



STORE OF THE FUTURE

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The physical store and retail shopping will change more in the next ten years than in the last 100.

This is being driven by the proliferation of online becoming part of the shopping narrative for most consumers, particularly millennials; the fusion of physical and digital retail experiences needs to be more compelling, more innovative and more accessible than ever before. Building integrated retail experiences that are profitable, provide true differentiation and build loyalty is a key requirement for both retailers and brands to future-proof their businesses in the store of the future.

To help navigate this new era of retailing and ensure the physical store remains relevant for shoppers, retailers and brands, we've summarized some key insights that will inform how we jointly reinvent service models and drive innovation.

Changing Consumer Lifestyles

Consumers, along with the way they shop and interact with brands, have changed. We're now more connected to everything, always on the go, and always on the hunt for ways to make our lives easier.

The very nature of retail is forcing us to change to keep up. We live in a global economy, and the ubiquity of smartphones and social networking apps – along with the meteoric rise of ecommerce – has revolutionised shopping from the ground up.

The urbanisation rate of more than 3% per annum in African countries is higher than that of any other region in the world and looks to continue well into the future.

According to the UN, 55% of the world's population lives in urban areas, and this number is expected to increase to 68% by 2050.

Additional city dwellers mean not just an expanded workforce, but a bigger number of people to sell to as well. Yet the mindset of today's fast-paced and urban shoppers is completely different to what it was a decade ago; there's an emerging consumer generation gap, and retail leaders will have to adapt their store strategies in order to provide the seamless, end-to-end shopping experience consumers expect going forward.

That growing urbanisation is also contributing to a 2.5% year-on-year increase in small basket purchases as store visits become more frequent, explains customer data

THE STORE OF THE FUTURE •

science company, Dunnhumby.

Shopping “little and often” has become the new normal, as consumers’ lives have become even busier. Market trends as well point toward customers seeking out a faster, cheaper, smaller and more streamlined experience; at the same time, consumers expect that shopping experience to be frictionless and pleasant.

Convenience shopping is now defined by consumer behaviour rather than store format, size or location: many shoppers are using large-scale stores as convenience stores, with more than 60% of baskets globally containing six items or less in large format stores, says Dunnhumby.

And according to a recent study by the National Research Foundation (NRF), 73% of shoppers surveyed said they go into stores to buy something specific, and 58% indicated their chief concern is finding what they want quickly and easily.

But who are these new shoppers? And what impact will they have on the store of the future?

The On-Demand Consumer

There’s a new digital generation of millennial shoppers who will make up 75% of the world’s workforce by 2025. This group is creating an on-demand economy that desires convenience and flexibility in all things, and what’s more, they also expect a hyper-personalised and seamless retail experience.

“CUSTOMER EXPERIENCE IS NOT AN INITIATIVE. IT’S A MINDSET CHANGE.”

Ruth Crowley, VP Customer Experience Design, Lowe’s

Millennials (born 1980ish-2000ish) are, in their own right, powerful consumers and trendsetters. They’re savvy online customers, but that doesn’t mean they have stopped going to brick-and-mortar stores altogether. In fact, interviews conducted by Accenture at some of the biggest shopping centres confirmed that many members of this so-called ‘digital generation’ prefer visiting stores to shopping online.

The big question they raise is ‘How will the store of the future work alongside this digitally-connected consumer?’ Despite ecommerce’s impressive growth, shoppers in even the most advanced markets still go to physical stores. Moreover, when online shopping can’t or won’t deliver, a consumer will still need to go into a store. Physical stores, then, will always play a role in retailing.

For many new stores, the answer to this question comes down to creating a shopping experience – something that makes it worthwhile for people to make the trip. It’s about letting those who walk inside a store see, touch, and feel products, engage with

a salesperson, while also having the possibility of instant gratification gained from buying something on the spot.

According to Accenture, “One challenge for retailers is millennials’ seemingly omniscient grasp of prices and promotions, which this generation expects to be the same in stores as they are online.”

What’s more, independent agency Barkley says that “...millennials are not only transforming their own

shopping behaviours, but those of their parents, who are increasingly mimicking the demands of their children for seamlessness as they climb the digital learning curve."

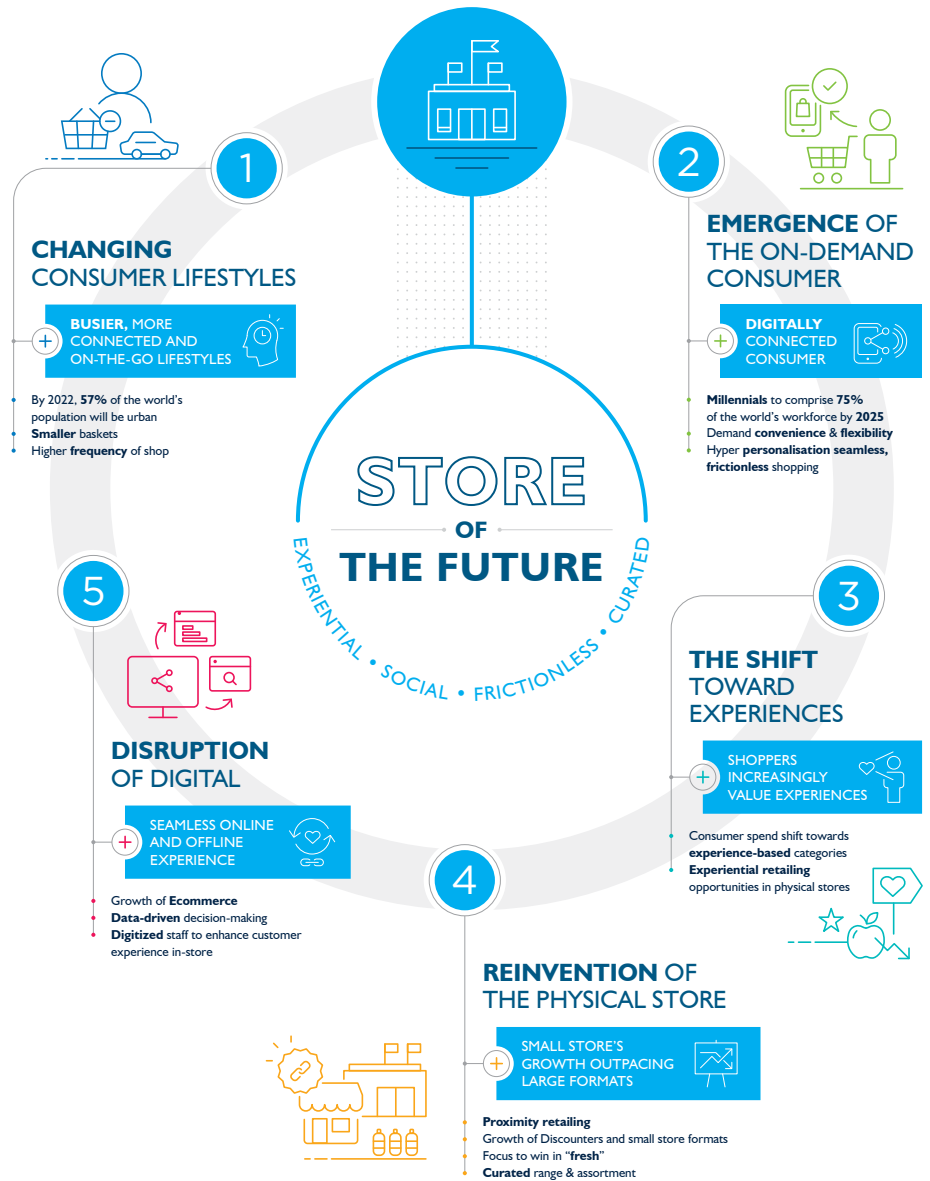
From all of this it's clear that consumer behaviour is shifting. The "On-Demand", "Gig" or "Sharing Economy" is revolutionising commercial behaviour globally. The desire for fast, simple, and efficient shopping experiences means people both demand and expect the immediate availability of services or goods at the tap of a finger.

Uber, SweepSouth, OrderIn, Zulzi are all examples of companies leveraging new on-demand mobile service (ODMS) models. These have created new expectations and opened the door to the idea of real-time retail fulfilment, something consumers have embraced with unprecedented enthusiasm.

Shifting Experiences

The "uberification" of this digital economy signals a fundamental shift in the way that local brands and products are discovered and fulfilled, explains investor and venture capitalist, Steve Schlafman.

In today's on-demand economy, it is becoming tough to entice customers



THE STORE OF THE FUTURE •

“ EXPERIENTIAL RETAIL LOOKS AT
CREATING AND TAILORING EXPERIENCE
**THROUGH A UNIQUE JOURNEY OF
TOUCHPOINTS AVAILABLE
EXCLUSIVELY TO THE SPACE.** ”

Jordan Major, Retail Strategist



and secure brand loyalty. Consumers are choosing to invest in experiences rather than products, which means both retailers and brands need to step up and respond in order to meet these new customer needs.

'Retailtainment', which is the fusion of retail and entertainment, will dominate the in-store shopping sector going forward as both retailers and brands try and provide experience-hungry consumers with fun, unique and engaging activities that elevate shopping from a chore to an experience.

Today's shoppers expect unique and better experiences from in-store shopping, and through experiential retail practises, physical stores can try new and fun ways to enhance the in-store experience.

The Retailtainment Revolution

Retailtainment is crucial for both brands and retailers. Experiential retailers are reinventing the in-store experience, creating environments that attract and delight consumers through smart features like coffee shops, spas, art exhibitions, and a host of other

amenities, along with personalised service, in-store kiosks, pop-up shops, and more.

Hamleys may be the largest and oldest toyshop globally, but its offering of in-store rides, slides and shopping centre trains make the shop more of a destination, than a simple in-and-out retail experience.

"Experiential retail looks at creating and tailoring experience through a unique journey of touchpoints available exclusively to the space, consequentially leaving the consumer entertained, inspired and resonating with the brand or merchant and resulting in sales," explains retail strategist Jordan Major.

According to a study conducted by the University of Michigan, consumers want to feel as though a company is marketing specifically to them, and that their unique needs are met. Those needs are often met through exclusivity and what retail experts are calling an "experiential supply chain".

"This experiential supply chain, where customers are controlling more than they ever have before, involves much more than what they're buying. It's about the experience they get with it. When a customer feels special and believes a [brand] met his or her specific needs,

they are more likely to return to the retailer offering them that experience. Since experiences are specific to individuals, supply chains have to deliver somewhat customised offerings."

Experiential marketing isn't necessarily about spending big on high-tech solutions like robotic AI-powered floor assistants to future-proof retail stores. The real changes won't necessarily be drones or robots – it's about a personalised, enticing and socially marketable in-store shopping experience that meets both the physical and psychological needs of today's customer.

Reinventing the Physical Store

The fundamental definition of what a store is, along with its purpose and function, is changing. Online and offline are fusing. Previously online-only stores (such as Amazon, Alibaba and Yuppiefchef) are building physical stores. And for physical stores, not having an online presence – even one limited to just social media – is unthinkable.

Traditional format economics often don't make sense when it comes to situating new, urbanised locations.

THE STORE OF THE FUTURE •

The physical store is getting smaller – retailers are downsizing (often referred to as “right-sizing”) their prototypical stores to optimise footprints and address the rise of ecommerce, improve their overall economics and relook at other fundamental changes in shopping behaviour.

Globally, warehouse-style retailers like Target are boosting their bottom lines by opening new, smaller stores in strategic locations. Serving as convenient pick-up points for online orders, these smaller stores can also keep stock that fits those living in the area.

But online still isn't everything. Ordering online may be easy, but there are still things which consumers want to pick up themselves, or which the ecommerce supply chain doesn't yet support.

This is why fresh food, in particular, is an area where stores of today and the store of the future holds a crucial advantage over their online competition. Consumers still value the ability to choose the best-looking produce for themselves or are sceptical about the quality of products chosen and delivered by a third party logistics supplier. This is also why “fresh” is often emphasised by retailers as a key differentiation point.

The Disruption of Digital

Consumers have access to more buying opportunities than ever before, but what happens when stores start behaving like websites, and websites like stores? The distinction between bricks and clicks is dissolving – in a little over a decade, ecommerce has seen phenomenal growth: retail ecommerce sales worldwide amounted to 2.3 trillion US dollars in 2018 with eretail revenues projected to grow to 4.88 trillion US dollars in 2021. Yet brick-and-mortar still remains the dominant player by a huge margin.

The ecommerce market share in 2018, as a percentage of all retail sales, is expected to increase to 11.9% — up from 3.5% a decade ago. According to McKinsey, 1.4 billion people will join the global middle class by 2020, and 85% will be in the Asia Pacific region. In fact, ecommerce as a whole has shifted away from the West, with far more focus on the East,

Technology is changing the way we shop and in a data-driven world, learning more about what shoppers are looking for extends far beyond loyalty cards. Biometric surveillance

technology (in other words, facial recognition software) can be implemented from the moment a customer enters a store. It's also more than a security feature to stop shoplifters at the door, or an additional way to pay – the data gathered can give retailers better insight into product choices and spend, meaning customers who spend more could receive a more customised shopping experience.

To bridge physical and online experiences, consumer data will become integral; it will help future-proof stores by identifying shoppers on an ongoing basis. The enhanced use of data and analytics also means that customers can be segmented and receive more experiential content that's tailored exactly to them.

Moreover, retail solutions that enable augmented reality (AR), virtual reality (VR), and 3D printing are gaining significant popularity. AR alone already has a wide range of applications in the retail space; LEGO, for example, allows customers in their certified store to scan product boxes to get the look of the completed kit in 3D.

Demand for personalisation, greater quality and quicker fulfilment are driving the investment in new printing

“BRIDGING THE GAP BETWEEN DIGITAL AND PHYSICAL OBJECTS, NEW TECHNOLOGIES SUCH AS 3D PRINTING SIMPLIFY THE WAY ITEMS ARE CREATED, STOCKED, AND DISTRIBUTED.”

David Mills, CEO of Ricoh Group

technologies. 3D printers can create anything from running shoes with personalised soles (both Nike and New Balance already do it) to jewellery, textiles and even spare parts right in front of the consumer.

Ricoh Europe says 74% of customers want more personalised products. 68% say new printing technologies provide a key source of differentiation for their businesses.

“Bridging the gap between digital and physical objects, new technologies such as 3D printing simplify the way items are created, stocked, and distributed. As on-demand production becomes more localised, the nature of transactions will change as brands begin to emphasise the sale of infinitely replicable 3D products,” says David Mills, CEO of Ricoh Europe.

The New Retail

The physical store is far from dead, but its future success relies on a radical reinvention to match the dramatic shifts in how new, digitally-driven consumers want to shop. The most significant shift will be in the role of physical stores away from being a place of stocking and selling products, towards one where

they must act as a experiential portal where visitors can learn, socialise, and try out new products.

Stores of the future will have to adapt to a digital-first world of high-tech, fast-paced and on-demand consumers in unexpected and forward-thinking ways. And getting to know this generation of up-and-coming shoppers will be crucial for future success.

Ultimately, and especially in the short term, not every innovation needs to drastically change shoppers' lives, but each development will need to be a step towards making shopping more convenient, while helping retailers to remain relevant and profitable at the same time.

For over 87 years, Smollan has partnered with brand owners and retailers to deliver exceptional in-store experiences across a changing retail landscape. Our leading retail solutions are designed to keep your brand relevant in the store of the future. If you have a specific business challenge that you would like us to advise you on, we can tap into our global expertise and develop something just for you.

Contact:
Monique.yaffe@smollan.com