

# Q2 RETAIL REVIEW

A DIVERGENT WORLD

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# INTRODUCTION

**The word that aptly captures the first 6 months of 2016 is divergence – divergence across economies, geographies and generations – bringing with it increased levels of volatility and complexity in the way in which we view ourselves, the world and the consumer.**

The last two quarters of 2016 are likely to bring more volatility rather than less, especially in the wake of the Brexit referendum and other key factors driving social, political and economic change, making conventional assumptions about shopper behaviour increasingly unrealistic. Whether it's selecting which retailer to shop with, which channel to shop in or which brand to buy, shopper preferences are more varied than ever before.





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Our 2016 Q2 Retail Review explores some of the key factors underlying this increase in divergence in the economic, retail and consumer landscapes and the implications for brand owners, retailers and the shopper:

- 1 Volatility of the global economy and consumer confidence
- 2 Innovation and technology driving shopper preferences
- 3 Shifting shopper demographics

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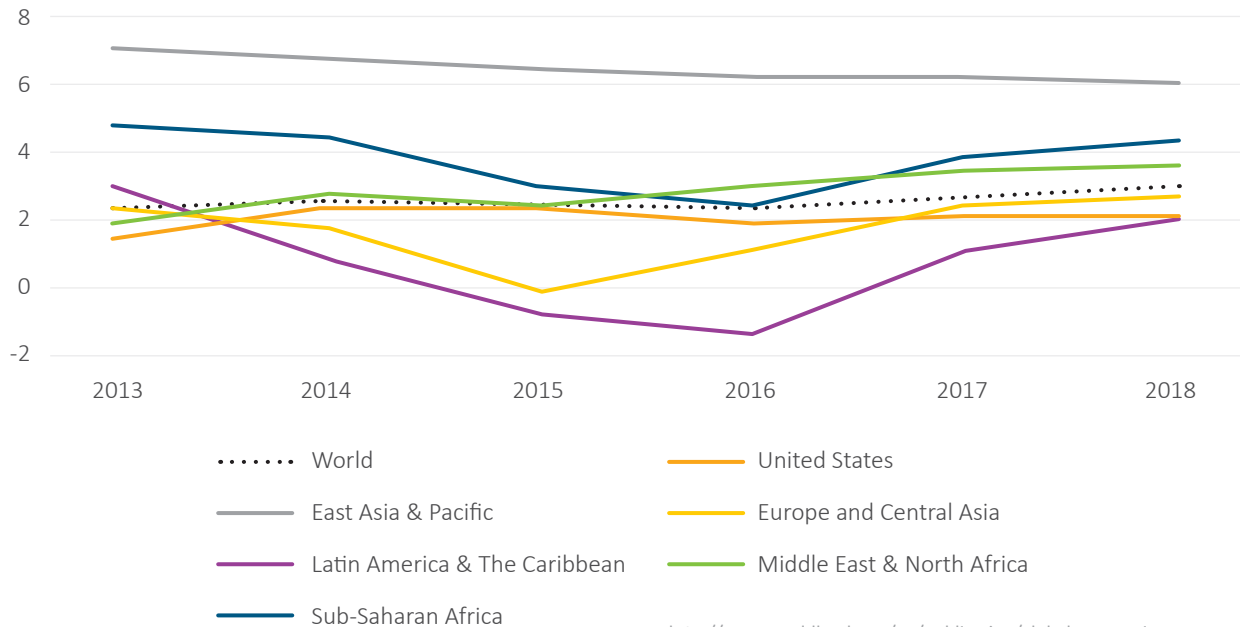
VOLATILITY OF THE  
**GLOBAL ECONOMY**  
AND CONSUMER CONFIDENCE

# VOLATILITY OF THE GLOBAL ECONOMY AND CONSUMER CONFIDENCE

One of the major factors causing divergence is the volatility of the global economy, still struggling to make a recovery post the 2008 market crash.

In the first 6 months of 2016, the global economy continued to be shaped by muted growth and higher volatility. Growth prospects weakened throughout the world economy and the World Bank downgraded its 2016 global growth forecast to 2.4% from the 2.9% pace projected in January.

**GLOBAL ECONOMIC GROWTH FORECAST | REAL GDP % CHANGE FROM PREVIOUS YEAR**



<http://www.worldbank.org/en/publication/global-economic-prospects>

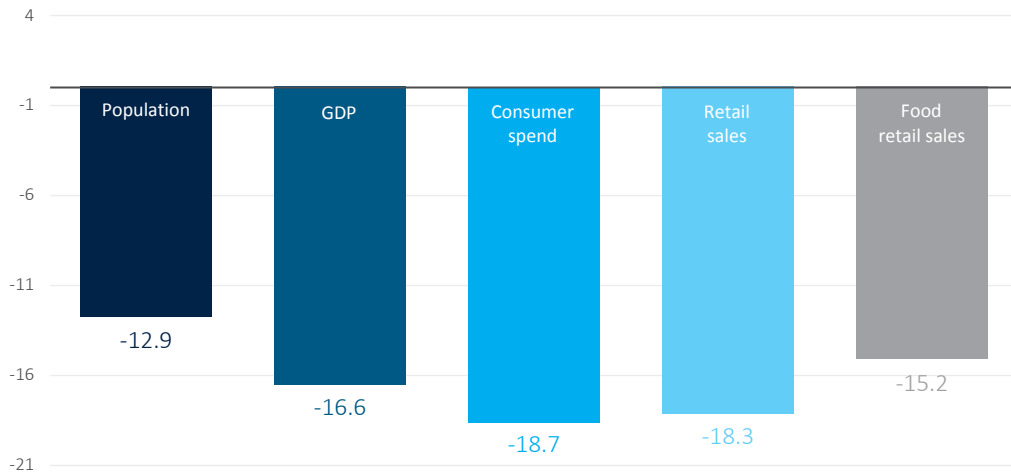
The economy took another blow as the UK referendum results polled in favour of Brexit on 23 June. Britain's decision to leave the EU has reverberated across the globe as the immediate impact of the verdict saw all currencies, but the Yen, take a sharp nose dive.

Economists have voiced concerns about the extent to which Brexit will disturb existing fault lines in the world economy as exponential levels of uncertainty contribute to falls in business and consumer confidence.

The financial recovery in developed countries preceding the Brexit announcement had slowed due to weak global trade and manufacturing activity. Post the referendum, the UK, EU and the West are likely to feel the weight of significantly increased volatility as businesses defer spending where they can.

This includes Western retailers who are likely to be more wary of internationalisation in the wake of uncertainty around the way in which the market will respond in the medium to long term. The biggest long-term risk for retailers and FMCG is an accelerated disintegration of the wider European community.

### ESTIMATED EU MARKET SIZE SHRINKAGE FOLLOWING BREXIT (%)



Brexit becomes a reality – Planet Retail

The BRICS and other emerging markets also experienced a decline in growth in the first two quarters of 2016. This will certainly continue as economic instability in the developed world stifles exports and puts currencies under pressure.

However, despite current challenges in emerging markets, they continue to show positive long term prospects and remain the

**BRICS** comprise **28%** of global retail sales and **42%** of the population.

biggest growth opportunity worldwide for both retailers and brand owners. Estimated sales CAGR for 2015-2020 is 9% in the BRICS versus 3% in Western Europe and 4.8% in the USA. Big-

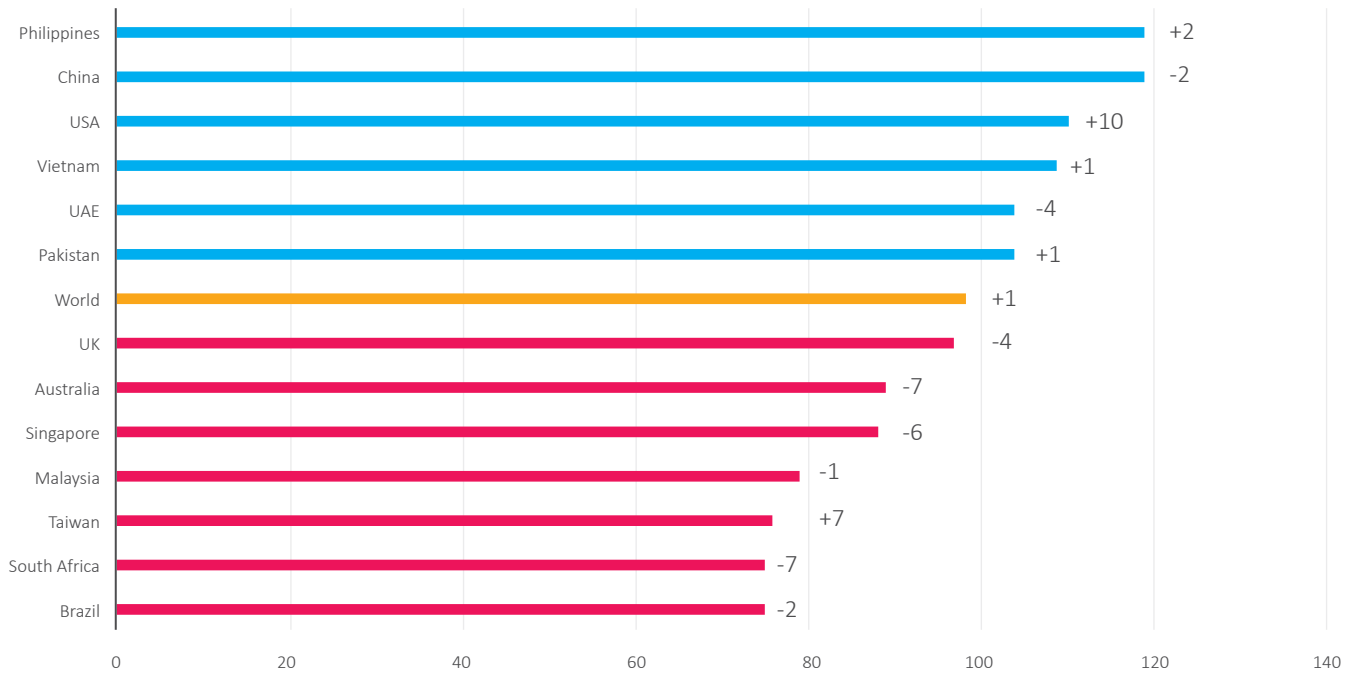
box opportunities exist for retail in the long term, and achieving small-box penetration in the short term in both the modern and traditional sectors will position retailers well in these markets.

The instability of the financial market across the world is creating very tangible disruption for consumers and businesses with no single geographical region offering stable growth for some time to come. This has had and will continue to have a significant impact on consumer price inflation and consumer confidence

– global first-quarter consumer confidence levels reflected varying growth trends around the world, edging up one index point from Q4 2015 to 98 in Q1 2016.

**6 in 10 global respondents believed their nation's economy was in recession in the first quarter**, an increase from 55% in the fourth quarter of last year and the highest level since 2012.

### CONSUMER CONFIDENCE INDEX Q1 2016



\*Points over 100 indicate positive sentiment.

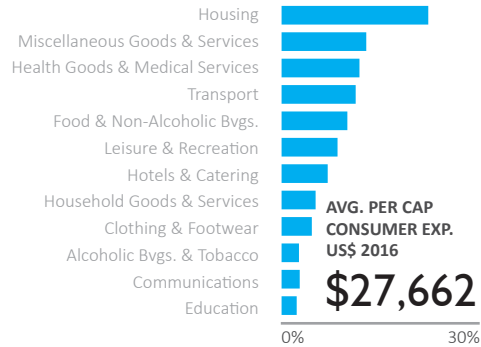
Consumer Confidence, Q1 2016, Concerns and spending intentions around the world - Nielsen

Retail analysts have warned of shoppers being deterred by the unstable economic and political conditions brought on by the Brexit, making consumer confidence very fragile and likely to decline in the last 2 quarters of 2016. "Consumers will be wary of making big financial commitments until they have more confidence

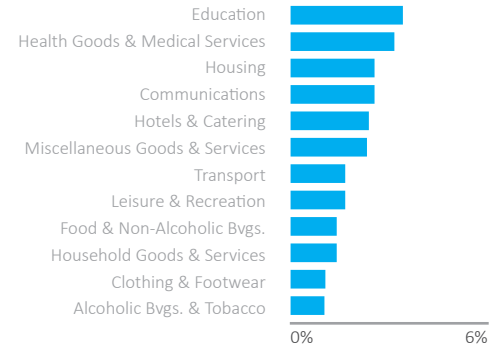
in their own personal economic prospects" according to Maureen Hinton, Verdict's global research director. Different categories will be more or less resilient to falling consumer confidence and inflation depending on the consumer preferences and priorities across developed and emerging markets.

## DEVELOPED MARKETS | CONSUMER SPENDING BY CATEGORY:

**Consumer Spending by Category**  
US\$ per capita, constant 2014 prices,  
% of total budget, 2016

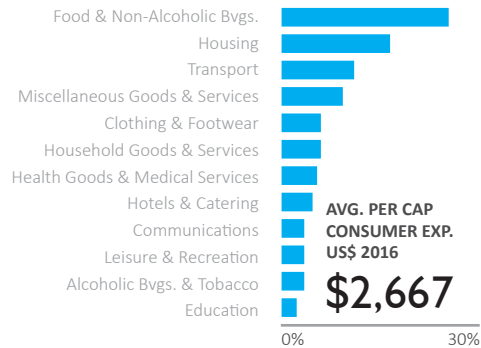


**Fastest Growing Categories of Spending**  
% growth, constant 2014 prices, 2015-2016

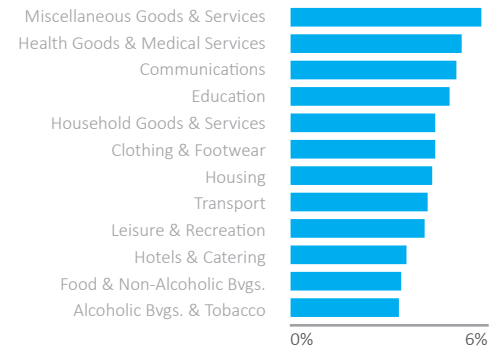


## EMERGING MARKETS | CONSUMER SPENDING BY CATEGORY:

**Consumer Spending by Category**  
US\$ per capita, constant 2014 prices,  
% of total budget, 2016



**Fastest Growing Categories of Spending**  
% growth, constant 2014 prices, 2015-2016



Economies in 2016 - Euromonitor

Brand owners and retailers will have to tailor their approaches to the needs and concerns of their consumers on an even more granular level in order to determine which categories and features consumers will pay for, and which they won't, taking into consideration geographically and demographically informed preferences and economic contexts.

Reaching the right shoppers in the right places at the right times will be both challenging and critical.



INNOVATION

# AND TECHNOLOGY

DRIVING SHOPPER PREFERENCES

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# INNOVATION AND TECHNOLOGY DRIVING SHOPPER PREFERENCES

**Innovation and technology is another key driver of shopper behaviour and preferences and is having an impact on developed and emerging markets in very different, sometimes unexpected, ways.**

Planet Retail and the Oxford Institute of Retail Management conducted a survey in 2015 with 13,500 shoppers across 15 markets to understand the different trade-offs that shoppers are making in their choice of retailer (one of them being the influence of technology and innovation), as well as probing the level of satisfaction with current retail experiences. The research revealed that differences in shopper preferences in terms of both geography and demography are significant.

TOP 10 RANKED FACTORS WHEN CHOOSING A RETAILER (%)			
	ALL MARKETS	DEVELOPED (average)	EMERGING (average)
1	Conveniently located	Conveniently located	Trusted retailer
2	Broad assortment	Broad assortment	Broad assortment
3	Brands I like	Brands I like	Brands I like
4	Trusted retailer	Trusted retailer	Loyalty rewarded
5	Returns to nearest store	Returns to nearest store	Returns to nearest store
6	Appealing promotions	Loyalty rewarded	Conveniently located
7	Loyalty rewarded	Appealing promotions	Appealing promotions
8	Loyalty scheme	Loyalty scheme	Loyalty scheme
9	Flexible delivery online	Flexible delivery online	Flexible delivery online
10	Convenient collection points	Convenient collection points	Convenient collection points

The Retail Business model of the Future – Planet Retail

Drivers for selecting a retailer vary by market and even within these broad categories of market, there are important differences by country. Basics such as convenience, choice, big brands, and trust appear to be resilient across both developed and emerging markets.

Factors related to omni-channel appear in the top 10 determinants of retailer choice – the ability to return goods to the nearest store (#5), flexible delivery online (#9) and the provision of convenient collection points (#10) - and are similarly ranked between developed and emerging markets. This could reflect shopper’s aspirations in emerging markets, but also indicates a huge opportunity.



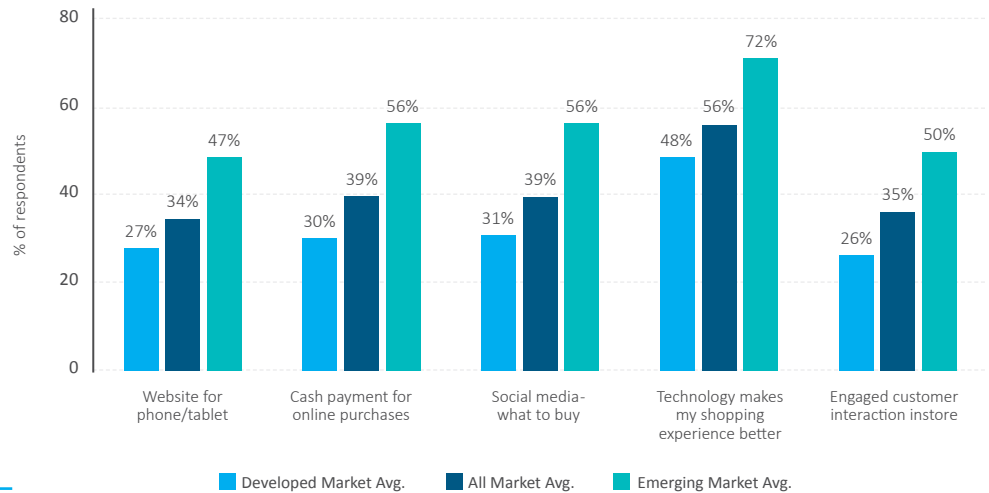
The conventional assumption is that the new omni-channel era of shopping will be led by developed markets with emerging markets lagging behind.

*However, the study has shown that it is often emerging market shoppers who are grasping technological innovation and driving change more readily.*

Some of the most impressive innovators can be found in markets like Brazil, India and Turkey where there is significant demand from shoppers for innovative solutions (such as mobile payment and social media).

## DEVELOPED VERSUS EMERGING MARKETS

Variances in attitude towards key elements of the omni-channel experience



Most notable are the differences in attitudes when it comes to new innovations and solutions, such as mobile payment options, social media and technology to improve the shopping experience.

The Retail Business model of the Future – Planet Retail

These realities must be recognised when developing sustainable retail business models. They will affect retailer cost structures and returns, and will require established retailers to change their processes, routines, talent mix and organisational structure, according to Planet Retail. Some key realities to consider as revealed by the study are listed below:

### CONVENIENCE

For consumers in developed markets, finding their favourite brands in convenient locations is a given, especially when factoring in the high levels of store saturation.

In emerging markets, convenient location is less of a priority, reflecting perhaps the lower densities of modern retailing and the shopper's willingness to travel to true destination locations for their shopping needs and experiences.

### REDEFINING CUSTOMER ENGAGEMENT

Demand for tailored communication and personalised assortment is on the rise, and the next five years will see consumers gain greater control of their shopping experiences. Already 42% of shoppers claim their retailer of choice is influenced by receiving a more personalised experience that is tailored and relevant to their needs.

In developed markets this is not as big a factor in the choice of retailer as one might think, with only 28% in the UK and 26% in Germany claiming this encourages them to choose a retailer. This is compared to 65% in Brazil and 50% in South Korea.

## GREATER INNOVATION IN PROMOTIONAL ACTIVITY

Thanks to mobile and beacon technology, consumers are starting to anticipate relevant promotional activity when in shopping mode. The research found that 38% of shoppers want to receive real-time promotions & discounts for which they might be eligible when instore.

## LOYALTY

57% of shoppers' retailer of choice is influenced by being rewarded for their spend and loyalty. This is a highly influential factor for shoppers in the USA, with 62% claiming it encourages them to choose a retailer. However, rewarding loyalty is not so effective in the Netherlands and Germany, with 47% and 38% respectively claiming it encourages them to choose a retailer.

## SOCIAL MEDIA

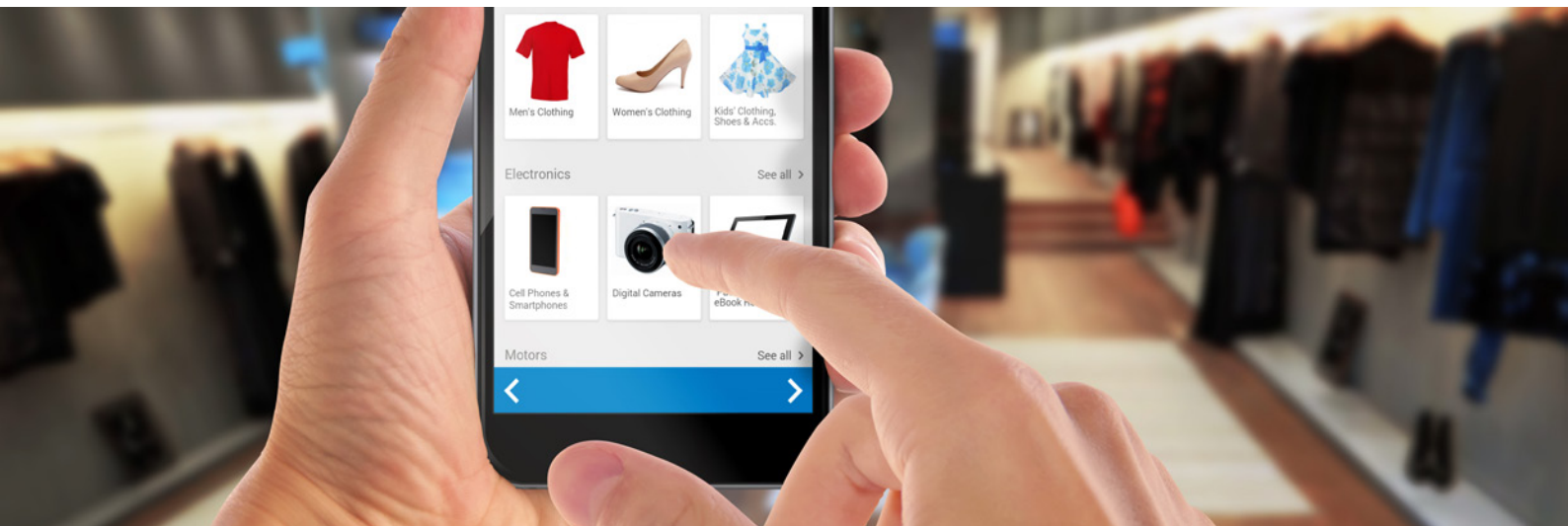
Social media platforms are becoming influencers of what to buy and which retailers to buy from. 39% of shoppers feel that social media is important in helping them decide from which retailers/brands to buy.

In Europe, social media appears to have minimal impact, with just 27% saying social media is important in deciding what to buy. This is a similar story in the USA (with 24% of shoppers) and Australia (at 23%) agreeing it helps them decide what to buy. It is in emerging markets that social media is impacting purchasing decisions, most notably in India at 67% and in China at 57%.

## MOBILE IS THE COMMON DENOMINATOR

Consumers are using their mobiles during the path-to-purchase, and are demanding constant connectivity with retailers. 51% of shoppers accessing internet via their mobile use it for shopping activities.

Mobile represents the convergence of the online and instore shopping experience that, if effectively leveraged, can assist in the creation of a seamless relationship between the retailer and consumer. In established markets, this will involve creating solutions that bind the channels and touchpoints. In emerging markets, it is an enabler of e-commerce, facilitating online shopping and granting internet access to rural areas.



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SHIFTING SHOPPER

**DEMOGRAPHICS**

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# SHIFTING SHOPPER DEMOGRAPHICS

Increased complexity in retail is also due to shifting shopper demographics.

Within 35 years, there will be more people alive older than 60 than there are people younger than 15 and by 2020 Millennials are set to make up 30% of all retail sales. Retailers and brand owners will need to respond to the tastes, customs, interests, and spending habits of an increasingly diverse population with money to spend.

## THE BABY BOOMERS

The Baby Boomers, often referred to as “the Silver economy”, have always been a defining generation and will continue to be so as they head towards their 60’s and 70’s. For the remainder of the 21st Century, they will be the fastest-growing consumer group in the world.

Baby Boomers have significant financial resources and a greater emphasis on youth and vitality than generations preceding them. They see themselves as 10-15 years younger than their actual age and don’t enjoy being communicated with as “Senior citizens”.

## EVOLUTION OF INCOME SHARE FOR THE OVER 60s

By country  
(% 2005-2020)

COUNTRY	AGE 60+ SHARE OF INCOME (2005)	AGE 60+ SHARE OF INCOME (2020e)	COUNTRY	AGE 60+ SHARE OF INCOME (2005)	AGE 60+ SHARE OF INCOME (2020e)
Belgium	26.6%	32.3%	Mexico	9.0%	13.1%
Brazil	9.7%	15.4%	Netherlands	20.9%	27.8%
Bulgaria	14.8%	19.2%	Norway	22.2%	28.8%
China	11.2%	17.4%	Romania	14.4%	20.8%
Denmark	18.9%	23.5%	Russia	18.4%	26.7%
Finland	23.9%	34.1%	South Africa	11.7%	16.5%
France	24.8%	31.6%	Spain	21.6%	24.4%
Germany	27.1%	29.7%	Sweden	30.2%	34.3%
India	8.4%	10.3%	Turkey	11.6%	15.7%
Indonesia	8.6%	12.0%	United Kingdom	23.4%	29.2%
Italy	24.0%	24.1%	United States	15.7%	23.6%
Japan	26.2%	31.4%			

Euromonitor, U.S. Census Bureau; A.T. Kearney analysis

*I am 60 years old but I don't like it if a product aimed at me is advertised as being for senior people. But if the message is that the product is for someone experienced and discerning who has the capability to judge when something is good – then I am more likely to buy it.*





From large hypers, which are challenging to navigate with too many hard-to-reach products on shelves to product packaging that is difficult to open and read, Baby Boomers don't think they are currently adequately served by retailers and brand owners. They feel that most shops are not only understaffed but also that the staff on hand are not well-trained enough to help them.

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**63% of the 60-to-70 year's group** of respondents say they would like to **be able to sit down in stores.**

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Some FMCG Brand owners are already finding innovative ways to meet the needs of ageing consumers.

For example, Unilever's Dove recently launched Pro-Age, a line of deodorants, hair-care products, and skin-care products, to target female consumers between the ages of 54 and 63.

Swiss food group Nestlé had arthritic hands in mind when it redesigned the jar for its Nescafe Gold instant coffee in Australia, giving it a "waist" to make it easier to hold and an easy peel foil cover.

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**52% in the 60-to-70 years group** say they **cannot read labels properly,** even when wearing glasses or contact lenses.

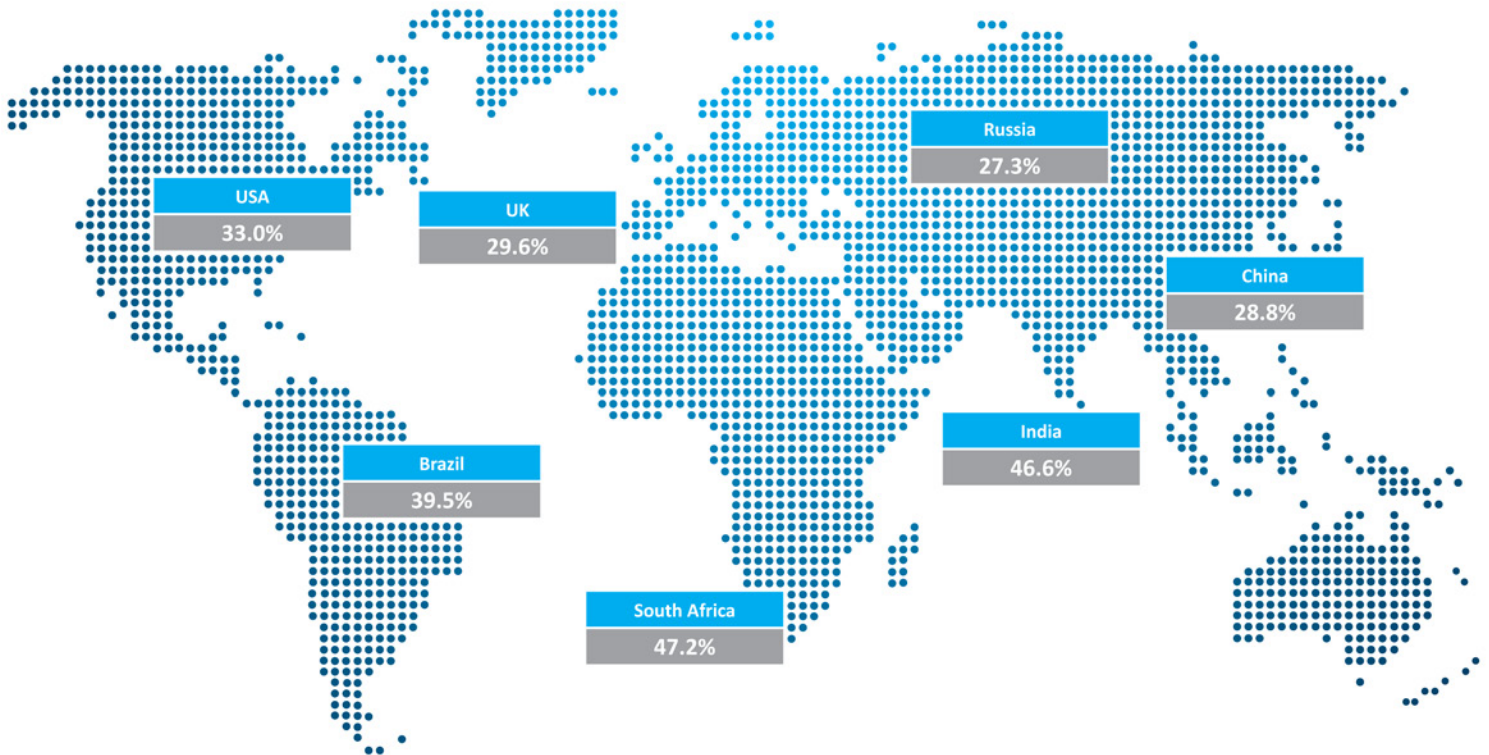
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## THE MILLENNIALS

Challenging this older generation are the Millennials (Generation Y). They are reaching their prime household formation years and attempting to emulate the lifestyle that their Baby Boomer parents have and to which they are accustomed. According to Advertising Age, millennials will spend more than \$200 billion annually starting in 2017 and \$10 trillion in their lifetimes.

Migration also presents a challenge in the timing of being able to adapt to the needs of Millennials. With more than 800,000 migrants welcomed into Germany alone in 2015, a higher number than the live births in the country that year, migration clearly has the power to influence demographic trends significantly.

## GLOBAL: SHARE OF POPULATION AGED BELOW 25, 2016 (%)



Top 5 Economic trends to impact retail in 2016 – Planet Retail



Critical to retailers and brand owners ensuring their business strategies are in sync with millennials is understanding the demographics' priorities and behaviours. Unlike consumers from previous generations who have shared common characteristics, millennials possess an incredibly unique behavioural profile.

*For example, the Millennial Dad is not the stereotypical errand runner, mindlessly checking off items on his partner's shopping list.*

*He is often the shopper and decision maker, and therefore a person brands need to get to know better.*

*Some key things to remember about Millennials is that they are:*

### TECH-SAVVY

Millennials' uncontested access and affinity for information has given them the luxury and expectation of choice. They are re-shaping the retail space through utilising mobile technology to gather product information, reviews and price comparisons at the shelf.

Millennials have a strong preference for brands that offer seamless integration between online and offline shopping. According to research from data and analytics company Annalect, 52% of millennials surveyed said that the technology a brand uses is the most important factor when making a purchase, compared with 48% who said brand name is most effective.

### "NOWNERS"

Despite their affinity for technology, 81% of millennial's retail spending is occurring in brick-and-mortar stores, as compared to only 19% online. Prizing experiences over ownership, they love shopping but see it as a form of entertainment and are often inclined to browse, but not buy.

They have the lowest shopping conversion rate of all generations (57%). Smart retailers are turning this to their advantage and offering shoppers a fun experience. For example, H&M's store in midtown Manhattan has a runway shoppers can walk down wearing their new clothes – they are filmed and the best videos are displayed on storefront screens.

**82% of millenials prefer brick-and-mortar stores.**



**91%**

prefer shopping  
in drugstores



**68%**

prefer shopping in  
consumer electronics stores



**80%**

prefer shopping in  
apparel stores



**84%**

prefer shopping in  
department stores



**83%**

prefer shopping in discount  
or mass merchant stores



## IMPATIENT

With all the world's stores at their fingertips, millennials prefer not to stand in line or wait for purchases to be delivered. This desire for instant gratification, in fact, drove an uptick in so-called click-and-collect (buy online, pickup in-store) purchases during the U.K.'s holiday shopping period.

## LOYAL

Millennials tend to be exceptionally loyal customers, who are not easily deterred when it comes to their favourite brands and stores. This makes attracting the consumer early even more critical, as inspiring switching once loyalty has been fostered is a tricky task.

Millennials are a more diverse group in how they shop, where they shop and how they spend their money – presenting a challenge to traditional retailing.

***Retailers and brand owners will need to respond to the tastes, customs, interests, and spending habits of an increasingly diverse population with money to spend.***

## IN CONCLUSION

**Q1 and Q2 of 2016 has been a bumpy ride. The remainder of 2016 is set to be no less challenging.**

Market instability will remain deeply embedded, the ubiquity of technology will expand and evolve and consumers will continue to be less homogenous and more demanding. According to Planet Retail Chief Economist, Boris Planer, despite all obvious difficulties and challenges, 2016 will also provide plenty of opportunities around the world to flexible organisations.

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***Retailers and brand owners will be charged with the task of developing strategies to win shoppers' consideration and loyalty through understanding and adapting to the divergent factors affecting their business contexts and their shoppers' lives.***

SOURCES: BrandZ Global Top 100 Report 2016 – WPP  
Brexit becomes a reality – Planet Retail  
Consumer Confidence, Q1 2016, Concerns and spending intentions around the world - Nielsen  
Consumers in 2016– Euromonitor International  
Economies in 2016 – Euromonitor International  
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The Retail Business model of the Future – Planet Retail  
Top 5 Economic trends to impact retail in 2016 – Planet Retail  
Top 10 Global consumer trends for 2016 – Euromonitor International  
Understanding the BRICS – Planet Retail  
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[www.pwc.co.za/en/assets/pdf/pwc\\_retailing2015\\_032008-r.pdf](http://www.pwc.co.za/en/assets/pdf/pwc_retailing2015_032008-r.pdf)  
[www.chainstoreage.com/article/millennials-set-rebuild-retail-industry-ground](http://www.chainstoreage.com/article/millennials-set-rebuild-retail-industry-ground)  
[www.retail-week.com/topics/policy-and-legal/brexit-consumer-confidence-expected-to-be-very-fragile/7008707.fullarticle](http://www.retail-week.com/topics/policy-and-legal/brexit-consumer-confidence-expected-to-be-very-fragile/7008707.fullarticle)



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