

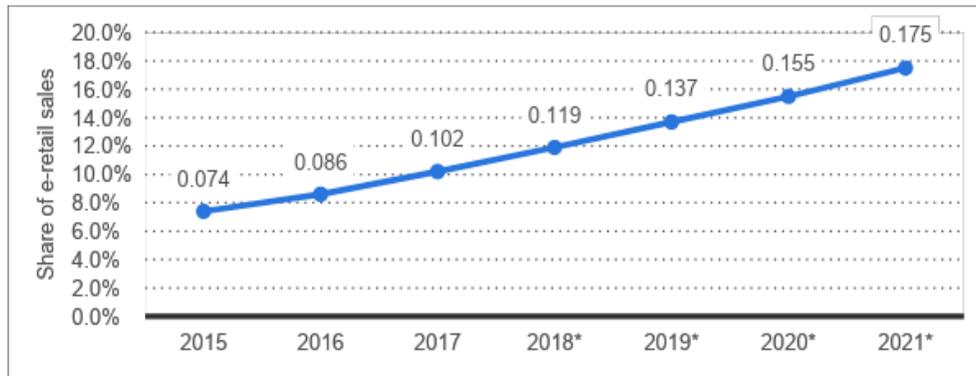
A Toolkit for Legacy Retailers to Optimize Their Digital Shopper Engagement

Legacy retailers have facilitated their longevity through careful management of high-quality products, excellent service, savvy brand equity investments and meaningful customer engagement. However, as e-commerce has defined a new customer segment – the digital shopper – and formidable digital-first competitors have emerged – most notably, Amazon – it has become clear that legacy retailers must employ new tools to secure their futures in the marketplace.

Digital shopping and Amazon

The global e-commerce market is already worth approximately \$1.47 trillion, and it is expected to grow by nearly 11% over the next five years.¹ Of total global retail sales, digital shopping accounted for about 10% of sales in 2017, and that figure is projected to jump to almost 18% by 2021.² In 2017, more than 60% of the world's Internet users made at least one purchase digitally, and more than 65% of global Internet users are expected to be digital shoppers by 2021.³ In the U.S., 82% of the population is expected to shop digitally by 2021.⁴

E-commerce share of total global retail sales, historically 2015-2017, and projected through 2021²



As more shopping occurs digitally, shoppers are becoming more discerning, and more inclined to compare retailer offerings before committing to a digital purchase.⁵ Half of digital shoppers expect to find more competitive prices online than in brick & mortar stores.⁵ Among the most significant retailer attributes that influence the digital shopper's decision to purchase are access to product reviews by other shoppers, personalized product recommendations and an easy returns process.⁵ Because of its superior ability to consistently deliver competitive prices, product selection, customer service and excellence across these attributes, Amazon has become the retailer of choice for the digital shopper.⁶

2018 digital purchase search origin ranked by percentage of U.S. digital shoppers⁶



By 2020, Amazon will be responsible for 50% of all retail sales in the U.S.⁷ The biggest threats to any legacy retailer, currently or imminently, are Amazon and the exceptional digital shopping experience it represents.

Lessons from Digital Retail Leaders

By studying successful retailers in the digital space, legacy retailers can identify the ideal tools to incorporate into their business models to maximize value from digital shoppers and compete against Amazon.

Considering the increasing influence of the digital shopper experience, and Amazon's data- and digitally driven formidable dominance in this arena, legacy retailers should begin by learning, specifically, from Amazon. The key lessons that Amazon's expertise can impart are the most important and urgent next steps that a legacy retailer should take to accelerate its digital shopper engagement capabilities.

As legacy retailers are built on brand recognition and a traditional brick & mortar footprint, they should next study entrenched, traditional retailers that are making successful inroads with the digital shopper. This will provide helpful reference points for understanding how similar retailers have effectively extended their operations into digital.

Finally, legacy retailers should look to digital-first retailers for more experimental, immersive and personally engaging tactics to work on strengthening digital shopper relationship management.

An examination of U.S. retailers in the home improvement and home goods category provides a structured lens and some useful case studies for dissecting these digital tools.

Amazon: Essential Standards Set by the Key Opponent



Amazon is the undisputed retail leader in operations and customer service data analytics. The Amazon customer journey

has become the gold standard for the digital shopper journey, from discovery to purchase to loyalty retention. Amazon has achieved its position in the marketplace with its unmatched use of user data to anticipate shopper needs and predict shopper behavior.⁸ Amazon enhances its digital shopper journey with data-driven personalization and a curated product browsing experience that is valued not only by its shoppers, but also by its third-party sellers, who make up an important branch of Amazon's business model.⁹ Underlying Amazon's exceptional capabilities is a cloud computing powerhouse of a value that is difficult to overstate. In addition to the many third-party companies and organizations that use Amazon Web Services (AWS), Amazon uses AWS to optimize its own advantageous inventory, pricing, marketing, operations, data security and customer service management.¹⁰

While legacy retailers may not be able to match the whole of Amazon's gold standard, the key measures that are outlined here represent strategies and business model structures that are essential for any digital retailer to adopt in order to survive the coming years.

The Home Depot: Successful Capability Expansions by a Brick & Mortar Player



When The Home Depot (THD) opened its university-based research & development (R&D) center in partnership with Georgia Tech in 2015¹¹, it had seen a 145% stock return since Frank Blake had become CEO seven years prior.¹² THD has succeeded in the digital space, and under Blake's leadership, by creating hybrid brick & mortar and e-commerce operations – for example, its order online and pick-up in-store function – while continuing to invest in robust and distinct digital shopper engagements.¹²

In addition to its partnership with Georgia Tech, THD partnered with Tesla earlier this year to sell Tesla's rooftop solar panels and Powerwall battery in more than 800 stores nationwide at Tesla-branded in-store kiosks staffed by Tesla employees.¹³ Partnerships with high-profile tech schools and companies not only enhance THD's brand equity by association, but also position it to economically invest in gauging shopper response to emerging or experimental technologies.

Late last year, THD announced its acquisition of The Company Store, a digital retailer of textiles and home décor.¹⁴ A few months later, THD partnered with Pinterest to expand its visual discovery feature, "Shop the Look," which focuses on home décor and improvement, and provides a synergistic complement to the acquisition.¹⁵ THD's habit of finding new ways to expand its capabilities and nurture digital synergies makes it a strong example of a traditional retailer making successful strides in the digital space.

Wayfair: Pioneering Shopper Engagements by a Digital-First Leader



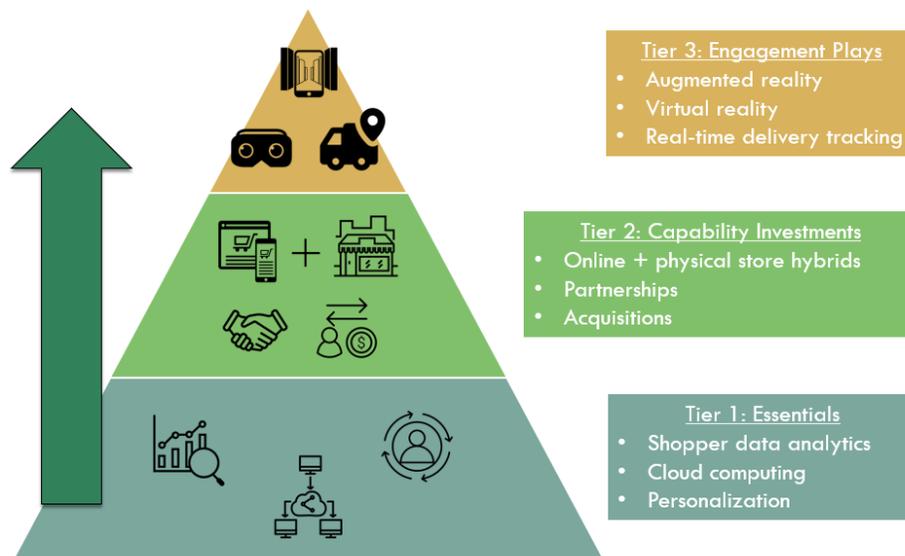
In 2016, Wayfair was one of the first supporters of Google's Project Tango technology¹⁶, which would go on to enable Wayfair's popular "View in Room 3D" feature¹⁷. Wayfair's "View in Room 3D" augmented reality (AR) technology allows shoppers to visualize and virtually position Wayfair products in their homes¹⁷. At the time of its debut, it was a pioneering technology for digital retailers in the home category¹⁷.

In addition to AR, Wayfair has undertaken leading initiatives in virtual reality (VR)-based digital shopper engagement led by its R&D team, Wayfair Next¹⁷. Wayfair's app Patio Playground, which allows shoppers to move patio goods into arrangements of their choosing in a virtual setting, was created for digital shoppers who use the Oculus Rift 3-D gaming headset, and with the intent to test shopper response to such a VR offering.¹⁸ Later the same year, Wayfair debuted the VR app IdeaSpace for shoppers to virtually explore the aesthetics of a room using Wayfair home furnishings and décor products¹⁹. To broaden its reach to different digital users, IdeaSpace was created for Google's Daydream Viewer headset and Pixel smartphone¹⁹.

Wayfair's latest mobile engagement play is real-time delivery tracking that allows shoppers to view the GPS-enabled tracked movements of their shipments on delivery day, and to also connect to customer service directly through the feature²⁰. As a digital-first category leader, Wayfair provides examples to legacy retailers of nimble experimentation and digital-first shopper engagement.

Three Tiers of Digital Tools

These case studies illuminate three tiers of tools for optimizing digital shopper engagement.



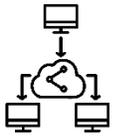
Tier 1: Essentials

In order to secure any viable future in retail, legacy retailers must incorporate these table stakes tools into their business models:



Shopper data analytics

Amazon uses data collection and analysis to identify shopper patterns and forecast future behaviors, from the point of shopper search or product discovery, to the point of purchase or product abandonment. Amazon's behemoth success has motivated retailers everywhere to leverage their own shopper data more frequently and more in-depth.



Cloud computing

AWS is used by numerous companies, including Amazon, to efficiently collate data and automate decisions concerning product inventories, price changes and more. These efficiencies save companies significant capital, and leaders from Walmart to Nordstrom are using cloud computing services or creating their own in-house.²¹

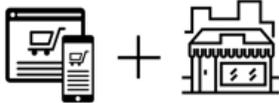


Personalization

Amazon's recommendation engine is crafted to appeal to the shopper based on her browsing and shopping history. A strong recommendation engine is often the most prominent and obvious shopper-facing feature that any top retailer provides.

Tier 2: Capability Investments

Legacy retailers can incorporate e-commerce and digital shopper experiences into their existing brick & mortar operations through:



E-commerce + physical store synergies

THD identified that shoppers want to engage with their products both online and in-store. Rather than keep these operations separated, THD has become an innovator in the realm of e-commerce and physical store synergies. The result is a shopping experience that combines the best of digital convenience with in-store tactical and relationship-based (shopper & in-store experts and assistants) experiences.



Partnerships

THD recognized a limitation in its ability to appeal to tech-savvy shoppers and carry clean products, so it extended its reach and abilities through a partnership with Tesla.

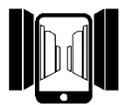


Acquisitions

THD saw a need to shed its traditional associations in the mind of the shopper with hardware and home improvement, and expand into décor and other home goods. It strategically acquired The Company Store to move its product portfolio and image into the décor space.

Tier 3: Engagement Plays

To enhance the digital shopper journey and remain competitive in the digital space, legacy retailers should experiment with digital experiences, including:



Augmented reality applications

Wayfair recognized the urgency to innovate in the face of Amazon and its ever-expanding product offerings, so it has been a first-mover or top leader in experimental digital shopper engagements. Wayfair's AR not only proved its willingness to play and experiment to the digital shopper, but also helped mitigate shopper concerns about how a Wayfair product might literally fit in the shopper's home.



Virtual reality immersions

Wayfair was smart to not only create a new VR avenue for shopper engagement, but also to reach new shoppers by diversifying its VR partners and devices (Oculus Rift 3-D, Google's Daydream Viewer and Pixel).



Real-time delivery tracking

Besides optimizing last-mile delivery operations and efficiencies, retailers can turn delivery into an active shopper engagement by providing a visualization of real-time package movements. The key is to provide enough information that feels relevant to the shopper, but not so much information that the shopper could become frustrated with intrusive information overload or new reasons to contact customer service with questions.

Toolkit Roadmap for Legacy Retailers

Legacy retailers can use these three tiers of tools to build the ideal toolkit for their respective businesses, shoppers and budgets.

To ensure their basic survival in the face of Amazon and the undeniably digital-forward retail landscape, legacy retailers must, at minimum, invest in the table stakes tools of Tier 1. Without doing so, legacy retailers will lose sales, market share and shoppers to Amazon and other formidable digital leaders in time. The legacy retailers with the most distinct heritages and

brand equities may be best positioned to survive the longest, but they will inevitably lose their stakes in the marketplace without Tier 1's arsenal.

Once table stakes tools are in place and proving effective, legacy retailers should increase their investments in Tier 2 enhancements to their businesses. They need to expand their capabilities beyond their traditional brick & mortar offerings, or find ways to augment their brick & mortar operations into new markets and goods. Otherwise, more capable digital competitors will overtake legacy retailers in customer service, loyalty initiatives, product extensions and footprint.

Tier 3 should become a heavier focus after Tier 2 enhancements have been optimized. Tier 3 tools create direct, digital avenues of engagement between the retailer and the shopper that are important to strengthening brand equity, relevance and shopper relationship management. These additional paths of communication position legacy retailers to experiment with innovative plays for shopper acquisition and retention.

Legacy retailers should find ways to build an effective digital toolkit by investing in each of these tiers, progressively, to ensure not merely survival, but growth. Legacy retailers may not be able to prevent the loss of market share and sales to Amazon in the long run, but with the right digital tools, they may be able to carve more fortified niches for themselves in the marketplace, and sustain profitable, respected businesses for years to come.

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