

# 2020 VISION

## A LOOK INTO THE FUTURE OF RETAIL

Five years ago, who would have thought that online-only retailers such as Bonobos would be opening brick-and-mortar locations and inking deals to sell their wares in department stores such as Nordstrom? Or that a desire on the part of teens to eschew brand allegiance in favor of individuality would result in Abercrombie & Fitch removing the logos from its apparel?

## *“The screen will not replace the scene.”*

Fashions come and go every season, but until very recently, the way consumers shopped and what they shopped for stayed largely unchanged. No longer. Technology not only enables consumers to shop anytime, anywhere, but it gives retailers the ability to identify and respond to consumers’ preferences faster than ever before—even when those preferences involve removing what is arguably a brand’s most important asset.

With that in mind, Madison Riley, Kurt Salmon managing director and retail expert, sat down with two retail industry veterans: Tom Cole, former CAO of Macy’s, and Arnold Aronson, one-time CEO of Saks. Both Cole and Aronson, now Kurt Salmon partners, share their vision for what the industry will look like five years from now. What follows is an abridged version of their debate.

**RILEY:** Young people today are growing up with technology in their hands, which is changing not only how they shop, but how they think about retail. Meanwhile, retailers are focused on using technology to provide consumers of all ages with an omnichannel experience, ideally a 1-to-1 omnichannel experience customized to their individual

needs. What about five years from now? With an eye to the future, what do retailers need to be thinking about now?

**COLE:** I think for stores the biggest challenge is, how are you going to get that young customer, who today does everything on her phone, how are you going to get her to come into the store the way her mother does? Kids growing up in an omnichannel world are not all of a sudden going to begin trekking to a department store four days a week. It won’t happen. The retailers who accept that they must become great omnichannel, digital, social media retailers will survive and actually thrive, while those retailers who focus only on making their stores better are going to struggle.

**ARONSON:** Well, omnichannel—if you want to look at maximizing revenue and profit—depends upon the retail bricks and mortar being able to do its job, and more than its job, to be able to not only supply the emotion, but to supply the functionality and the thousands of distribution points from which customers can get their merchandise. Moreover, online shopping does not have the excitement, the movement, the personality of the store. The screen will not replace the scene.

**COLE:** Be careful about that. I believe that as more retail businesses become dominated by online, the stores will become less important, and maybe dramatically less important.

**ARONSON:** And I think that when it comes to stores, as Mark Twain said, “The reports of my death have been greatly exaggerated.” Look, retailing has been overstored for years. Real estate developers, any time they saw anything that was close enough to a freeway to open up stores, they did. So the square foot per customer became so out of proportion with what was needed, and now we’re just absorbing the excess capacity that built up over time. The Darwinian process of closing down less productive stores should have happened—and would have happened—whether there was e-commerce or not.

**RILEY:** So technology shouldn’t be, can’t be, the only focus?

**COLE:** That’s true, but there will be not one retailer in the world who grows without a tremendous improvement in its technological capacity and its ability to do business with the customer through social media, online and however else the customer wants to shop.

**ARONSON:** Right now, retailers’ survival is dependent on being able to upgrade tech-

**Arnold Aronson** is a partner and managing director of retail strategies in Kurt Salmon’s Retail and Consumer Group whose roster of major clients spans all channels of retail and wholesale distribution. His prior experience started in merchandising at Bloomingdale’s and eventually resulted in attainment of CEO roles at Bullock’s, California (now part of Macy’s); Saks Fifth Avenue; BATUS Retail Group (corporate parent of Saks, Marshall Field’s, Kohl’s and others); and, finally, John Wanamaker/Woodward and Lothrop.

**Tom Cole**, a partner in Kurt Salmon’s Retail and Consumer Group, spent more than 41 years at Macy’s Inc., most recently as the retailer’s chief administrative officer. In addition to overseeing all of the company’s administrative functions, Mr. Cole helped transform Macy’s structure and culture from one comprised of disparate divisions into a unified organization operating under a single banner anchored by three core strategic efforts: My Macy’s localization, Omnichannel integration and MAGIC Selling customer engagement. He currently serves on the Fashion Advisory Board at Kent State University.

nology from a relatively low base, so they are putting all of their investment into it. And let me be clear, I am a staunch supporter of the role of technology as a most vital enabler of the future of retail. But as technological innovations start to stabilize, I think you’ll

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see that capital expenses will again be redistributed—there will be enough directed toward technology to keep retailers testing the cutting edge and at a minimum to stay competitive with their peers, but they will then turn their attention back to stores to make them the great differentiator.

**COLE:** I can’t imagine that technology will ever reach a point where it doesn’t continue to grow. The pace of growth is going to continue. It always has and it always will.

**ARONSON:** I think you’re extrapolating the exciting things that you’re seeing coming out of technology and innovation and saying it’s going to be a constant, absolutely sexy, can’t-miss kind of thing. But you can’t invent drones every day. And the things that are being invented—some have great value, some have marginal value and some are damaging. And retailers will find they can’t adopt every single thing that’s coming out every second because they’ll go broke doing that.

**RILEY:** Is this one of the challenges, one of the major trends the CEO faces, this dynamic? That as the CEO, I have to deal with the investment and what my CIO is saying but also keep my merchants energized and happy?

**ARONSON:** Exactly. Technological innovations that start out as wonderful seductive goddesses will come back down to earth. But what will not come back to earth is the need for the greatest product because customers don’t buy crappy product. They buy great product, and you’ve got to invent a great product as well as utilize great technology.

**COLE:** You’re definitely right about product. But I think technology is only going to accelerate, not flatten out. And you’d better be on the right side of that, investing in the right places.

**ARONSON:** I agree with you that technology will never stop. But there will be quality technology and lesser quality. And the great CEOs will have great CIOs who can distinguish between the two. Technology is great, but there has to be a sense of the merchandising acumen and the sense of fashion sensibility and of following trends. So there’s an art and there’s a science.

**RILEY:** In other words, there needs to be a push and pull between the concept of product and merchandising—the art, to your point—and the science that the technology represents. The challenge will be in finding the marriage between those two dynamics.

*“There’s also a general shift out of clothing and apparel and into accessories and personal electronics.”*

**ARONSON:** The art will not be maximized unless there’s some science to back it up. But the science will not be useful—or even needed or wanted—without the art.

**RILEY:** So bottom line, more tech won’t necessarily mean better retail. But what about demand? Will the demand for retail remain at its current level, or will that change?

**COLE:** Long term, customers are already spending less on some of the things that many retailers sell. Look no further than women’s prestige cosmetics to see the coming challenge, certainly for the traditional retailers. The Baby Boomer spent a significant amount of money on prestige cosmetics, the Millennial less so, and the younger person today is buying much of her cosmetics at a drugstore. There’s also a general shift out of clothing and apparel and into accessories and personal electronics. It’s a subtle shift, but a long-term trend.

**ARONSON:** I think you have to look at retailing in a more holistic way than just department stores. The Apples of the world ... that’s retail too.

**COLE:** I would much rather be in Apple’s business than in apparel at this moment.

**RILEY:** I’m hearing you say you believe there’s a threat to retail in the form of category myths.

**COLE:** That’s the trend that would keep me up at night, that there’s less growth at traditional retailers than there is at the Apple Store, for instance. It just seems like more of a “shift” than a “trend,” and traditional retailers will have to raise all parts of their game and be excellent at emerging technology to continue to be successful.

**ARONSON:** Even if we are in a much higher level technologically as a society, there is still the need for people to cover themselves with clothes and to have handbags and other apparel and accessories. You have to—again, it’s the Darwin theory—you must be the best at what you do. There will be those who will fall out of bed. There are technology companies that are falling out of bed too, every day of the week. They’re not all golden, you know; there are successes and failures. So as far as category shifts and thinking about the future, I don’t worry about that one. ❖

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