RetailDIVE

10 trends shaping the future of retail

The biggest challenges for retailers in 2015: New technologies, changing shopping habits, and the threat of disruptive competitors.

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Over the last few years alone, the retail industry has amassed a graveyard of sorts of companies that failed to stay ahead of rapid changes in technology and consumer needs. Wet Seal, RadioShack, Zulily, and C. Wonder are just some of the struggling retailers that either filed for bankruptcy or were acquired this year, many of them citing the shifting retail landscape as a cause of their troubles.

New technologies, changing shopping habits, and the threat of disruptive competitors such as Amazon are the focus for many legacy retailers as they struggle to keep growing their businesses. Here are 10 trends retailers should keep a close eye on as they navigate this time of change.

1. The growing use of mobile among consumers

Mobile phones are quickly becoming engrained in consumers' everyday life: 64% of American adults today own a smartphone, according to Pew Research, up from 35% in 2011. And 52% of smartphone owners in the U.S. report checking their phones a few times an hour or more, according to a Gallup poll.

Retailers are beginning to see consumers using these devices in every step of their shopping journey, from finding inspiration from their favorite fashion blogger to a mobile checkout in-store. In 2013, retailer ModCloth found that 60% of its Thanksgiving sales came from mobile, while e-commerce giant Amazon has more mobile-only users than Facebook.

More to the point for brick-and-mortar, 75% of store shoppers are using their mobile device in stores, according to InReality. These shoppers are checking for deals from the retailer (or its competitor), consulting with friends via text when trying on wares, and updating their social media accounts while waiting in line. Retailers have and will continue to make mobile shopping—both in-store and out—a priority by investing in mobile apps and beacons for in-store use, in-app shopping capabilities, mobile payments in stores, and mobile advertisements.

2. New payment methods are becoming more mainstream

With the EMV adoption deadline quickly approaching and the many security breaches of past years—including Target, Home Depot, and Neiman Marcus—exposing the weaknesses of traditional magnetic cards, retailers have been slowly renovating their POS systems to accept a varied number of payment options: chip-and-pin cards, NRF contactless payments, and the veteran magnetic stripe card.

Technology companies continue to develop and roll out new mobile payment apps, many of which are considered safer than magnetic stripe cards due to their tendency to generate and use unique pins for each transaction instead of card numbers. But questions remain as to how engrained they will become into the everyday shopping journey—and which new payment method, if any, will win the acceptance of the public.

3. Retailers are investing in their workforces to attract and retain top talent

As the economy improves and workers have more choices for employment, the pressure is on retailers to facilitate a working environment that is both competitive in wages and scheduling. The New York Times' recent expose into Amazon’s harsh work environment drew significant consumer backlash, bringing retail workplace issues further into the national conscience.

Facing the prospect of consumer ill-will and struggling to compete for workers, many major retailers have been making moves to improve working conditions and raise wages for their employees. Just this year, we have seen multiple retailers, including Wal-Mart, Abercrombie, and Gap, increase their minimum wages or do away with controversial on-call scheduling for store employees, while taking a hit in profits in order to do so. The prevailing wisdom among many retailers is that investments in their employees will come full circle: As workers become happier and more invested in their work, customer service will improve, thus driving greater sales in stores and padding the bottom line.

4. Retailers fight discounting with a focus on merchandise

Retailers have always been keenly attuned to their customers' needs. As the economy improves, consumers are holding onto their desires for discounts and sales, forcing many retailers to compete on factors other than price, including merchandising and product quality.

American Eagle has been seeing some success with this approach, with sales up in the most recent quarter thanks in part to a greater focus on the quality of its jeans, despite a move away from heavy discounting. Abercrombie, another teen retailer fighting its way back from several dismal quarters, is focusing on the value of its signature brand, doing away with logos, and shifting to a more "timeless" look to appeal to older audiences who might be willing to spend more. Moving forward, expect retailers to place a greater focus on the quality of their products and perhaps, like American Eagle did recently, even reduce inventory to do away with clearance markdowns.

5. Omnichannel is not an option for retailers anymore — 'it is just business'

Omnichannel is the retail buzzword du jour — and for good reason. As retailers continue to invest in mobile and e-commerce ventures, the ability for consumers to seamlessly shop from one channel to the next while retailers account for inventory is a challenge that all retailers are grappling with — and one that few have fully mastered yet.

An online presence is the now bare minimum for many retailers, and omnichannel capabilities are becoming increasingly necessary. Deloitte's "Navigating the Digital Divide" report states that 64% of transactions in stores are influence by digital, with many parts of the shopping journey taking place even before the customer steps into the brick-and-mortar location.

"In a world where nearly everyone is always online, there is no offline," Deloitte's report reads. "So it is not about the digital business, it is just business. It's not about eCommerce, it is simply commerce."

6. Retailers and tech companies are disrupting the traditional delivery model

Driven by the expectations set by Amazon's delivery prowess, customers increasingly expect multiple fulfillment options and cheaper and faster shipping from their retail providers. 81% of shoppers in a Harris Poll said that free shipping would make them more likely to buy online, while the percentage of U.S. shoppers buying online and picking up in store has dramatically risen from 4% in 2013 to 64% in 2014. Retailers and delivery companies are responding with new solutions to meet customer demand, including ship-from-store, curbside pickup, expanded pickup in-store, Sunday delivery, delivery lockers, and ride-sharing-like delivery apps.

Retailers failing to adapt to these new expectations are feeling the burn from consumers. This month, flash-sale site Zulily — known for slow fulfillment times due to its tendency not to stock inventory in warehouses before it is ordered — was acquired by QVC after experiencing slowing sales and plummeting shares. Though not completely to blame, slow delivery appears to have contributed to the retailer's woes, as customers found themselves waiting, sometimes for weeks, for their orders.

There is no clear winner among the many new delivery methods yet, but the growth of new delivery services and retailers' focus on e-commerce are likely to bring new options to consumers soon.

7. Retailers adjusting store formats and merchandise to target urban customers

For the first time since 1920, the population growth of American cities has outpaced the growth of areas outside of them, according to Nielson. About 80% of Americans lived in urban areas in 2010, according to that year's census, and 40% of millennials say they would like to live in an urban area in the future. While retailers in the past focused on rolling out large stores in suburban markets, today retailers are needing to rethink their store strategies to reach urban customers.

As these urban centers grow, retailers will need to adjust their store formats to fit into the tight real estate and property boundaries of most cities. Target and Wal-Mart have both rolled out smaller format stores, personalizing merchandise to appeal to the local neighborhood shopper. And as younger customers in cities use a grab-and-go approach to shopping — buying just the essentials they may need for that day rather than stocking up at big box stores like their suburban counterparts — retailers are selecting their grocery categories to fit this on-the-go lifestyle and make their smaller format stores a food destination for urban dwellers.

8. Brick-and-mortar is becoming more of an experience

Looking to attract the millennial generation — whose predicted annual spending will reach $1.4 trillion in 2020, according to Accenture — retailers are taking advantage of their flexible brand loyalty and penchant to spend more on experiences rather than things, enticing them with increasingly unique formats and interactive opportunities when shopping in their stores.

Driven by these millennial preferences and the need for a distinct advantage over online retailers such as Amazon, retailers are turning their stores into destinations for discovery. Apple's open-concept showrooms are the one of the best examples of this type of retailing, but experiential formats are now becoming more mainstream as traditional retailers rethink the role of physical stores. Retailers like Macy's and Target are testing alternative merchandise displays and building navigation mobile apps for shoppers to use in-store to find inventory and alert them of sales.

The trend is even coming full circle as pure online retailers eye the benefits of physical stores. Bonobos, Warby Parker, and Birchbox have all opened and continue to expand their brick-and-mortar showrooms and stores in the United States.

9. Commerce is coming to social media

Twitter, Facebook, Instagram, and Pinterest either have launched or are in the process of launching "buy" buttons as an option for marketers, with the buttons seen as a way to monetize social networks and discovery platforms. As more consumers gravitate to using these social networks, placing a high value on the opinions of their friends and online influencers opinions and interacting with brands before going to stores, retailers are launching their own blogs to cultivate more of a brand following and customer loyalty.

10. Retailers investing more and more in e-commerce

The biggest focus for many legacy and big-box retailers this year is to continue to invest heavily in their online operations, even if it has come at a cost for many in recent quarters.

But boosting their own e-commerce capabilities isn't enough for some retailers. Online marketplaces — where retailers can sell their wares through third party sites like Amazon and Alibaba — continue to grow, as many retailers use them to reach a wider audience. According to NRF's "State of Retailing Online 2015" survey, 32% of retailers plan to spend more on online marketplaces than last year.

Although the idea of selling through a competitor sounds self-annihilating, the reach it offers is hard for many retailers to overlook. According to Forrester, more shoppers started their shopping journeys by researching purchases on Amazon in the third quarter of 2014 than researching on search engines.

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