

THE FUTURE OF RETAIL

The digital retail revolution is here, and Australian retailers who stick to the old ways of doing things will be left behind. **ANETA RAMOS**, Bachelors of Psyc (Hons) and Commerce (Economics), AHPRA, and Consultant of Retail Economics with Hill PDA Consulting, provides a taste of what is to come.



Retailing is undergoing a revolutionary change. The combination of evolving customer needs enabled by emerging technology is causing existing players to rethink their model, and bringing new players to this highly contestable market.

Globally, retail is the second highest digitised industry at 50 per cent, behind media and entertainment.

Research by Deloitte shows we are starting to see a rapid increase in digital uptake in Australia as well:

- Digital influenced 40 per cent of retail bricks-and-mortar store visits;
- 65 per cent of customers use a digital device prior to shopping, and 31 per cent while shopping;
- Using digital devices to research, find and compare products increases the conversion of sales by 25 per cent; and
- On average, 21 per cent of shoppers believe digital increases their overall order size.

Given this evolving landscape, this article will be exploring the impact technology has had and will have on the retail space. To begin, let's shine the spotlight on the revolution that is the Internet of Things (IoT).

WHAT IS IOT AND WHY SHOULD WE CARE?

IoT is a network of connections linking the physical and digital worlds in an ecosystem of computers, smartphones, wearables, and nearables (smart objects). In the case of retail,

the 'things' can include inventory, tracking chips, traditional in-store infrared foot-traffic counters, cellular and Wi-Fi tracking systems, digital signage, or even a mobile device.

Analysts estimate by 2027 there will be over 100 billion devices gathering and exchanging data through IoT.

IoT technology is already re-shaping and revolutionising the retail industry, improving and creating new opportunities in customer service, throughout the supply chain, and in brick-and-mortar stores, as well as other channels.

Forward-thinking retailer, Amazon, recently unveiled in a video its new physical store, showcasing a mix of grocery essentials and ready-made meals. But the real game changer was what it didn't have: checkout lines. Customers simply checked in at the entrance of the store with a new app called Amazon Go, picked up the items they needed, and simply walked out without having to wait in a checkout queue.

Amazon can track the items automatically through a combination of smart sensors connected to the Internet, and artificial intelligence.

Not only does this improve the customers' shopping experience, Amazon also benefits through reduced operational costs, eliminating much of the staff needed to operate a store. This new technology, perhaps even more importantly, enables Amazon to collate data on its customers shopping habits online and offline to provide more informed recommendations.

LOCAL RETAILERS WILL NEED TO FOCUS ON IMPROVING CUSTOMER EXPERIENCE, PRODUCT QUALITY, RANGE & PRICE, DELIVERY & SUPPLY

Amazon is set to begin its operations in Australia as early as September this year, with Amazon Go to follow in the coming years. Amazon will have an enormous impact on the Australian retail market.

Despite this potential impact, a recent survey by ACA revealed that although a majority (70 per cent) of retailers are aware of this, only 14 per cent of these retailers have a strategy in place to be able to compete with Amazon, and they are typically larger retailers.

To compete, local retailers will need to focus on improving customer experience, product quality, range and price, delivery, and supply chain systems, as well as building an online presence and investing in advertising, including social media, to compete with Amazon.

This will require a shift away from a 'silo' approach to digital innovation, which prevents the creation of a true omnichannel business that integrates information systems, shop experience, and digital technology.

THE AMAZON IMPACT ON THE AUSTRALIAN MARKET

'Invest in ecommerce, divest in traditional retailers'. This has already been seen in the US with the Amazon effect causing shares in companies like Sears, JCPenney, and Macey's, to name

a few, to plummet.

There will be pressure on the retail supply side, be it through lower prices and/or a lower demand for employees. For example in the US, Wal-Mart have demanded that a number of the big name companies such as Coca-Cola, P&G, and Conagra reduce their prices by 15 per cent. The imbalanced impact on the value of real estate, for example tailwinds on industrial uses but headwinds on retail uses, are discussed in more detail below.

OPPORTUNITIES FOR AUSTRALIAN RETAILERS

Local players will need to capitalise on IoT opportunities to be better placed in the following areas:

- Customer Experience (e.g. customers use their smartphone or wearable devices to quickly scan an item and call up product information, reviews or social media commentary; customers get personalised digital coupons upon entering the store);
- Supply Chain (e.g. Smart shelves in store that detect when inventory is low; smart robots will aid in areas ranging from stock replenishment to product assembly to hazardous materials handling; smart packaging monitoring the freshness or age of perishable goods); and

- New channels & revenue streams: (e.g. smart price tags that can be changed in real time based on demand; connected pantry basic groceries arrive when needed).

For those players that fail to harness the opportunities this new technology confers, the outlook is negative. Retailers that resist or are slow to adopt IoT simply will not survive.

IMPACTS ON REAL ESTATE

This article has outlined the likely consequence of players not embracing the opportunities, but what could this entail for the Australian commercial/retail real estate market? The negative consequences could include surplus retail lease supply that puts downward pressure on rental yields as a number of retailers are forced into administration or look for rent concessions as their business comes under attack from players who embrace the technology. This may also place downward pressure on residential valuations in areas where retail vacancies rise.

However, the story is not all negative. Industrial stock is likely to benefit, with greater demand for distribution and warehouses. Amazon has already appointed CBRE to seek out Australian distribution centres.

Ultimately the key is action. Those who are proactive and act before the disruptive threat will benefit.

So the question for retailers and retail commercial property owners is whether they will choose to be disruptive or be disrupted. #IoTiscoming



THE DIGITAL RETAIL REVOLUTION

- Panasonic's new Reji Robo system has begun a rollout across Japan. It scans small ID tags attached to every item. Shoppers place their basket on top of a scanner, the items are scanned, and then the bottom of the basket opens to allow for automatic bagging.
- The technology will be used in major Japanese chains over the next year, with the aim of all stores in the country using the system by 2025.
- The Amazon Go 'convenience' store, soon to be opened in Seattle, spans 1,800 square feet. Customers use an app on their phones to track items they've picked off shelves for purchase. Using cameras, sensors and trackers, Amazon automatically records what each customer has purchased without the customers having to wait in lines or scan their items or pay at a checkout. The shopper's Amazon account is then automatically charged.

Greg Malempre, Director of LocationIQ, says the key for Australian retailers is to use the new technology to drive customer experience in shopping centres and retail stores.

"For centres and retailers, experience is now so important – not just the act of displaying and purchasing. The greater provision of food catering and the creation of some amazing places such as Westfield Kotara rooftop are targeted at the experience which technology cannot offer," he says.

"In Australia, the shopping centre stock is quite young and modern compared to many centres in the USA, and the quality is in many respects greater – with a much bigger emphasis on day to day shopping, such as fresh food and the like."