2017 Forecast
7 trends that will disrupt and define retail

By Jason Ankeny
As the dust settles from a record-shattering holiday shopping season, the retail industry turns its focus to a new year — along with new opportunities and challenges. Here’s what you can expect.

These are the best of times for retail. The industry is coming off a record-setting holiday shopping season that formally kicked off with Black Friday online sales of $3.34 billion — an all-time high, up 21.6% year over year. In all, holiday spending surged 3.8% to $196.1 billion in 2016, the strongest rate of growth since 2011, research firm Conlumino found. Both physical and online channels witnessed growth, with online spending soaring 17.1% over the prior year.

These are also the worst of times for retail. National chains including Macy’s, Sears, J.C. Penney’s, Kohl’s and Barnes & Noble all suffered absolutely brutal holiday seasons, calling into question what — if anything — they can do to right the ship and compete more effectively in an increasingly digital world.

Expect more trouble and turmoil for legacy retailers in 2017, experts say. But stay on the lookout for savvy merchants to leverage their physical stores in new, compelling ways, and watch for technology to continue to disrupt virtually every facet of the shopping experience — in stores, online and in between.

Here are the seven trends poised to dominate retail as the year unfolds.
Closures and consolidations will continue apace

all perennials like Macy’s, Sears and The Limited stumbled to the finish line as 2016 wound to a close, and the bleeding continued into the first days of 2017. In the wake of a disastrous holiday shopping season, Macy’s announced Jan. 4 it could slash more than 10,000 jobs as it closes 68 stores and reorganizes its remaining locations. A day later, Sears Holdings said it will shutter an additional 150 unprofitable locations, including 108 Kmart and 42 Sears stores, in order to curtail losses. And The Limited’s time as a brick-and-mortar merchant appears to have run out: The apparel retailer recently posted a message to its website stating it has officially closed all 250 stores nationwide, but will continue operations online.

Buckle your seatbelts: The ride’s only going to get bumpier from here.

"2017 is going to continue to be a big struggle... You’ll see more bankruptcies in 2017."

Robin Lewis
The Robin Report CEO
“2017 is going to continue to be a big struggle,” Robin Lewis, CEO of retail strategy publication The Robin Report and co-author of “The New Rules of Retail,” told Retail Dive. “It always goes back to the fact that we’ve got too much stuff, and we keep pouring more of it out there. More websites, more stores and we don’t have enough demand. We aren’t seeing more store closures because these people find ways of propping themselves up. They cut costs here and there. At some point, however, there’s got to be a huge shakeout. Macy’s and J.C. Penney may plan to close more stores and Sears will probably go bankrupt... You’ll see more bankruptcies in 2017.”

Jerry L. Hoffman, president of urban real estate consulting firm Hoffman Strategy Group, also anticipates additional closures as 2017 unspools. “The impact of fast-fashion and e-commerce on traditional department store retailers like Macy’s, Nordstrom, Sears and J.C. Penney certainly magnifies the challenges that department stores face in a market that is moving quickly toward off-price retailers, where [consumers] can get fashion for a good value,” Hoffman told Retail Dive.

Not all embattled retailers will shed stores, however. “Another trend that is pronounced is the consolidation of the retail industry,” Hoffman said. “Sporting goods, for example — not only with the acquisition by Bass Pro of Cabela’s, but also Sports Authority closing and Dick’s Sporting Goods playing a much larger role in terms of market share. Also the acquisition of Aeropostale by Simon Properties and [General Growth Properties] to maintain an in-line retail tenant in their predominantly Class-A properties. Something else like that is going to happen in 2017.”
The struggles facing Macy’s, Sears and others don’t only impact store executives, associates and investors, of course: They also create major havoc for the shopping malls where those retailers do business. But while it’s true that nature abhors a vacuum, don’t look for other retailers to fill the void that the store closures are creating, Hoffman says.

“Malls are increasingly distressed. That presents the opportunity to do more mixed-use [projects] incorporating both entertainment as well as hospitality and residential in 2017.”

Jerry L. Hoffman
President, Hoffman Strategy Group

Mixed-use properties appeal to a far wider demographic than legacy shopping centers. “You’ve got 80 million millennials entering the market in a stronger way as they age, so they are looking for places to live that are not only close to where they work but also close to venues for entertainment,” Hoffman explained. “For retailers, when you are able to build multi-family residential on or near the mall, then you’re building in an additional demand component for local shops at the mall.”
The modern-day mall stretches beyond retail, entertainment, hospitality and housing: Healthcare is also a major component. While urgent care clinics are longtime strip mall staples, full-scale medical facilities are moving into more traditional malls as landlords take steps to diversify their tenant base. The Cedars-Sinai Health System in Los Angeles, Prime Healthcare in Philadelphia, UCLA Health in Woodland Hills, CA and Vanderbilt University Medical Group in Nashville have all become tenants in major malls. In other words: No matter whether you’re looking for an Aeropostale, an apartment or an appendectomy, the mall will soon be the place to go.

**TREND #3**

**Voice-activated shopping will make noise**

Amazon’s Alexa virtual assistant platform looms large among the breakout technologies of 2016. Alexa-powered devices like the voice-activated Echo speaker were massive sellers during Amazon’s now-annual Prime Day shopping event, and sales were nine times higher during the 2016 holiday shopping season compared to the year-ago seasonal shopping rush. Amazon also did yeoman’s work last year to expand Alexa’s value to software developers and build up a sector-wide ecosystem around its enabling technology.

The implications for 2017 are staggering. “Millions of new customers will be introduced to Alexa,” Jeff Wilke, CEO of Worldwide Consumer at Amazon, said in a statement two days after Christmas. If they’re anything like existing Alexa converts, they will have a dramatic
impact on the retailer’s bottom line. Owners of the Amazon Echo spent around 10% more on Amazon in the six months after they bought the device than before they purchased it, with purchase frequency also growing 6%, according to data collected this fall by NPD Group’s Checkout Tracking purchase monitor. NPD found that Echo owners conduct about half of their total online spending at Amazon after they purchase the speaker.

But it’s not just about how much Alexa device owners are buying, says Supriya Chaudhury, chief marketing officer at e-commerce intelligence firm Clavis Insight. It’s also about how they’re buying, and what it means for retailers and manufacturers alike.

“It’s important to understand how things play out if you actually order from [an Alexa device],” Chaudhury told Retail Dive. “If you’ve ordered a particular category before — say, paper towels — and you want to order again, the Echo will find the most recent item you’ve ordered and add it to your list. If you haven’t, it prompts you with an item in a subset of products that Amazon is defining as ‘Amazon Choice.’ If you’re just starting to use voice enablement and you don’t have a history of shopping at a retailer, the retailer could then influence what gets into your shopping bag. People aren’t calling out ‘I want Bounty paper towels.’ They’re just saying ‘I want paper towels.’ This has significant implications for manufacturers for how they can get into the Choice list and what exactly are the algorithms and rules driving a retailer. It parallels the days of physical shelves and the battle of private-label. The retailer has power over what they might suggest to a shopper.”

Voice-activated shopping doesn’t begin and end with Amazon devices. At the 2017 Consumer Electronics Show, LG Electronics unveiled its Smart InstaView web-connected refrigerator, which
leverages Alexa technology to allow users to buy groceries through Amazon Prime by speaking their orders to the appliances. A day later, Ford Motor Co. announced its Sync 3 infotainment systems will enable in-car Alexa applications: Motorists can order products, ask questions or search for restaurants and travel directions, all from the comfort of their vehicle. In short, never has shopping been more effortless — so simple that a child can do it.

**TREND #4**

**Wal-Mart will continue its extreme makeover**

Even as Amazon’s reach and influence continue growing, Wal-Mart has made it clear it will not simply roll over and play dead. The world’s largest retailer took a series of bold steps in 2016 to boost its e-commerce fortunes and compete more effectively with Amazon, most notably by acquiring online commerce upstart Jet for $3.3 billion. Wal-Mart also made moves to upgrade its brick-and-mortar stores, and expanded its omnichannel horizons by piloting same-day delivery initiatives and testing convenience stores offering free, same-day online grocery pickup.

“I think 2016 will mark the year Wal-Mart really aggressively developed a strategic path for the long term to beat Amazon.”

Robin Lewis
The Robin Report CEO
Wal-Mart shows no signs of slowing its pace in 2017. Jet kicked off the year by announcing a deal to acquire online shoe retailer ShoeBuy for approximately $70 million, a move that pits the unit in direct competition with Amazon-owned Zappos. In addition, Rosalind Brewer, CEO of Wal-Mart’s Sam’s Club warehouse chain unit, retired Feb. 1. Her replacement, John Furner, most recently served as the company’s executive vice president of merchandising; he previously led merchandising, procurement, marketing, supply chain, financial services and mobile commerce for Walmart China — roles that suggest he could help diversify Sam’s Club’s merchandising ambitions to more effectively challenge segment leader Costco, and make the company a bigger player in mobile.

Look for Wal-Mart to continue taking decisive steps to reinvent its business to accommodate the demands of more lucrative millennial shoppers — and that could spell trouble for competitors beyond Amazon.

“Wal-Mart’s been working really hard on omnichannel, and exploring a lot of different models to get itself there, like partnering with Uber and Lyft,” Chaudhury said. “You see Kroger and others in the grocery space coming into their own as well — recognizing omnichannel and building out their own online/offline integration. I don’t see a lot happening with stores like Target.”
TREND #5
Online and offline will continue to blur

If customers don’t think in terms of channels, retailers shouldn’t, either. But too many merchants continue to misinterpret the fundamentals of omnichannel services, according to a study conducted in 2016 by marketing consultant The O Alliance and data analytics company Revmetrix. While “omnichannel” should mean that a retailer is able to seamlessly sell and serve customers regardless of whether they’re in store, online or on their phones, instead they frequently separate channels into silos and operate them independently from each other.

That must change in 2017 — or else, Peter Blair, vice president of marketing at software testing tools and services firm Applause, told Retail Dive.

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Peter Blair
Vice President of Marketing, Applause

“There will be further integration of our digital and physical worlds, especially as users expect brands to engage with them through the digital channel of their choice, not the other way around,” Blair said.
“This will put an increased demand on retailers in 2017 to provide customers with the best digital experiences possible that blend the benefits of online, in-store and mobile into a single frictionless customer experience. The stakes are high as people who have bad digital experiences will immediately go to a competitor — often with no switching cost at all.”

While some retailers scramble to simply nail down the basics of omnichannel, more forward-thinking competitors will exploit new cross-platform opportunities.

“In 2017, there will be more emphasis placed on the omnichannel experience as companies continue to look for fresh ways to connect with consumers through the intersection of offline and online,” Vishaal Melwani, CEO of menswear retailer Combatant Gentlemen, told Retail Dive. “Customer experience will change for the better, as consumers will have the option of coming across a piece of clothing on Instagram, checking it out on the brand’s website, walking into the brick-and-mortar store to touch and feel the product, and then easily purchasing it on their mobile phone later.”
TREND #6

Retailers will get to know their customers much better

Amazon closed out 2016 with the introduction of Amazon Go, a checkout-free grocery store that enables customers to track purchases in a mobile app-based virtual cart, totaling the final cost when they exit the premises and automatically billing the card saved in their Amazon account. Bolstered by in-store technologies previously synonymous with self-driving cars, including computer vision, sensor fusion and deep learning, Amazon Go doesn’t just promise to eliminate the transaction friction caused by long checkout lines and malfunctioning self-checkout kiosks: It also signals stunning new insights into the customer psyche.

“The game-changing and far-reaching implications are in this statement: ‘Computer vision, deep learning algorithms and sensor fusion,’” Chuck Palmer, vice president of strategy at store messaging solutions provider JohnRyan, wrote in a post on discussion forum RetailWire. “This is not one functional technology. It is a combination working in concert to get Amazon what they want: More data on physical spending behavior. Information they don’t have about us.”

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Jake Weatherly
SheerID CEO
It’s not just Amazon. Look for retailers of all shapes and sizes to ramp up their big data efforts in 2017 as they endeavor to better understand consumer sentiment and behavior, and boost customer loyalty.

“Today’s market demands convenience,” Jake Weatherly, CEO of verification technology company SheerID, told Retail Dive in email. “Businesses will spend significantly more on both their customer experience teams and technology that will allow them to understand their customers in a deeper level. Any and all customer data available will be utilized to get a full picture of preferences that will then be used to serve up exactly what the customer wants. Whether or not businesses are able to provide those convenient, personalized experiences to their customers will ultimately be what seals their fates.”

Combatant Gentlemen leverages technologies including machine learning, radio-frequency identification and even heat maps to drive sales. “Retail companies are beginning to understand the irreplaceable value of data analysis and leveraging new technology to capture as much useful data about their customers as possible,” Combatant Gentlemen’s Melwani said. “There is no question that harnessing big data to better understand and cater to retail customers will continue to soar through 2017. To prepare for the year ahead, retailers should gather data from their websites, marketing campaigns, offline sales and customer engagement to understand how to fully understand and deliver their customers’ needs for 2017.”
Don’t expect consumers to hand over this information without getting something in return, however. They want transparency — not to mention loyalty programs and special offers customized to their needs and demands.

“People are more aware than ever that their personal information has financial value. At the same time, they have very little transparency as to who knows what about them, how their data is gathered and how it is used for commercial purposes,” Gerard Whelan, president of global loyalty solutions for the Americas at global loyalty marketing and data analytics company Aimia, told Retail Dive. “In 2017, brands must continue to offer tangible benefits to customers for sharing their data, in addition to providing information on how they are using their data — or they’ll risk losing customers.”
Thanks largely to the efforts of online commerce juggernaut Alibaba, China’s Singles Day sales event smashed expectations in 2016, vacuuming up some $18 billion in sales — a whopping 32% increase over 2015’s haul. While Singles Day started in China, its appeal stretches across the globe: Shoppers from 235 countries and regions completed cross-border Singles Day transactions this year, and 37% of total buyers purchased items from international brands or merchants, according to Alibaba data.

Look for e-commerce to continue making the world a smaller place in 2017, says Lila Snyder, president of global e-commerce at business solutions firm Pitney Bowes. “Brands and retailers who are able to deliver beyond borders are winning e-commerce,” she told Retail Dive. “There’s been a shift toward more specialty [products], more unique, which tends to favor smaller and medium-sized retailers who are offering something different.”

Even U.S. consumers are shopping abroad from the comforts of home, Snyder adds. “If you look at what’s happening with the U.S. dollar versus other currencies across the world, the dollar is increasingly strong. It’s a great time for U.S. shoppers to discover merchants from other parts of the world,” she said. “About two-thirds of consumers across the world have shopped cross-border across the last year. Just under half of U.S. consumers have purchased something from a retailer or a
marketplace outside of the U.S. There’s so much choice in the U.S. But [the number of cross-border shoppers] is definitely growing.”

The rest of the world will be paying especially close attention to U.S. consumer activity in the months ahead, says Sarah Boumphrey, global lead of economies and consumers at market research firm Euromonitor International.

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Sarah Boumphrey
Global lead of economies and consumers,
Euromonitor International

“An important trend in 2017 is the increased political uncertainty the world is facing. Consumers enter 2017 to a backdrop of uncertainty — especially in advanced economies with the arrival of Donald Trump in the White House and the U.K. government moving to trigger Article 50 to begin negotiations to leave the European Union,” Boumphrey told Retail Dive via email. “With the USA still accounting for almost one in three dollars spent globally, consumer behavior in the Trump era matters to the world. Despite its slowing economy, Chinese consumers will continue to see amongst the largest increase in spending, and spending in emerging and developing economies overall will grow by more than twice that of developed markets. Authenticity, convenience and experience will continue to be watch words for the 2017 consumer.”
Retail Dive covers the ongoing transformation of retailing.

Key coverage areas include the disruption of traditional brick-and-mortar retailers, the evolving habits of the American shopper, the blurring of online and offline channels, the explosive growth of online and mobile commerce, and more.

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