

# Global retail sector outlook

## The global retail market is experiencing revolutionary changes

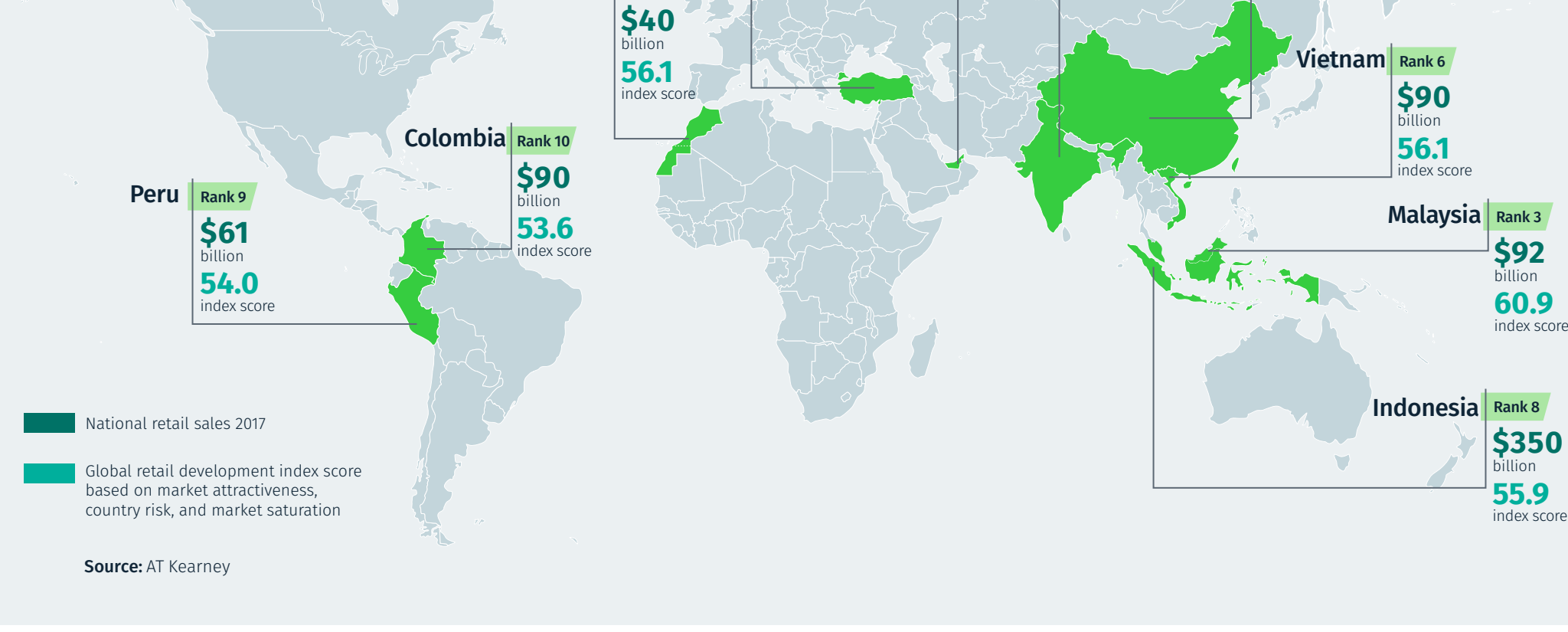
The biggest and most visible disruption to the retail market in the last 15 years has been the continuous rise in online shopping. Retailers are responding by entering the segment and leveraging technology to better understand customer needs



**Key growth categories** ▶ E-Retailers ▶ Superstores ▶ Specialty retailers ▶ Discount stores

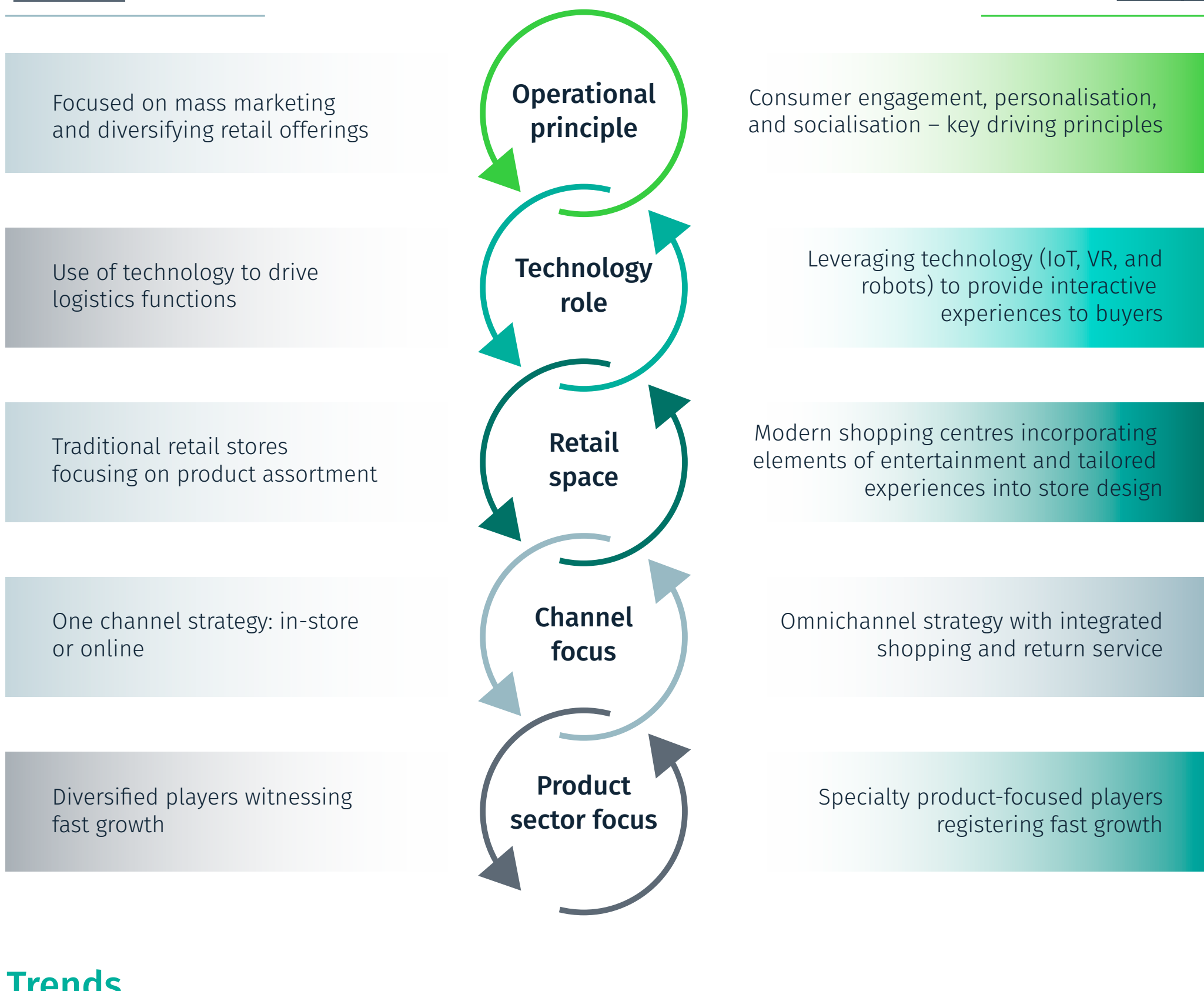
## Top 10 developing countries for retail investment

Despite being the largest markets, North America and Europe have been witnessing a slowdown due to subdued economic growth. However markets in other parts of the world, Asia in particular, are booming



## Evolution of business models

Traditional retail stores are focusing on enhancing customer experience to compete with e-retailers



## Trends

### Rise of small-format retail stores

Helps retailers gain category expertise and provide a unique and convenient shopping experience to consumers (by leveraging customers' data).

Small is the new black, also the new big. Retail giants will continue to open stores with smaller footprints or rotate fun pop-up shops on their sales floors to keep them current and interesting.

– Rich Kizer and Georganne Bender, Consumer Consultants, Kizer and Bender (2018)

### Rise of experiential retail

Younger consumers increasingly value functionality over ownership, and demonstrate growing preference for experiences over products.

Experiential shopping, where stores are designed for experiencing the products/services, while delivery can be door-to-door post purchase; largely applicable for fashion retailers, electronic supermarkets.

### IoT in retail to make shopping less overbearing

With rapid advancements in software and increased adoption of wearables, IoT is helping deliver the right message (communication/promotion) at the right time (on location/closer to purchase) to the right audience (potential customers).

### Increase in adoption of 'buy now, pay later'

Enables retailers to move products quickly out of the inventory and provide a smooth and personalised shopping experience to consumers.

### Share breakdown of US discretionary spending (excluding cars)

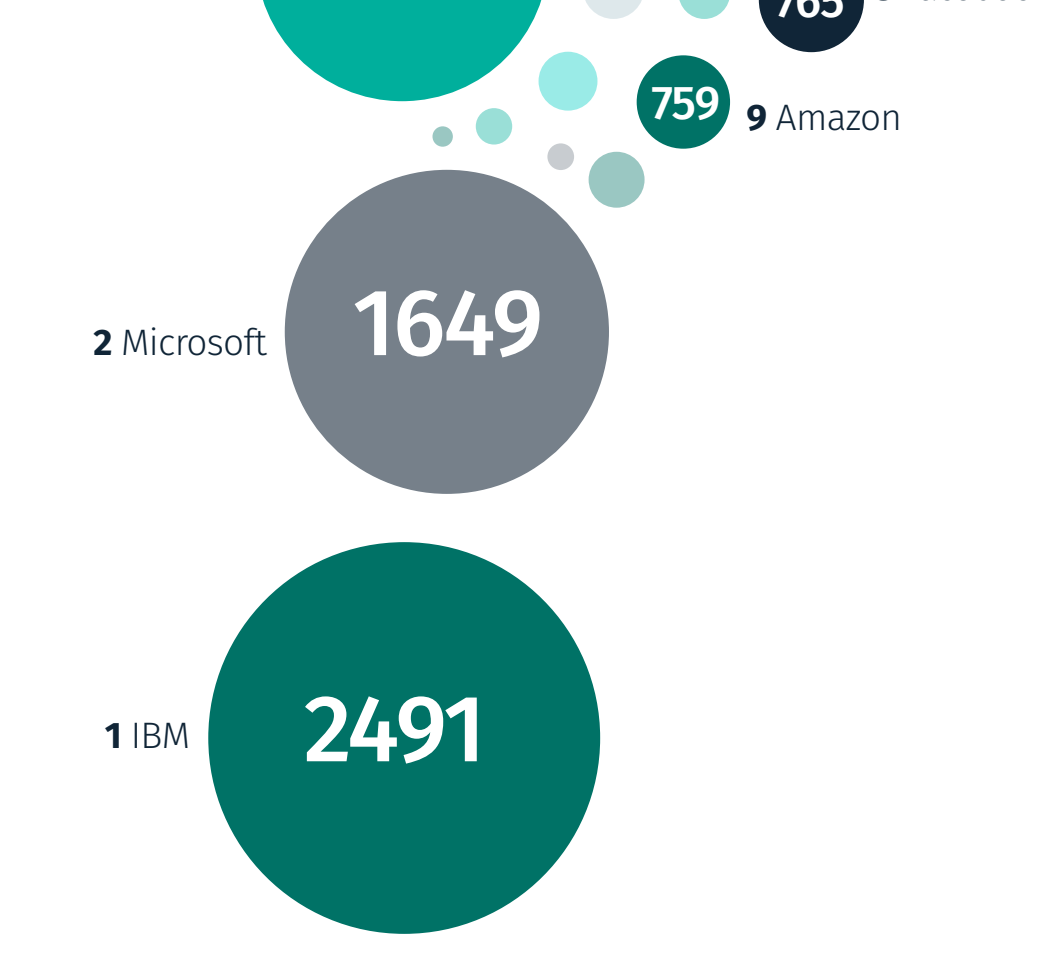
| Year  | Experiences (%) | Experiential products (%) | Products (%) |
|-------|-----------------|---------------------------|--------------|
| 1985  | 22%             | 16%                       | 64%          |
| 2000  | 25%             | 18%                       | 57%          |
| 2015  | 28%             | 17%                       | 54%          |
| 2030F | 32%             | 16%                       | 52%          |

## Innovations

Retailers to continue collaborating with technology developers to gain operational efficiency and develop consumer-facing innovations in 2019

### Total number of patents filed for the retail category – by key players<sup>1</sup>

(Jan 2014 – Jan 2019)



### Technologies with expanding commercial footprint

- Increasing adoption of AR/VR-based platforms; for example, virtual showrooms and smart mirrors
- Enhanced implementation of AI and ML-based customer analytics platforms to boost sales; for example chatbots with enhanced cognitive skills
- Automated payments using smart baskets
- Development of cloud-based productivity suites for retail to be a key focus area for technology giants

## Competitive landscape



|  | Walmart | Amazon | Costco | Kroger | Schwartz Group | Walgreens Boots Alliance | Aldi | Home Depot | Carrefour | Tesco |
|--|---------|--------|--------|--------|----------------|--------------------------|------|------------|-----------|-------|
| Revenue Growth (CAGR %, 2013-2018E)      | 2       | 23     | 5      | 6      | 4              | 10                       | 15   | 6          | -2        | 0     |
| Revenue Growth (CAGR %, 2018E-2023F)     | 3       | 17     | 8      | 3      | 7              | 5                        | 7    | 5          | 3         | 2     |
| % Retail Revenue from Foreign Operations | 27      | 34     | 25     | 0      | 64             | 13                       | 71   | 8          | 61        | 24    |

### Global retail landscape – by market cap

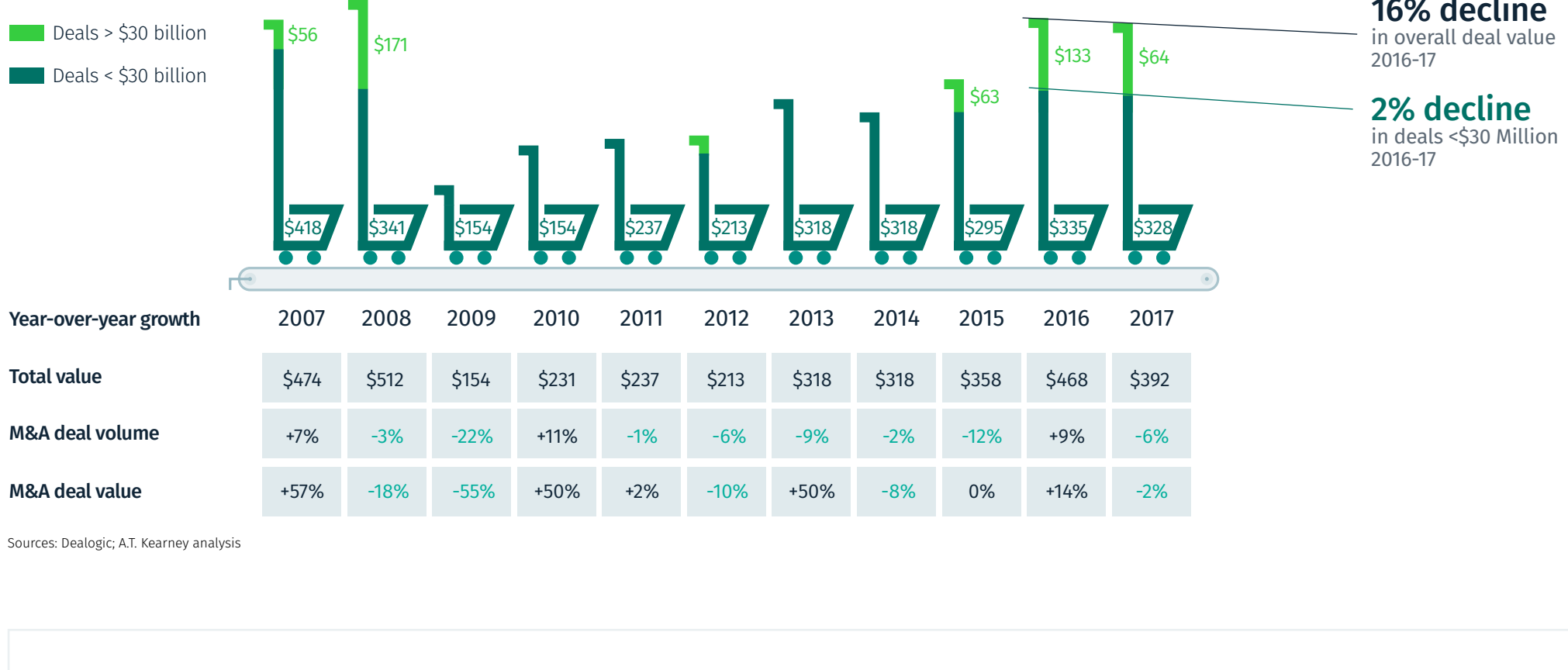
Market cap as of 8 January 2019



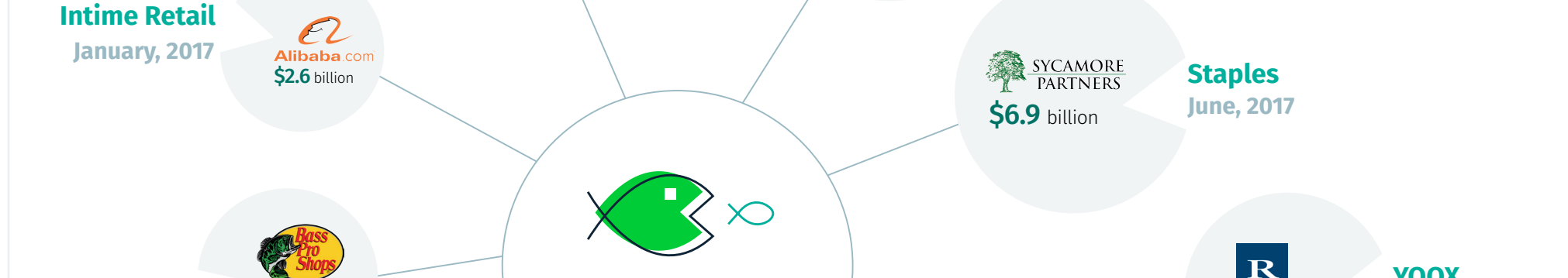
## Extensive M&As and partnerships in retail space

Increasing competition from e-commerce is forcing offline retailers to expand inorganically by acquiring both online and offline competitors. This is enabling them to enter into new markets and product segments, and expand through omnichannel operations

### Consumer and retail M&A activity (\$ billion)



| Year-over-year growth | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Total value           | \$476 | \$512 | \$154 | \$231 | \$237 | \$213 | \$318 | \$358 | \$468 | \$392 |      |
| M&A deal volume       | +7%   | -3%   | -22%  | +11%  | -1%   | -6%   | -9%   | -2%   | +9%   | -6%   |      |
| M&A deal value        | +57%  | -18%  | -55%  | +50%  | +2%   | +10%  | +50%  | -8%   | 0%    | +14%  | -2%  |



Another M&A deal in the talks is the planned Sainsbury's-Asda merger; expected to be completed in 2019, the deal is currently facing regulatory challenges

## Drivers for M&As and partnership deals

- Acquisitions and partnerships with tech firms driven by the need to use technology to boost consumers' shopping experience
- Growing demand for faster delivery options driving acquisitions/partnerships with companies with strong distribution channels in different markets
- Firms targeting specific customer segments – prime targets for retailers looking to expand customer base and increase operational presence

### Alibaba & Valentino

April, 2018  
Alibaba partnered with Valentino to launch a 3D online virtual store, which is a reflection of the latter's pop-up store in Beijing

### Home Depot & Pinterest

March, 2018  
Home Depot's partnership with Pinterest helped the company shift its customer base from contractors to homeowners

### Kohl's & Aldi

March, 2018  
Kohl's partnership with the discount supermarket chain Aldi assisted the company to drive traffic to its brick-and-mortar stores

### Partnership Examples 2017-2018

### The Kroger Co. & Ocado Group

May, 2018  
Under the partnership, Ocado's centralised and automated e-retailing and grocery warehousing technology will be leveraged in the US, exclusively by Kroger

### Amazon & Kohl's

August, 2018  
Collaboration helped Amazon to streamline its returns process through Kohl's stores, while the latter gained from in-store traffic driven by Amazon's customers

### Target & Google

October, 2017  
Target partnered with Google to leverage its services, including Google Express and voice-activated shopping features, for expanding company's digital presence

### Carrefour & Google

June, 2018  
Carrefour collaborated with Google to enable customers to purchase products through Google Assistant and other connected platforms such as Google Home

If you would like to know more about how to leverage advanced analytics solutions, regular patent intelligence and innovation updates to understand and adapt to consumer preferences, please contact us at [info@thesmartcube.com](mailto:info@thesmartcube.com).