

GLOBAL SPA & WELLNESS SUMMIT

8th Annual Global Spa & Wellness Summit

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**Keynote Speech by Paul Price,
Creative Realities, U.S.**

**“The Future of Retail:
Disruptive Technology, Curveballs,
Dangerous Assumptions
and Making It All Work”**

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MODERATOR: First up, we have Paul Price. A Disruptive Force for Good, taking retail to a new level, a creative marketing strategist with a passion for technology. 25 years of experience under his data-driven, award-winning belt. Please welcome to the stage, Mr. Paul Price.

MR. PAUL PRICE: You know, Alexis, this might be the closest I get to royalty. This is the rate at which the human race grew for the last 2,000 years. And as you can see, for most of that history, we didn't do so well. We barely kept the birth rate above the death rate. But at the turn of the 19th Century, a technology would be developed, which would spur the greatest period of population growth the world had yet seen. That technology was James Watts' steam engine, and it marked the beginning of the end of our dependence on humans and animals for power. Buggies would be replaced by trains; sailing ships for bigger, faster steam ships; farm and factory output would grow explosively, producing more food, more shelter, but more people. Ladies and gentlemen, there is only one other period in human history where technology has been as disruptive, and we are all witnessing it right now. But the big difference between the change that occurred at the turn of the 19th century and the one that's occurring here at the turn of the 21st is not only is affecting more people, and more businesses, and more markets, it's happening a lot faster. That's because there are a couple of laws of science affecting today's technology that weren't around back at the turn of the 19th century. And there are two laws in particular that I want to draw your attention to. The first of them is Moore's Law, which essentially says that computing capacity will double every two years. It's doing a little bit better than that, and there's no sign of it ending. The second one, which is not as well known, but is actually as important, if not more important, is Metcalf's Law. Metcalf's Law states that for every node added to a network, that network grows exponentially.

Ladies and gentlemen, today's technology is advancing at parabolic rates. Like compound interest, building on a virtuous cycle of incremental improvements, sometimes quantum leaps. And that has three very important meanings for everybody in this room. The first is that every company is

now a tick company. No company is insulated from the changes being driven by Acabrian Revolution in multiple technologies converging on businesses and changing models and markets, some of them almost overnight. The second is really a function of Moore's Law and Metcalf's Law--and by the way, there are other laws governing memory capacity and transmission speeds. Today's technology will inevitably, inevitably become smaller, smarter, faster, cheaper, lighter. It is just a question of which one, and where it is at its life cycle, and the resources behind its change. But it's the third meaning that poses the most danger for everyone in this room, and it is that we are just getting started in the second industrial revolution. The change we've seen to date is a fraction of the change we are about to see. So it's with that in mind that today in revealing to you my thoughts about retail of the future, I'm not going to focus too much on today's technology, because frankly it's more or less redundant. Instead, I'm going to look a little into the future with you and bring to your attention some of the technologies that are on their way, which by virtue of Moore's Law and Metcalf's Law and other laws, will inevitably be as disruptive as some of the ones we've already experienced.

But before I go into the future too far, let's get a little bit of a caveat from a much wiser man than me.

MALE VOICE 1: Trying to predict the future is a discouraging and hazardous occupation, because the prophet invariably falls between two stalls. If his prediction sounds at all reasonable, you can be quite sure that in 20 or at most 50 years the progress of science and technology has made him seem ridiculously conservative. On the other hand, if by some miracle a prophet could describe the future exactly as it was going to take place, his predictions would sound so absurd, so farfetched, that everybody would laugh him to scorn. This has proved to be true in the past, and it will undoubtedly be true, even more so of the century to come. The only thing we can be sure of about the future is that it will be absolutely fantastic.

MR. PRICE: Absolutely fantastic is what I think retail in the future will be. Retail is not going to go away; it is going to get better. And it is going to get better because folks like you will integrate some of the technologies I'm about to share with you into your experiences. And at the risk of oversimplifying something that is much more complex, I'm

going to reveal those technologies in the guise of a few buckets. And the first bucket is what I call the install web. In 2008, something very important happened. More machines connected with one another on the internet than humans. As we speak, there are already billions of devices connecting with one another, exchanging data, modifying their behavior according to the business rules they've been programmed with. This will only grow exponentially. Again, I want you to keep in the back of your head the parabolic nature of technology's change today.

This internet of things, by far the most important characteristic of today's industrial revolution will enable experiences like this Hitachi augmented reality wind screen, buildings talking to the car, exchanging information with one another about the relative speed of the car and it's direction from its nav system, inviting the car to visit the Starbuck's, telling the driver about his daughter's latest text. You get the idea. One of the other elements I think most intriguing in retail of the internet of things is the explosion in payment alternatives. Joomeo is a video encryption system funded by Mark Andreson-Klinko, is under stealth amongst a few US colleges. Zinc was released in the UK in beta recently. Filica is Sony's NFC platform. Now yesterday, if anybody had any doubts whatsoever about NFC, you can now be assured it will go forward because yesterday Apple announced its integration into their iPhone platform. That guarantees hundreds of millions of users eventually. Lemon is another one and that's Isis, which is the NFC platform sponsored by T-Mobile, Verizon, and AT&T.

Why is this important? Because when payment becomes frictionless in a store, the experience of that store can be really rethought. It might be more like a showroom. It certainly may not need cash registers or any sort of checkout experience. It gives you tremendous freedom when payment becomes so easy that the customer doesn't even need to pull out their credit card. And on the subject of internet of things and devices connecting with one another, we're already seeing a wide array of wearables. Smart watches, again, used yesterday at the Apple conference was the new Apple watch, which is by the way, beautiful. But of course, there's Google glasses, there's bracelets, there are rings, and there are inner ear devices to come. This means your customer is arriving at the store, almost immediately connecting with the store. Because the things they're wearing are going to

connect with the things that you've connected. More about what happens when those two talk to one another shortly. Wireless power is very close. We are already wirelessly recharging our cell phones, but wirelessly transmitting power inside a store is not very far away. What happens when you don't have to worry about power cords? You completely rethink the store experience. You are given tremendous freedom to deploy whatever you want. Believe me, for a company that exists on the basis of deploying powered objects in stores, that's a tremendous relief for our engineers coming shortly.

The second big bucket I call artificially intelligent experiences. Oops, how did that happen? When IBM's Watson beat the reigning champ at Jeopardy, that was a seminal moment in artificial intelligence history. And by the way, AI isn't going to replace human brains any time soon. In fact, the combined computing power of every computer in the world couldn't imitate an insect's brain. But fear not, it will happen. Maybe not in my lifetime, almost certainly my son's. But in the meantime, expert systems like Watson, expert systems programmed with all the available knowledge of a specific field or category, they're flourishing. Watson has already been deployed at one of the United States' largest health insurers to second-guess the prescriptions of their doctor base. I don't doubt for a moment that an expert system programmed on the principles of wellness would be a tremendous advantage for an organization that wanted to lead and win more customers. There's already an expert system for law in the US called Judicata. I could go on.

What does that mean in stores however? Well what it means is that the artificially intelligent store experience will use the latest biometric technologies, such as Toshiba's palm system, facial recognition, iris recognition, fingerprint recognition, identifying the gap in your walking gape is another way of 100% authenticating a customer. I could go on. Once that artificially intelligent store has identified you carrying the payment platform that it trusts and knows, along with your past purchase behavior, it can start recommending things to you. It can start pushing you in directions you may not have even thought of, but based on what it knows about you and your past purchase history, it's decided to recommend for you. The artificially intelligent store will also talk to you. Voice synthesization systems like Siri and Dokomo's Concierge are already very, very good

at recognizing voices, learning more about you, and by virtue of that, translating that into some sort of business outcome. You will talk to the shelf. You probably won't have a sales assistant. That sales assistant will probably be digital, and it will be equipped with very deep knowledge about you, incredibly deep knowledge that will enable you to make more sales as a result.

I have a third bucket, but I decided not to classify it other than to call them curveballs, because I'm really not quite sure where they're going to wind up, but I do think they're important. And one of the most important is robotics. Here's Asimo, the latest iteration, latest model Asimo. Watch how he correctly identifies the cup. He correctly applies the correct amount of pressure to the cup, raising it to the correct level, and correctly pointing the vessel to pour the contents of the vessel into the cup. There's a lot going on here. Now Asimo isn't going to serve bar here at the Marrakesh Four Seasons, but you can see how close he is. By the way, he may not valet any time soon. But here he is at 9 kilometers an hour. I think he'd do a better job than a few valets I've had in the United States. Those shoes, that tap wear, that jewelry, that toy, these are all 3D printed objects. The next revolution in the second industrial revolution is 3D printing, undoubtedly. There are already early prototypes of a variety of beauty products. It is just a question of the 3D printing technology adjusting to more substrates. At the moments it's very good at silicon-based substrates. But there are models out there toying with hemp, fragrance, other cosmetic type substances. What does this mean? Well it again changes the nature of the store. The store doesn't have to be a virtual warehouse anymore. It can print the inventory on demand. And one day I venture, if Walmart wants to, Walmart will give you a 3D printer to stick in your closet to redefine the definition of fast fashion. Make no mistake, this is a big deal. And there is a ton of money backing 3D printing. By the way, you can buy a Makerbot, built in Brooklyn, for just under \$2,000, and it creates perfectly good sculptures of you and anybody else you want it to create sculptures for. This is a graphene super capacitor. Graphene is a revolutionary new substance that was discovered in 2004. It's a derivative of graphite. The guys that discovered it got the Nobel Prize for science that year. Graphene is hundreds of times stronger than iron, but just as flexible as rubber. It can also be manufactured to within one atom's width, so it can be integrated quite easily

into the finest of fabrics. By the way, another revolutionary feature of Graphene is that it is, by factors of many hundreds, more conductive than the most advanced lithium ion batteries. Keep your eye on Graphene for its application inside the store. Things that have Graphene woven into it will be remarkably clever for their ability to not only conduct power, but to transmit as well as repel.

I'm happily part of the Pegasus family, and one of the Pegasus companies is Lighting Sciences. And I've learned more about the magic in lighting. It's now a well-established science that lighting influences hormonal responses. In other words, lighting does preempt mood. We've always known that, but it took scientists to prove it absolutely true. There are, of course, billions of rays on the light spectrum, and manipulation of those rays leads quite directly to feeling better, feeling sleepy, feeling more energetic. If you haven't already, you should be integrating very carefully into your strategy, the use of lighting for your customers because I dare say they can make a real difference to the way they feel on arrival and departure from your experiences. By the way, every LED node is a transmitter and a receiver. Alexis mentioned millennials. I'm not going to dwell on millennials. I'm going to dwell on Gen-Z right behind them, and they're bigger by about a percentage point.

Most developed countries are witnessing the same phenomenon. The single biggest shift in population in a long time, and the thing about millennials and Gen-Z is not only are they bigger, they are richer. They are far more valuable. I won't get into the psychology of it, but demography really matters. There are some big demographic shifts going on that would surprise you, and if you haven't already in your own market paid a little attention to the last census your government generated, or other sources, make sure you really understand where your customer base is headed, because the other industry to thrive through the baby boomers retiring is, of course, the funeral business.

Which leads me to another very important observation about demography, and that is the reversal of the trend towards suburbanization in almost all developed countries. The truth is we are all heading to cities. That's where the jobs are. That's where the lifestyle is far more satisfying for lots of different people. In the United States alone, those 10 regions represent over 80% of the population. The Boston to

Washington corridor has roughly a population of around 50 million people, and it has an economy of over 2 trillion. You could happily set up your business in the Boston to Washington corridor and be very rich. And by the way, there is a similar phenomenon going on all around the world. Mega cities like Tokyo, Mexico City, London. Study careful where your customers really are and where they're really moving to. Next time you have a thought about where you want to place your next spa or hotel, pay close attention to demography because it really does matter. It is making a big difference in people's lives. The other thing that's making a big difference is social commerce. This is the average order value attributed to people to visit Instagram, Facebook. The average order from Facebook is about \$55. By the way, a buy button is shortly about to be integrated into Instagram. You can already buy via Twitter. My wife has set up a very successful little Instagram based business.

Social commerce is an intriguing new technological platform. For you, it could be a phenomenal way in which to conduct long-term relationship management. It might be the way that you go to ecommerce. Stop thinking about giant ecommerce platforms. Social commerce might be your ecommerce engine. You don't have to spend, really, very much money at all. In fact, let me share with you a story about Beyoncé, and the release of her album before the holidays last year. Beyoncé didn't do the traditional thing. She didn't release a single, she didn't do all the DJ interviews, no advertising. In fact, you can't buy a single from the album, you can only buy the album. You know what she did? She released a photo of the album cover with the words surprise to her 8 million Instagram followers. She sold 360,000 copies in a day. By the way, that's the picture of her visiting Walmart, where on that day she gave everybody in the store \$50, 2.7 million tweets.

You are your own media. The world of media has gone upside down and I urge you to think in terms of your business being the most important medium you've got. By the way, here's what's happened to the music business. It's halved in 10 years. This is what digitization has done to one industry. This is the page Rupert Murdoch hates, newspaper circulation for 100 households. The newspaper business is really in serious trouble. By the way, this is what your ad agency doesn't want to show you. This is domestic TV viewers per dollar of advertising. Look at the decline. Remember

parabolic curves. See the pattern? Erosion is as fast as increase. And this is one I came across not long ago, which I find intriguing. Per capita, gasoline sales in the US has declined over 20% since March 1999. Do you know why? It's not just because of pure efficiency, and it's not actually got anything to do with price. Millennials aren't making those trips anymore. They're living in cities. And they're meeting with their friends on the social layer, not in person. This is a chart that is scaring the death out of the major US auto manufacturers. They are very concerned about this incredible trend towards firstly, not even using a car, but secondly not even owning a car. But in the meantime, thanks to millennials and others around the world, roughly 1.4 million Android devices are being activated every day. And here's projected mobile commerce sales volume growth, which will almost certainly reach 30 billion next year. I suspect higher. If you haven't spent time thinking just about your mobile strategy, I urge you to do so. Mobile is everything. And what we mean by mobile - - wearables and a variety of other devices is going to radically change very, very quickly.

But in the meantime, there's another trend that I'm very disturbed about and you should be too, and that's the increase in income and equality. US households and many of the developed markets, this is from Thomas Pickney's book recently. If you haven't read it, I urge you to read it. Our customers are running out of money. And that's not good. In fact, US average household mean, the mean US household income rate has fallen. This is not good news for business, and it's got to be addressed. So with all that said, let me share with you a few things that you should be thinking about doing now, given the technology that we've got, and some of the technology that's coming. And the first is to have a plan. Don't let the technology drive your plan. You should be thinking about the way in which you want technology to drive the behaviors that it can drive inside your store according to the occasions that people are inspired to visit your store. Don't be seduced by the bright, shiny object. Have a coherent plan so that when the bright shiny objects show up, you've got a place for them or not. Don't let the Geek Squad run the technology business. Move technology into the marketing department. It is far too intrusive in terms of its influence over your experience. At least have the CTO and CMO have lunch together regularly. And focus on what technology is good at. It's good at converting customers

inside the store, and driving loyalty or retention. It's okay at acquisition, but it's strengths are to show people things that they wouldn't have otherwise thought of buying, or share recommendations with them that they wouldn't have otherwise thought to buy as well. By far, the lowest hanging fruit for you is digital merchandising. You can almost immediately show people stuff that you're selling to people, regardless of whom they are, to inspire them to buy something that often they wouldn't have imagined that they want to buy. I think a very important category for you is what we are increasingly doing, which is virtual sales associates. Guiding people with technology through complex purchases, by showing them how to self-diagnose, showing them the product that suits that diagnosis.

A very recent mainstream technological breakthrough was the beacon platform when Apple, by the way, again Apple, endorsed it last year. Beacon technology is very, very strong, it's very, very robust, and it's essentially a little transmitter that we can use to push content to phones within the vicinity of the transmitter's range. You can get even smarter than that by integrating it to your CRM platform so those content pushes are personalized. Location aware technology is one of the cornerstones of the new marketing model. It's why, again, I urge you to think of your spa or your hotel, or whatever premise you operate, as your major media channel. You should be all over mobile activation inside your store. I urge you to think about designing your mobile experience for the purposes of activating the in-store experience, not outside the store. Or do both. And one of the most common things we're working on now is the idea of endless assortment, the idea of relieving any space of the burden of carrying too much inventory, having just enough inventory, never losing a sale because you didn't have the right color or the wrong size, having a click to ship experience inside your store. This is a really big deal because one of the prevailing trends I'm witnessing in retail is the movement to smaller boxes. And we like automated retailing a lot. We love vending. We can wrap anything, these days, in our experiences, and we see this as a big opportunity to dynamically merchandise products for our customers in new and exciting ways that will engage a younger audience.

Let me close with one final observation. When you run, when you get into the taxi to take you home, take a good look at the driver because in all likelihood, he's the last of his

generation. In all likelihood, neither his sons, nor his daughters, his nieces or his nephews will have his job because autonomous vehicles will have almost certainly replaced the taxi fleet. They're safer, they're more fuel-efficient, they're more reliable, and they're coming very shortly. I make this point because I wouldn't want anyone in this room to be the last of their generation, rather to be the first of a new generation that's integrating technology into your experiences in a way, which is inspiring your customers to buy more things and come more often. With that, by all means, next month, my book is on Amazon, and you're welcome to tweet to me any time you wish. Ladies and gentlemen, thank you very much.

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