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THE BIRTH OF HUMAN CENTRIC RETAIL™





SECTION 1

A new era for retail: Retail Renaissance

Forget someone's birthday? Don't want to overpay for the hottest sneakers? Feeling like a homecooked meal but don't know where to start? In today's retail environment, you can take care of it all in the blink of an eye. And you can do it anytime, from anywhere, while crowdsourcing all the ratings and reviews you need to ensure you're getting the most for your money.

So why—even after the surge of holiday shopping in 2017—do we continue to hear about a retail apocalypse with store closures, the collapse of iconic brands and the death of traditional retail?

The truth is, retail is growing.

Though modest, retail has grown steadily since 2010, surpassing the \$5T mark in 2017.¹ But what might surprise you is where this growth is coming from – small niche players as well as retailers who are playing at both ends of the value spectrum. First, while some conventional retail is stuck in quicksand, smaller, niche brands are nimbly responding to human needs at the expense of larger legacy players (a factor that we highlighted in an earlier research report, *The retail volatility index*²). With the introduction of new technologies, barriers to entry have fallen and smaller players have been able to enter retail, sell nationally with minimal capital investment and infrastructure and cater to specific human needs. Further, retail cohorts in aggregate at either end of the value spectrum are outperforming the middle in key financial metrics. As discussed in an earlier research report, *The great retail bifurcation*³, there is an apparent divergent performance of low-end and high-end retailers in line with bifurcation of the consumer's economic situation. So what is the future of retail? Retailers with a close understanding of what the consumer is expressing and addressing these specific consumer needs are winning.

All you have to do is look at the industry from a consumer perspective rather than a retailer perspective to see that the retail apocalypse is, in fact, a Retail Renaissance.

Form a human perspective



To understand the Retail Renaissance, let's look back to the age of the Renaissance (1400A - 1700AD), which is widely regarded as the cultural bridge to the modern age. Spurred by a rise in population, technological advances, and economic prosperity, the Renaissance was a cultural transformation. It was a time of social, political, and spiritual discovery that stimulated the rebirth of intellectualism, innovation, and—perhaps most importantly—humanism.

Widely held societal conventions were reborn with a new perspective forged by science, art, philosophy, and an emphasis on rational human understanding.⁴

Retail is undergoing a similar rebirth. Endless data, digital technology, free exchange of ratings and reviews, and community-based social media have upended the industry - creating a network of human connection that is the underpinning of retail today. The ability for retailers to make personal, meaningful connections with customers on a human level has never been greater. Meanwhile, removal of barriers to entry and the introduction of public, digital marketplaces have created infinite opportunities for anyone to set up shop. As niche players reset consumer expectations, traditional retailers are finding that past advantages—scale, mature processes, long tenured talent—may be dead-ends for innovation ROI.



✿ What's behind that smile

Informed by science, inspired by art, and motivated by compassion, humanism was perhaps the most transformative element of the Renaissance.

This philosophy placed agency on humanity—both collectively and individually—with a rational approach to problem-solving and an emphasis on autonomous, critical thought. While there were certainly transformational changes to commerce during this period, the era's art can teach us much about new perspectives and viewer-centric design.

Renaissance artists were the first to approach art as an opportunity to portray the subject's emotion, tone, posture, and personality in an attempt to communicate a story. For the first time, artists painted through the perspective of the viewer.

The scale, depth, and proportions of these now revered works were created to satisfy the vantage point of the viewer, conveying emotion and point-of-view. Artists weaved in themes general enough to be relatable to many, yet seemingly specific enough to be interpreted differently by each individual, leaving viewers to feel a personal, one-of-a-kind connection with the piece.

This is the enigma of the Mona Lisa. Even posthumously, and hundreds of years later, these masters still strategically elicit emotions. They guide discovery for their audience by deeply considering the human condition from blank canvas to exhibition.⁵



SECTION 2

The myth of customer centricity

For the last several years, retail - like many B2C industries - has inadvertently kicked the can down the road without making significant progress in engaging customers. This is because the industry has focused on “customer centric” initiatives.

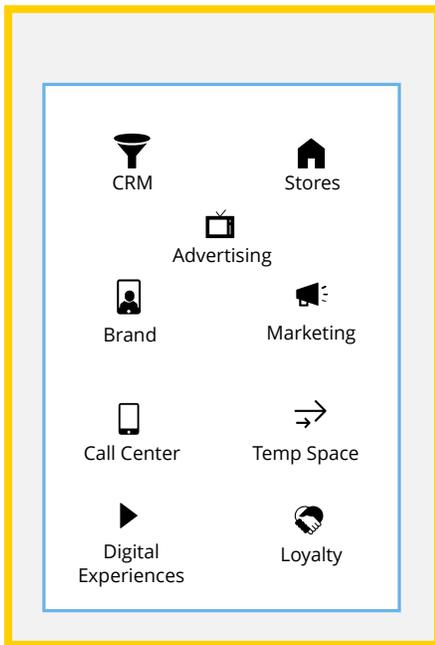
Consider this. *The word customer is, by definition, biased.*

A human being is only a customer relative to your business but from her perspective, she is a sister, a heartbroken ex-girlfriend, a mediocre tennis player, a newly minted manager, a latte-lover, a social media storyteller, and a serial dieter. You have been depicting her journey in a linear, sequential way. But a linear customer journey doesn't represent the way she experiences your brand. Instead, today's customer journeys are simply a description of your functional organization in consumer-y language. None of us—and particularly the young of us—make buying decisions the way they are depicted in most corporate illustrations.

So, what went wrong? We missed the boat on our aspirations for customer centricity because we left out the only essential ingredient: empathy.

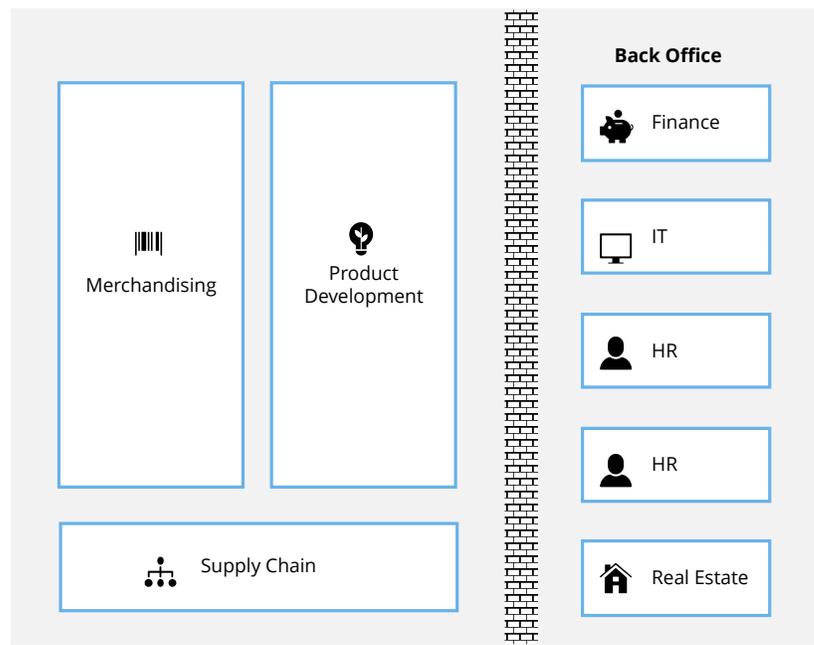
Well intentioned Customer Centricity may be doomed to under perform if it stops short of transforming all elements of the value chain

Focus of Customer Centricity



Collaboration barrier

Legacy Process, Metrics and Governance



Collaboration barrier

With empathy, customer centric retail becomes Human Centric Retail™ - retail that senses, responds, and adjusts to human centric—not customer—needs.

You could call it semantics, but the difference is significant. While focusing on customer needs may result in incremental changes to existing retail workflows, shifting focus to human needs can be transformational. It redefines how people interact with the brands and companies that define, shape, and decorate their lives.

Abraham Maslow, the famous father of Maslow's Hierarchy of Needs, said it best: "Classic economic theory, based as it is on an inadequate theory of human motivation, could be revolutionized by accepting the reality of higher human needs."⁶

While not all roads lead to Amazon, Alexa is an example of adapting retail workflows to meet human needs. Customer centric retailers could have run thousands of focus groups in every geography across every category, but customers would never have articulated this solution. Who knew that all we really wanted to do was shout into the corner of the kitchen to reorder paper towels?

However, if you study and analyze the right data, you would find points of gravity around human needs, empathize with those needs, and then adjust your offerings.

Human Centric Retailers™ also know how to expand the notion of inventory, the historical currency of retail, to include current and potential brand advocates. They recognize that growth comes from discovering—and delivering on—pockets of opportunity. We define pockets of opportunity as those competitive situations wherein companies are willing to devote wallet share to unmet needs. Identifying these pockets of opportunity is step one. Step two is analyzing how to configure retail capabilities to meet the need. That means retailers need to be agile, fast, and flexible enough to respond—organically or inorganically—and realize a win for humans is a win for the enterprise.



SECTION 3

The anatomy of Human Centric Retail™

The backbone of Human Centric Retail™ is created by the ability to

1. Rapidly sense, adapt, and evolve solutions to human needs
2. Configure your enterprise to enable granular interactions with your brand
3. Build a culture of empathy

The vertebrae work together to realize human-centered products and experiences that meet changing perspectives.



A new modus operandi is required

At the highest level, this means using your data and analytics to understand what matters most to people and why, then identifying pockets of opportunity. Assets that differentiate you within those pockets can help you determine where to play and the size of the prize. If the business case and operational feasibility stack up, consider prototyping quickly, testing, and then scaling. This kind of agile workflow and the speed at which it must be executed is new. However, most of the ingredients exist within legacy retail companies. Modernization through data, analytics competence, agile processes, and revised metrics can retool legacy ways of working.

THE OLD WORLD



Operational reporting



Drive efficiency



Static



Slow and conservative



React to disruption



Manual data entry



Analyze the past

THE NEW WORLD



Business insights



Identify new opportunities



On demand



Fast, agile, and risk taking



Disrupt yourself



Process automation



Predict what will happen in the future



Human Needs

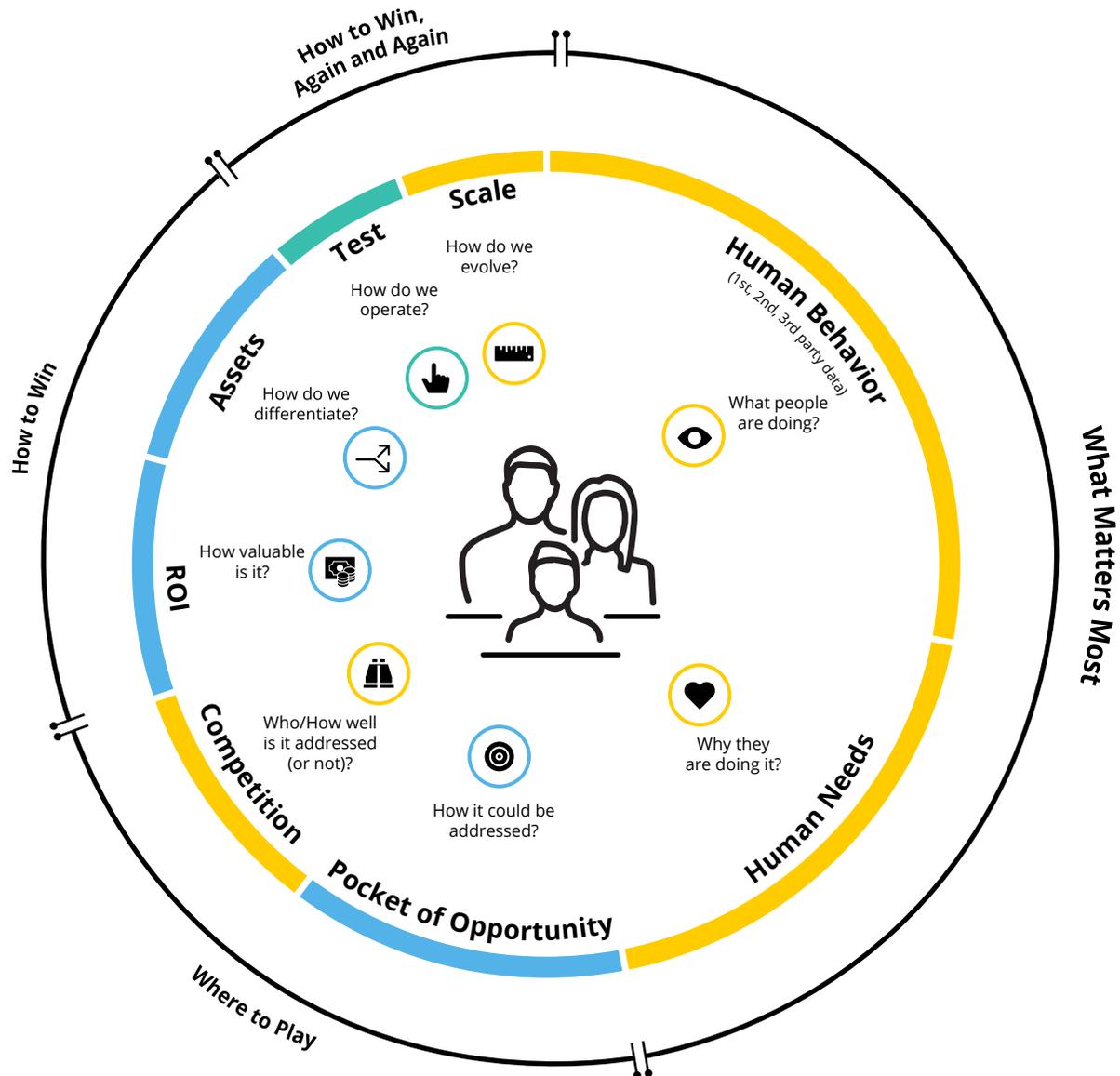


Unsurprisingly, rapidly sensing, adapting, and evolving solutions to meet human needs requires data and analytics. But there's more. Your company's ability to respond to those needs with a differentiated value proposition requires a new generation of cross-disciplinary capabilities.

Existing functional organizations must be reconfigured to work at unprecedented velocity. And with the right data and analytics infrastructure in place, Human Centric Retailers™ must be able to execute rapid strategy development, offer design, prototype testing, operational excellence, and speed-to-scale.



Sensing and adapting to human needs can potentially lead to improving pockets of opportunity for growth from customer engagement to product development



- Data, Analytics & Insight
- Strategy & Innovation
- Operational Excellence



❁ Own the athlete experience off the field

Five years ago, Adidas realized that continued success meant they needed to become more than just a sports company. Their strategy? Own the athlete experience off the field.

Since they knew what little control athletes had in what they wore during the game, Adidas cleverly went after hallways, locker rooms, and the post game to recapture their cool.

Once they made that decision, they made a wholesale rationalization to prioritize brand value over an initial dip in revenue. Then they went direct to consumer with ecommerce and Adidas original stores. A new, diverse set of brand influencers spoke to inclusion, streetwear, and non-athletes.⁷

On top of this, Adidas chose to invest off balance sheet in startups that fit their new mold (companies like Bucketfeet and Hydra Ventures). And to help ensure the steering went according to plan, they stacked their board with customer-smart minds, including ad execs.⁸

❁ Collaboration with partners to meet human needs

With an understanding that a large segment of discount shoppers have military ties, Dollar General partnered with Coca-Cola to honor the military. The partnership created a soda line that carried labels such as “service member” and “military spouse” to show support and appreciation of the military community.

In another example, Dollar General identified the human need among price sensitive shoppers to be able to estimate the total basket price while shopping. To deliver against this opportunity, Dollar General marked all prices in 5 cent increments in order to help customers easily estimate their total basket and not be embarrassed when getting to the front of the store and being short on money.^{9,10}





Enterprise Granularity



As retail continues to democratize—driven by new, niche retailers—expectations are continually set and reset. Upstart players move rapidly to bring specialized offers and experiences to market, swiftly evolving as they do so. Legacy brands must find a way to do the same. That often means finding a new way to deploy capabilities, as legacy infrastructure and scale can be a burden if not fundamentally reborn.

Today, many legacy retail companies are built on a merchant-centric model rather than a human-centric model. This is due to decades of operation which anchored on inventory as the only pulse of the business. Linear, sequential value chain operations started with merchants deriving trends based on observation and experience. Then sourcing models and supply chains optimized the most efficient ways to move product from the source to the stores where customers came to buy. Retailers had the balance of power because they had the goods and control—they owned supply.

Digital technology and globalization have shifted the balance of power in favor of consumers, sending linear, sequential value chains into chaos. Instead of inventory alone, Human Centric Retailers™ manage human needs and rewire their value chains to enable non-sequential, demand-based workflows.



Human Centric Retail™ requires a rewiring of the business

Large, established players must learn to fragment their enterprise to perennially adapt and meet evolving needs. Think of an organization's capabilities as individual grains of sand. Each grain is an entity unto itself but in aggregate also creates an experience that is still, essentially, sand. Sand also takes the form of any vessel it fills. In the Retail Renaissance, human needs define the vessel and the enterprise capabilities must take shape accordingly. We call it enterprise granularity and it is a core vertebra of Human Centric Retail™.

MERCHANT-CENTRIC MODELS

Linear, Sequential, Enterprise-Driven



Identify trends



Estimate customer demand



Source product



Market product



Receive product in Distribution Center



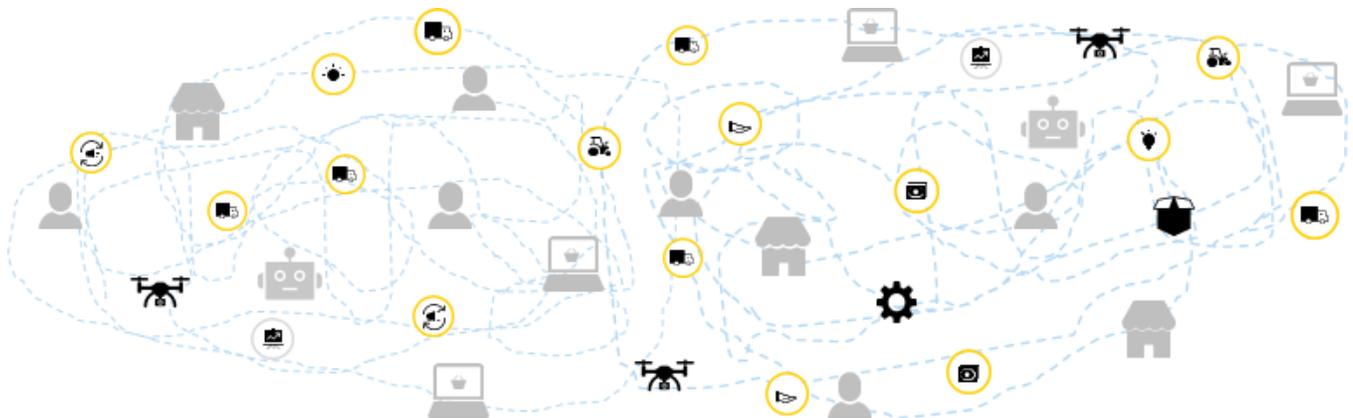
Allocate product to stores



Sell to customers and manage markdowns

HUMAN-CENTRIC MODELS

Agile, Flexible, Fluid, Social





✿ Evolving services to meet needs

Curacao, a department store chain in Southern California that offers a selection of electronics, fashion and home products, caters primarily to the Latino community. Curacao also serves as a consumer finance company lending to over 90% of the purchases made in its stores and a first credit line for many of its customers. To better understand the Latino community's needs, Curacao embedded data and analytics into the core operations of the organization. Understanding full demographic information on over 95% of its customers, including additional behavioral data and attitudinal data, Curacao identified human need states across different Latino population segments and rewired its value chain to deliver offerings and services that continually meet the Latino customer's evolving needs.

Enhancements to the credit process journey is one example of how Curacao continuously revamps offerings to meet human needs. After analyzing data, Curacao uncovered a significant friction point for customers during the credit approval process: it required a significant time commitment and there were no expectations set, leading to a poor overall experience. Curacao revamped the process to enable a shorter and more customer friendly process. To do this, Curacao utilized digital technology to automate process steps reducing application times from 45-60 minutes down to 5-10 minutes, provided customers visibility into expected wait times, transformed a waiting room into a lounge, and asked associates to serve customers by walking to them vs. asking customers to walk up to a counter.¹⁰

✿ Human needs, from farm to shelf

One of the UK's largest grocery retailers, Sainsbury's, is using data to sense the needs of their suppliers and create sophisticated but practical analysis to enhance supply chain effectiveness. From water usage to animal welfare, to packaging procedures, Sainsbury's is working with producers to analyze production data to improve the efficiency of the value chain. The analysis is providing farmer partners with insights to meet their needs and streamline their own operations, which creates downstream benefits for the entire value chain.¹¹





Crowdsourcing operational excellence

Warby Parker, a \$1.2B ecommerce company, creates enterprise granularity while also achieving operational efficiency in their technology teams.¹²

In 2014, management introduced Warbles to help surface, prioritize, and allocate programming work.

Warby Parker employees—from CEO to entry positions—nominate projects and tasks and then vote on the ones they think will add the most value. Each project accumulates points based on the votes. Programmers get to pick the projects they are most interested in to work on, and are rewarded if they pick projects with the most points. Every quarter, the team with the most points receives a prize and bragging rights.

With Warbles, Warby Parker crowdsources the power of employees closest to customers for ideation and prioritization of work according to its direct impact on the humans they serve.¹³



Empathy culture



The final vertebrae in Human Centric Retail™ is empathy culture. It may also be the hardest element because it represents a fundamental shift in behavior for every employee from leadership down. Empathy culture boldly asserts that there is no longer a front and back office. All functions of the business must be tuned into recognizing human needs, finding solutions to address them, and then rapidly refining and evolving.

In an empathy culture, human needs drive workflow, metrics, and definition of success. Human needs also dictate the evolution of traditional business infrastructures, even those deeply embedded at headquarters, to rapidly optimize opportunities. Consider what it would mean to create empathy-based finance, empathy-based real estate, or empathy-based supply chain. Before we lose the quants in the room, this doesn't mean replacing hard performance metrics with "smiles" or "likes." Rather it requires alignment of traditional functions to overall growth goals. It's about transforming workflows, talent, and governance to enable the consistent sensing and meeting of human needs throughout the value chain. Traditional back office functions must be motivated, rewarded, and held accountable for the seizing and realization of opportunities. Human centric initiatives will not disrupt the business if there is true partnership from all areas of the business, including back-office functions.



When the keys to success are not riffs on past methods and modes but rather fundamental changes to workflow, measurement, and communication, executive teams have a radically different role in driving the transformation.

As-is, the leadership strengths that built the last 30 – 50 years may not be the strengths needed to lead empathy-based retailers in the Renaissance. The patterns of behavior and processes characterized by linear, sequential product-based systems built the retail powerhouses of the recent past. But these same patterns may prove roadblocks to sustained growth.

Empathy culture also relies on storytelling to bring the purpose and differentiation of the enterprise to life both for humans that work there and humans that shop there. We are social animals and we convey meaning to one another, pass down learning and prepare future generations through storytelling. Storytelling is both an effective method of connecting people and of creating shared meaning. Storytelling also harnesses the power of data. If data is the language of business and stories are the language of people. Human Centric Retail™ brings the two together to drive growth.





❁ Empowering employees to drive profit

Southwest Airlines Co., now the world's third largest airline, exemplifies how an empathy-first culture translates into both top and bottom line success. Triumphantly maintaining 45 consecutive years of profitability in the margin pressed airline industry, Southwest has spent 24 consecutive years on Fortune's list of World's Most Admired Companies.¹⁴ Given Southwest offers few amenities with no first class, no TVs, no meals, and no presence on web search engines, the cult-like following must run deeper than what are now the industry-standard extras.

Executive leadership believes brand advocacy begins when you reach the heart of your employees, customers, and shareholders – in that order. According to the airline, “We hire rock stars, ask them to be themselves, and then support them in everything they do to take care of our customers. This leaves customers wanting to come back for more. Then our customer loyalty grows the business and rewards our stakeholders.” Statistics back the success of this employee-first strategy: with 85% of employees indicating they are proud to work at Southwest, the airline earned the lowest number of customer complaints and the highest-ranking customer satisfaction for the 3rd year in a row in 2018.¹⁵

With the heart symbol strategically placed at the center of all its branding, headquarters located at ‘Love Field’ in Dallas, and their stock ticker symbol as ‘LUV’, Southwest Airlines exemplifies the successes of empathy culture.

❁ Telling our own stories

Partly due to the genius tactic of asking humans to tell their own stories, Dove has become one of the most adept corporate storytellers.

Dove's “real beauty” ethos is infused in everything they do and their stories—real human stories—bring their data to life. They found their pocket(s) of opportunity in the beauty category by understanding an everyday human need: to feel beautiful.

However, their data told them that only 4% of women around the world consider themselves beautiful and anxiety about appearance begins at an early age. Dove's research revealed that 6 out of 10 girls are so concerned with the way they look that they actually opt out of fully participating in daily life—from going swimming and playing sports to visiting the doctor, going to school, or even just offering their opinions.

Dove used the latent story in that data to create internal and external narratives that anchor the company in an ever-growing market of brands celebrating acceptance, inclusion, and self-esteem.

Dove's ability to turn data into insight positioned the organization to dominate a distinct pocket of opportunity in the burgeoning zeitgeist of human empowerment, reality entertainment, and celebration of all types of authentic beauty.¹⁶





A new universal truth

The Retail Renaissance brings with it a new universal truth: data needs to be treated as an organizational utility rather than a siloed asset. We should stop protecting data as an innovation unto itself and, rather, use it to drive innovation. It needs to be woven into all core corporate capabilities and functions to inform cohesive, forward-looking, end-to-end decision making.

Like electricity and running water, everyone must know and use data, making it a utility for the running of a modern business.

This requires two critical structural changes to the enterprise 1) formal inclusion of data competence into all areas of the organization and 2) evergreen test and learn capabilities.

Like any new capability, data competence has talent, systems, and workflow implications. There could be as many solutions to address these implications as there are companies. However, every company should consider investing in a data strategy and governance foundation. This keystone competency is essential for a sensing and responding organization and will also deliver efficiency and effectiveness benefits. The Harvard Business Review urges companies to make data strategy and governance an imperative of the C-suite, starting with the CEO, and to consider data strategy and governance as both offense (growth) and defence (managing risk).¹⁷



The more you learn



Now, think of the most empathic person you know, taking constant feedback—consciously and unconsciously—and modulating their behavior based on the verbal and nonverbal cues they receive from the people around them. In this way, they are constantly learning. So too must the Human Centric Retailer™.

While these capabilities are nascent across the industry, one characteristic of leading companies stands out. They create perennial test and learn capabilities, fueled by data, and then reinvest their learnings to enhance the data further. Analytics provides look backs to refine future behavior. And leaders are implementing machine learning and AI to more effectively sense and respond to human needs at scale. These companies realize that every test, even the failed one, is valuable learning for driving transformation one hypothesis at a time.

Igniting the enlightenment and transformation



Once you have come together in purpose, set a baseline and start measuring your progress. Human Centric Retail™ anchors on human needs but that doesn't mean it is not performance-driven and measured. In fact, your existing metrics will remain essential within a different context. All actions within your human centric transformation must be those that you can set metrics, targets, behaviors, and initiatives against. As you uncover your pockets of opportunity, assign leading and lagging metrics for each vertebra in the human centric anatomy. Just as in the past, these metrics may look different based on sub sector and category. Then, be clear on your baseline and start communicating results.



✿ This house is built on data

The retail and design platform, Houzz provides a marketplace for laypeople and designers alike to upload photos of completed projects.

Users who see products (or designers) they like, can click through to buy. Through advanced machine learning, Houzz is able to rapidly identify and tag images to increase product exposure.

The learning power of the technology exponentially increases the accuracy of the recognition and precision improves as the machine steadily compares more and more photos with past results.

Advanced use of data and analytics allows Houzz to drive deeper insights throughout the value chain. These insights also act as the lighter fluid of innovation for new solutions to meet those needs.¹⁸

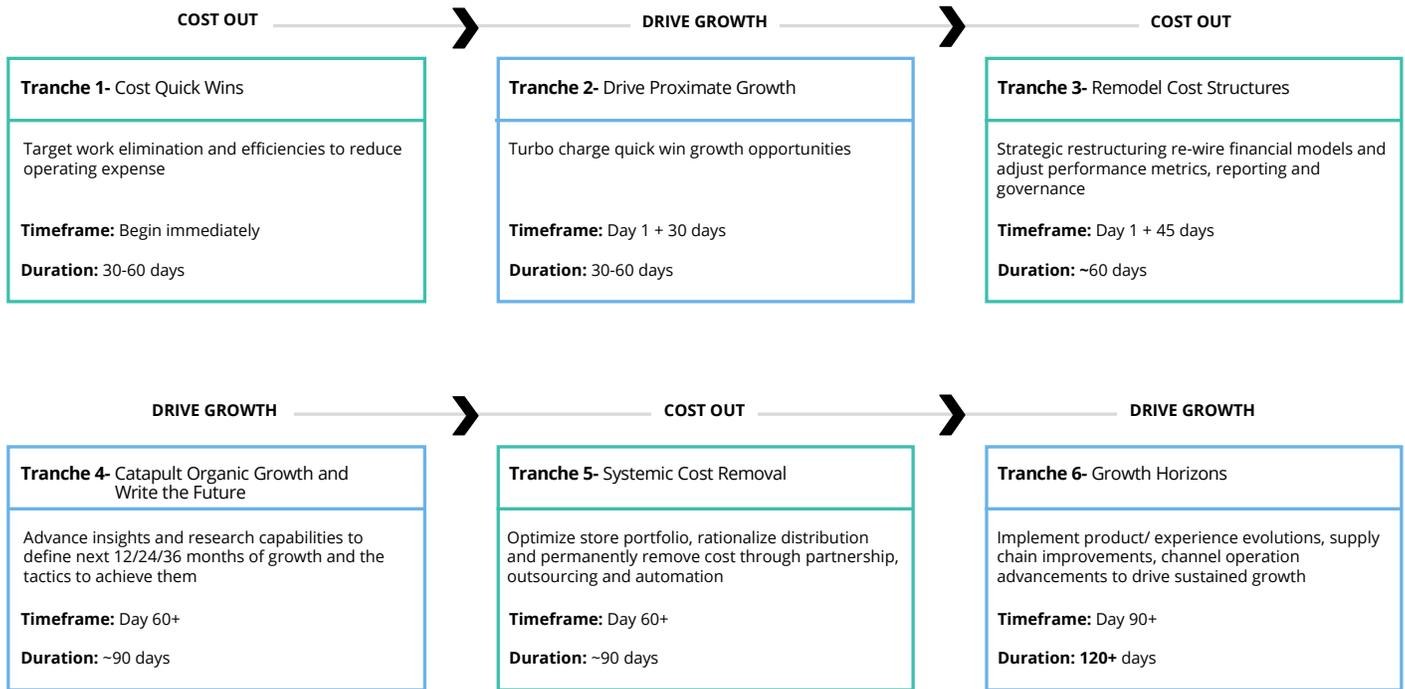


Transformation doesn't happen all at once — sprint it out

The best news? Transformation no longer requires multi-year programs and long lead times. Get started and build the plane while you fly. We suggest borrowing from agile development methods to rapidly set strategic direction, build your data strategy, test, learn, and then swiftly adjust as needed. Find empathetic leaders and cultivate talent that embraces ambiguity and can galvanize around vision vs. certainty. Use creative sourcing and partnerships to move quickly at first and then solidify long-term investments when you know more.

Above all, get clear on the humans you serve and make their needs the call to action across your enterprise.

Continuous Transformation



Illustrative Human Centric Retail™ Transformation Plan

When pursuing the transformation towards human-centricity, it is critical to balance the strive towards revenue growth with a keen eye on cost reduction to continue fueling (and funding) the transformation. Organizations need to create a continuous transformation portfolio of initiatives built on sprints that are short, sharp, and have a clear ending. Through fast, agile, and cumulative success, organizations can create momentum that feeds itself. Gone are the days of waiting for success through 9-12 month program “stabilization” initiatives. In today’s Retail Renaissance, that approach can lead to prolonged organizational fatigue. Think of each sprints’ progress as fuel for the next.

Start moving—an object at rest stays at rest

The biggest losers will likely be the ones who wait too long to begin. If you need a kick start, think about the following catalysts to transformation:

- **Embrace the tenets of Human Centric Retail™**
- **Get your data house in order**
- **Re-career leaders that don’t get it**
- **Take on the hard decisions now**

You can't stop the Retail Renaissance



Every transformation will look different. That's the exciting part. Our world will become more diverse, more colorful, and more evolved as every retailer amplifies the unique way they fulfill human needs. Capitalizing on pockets of opportunity that fuel growth will likely build upon and evolve current trends that benefit humans — personalization, integrated digital/physical experiences, agile supply chain, and product innovation. Technology and data innovations will likely continue to stretch the boundaries of possibilities available for human connections.

Just as we thank the fathers of humanism for adding dimension and perspective in the Age of Enlightenment, history will credit the vanguard of the Retail Renaissance. Let's embrace it.



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