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NAVIGATING TO WIN
IN 2023

FUTURES BY FRACTAL | GLOBAL RETAIL | JANUARY 2023

PRIMER

This document is the first in the Future of Retail series by Fractal, focused on 5 Key Trends to Invest in, to Win in 2023.

Why these?

We'd love to start 2023 without a mention of the pandemic but much like human resilience, it prevails. As a catalyst for all things digital and fuel for the craving of the physical, the collective health of people & the planet continue to shape our daily lives, and relatedly our purchase decisions.

This year in Retail comes on the back of three volatile years, where transformation initially addressed massive ramp-ups in e-commerce, staffing shortfalls, safety concerns, and supply chain disruptions; the focus is now shifting towards economic uncertainty with inflationary concerns, social unrest, climate disruption, compliance shifts, and making room for exponential technological advancement.

Why now?

These active contexts in combination pose both threats and opportunities for the Retail industry; and thus, have triggered our analysis into key drivers of growth and resilience for the future.

The role of Retail is evolving beyond transactions into avenues of sustenance, coping, escape & discovery. It is thus ripe for innovation across process, infrastructure, offering, and experience in equal measure.

CONTENTS

In this document:

✳ KEY TRENDS

✳ BEHIND THE SCENES

WE STUDIED AND ANALYZED:

Across 3 continents,

800 participants in a behavioral survey

15 interviews with industry experts

6 interdisciplinary workshops mapping the future of Retail

10 in-depth interviews with shoppers

20 store visits & 12 brand audits

North America

Europe

Asia

TO DERIVE INSIGHTS, FRAMEWORKS, AND RECOMMENDATIONS FOR RETAIL 2023 & BEYOND

Click for process details

1 EVERYWHERE, EMBEDDED COMMERCE

Consumers don't see lines between physical & digital anymore, winning Retailers will design for the in-between

KEY TAKEAWAYS → EVERYWHERE, EMBEDDED COMMERCE

INSIGHT 1

RETAIL STARTS IN ONE CHANNEL AND ENDS IN ANOTHER

The goal is no longer to just be present in every channel, but for a cohesive dip-in-dip-out cross channel experience

"I usually do the pick-up option for my groceries, but end up buying more once I'm there. I love how Dom's blurs the lines between a restaurant, wine bar, grocery store & cafe"

– 30 years, Female

Fig 1.A   **Dom's kitchen and market**

INSIGHT 2

PHYSICAL STORES AS HOTSPOTS FOR EXPERIENCE

Redesign physical stores, unlike what we've known; reimagination towards experiences, fulfillment & meaningful human interaction

Coffee Lovers: You'll Love The Starbuck's Roastery In Seattle

Walking into the official Seattle Starbucks Roastery is a euphoric experience for coffee lovers, and this is why it needs to be on your bucket list.   **Fig 1.B**

Fig 1.C

INSIGHT 3

EMOTIONS & ENGAGEMENT GO HAND-IN-HAND

Consumer purchases are driven by context and mental models, behavioral data can decode emerging consumer micro-moments

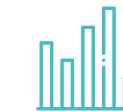**According to Gerald Zaltman, 20% of our buying decisions are based on logic, 80% on emotions**

Fig1.D

IKEA taps into customers' emotions to curate a shopping trip that is full of delightful experiences and discoveries

EVERYWHERE EMBEDDED COMMERCE

BEHAVIORAL MARKERS TO CAPTURE DYNAMIC PATHS OF PURCHASE FOR FLUID SEGMENTS, AT THE MOMENT

IMPLICATIONS

- What matters to people changes dynamically and locking them into a wrong path will cause friction and missed opportunities
- Consumers from the same demographic group can fall into different behavioral segments; the same consumer can operate with different purchase rules across contexts
- Path to purchase is driven by Context X Category

RECOMMENDATIONS

- Run experience audits (ex. video analytics, in-store walk-throughs) to unlock hidden moments of delight, discovery, and evaluation
- Play to the brand's strengths. Leverage a data-driven strategy to decide which channels to own, instead of trying to be present in all
- Step away from traditional routes, cater marketing to merchandising in the naturally primed shopping environments around the person
- Leave breadcrumbs between the digital and physical experiences
- Assess behavioral indicators at each step in the journey, leverage data to capture emotional markers, decode micro-moments, and adapt offerings
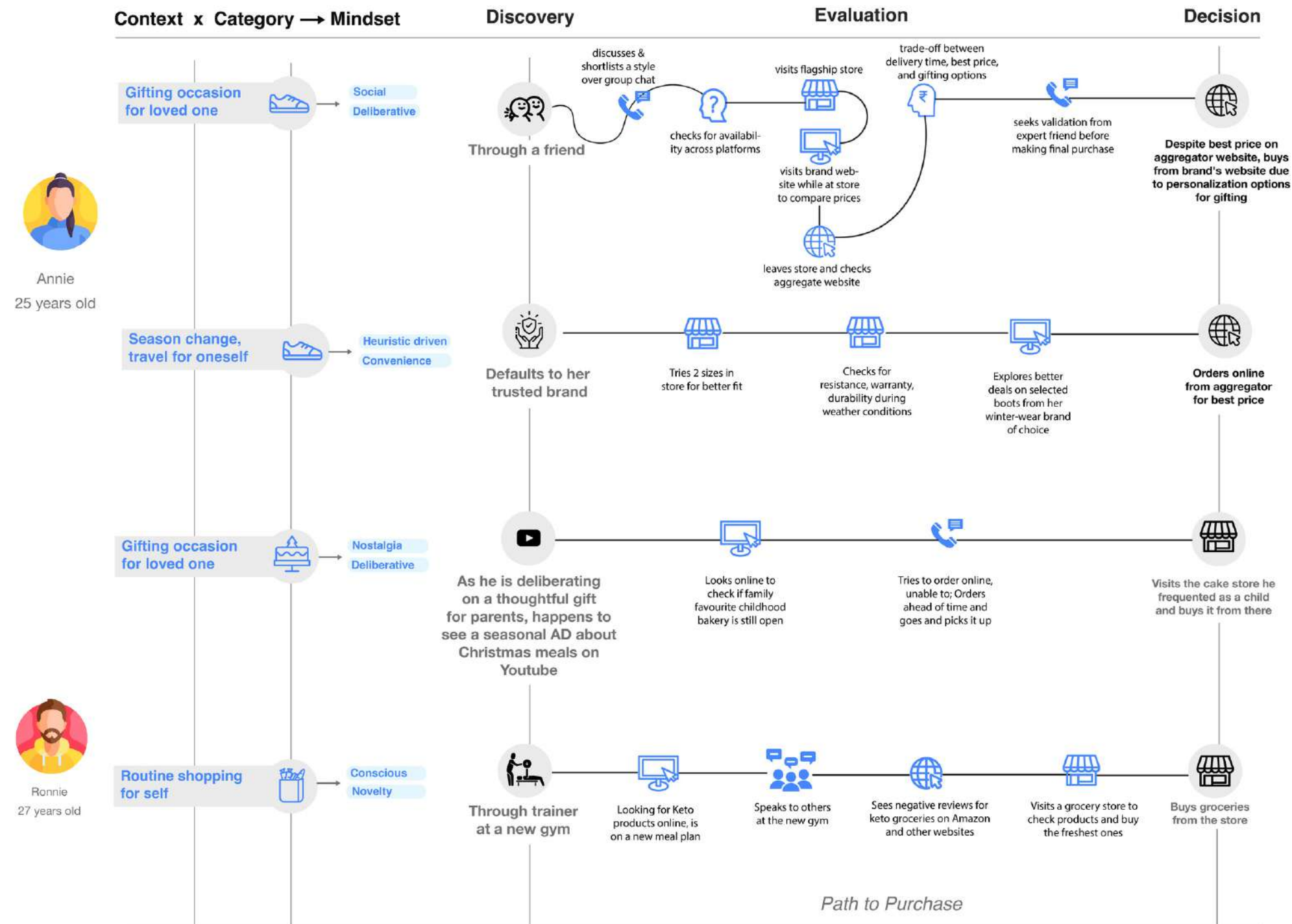
*Illustrative Snapshot: 2 consumers from the same target segment with distinct purchase journeys. Context x category -> Active Mindset
*The same person has a different journey with a different context
*Two people in the same context have a different journey
*Physical & digital co-exist in a messy, overlapping way, they are not distinct for consumers anymore

2

PLANET & PROFIT GOALS ALIGNING

Sustainability is no longer a nice-to-have, it growingly becomes a compliance & survival challenge

KEY TAKEAWAYS → PLANET AND PROFIT GOALS ALIGNING

INSIGHT 1

PLANET FRIENDLY, POCKET FRIENDLY

Planet-with-profit brands become consumer & shareholder favorites. Stabilize with data orchestration to reduce disruption across the supply chain; learn from circular economies to manage bloated inventories, and find secondary markets

ThredUp's third-party platform may be more lucrative than its secondhand clothing sales: Wells Fargo
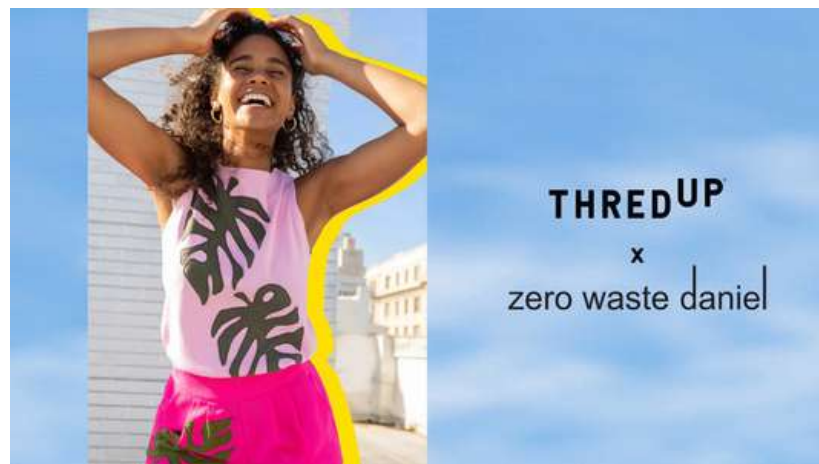
Fig 2.A

Fig 2.B

INSIGHT 2

FUNCTIONAL MINIMALISM; OPPORTUNITY IN ECONOMIC DISTRESS

Retailers need to plan for a shift toward discretionary spends while maintaining positive consumer sentiment. Products that last & sustain can be levers

" I think we massively overconsume products and are encouraged to use and throw them in a variety of ways. Changes that make us spend less and waste less are needed, and brands that make us think this way are the need of the hour

– 35 years, Male "

COS brand's garments are designed to last for years rather than for a season

INSIGHT 3

THE CONVENIENCE CEILING; AT WHAT COST?

Hyper-convenience comes at the cost of workers & the environment; unsustainable for business over time; opportunity to balance convenience with consciousness

Increased delivery traffic could lead to a 25% increase in CO2 emissions in city centers

America's Need for Speed Never Ends Well

If 15-minute-delivery apps sound too good to be true, that's because they are.

Fig 2.C

(UN)SUSTAINABLE FASHION: H&M IS BEING SUED FOR GREENWASHING
by Giorgia Marino

Fig 2.D

PLANET & PROFIT GOALS ALIGNING

DATA ORCHESTRATION FOR CIRCULATORY SYSTEMS

Measure the impact with data at the center
- KPIs and metrics to track: Energy and water consumption, CO_2 emissions
- Logistics impact on emissions and long-term roadmap and projections

Strategic shifts can help solve inventory woes
- Redesign and optimize physical spaces, from store to warehouse (Ex. Identifying use-cases for underutilized space, parking spaces as pick-up spots, warehouses as discounted sale spots)
- Use shelf space more wisely; seasonality management to move towards a more season-less produce
- Experimentation for at-risk ingredients
- Contingency planning
- Reducing returns & optimizing the returns process

Leverage resale as a service
- Launch clean-out programs so consumers can exchange used products for shopping credits
- Online resale shops can help customers buy their brand's secondhand products

Incremental shifts for better waste management across the supply chain
- Streamline sourcing decisions to align with customer's values
- Keep a check on large boxes or multiple boxes for order delivery using order consolidation

3 MARKETING MEETS MEDIA

Marketing undergoes big shifts with emergence of Retail media networks & consumer communities

KEY TAKEAWAYS

MARKETING MEETS MEDIA

INSIGHT **1**

SUPERFAN COMMUNITIES: A CHANNEL FOR THE FUTURE

Opportunity to redefine marketing by identifying, integrating and innovating with superfan communities

Nike's new app supports die-hard fans with personalized content, rewards
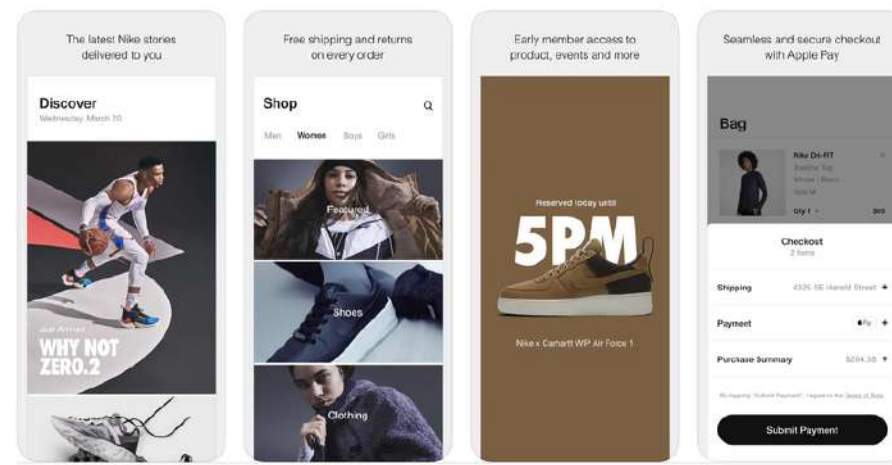
Fig 3.A

Fig 3.B

INSIGHT **2**

EXPLORATION OF RETAIL MEDIA NETWORKS CONTINUE

Investments in tech infrastructure and talent for a new wave of Retail media networks; opportunity for an additional revenue stream

Casey's Access Retail Media Network Will Go Live in Early 2023

Fig 3.C

Fig 3.D

INSIGHT **3**

RETAILERS AS CONDUITS FOR INFORMATION

Retail giants can seek inspiration from SBOs & Creators to build relevant, timely, and topical edutainment content

Third Culture: Time for redefining coffee and conversations

Fig 3.E

When Radhikka Kapur opened the first store in Seattle, the idea was to engage with the local community.

The Third Culture store in Seattle sees people of all backgrounds blending together.

Fig 3.F

MARKETING MEETS MEDIA

DATA-DRIVEN MARKETING: CONSUMER DATA AND MUCH MORE

Marketing grows to include Retail-media networks, consumer communities & content creators, opportunity to integrate & cross-pollinate data

Omnichannel purchase
- Purchase History
- Product Availability
- Price for Online and Offline Sales.

Media Campaigns
- Email Marketing, Ad Campaigns
- Website Analytics
- Influencer Marketing Statistics

Zero- & first-party data
- Consumer consented data
- Compliance approved and secure data exchange
- Privacy policies, authentications, consent management and consumer/shopper ID flow

Digital Data
- Social Media chatter (Facebook, Twitter, Instagram, YouTube, Metaverse)
- Loyalty, Search and Conversion Metrics

CRM online and offline
- Email /Phone
- Addresses from Events
- Customer Service

Social Data
- Word of Mouth
- Reviews and Ratings on Aggregator Platforms, Brand Websites, Media Platforms
- Trends on Twitter, Instagram, Tiktok etc

Macro data
- Climate conditions
- Epidemiology modeled forecasts
- Trends from Euromonitor, Acxiom
- Events, COVID, Holidays

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4 INCLUSION ACTUALIZING WITH REPRESENTATION

Authentic representation will growingly differentiate brands & drive consumer preference in a crowded market

KEY TAKEAWAYS → INCLUSION ACTUALIZING WITH REPRESENTATION

INSIGHT 1

REPRESENTATION AS A BUSINESS STRATEGY

It's not just about tokenism but also about catering to the spectrum of the population which will help them to emerge stronger
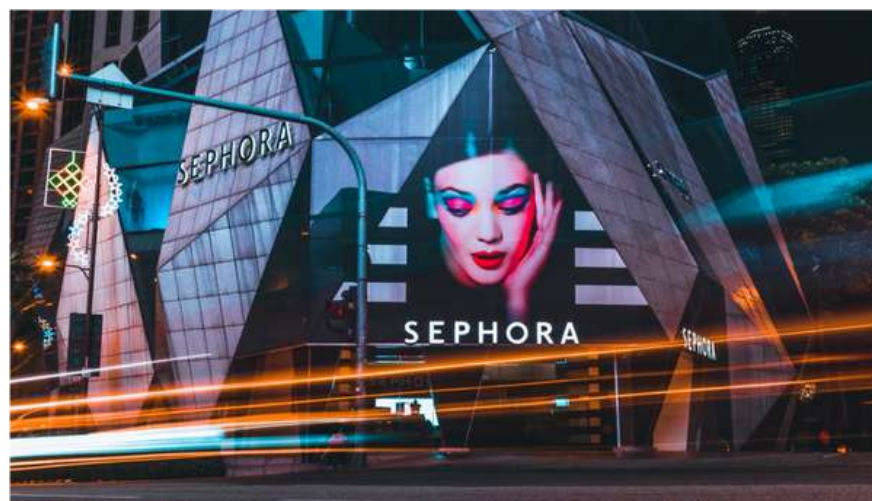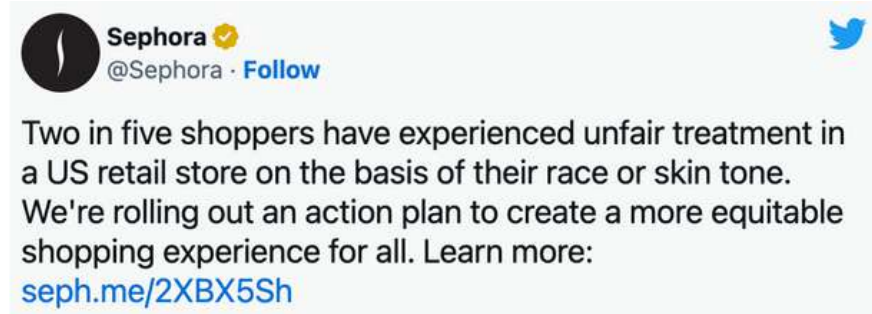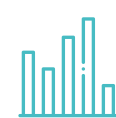

Fig 4.A

INSIGHT 2

THE COST OF BIAS IN A DIGITAL AGE

Invest in simulations & low-risk testing by leveraging AI to avoid cancel culture and negative virality that come at a huge cost to Retailers

Companies in top quartile for ethnic diversity are 36 percent more likely to outperform their less diverse peers

Fig 4.B

ADIDAS ENDS PARTNERSHIP WITH KANYE WEST OVER ANTISEMITIC COMMENTS

INSIGHT 3

REPRESENTATION, IN ALL DIRECTIONS

Opportunity for small, meaningful shifts across the value chain from bias-free hiring, representative teams making decisions, local vendors & suppliers, signage, and shop-floor assistants

"I have very curly hair. It feels great that there are so many brands out there now designing for my hair which wasn't the case earlier. "
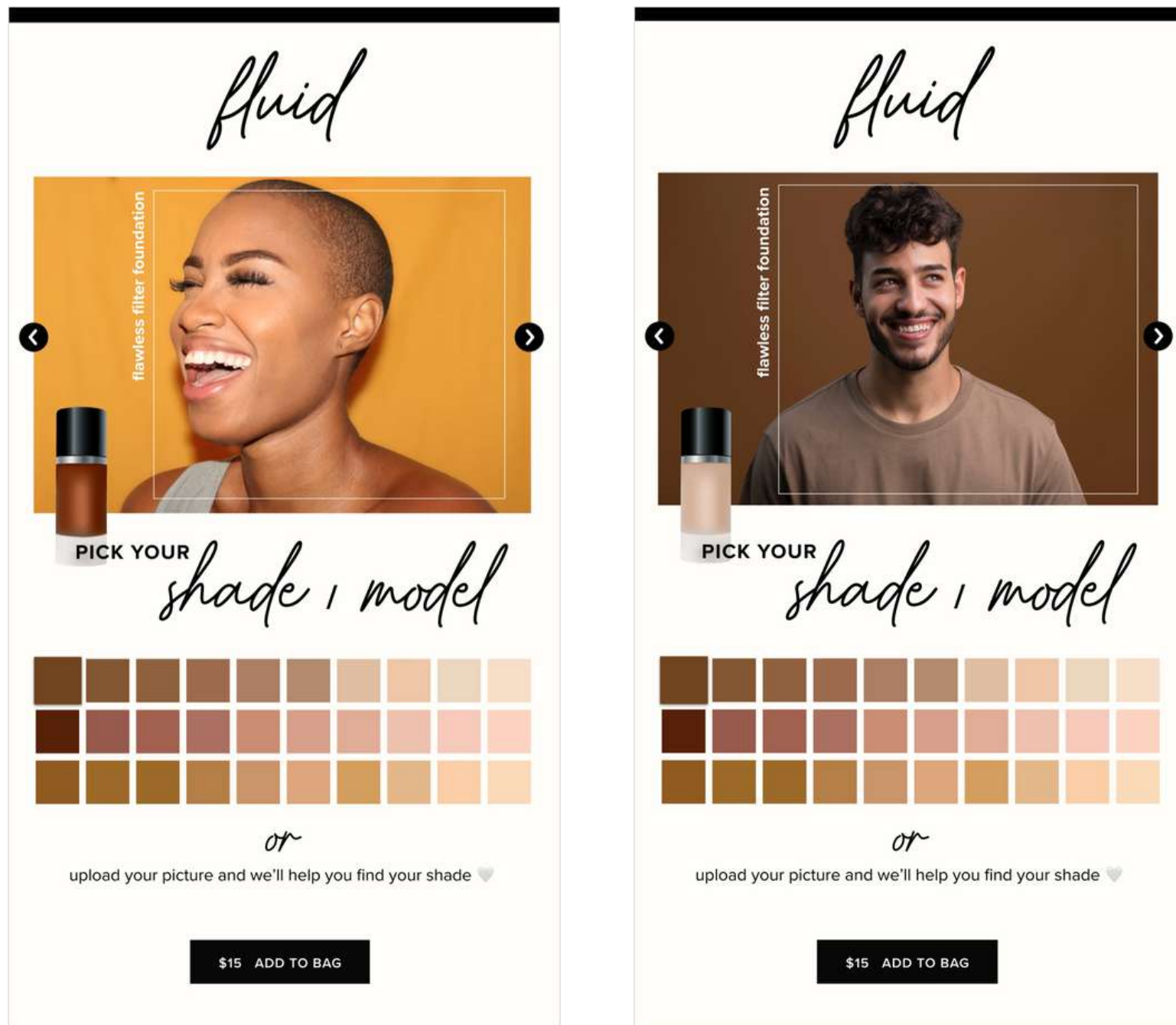
– 27 years, Female

How Rihanna's Fenty Brand is Leading in Diversity & Inclusion

f 🐦 in ❤

Fig 4.C

Navigating to Win
in 2023

INCLUSION ACTUALIZING WITH REPRESENTATION

REPRESENTATION SCAN: ORGANIZATION | OFFERINGS | EXPERIENCES (FOR EMPLOYEES + CONSUMERS)

Illustrative concept: A genderless, race-less shopping experience. Inclusive of all genders, all skin shades and use cases

IMPLICATIONS

- It's not just about weight/diet/race/gender; it's about engaging with identities positively
- Safe space for exploration for younger/vulnerable populations – do they feel represented?
- Different shoppers, same goal – prejudice, judgment-free shopping
- Functionality for individuals with a spectrum of physical abilities

RECOMMENDATIONS

- New data needed: From employees to customers and communities, Retailers are being asked to know and relate to people in new ways
- Breaking the boundaries of existing data: Identities are more fluid than fields, harness AI to identify patterns that break existing models for new business opportunities
- Collaboration and co-creation: Acknowledge that no one can understand all experiences, the goal is to be intentional of representation, participatory and adaptive in what you make

5 KEEPING PERSONALIZATION PERSONAL

What is technically possible may no longer be ethical, desired or even effective

KEY TAKEAWAYS

KEEPING PERSONALIZATION PERSONAL

INSIGHT 1

CAUTION: CREEPINESS ALERT

Prioritize the right engagement tactics that are in line with what consumers actually want. Integrate human intelligence on top of AI for relevant recommendations

Just got three targeted ads for lice treatments and I'm terrified this is one of those spooky cases of the algorithm knowing something before I do…

9:32 AM · Aug 21, 2022 · Twitter for iPhone

A Roomba recorded a woman on the toilet. How did screenshots end up on Facebook?

Robot vacuum companies say your images are safe, but a sprawling global supply chain for data from our devices creates risk.

Fig 5.A

INSIGHT 2

COMPLIANCE WITH ACCOUNTABILITY; DATA-SHARING MADE MEANINGFUL

In cases of data breaches or gaps in security, brands need to take accountability effectively and quickly. When privacy with exclusivity and/or novelty is assured, consumers' willingness to share data also increases

" I like the personalization that Netflix, Amazon, etc. brings by tracking my data. But if my data is misused, companies need to take accountability."

– 27 years, Male

How will Apple balance privacy and personalization as it grows ad business?

Industry experts predict how iPhone maker will construct its rumored DSP to appease privacy-conscious consumers, regulators and an ad industry disgruntled by its tracking restrictions.

Fig 5.B

INSIGHT 3

PERSONALIZATION COULD BORROW FROM CO-CREATION

People feel connected to experiences they have been involved in; participatory design & co-creation with consumers in two-way digital dialogues enabled with VR/AR, immersive storytelling & contextual prompts can be differentiators

Macy's 3D furniture experience enables customers to design virtual rooms through a tablet
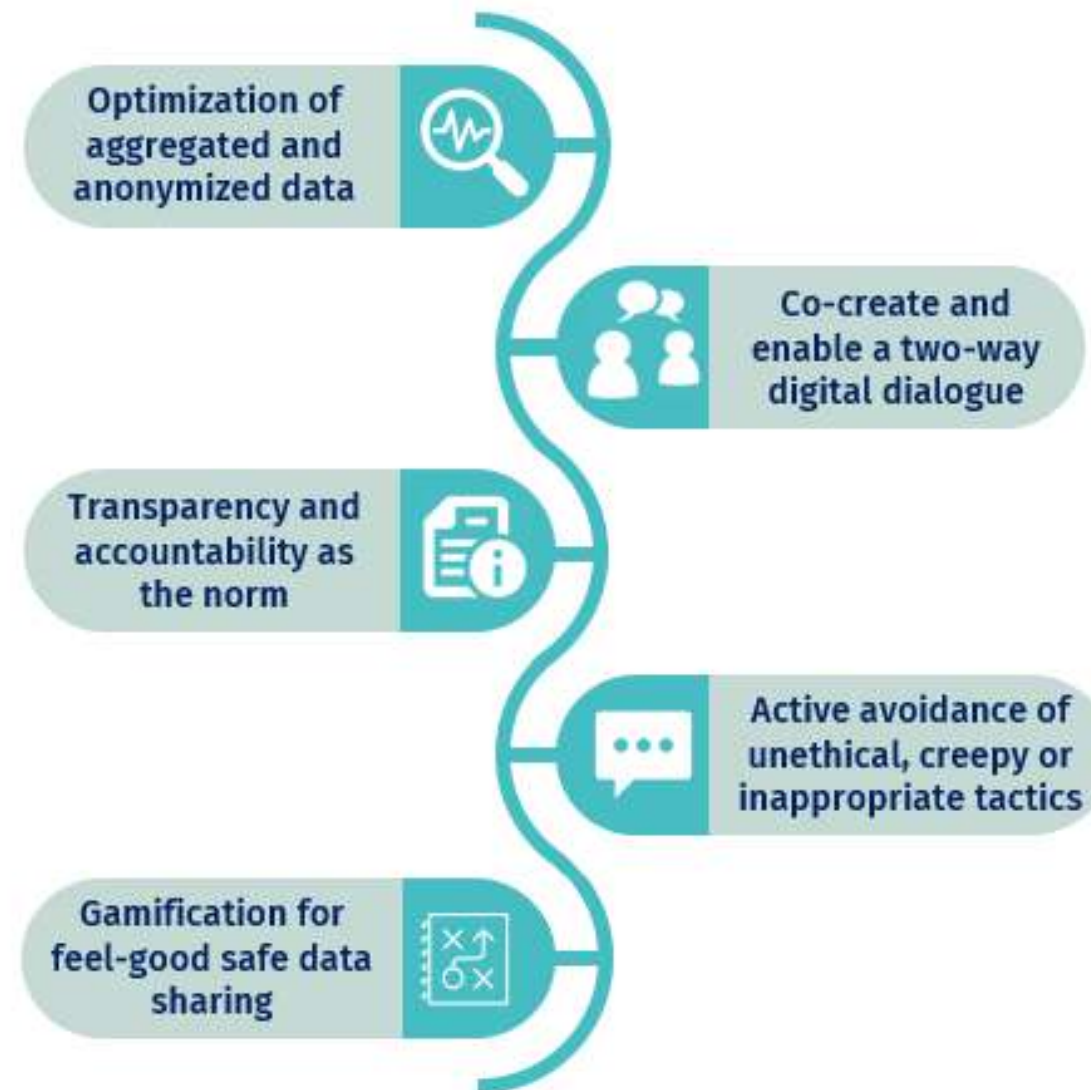
Fig 5.C

KEEPING PERSONALIZATION
PERSONAL

PUTTING THE PERSONAL IN PERSONALIZATION

Despite advancements in technology, personalization today falls short due to incorrect techniques, incomplete data and stereotyped personas

- Leverage synthetic data **and** differential privacy for collecting and sharing aggregate information about user habits while ensuring privacy
- Collect 'hot' anonymized data instead of cold demographics and analyze how much data is actually required

- Implement Responsible AI to explain how and when the consumer data is being used in models
- Build a system with proper Data Governance and model management

- Create non-traditional datasets using gamification techniques like quizzes, embedded profiling tools & game-play

Optimization of aggregated and anonymized data

Co-create and enable a two-way digital dialogue

Transparency and accountability as the norm

Active avoidance of unethical, creepy or inappropriate tactics

Gamification for feel-good safe data sharing

- Create dummy profiles or living profiles and let them evolve along with consumers
- Leverage Conversational AI to interact with the consumers as they navigate through the stores

- Prioritize the right engagement tactics and communicate with proper cadence by leveraging single view of the customer through customer data platforms

STRATEGIC DIRECTIONS TO WIN IN 2023 & BEYOND

	NOW (~1 YEAR)	NEAR (1 TO 3 YEARS)	NEXT (3 TO 5 YEARS)
Everywhere, embedded commerce: How might Retailers drive meaningful presence across touchpoints in the emerging paths to purchase?	• Shelf analytics 2.0 using synthetic data • Behavioral Segmentation to understand and adapt to different purchase journeys, dynamically	• Two-way digital communication using AR-VR, 3D techniques • Checkout-free stores	
Planet & profit goals aligning: How might Retailers use Design, Data, and technology to transition to a circulatory system?	• Resale as a Service • Explore and identify viable secondary markets	• Gamify the return/disposal cycle for products to create win-win-win experiences	• Implementation of Holograms and Web3 • Gamified research or simulations in the metaverse • Sustainable sourcing • Hyperlocal alternatives for ingredients • Experience Stores & Immersive Purchase
Marketing meets media: How might we meaningfully connect data & experiences across marketing channels?	• Expand and integrate data sources beyond demographics • Integrate superfans into omni-channel strategy	• Cross-organization Data Orchestration and Integration • Image and Video Analytics in-store	
Inclusion actualizing with representation: How might Retailers make their brands more authentic and relatable with greater representation?	• Re-design stores for more inclusive Retail • R&D of collaborations & partnerships to push brand boundaries towards representation • Strategies for brand-aligned inclusive retail across touchpoints of policy, store design, website, campaigns & offerings	• Strategic M&As and/or new brand launches for emerging segments, to increase market coverage • AI to identify and rectify bias across touchpoints for employees and consumers	
Keeping personalization personal: How might Retailers shift from targeting to building meaningful connections?	• Balance Personalization with Co-creation & Participation • Implementation of Responsible AI to responsibly to ensure fairness, privacy, human-centricity	• Moment and occasion-led personalized offerings • Develop Finite Purchase Trajectory Superset: Avoid putting consumers into buckets. Develop a framework to map how consumers move through various moments, mindsets and channels	

GET IN TOUCH

As you craft your way ahead, we would love to engage more deeply in a conversation with you to discuss:

- Building resilient Retail organizations by powering every human decision in the enterprise
- Leveraging customer analytics spanning across acquisition, engagement, retention, and growth
- Improving the Inventory ROI and profitability by enabling intelligent merchandising decisions across Plan to Sell cycle
- Enabling an insight and demand-driven supply chain by leveraging advanced analytics and intelligent automation
- Helping boost sales, and productivity and reduce costs across every facet of store operations
- Operating in today's 'Data Economy' using a Modern Data Estate

Questions, thoughts, ideas?

Let's talk: Retail@fractal.ai

You just finished Module 1: Navigating to Win in 2023
Thank you for reading!

UPCOMING MODULES.......WHAT'S IN STORE

Module 2:
Everywhere, Embedded Commerce

Module 3:
Retail Health

Module 4:
Environmental, Social and Governance (ESG) in Retail

Module 5:
Emerging Shopping Missions, Mindsets & Moments

Module 6:
Role of Data, AI & Automation in Retail

For more information
Contact: Retail@fractal.ai

BEHIND THE SCENES

PROCESS, TEAM
AND REFERENCES

PROCESS OVERVIEW
AI meets human insight for Applied Foresight

Cross-cultural behavioural study

800 participants
Literature review
Appraisal framework

SME interviews & workshops

Hypothesis capture
Trend prioritization
Horizon mapping

Brand audits

Digital experience audits
Tech investments
Case studies
Dominating, disrupted, disruptors

Future of
RETAIL

NLP based exploratory analysis

Signal validation
Measuring direction
Magnitude of trends

Shop-along(s), store-visits & walkthroughs

Study of shelves
Check-out experiences
Packaging trends
Inventory management tools

Signal scan with PESTLE framework
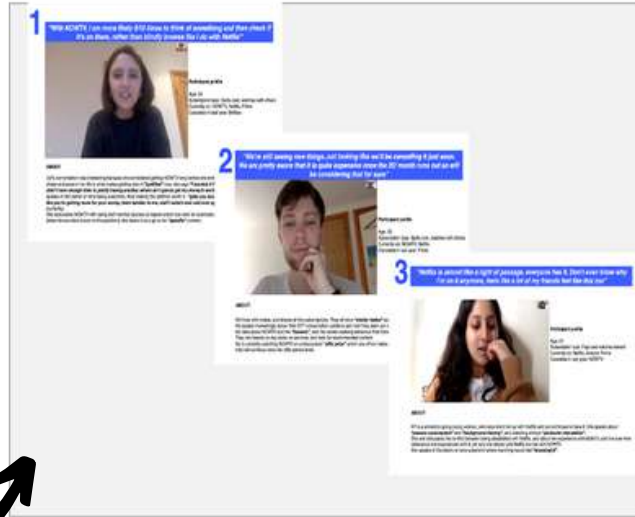
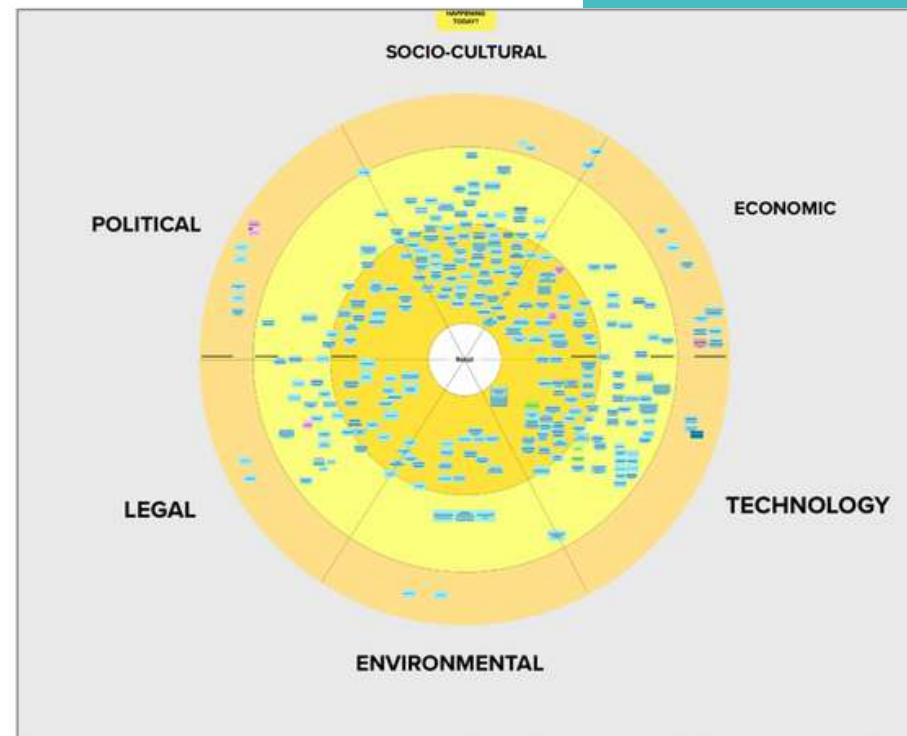*Macro-trends*
Strong signals
Weak signals

← Click to see what we studied

SIGNAL SCAN, TREND WORKSHOPS AND EMOTIONS UNCOVERED IN A CONSUMER DIPSTICK
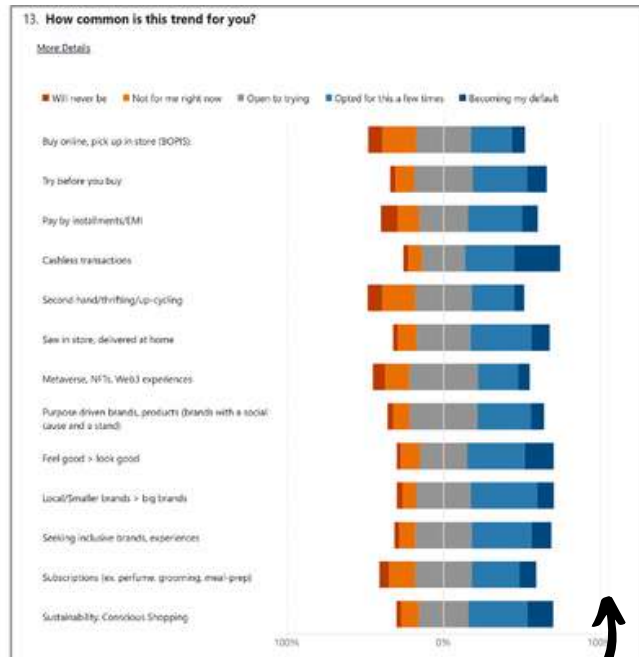
Measurement model

AI models

PESTLE Scan
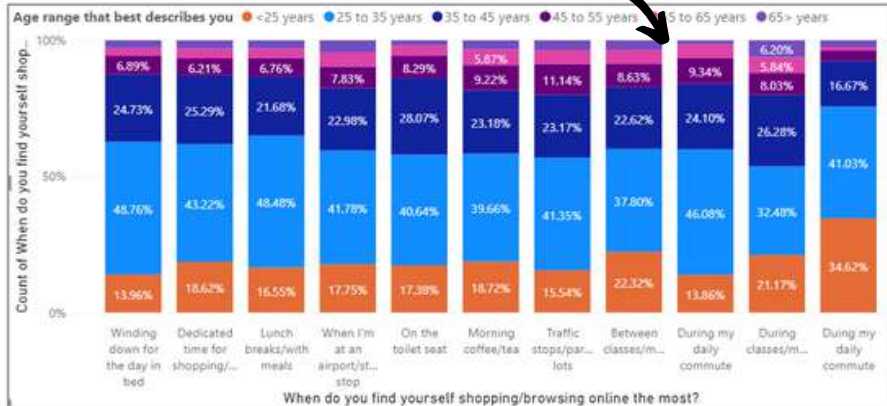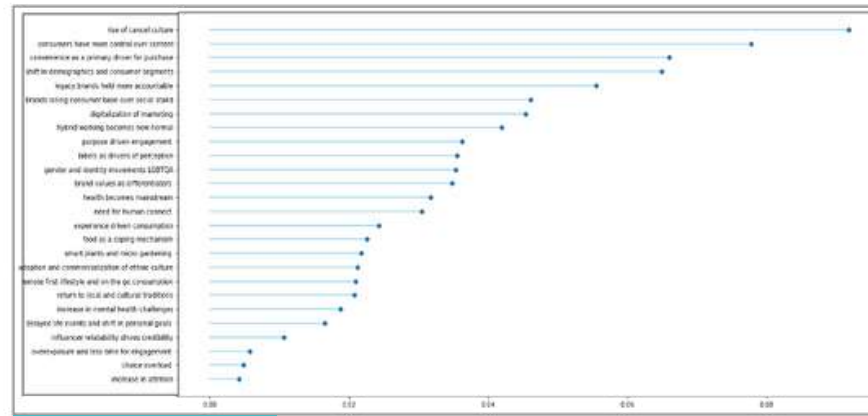
Hybrid workshops & hackathon

In-person store visits
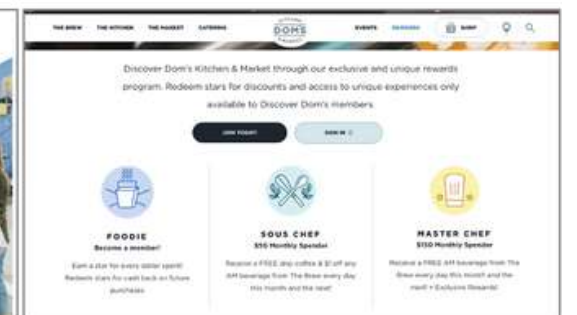
MEET THE TEAM

Sangeetha Chandru: Chief Practice Officer Retail | Analytics & AI

Ann Hintzman: Chief Design Officer | Fractal Experience

Satish Kumar: Principal Consultant | Retail Advisory

Sharada Karmakar: Engagement Manager | Retail AI Strategy & Enablement

Shivani Gupta: Lead Behavior Architect | Fractal Dimension

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Gurjyotkaur Bindra: Design Consultant | Fractal Experience

Shagun Parab: Design Consultant | Fractal Dimension

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1.C Starbucks Roastery: Fractal copyright
1.D IKEA image: Unsplash website

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3.B Nike App images: Sailthru
3.C Casey headline: CS News
3.D Casey image on Retail: CS News
3.E Third Coffee Culture: Heading and image: Indian Express

5.A Roomba records woman on the toilet; screenshots on FB: MIT-Tech
5.B Apple's headline on privacy: PR News
5.C Macy's VR experience with headline: Retailcustomerexperience.com

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2.D 15 minute delivery headline: Atlantic

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4.B Adidas ends partnership with Kanye West: Guardian
4.C Rihanna's Fenty Brand Leading in Diversity & Inclusion: Indigo Digital
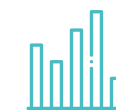
This icon in the module is a link to the source of the respective statistic