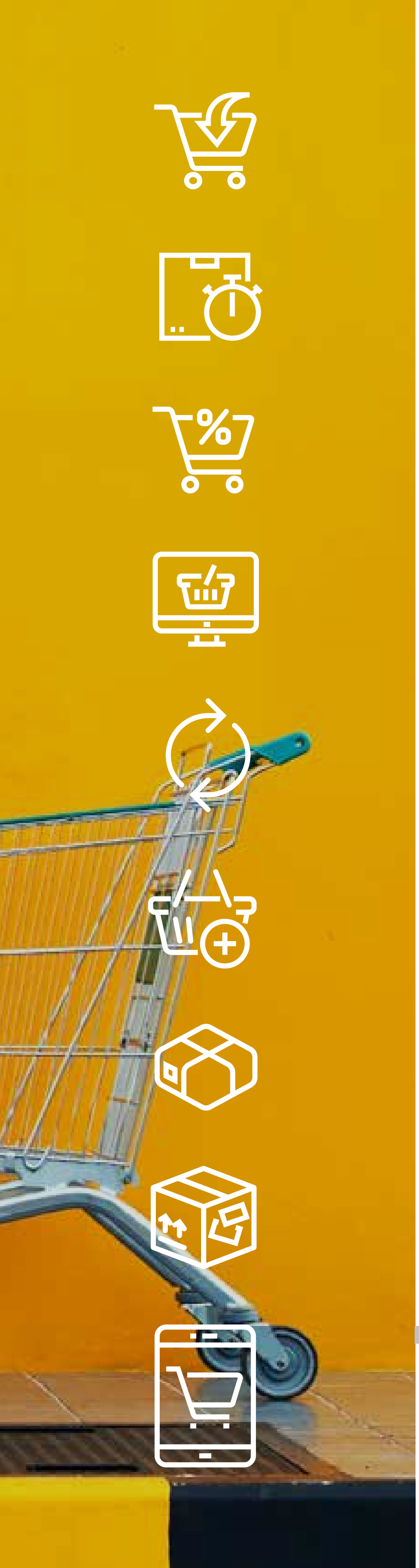
2018 RETAIL & LOGISTICS

9 TRENDS TO WATCH

FLEXE



2017 WAS A BIG YEAR

In 2017, there were more store closures than at the height of the Great Recession, Amazon continued to dominate the online market, and Cyber Monday outperformed Black Friday for online sales for the second year in a row.

One thing remains clear for 2018: businesses that want to survive the "Retail Apocalypse" must make changes to meet increasing customer demands. 2018 will be about improving strategies for eCommerce sales, fulfillment operations, and embracing the world of on-demand commerce.

HERE ARE THE TOP RETAIL & LOGISTICS TRENDS TO WATCH IN 2018:

1. Storefronts make a comeback with omnichannel
2. Next-day delivery becomes the new standard
3. Acquisitions and partnerships fuel market share gains
4. Retailers and brands take eCommerce into their own hands
5. Legacy retailers adopt a startup mentality
6. CPGs turn to subscription services
7. Luxury retail goes head-to-head with fast fashion
8. Data drives delivery strategies and promotions
9. Mobile commerce is full-speed ahead

6,700+ stores closed in 2017.

Only 6,163 closed in 2008.[1]

#1 STOREFRONTS MAKE A COMEBACK WITH OMNICHANNEL

“**It isn’t that [physical] retail is dead**. Roughly 85-90% of retail takes place in brick-and-mortar locations. **But bad brick-and-mortar is**.”[3]

Reid Greenberg
eCommerce Lead Researcher
Kantar Retail

OMNICHANNEL: STOREFRONTS MAKE A COMEBACK

In 2017, there was a lot more activity focused on creating a better omnichannel experience for shoppers.

Several eCommerce retailers expanded their physical footprints, including Outdoor Voices, ModCloth (Walmart-owned), Boll & Branch, Everlane, and Away.

Most notable, however, was Amazon’s purchase of Whole Foods for $13.7 billion. Not only does the acquisition solidify Amazon’s foray into grocery, it also increases Amazon’s total food footprint by 6X—taking it from 3.78 million square feet to 22.69 million square feet.[2] Owning more retail space means Amazon can sell more of its own products in physical locations—reaching more in-store shoppers than ever before.

Legacy retailers didn’t sit still either. Target announced a new and improved store format, and the highest-selling retailers—Walmart, Kroger, Costco, The Home Depot, and more—opened more locations while also improving their online presence.

WHAT TO WATCH: HOW IN-STORE AND PRODUCT DIFFERENTIATION DRIVES TRAFFIC

Whether a retailer is entering the physical world or reinforcing the digital one, we’ll see retailers revamp and invest in their omnichannel strategy this year. Customers want choices and they value experience. More retailers are catching on and will continue to create new, multichannel experiences for their customers; for example, upgrading their order management systems for in-store and online and offering more experiential events like pop-up stores to increase traffic and reinforce brand awareness.

#2 NEXT-DAY DELIVERY BECOMES THE NEW STANDARD

AMAZON CONTINUES TO DOMINATE THE MARKET

At this point, Amazon is only competing with itself to do more. We predict that this year Amazon will move to free, next-day delivery as the standard promise for Prime members.

Amazon's success in sales is an opportunity for other retailers. It demonstrates the power of offering fast, affordable, and convenient options for delivery. This year, the ripple effect of next-day delivery will force other retailers to bolster their operations to support better delivery options for online shoppers.

WHAT TO WATCH: LOGISTICS SOLUTIONS & DELIVERY PROMISE

To gain market share and compete with Amazon, retailers will turn to new technology to improve their delivery promise and promotions. Cloud-based fulfillment and last-mile solutions will enable retailers and brands of all sizes to offer compelling options to shoppers. From geo-targeted promotions and events to faster, more affordable delivery, business will be able to move more sales through their own websites while also circumventing traditional warehousing and transportation costs. For more, see Trend #3.

56% of retailers said **offering 1-2 day shipping is essential** for business.

32% of retailers said customers **abandon online carts** because **delivery is too long**.[4]

#3

ACQUISITIONS AND PARTNERSHIPS FUEL MARKET SHARE GROWTH

2017's biggest acquisitions and partnerships supported legacy brick-and-mortar's online strategy.

MERGERS FOR MARKET SHARE

Beyond Amazon's purchase of Whole Foods, we saw quite a few acquisitions and partnerships this year:

- Walmart acquired Parcel, Hayneedle.com, Shoebuy.com, Moosejaw, Modcloth.com, and Bonobos, as well as teaming up with Google Home for ordering goods online
- Target acquired Grand Junction for same-day delivery
- Walgreens partnered with FedEx
- PetSmart acquired Chewy.com to compete with Petco
- Ace Hardware partnered with The Grommet to offer small business goods in their stores

All of these events have one major thing in common: they were all initiated by legacy brick-and-mortar retailers to support eCommerce growth.

2017 made it clear that to compete with Amazon, you must partner with solution providers and/or acquire new companies to grow market share. And in many cases, you need to do both.

WHAT TO WATCH: LOGISTICS-AS-A-SERVICE

Retailers will build their portfolios with new brands to grow market share. They will also look for strategic partnerships to differentiate amongst the competition, particularly in terms of eCommerce operations like fulfillment, last-mile delivery, and transportation. Both legacy and new retailers and brands will outsource operations to expedite growth instead of relying on traditional methods to build networks in-house.

ECOMMERCE SALES ARE GROWING EXPONENTIALLY

2017 Black Friday Cyber Monday online sales grew 18% from 2016.[5] This year, U.S. shoppers are expected to spend $460 billion online.[6]

In one article[7], Susan Wu, Senior Forecast Analyst at Forrester was quoted, “Forrester estimates that one-third of (online) retail spending is made through the online pure player, suggesting that many shoppers use Amazon for web research before purchasing elsewhere.”

Amazon is a powerful sales channel, however, it isn't without risk. By using Amazon, retailers forfeit customer and sales data to Amazon. Businesses gain little-to-no insight about their customers, are unable to cultivate brand awareness or a relationship with their customers, and are vulnerable to being outsold by Amazon itself.

As eCommerce grows, retailers and brands must find ways to position their own websites as the primary sales channel over other marketplaces and third-party sellers that may drive volume, but also come with significant risk.

WHAT TO WATCH: RETAILERS TAKE CONTROL OF ECOMMERCE

This year, retailers and brands that can't shift sales from Amazon to their own digital storefronts will go out of business faster than those who can. On the other hand, innovative businesses that prioritize their own web strategy will position themselves to directly compete with Amazon and thrive.

#4

RETAILERS AND BRANDS TAKE ECOMMERCE INTO THEIR OWN HANDS

"One-third of (online) retail spending is made through the online pure player."[7]

Susan Wu
Senior Forecast Analyst
Forresster

#5

LEGACY RETAILERS ADOPT A STARTUP MENTALITY

Walmart's eCommerce unit runs like a startup with the mentality **"fail fast, fail often"**.[9]

RETAILERS THINKING LIKE TECH COMPANIES

Pure-play eCommerce retailers have an advantage over traditional retailers. They were born and exist in the digital world—an environment that is data-driven and chock-full of consumer information. At the heart of their business, though they sell physical goods, pure-play eCommerce retailers are tech companies.[8]

Legacy retailers have spent years catching up because none of the traditional rules apply. They aren't digitally native. The Internet came and they had to build websites, then they had to figure out how to sell through them, and now they must optimize for desktop and mobile to stay competitive. It's a completely different business model. That's why for so many legacy retailers much of their eCommerce growth is attributable to acquiring new brands.

WHAT TO WATCH: INVESTMENTS IN AGILE

More legacy retailers will divide sections of the business into more autonomous units that drive sales for those respective departments. Doing so will enable departments to be more agile. There will also be a spike in creating "innovation labs" where retailers and brands can experiment with agile methods to improve various business functions.

Walmart is doing it, and that says it all. The former founder of Jet.com and now president and CEO of Walmart's eCommerce unit runs his division like a startup with the mentality of "fail fast, fail often".[9]

NOT YOUR FATHERS' CPG

CPGs made a name for themselves in physical stores for years. But demand is moving online. Walmart's Jet.com is the fastest growing seller of CPG products at a growth rate of 381%.

However, pure-play "digital" CPG companies are entering the fray and forcing traditional CPGs to rethink how they drive sales online and gain customers in a saturated, digital market. The answer isn't through a marketplace or third-party seller. Online CPGs have gained momentum by removing third-parties, streamlining the supply chain, changing the consumer experience, and, ultimately, lowering costs (think Brandless and Public Goods).

This is the year the rest of CPG companies will catch up. Legacy brands will digitally transform their business models and incorporate direct-to-consumer (D2C) subscription services. CPGs will make a push to add subscription models to drive sales and automate recurring online purchases.

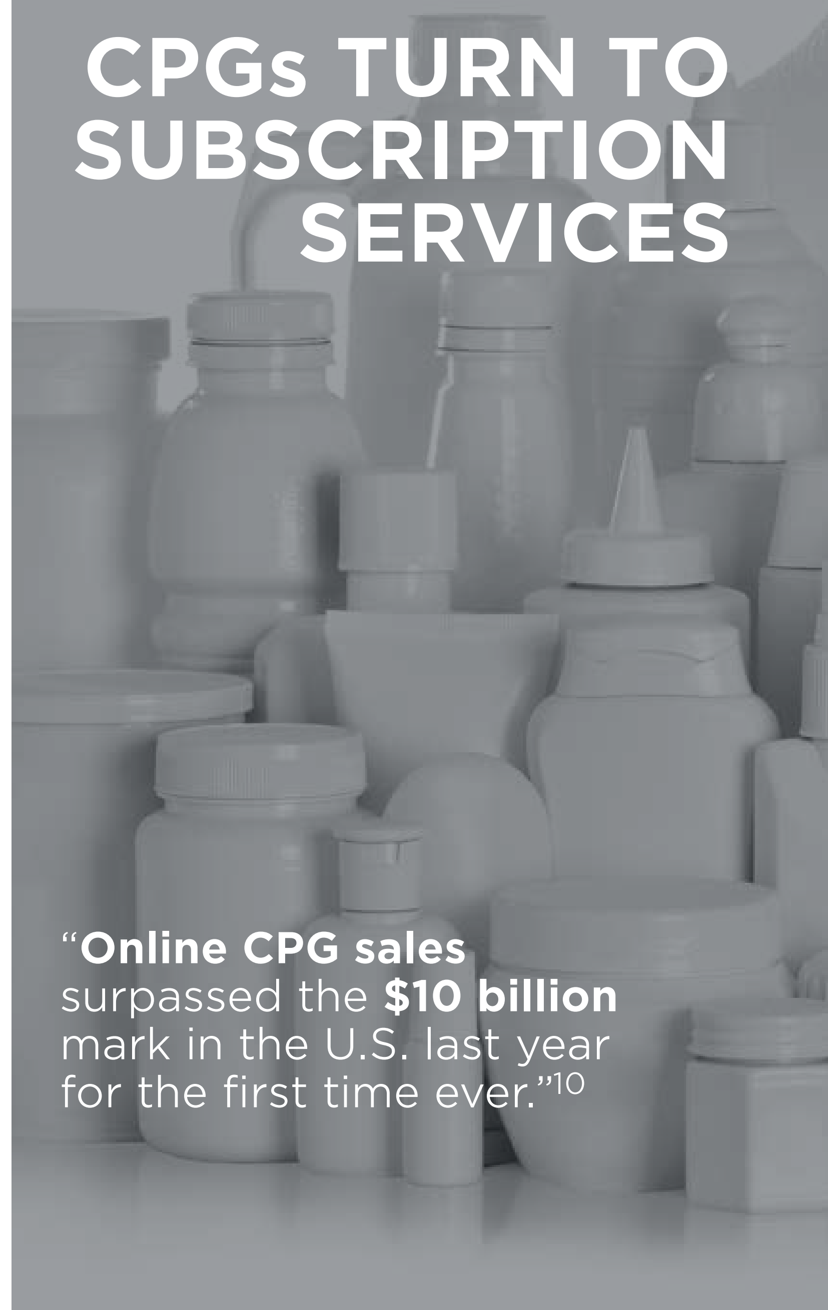
WHAT TO WATCH: ESTABLISHED BRANDS GO HEAD-TO-HEAD WITH NEW CPGS

Unilever's purchase of Dollar Shave Club is a major indicator that CPGs aren't succumbing to marketplace pressures.

More legacy CPGs will rollout subscription services incentivized by loyalty programs to draw more sales through their own websites, create recurring revenue, and boost basket sizes.

#6

CPGs TURN TO SUBSCRIPTION SERVICES



"**Online CPG sales** surpassed the **$10 billion** mark in the U.S. last year for the first time ever."[10]

#7

LUXURY RETAIL GOES HEAD-TO-HEAD WITH FAST FASHION

"We're **prioritizing our own digital channels** as we grow. Today, the number one place the customer engages with your brand is online...**we need that first engagement with the brand to be owned by us."**[12]

John Idol
CEO of Michael Kors

LUXURY TURNS TO TECH TO IMPROVE ONLINE

Luxury retail and fast fashion are inherently different. Luxury retail is built on experience; the feeling you get in the store, making the purchase. It is personal and tailored... and the exact opposite of walking into an H&M or shopping for clothes on Amazon.

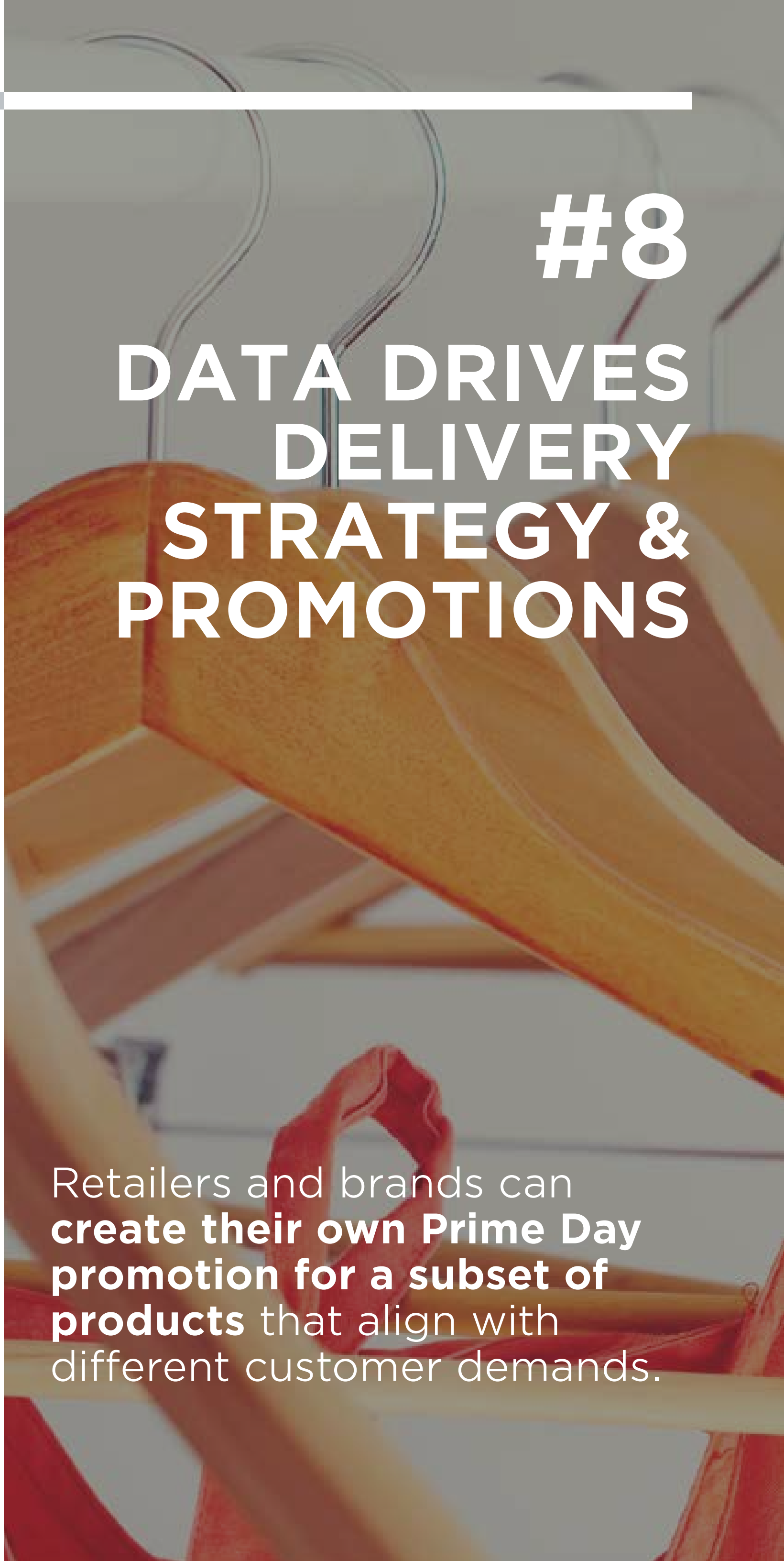
It isn't surprising, then, that it's taken years for luxury retailers to translate quality and experience to online. Conversely, eCommerce has helped fast fashion thrive. Fast fashion is more transactional than it is about the experience.

This year, however, we'll see luxury brands fight back[11] on the digital front with less emphasis on convenience and more emphasis on curating the digital experience as they have the in-store one.

That will require more partnerships and technology to create a differentiated, personalized experience online. In fact, Michael Kors announced its plan to revamp Jimmy Choo and make it a $1 billion brand—a strategy heavily focused on boosting eCommerce presence and sales.

WHAT TO WATCH: LUXURY ECOMMERCE STRATEGIES

More luxury retailers will turn to personalization to improve the online experience, boost eCommerce sales, and avoid marketplaces. Luxury brands won't turn to more channels to increase sales, but instead invest in innovative technologies such as AI to curate an online experience that aligns with their brand.



#8 DATA DRIVES DELIVERY STRATEGY & PROMOTIONS

Retailers and brands can **create their own Prime Day promotion for a subset of products** that align with different customer demands.

RETAILERS GET SMARTER ABOUT WHAT PROMOTIONS TO OFFER

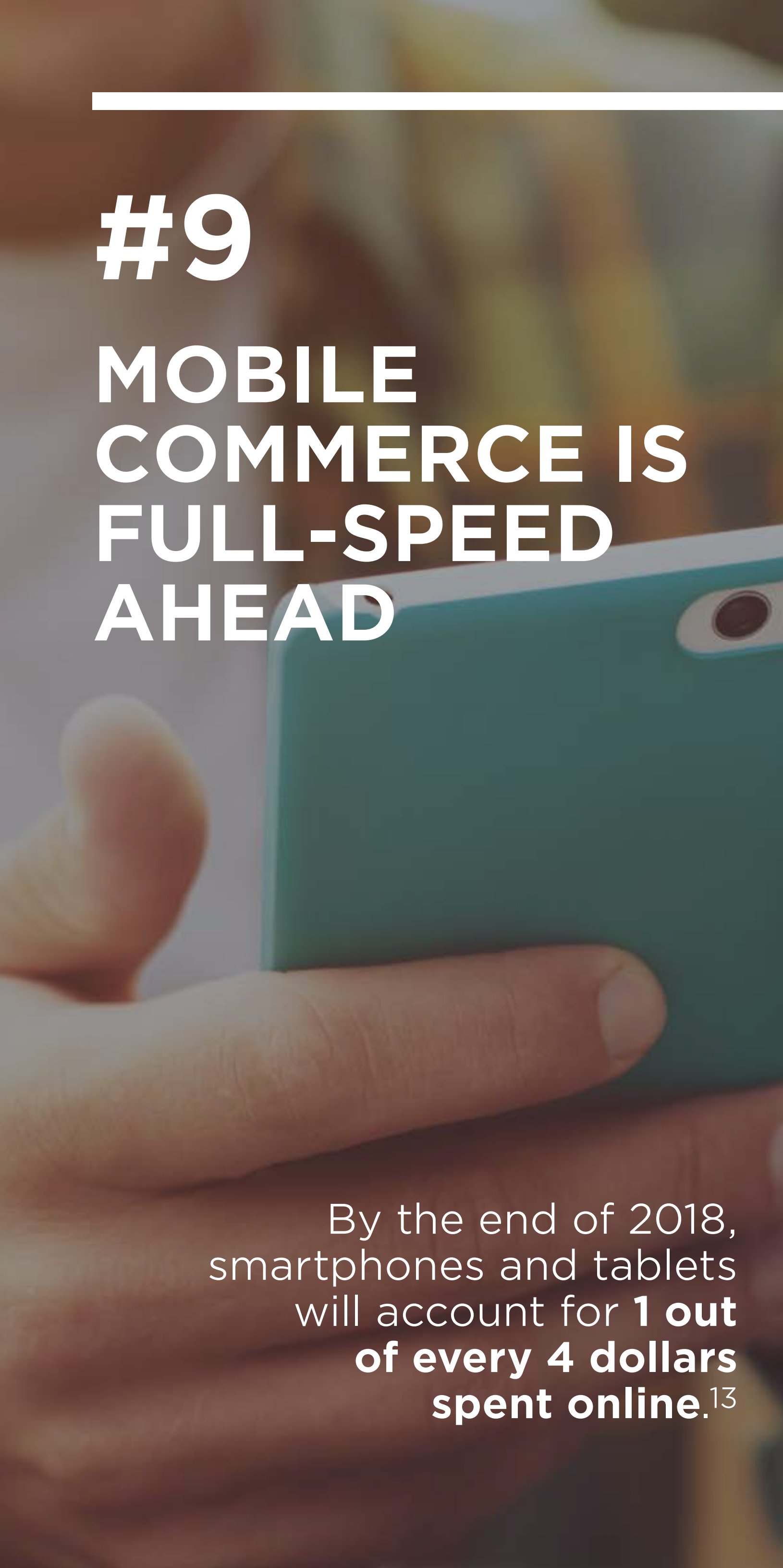
It’s difficult to measure what customers want exactly. Is it faster delivery or free delivery? Truthfully, it’s probably both and it probably has everything to do with the context of the purchase.

Competing with Amazon on fast, free delivery for every product is impossible. Amazon doesn’t even offer Prime shipping on all its inventory. Instead, it creates geo-targeted promotions that offers one- or two-hour delivery on a small number of SKUs, regular Prime shipping for qualified sellers and products, and then varying speed and cost for shipping on everything else.

WHAT TO WATCH: RETAILERS CREATING THEIR OWN PRIME DAY WITH NEW DISTRIBUTION MODELS

This year, more retailers will adopt the Amazon model for promoting products and measuring the impact of delivery promise on sales—moving from a “one size fits all” delivery promise to a tiered approach across different customer segments and product categories. To do this, two traditionally siloed departments will come together to test the market: merchandising and logistics.

Using customer purchasing data, retailers will be able to pop-up promotions in different areas to move more products by segment; for example, running a back-to-school promotion for free, same-day delivery in a high-density college town.



#9 MOBILE COMMERCE IS FULL-SPEED AHEAD

SHOPPERS GETTING MORE ACCUSTOMED TO MOBILE

The 2017 Black Friday Cyber Monday holiday saw a major increase in mobile shopping. On Cyber Monday, alone, there were $2 billion in mobile purchases—the largest we've ever seen.[13] 81 million U.S. shoppers made an online purchase on Cyber Monday, compared to the 66 million on Black Friday.

Outside the holiday rush, though, mobile commerce accounts for 19% of all eCommerce sales and is expected to hit 27% by the end of next year. Smartphones and tablets will account for 1 out of every 4 dollars spent online.

WHAT TO WATCH: SHOPPING VIA SMS

This year, as predicted above, mobile commerce will continue to rise. But, having a mobile website isn't enough anymore. Retailers will put more emphasis on marketing to customers through social media, testing location-based delivery promises to targeted audiences, improving mobile experiences from search to checkout, and investing more in mobile outreach technologies like shopping via SMS.

By the end of 2018, smartphones and tablets will account for **1 out of every 4 dollars spent online**.[13]

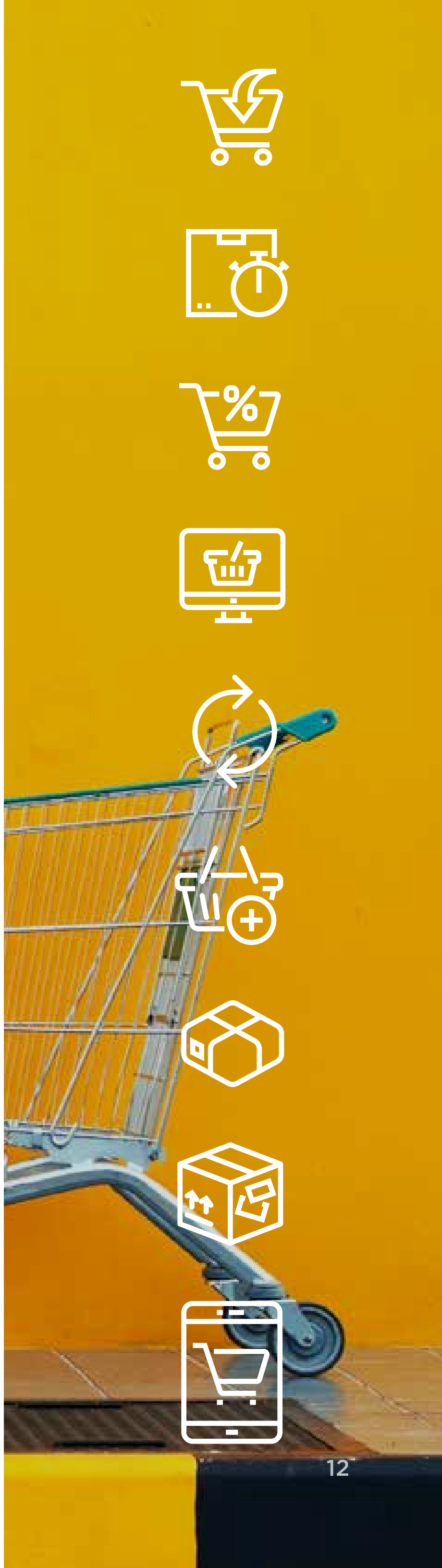
2018: THE YEAR TO INNOVATE

2018 is going to be a big year for retailers and brands. Consumer demands are disrupting every section of the industry.

Technology and eCommerce has created the “on-demand economy”—making it easier for us to get what we need, when we need it. As a result, retailers and brands that want to thrive in the on-demand economy must meet consumer expectations with on-demand commerce. That requires embracing new technologies, innovating areas of business that aren't agile enough to keep up, and continue to delight customers on each and every channel.

There were a lot of store closures, bankruptcies, and acquisitions in 2017. Moving forward, legacy retailers must take the necessary steps to innovate their business to survive the “Retail Apocalypse”. For their eCommerce counterparts, being able to stand out amongst the competition with a unique brand and delivery promise is necessary to thrive.

2018 is the year to innovate, and we’ll see more retailers and brands acting as technology and logistics companies to conquer the rise of “on-demand commerce”.



ABOUT FLEXE

FLEXE is the leading online marketplace for on-demand warehousing solutions. FLEXE is a network of more than 800 warehouses connected by one software platform. Unlike traditional warehousing solutions, FLEXE makes warehousing available on-demand.

Our software streamlines the entire process of managing warehousing and fulfillment so our customers can easily resolve capacity constraints and dynamically expand their distribution and fulfillment networks.

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