BRYAN, GARNIER & CO

The Future of Retail is Now

TODAY, SUCCESS MEANS MIXING ‘PHYGITAL’ WITH ‘RETAILTAINMENT’

CONSUMER, BRANDS & RETAIL WHITE PAPER NOVEMBER 2017

Contents

Society is increasingly connected – through smartphones, social media and technologies such as the Internet of Things and artificial Intelligence. In retail, as in other disrupted industries, incumbents were caught out by online players who were better at collecting, analyzing and using customer data to target marketing and enhance customer experience. Now the initial "shock and awe" has passed, some traditional retailers have started to react promptly by digitalizing themselves.

In the connected society, consumers don't want to choose between the offline and online worlds: they want a seamless, frictionless shopping experience. This convergence of the physical and the digital has moved the battlefield towards the real-world store, which is still seen as the primary retail touchpoint by consumers, offline and online players.

In this white paper, we first look at how the online retailing giant Amazon has crystallized the fears of traditional players as well as innovative start-ups. With the acquisition of Whole Foods Market in June 2017, for example, Amazon will be able to reduce delivery costs by using in-store pickup points and build credibility as a grocer.

This is the reason why we go on to analyze the importance of physical stores within the value chain, as exemplified by "online first" players opening stores. We examine why these stores have had to become experiential destinations, not just places consumers go to buy products.

Traditional players are also sitting on an extraordinary amount of data, but have not fully understood how to convert it into personalized experiences. To do this, they are becoming increasingly dependent on tech companies and IT start-ups in fields such as AI, algorithms for predictive modelling, and payment solutions. We expect to see partnerships and M&A transactions to secure this crucial access to technology, and we explore the latest developments in this paper.

FIG. 1: RETAIL IS AT THE CORE OF THE DIGITAL VORTEX SWEEPING THROUGH MANY INDUSTRIES

Source: Global Center for Digital Business Transformation, IMD Lausanne

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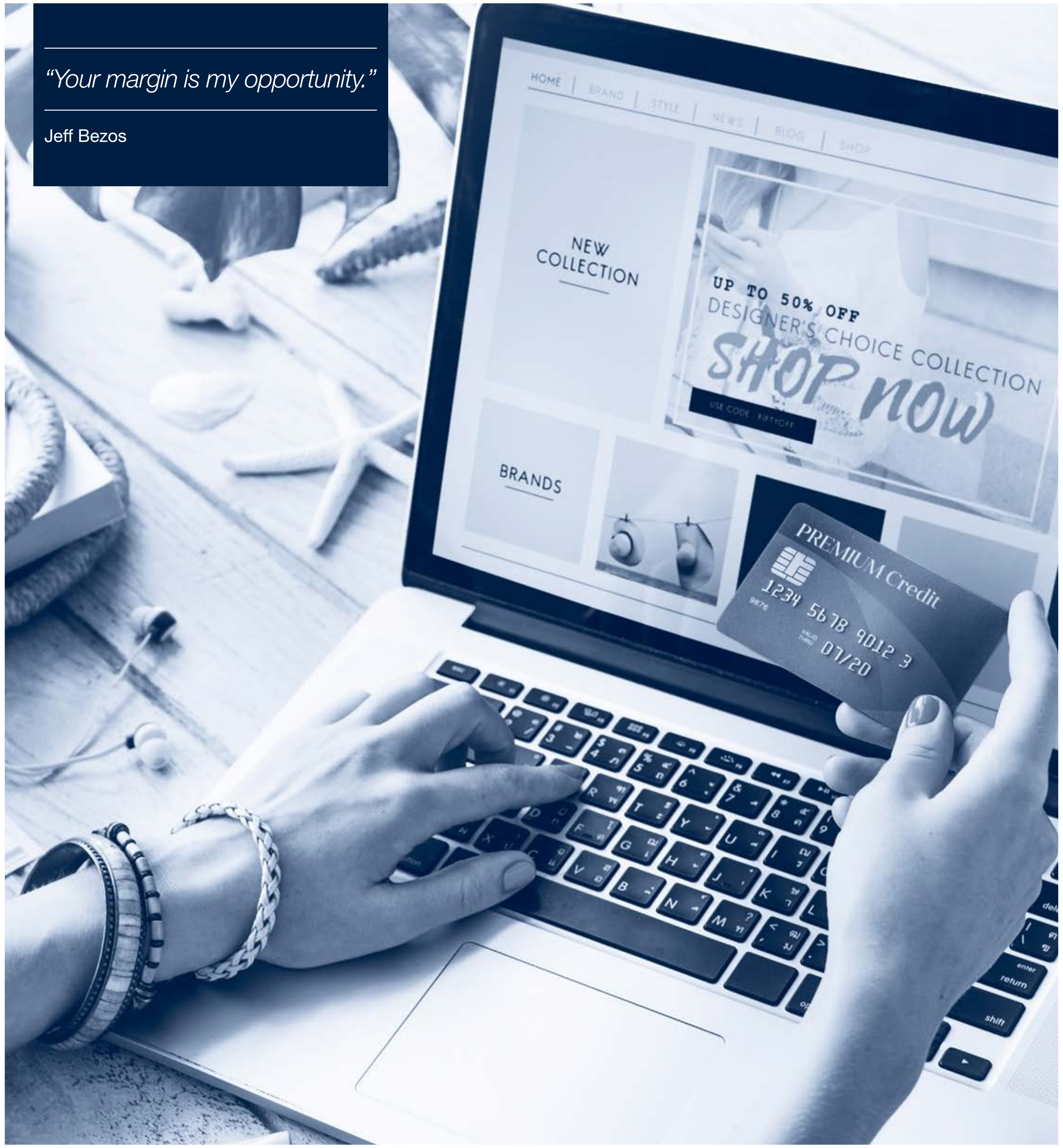
1: The "Amazon disruption"



"Your margin is my opportunity."

Jeff Bezos

Amazon, a seamless consumer-centric economy

Amazon offers a logistic solution that dilutes capital intensity for the sellers who use it, especially since its platform sometimes acts as a fulfillment center. In return, it receives a commission on every transaction. All this happens in an ecosystem where the customer experience, and therefore the brand's credibility, becomes addictive for anyone who encounters it. Amazon does not create products: it makes life easier for people, whether they are third-party sellers or end customers.

So, rather than using the pricing power intrinsic to any brand, Amazon capitalizes more on the customer's addiction to its ecosystem, on the back of a constantly expanding offer and seamless experience. This way, it multiplies contact points and ultimately maximizes its asset turnover. Via third-party sellers, and without taking any experimental risk, it uses its "millions of groupies" and customer reviews to test the attractiveness of a new product, as well as the profit that it will draw when it decides to launch it under its own brand. As CEO Jeff Bezos says: "your margin is my opportunity".

FIG 2: IS THERE ANYTHING AMAZON DOESN'T PROVIDE?

ENTRY DATE	
1995	- BOOKS
1997	- MUSIC - DVD/VIDEO
1999	- CONSUMER ELECTRONICS, TOYS & GAMES - DIY ("DO-IT-YOURSELF")
2000	- HOME APPLIANCES AND FURNITURE
2002	- CLOUD SERVICES - APPAREL AND ACCESSORIES
2003	- MARKETPLACE
2006	- GROCERY - AUDIOVISUAL CONTENT BROADCASTING – VOD PLATFORM
2007	- VEHICLE COMPONENTS (AMAZON AUTOMOTIVE PARTS & ACCESSORIES) - FOOD RETAILING - EBOOKS READING (KINDLE)
2008	- OFFICE SUPPLIES
2010	- AMAZON STUDIOS
2011	- FINANCING SERVICES (SMALL BUSINESSES LENDING)
2012	- WINE
2013	- WORK OF ART - HPC & OTC DRUGS
2015	- BOOKS (BRICK & MORTAR STORES)
2016	- VEHICLES
2017	- FINANCING SERVICES (CREDIT CARDS)

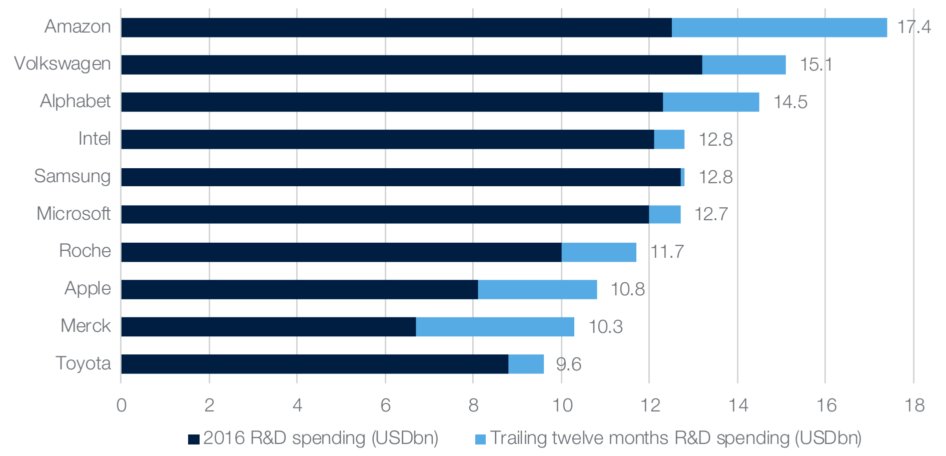
Source: Amazon

Truly integrated "Amazonian" governance

According to Steven Lowy, Co-CEO, Westfield, "*Amazon is truly integrated; it is fast, it is innovative and it is speeding up with innovation*"[1]. It has come from nowhere and today – unlike physical retailers that are often a patchwork of companies put together over time through M&A – it is perfectly integrated. This is one of its main unfair advantages. It's why every decision is managerially and technically executed faster than it will ever be at any physical retailer.

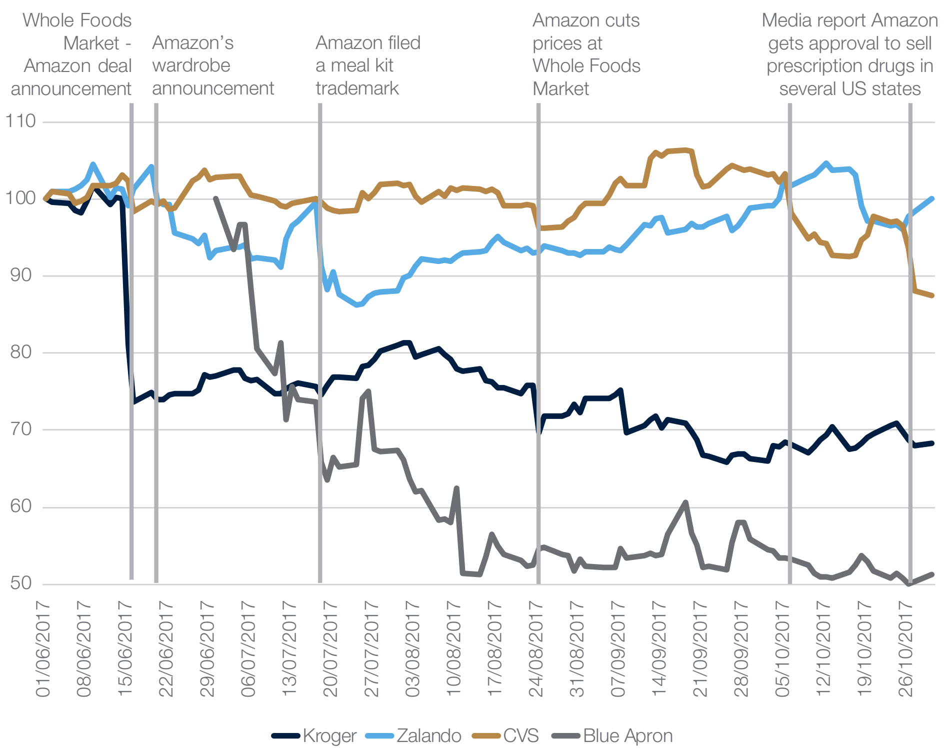
Like a government, Amazon creates the institutions and infrastructure that preside over every commercial interaction within its social and commercial ecosystem. And just as a government collects taxes, Amazon levies a commission on each transaction, proportional to the material and services made available to counterparties[2]. This metaphor leads us to talk about "Amazonian governance", whose disruptive impact goes well beyond retail, judging by how the market reacts to the slightest initiative by Amazon on any segment.

FIG 3: AMAZON IS SPEEDING UP WITH INNOVATION



Source: Bloomberg, 2016 Global Innovation 1000 study

FIG 4: THE AMAZON EFFECT SPREADS ACROSS THE SECTORS



Source: Datastream, Bryan, Garnier & Co

1. Shoptalk Europe 2017, Copenhagen October 2017
2. This Is Exactly Why You Should Be Terrified About Amazon | Jon Bond and Ben Clarke (Co Chairman and Co Founder & President of The Shipyard) | October 2017

Whole Foods Market: physical retail is dead, long live physical retail

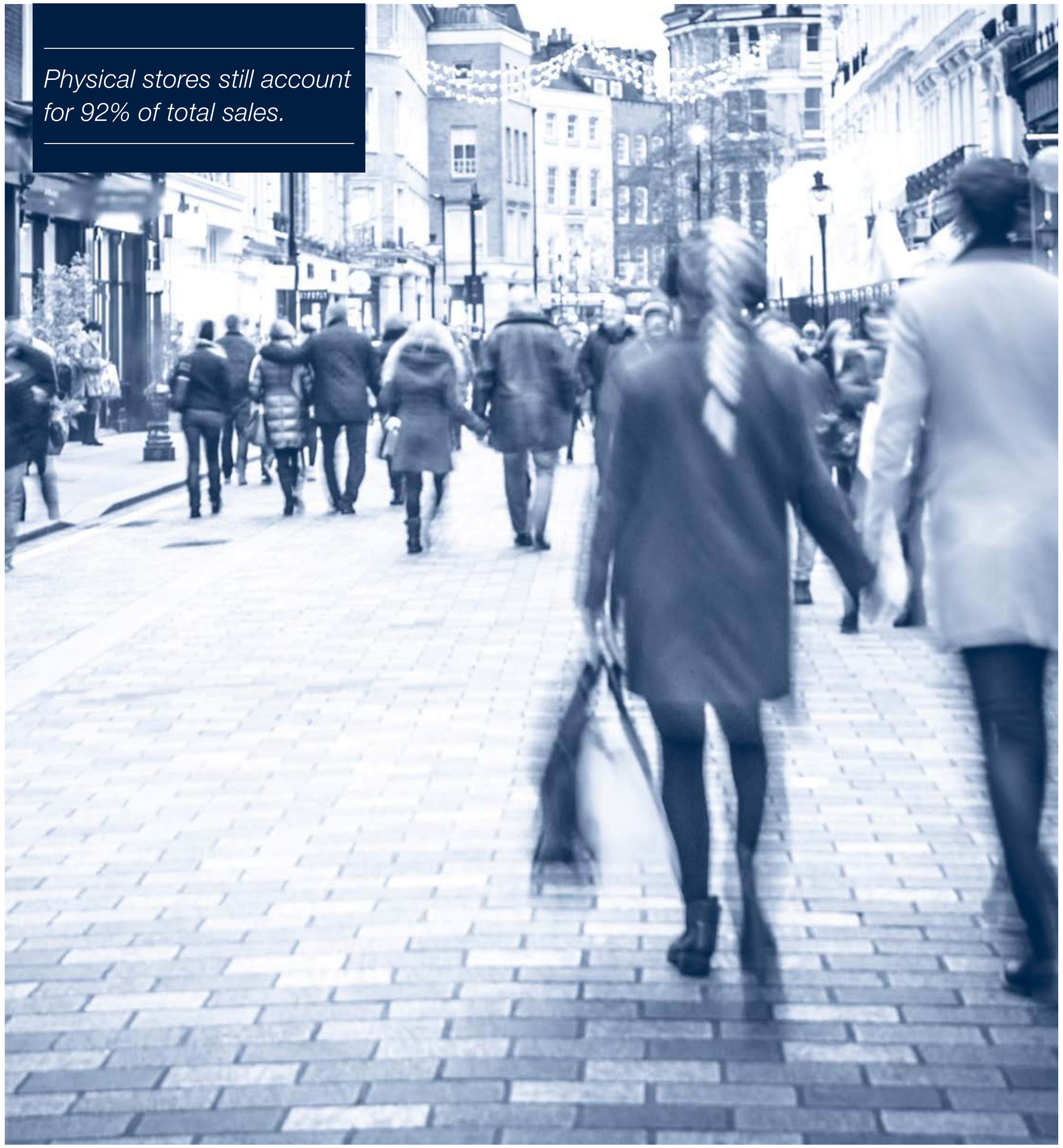
Current retail battlegrounds include disruption in US fast fashion and in food retail, where **Amazon** is fighting head-to-head with **Walmart**. Amazon's move into FMCG was natural, since the potential for multiplying contact points with consumers is very high in this segment. **Whole Foods Market** (WFM) was the first move in what looks like a strategy to win global market share gains in brick-and-mortar retailing.

To compete in B2C rather than just acting as a distribution channel, Amazon needs to build brand goodwill. To grab further ground, it needs to achieve critical mass and build up its purchasing power to confront FMCG producers in price negotiations. The tactical way to do this is around national brands, which it needs to build (or acquire) to obtain credibility. Amazon is not a food retail brand, hence its acquisition of Whole Foods Market, a well-respected brand in the USA.

It is worth noting that early November 2017, Amazon announced it would stop its Amazon Fresh grocery delivery service in nine US States by the end of the year. The online giant said these closures were unrelated to the WFM deal but some experts had viewed this deal as a consequence of the Fresh's difficulties in expanding its grocery business without the backing of a physical store network. Undoubtedly, Amazon will reshuffle its supply chain to place these WFM stores at the heart of the delivery process. So shoppers who order online could either pick their purchases up a store, or have them delivered at home.

Every decision is managerially and technically executed faster than it will ever be at any physical retailer.

2: The "New Retail" model... or when physical stores are far from dead



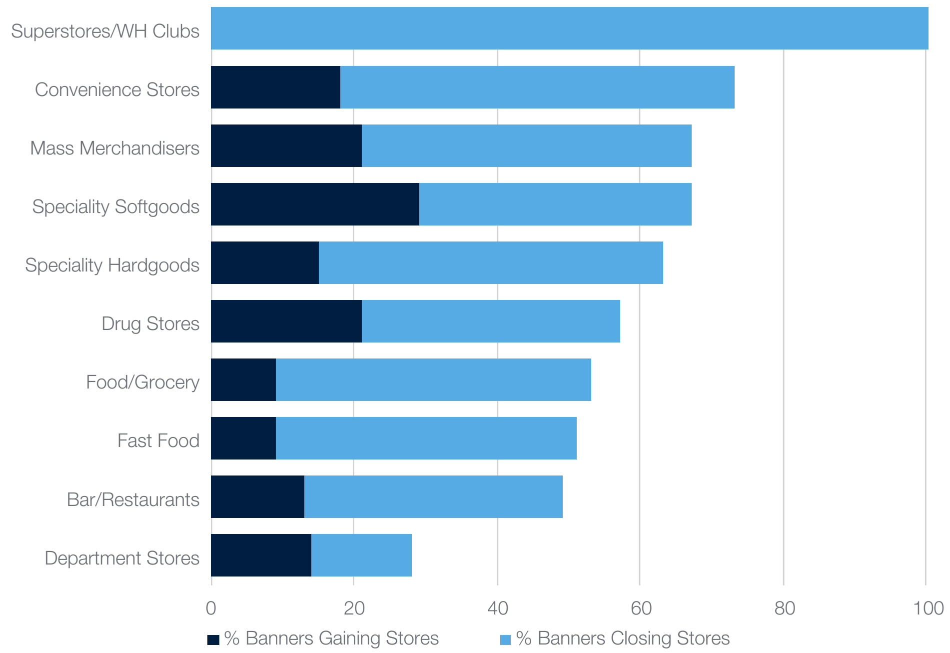
Physical stores still account for 92% of total sales.

The death of the store is exaggerated... Even for specialty apparel retailers

The "retail apocalypse" has been a much-discussed topic in the media, highlighting the severe oversupply of retail stores in a context of fast-growing online sales. Even if online grew at a faster pace (2Q 17: +16.3% versus. +4.4% for total US retail sales), it is worth noting out that physical stores still account for 92% of total sales.

Moreover, IHL Group published a report in August that contradicts the general feeling of a retail apocalypse: showing a net increase of 4,000 store openings expected across the US in 2017. Even for specialty apparel retailers, which are hardest hit by the retail turmoil (with a net loss of over 3,100 stores), approx. 1.3 chains are opening new stores for every chain closing stores.

FIG 5: % NET OPENING STORES VERSUS. NET CLOSING (US RETAIL, IN 2017):

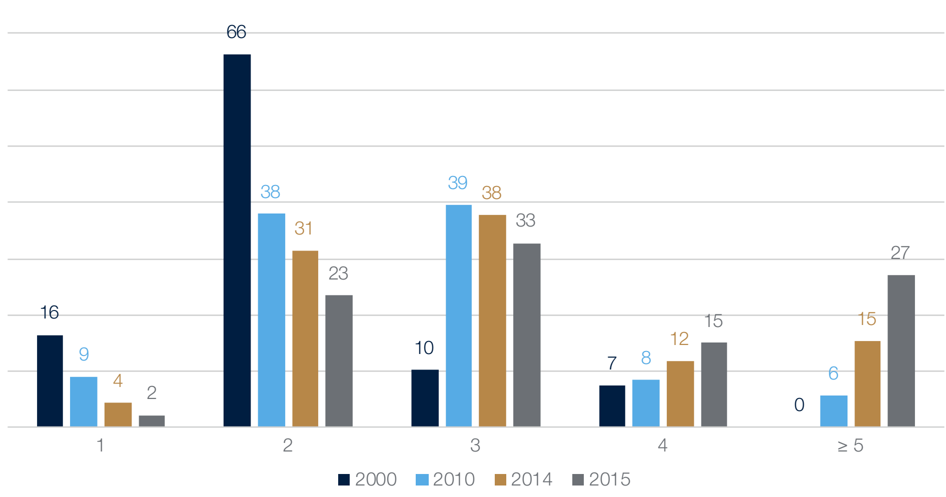


Source: NRF, IHL Group

Despite predictions, the retail apocalypse has not happened, bricks-and-mortar still stand strong.

ONE INTERESTING MEGA-TREND: "ONLINE FIRST" PLAYERS OPENING PHYSICAL STORES

FIG 6: AVERAGE NUMBER OF TOUCHPOINTS USED WHEN SHOPPING:



Source: NRF, IHL Group

During Shoptalk Europe in 2017, all speakers, particularly managers from the online world, agreed on the fact that brick-and-mortar stores remain a key link within the value chain: we have seen many examples of online players opening physical stores, leading to the adoption of omnichannel strategies. These can bring several benefits to brands and groups:

Enhanced customer experience: Regardless of how convenient online shopping is, a recent Capgemini study found that 70%[3] of consumers still wanted to visualize, try on and feel products before purchasing them. Showcasing products physically is a key customer experience enhancer, as experimented with by online homeware retailers **Made.com** and **Home24**. Eyewear players such as **Warby Parker**, **Mister Spex** and **Brillen.de** have either opened stores or partnered with traditional opticians because they know that the vast majority of consumers are still reluctant to buy spectacles online (e.g. less than 5% of the US market).

Higher customer retention: The graph above shows that on average, 42% of customers use four or more "touchpoints" (i.e. mobile app, website, store, social media, etc.) when buying an item, whereas in 2000, 83% of them only used one or two touch points. This trend is consistent with the progressive blurring of online and offline and explains why consumers ask for a seamless shopping experience across all channels. In this connected world, there is an obvious rule: the more contact points, the more opportunities brands have to engage their customers and the higher the chances of conversion and retention are. According to Aberdeen, companies with well-defined omnichannel customer experience strategies in place achieve an average 91%[4] higher YOY increase in customer retention rate, compared to those without.

A perfect logistics hub in densely populated areas: With the acquisition of WFM, **Amazon** now counts 436 refrigerated stores within approx. 15km of 95% of its Prime members and 80% of the US population. A physical store is a "mini-warehouse": shipping from the store can speed delivery and reduce shipping costs, especially in densely populated areas where large warehouses are impractical. Many eCommerce companies remain unprofitable because of a high customer acquisition costs, plus fulfillment costs considering that more and more e-tailers are offering free shipping and returns. This initiative is particularly costly for online fashion retailers which cope with high return rates, like **Zalando** (approx. 50% returns across Europe) or **Matchesfashion.com** (37% for women). Moreover, well-trained store associates are still the best way to convert in-store returns into sales.

3. Making the Digital Connection: Why Physical Retail Stores Need a Reboot | CapGemini | January 2017
4. 25 Amazing Omnichannel Statistics every Marketer Should Know | V12 DATA | January 2017

WHY CHINA IS LEADING O2O (ONLINE TO OFFLINE) COMMERCE

Chinese Millennials, numbering between 350 and 400 million, are amongst the world's most connected and sophisticated consumers and foreshadow future global consumer trends and digital strategies. Secondly, **Alibaba** already accounts for circa 75% of online sales and more than one-tenth of China's total retail sales. Finally, Alibaba runs China's dominant mobile payment service with AliPay (450+ million users).

Alibaba is therefore well placed to benefit from the explosion of O2O commerce in China. Long before **Amazon** acquired **WMF**, Alibaba had been building up a brick-and-mortar store network, mostly through partnerships and acquisitions. In 2016, Alibaba Founder Jack Ma advocated the concept of "New Retail", which means "the integration of online, offline, logistics and data across a single value chain". With eCommerce accounting for 15% of China's total retail market, Alibaba said it was targeting digital transformation of the remaining 85% rather than increasing the online share.

FIG 7: ALIBABA'S KEY STEPS IN ONLINE TO OFFLINE (O2O)

Date	Event	Strategic rationale
January 2016	First own brick-and-mortar store in Tianjin	Alibaba's first entry in the offline world
June 2016	Alibaba increases its stake to 28% from 10% in Chinese department store operator Intime	This was considered as a test project to combine in-store shopping with its online payment service AliPay
October 2016	Partnership with electronics retailer Suning	Build an "O2O" model (Online to Offline) by combining Alibaba's online assets and Suning's physical store network (1,600 stores)
October 2016	Jack Ma reaffirms the "New Retail" concept	"Pure eCommerce will vanish soon and will be replaced by New Retail"
November 2016	Alibaba takes 32% stake in supermarket chain Sanjiang	Alibaba has access to Sanjiang's stores to help drive the grocery business that pure online players struggle to develop
January 2017	Acquisition of Intime	This deal is fully consistent with Alibaba's strategy for omnichannel and and to further digitalize physical retail
February 2017	Partnership with Chinese retail group Bailian	Bailian will leverage Alibaba's big data capabilities and integrate AliPay. The two partners will share merchandising capability, logistics and technology
November 2017	Partnership between Alibaba, Auchan and Ruentex (i.e. USD2.9bn investment by Alibaba to get a 36.2% EI in Sun Art Retail vs 36.2% for Auchan and 4.7% for Ruentex)	Build another "O2O" alliance by combining Alibaba's online assets and physical store network (446 RT-Mart and Auchan hypermarkets)

Source: Alibaba, Bryan, Garnier & Co

Alibaba's Hema supermarkets (13 stores at this stage) are a concrete application of its "New Retail" model, which has incubated for the past two years and aims to reinvent traditional supermarkets by marrying online and offline experiences. Using the data collected from Hema's mobile app, the chain can curate fresh food and products for Hema stores based on customers located around a specific store. Fresh food can be either delivered at home, or be directly prepared by Hema chefs to eat in the store, representing a unique in-store experience. Alibaba mentioned that sales per store were three to five times higher than traditional supermarkets and conversation rates for Hema app users making a purchase reached up to 35 percent.

With all this acquired knowledge in physical retailing, **Alibaba feels confident enough to open its first own physical mall**, expected for April 2018 at its headquarters in Hangzhou. This "More Mall" will feature many digital technologies such as virtual fitting rooms, 3D makeup testing mirrors, and a tech-based grocery store that uses Hema supermarkets' feedback.

FIG 8: "NEW RETAIL", THE PIONEER CONCEPT OF ALIBABA

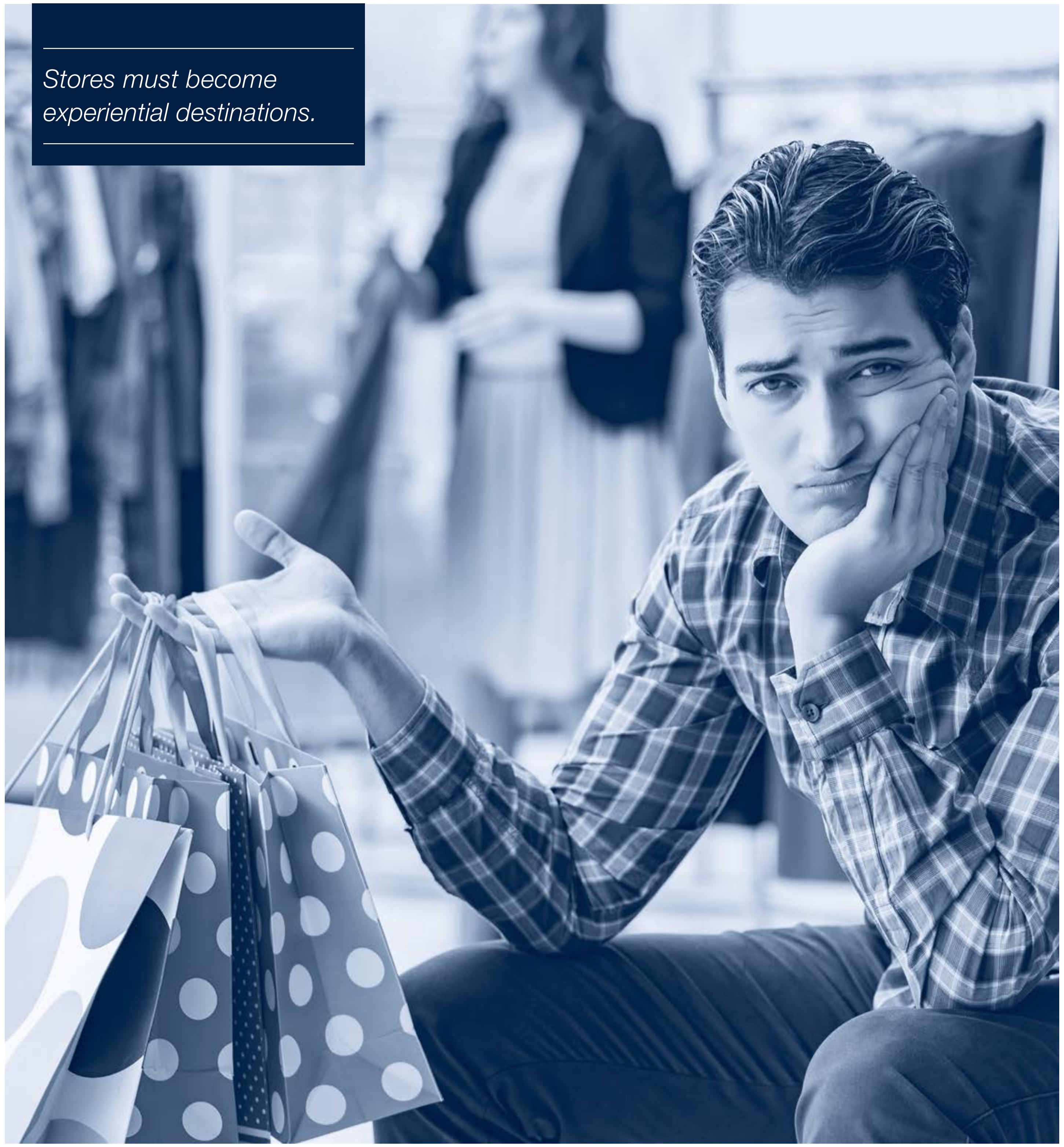
A mobile app for a seamless shopping experience: customers can scan the barcodes via Hema's mobile app, which is linked to its AliPay platform

Food is the new entertainment: Shoppers choose live seafood, get it cooked on site and eat in the spacious seating area. As a result, sales per unit area are 3x to 5x higher than traditional supermarkets

Hema stores also serve as fulfilment sites for orders placed through the app. Each store serves a radius of 3km, making deliveries within 30min

Source: Alibaba

3: Experiential Retail



Why are “big boxes” such as Costco and IKEA successful in France?

KEY FACTS

1

France is among the countries in Europe with the highest penetration rate of modern retail (>90%).

2

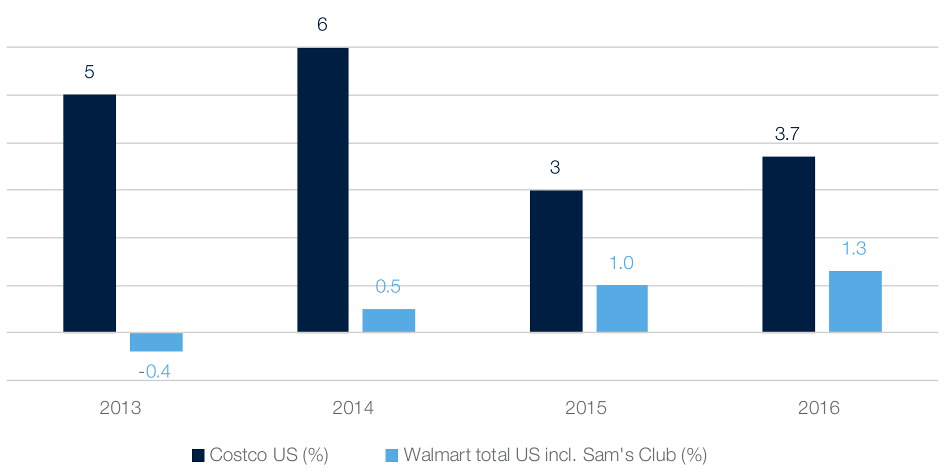
France is one of the most fragmented markets in Europe, with omnipresent independent operators, in particular Leclerc, which has been agitating the market for half a century.

3

The hypermarket, often located on the outskirts of cities, accounts for ~50% of the French FMCG market and is perceived as an outdated big-box format (>2,500 sqm) with an uncertain future.

Against this backdrop, how can we explain the success of **IKEA** stores in France (>20,000 sqm) and why the first **Costco** store in France (13,750 sqm) which has opened in June, got off to such a strong start? Indeed, the US retail brand has always focused on “RTR” (“Reasons to Return”) based on the lowest prices combined with high quality (Costco is not a discounter), which creates a sense of excitement and urgency amongst consumers looking for treasure hunts. So even if Costco spends nothing on advertising and requires a paid membership card to access entry, the retailer achieves an impressive comparable store sales performance on its domestic market (see graph below), fueled by a high retention rate: in 2016, its 48m members in the US and Canada renewed at a 90% annual rate. Both Costco and IKEA are trivial but true examples of what, today, retail is about: “Retailtainment”.

FIG 9: COSTCO AND WALMART US COMPARABLE STORE SALES EXCLUDING FUEL (FX-N, %):



Source: Costco, Walmart

Experiential retail, or the art of combining the useful with the pleasant

Millennials around the world are all prioritizing experiences over ownership, as evidenced by the booming sharing economy and the global success of **Airbnb, Netflix** and **Spotify.**
In a recent survey, Eventbrite pointed out that 78% of millennials would choose to spend money on a desirable experience or event over buying something desirable, and 55% say they are spending more on events and live experiences than ever before.

Retailers must obviously adapt their stores to this affinity for individualized experiences. So brands are switching from a transactional relationship with their consumers to an entertainment-based model. Experiential retail is about combining the useful with the pleasant and is part of non-price competitiveness.

Hudson Bay and **Westfield** CEOs, and the Managing Director of **Harrod’s** all agree that stores must now be more than just places to buy products: they must become experiential destinations. Harrods focuses on food halls, hard luxury and beauty, with the latter giving many opportunities to engage with customers (videos and tutorials, teaching customers how to use products and the use of VR).

Beauty is arguably one of the most active segments on the internet and social media, with countless blogs and how-to videos on Youtube and Instagram that are increasingly influencing consumer purchase decisions. It is no accident that beauty retailers were amongst the first to carry out a digital transformation of their stores, and **Sephora (LVMH)** has been a trailblazer in going “phygital” (online sales: 15% of total revenue), with its new “New Sephora Experience” store concept: customers are encouraged to discover new products, learn, play and share their beauty with a plenty of in-store digital tools.

Sephora’s connected store concept: features a range of seamless retail technology, from digital discovery tables and virtual shopping baskets to a selfie 3D-mirror that enables customers to interact with their friends and Sephora’s ambassadors. Touchscreens give instant access to a digital catalogue of 14,000 items, which can be collected from the store or delivered at home.

Beauty hub: Group courses on specific themes can also be run at the Beauty Hub.

Virtual artist: consumers can test thousands of different looks on an iPad or a 3D mirror. The app also includes step-by-step virtual tutorials using augmented reality technology.

In the end, when leaving a store, shoppers have to get not only products but also memories back to home. Retailers switch from a channel-centric to a customer-centric experience, creating a sense of delight for shoppers. In that respect, we must mention **Apple**, which is ahead of the curve. Apple stores are now rebranded “Town Squares” to foster a strong sense of community. This new retail concept includes a “Forum” (where artists and experts interact with audiences), a “Plaza” (where people meet up to listen to concerts and events) and “Avenues” with boutique-like windows to touch and try on products. Apple wants you to think of its stores as gathering places.

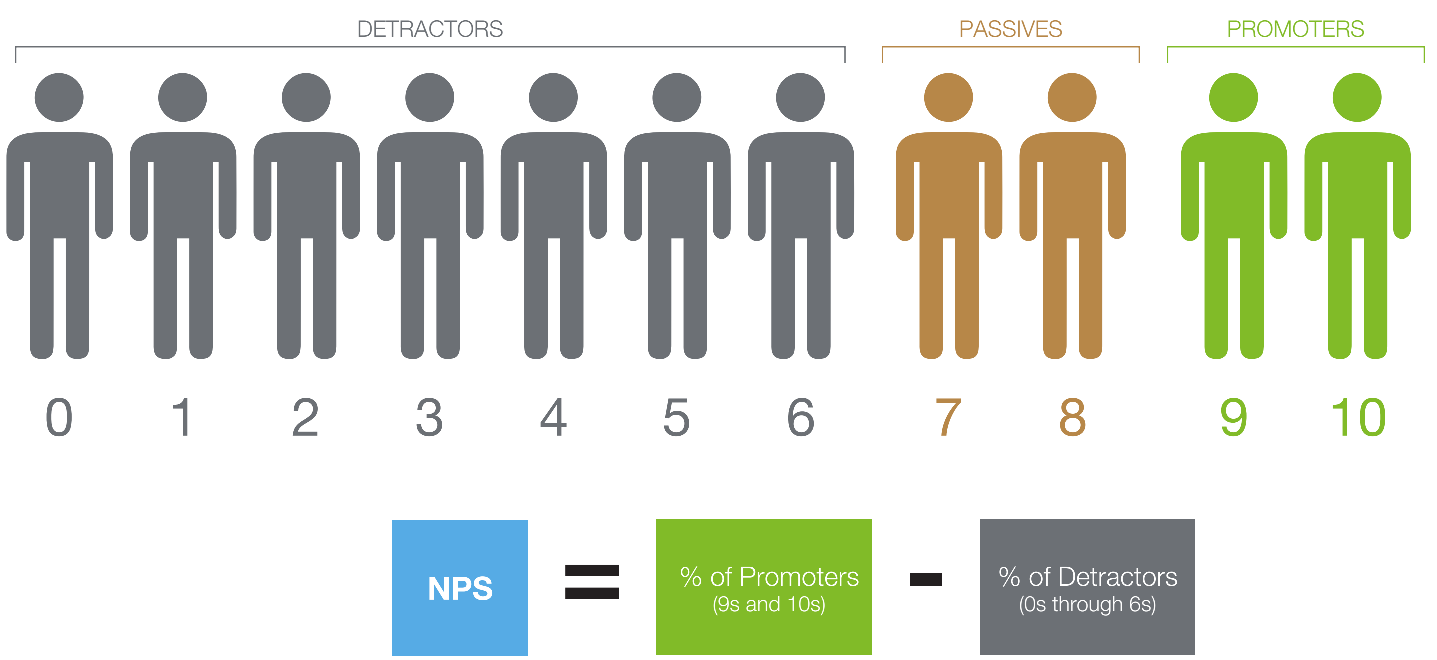
Shift in reward criteria: from channel-centric to customer-centric KPIs

Since consumers and omnichannel strategies are blurring the lines between offline and online, traditional approaches to evaluating channels are becoming increasingly irrelevant. Classic indicators based on transactions (e.g. impressive comparable store sales, sales per square foot, etc.) must be enriched with new KPIs that take into account criteria such as customer acquisition/ retention, loyalty and satisfaction.

Many groups within our coverage have therefore modified and added their KPIs to measure and reward the performance of levers that lead to a purchase, and not just value the final transaction (e.g. reputation rate, loyalty, traffic on social networks etc.) and make sure that store KPIs factor in the customer experience (conversion rate, satisfaction index).

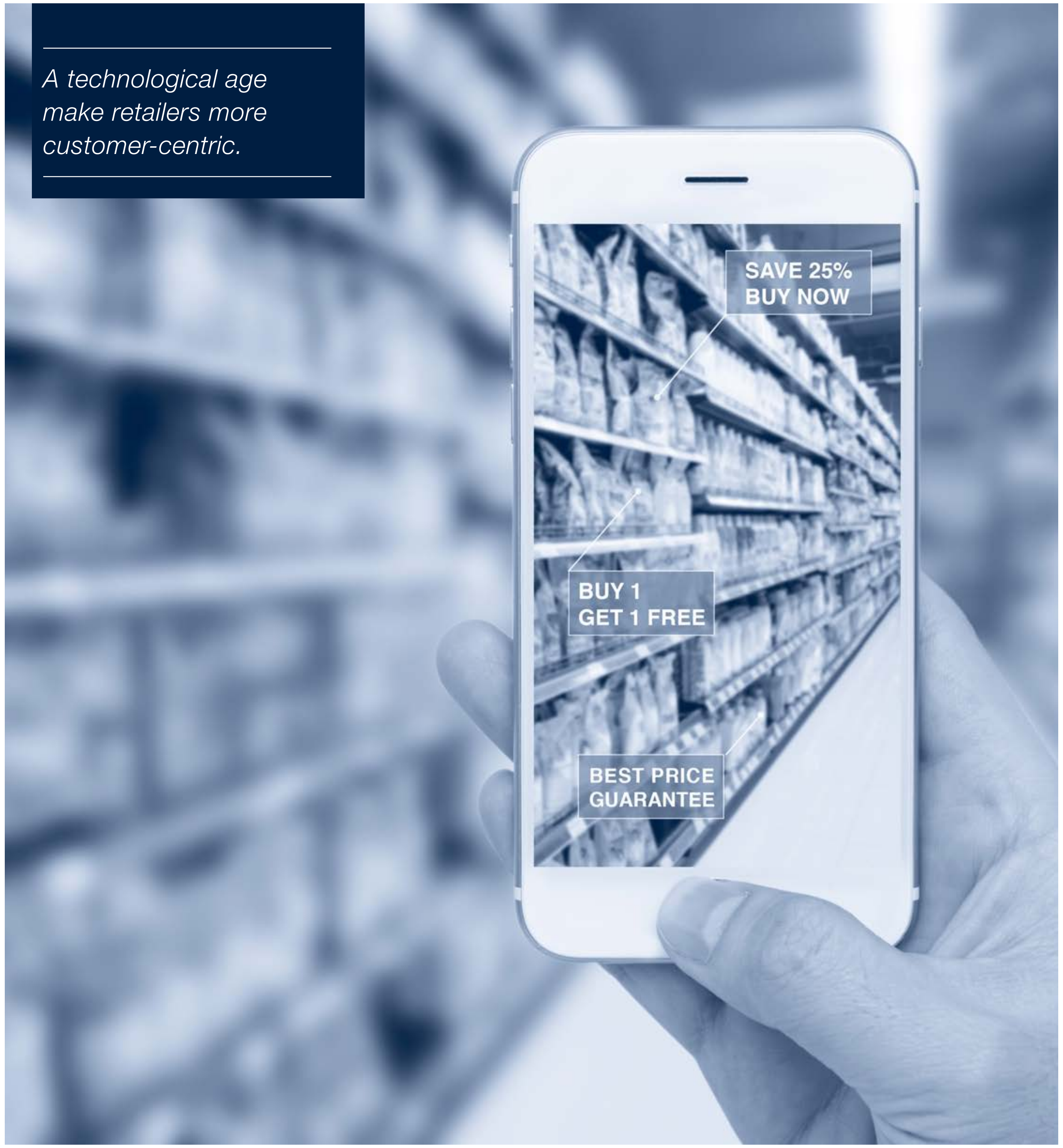
The Net Promoter Score (NPS), for example, is calculated from a simple question: “How likely are you to recommend this product/service to a friend or family member?” Tracking this customer’s satisfaction implies that retailers are increasingly using technology and data analytics to track how and why customers shop. This new management tool illustrates that retailers are increasingly tech companies.

FIG 10: NET PROMOTER SCORE:



Source: Bain & Co

4: Retailers are increasingly tech companies



Technology to serve customers better

Nearly half of the American population frequently shop at **Walmart's** stores and **Amazon's** websites, while **Alibaba** serves a third of Chinese people. Global retailers are sitting on vast pools of customer data, which is collected from numerous sources: social networks like **Pinterest**, **Facebook**, and **Instagram**, in-store video tracking, mobile phone tracking, loyalty card data, and geolocation data from mobiles. However, there is a key difference: online players already know how to leverage this resource to improve customer service, whereas traditional retailers barely know to use it.

FIG 11: THE MIXING MACHINE

Source: Bryan Garnier & Co

Physical stores are becoming digitalized.

"We are a service company that just happens to sell shoes"

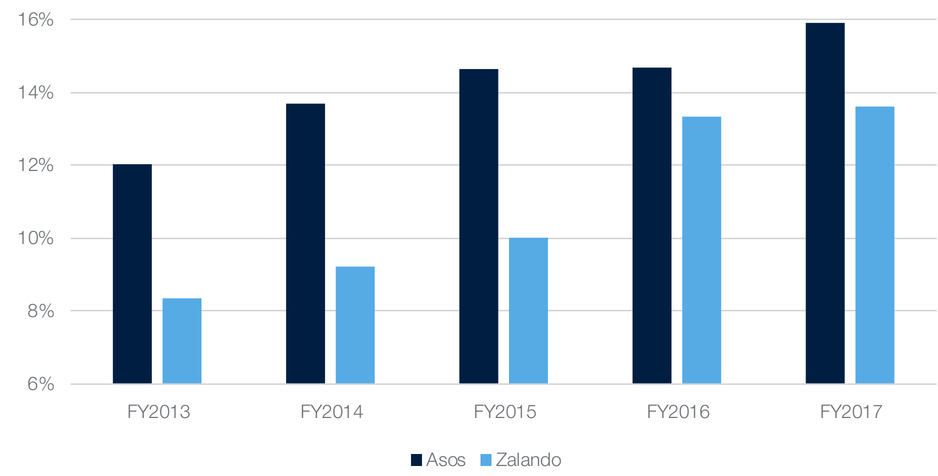
Tony Hsieh, Zappos CEO

So far, their technological edge makes online players seem more customer-centric. As shown by the chart below, online fashion companies **Asos** and **Zalando** have more than tripled their tech teams over the last five years, confirming that they are central to their retail business strategies. In marketing functions, their main tasks are data collection, analytics and algorithms to personalize customer experience.

The more curated the offering, the higher the customer retention and repeat orders. **Amazon** claims to have the world's biggest selection of products available on its website, creating an "agony of choice" and confusion amongst consumers who do not know precisely what to buy. For example, a shopper looking for "a plain blue shirt for men" has to navigate 10,776 results. This is why we believe that personal styling services such as **Stitch Fix** (US) or **Outfittery** (Germany) can coexist along the giant Amazon, because personalization coupled with curation (thanks to algorithms) are their best competitive edge to serve customers in need of advice and customization.

Technology is also favoring a seamless experience that engages customers across all channels, which has a direct impact on engagement and conversion rates. According to the "Reality of Retail" report[5] from in-store analytics and customer experience firm InReality, 75% of customers say digital options that help compare products or get price comparisons would encourage them to buy in-store, and 78% want digital technologies to help them find a particular product. This is why so many brands and groups have been embarking on a digitalization of their physical stores, with the introduction of in-store digital tools such as interactive, 3D augmented-reality mirrors.

FIG 12: TECH EMPLOYEES WORKING FOR ZALANDO AND ASOS (AS A % OF TOTAL HEADCOUNT):



Source: Companies Data

5. Reality of Retail | InReality | April 2015

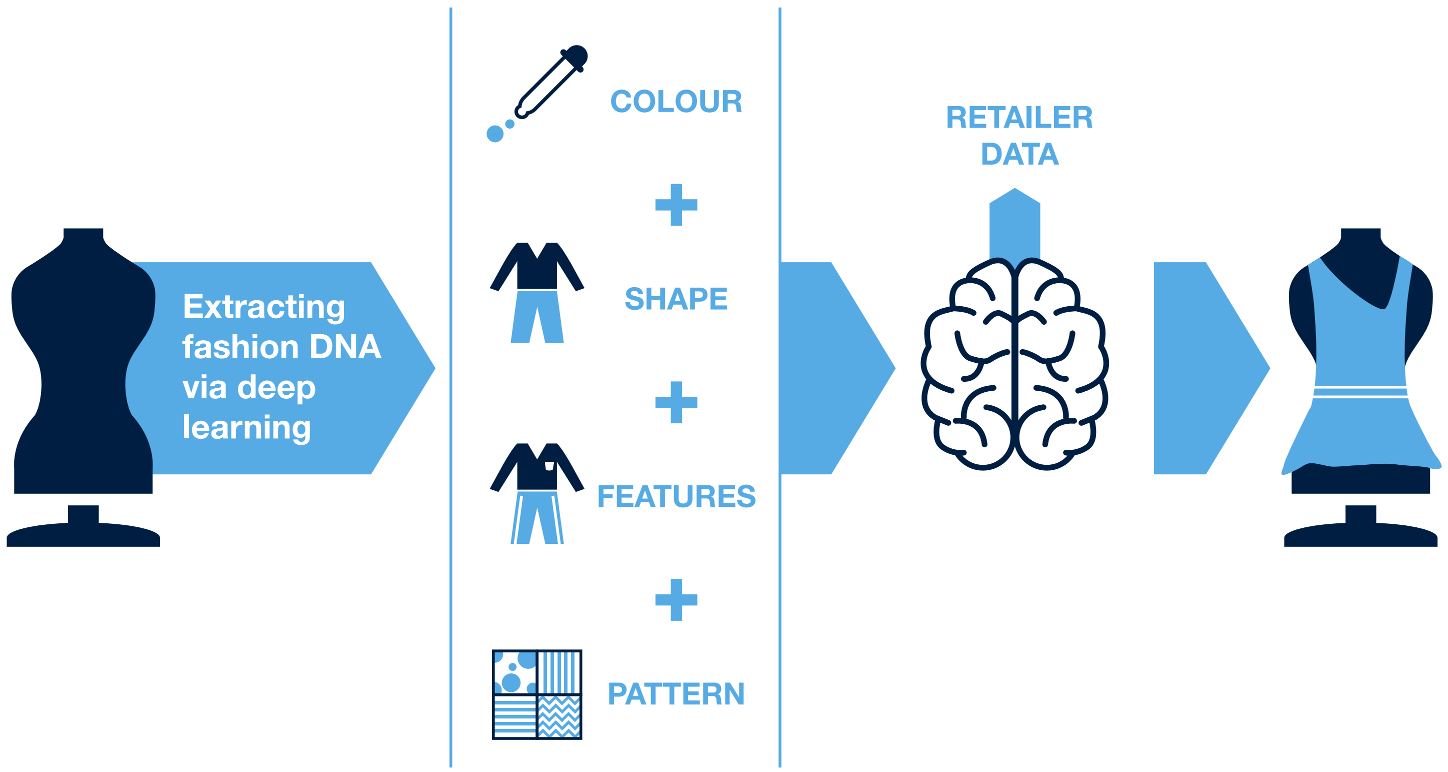
Artificial intelligence at the center of the game

As the saying goes, “50% of all marketing spend is wasted, I just wish I knew which 50%.” Typically, standardized marketing campaigns always make it harder for companies to establish the first touch point with the consumer. Today, customer data is becoming very valuable as new technologies provide tools to analyze this data and empower artificial intelligence. Customer data is so valuable that last month, **Alibaba** announced a 3-year investment plan of USD15bn to develop quantum computing and artificial intelligence.

The term *artificial intelligence* was first coined by John McCarthy in 1956, two years after the death of computer pioneer and artificial intelligence (AI) theorist Alan Turing. AI, or machine learning refers to the use of computer systems to perform tasks that normally require human understanding. This is undoubtedly the most disruptive technology over the next decade as it is (already) revolutionizing industries such as healthcare, automotive, manufacturing (e.g. **adidas**’ automated shoe factories), banks (e.g. blockchain) and of course, the retailing industry.

How can AI help retailers? First and foremost, retail AI can learn about customers, their preferences and their behavior to get to know them better. Last year at the NRF Big Show, **The North Face** (VF Corp) presented a beta test of IBM Watson’s cognitive computing technology, which helps consumers determine what jacket is best for them, based on variables like location and gender preference. For example, hiking in Iceland in October and commuting in New York in January would create different results. Based on data collected from 55,000 users, the technology resulted in a 60% click-through rate and 75% total sales conversions.

FIG 13: DATA AT THE SERVICE OF CUSTOMIZATION



Source: Zalando

eBay is not an obvious destination for fashionistas but the eCommerce company intends to make up for this with its smart personal shopping assistant ShopBot, powered by AI. Shopbot uses deep-learning algorithms combined with natural language understanding (NLU) and computer vision to help users express their shopping needs naturally. At Shoptalk Europe, eBay Chief Product Officer RJ Pittman presented concrete interactions between ShopBot and consumers based on the three types of AI:

Artificial narrow intelligence: ShopBot simply passes keywords from a user’s message as input into a search engine, which then returns search results in a messaging window.

Artificial general intelligence: a personalized experience since ShopBot interacts with consumers. Image recognition based on deep learning algorithms.

Artificial super intelligence: ShopBot will be able to predict consumer behavior and recommend products based on previous purchases and searches.

AI assistants are certainly the future of retailing and elevate customer experience to a new level, as evidenced by the AI assistant race amongst internet giants. Indeed, there have been numerous major announcements about AI assistants and chatbots from digital and internet giants. In 2016, Gartner estimated that more than USD2bn in online shopping had been performed exclusively by mobile digital assistants and it also predicted that by 2020, 85% of customer interactions will be managed without human interaction.

FIG 14: GAFA* IS ALWAYS ONE STEP AHEAD IN AI

	AI Computer System	Intelligent Personal Assistant
IBM	Watson	
eBay		eBay ShopBot
Amazon		Amazon Echo, Amazon Alexa
Facebook		Messenger Flashchat
Alibaba	DT PAI	
JD.com		JD Smart Speaker
Google	Deepmind	Google Home
Microsoft	DeepCoder	Bot Tay, Microsoft Cortana
Apple		Siri

* Google, Apple, Facebook, Amazon

Source: Companies Data and press reports

In the tech race, M&A is the retailers' fuel

Increasingly, fashion groups are challenged to remain trend-focused and competitive in volatile apparel market conditions, but internal efforts are often not enough to get ahead of the pack. At first, it could appear that this focus on technology mainly concerns traditional retailers. But at Shoptalk, many start-up managers admitted they were also increasingly relying on external expertise for complex technology (e.g. predictive analytics tools, AI-powered chatbots and AR). In this field, **Amazon** looks for bolt-on acquisitions with very specific technologies, covering interactive data-driven infographics creation, 3D body model creation, customer data protection and AI.

Retailers are more and more motivated to either partner with GAFA's dedicated AI units, or acquire tech startups' technological know-how in order to leverage it and roll it out across their operations. **Walmart** has been particularly aggressive in M&A since its acquisition of Jet.com (August 2016), with at least four takeovers of online players (Hayneedle.com, Shoebuy.com, Modcloth.com and Bonobos) to accelerate in this channel. The world's largest retailer keeps up in the race to AI through its recent alliance with **Nvidia** and the launch of its own innovation hub dedicated to robotics, virtual and augmented reality and AI.

Technology can also be a speed-enhancer: the US retailer **Target** acquired technology company Grand Junction in August of this year, in order to move more quickly into the business of same-day delivery. The software helps to determine the most efficient, fastest route for a local delivery, while also tracking deliveries and giving the retailer an overview of carrier performance.

We have the feeling that most European retailers have been rather discreet about acquisitions of tech companies, while others such as **Dia** or **Morrisons** have preferred to partner with Amazon to offer its Prime Now service.

In fashion, however, we have started to witness early signs of growing interest in online players: **Galeries Lafayette**, whose online sales only represent 2% of total revenue, is carrying out a proactive digitalization strategy to increase this share to 10% by 2020. The department store has acquired Bazarchic (September 2016) and more recently, fashion and homeware eCommerce La Redoute (August 2017): the latter generates 85% of its sales online (total revenue of EUR750m in 2016). The acquisition of a 17% stake in **Showroomprivé** by household goods retailer **Conforama** (Steinhoff) is another interesting example of strategic partnership between a traditional retailer and an eCommerce player. An omnichannel strategy is also front-of-mind for all these companies.

Since this tech race is far from over, we are convinced that acquisitions of tech companies are more than likely in the coming months, either as traditional groups catch up with online-only players, or from eCommerce players looking to gain expertise in a wide range of fields such as AI, augmented reality, data analytics, seamless payment solutions, voice recognition and chatbots. Retailers' M&A teams should continue to head along to e-commerce and tech summits, open-minded and looking for the next rare gem to acquire.

Summary

With its all-conquering, digital-first offer and the ability to make decisions and innovate faster than anyone else in the sector, Amazon lit a fire underneath the retail industry. However even this giant has realized that success in retail depends on the coexistence of the online and physical worlds. Other digital-first retailers are making the online to offline move in a trend that's being led by sophisticated operations in China. All retail brands – established and online – are recognizing the potential of "experiential" physical stores to drive loyalty and sales. As traditional retailers rush to keep up with the revolution started by Amazon, they are initiating a wave of M&A activity that may see many retailers transform themselves, in effect, into technology companies.

The future of retail is now.

Think out of the box.

BRYAN, GARNIER & CO

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