audience on Connected Home is extremely valuable, since they are the most avid users of Pandora, more likely to be in a higher income bracket, own a home, and be parents of young children.

With the addition of voice-enabled applications to the audio mix of Connected Home, the next wave of innovation is upon us, as consumer behavior has also shifted with devices like the Amazon Echo and Google Home. While only 11 percent of the U.S. population currently has one of these devices, adoption is expected to grow to 16 percent by 2019, which presents a major opportunity for retail advertisers. Pandora is already investigating what this could mean from a listener standpoint and for client ad messaging content. For instance, we want to enable our listeners to find a station or create a playlist in a hands-free environment — when you are behind the wheel of a car or up to your elbows in cookie dough in the kitchen. For advertisers, voice-enablement will allow consumers to have conversations directly with the audio message. Imagine if we could combine artificial intelligence and voice activation to enable a conversation with your favorite fashion influencer, celebrity chef, or garden expert, all through an advertisement.

It's an incredibly exciting time to be in the digital music streaming arena. Pandora's Dynamic Audio, Sequential Audio, and voice-engaged advertising initiatives already in the pipeline are just a few innovations that will provide retailers an outside-the-box way to use audio media to improve, enhance, and personalize the customer experience.

Chatbots In Retail: 7 Ways To Ensure Success

Chatbots look to transform the way retailers engage with customers. But success relies initially on thoughtful and strategic deployment.

MILA D'ANTONIO Principal Analyst — Customer Engagement, Ovum

In recent years, the retail industry has arguably been at the forefront in the adoption of digital technologies to meet the rapidly changing expectations of consumers. The adoption of AI-assisted chatbots is no exception. Chatbots that assist customer service and enable conversational commerce are poised to bring tremendous innovation in the way brands connect with customers.

Eventually and inevitably, chatbots will disrupt how retailers engage with consumers, triggering a long-term paradigm shift in how consumers will interact with machines. It's important, therefore, for retailers to consider what degree of investment in the solution will provide the optimal outcome in customer satisfaction and deliver a superior customer experience. They also must ensure the chatbots are aligned to their overall business strategy to safeguard their enterprises economically.

ENSURING CHATBOTS DELIVER SUPERIOR CUSTOMER EXPERIENCES

As companies realize the quick ROI of AI-powered chatbots brought on by automation and instant response, the market will see rapid deployment of them, as companies substitute live support with virtual agents. Those ready to harness the disruptive impact of AI and enter the path to progress should learn to embrace and integrate AI into their current business models.

Before companies start building their chatbots, they should clearly identify the tasks that their intelligent virtual agents will perform. It's also crucial to ensure that the other aspects and features of the AI platform make sense for a company's business model and consumer base. Whether it's business process automation through first-level queries or more in-depth customer engagement deployments where chatbots can predict intent and make transactions, chatbots should add value and deliver superior customer experiences. For customers, that translates to ease of business, frictionless experiences, and personalization. If the chatbot should encounter roadblocks and fail to deliver on these expectations, customers may become frustrated and defect. To ensure chatbot utilization and CX optimization, retailers should make considerations for the following:

1. OPTIMIZE THE CHATBOTS TO LOOP HUMANS INTO THE COMPUTING. If chatbots need to handle complex tasks, a blended AI model, in which agents are ready to step in, works best. This is especially important for complex transactions or nonstandard inquiries, which require additional consideration. Customers can direct their queries toward an agent, but if the question is simple, the bot can answer directly. If the chatbot has a high confidence of not being able to answer the question correctly, it can prompt agents with canned answers that they can use. Along the same lines, after the bot answers each question, it could ask the customer if they want to speak to an agent for more clarification. In either case, it's important that the agent can access the previous chat history so that they can pick up where the bot left off.

2. STRATEGIZE PROPER ONBOARDING APPROACHES. Providing tailored suggestions to keep the customer engaged can be useful. Devising helpful tips and examples on how to use the tool can ease any potential customer frustration. Onboarding should be a guided experience to help customers understand how to use the bot in a friendly way. To get customers in the habit of conversing with their chatbots, retailers must ensure they proactively reach out to customers with information, insight, and advice — presented at the right time and location and based on predictive analysis of customers' individual needs.

3. THINK STRATEGICALLY ABOUT HOW TO REORGANIZE THE CONTACT CENTER AGENTS. Companies should build their chatbots to focus on the most pervasive service issues and automate engagements without reducing customer satisfaction. Agents, in turn, should focus on more high-value tasks. Chatbots' current role is to augment agents, not replace them, essentially acting as an extension of the agent. Chatbots will only replace some of the low-level tasks that agents do, like answering routine questions. This frees up agents to focus on more high-value, revenue-generating responsibilities.

> "If chatbots need to handle complex tasks, a blended AI model, in which agents are ready to step in, works best."
>
> **MILA D'ANTONIO**
> Principal Analyst, Customer Engagement
> Ovum

4. ENABLE THE CHATBOTS TO DELIVER CONTEXT AND PRECISE KNOWLEDGE. This entails delivering context through an open and connected platform that continuously integrates behavioral data with historical and transactional data. Finding a solution that easily integrates into existing business processes, systems, and consumer care solutions can provide a comprehensive repository of data that the AI solution can use to better understand consumer sentiment, as well as customers' intent and nonverbal communication cues. H&M, for example, uses a chatbot that offers different outfits to consumers based on browsing cues and leads them to purchase through the messaging.

5. BUILD CHATBOTS TO INTELLIGENTLY FORMULATE A RESPONSE BASED ON CURRENT ONLINE BEHAVIORS OR ACTIONS. Incorporating information about customers' digital behavior before, during, and after their chatbot interaction helps to improve the performance of the chatbot. A better-informed chatbot can deliver tailored answers directed at the user's experience. Not only do chatbots excel at collecting customer data and delivering personalized experiences, they can assist the agent in also delivering tailored information with the data they collect.

6. ENSURE THAT THE CHATBOT MONITORS, TESTS, TRACKS, AND IMPROVES. AI-powered chatbots will become a critical part of the customer journey, as automation, omni-channel engagement, and personalization become key components in the path to purchase. Retailers must ensure the chatbot platform provides capabilities in areas such as integration, security, management, or monitoring, in addition to the ability to integrate with messaging platforms, enterprise systems, and NLU (natural language understanding) systems. Chatbots must provide monitoring capabilities to track different commands and responses of users. They should also monitor the customers' behaviors and actions and build up natural language flows to use in processes, while submitting them to the knowledge management system.

7. CHATBOTS SHOULD INTEGRATE WITH MESSAGING APPS. Chatbots embedded into messaging platforms like Facebook messenger, Line, and Whatsapp lend themselves to the types of conversations customers are accustomed to having with their friends and families, which are asynchronous. Such integration also allows consumers to revisit past conversations, and agents can have a single chat history at their fingertips, no matter where the customer leaves off. Chatbots integrated into messaging platforms enable retailers to engage in conversational commerce, which involves the confluence of chat, messaging, artificial intelligence, and natural language understanding to enable shopping and transactions via messaging. It essentially brings the point of sale to the customer. For example, Sephora's chatbot allows Kik users who message the retailer to provide more information about themselves through a quiz and then offers personalized beauty tips, product recommendations, and reviews. It then allows them to purchase the products they reference in chat without leaving the Kik app.

As AI-assisted chatbots position themselves to revolutionize the customer experience, enterprises must ensure they align tightly with their specific business goals and objectives. To be truly effective and thrive in the long term, retailers must strive for their chatbots to be agile, scalable, and omni-channel in nature. Eventually, chatbots will transform the way retailers interact with customers and become a vital component to the shopping experience and an essential element to staying relevant and in business.

The Truth About The Border Adjustment Tax

If passed, the border adjustment tax will harm retailers and consumers.

BRIAN DODGE Senior EVP of Public Affairs, Retail Industry Leaders Association (RILA)

The American tax code is a mess. It is complex, inefficient, and most importantly, it picks winners and losers. For example, the retail industry, which supports more American jobs than any other industry, pays among the highest domestic effective tax rates of all industries, at more than 36 percent. While some industries benefit from special treatment that lowers their tax burden, retailers enjoy few, if any, such deductions. For this reason, retailers have always believed that comprehensive tax reform is good for business and even better for American consumers. For years, the retail industry has urged Congress and the White House to work together to find a solution that updates our current outdated and inefficient tax code. Unfortunately, now as Congress finally begins to move tax reform forward, it does so with a proposal that would accentuate the inequity in the tax code and put an enormous new burden on retailers and their customers.

Tax reform should promote growth, job creation, and fairness. However, the House Republican "border adjustment tax" proposal would do nothing of the sort. Instead, the proposal would impose a 20 percent tax on all imported goods. This tax, which would collect $5.7 trillion over ten years, would be largely paid by American families in the form of higher prices for the goods they need.

Proponents of the idea insist that such a provision would incentivize more businesses to sell "Made in America" products and create jobs here at home. However, this fails to consider the complexity of modern supply chains and the demand for items that are not readily available to consumers at certain times, if at all. There are certain products that can't be produced here in the U.S. and, for the foreseeable future, never will be.

Implementing a border adjustable tax means businesses will be forced to pass these additional expenses on to consumers. In fact, it's estimated that American families will be forced to pay as much as $1,700 more each year for everyday essential products like food, clothing, and medicine. In addition, the retail industry would be forced to downsize operations in effort to offset the costs of a border adjustable tax. That means putting hardworking Americans out of a job.

While vocal about the need for tax reform, retailers have had to turn their attention first to stopping the harmful border adjustment tax. Working with businesses and industries that face a similar impact under the border adjustment tax, retailers are educating lawmakers about the impact. The campaign, Americans for Affordable Products, has moved quickly to engage a diverse set of stakeholders to press members of Congress to speak out against the proposal. To date, dozens of lawmakers have expressed concerns, so many that no realistic pathway exists in the Senate for the border adjustable tax, and even the viability of the proposal in the House is in question.

HOUSE, SENATE OPPOSE TAX

At the other end of Pennsylvania Avenue, skepticism toward the border adjustment tax seems to be growing. In April, when the White House released its outline for tax reform, the border adjustment tax was nowhere to be found. What was in the outline was a commitment from the president that seemed to foreshadow the ultimate demise of the border adjustment tax.

According to the 2017 Tax Reform for Economic Growth and American Jobs, "Working with the House and Senate, the Administration will develop the details of a tax plan that provide massive tax relief, create jobs, and make America more competitive — and can pass both chambers."

With widespread opposition in the Senate and growing opposition in the House, it is likely impossible for President Trump to achieve that goal with any legislation that includes the border adjustable tax. While it is too soon to stop the fight or rest easy, the political prospects of the border adjustable tax grow dimmer by the day.

As Congress moves forward with tax reform plans, RILA, along with our members, will continue to work with industry partners and policy makers alike to ensure that tax reform advances without the harmful border adjustable tax, and that we can pass progrowth comprehensive tax reform this year.

Disrupt Or Be Disrupted: Leadership In The Digital Age

Here are five ways the most dynamic leaders embrace disruption and equip their organizations to innovate in today's data-driven retailer marketplace.

RUBI HO Founder and President, The Rubi Ho Group

RUBI HO is a well-regarded strategic and organizational consultant, celebrated author, and founder and architect of the Strategic & Organizational Consultant (SAOL™) methodology and certification program. With a disruptive leadership style, Rubi has logged over 30,000 consulting hours "in the trenches" with companies and their leaders. His direct and candid approach to consulting and issue resolution has earned him the trusted respect of CEOs and their staff, changing the way organizations are led.
Rubi's personal story is also one of triumph, having escaped Saigon the day before it fell.

THE IMPERATIVE OF DISRUPTIVE LEADERSHIP

If you have any doubt that your business requires disruptive leadership, consider Kodak, Blockbuster, or BlackBerry. Or the 40 percent of Fortune 500 companies in 2000 that no longer existed by 2010. Then think Amazon which quintupled its North American sales from $16 billion to $80 billion in a mere six years. Disruptive leadership made the difference.

Here are five ways the most dynamic leaders embrace disruption and equip their organizations to innovate in today's data-driven retailer marketplace.

1. CREATE CATALYTIC ROLES AND CLOSE SKILL GAPS

Data is driving retail and creating monumental power shifts — and skill gaps — within organizations. Chief Digital Officers are not only the new norm, they reign supreme, spawning the need for other such catalytic roles as Chief Data Officer, Chief Growth Officer, and Chief Analytics Officer.

But the sheer pace of change has created a skills gap, which is stopping many organizations in advancing their digital strategies. According to Russell Reynolds Associates' annual survey of C-level executives, only half of executives felt they had the right people defining their digital strategy. And only one in five felt their HR function was helping them to transform, ranking them even lower than finance. Ouch. The message is clear. Invest NOW to bridge the skill gaps by adding and promoting disruptive thinkers, leaders, and strategists.

2. CREATE AN AGILE CULTURE FOCUSED ON CONSUMER EXPERIENCE

Product superiority on its own no longer sells. The consumer experience sells, and social media validates it.

Your culture must become organic, adaptable, and data-driven with a decisive penchant for cutting through the chaos. As leaders, you and your team must consistently break the rules with the ability to explain why. If you don't have these kinds of leaders, make the change NOW.

3. CRYSTALLIZE BRAND AND CORE COMPETENCIES

Know the primary components that comprise your brand equity, or risk a very costly demise. It's that simple. Procter & Gamble, once the gold standard for consumer goods marketing, has publicly struggled in recent years. Only after a thorough evaluation of their entire portfolio did they realize that 80 percent of their gross margin came from 11 of their 1,250 product lines. Don't make the same costly mistake. Real-time course correction of your brand is a must in today's digital age.

4. STRATEGIZE TOWARD VISION, NOT FEAR OF EXTINCTION

Research validates that leaders who focus on employee strengths create organizations that are eight times more productive and engaged. The same holds true for organizations regarding your vision. When companies operate from a "Vision Statement," they create more positive cultures, sparking room for innovation and creativity. Your vision also serves as your lighthouse as you navigate today's increasingly more turbulent waters. Frequent calibration and course correction are more important than ever.

5. LEAD WITH A SENSE OF URGENCY, NOT A SENSE OF DESPERATION

There is a fine line here, and it harkens back to knowing and leveraging your vision. There will always be a competitor doing something faster, better, or cheaper. As your company's leadership, it's up to you to distinguish when — and if — it matters. Do you really need to add mattresses to your product portfolio because others have?

Stay true to your vision and your core competencies, surround yourself with disrupters, and balance your data fortress with highly visible EQ (emotional intelligence) decision making. Think — and act — like a survivor, and you will be the disrupter versus the disrupted. R


OPERATIONS
REDEPLOY LABOR FOR AN IMPROVED SHOPPING EXPERIENCE
LOSS PREVENTION
REDUCE CASH LOSSES BY UP TO 90%
GULFCOAST
DATA ANALYTICS
SECURITY ALERTS ON CASH TRANSACTION ERRORS
TREASURY
REDUCE CIT FEES AND REINVEST YOUR 'DEAD' CASH