

SMOLLAN

TRENDS REPORT

APRIL 2018

- ◎ KEY TRENDS IMPACTING
- the shopper
 - the retailer
 - brand owners

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SMOLLAN 

EACH YEAR WE REVIEW KEY TRENDS IMPACTING RETAIL, RETAILERS, BRAND OWNERS AND THE SHOPPER.

These trends are fundamentally not new.

What does change are the nuances of the trends, the rates of change and adoption, the macro and micro-economic contexts of these trends and subsequently the way consumers and the industry responds.

The real value of trend reporting is not in predicting the future. By the time the trends are written and published, they are already at play. The value of reviewing trends is in understanding the underlying belief systems, values and behaviours that shape them, the trajectory and pace at which they are likely to evolve and the response required to keep track of the consumer and the industry.

- ① The value of reviewing trends is in understanding the underlying belief systems, values and behaviours that shape them

● ECONOMIC OUTLOOK 2018

● THE CONSUMER IN 2018

- Consumer age structure shifts
- Urbanisation and multiculturalism
- Experiences versus things
- Co-creation versus personalisation

● RETAIL TRENDS

- Blended business models
- Category spending shifts
- Channel blurring
- The continued rise of Private label

● TECHNOLOGY TRENDS

- Augmented reality and Virtual reality
- Mobile payment methods
- Internet of Things and frictionless commerce
- Artificial Intelligence

● IN CONCLUSION

ECONOMIC OUTLOOK 2018

FOR THE FIRST TIME SINCE THE GLOBAL FINANCIAL CRISIS, ALL MAJOR REGIONS OF THE WORLD ARE EXPERIENCING AN UPTICK IN ECONOMIC GROWTH.



Global GDP growth is estimated to have picked up from 2.4% in 2016 to 3% in 2017 and continuing to edge up to 3.1% in 2018, as the cyclical momentum continues. The upturn is broad-based, with growth increasing in more than half of the world's economies.

Consumer expenditure is expected to grow at its strongest rate since 2011

Consumer sentiment has improved in response to a stronger economic outlook. In the third annual Global Consumer Sentiment survey, conducted by McKinsey in September 2017 in 29 countries, respondents were more upbeat about their finances compared with the previous year. Consumer expenditure is expected to grow at its strongest rate since 2011, however consumer attitudes and behaviours will continue to cause disruption for businesses in 2018.

Some of the key factors influencing consumer behaviour and attitudes are:

- Sustained insecurity about future prospects post the financial crisis
- The impact and ubiquity of technology
- More control than ever before
- Borderless communication and commerce.

THE CONSUMER IN 2018

THE CONSUMER IN 2018 IS QUESTIONING THEIR VALUES, THEIR PRIORITIES AND THEIR PURCHASE DECISIONS.

The impetus for their questions and the direction of the answers are connected to some key consumer trends shaping and reflecting the consumer in 2018.

In order to succeed, brand owners and retailers need a deeper understanding of how people shop, where they shop, and what differences matter across countries and demographics.

• CONSUMER AGE STRUCTURE SHIFTS

The global population is continuing to skew older, particularly in developed markets. 14% of the global population will be older than 60 in 2022.

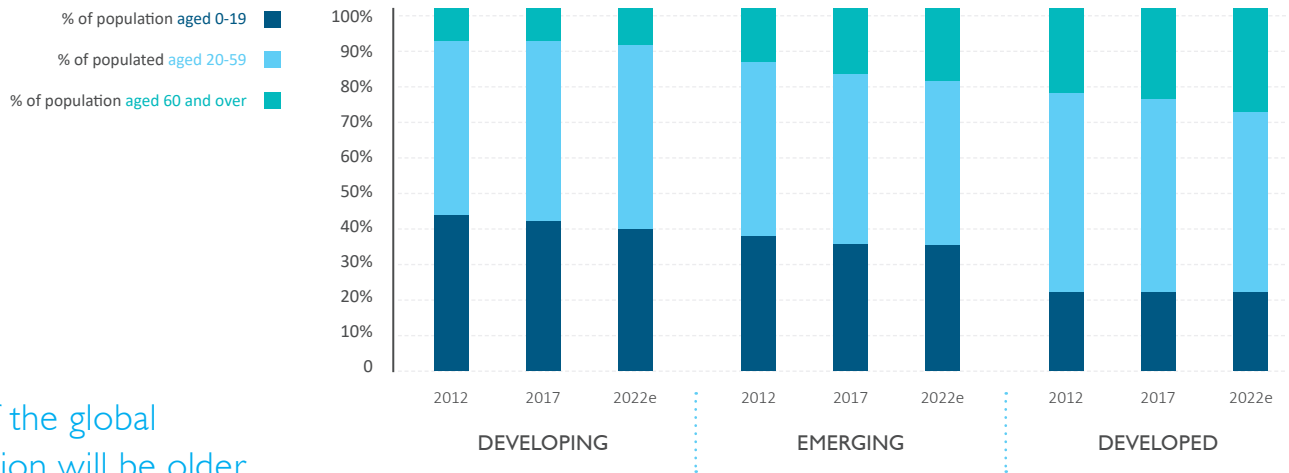
There are multiple implications of this, particularly in developed markets, such as; retailers and brand owners shifting focus to customer retention rather than acquisition, as new consumers are limited.

Ageing shoppers are also likely to consume more services than products, decreasing their retail spending.

In order for retailers to effectively target these consumers they will need to deliver convenience through proximity retailing and store layouts that are easy to navigate and take into consideration the requirements of an older population, such as smaller pack sizes, larger labels and easy-to-reach shelves.



AGE OF POPULATION BY DEVELOPMENT STAGE (%)



Source: UN World Population Prospects

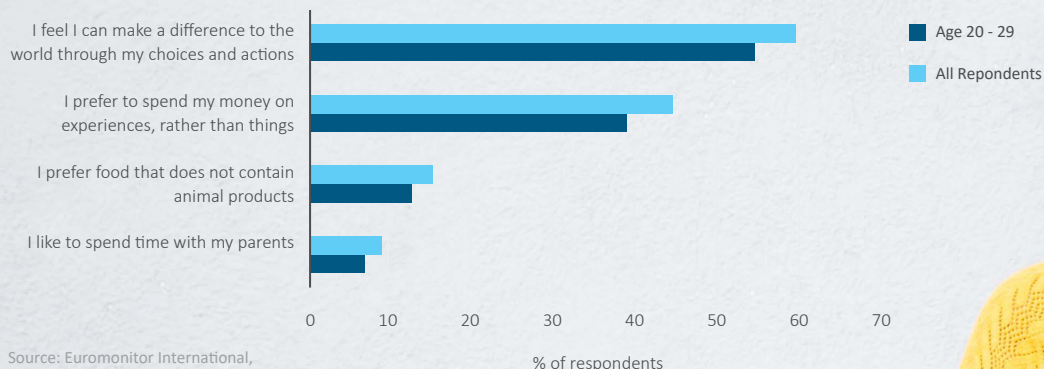
14% of the global population will be older than 60 in 2022

42% of the population in developing markets will be younger than 20 in 2022

In stark contrast, is the maturation of Generation Y and the entrance of Generation Z into the workforce. 42% of the population in developing markets will be younger than 20 in 2022. These younger consumers ramp up consumption as they leave the family home, go to school, gain employment and start families of their own. As a result, customer acquisition will be the primary growth driver for young markets. Getting these consumers to remain loyal to one's brand and/or business over time will be one of the key challenges as they are less brand loyal than any generation before them.

They are adopting clean-living and more minimalist lifestyles, where moderation and integrity are key. They have a wider world view than previous generations, having experienced deep recession, terrorism, global warming realities and political instability.

STRONG BELIEFS AND PREFERENCES AMONG CONSUMERS AGED 20-29



Source: Euromonitor International,
Top 10 Global Consumer Trends for 2018

They feel they can make a difference, and this influences their spending behaviour. They are more inclined to say no to alcohol, unhealthy habits, animal-based products, and, increasingly, no to unmeasured or uninformed spending. They care about what is and is not in their products, as well as the product's journey through the entire supply chain from raw materials to the shelf.

These budget-constrained, ethically motivated shoppers will make up in size and longevity for what they currently lack in spending power. They will emphasise value yet make aspirational purchases of products and will be attracted to store layouts and locations that cater to convenience and deliver experiences.

Implications of having to deliver on the diverse needs of these fundamentally different consumers is that brand owners and retailers will have to segment their shoppers by age in order to appeal to both groups or decide on which group's needs they are best suited to meet.

• URBANISATION & MULTICULTURALISM

The world's top 150 megacities will account for nearly a quarter of global retail sales by 2022. These urban shoppers are more valuable than average shoppers in terms of spend as they have more access to disposable income.

Urban dwellers also tend to be more ethnically diverse as they attract global immigrants through increased job opportunities and higher paid work. Future urban growth will be concentrated in Africa & the Middle East and Asia & Oceania as these are regions in which 88% of the 2017 global rural population live.

The growth of diverse urban populations as well as the physical space constraints in cities has resulted in the increase in small format stores and proximity retailing as retailers and brand owners tailor their ranges and assortments in order to cater to the more diverse and specific needs of their shoppers.

Another key consideration for retailers and brand owners in urban environments is the shift in growth drivers as smaller pack sizes are required for consumers who walk or use public transport for shopping trips, meaning that trip frequency will increase as basket size declines.



Global population: **7.6** BILLION

Median age: **30.3** YEARS

Fertility rate: **3.0** CHILDREN BORN PER FEMALE

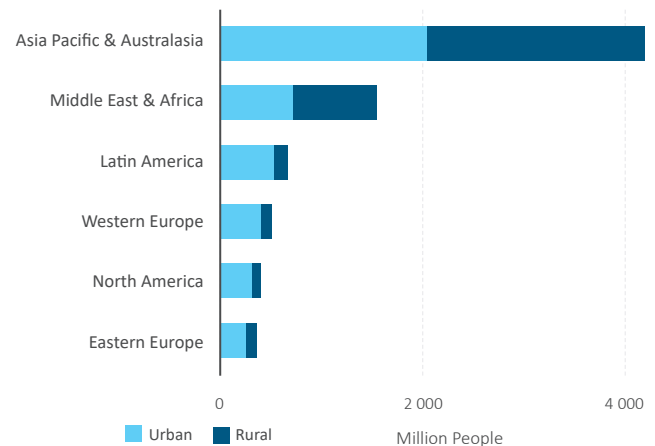
Life expectancy: **72.5** YEARS AT BIRTH

Although serving urban shoppers adds a level of complexity for retailers and brand owners, there is also significant opportunity in capitalizing on the higher spending power of urban consumers, as well as leveraging off the sheer number of people living in relatively close proximity.



opportunity in capitalizing on the higher spending power of urban consumers

REGIONAL POPULATION BY LOCATION 2018



Source: Retail, RNG, Global STEIP 2018, The Future of Retail

• EXPERIENCES VERSUS THINGS

Retail as a share of consumer spending is declining. Consumers are shifting spend to travel, entertainment and dining out, and away from physical products, particularly expensive discretionary items. This trend is occurring globally, but is more pronounced in developing markets.

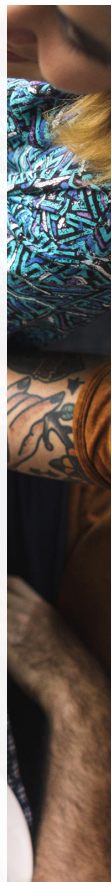


Consumers, especially the younger cohort are looking for experiences they can share rather than things they can own. Social media in particular reinforces this trend as consumers look for experiences that can be recorded, shared and engaged with across digital platforms.

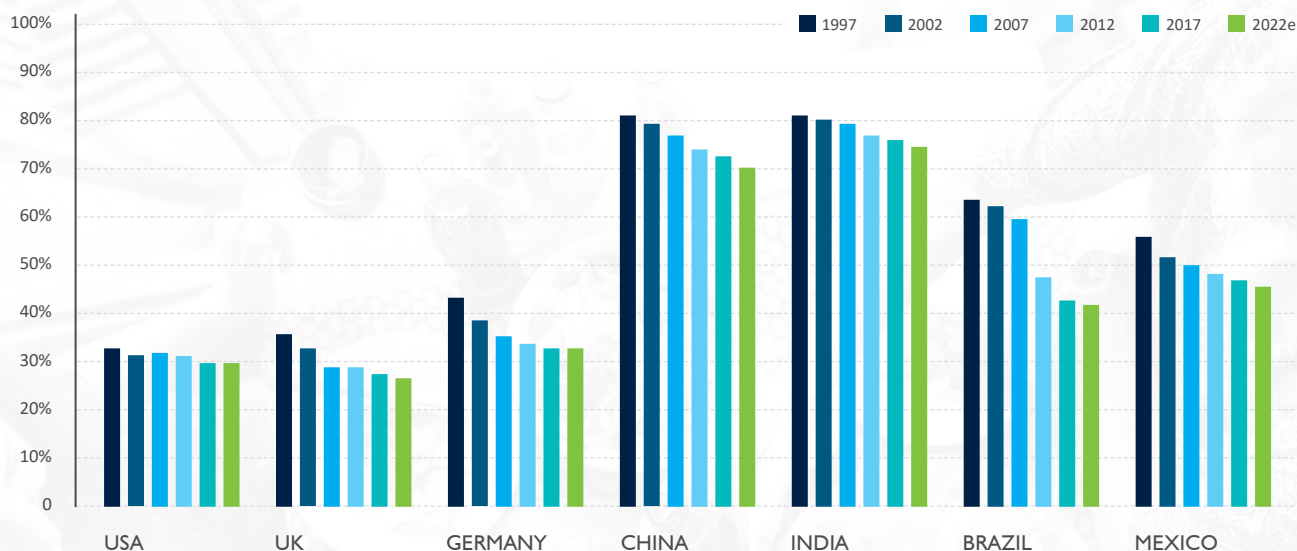
looking for
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Retailers and brands can invest in 'experiential' retail to adapt to these spending behaviour changes and convert experiences into purchases.

Retailers will need to reallocate store space to accommodate more services-based and experiential offerings such as cooking classes and beauty consultants. Another opportunity exists in capturing "experience spending" through new offerings such as meal kits and product and services bundling which enable experiences at home.



SHARE OF CONSUMER SPENDING ON RETAIL BY TOP MARKETS (%)



Source: PlanetRetail RNG

• CO-CREATION VERSUS PERSONALISATION

The shift in focus from possessions to experiences and ownership to access is changing purchasing patterns, and driving shoppers to connect with the product creation process. For some, merely to own is unrefined, there is a sophistication and acknowledgement for those who participate in the creation, design and build of the products they buy.

This trend is a combination of the ongoing desire for personalisation and the yearning for authenticity to create

next-generation customisation. These consumers are assuming the role of creators: not just customising mass-produced products, different colours, patterns and details; they are co-creating something for themselves with which they personally connect – something that is truly unique.

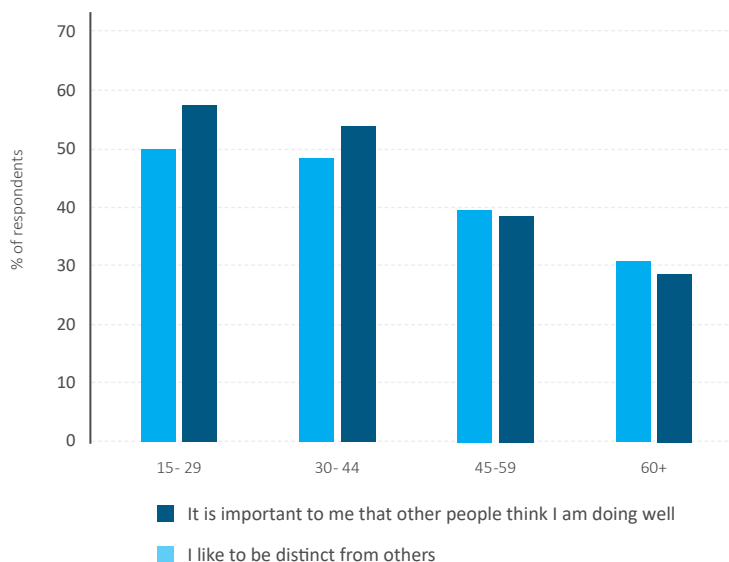
The “share-ability” and “like-ability” of this unique-ness is a status symbol and an expression of self.

Important to note is that these consumers are not looking to build from scratch, but want access to the tools and pieces they need to create – they want the opportunity to be a small part of the production process. In order to appeal to this growing and influential group of consumers, brands need to make it easy for their consumers to be creative.

LEGO Ideas is a co-creation platform allowing fans to submit their own designs for new LEGO sets. Successful projects then go into production and are sold globally, with the creator given recognition as the designer, and also receiving a share of royalties.

Another great example is **Mon Purse**, which allows customers to design every part of a handbag from scratch, using a digital interface on the company's website or via a screen in a department store. The designer can create items ranging from wristlets to satchels, and has control over the colour and texture of the leather, hardware and personal monogram. The application is coded to only offer complimentary combinations of items and colours to ensure that the shopper is guaranteed to end up with an item that is both fashionable and reflective of his or her personal style.

RESPONDENTS WANTING TO BE DISTINCT AND CONSIDERED BY OTHERS TO BE DOING WELL, BY AGE



Source: Euromonitor International Global Consumer Trends Survey 2017

Note: Refers to % of respondents who agree or strongly agree with the statement

Collaborating and co-creating with consumers offers a remarkable marketing platform for brands and retailers to create experiences and connect with consumers in unique ways.

This trend offers a highly personalised in store experience, fantastic brand connection points and content and data that can unearth consumer preferences that can be used to inform product development, inventory management and market segmentation.

RETAIL TRENDS

THE INDUSTRY CURRENTLY FACES THE SIGNIFICANT CHALLENGE OF FINDING GROWTH AMIDST INCREASED MARGIN PRESSURE, MANAGING THE ECONOMICS AND COMPLEXITY OF DELIVERING OMNI-CHANNEL BUSINESS MODELS AND THE DIGITALLY ENGAGED CONSUMER'S DEMAND FOR MORE VALUE AND EXCEPTIONAL EXPERIENCES.

Retailers and brand owners that proactively figure out how to manage these various elements and deliver on the shopper's requirements of both execution and discovery will be the ones to

thrive as retail becomes a place to browse, shop and buy both in physical and digital spaces.

• BLENDED BUSINESS MODELS

The 'all under one roof' appeal of brick-and-mortar retail is being eroded by online channel growth, and while the physical store is far from dead – it needs to be reinvented in order to remain relevant.

What was once a collection of clearly defined channels has flourished into an interconnected network of outlets. As more consumers look to online opportunities, having seamless integration with digital offerings becomes vital for traditional retail.

Physical stores still account for the majority of profits across many top retailers.

eCOMMERCE VS STORE-BASED
Grocery Retailer Comparison of Typical P&L (%)

	ONLINE GROCERS	STORE-BASED GROCERS
REVENUE	100.0%	100.0%
COGS (cost of goods sold)	83.3%	79.4%
GROSS MARGIN	16.7%	20.6%
OPERATING EXPENSES	16.3%	17.8%
Store rental	0.0%	3.5%
Personnel	3.4%	8.3%
Fulfilment	7.4%	3.0%
Marketing	2.5%	1.5%
Technology	3.0%	1.5%
OPERATING INCOME	0.4%	2.8%

Source: Planet Retail

In order to thrive in this context with new competitors and new business models, retailers and brand owners need to create a retail value chain that leverages multiple different business models to remain competitive and profitable. As a result, many leading retailers are adopting a “blended” approach to their operating models in order to deliver against the shopper’s needs, as well as to optimise the economics of multiple points of buying.

According to Planet Retail, as channels are increasingly blurred, strategies that segment the market by fulfilment model or consumer trip occasions will become more relevant than segmentation by store type or physical/digital.

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or consumer trip occasions will become more relevant



• CATEGORY SPENDING SHIFTS

Spend is shifting from food to non-food categories across all market development stages as spend shifts towards experience-driven categories. Foodservice, for example, is growing its share as people choose to dine out more. Entertainment, both products and services, is one of the fastest growing categories globally.

Entertainment, both products and services, is one of the fastest growing categories globally.

THE TOP 5 FASTEST GROWING CATEGORIES | CAGR % 2018-2022



8.2%

OFFICE



7.9%

ENTERTAINMENT



7.2%

HOUSEHOLD
& PET CARE



6.5%

HEALTH
& BEAUTY



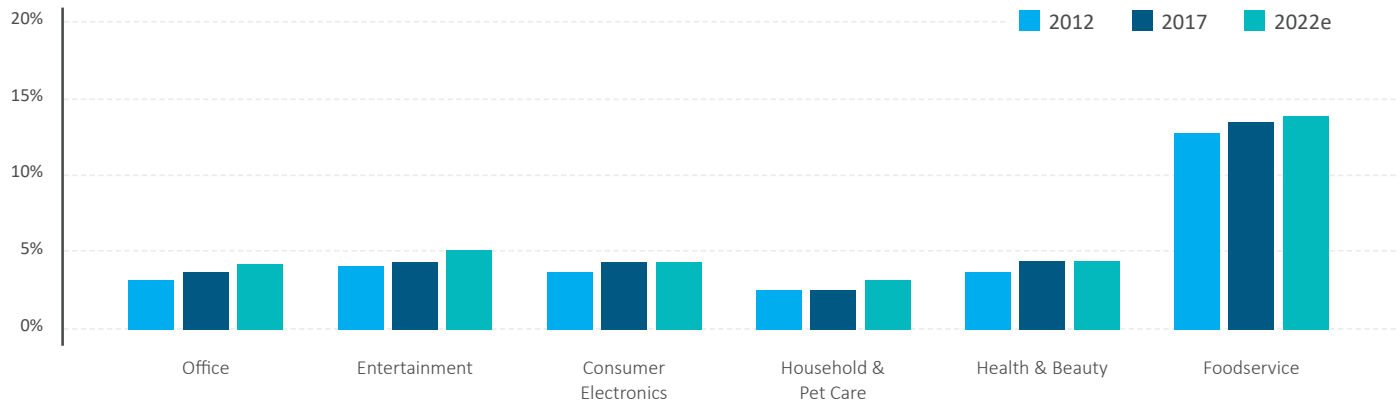
6.2%

FOODSERVICE

Emerging and developing markets will see the most growth in non-essential retail categories. From 2012 to 2022, share of edible food in emerging markets is expected to decrease from 42% to 37%, and from 55% to 50%. Entertainment will be the fastest-growing category.

However, despite losing share, edible grocery will remain the largest spending category globally with 27% share in 2022. In 2017, it accounts for 15% in developed markets, 40% in emerging markets, and 53% in developing markets.

GLOBAL SHARE OF SPEND BY CATEGORY (%)



Source: Planet Retail RNG

In response to the shifts in growth of various categories, store space and resources should be reallocated to categories that are gaining share, whilst maintaining sufficient space for current revenue driving categories.

Food should remain a key focus area, especially in developing and emerging markets.

Food will remain a strong and reliable category that can be differentiated through tailoring assortments. It should remain a key focus area, especially in developing and emerging markets.

Stocking more pre-prepared food items, meal kits and in-store restaurants will tap into the consumer's desire for experiences. Product innovation can also assist in delivering on-the-go meal options to compete with the growth of alternative foodservice offerings.





• CHANNEL BLURRING

Channel distinctions become less clear as the consumer's buying options increase rapidly across digital and physical platforms and the range and assortments of traditional retailers shift to accommodate growing categories as well as in an attempt to present an offering comparable to that of online platforms.

Important shifts to note in terms of channel over the next few years are:

- *Hypermarkets declining globally while small format stores grow. Small discounters are forecast to gain 5% share of sales by 2022.*
- *Supermarkets will remain the largest food-selling channel*
- *Convenience is the fastest growing store-based retail channel*
- *The rise of "value-based" retailers/deep discounters*
- *Ecommerce is expected to account for half of global sales added through 2022, adding more than 1.3 Trillion USD*

The implications of channel blurring is the requirement for retailers to review their value propositions to ensure they remain relevant to their target audience and reinforce the occasions on which the shopper would choose their channel and their stores. They will also need to find ways in which to maintain differentiation, either through the experience they create, unique/tailored assortments and/or incorporating services that create experiences and drive foot-fall. Most importantly, with more ways to buy and more places to get information than ever before, customer engagement throughout the path-to-purchase will be essential.

• Asia & Oceania is by far the most ecommerce-penetrated region in the world. Ecommerce will represent 47% of their chain retail in 2022.

Ecommerce will only represent 5% share of sales in Africa & Middle East by 2022, but digital influence in the shopper journey will continue to rise.

Source: Planet Retail RNG

THE CONTINUED RISE OF PRIVATE LABEL

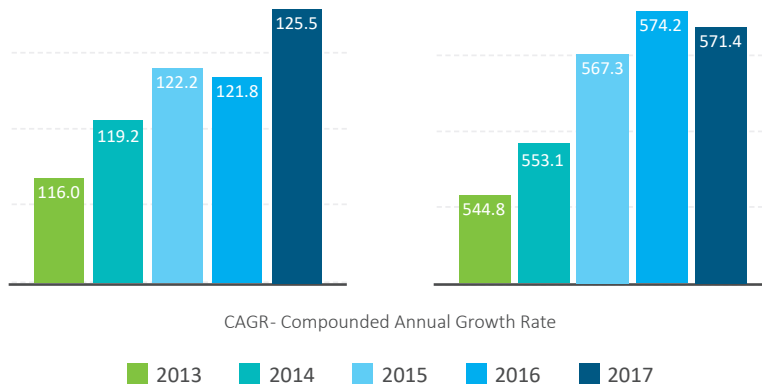
Retailers are successfully developing and marketing their own products rather than multinational name brands to meet changing consumer needs.

Store branded products have continued to perform well and establish their importance in retail, demonstrating sales growth of more than three times the rate of branded products. Nielsen information across more than 60 countries shows that private label products continue to gain share across all major geographies.

PRIVATE LABEL PERFORMANCE

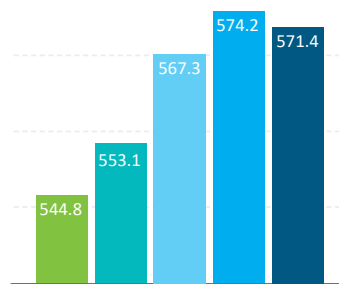
PRIVATE LABEL

+3.0% VS. YEAR-AGO
+2.0% (4-YEAR CAGR)



BRANDED PRODUCTS

-0.5% VS. YEAR-AGO
+1.2% (4-YEAR CAGR)



CAGR- Compounded Annual Growth Rate

2013 2014 2015 2016 2017

private label products continue to gain share across all major geographies

Source: Nielsen Retail Measurement Services, Core syndicated hierarchy, Total U.S. excluding convenience store, 52 weeks ended Dec. 30, 2017 vs. year-ago, UPC-coded

Private label will continue to grow in developed markets as consumers are not reverting to previous shopping behaviour. In emerging markets, private-label brands are growing, and this will continue because they are now part of the growth of the economy.

~ Olivier Deschamps | SVP Retailer Services, Western Europe, Canada and Pacific

Retailers have also repositioned private label and shifted perceptions through stretching the continuum between budget private label and premium private label, which has strategic implications for brands. Premiumisation of private label has specifically been focused around food items.

Many shoppers now see private-label products as as-good-as branded products and getting better. The growth of new store

openings and eCommerce over the past few years has also made these products more widely accessible.

As FMCG shopping moves toward a fusion of off-and-online purchasing, this new and different shopper journey has the potential to further disrupt the relationship that shoppers have with brands, leaving space for private label to gain share.



shoppers now see private-label products as as-good-as branded products and getting better

TECHNOLOGY TRENDS

TECHNOLOGY IS CHANGING WHAT CONSUMERS WANT, WHEN AND HOW THEY WANT IT. TECHNOLOGY CAN DELIVER EFFICIENCIES IN RETAIL ENVIRONMENTS, ENABLE PERSONALISATION AND ULTIMATELY FACILITATE THE DELIVERY OF VALUABLE ENGAGEMENTS. AT A BASIC LEVEL, IT CAN REMOVE PROCESS FRICTION FROM THE PATH-TO-PURCHASE BOTH ONLINE AND INSTORE.

According to Dr. Jonathan Reynolds, academic director of the Oxford Institute of Retail Management at Oxford's Saïd Business school, Retail CEO's will need to be tech savvy and willing to

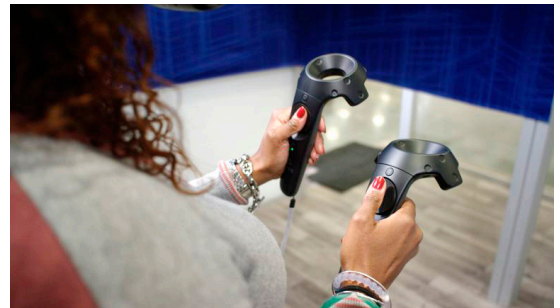
delegate to digital experts in order to keep pace with the rate of change and influence of digital in retail.

• AUGMENTED REALITY AND VIRTUAL REALITY

Accelerating AR/VR development will lead to a wide range of retail applications as. VR is currently largely being used to drive store traffic in flagship/concept stores by offering experiences that cannot be replicated online. These immersive experiences hold the potential to enhance existing shopping platforms and develop new ones through connecting digital images and physical spaces.

A great example of this is Lowe's 'Holeroom How To,' an in-store immersive virtual reality experience to help customers learn the skills to complete challenging home improvement projects. The experience requires a shopper to put on a VR headset and hold a controller in each hand, to be immersed in a DIY project that provides step-by-step instructions and feedback.

Retail CEO's will need to be tech savvy and willing to delegate to digital experts in order to keep pace





brand owners integrate the technology into stores and applications that provide immersive experiences in real-world scenarios

Augmented reality however is currently more scalable as retailers and brand owners integrate the technology into stores and applications that provide immersive experiences in real-world scenarios. This includes, entertainment, education and shopping assistance, virtual product try-ons and interior design planning, both in traditional retail environments and in the comfort of the consumer's home. Ikea Place allows consumers to see how IKEA products would look in their own homes via augmented reality.

As this technology continues to develop and retailer and brand adoption increase, there will be even more operational and customer-facing applications to elevate the consumer journey. Adoption is not a requirement for success but is likely to improve out-of-store shopping experiences as well as build more interaction points with the consumer.



• MOBILE PAYMENT METHODS

Although cash and credit cards still rule, mobile has emerged as the key to future payments development.

The rise of direct-to-consumer means that brands must consider facilitating fully integrated, seamless payment methods. This is particularly relevant in developing markets where there are many unbanked consumers or those who lack access to credit. These consumers can use mobile payments to connect to global payments networks, make purchases online and avoid the risks of carrying cash.

Due to payment methods and infrastructure varying significantly by market, it is unlikely that there will be a global solution. Mobile payment providers will be specific to their regions. Retailers will also have the ability to capitalise on the opportunity through creating their own mobile payment platforms to make it faster and easier for customers to pay via mobile.

Tesco, for example, has extended the availability of its mobile payments app, PayQwiq, across the UK. It not only allows customers to pay for their goods, they are also able to collect loyalty card points via the app.

Enhancing the shopping experience with payment innovations will boost differentiation as it offers consumers choice in the way in which they would like to transact, convenience at the point-of-purchase as well as generating additional customer insight by enabling retailers and brands to cross-reference transaction and basket-level data.

• INTERNET OF THINGS AND FRICTIONLESS COMMERCE

The Internet of Things* (IoT) is digitizing and connecting all aspects of shoppers' lives and retail operations through enabling frictionless retail engagement between retailers, brand owners and shoppers.

From an operational efficiency perspective, networked devices and embedded sensors will enable retailers and brands to communicate more efficiently across the supply chain. From a consumer perspective, sensors, smart products and packaging and real-time communications will increase consumer expectations around convenience, personalisation, and transparency.

There are multiple applications and benefits of IoT to retailers, shoppers and brand owners – an optimal symbiotic relationship in which everyone can win:

- Networked sensors can provide real-time shopper engagement to improve the shopping experience and enable brands and retailers to engage with the shopper "one-on-one"
- Smart devices can create more consumer touchpoints and opportunities to enhance brand visibility and loyalty
- Real time visibility and tracking of inventory enabling more seamless shopping experiences
- Maintain out-of-store relationships with shoppers through connected wearables and personalised offerings.

Connected products and frictionless commerce allow consumers and retailers to engage in ways that are meaningful to the shopping experience, such as speed of execution or discovery.



• ARTIFICIAL INTELLIGENCE

Though in its early stages, artificial intelligence will transform retail analytics and planning. It can process vast amounts of data to derive more meaningful insight and 'next-best action' recommendations through predictive analysis and forecasts.

Artificial intelligence is powering predictive analytics that enable retailers to optimise operations by integrating variables outside of their own control based on information drawn from many external sources, including data generated by the customer. The application of AI enables the optimisation of buying, sourcing, deliveries, replenishment, distribution, pricing and promotions.

Artificial intelligence has the ability to transform customer engagement and operational efficiency through using supply

Artificial intelligence has the ability to transform customer engagement and operational efficiency

chain and demand data inferred from customer location, preference and method of delivery, as well as understanding their customers more intimately by reacting to triggers that infer their purchase intent on a real-time, one-to-one,

interactive basis. An example of this is Target leveraging machine learning to tap into customer demand in order to define which touchpoints are valuable and influential to its shoppers' paths-to-purchase.

A key point of contention around Artificial intelligence, amongst other technologies, is the ownership and use of the consumer's data. Consumers are less inclined to enable a business to own their data for their benefit. Retailers and Brand owners must use this data for the consumers benefit as well in order to grow trust and loyalty.

IN CONCLUSION

2018 is likely to be a year characterised by continued disruption but also greater optimism based on global economic performance.

Retailers and brand owners will need to deliver and realise increased operational efficiencies, seamless integration of physical and digital retail spaces, consumer demand for greater convenience as well as more value and exceptional shopping experiences. Delivering on all of the above, at a profit, is the challenge facing retailers and brand owners.

To find out more about our innovations and our insights-led approach to delivering leading retail solutions, contact our Growth and Innovation team.

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