

Changing Consumers and Technology: Ten Megatrends Transforming the Retail Landscape

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Executive Summary

“A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”

– Wayne Gretzky, hockey legend

This famous quote is as applicable to hockey as it is to retail, where it is important to play where the customer is going to be. In an industry that is capital intensive, planning for today means you are already several steps behind.

To find out more about what retailers should be focusing on now, to prepare for the future, we recently surveyed over 2,000 customers of varied age and income groups to find out how they felt about their store experiences. We asked them about the characteristics they dislike in stores, the checkout process, what service offerings they value, etc. (see methodology section, page 17). From their responses, we identified 10 megatrends that will significantly shape the retail landscape in 2011 and beyond. We grouped these megatrends into three key categories to reflect their synergistic impact:

- **The Integrated Store:** Customers will expect a seamless experience across all retail channels.
- **The Mobile Shopper:** The proliferation of mobile devices will change the way customers interact with retailers.
- **The New Influencers:** A shift in the sources of information and authority will impact decision making.

These trends are enabled and accelerated by both technology and the rising influence of millennials – those 30-and-under who grew up with pervasive access to technology and the Web. Therefore, it is critical for retailers to stay in tune with related developments.

Group 1: The Integrated Store

Customers continue to be time-starved and have an increasingly lower tolerance for inconvenience. Thanks to consumer-focused advertising over the past few years, they understand that technology can simplify their lives and save them time, and they expect retailers to use all available tools to create a seamless experience for them. The flip side of this expectation is that customers are willing and able to use multiple channels to fulfill their needs, creating opportunities for service and efficiency for the retailer that were previously unavailable. Channel integration represents benefits to both the customer and the retailer if approached strategically.

Trend 1: Shoppers Demand Consistent Cross-Channel Experiences

A siloed organization drives separate strategies and experiences – and this will be increasingly anathema to millennials. Customer service, merchandising, pricing, inventory and supply chain business processes will be seamlessly integrated within the organization.

Retailers may have many points of transaction with customers: stores, Web sites, call centers, catalogs, advertising, delivery, etc. Each customer will use a different combination of those channels. Our survey results show the following variety of preferences:

- Male shoppers prefer purchasing online and picking up in-store.
- Female shoppers would rather have products delivered to their home, with the option to return them to the store, if needed.
- The “emerging elder” category of shoppers (65 years and older) want a service in which store purchases are delivered to their homes at no extra charge.
- 42% of millennials indicated that the service offering they prefer most is the ability to buy online for home delivery, with the option of returning products to stores.

Given the multiplicity of options that are available to customers, it is in the retailer's best interest to ensure consistency and avoid disruptive experiences. Additionally, retailers that use mystery shoppers or other tools to gauge customer experience should ensure that the cross-channel experience is evaluated.

Valued Service Offerings

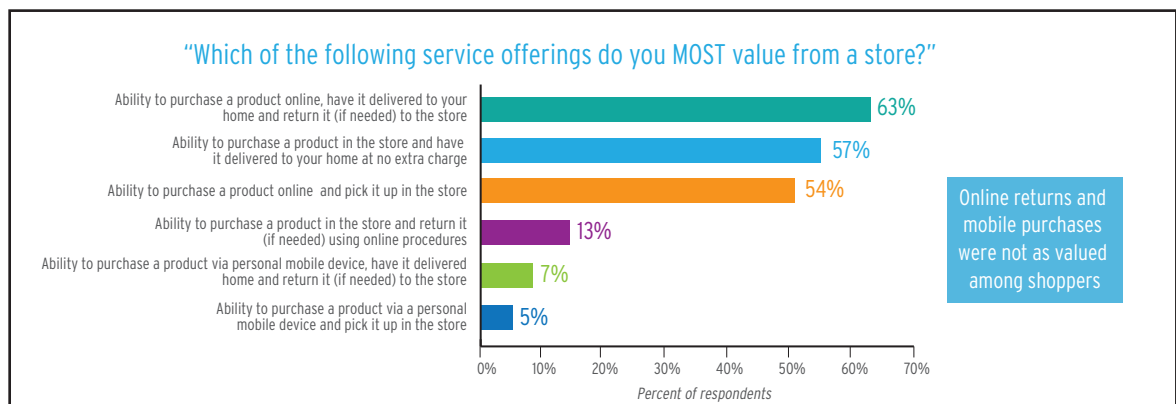


Figure 1

A retailer that has created a strong multi-channel experience is Best Buy. From its Web site, customers may choose from the following service options: Order online for home delivery; order online for same-day pickup in store; order online for shipment to store; and order online for pickup in a Best Buy warehouse. Returns can be made either online or in stores. Customer assistance is available by voice through a phone or a PC, online chat and at stores. More technical advice is available through the Geek Squad® in-store, at home or online in a community forum. Best Buy's site not only offers the traditional store-level information, such as location, maps, hours and services, but it also allows customers to read and write reviews about their experience in individual stores. Mobile apps support the ability to scan products to obtain information on them and full-site browsing and purchasing capabilities. Best Buy also offers a price-matching guarantee, during the period in which an item is refund-eligible, if the same product is found either on its site or in a store for a lower price.

Retailers should also look beyond their own industry for ideas on how to integrate their cross-channel experience. OnStar®, the safety, security and communications service available in General Motors cars, enables users to access their services through one-touch buttons in the vehicle or via a call center. It also has the ability to sense airbag deployment or vehicle diagnostics (oil and fuel level, engine trouble, etc.) and provide on-request assessments, online visibility and automated email alerts. Additionally, users have the ability to surf the Web while driving through text-to-voice technology that essentially reads out loud what is being browsed. OnStar recently announced a new mobile application to be launched for the Chevy Volt that enables users to employ smart phones for services such as door lock or unlock and remote horn and lights, which were previously only available through the call center.² Thus, OnStar is creating a more integrated cross-channel experience for its subscribers.

Inconsistent pricing across channels, in particular, is the third highest store irritant across all age groups, with Generations X and Y being the most sensitive. This point is particularly significant because retailers justify pricing discrepancies through several factors:

- Inventory cost variations.
- Additional shipping costs that customers might incur online.
- Regional differences.
- Segmentation of competition by channel.

However, although customers understand the logic behind this disparity, they expect consistency. Retailers will have to choose between customer satisfaction and the financial implications of synchronizing pricing. One of the guiding factors would be the size of their online business compared with other channels.

One major challenge to consistency in experience is the human factor of store-level execution, particularly at retailers that promote entrepreneurship among store managers. Therefore, using technology to create uniformity can be of particular value. Digital signing, for example, can link store price signing, checkout pricing and online pricing to a central database and lift dependencies on store execution. A major U.S. apparel retailer that executes frequent price promotions has recently piloted digital signing to shorten the time lag between the decision and execution of a price change.

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An appropriate next step for this company is to link this capability to its online pricing system.

Trend 2: Distributed Order Management Integrates the Retailer

All enterprises will integrate distributed order management across the enterprise to provide one view of customer orders, regardless of channel.

As channels of distribution and service grow, there is an increasing need for a single view of all purchases and orders related to a customer. Many retailers already have traditional in-store shopping and e-commerce channels, but emerging models like “order online and pick up in store” or “purchase in store for home delivery” or “order in one store for pickup in another store” require flexibility in ordering systems to ensure that inventory is allocated correctly. With 31% of women saying that ordering at the register followed by home delivery is the most-favored remedy for an out-of-stock situation, retailers are likely to adapt in various ways to move inventory among locations. Having the right systems support is critical for success.

Both retailers and customers require visibility into their business and transactions, and not just online.

- 73% of customers want cross-channel visibility at the store checkout, and 53% want it from an in-store kiosk. High-traffic retailers can fulfill the need for in-store access through mobile devices, if they have concerns about slowing down the checkout process. Providing cross-channel visibility through kiosks may make more sense to retailers that can upgrade existing infrastructure; others can also rely on mobile applications.
- Customers want to return products even if they have forgotten their receipt, knowing that the store can look up the purchase price regardless of the purchase location.
- Not accepting a return from another store in the chain was the third highest irritant for customers when asked about negative store characteristics.
- 12% of customers expressed concern that stores would not refund items purchased online, even with an online receipt.

Out-of-Stock Remedies



Figure 2

One of the advantages of brick-and-mortar retailers over their online-only competition is the convenience of their physical locations as points of service. These companies should use that infrastructure to their full advantage by integrating customer information across channels.

Best Buy implemented a distributed order management system that has enabled it to provide a variety of services to its customers. Its ability to offer these services and create an integrated and consistent cross-channel experience is dependent on real-time visibility into inventory levels at these various locations and the ability to provide both customers and associates at these locations consistent information.³

Amazon.com is recognized as a retailer with an easy shopping experience. Customers can add products to the same cart online or through their mobile applications. Additionally, Amazon has the ability to bundle shipment of all the products in a buyer's cart or ship each product separately, as it becomes available, based on customer preferences. A simple benchmarking test that retailers can take is to ask themselves, "Is my site as easy to use as Amazon's?"

Trend 3: Real SKU Rationalization Takes Hold

Retailers will continue to dramatically reduce supplier and SKU counts. Cross-channel order management will enable retailers to rationalize SKU location – shipping slow-moving product into the warehouse or back to suppliers and increasing inventory for key items. Slow-moving items will be made available through in-store kiosks or mobile checkout.

During recent economic times of low or negative top-line growth, retailers have been under pressure to manage profits through cost-cutting and efficiency measures. One of those measures is SKU rationalization. Although there has been some well-publicized fallout from aggressive product assortment cuts by major retailers, the megatrend will continue for a few reasons:

- Retailers must continue to prioritize their inventory investment dollars, although the most sophisticated retailers will look at store-item combinations to better understand market-level nuances.
- Improvements in distribution systems and acceptance of cross-channel shopping mean that not carrying a SKU in store does not mean you can't serve the customer who's looking for it. Roughly 23% of customers indicated that buying online and picking up in-store was the store service they most valued; so "order online and pick up in-store" is a viable avenue for delivering SKUs cut from store assortments.
- Reducing SKU count can actually allow for more space for the highest volume products and ensure fewer out-of-stocks on them. Given that 32% of customers say out-of-stocks are the characteristic they most dislike at the store level, focusing on keeping the most popular items in stock could be a higher priority than providing a wide assortment for some retailers.

SuperValu, a grocery retailer based in the midwestern region of the U.S., recently touted its SKU rationalization process and results in public, citing the role of a clearly-defined category strategy as the driver of decisions. The strategy included assortment, redundancy elimination, market-relevant brands and private label. The retailer also emphasized flexibility when dealing with customer impact from the elimination of specific products or brands. Its program resulted in better in-stock for fast-moving items and labor efficiencies, without impacting sales.⁴

One major office products retailer that we recently observed was struggling with its assortment strategy, which resulted in a large number of unproductive SKUs. The retailer followed a well-defined process, including store clustering, regression analysis (to understand product attributes and how customers might shift demand between products) and space redistribution and optimization. This diligent process yielded high single-digit increases in sales and margin and also resulted in the development of a new store format.

In these examples, SKU count changes were made within the context of a retailer's overall merchandising strategy. Far too often, all categories are treated identically, without insight into the varying role of assortment or brands. Additionally, merchants are frequently required to make cuts quickly, without the benefits of market basket analysis or store-level analysis. Retailers should establish methodologies that keep customer preference in mind and use tools to help analyze the value of specific items in the assortment.

Key Takeaway: When developing a strategy for approaching the megatrends in the integrated store category, several information technology considerations are key. These include centralized item and customer information databases, flexible distribution systems to enable "order from anywhere" and "ship to anywhere" services, and in-store systems, such as kiosks and digital signing.

Group 2: The Mobile Shopper

Recent years have seen exponential growth in the number of smart mobile devices. An estimate by Nielsen suggests that by Christmas 2011, one in every two Americans will own a smartphone.⁵ The smartphone, along with the more conventional means of accessing the Internet, has made it easy for customers to obtain product information while at home, in the gym or in the car. Today, shoppers can research and order products online and receive them at a variety of locations. In the process, they can make a well-informed choice of the exact item that suits their needs. Such an information-rich environment creates an enormous opportunity for retailers to tap a fast-expanding and highly demanding customer base.

Trend 4: Sales and Product Information via Mobile Phone

Shoppers will opt-in to networks that send them content-rich messages about product information, prices, promotions and special services.

The proliferation of smartphones is driving the demand for new applications and functionality. Mobile users are no longer willing to go to desktops or even laptops for their everyday needs. The numerous apps available on the iPhone, Android and Windows-based devices demonstrate this point. These apps range from gaming and entertainment, to weather and finance.

Some of the heaviest retail-centric uses of mobile devices are store locators and product lookups prior to store visits. Even while they are in a store, many shoppers are using their mobile phones to gather information on products. Today, many smartphones have free apps that can scan the barcode of any product and look up prices and customer reviews. The visual product search app Snaptell, for example, uses image recognition to do exactly the same thing, without a barcode. Customers can take a picture of books, CDs, etc. using their phone's built-in camera, and Snaptell will identify the product, show them reviews and ratings, reveal the best available prices and even provide links to Web sites where the product can be purchased. Taking the shopping experience further still, Meijer is developing an app for the iPhone and Android devices that will guide shoppers to the exact location of in-stock products within their stores.⁶

Another area that forward-thinking retailers should focus on is mobile coupons. Our survey reveals that 40% of all customers indicated that having to mail in manufacturer coupons was the aspect of checkout they most disliked, and as many as 82% of high-income shoppers said they want coupons on their mobile devices. Acknowledging the market for mobile coupons, telecommunications giant Verizon has launched a program called “Spend Smart” that will allow Verizon customers to use mobile coupons in 20 grocery chains across the country. One of the developments to monitor is how the retail and consumer packaged goods industry responds to an increase in redemption rates as coupons go mobile.

This megatrend challenges retailers to innovate continuously, as smartphones have made other devices obsolete. The GPS is now available on the phone, as is the camera. Land lines and physical phone books are things of the past for a majority of mobile users. Retailers will have to adapt quickly to stay connected to consumers who have already converted to the smartphone. These customers expect information tailored to their specifications and based on past behaviors, but without infringing on their privacy. Technology has made it possible for retailers to know exactly what information a particular customer wants to receive.

Trend 5: Mobile Shopping (Finally) Comes of Age

Discussed since the turn of the century, this trend will be fueled by shopper acceptance, new technologies, increased network bandwidth and retailer adoption.

Though mobile checkout and mobile payment are not yet a high priority for U.S. shoppers, the experience of retailers in Asian and European markets indicates that this is a trend that will grow stronger, as the technology becomes more available and customer awareness of alternative checkout options grows. Recent studies show that 50% of customers using mobile phones regularly make purchases using their phone.⁷ This is an encouraging trend and one that retailers need to closely monitor.

Of the various ways in which checkout and mobile payment are possible – such as through Web checkout on smartphones, payment using the SMS feature of any mobile phone and contactless checkout – the last option is clearly the most futuristic, and the one to watch. Propelled by Near Field Communication technology (NFC), contactless checkout allows customers to use their NFC-chip-embedded mobile phones to act as “mobile wallets.” Instead of paying by cash or swiping a credit card, customers bring their mobile phones close to an NFC-enabled payment terminal to make payments. Japan is a clear leader in the use of this technology, and Europe is catching up. Buoyed by the success of contactless checkout in these markets, all indications are that iPhone and Android phones will soon have embedded NFC chips.

According to a study conducted by mobile wallet solution provider Alcatel-Lucent of teenagers and young adults from 10 countries (Spain, Brazil, France, the U.S., the UK, China, Mexico, Germany, Italy and Japan), 89% of the respondents were willing to pay a monthly fee to get a mobile wallet service.⁸

Among the front-runners in introducing NFC to retailing is Airtag in France. Some of its customers – including La Croissanterie, a fast-food chain; Rica Lewis, an apparel retailer; and Game, a videogame retailer – have all recently piloted loyalty programs

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using Fidbook, a phone application that works with an in-store reader. Users will be able to use Fidbook to manage loyalty cards from any participating retailer.⁹ Customers are moving away from retail-branded cards toward bank cards as they take more control of their credit by reducing the number of cards they carry. The National Retail Federation in the U.S. sees NFC adoption as a solution to bring these customers back to retail-branded cards.¹⁰ As retailers gear up to embrace large-scale mobile payment and mobile checkout, they must invest in the appropriate infrastructure that meets NFC and contactless card standards. For retailers, the good news is the potential for shorter lines and fewer store associates required at checkouts. Those resources can be redeployed for customer service, product demonstrations and other services that can ultimately contribute to a better customer experience.

Trend 6: Taking the Store to the Shopper

Retailers will bring their full arsenal of capabilities to the shopper, regardless of location, whether the shopper is in the store, at home or walking in the park.

Over the years, consumer need for convenience has caused retailers to evolve. Examples include the development of hypermarkets and full-line discount stores to fulfill the need for one-stop shopping, and 24-hour stores to support consumers' varying schedules. With the influx of online and mobile technology, retailers' touchpoints with the customer have multiplied, and each customer wants a different combination of retailer touchpoints. Our survey shows the following:

- 54% customers said they would like to order products online and have them delivered to the store.
- 63% want the ability to purchase a product online, have it delivered home and return it (if needed) to the store.
- Millennials in particular prefer online purchasing and home delivery.
- As mentioned earlier, male and female shoppers differ in their preference for delivery vs. in-store pickup.
- "Emerging elders" want to buy in-store with home delivery.

According to Best Buy, 60% of its U.S. store sales are influenced by customer experiences on Bestbuy.com, and 40% of the products the company sells online are picked up in-store. Best Buy indicated that this multi-channel approach would continue to be successful.¹¹ Interestingly, 12% of millennials in our survey said they were very likely to use a retailer's social network, making it a new and emerging touchpoint for retailers to address. We expect the number of available touchpoints to grow as new technology emerges.

As shoppers become accustomed to multi-channel retailing, they expect retailers to use all these channels to deliver better service.

As shoppers become accustomed to multi-channel retailing, they expect retailers to use all these channels to deliver better service. A case in point is the consumer expectation that stores will handle out-of-stocks in a way that's least inconvenient to them, as mentioned earlier. All shoppers dislike out-of-stocks, but for a retailer that wants to remedy the situation with female customers, the data suggests that the best approach is to have the item delivered to their homes at no charge. If the retailer wants to best serve a male shopper, offering him a 10% voucher to return to the store when the product is back in stock would be a good option.

This megatrend suggests that retailers analyze the preferences of their customers and serve targeted cross-channel options. For example, determining where to draw the line for zero-shipping cost on purchases will be a decision left to individual retailers, but Amazon's "no shipping cost on orders over \$25" (for a range of qualifying items) suggests a good guideline for online shopping, and may be extended to home delivery of in-store orders.

Trend 7: Death of Static (Traditional) POS Becomes a Possibility

Increasing customer acceptance of out-of-queue checkout and mobile checkout, and the cost benefits associated with it, will provide retailers with an alternative to the tyranny of massive, future POS investments. Byproducts include reduction of employee-based shrink, lower capital expenditures, increased sales per square foot and reclaiming premium store space.

Our survey shows that customers dislike the following situations when checking out: Inattentive cashiers (54%), waiting in line (29%) and slow cashiers (26%). Millennials are particularly sensitive to waiting in line and slow cashiers. To address these customer concerns, retailers have started introducing customers to various forms of non-traditional checkouts. As customers get more accustomed to out-of-queue and mobile checkouts, retailers stand to benefit in the long run by dismantling the massive and expensive point-of-sale infrastructure. Mobile checkouts have been discussed earlier as a separate megatrend, but some of the other innovative out-of-queue checkout solutions that retailers are embracing include digital kiosks, mobile scanning units, and personalized shopping assistants (PSA).

Whereas digital kiosks are used by most supermarkets for self-checkout, some retailers have introduced them in the deli section for placing orders as well. Also, customers at Sam's Club who wait in the checkout queue will often find club associates using mobile scanners to process items in the customer's cart against their membership cards. As customers proceed to the checkout, a scan of the membership card brings up the list of purchased items, thus reducing checkout time significantly.

At a basic level, a PSA is a digital display attached to smart shopping carts that allow shoppers to see details of products and scan them as they are placed in the

Checkout Turn-Offs

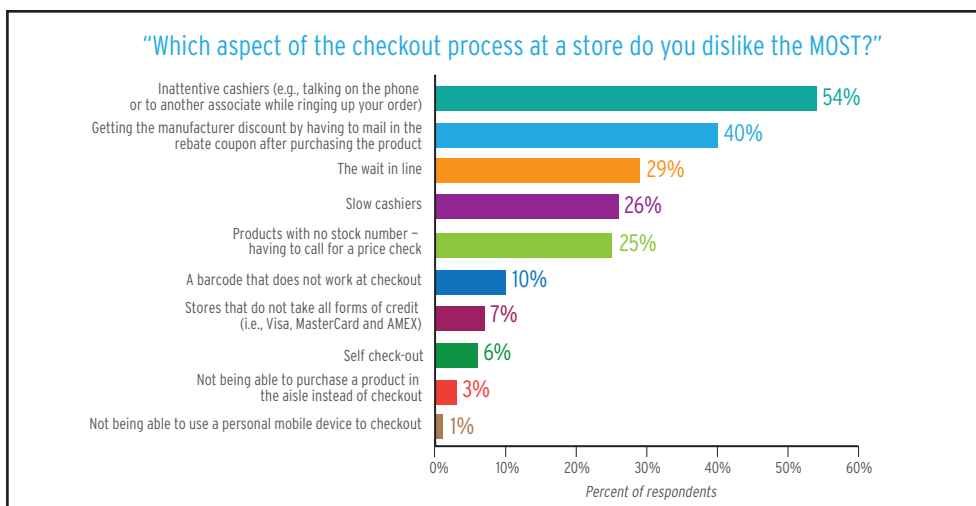


Figure 3

cart. Advanced carts may alert the user to promotions and personalized discounts. At Stop & Shop, a chain of supermarkets in the northeastern U.S., loyalty customers can use EasyShop, a hand-held device, to scan items as they shop, making checkout quick and easy. In addition, EasyShop offers targeted coupons to customers.¹²

Retailers should experiment with the right mix of out-of-queue checkout options. Reducing the share of traditional POS for checkout may generate cost savings for retailers by lowering infrastructure and maintenance costs and cutting operating expense. This strategy will also enable retailers to reclaim premium store space for promotions, displays, etc.

Key Takeaway: As mobile devices become ubiquitous, and customers become accustomed to non-traditional checkout options, retailers need to follow the customer. This must be done by delivering goods where customers want them delivered and delivering personalized messages in the form they want, within the broader framework of consumer privacy concerns.

Group 3: The New Influencers

Retailers have traditionally been the key influencers of consumer decision-making habits. During the past few years, however, there has been recognition of the role of the social circle in influencing purchase decisions. This role has always existed (think of Tupperware parties in the 1970s or the impact of the popular kids' style choices back in school), but it has been fueled by the way technology has broadened the size of the social circle and increased the speed at which ideas proliferate.

Additionally, the attitudes of millennials have also impacted the directness and openness with which influence is wielded.

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Trend 8: Death of the Task Worker

To deal with the dramatic increase in shopper product knowledge, retailers will transform their workforces into knowledge-based teams, dramatically increasing customer-facing activities and increasingly automating back-office tasks.

One of the key areas of cost control for retailers is store-level labor. This cost-cutting has led to disappointing customer service, as companies focus on what they have to do instead of what they could be doing to entice and advise the customer. Approximately 26% of customers name "associates with poor product knowledge" as the most disliked store problem. At the same time, the Internet is now an increasingly powerful source of empowerment and information for consumers. Retailers will react to this increase in customer knowledge in one of two ways:

- Abdicating the role of customer advisor.
- Seizing the opportunity to rebuild relationships and influence shopper behavior.

Retailers focused on no-frills and low-cost will rely on the ability of customers to find information on their own and arrive at the store aware of what they want to buy. These retailers will continue to automate customer service as much as possible and simplify the tasks that their employees perform.

Other retailers will embrace this megatrend and find ways to educate their associates using the same social media tools available to customers. They will encourage

employees to become experts in specific areas and be able to discuss options with customers both in person and through social media at a more localized level than before. They will invest in technologies that allow them to automate tasks and focus their labor hours on engaging the customer. This approach can be powerful, because although millennials are more likely than average to use the Internet and mobile devices to obtain product information (40% cite the Internet as their key source of apparel information), they also indicated a greater willingness to use the retailer's own social network. This interest demonstrates a desire to have a relationship with the retailer and a recognition that the retailer can have valuable input into the consumer decision-making process. However, customers may be frustrated by poor service they receive in-store.

When determining the importance of knowledge-based workers, retailers should consider their target customers and business needs. For example, in the apparel space, female shoppers prefer to obtain most of their information from the Internet, while male shoppers prefer to get most of their information from informed store associates. This difference in behavior may be related to the fact that key influencers of women's fashion purchases – magazines, celebrities, friends, etc. – keep them well-informed on styles and products before they enter a retail space. In men's apparel, customers may have a less formed opinion coming into the store and, therefore, may benefit from an advisor.

In the technology and entertainment space, Apple is an example of a store with knowledge workers. Not only do customers get a personal shopper to help find the right products, but they can also ask for assistance in transferring files from their old equipment, learn new skills through a workshop, receive technical support at the "Genius Bar," etc. This variety of services requires that Apple store associates be both knowledgeable about products and services and passionate in their belief in Apple products. Apple has clearly embraced this megatrend by promoting knowledge over tasks.

Another example of knowledge workers is at Build-A-Bear Workshop. Toys have become commoditized over the years, with the majority of the market share in the U.S. owned by self-service formats. At Build-A-Bear, the process of building your own stuffed animal is guided by a Bear Building™ Associate, including rituals that ensure a child's bear "listens to her secrets." The actual steps in this process are fairly easy tasks, but the enthusiasm necessary for creating a magical experience for its young customers cannot be left to task workers. The Bear Building™ Associate has a strong influence on child satisfaction and whether or not moms will bring their children back for another bear or just buy a pre-made (and possibly less expensive) bear.

Trend 9: Social Media and Product Development Collide

The product lifecycle management process will be integrated with social media feedback to improve relevance, increase speed to market and reduce the costs associated with creating products. Shoppers will be enabled to provide ideas for new product development, create their own products and help determine how existing products can be improved.

Product development has traditionally included formalized research to develop insights about consumers and their habits and preferences. With the rise of social media and mobile technologies, manufacturers and retailers now have more direct and informal access to their customers. The prevalence of blogging, Tweeting, Facebook

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status updates, commenting on news articles, etc. has firmly established a mindset of openly sharing opinions and ideas. Unlike formal research panels, which are designed with specific demographic and psychographic balances in mind, social media users are more self-selected. Thus, due caution should be taken when evaluating social media input. However, social media enables quick, relatively inexpensive, candid feedback that is a benefit to both smaller companies on a tight budget and larger companies where decision-makers may be further removed from end customers.

There are many sites and tools that can be used to build relationships.

- Forever 21's Facebook page includes a reverse auction that allows users to collectively help drive the price of the item down and then buy it when it has reached an acceptable price. This tool can give the retailer some insight into price elasticity.
- Polyvore.com is a community that allows users to pick items from an assortment and create "sets" of items that go together in an outfit. Users are encouraged to set trends by sharing their sets through social media. This information could also be useful for retailers trying to see what trends are popular.
- Product review functionality can create a community on retailers' own sites, as customers strive to help each other, and this information can identify specific features that are liked or disliked by actual buyers.
- Threadless.com empowers users to submit graphics and slogans, which are then scored by other users, allowing the site to rely on popularity in developing t-shirt designs.

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Since social media comes from disparate sources, the challenge for retailers is to identify the sites and communities best suited to their merchandising and product development strategies. They must then incorporate and analyze the often qualitative information to improve their decision-making processes.

Trend 10: Millennials Change the Behavior of All Other Generations

The massive adoption of shopper-friendly technologies forces retailers and other generations to adapt to millennials' shopping styles.

For the past few decades, baby boomers influenced everything from politics to products, redefined gender roles and established new expectations for all companies. Now, the largest generation in history – the millennials – is taking a lead in speeding up adoption of new technologies and ideas. Millennials are the first group to use computers, the Internet and mobile phones all their lives, and they have an expectation of access to information and the ability to move from place to place without losing that access.

For millennials, technology doesn't replace relationships; it helps build them by speeding up interaction and preventing distance and schedules from impacting them. Millennials may be in the presence of their friends but still choose to text them or put messages on each other's Facebook wall. This behavior creates a record of their

thoughts that is easily transported across people and places. They also have a lower expectation of privacy, share their opinions and ideas in a candid way and expect companies to react and respond to their feedback. The combination of these factors allows millennials to have a strong influence on the world.

Millennials adopt technologies faster than other generations. Forrester Research, Inc., provides some interesting statistics:

- 23% of millennials and Generation X own smartphones vs. 17% of all U.S. customers.
- 85% of millennials regularly send or receive SMS/text messages compared with 57% overall.
- 27% of millennials, vs. 14% of all U.S. customers, access social networks on their mobile devices
- 37% of millennials access the mobile Internet compared with 23% overall.¹³

In our survey, millennials have the strongest inclination of all generations toward using mobile devices for product information, store location and digital coupons. They are also most likely to use the Internet and family or friends for product information and least likely to use newspapers, showing an emphasis on personal recommendations and community.

Given the high technology adoption rate of this group and the uses they have found for it in accelerating relationship building, millennials will continue to influence the rest of the population.

Key Takeaway: As companies seek to tap into or develop new influencers, they must consider the availability of social media tools in the workplace. Although these tools are sometimes considered time-wasters, retailers need to consider the importance of tapping into the same ideas and information available to customers. Also, as millennials become a larger part of the workforce, companies will need to provide social media tools for collaboration. Forcing this group into more traditional styles of collaboration will only make it harder to capture their ideas. Additionally, specific training and workforce empowerment tools that incorporate multimedia are essential to millennials' development.

Creating an Action Plan

The 10 retail megatrends described in this paper create numerous opportunities for retailers. Retailers that don't anticipate and proactively respond to these trends run the risk of being left behind. Moving forward, retailers must embrace several technological transformations. As a starting point, they need to identify the right partners to help them integrate emerging technologies and business models, manage costs and understand return on investment. Keeping in mind the growing influence of millennials, retailers have to plan for short-term and long-term goals and manage the transition as their customer base changes. Finally, retailers will have to decide which of these trends will drive their overall business strategy the most and then prioritize their investments accordingly.

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Methodology

To better understand how shoppers interact with retailers and find out their likes and dislikes about the shopper experience, we polled 2,243 customers from May 21-25, 2010. This study breaks out the following four age groups:

- Millennials (Gen Y): Born 1977-1992
- Generation X: Born 1965-1976
- Baby Boomers: Born 1946-1964
- Emerging Elders: Born before 1945

The overall average age of the respondent pool is 46.8. The percentage of respondents from each of these age groups breaks out as follows:

- Millennials (Gen Y): 29%
- Gen X: 19%
- Baby Boomers: 30%
- Emerging Elders: 21%

Average household income among respondents is \$65,548, and there is an approximately even split among the percentage of households in the earnings categories between "\$25,000 or less" and "\$200,000 or more."

The gender split among respondents is 83% female and 17% male. The reasoning behind the respondent gender imbalance is based on a conclusion reached by many industry studies that 80% of purchasing decisions are influenced by women. As a result, the respondent pool is designed to reflect opinions that exert actual influences felt by retailers throughout the shopping experience.

Footnotes

- ¹ http://www.brainyquote.com/quotes/topics/topic_sports.html
- ² "OnStar Leverages Google Technology to Connect Customers to the Chevrolet Volt: New Features Coming for Chevrolet Volt Mobile App," Onstar.com press release, May 18, 2010, <http://www.onstar.com/web/portal/pressrelease?articleID=415953>
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- ⁴ SuperValu earnings-call transcript for the quarter ending June 19, 2010, www.seekingalpha.com, July 27, 2010.
- ⁵ "One in Two Americans Will Have a Smartphone by Christmas 2011," the GigaOM Network, March 26, 2010, <http://gigaom.com/2010/03/26/1-in-2-americans-will-have-a-smartphone-by-christmas-2011/>
- ⁶ "Retail Industry First: Shoppers Can Precisely Locate Items In-Store on Their Phones with Meijer's Free 'Find-It' App," Fierce Mobile Content, August 25, 2010, <http://www.fiercemobilecontent.com/press-releases/retail-industry-first-shoppers-can-precisely-locate-items-store-their-phones-meijers->
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- ¹⁰ "U.S. Retailer Group: NFC Could Boost Store-Branded Cards," *NFC Times*, July 13, 2010, <http://www.nfctimes.com/news/us-retailer-group-nfc-could-boost-store-brand-cards>
- ¹¹ Best Buy Co. earnings-call transcript for F2Q2011, September 14, 2010, <http://seekingalpha.com/article/225171-best-buy-co-inc-ceo-discusses-f2q2011-results-earnings-call-transcript>
- ¹² "Stop & Shop Unveils New Logo: Fresh Look Reflects Changes in Store for Region's Oldest Grocery Chain," Stop & Shop press release, August 21, 2008, http://www.stopandshop.com/about_us/news_media/press_release.htm?p=eb6a5035-539e-45bf-a064-facfaad5de3f
- ¹³ "The State of Consumers And Technology: Benchmark, 2010," Forrester Research, Inc., September 22, 2010, <http://www.forrester.com/ER/Press/Release/0,1769,1351,00.html>

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