

MarketLine Theme Report

The Future of Retail

Five ways e-commerce and high street stores are evolving to suit changing consumer behaviors

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EXECUTIVE SUMMARY

The world of retail is constantly changing and evolving. Every year key businesses go bankrupt and new ones emerge from the ashes to claim the top spot. In this highly competitive business landscape the offering is everything and businesses more than ever need to know their niche inside out. More than that though, consumers themselves are always changing and new consumer groups emerge with each generation, each with their own tastes, lifestyle choices and preferred methods of purchasing. Today bricks and mortar stores are turning into something new, less sales focused and heavily supported by online retail. Delivery of products is inadequate to meet customer expectation and too expensive and huge investment is being made to help it catch up with the times. Generation Y&Z are the dominant consumer groups today and they act differently than the groups that came before them. Technology is due to enhance stores and close the gap between online and instore. Despite all the press talk about younger generations there is less attention being paid to the fact that the wealthier older consumers are now much more online and internet savvy and there are opportunities in selling to these customers. In this report we look at the future of retail and what the landscape is beginning to look like.

Bricks and mortar: Actual sales instore might be less important in future

Despite the enormous shift online for retail and commerce, bricks and mortar stores are very far from finished. Customers still enjoy and use the traditional format, but that format now has a wealth of online competitors diluting its brand value. The best new stores and online sites have merged their online and high street presence so that one complements the other. But even further than that, the online giants that have benefited from incredible growth in retail sales are now starting to eye up the opportunities on the high-street too, with the aim of bolstering their online offering or taking down high-street opponents. This has caused a number of interesting new high-street retail experiments and a kind of streamlining of the high-street, as dying older businesses are culled and innovative new concepts are tried out.

Next day everything: Making delivery faster and cheaper

The holy grail of the online retail business community is reliable, super-fast delivery. The reason for this is that delivery quality can make or break customer satisfaction and is perhaps the one element which has traditionally not been controlled by the retailers themselves in the process of ordering a product online. The carriers themselves cannot be controlled by the retailers and even the very biggest retailers are beholden to a limited amount of potential delivery agents. As the timely and secure delivery of a product is critical to the overall experience, e-commerce companies have traditionally had no control over a vital aspect of their business. However the future of e-commerce will require new ideas and methods of delivery and in 2018 we are beginning to see these elements emerge.

Generation Y&Z: New Retail experiences to accommodate new tastes

Generations Y&Z are not so different to the groups that came before them, in terms of their wants and desires in life, but there are some environmental elements that influence how they choose to live which retailers need to take into account. Some are doing much better than others however and those that stay in the past quickly become irrelevant, with an average of 40 significant retailers going bankrupt every year since 2007. It has been a rule that retailers need to have a good internet presence for close to a decade now, but Millennials and in particular Generation Z are deeply entrenched in the internet and many have no experience of life without the internet making it of critical importance.

Technology: Getting ready to transform shopping experiences

E-commerce has frequently been hailed as the death nail to physical outlets. Detractors should delay further condemnation: retailers are beginning to realize the full potential of technological advancements on consumer shopping experiences. Not only will retailers increasingly introduce technology to close the divide between online and physical shopping but features to enhance the high-street store will help sustain the physical store business model.

Declarations of imminent demise are now likely to be wound down.

Untapped markets: Retailers will gradually adjust to suit older generations

As retailers come to terms with the new normal of ever more aggressive discounting, one group of consumers that has historically been left largely untapped could relieve pressure. Older age groups – mainly those over 65 years old – now command a substantial chunk of overall spending potential. Not only must retailers adapt stores and the overall shopping experience to attract these consumers, but online stores too. Many older people have experience of online shopping – something that has for too long been presumed to be the preserve of younger customers. Dubbed the ‘grey pound’, succeeding in the challenge of attracting older consumers without losing high-spending young consumer groups will come to dominate retail strategy in the coming years.

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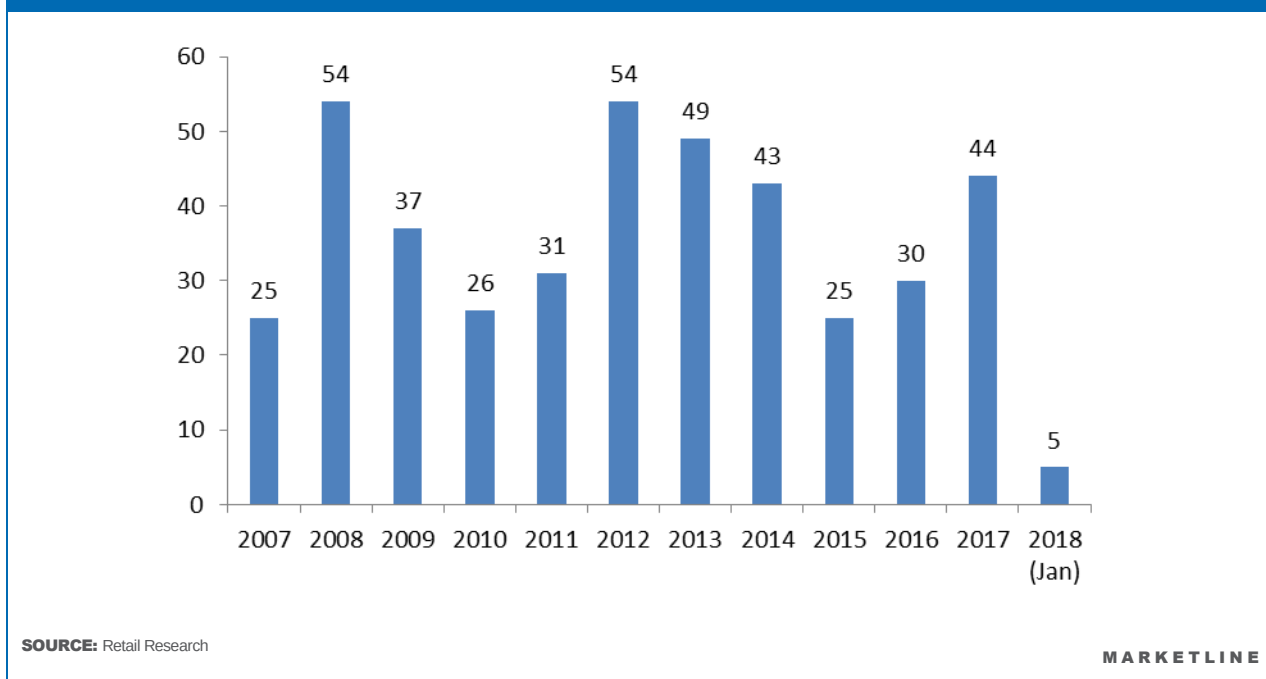
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BRICKS AND MORTAR: ACTUAL SALES INSTORE MIGHT BE LESS IMPORTANT IN FUTURE

Despite the enormous shift online for retail and commerce, bricks and mortar stores are very far from finished. Customers still enjoy and use the traditional format, but that format now has a wealth of online competitors diluting their brand value. The best new stores and online sites have merged their online and high street presence so that one complements the other. But even further than that, the online giants that have benefited from incredible growth in retail sales are now starting to eye up the opportunities on the high-street too, with the aim of bolstering their online offering or taking down high-street opponents. This has caused a number of interesting new high-street retail experiments and a kind of streamlining of the high-street, as dying older businesses are culled and innovative new concepts are tried out.

Figure 1: UK retail companies declared bankrupt or similar 2007-2018



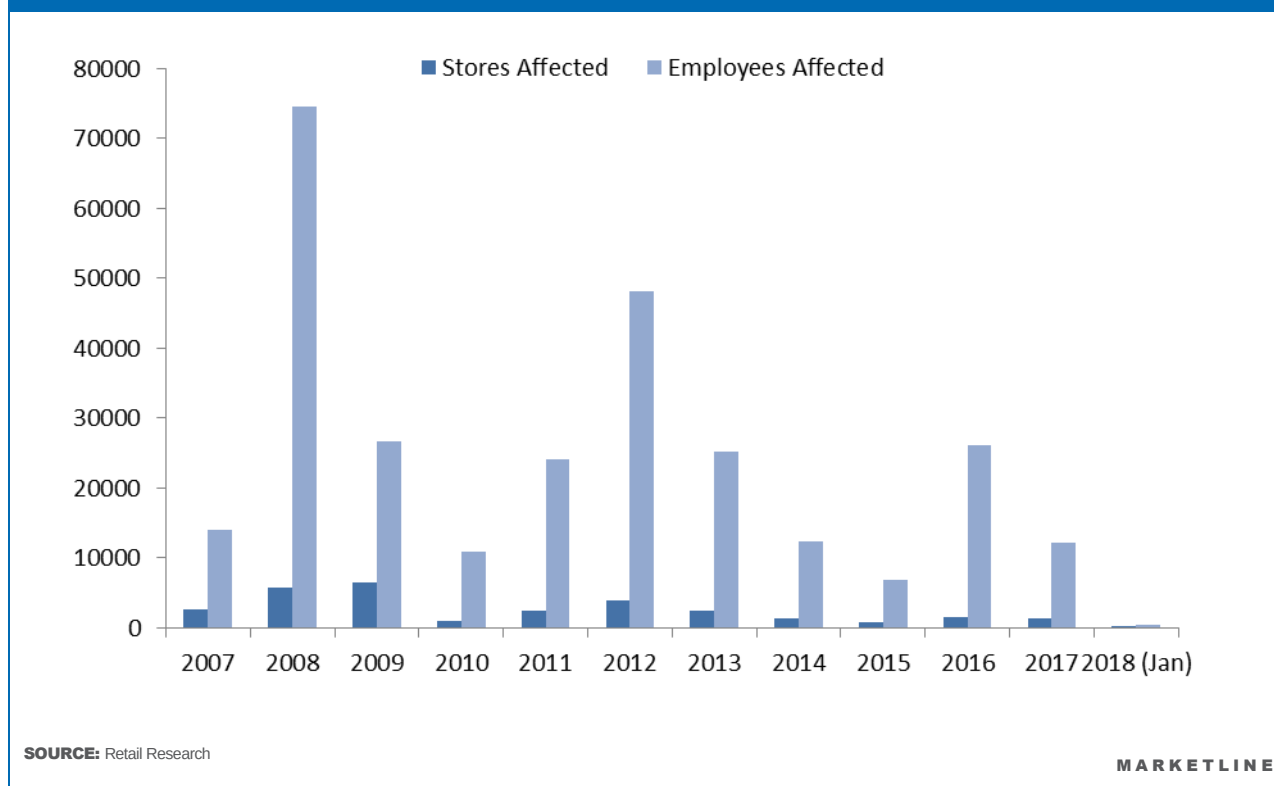
Failing high street stores can be seen in all sectors

Since the rapid development of e-commerce and the internet, some well established brands have been going through a process of managing steady decline. The problem initially was a failure to recognize the direction of travel in the retail sector. Many big brands could have helped to protect their position, or at the least lay the ground work for the future, by adding online services to their repertoire in the early years of online sales. But since then the market has moved ever onwards and simply a token online presence is not good enough to make it in today's retail sector. Multiple establishments have suffered from this problem; they recognized the threat far too late and then scrambled to produce online services which were not up to the standard of the online players. 2017 was a general disaster for many bricks and mortar stores, J.C. Penney, Radio Shack, Macy's and Sears all announced more than 100 store closures in the US and in the UK too the situation was similar with over 1,300 stores having closed in the same year. Effectively a number of big brand names are having to either drastically review their offering, sell off unprofitable stores or are forced into bankruptcy proceedings.

A particular problem is faced by apparel too as it seems to be particularly hard hit by the progress of online retail in the last two years, H&M is an example of this, where despite good online growth the brand has had to close stores due to a very difficult high street situation. However, the threat isn't just from online retail; it can be a plethora of issues from competitors to the very nature of the product itself. Largely the companies that do finally succumb to bankruptcy have failed to instigate the necessary change effectively into the business.

Classic examples are Kodak, Woolworths and HMV, but each year there are new examples available with major financial problems caused by their business model. In the UK alone 44 major retail businesses suffered from bankruptcy in one form or another just in 2017.

Figure 2: UK Stores and Employees affected by bankruptcy 2007-2018



There are multiple and evolving reasons why online retail is so dominant in growth terms

Online retail has been growing at an astonishing rate for more than a decade now, well into double digits, as consumers become more online and less caring about the benefits of traditional stores. Firstly, in the modern world, internet access is now ubiquitous and many people have multiple devices with which to make purchases. In 2017, this has now been the case for a significant period so access is no longer a driver purely on its own, so online retail must have some intrinsic benefits over the traditional store. There were multiple original driving reasons in the early days of online retail, but some of the key drivers are convenience, being able to purchase from the comfort of the home, online prices, which can often be much better than instore prices, and the range of products, which is much more extensive than any one store could offer and from all over the world.

However, there is now a new wave of reasons that drive consumers as the market becomes more sophisticated such as; online marketing which can be highly targeted and specific, very rapid delivery which can allow products to arrive the same or next day, and new software which can enhance the viewing of a product such as videos and online showrooms mimicking the benefits of an online store and perhaps the most important new reason; excellent no quibble returns policies. In many cases the high street stores that have survived in competition with online only retailers are highly online themselves and are able to offer a range of products more extensive than just those that can be found in store. Those that haven't have had their revenues absorbed by voracious competition from the online retailers.

In 2018 the new trend in retail is the slow move back to physical stores with a completely different model

While many household name stores are continuing their steady decline towards bankruptcy, a number of significant online e-commerce and retail establishments have begun to actually implement their own bricks and mortar stores.

Despite the decline of the high-street, many online retailers and manufacturers insist that their new stores are invaluable to their brand. Some analysts suggest that this is because online retail is eventually going to slow and companies want to find new spheres of growth to back up their online businesses. This might be true to an extent, but there is no indication that bricks and mortar retail stores are going to become some huge new area of profit and growth.

Instead a better explanation is that companies with huge online sales that are built on innovating in the online space are spotting opportunities to innovate on the high-street and to bolster their offering. Indeed the companies that have made this move so far have produced rather unusual and different stores as they experiment with new options because their sturdy finances from online sales allow them to. A particularly good example of this is the Apple store, which is laid out exactly like their products are designed; stylish, simple and modern, with the aim being to draw people in to play with their products and ask their staff questions. Big manufacturing brands have for a number of years been creating their own stores to directly sell their products, rather than via other retailers, and Apple, Samsung and Dyson are examples of this trend developing. It won't take long until most major brands are operating in this fashion too if they can.

Figure 3: Google Store



SOURCE: Tech World

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But apart from just brands, retailers themselves now see how they can use the physical store to build up their own brand and offering. The future of bricks and mortar retailing will be more about experience and customer behaviors with the retail spaces becoming marketing tools for brands. Brands that already have rock solid online sales that sustain them completely and are self-sufficient can create high-street stores that are more about marketing and experiencing products than they are selling and dealing. The rise of the showroom retailer is the expression of this trend. The benefit these stores offer far exceeds whatever sales they drum up, because their purpose is providing a real world tangible place where the products can be “discovered” and then the online infrastructure can take care of the business of selling.

Figure 4: Amazon Bookstore New York



SOURCE: Amazon

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After putting bookstores out of business Amazon creates its own

The moves that everyone is watching are those of the online retail goliath, Amazon. Many attributed the decline of the physical store to the monumental growth that Amazon has managed to achieve over the same period, as it snaffles up revenue from countless retail sectors and is always expanding. Amazon's first experiment with the physical store came in the form of a bookstore. These outlets are essentially designed to promote Amazon and its services rather than simply focusing on selling just books. Of the total retail space, Amazon allocated a quarter to various electronic devices that would typically be best selling items on the website, such as the Kindle Fire or Bose speaker systems. The rest is then allocated to books in what is ultimately a very small store in general. Space is tight and Amazon has chosen to bolster this by offering its entire range of products available in store. The point is instead to provide methods of "discovery" which is one of the advantages that physical stores have over online stores. Customers looking for a new book for instance, will be browsing, picking up and putting down products, assessing whether that is right for them and discovering something new. Amazon wants to facilitate this process as much as possible so that customer reviews from its website are instantly on hand via instore devices. Amazon also uses its massive network of data to recommend books to customers in store, for instance through the Kindle, Amazon knows just how long it takes customers to read a particular book and can recommend these in a particular section called "Page Turners". Through these devices customers are also introduced to the benefits of the Amazon Prime service. This store is absolutely designed to bolster and enhance the online offering rather than having to be a standalone book store on its own merit.

Amazon & Whole Foods could be the first of a new generation of stores

One of the most interesting deals of 2017 was Amazon's move to purchase Whole Foods, the upmarket supermarket chain. Amazon has been eyeing its options to move into the high-street for some time, seeing opportunities to boost its offering but few expected it to make a move quite like this. Clearly Amazon has a larger vision for the Whole Foods business and already significant changes have been made to the business.

The loyalty program has been replaced with Amazon Prime of which half of all US households are subscribed and Whole Food's premium ranges of products are available on Amazon as some Amazon products are now available in the store. Amazon collection and ordering lockers were placed in store soon after the purchase allowing convenient collection of Amazon products. Part of the reason for this acquisition is Amazon's desire to get into grocery retailing and Whole Foods has a very good reputation for quality products and responsibly sourced food which can be added straight into Amazon's product line. Just how Whole Foods develops remains to be seen but this is a very significant move into the high street by the world's most important retailer.

Figure 5: Amazon Go



SOURCE: Amazon

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Amazon Go gives a glimpse into the future of payments

Perhaps Amazon's most interesting foray into the high street is the development of an Amazon Go store. The first of these is essentially a local convenience grocery store. Amazon has stocked a range of Whole Foods and Amazon products; however this is no ordinary store. Amazon has been working on this store design for a number of years because it wanted to include some remarkable technological developments into the plans. The concept includes no cashiers, no tills, no returns desk and effectively no payment in store. In order to gain access to the store, customers scan themselves in using a smart phone which links them to their Amazon account, then a very high tech system of cameras, tracking devices and logistics algorithms track what is picked up by the customer and adds it to a virtual basket. The system is sophisticated enough to track items being placed back on the shelves. When finished customers simply walk out of the shop and the payment is made via Amazon.

The advantages of this system are numerous, less staff is needed, no queues at the checkouts, items can be bagged up immediately and a huge amount of useful data can be gathered on what products consumers like via what they look at and how they move around the store. A further advantage for the consumer is that returns are effectively free, there is no physical way to return an item and Amazon will instantly refund faulty or unsatisfactory products.

This process is open to exploitation however and there are other elements which will need to be tested in the store such as theft of products and customers leaving unwanted items in the wrong place. However, it is not difficult to see this technology being rolled out in other stores that are attempting to make efficiency savings and perhaps Amazon will eventually license this technology in future.

Figure 6: Bonobos' Guide Shop



SOURCE: Business Insider

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Walmart's Bonobos and the showroom model is the future of the high-street

Walmart purchased Bonobos, the innovative US apparel retailer in June 2017. The reason for the acquisition was less to do with the good sales or assets of the brand, instead the primary driver was that Walmart wanted to learn from the company. Bonobos has been a very effective online retailer, competing in spheres of apparel that would traditionally be dominated by companies such as Gap. What made Bonobos so attractive to Walmart though was that it had instigated a highly effective "guide-shop" business model. The company has 44 locations in desirable cities in the US, where customers can try on various items and make purchases, but the items cannot be taken home then and there. Items are instead delivered through the very successful online business and distribution process.

The shop is literally a showroom, where staff is on hand to go through the product line and consumers can try on various sizes and assess the suitability and quality of any particular product. In many ways, there is nothing new about this type of shop, it has served the catalogue retailers for decades, but it does represent an evolution in online retail where companies have recognized the weaknesses in their business model and are attempting to improve on it. This showroom model does appear to be working for Bonobos and its CEO has stated multiple times that the stores are profitable and the company is pushing to open more. Opening stores as a type of showroom addition to a much broader retail model does appear to be the future of the high street and many very large brands have identified the benefits of this model already, Apple, Google and Samsung were some of the first to get this process started as they identify the intrinsic quality that only a physical presence can bring. However, when this is combined with the ability to provide autonomous same day free delivery as many retailers are developing, carrying bags might also be a thing of the past with no real wait to get the product.

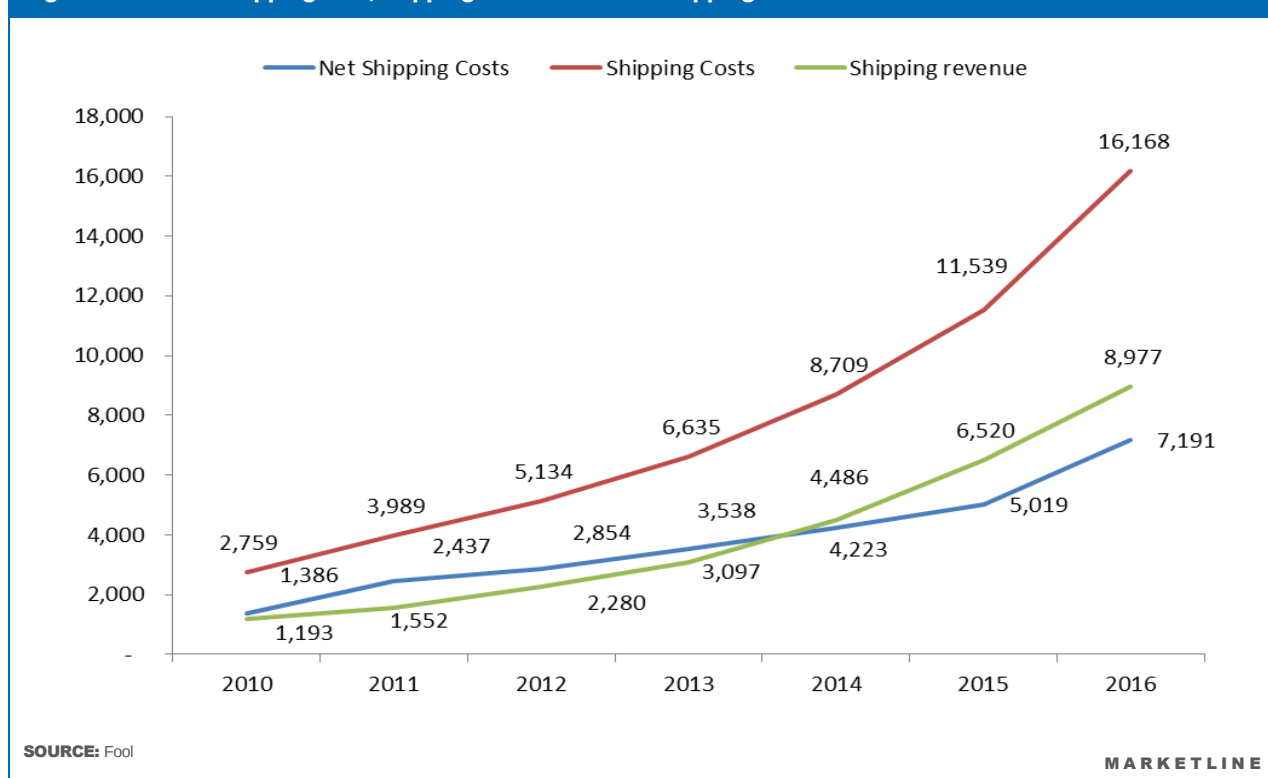
NEXT DAY EVERYTHING, MAKING DELIVERY FASTER AND CHEAPER

The holy grail of the online retail business community is reliable, super-fast delivery. The reason for this is that delivery quality can make or break customer satisfaction and is perhaps the one element which has traditionally not been controlled by the retailers themselves in the process of ordering a product online. The carriers themselves cannot be controlled by the retailers and even the very biggest retailers are beholden to a limited amount of potential delivery agents. As the timely and secure delivery of a product is critical to the overall experience, e-commerce companies have traditionally had no control over a vital aspect of their business. However the future of e-commerce will require new ideas and methods of delivery and in 2018 we are beginning to see these elements emerge.

Retailers care about delivery quality because their offering is poor without it

For online retailers and e-commerce companies, the quality, reliability, security, flexibility and timely nature of the delivery service for their product is absolutely crucial to the business model. Since many of these retailers have no customer facing physical stores to support returns or allow collection, the delivery aspect has to be excellent. Customers want to be able to return items swiftly, they want next day delivery or better and for delivery to be as cheap and convenient as possible. E-commerce specialists that have managed to achieve this generally do better in the market place and the obvious leader is Amazon, which is focused on getting this aspect right and is willing to invest heavily in creating its own networks to supplement normal carriers and control the quality of delivery. The focus on next day delivery grows stronger every year and retailers have to consider all kinds of options to keep up with customer demands. The nature of online retailers means that items cannot be collected immediately as with a bricks and mortar store and this is one of few areas where buying items in store has an immediate advantage over online retailers. Shipping costs are increasingly expensive and even goliath companies such as Amazon have shown that current rises in shipping costs are actually beginning to outpace sales in many instances. Improving delivery services and making them more efficient is part of the future of the retail industry and not just a transportation issue.

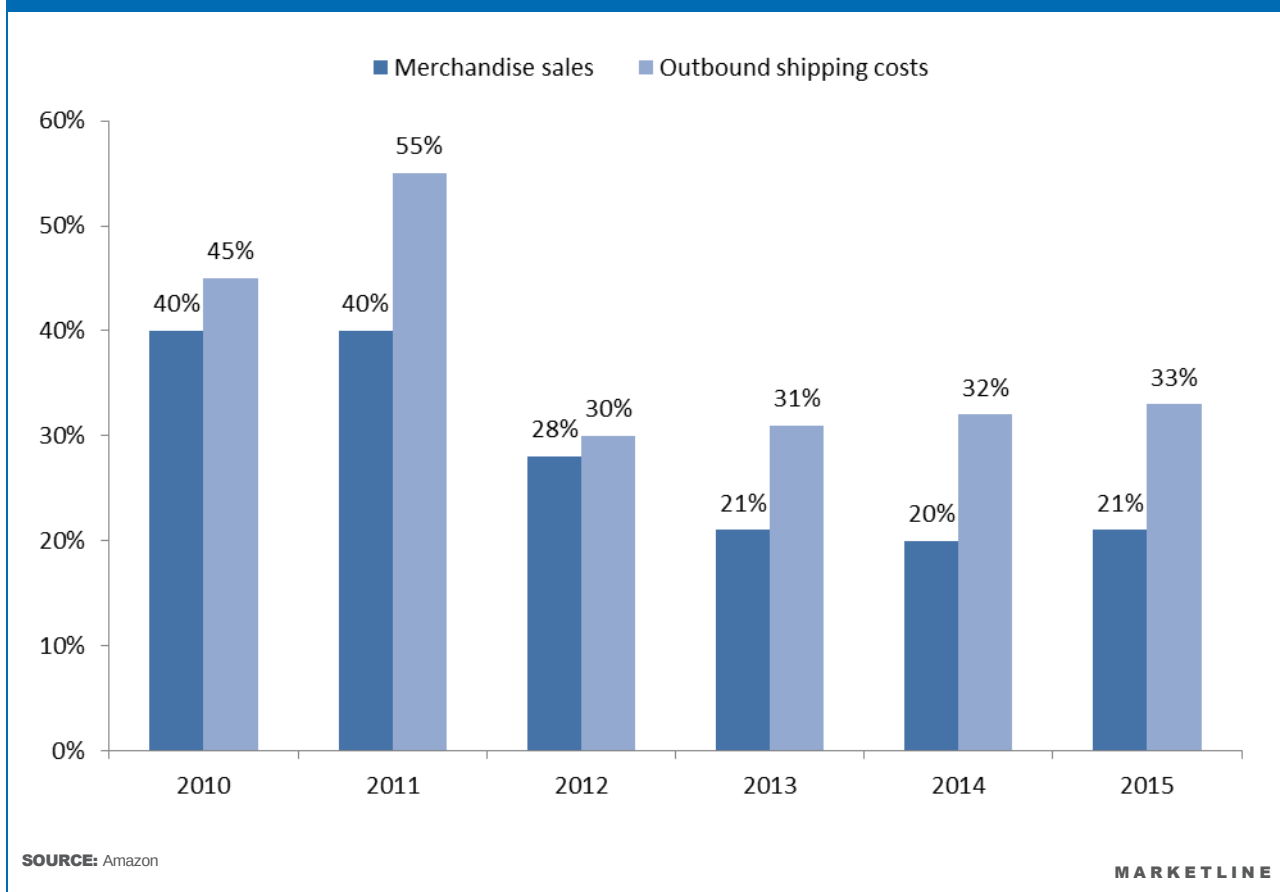
Figure 7: Amazon shipping cost, shipping revenue and net shipping costs 2010-2016 \$m



Shipping costs are becoming a huge, expensive problem for all kinds of retailers

Amazon spends billions more on shipping than it is able to bring back in charges and fees, and many brick-and-mortar retailers that have extensive online operations complain that e-commerce sales come with a much lower margin than in-store sales. Sales in store come with specified additional overheads, other than the cost of the store and staff which remains the same regardless of sales numbers, but each individual e-commerce sale needs to be picked, packed, and shipped, and retailers are at the mercy of the distributors. For a number of years, despite excellent growth in the online retail sector, growth in shipping costs have outstripped growth in sales year on year. This leaves retailers in a precarious position and is evidence of a lack of capacity in the delivery system. The carriers are clearly unable to absorb the extra traffic that the rapidly growing online retail industry is producing meaning that shipping costs have been skyrocketing. This leaves retailers directly exposed to any number of inputs to the transport and haulage industry. Elements such as vehicle prices, fuel cost, airplane costs, trains and driver wages can all filter straight through to the retailers, whilst none of the benefits of the shipping costs that a customer would pay are being reabsorbed when using an outside carrier. With this discrepancy in price growing, many e-commerce companies are refusing to take the hit on burgeoning shipping costs or damage their offering by passing on costs directly to the customer. Companies like Amazon have made it a priority to fix this problem because it directly affects their bottom line.

Figure 8: Amazon, disparity between sales and shipping expenses growth 2010-2015



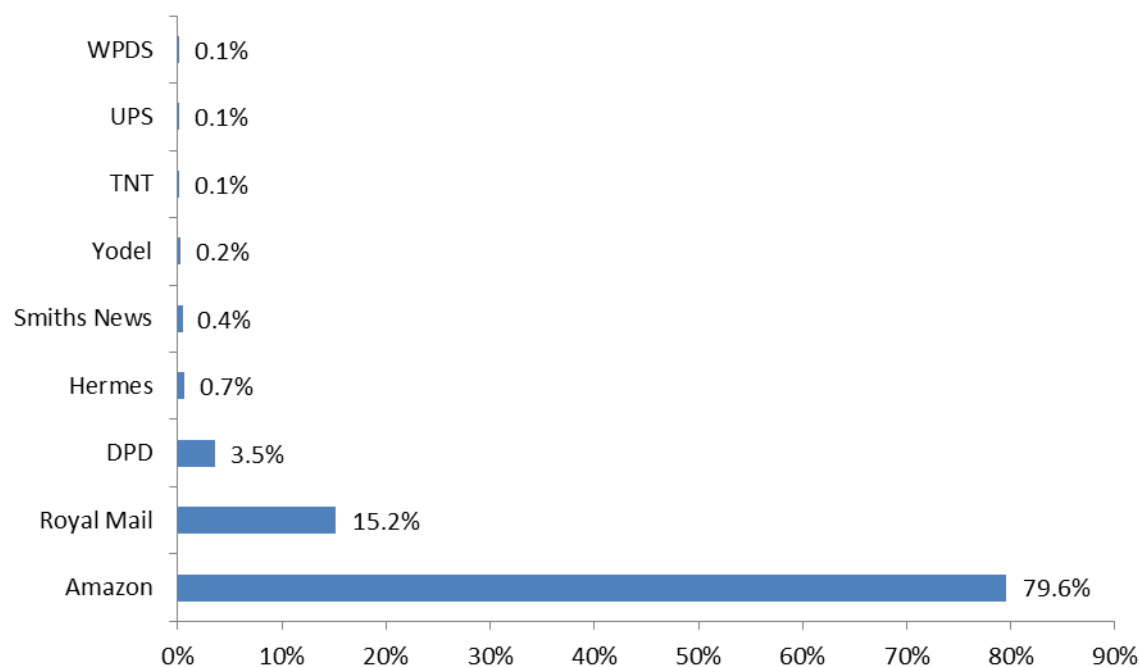
Home delivery is currently failing as a concept, which is a major problem for retailers

Home delivery as a service is failing as a concept in many senses. The reason for this is because retailers have realized that home deliveries simply don't work very well, they're inefficient, costly and all too often don't meet the expectations of the customer. Statistics suggest 12% of deliveries fail the first time and the inconvenience of home delivery is one of the major reasons why customers still can prefer using the high street in many cases. For a service that is sold as being ultra-flexible, delivery is rather inflexible. For many items, customers need to be at home meaning they need to wait around to receive and sign for the item and through poor delivery couriers or customers that ignore these rules, many items are not delivered, are lost or need to be collected anyway. This causes many customers to have a latent bad feeling about parcel delivery and that is a very bad sign for retail of all kinds. This is especially concerning considering that the next generation of consumers have extremely high expectations of home delivery and online retail in general, 56% of millennials said in a recent survey that they expected retailers to have the option of same-day delivery but most don't. This makes clear that the entire concept of delivery needs to evolve into something that can be run cheaper, offer much faster turnarounds and come up with solutions for the inflexible nature of the service.

Amazon already has a significant delivery network in operation in some markets

Since 2016 Amazon has been preparing its own delivery service and where Amazon goes in the retail market, others usually follow. Essentially Amazon has been looking for ways to shore up the delivery experience and for a number of years now has been luring customers with the promise of guaranteed next day delivery through Amazon Prime. This hasn't been relevant to all markets however and in much of the US Amazon uses traditional carriers, but in markets such as the UK in many cases Amazon actually already organizes the majority of its delivery. Through owner drivers in the UK Amazon has been controlling its own distribution network and only using traditional carriers for more rural routes where there is less coverage. Amazon doesn't publish this information but a seller recently published their delivery breakdown and Amazon handled 80% of orders in the UK. Amazon is looking to expand this model elsewhere and in particular wants to see its own network developed enough to handle profitable delivery routes in major urban centers in the US.

Figure 9: Amazon UK delivery carrier breakdown from Amazon seller 2016



SOURCE: Tame Bay

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Amazon moving into the delivery business should worry transportation carriers

Currently, Amazon relies on third-party shipping partners like UPS and FedEx for most of its deliveries in the US, but having an in-house shipping network would theoretically cut down those expenses. It could feed delivery fees back into the business and it could rapidly develop new delivery methods that would save it money. A critical part of the problem for carriers is that they really do not want to lose any of their most lucrative parts of their business which is the inner city parcel business. As has been seen in the UK, Amazon would absorb its own most lucrative lines and only use carriers to deliver to awkward parts of the country which are more costly to deliver to. This would be highly damaging for companies such as FedEx and UPS.

In announcements from 2016 through to 2018 Amazon has been slowly releasing details of the shape of this move and it looks to be substantial. "Shipping with Amazon" or SWA is the name of the venture and the plan is currently to transport and deliver Amazon's own items but also to actually offer delivery services to other businesses at a cut price rate. Through Amazon's other initiatives such as "Fulfillment by Amazon" the company is taking logistical control of its entire networks. By allowing free space in Amazon trucks to be taken up with items from Amazon third party sellers or even nonaffiliated businesses and charging much lower rates, Amazon hopes to quickly grab some market share and do damage to the traditional carriers. Amazon has been cited as wanting to use this venture to keep the carriers "honest", effectively to introduce some stiffer competition into the market to encourage the carriers to drop prices and to make efforts to innovate. This is going to initially happen in Los Angeles and then will surely spread to most other major North American cities.

We can expect to see Amazon heavily sell SWA to its third party vendors over the next decade.

So far the traditional carriers have acted nonplussed at this development, but it is hard to see them being able to escape the implications of this move by Amazon and we can expect to see competition ramping up and more than likely some prices readjustments which will be excellent for retail in general.

Making efficiencies, speeding up the process and innovating is the name of the game in delivery for the next decade

As retailers and customers demand ever faster delivery for virtually no extra cost, delivery services are under significant pressure to cut costs and meet these requirements. A number of new technologies are en route to help with this process but they will not come quickly and many will require significant regulatory updates before they can be unleashed. There is a huge amount of hype already about driverless cars and how that might affect the taxi and private vehicle markets, but there are also a number of significant advances that this technology will allow in the delivery sphere too.

The purpose of all this focus on innovation is to take expensive fixed costs out of the equation and that ultimately means workers and jobs. UPS alone delivers about 19 million packages a day and excluding management and pilots, it employs roughly 353,000 people. 57 cents of every sales dollar goes on compensation and benefits for these employees. Robot delivery cars, meanwhile, have no ability to bargain over wages, need no pensions and require no health package. Apart from the initial investment of getting autonomous vehicles in place and building up the networks, there is a staggering potential benefit to companies of following this path and dramatically reducing these operating costs, how those people get reemployed in society however is a different story.

Figure 10: Ocado Autonomous delivery test vehicle in the UK



SOURCE: Guardian

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Autonomous delivery is the aim for all kinds of retailers but the current designs are not yet good enough

From delivery carriers such as FedEx to online supermarkets such as Ocado all manner of businesses are developing autonomous delivery systems with the aim of making delivery cheaper, quicker and more efficient. There are multiple systems in development from all kinds of companies but the real driver will be the regulatory framework which allows these systems to operate. A number are in testing already however in preparation for when regulation allows autonomous delivery.

The UK based online supermarket Ocado has been piloting an autonomous delivery vehicle in a small housing estate, training the system to learn the hazards of delivery in a highly populated area. This is still based around a driver though which isn't the format that these vehicles will eventually take, as the longer term solution is going to be completely driverless electric vehicles because the aim is to remove the concept of a paid driver entirely. Other companies that specialize in the vehicles themselves are emerging and one of note is the Nuro Robotic system that has no driver. It has a number of compartments that can be refrigerated to accommodate fresh food are on the outside of the vehicle so the customer can take the items directly out of the vehicle when they arrive. This idea is closer to the delivery vehicle of the future but is quite far from the capabilities of a current driver and large van combination as it only has a limited number of compartments and will need to be refilled each time. Currently an Amazon delivery van in the UK can handle between 150 and 200 parcels a day and any of the current replacement designs do not come close to being able to handle this kind of load.

Figure 11: Nuro Robotic vehicle delivery



SOURCE: Nuro

MARKETLINE

Delivery Drones and Amazon Prime Air is a unique idea but it doesn't yet beat a delivery driver

Amazon has attracted an enormous amount of attention with its Amazon Drone delivery service idea and it does have a good deal of merit. Modern roads are subject to all kinds of problems from road works and traffic to accidents and hold ups. Being able to completely avoid any of these issues would be a significant benefit to this service. In densely populated suburban areas Amazon sees its drones as providing a super rapid service for items that need to be on target in just a few hours. The idea has been put into testing in Cambridge, UK, Amazon's drone trial is limited to items weighing 5lb or less that can be delivered within 30 minutes. It requires a facility for launching and controlling drones, coupled with close access to warehouse facilities. Logistically it is a difficult operation and is not without some expense having to be spent on specially trained staff, drones and facilities.

Coupled with this, drones need a safe landing area and they also need the customer to be on hand to receive the items and clear a landing area for the drone keeping pets and children out of the way. Potential problems with this service are significant; so far the general public has been fairly resistant to a lot of drone technology, being unhappy about them flying over property or being used by police and government services. So there is a strong chance that drones will be attacked, damaged or stolen en route, not to mention the cargo that they are carrying too. A further problem is the capacity; currently drones are designed to carry just a single item and so could not do multiple stops making the drone have to come back for each new item, which is a fairly inefficient process in general. Amazon is onto the right idea though, drones will eventually be very useful in delivering items but the final design for how to achieve this is still be realized.

Figure 12: Nuro Robotic vehicle delivery



SOURCE: Amazon

MARKETLINE

Airborne delivery airships could provide an answer, but the technology is not there yet

Whilst sounding like something out of science fiction, Amazon has filed patents for floating fulfillment centers that could load up items onto drones to deliver over the last mile and hover over key urban areas. Amazons AFC (Airborne Fulfillment Centers) is a concept that Amazon has been considering in the background as a way of handling enormous amounts of traffic over key fulfillment areas. The idea that Amazon filed is that: *“The AFC may be an airship that remains at a high altitude (eg 45,000ft) and UAVs with ordered items may be deployed from the AFC to deliver ordered items to user-designated delivery locations. As the UAVs descend, they can navigate horizontally toward a user-specified delivery location using little to no power, other than to stabilize the UAV and/or guide the direction of descent. Shuttles (smaller airships) may be used to replenish the AFC with inventory, UAVs, supplies, fuel, etc. Likewise, the shuttles may be utilized to transport workers to and from the AFC.”*

Apparently Amazon is not alone in thinking that this might be a potential solution, Walmart too has filed patents for a blimp style airship that might provide a similar service and the two companies might be engaged in a battle for the skies to service their grocery shoppers. This concept would clearly need a huge amount of development and as yet there is no obvious aerospace product that could provide the platform for such a floating warehouse. However Amazon has the right idea here, something significant has to be done to improve the delivery process which is currently in a very bad state, customers have high expectations of delivery which they are not getting and carriers are charging increasingly high prices which are sapping retailer's profits. Whether or not the future of retail delivery includes floating warehouses remains to be seen, but certainly major innovation in delivery is needed.

GENERATION Y&Z: NEW RETAIL EXPERIENCES TO ACCOMMODATE NEW TASTES

Generations Y&Z are not so different to the groups that came before them, in terms of their wants and desires in life, but there are some environmental elements that influence how they choose to live which retailers need to take into account. Some are doing much better than others however and those that stay in the past quickly become irrelevant, with an average of 40 significant retailers going bankrupt every year since 2007. It has been a rule that retailers need to have a good internet presence for close to a decade now, but Millennials and in particular Generation Z, are deeply entrenched in the internet and many have no experience of life without the internet, making it of critical importance.

Millennials are extremely online and the implications for retail are extensive

The first generation to grow up with the internet has resulted in a boom in online shopping, and has had a leading effect on other generations. Internet access has been steadily increasing globally, and in developed nations is near full penetration rates. MarketLine data shows that global internet access subscriptions have grown by a compound annual growth rate (CAGR) of 7.6% to reach 2.9 billion in 2016. In the UK, internet access is estimated at 90% as of August 2017, while in developing countries such as China penetration is estimated at approximately 53.2% as of 2016. In the US and UK, the young generation is the primary driver of this. In the US, 81.2% of 15-34 year olds are connected to the internet, compared to 63.1% of 65 or over. In 2017 in the UK, 78% of adults had used the internet "on the go" (that is, away from home or work) using a mobile or smartphone, portable computer or other handheld device. While almost all adults aged 16 to 24 years (98%) had accessed the internet "on the go", only 39% of those aged 65 years and over had done so.

Preparing for Gen Z and the tastes of the future will not be easy

Generation Z are currently between 14 and 19 years old and have no experience of life without the internet, they also will be the largest generational group by the year 2020. As such Generation Z are heavily plugged into the internet like millennials are, but dramatically more so. Generation Z are adept with a wide variety of tools to assess your product including friends networks, online tools and internet savvy navigation. Generation Y can rank products very swiftly and their knowledge of searching the internet will mean that providers with poorly priced offerings will have limited success. Online deals rapidly spread to Gen Z and they are aware of problems and faults with a product faster than the retailers themselves. Very highly socially conscious Gen Z is likely to examine a brand and company's message before they purchase getting real time information from friends and peers about a company's reputation. Their internet browsing is usually semi-attentive meaning they will use be using multiple devices at once and view products whilst multitasking heavily. They are hard to pin down and very often will be examining a product out of curiosity rather than with any intention to purchase.

Figure 13: Gen Z, aspirational browsing stage



Generation Z do an enormous amount of aspirational shopping

In contrast to X and Y shoppers, there is a real and huge gap between seeing and buying for the Gen Z shopper. Gen Z are almost always online and will use Google as an extension of their own thought process critically examining products that merely interest them or that they may only be interested in many years in the future and can include products of all kinds and types. This has become known as 'aspirational browsing' and whilst it can be very confusing for retailers to receive limited sales from individuals that seem heavily interested in their products, retailers have to understand this process because it is an opinion forming period for Gen Z which will either leave them hating or loving their brand and will affect sales in the future when individuals have the means as well as the aspiration.

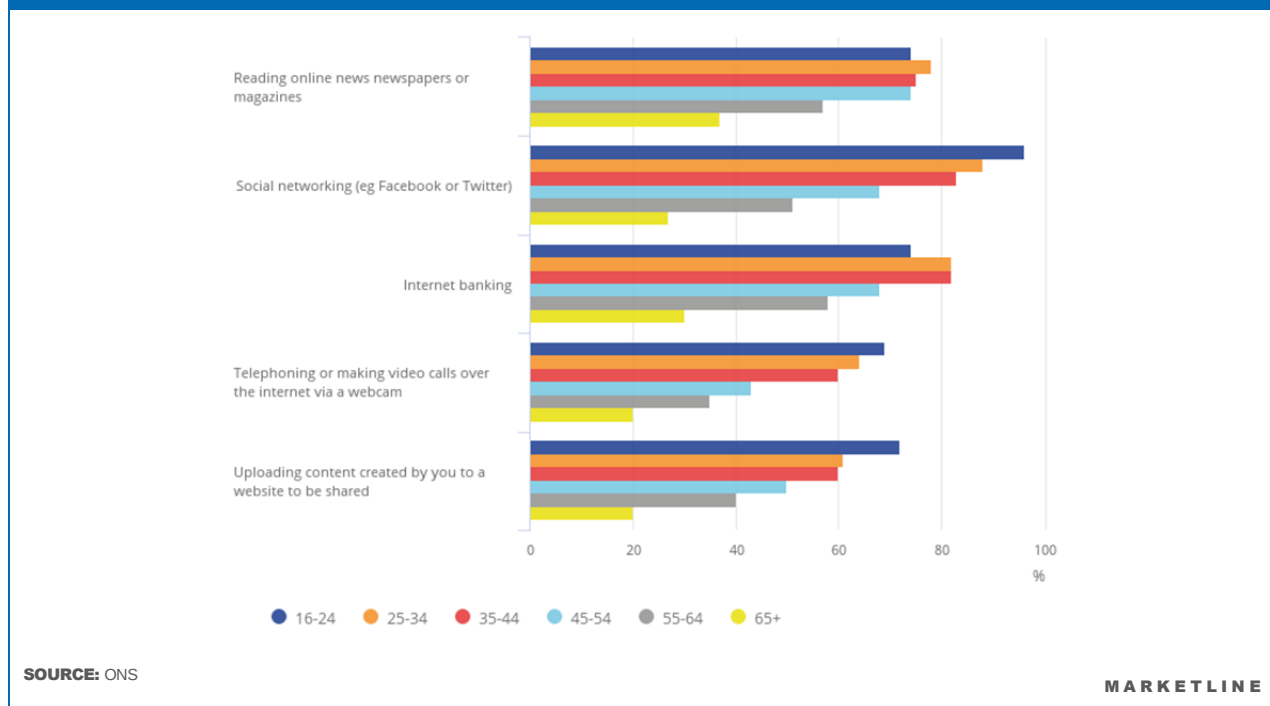
Marketing has to be done very carefully done or it could actually reduce sales

Because Gen Z has always been online, they have seen it all before and few things will surprise them online. Companies that are trying to appear one way when actually they are another will be swiftly found out because Gen Z can and will examine businesses in depth if they are curious. This particularly applies to companies that might be pretending to be environmentally conscious or ethical, when their track record is less so. Marketing that is intrusive will be destructive for relationships with Gen Z as they expect the retail experience to be seamless and have very high expectations and requirements for website design, e-commerce and the entire retail experience. Gen Z are fully aware that companies are tracking them online and that their data and privacy are up for grabs in the modern retail experience, which is something previous generations were much less aware of or concerned about. Companies that misuse this data will likely be punished very harshly from consumers in this generation.

Millennial online habits reflected in e-commerce

Millennials' online habits are fundamentally altering the way some industries work and offering opportunities for disruption in others. As the figure below shows, millennials have a strong position in most activities in the UK.

Figure 14: Internet activities by age group, 2017, UK

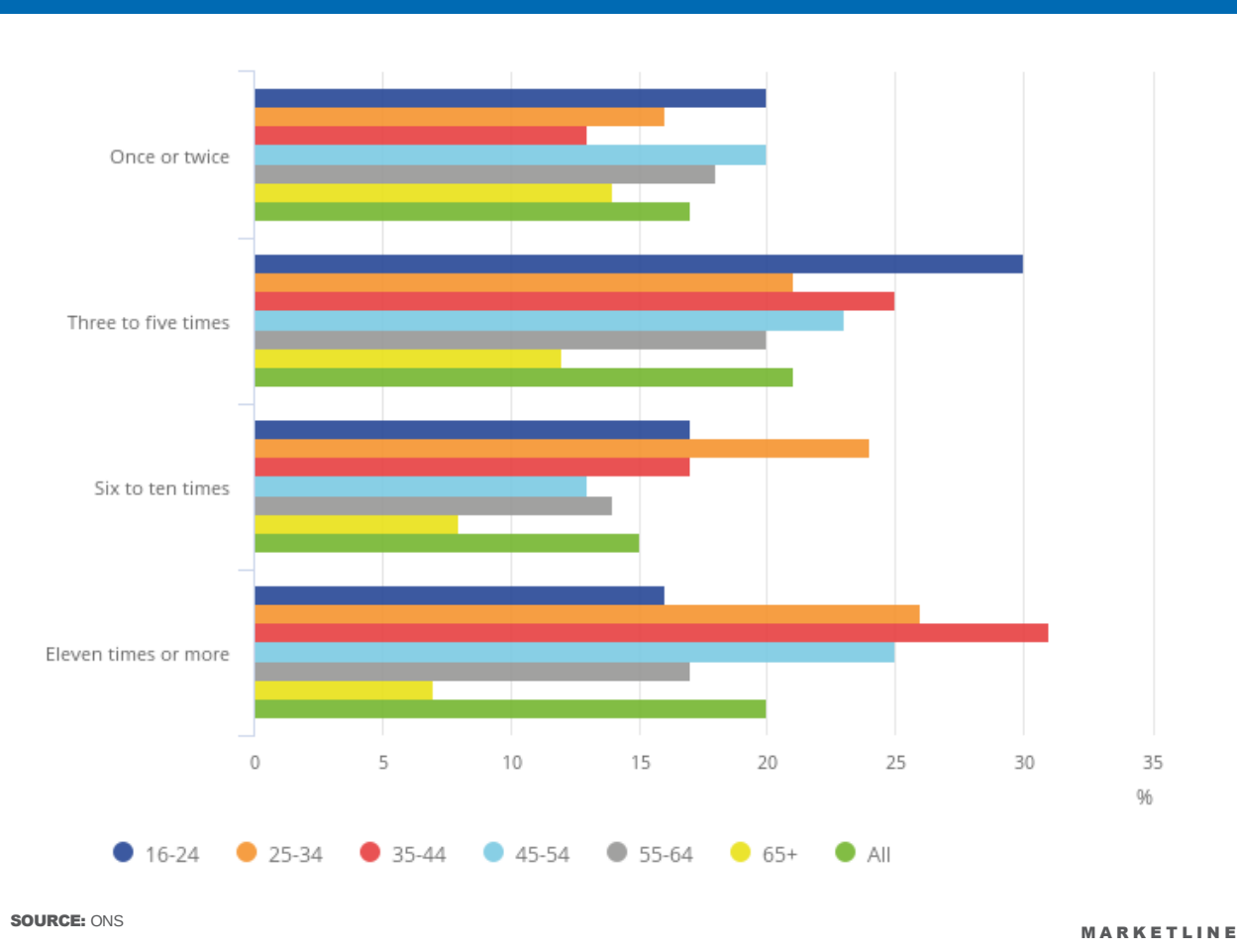


Online consumption has fundamentally altered the landscape for journalism or content, with ad revenues and paper circulation dwindling due to availability online. Some papers, such as the Financial Times, Telegraph and The Times have implemented paywall models; others such as the Independent have ceased physical publication altogether. Social networks such as Facebook and Twitter (and Weibo/WeChat in China) have altered marketing strategies, and banks have had to innovate to become more appealing to customers.

Online retail continues to grow rapidly, because of highly online consumers

Online retail is a growing proposition in many industries, driven by millennials with technology and facilitating making inroads with other demographics. MarketLine data illustrates that the global online retail sector had total revenues of \$929.8bn in 2017 representing a compound annual growth rate (CAGR) of 16.2% between 2013 and 2017. In 2017 in the UK, 77% of adults had bought goods or services online in the last 12 months. Younger adults bought online more often than older adults. While 26% of adults aged 25 to 34 years bought online 11 or more times in the last three months, only 7% of those aged 65 and over also did so. Similarly, 24% of adults aged 25 to 34 years bought online six to 10 times, compared with 8% of those aged 65 and over. Online accounted for 16.4% of all retail in August 2017 in the UK, and 8.9% of retail in the US as of Q2 2017.

Figure 15: Frequency of online shopping, by age group 2017, UK



Apparel is the key beneficiary of the e-commerce boom

One of the main drivers of online growth is apparel purchases, with online pureplays thriving in this industry. It has also forced more conventional stores to adapt online or risk suffering. In 2017, apparel retail was the second largest segment of online retail globally, accounting for 23.7% of the sector's total value. An online presence has appeared in all segments of the apparel market, from budget to premium. The lower fixed costs from a lack of bricks and mortar presence in terms of rent and staffing means the company can charge less per unit, and stock availability is from warehouses rather than individual stores. This has led to a blossoming budget industry, with companies such as Boohoo and Asos in the UK, while Amazon has become a monolithic presence in retail globally. Depressing macroeconomic figures have contributed to the surge in budget online propositions, as spiraling living costs and stagnant wages make the generation more price sensitive. Table 1 shows how some online companies have reported much stronger growth than the UK average or leading companies, such as Next, Arcadia, and M&S. The leading players are generally experiencing a shortfall in revenues even though the market is projected to grow.

Table 1: Growth in UK operations of online retailers

Retailer	FY	Latest annual revenue £m	% growth YoY
ASOS	2017	698.2	15.60%
Boohoo.com	2017	182	39.90%
Next Retail	2017	2,305	-4.20%
Arcadia Group	2016	2,009.80	-2.90%
M&S Clothing & Home	2017	3,792.70	-4.30%

SOURCE: Company filings, MarketLine.

MARKETLINE

Traditional retail outlets losing ground

The established conventional high street model of retail is considered endangered in the UK as online formats grow. In particular, traditional department store formats in several countries have suffered. ONS annual figures for 2016 show that while general business growth in the UK was registered at 17.4%, there were winners and losers- non-store retail grew by 30.7%, while clothing stores only grew 1.5% compared to December 2015. Small clothing stores (i.e. 99 or less employees) collapsed by -13.9% Christmas trading in December has also been hit by new online habits, such as Black Friday, drawing consumers to online bargains the month before. Black Friday is a marketing ploy of the retail industry, imported from the US in 2014.

Department stores suffering in both US and UK

As online shopping grows in popularity and millennial shopping habits shift, department stores are one of the retail formats that have suffered the most in the generational shift. Those who cannot find themselves adapting to the new trends are being eroded. Particularly in the US but also the UK, millennials purchase online or either shop at more targeted stores, rather than go to catch all establishments. The most renowned casualty in the UK was BHS, which entered administration and was liquidated by December 2016. In the US, JC Penney, Macy's, Sears and Kmart have all had to close stores.

Selfridges invests online in attempt to adapt

This is not to say the format is doomed, as stores such as Selfridges and John Lewis have continued to grow after embracing e-commerce and investing heavily in it.

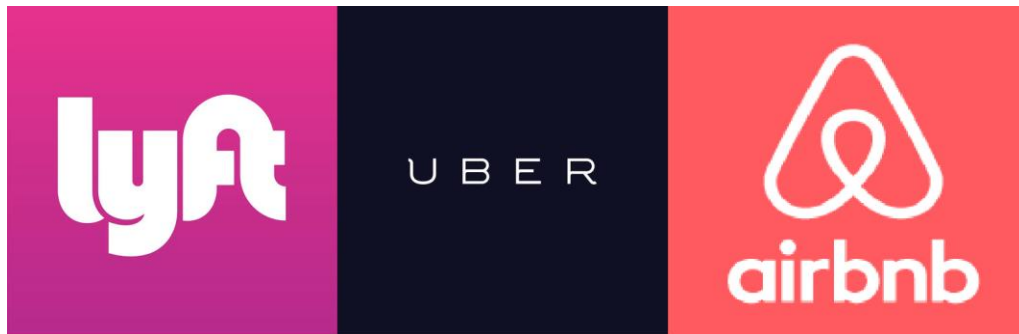
Selfridges occupies a premium position in the market, but is far from immune as companies such as Yoox Net-a-Porter are making inroads. While the company only has four stores in three cities, it has upgraded its platform, investing £300m. While the UK accounts for 70% of its revenues, the fact it ships to 130 countries has boosted its popularity - after Sterling depreciated sharply in June 2016 following the Brexit referendum, tourists flocked to London to take advantage of their increased purchasing power. The company itself noted a positive sales impact. John Lewis continues to buck the trend.

In the UK, John Lewis Partnership has continued to grow its department store business despite conditions eliminating many of its rivals. It has fully incorporated online offerings into its services, although the continuing upgrade of infrastructure has begun to dent profitability. As of H1 2017, online now accounts for 37.3% of merchandise sales, a growing figure on 34.5% in 2016. Click & Collect accounts for over half of this, and the company continues to invest in its digital presence, particularly for mobile. This has come at a cost, however, with pre-tax profit slumping 53% to £26.6m (\$35.9m). There were some one-off exceptional costs, as the company embarked upon restructuring in order to better facilitate its e-commerce proposition, which is increasingly significant to the company.

Sharing economy apps have potential to grow

The right services mean that some tech startups can achieve massive scale quickly and become a disruptive force to respective industries. Millennials' inclination towards apps means there are lower barriers to entry when it comes to building brands and scaling up. They become conduits for investor capital. Uber, a ride-sharing app, was founded in 2009 and has grown to serve 633 cities worldwide with estimated \$6.5bn revenue in 2016. Its market valuation is estimated at \$50bn as of June 2017. Airbnb was valued at \$31bn in its latest round of funding in March 2017, while Uber competitor Lyft is valued at \$7.5bn.

Figure 16: Logos of sharing economy pioneers



SOURCE: Company Websites

MARKETLINE

Companies that prioritize convenience and price succeed

As millennials are more price sensitive than previous generations and value convenience, any company that offers on these terms is bound to succeed. As smartphones have revolutionized interaction, they also offer opportunities commercially. Many of the most successful apps rely on peer-to-peer technology or networking to connect service providers and the consumer, with ride-sharing services such as Uber using GPS systems to connect drivers and passengers.

Food delivery services such as Deliveroo, Grubhub or Uber subsidiary Ubereats connect restaurants to passengers, and are aggressively expanding in cities across the globe. Ubereats is expected to account for 10% of Uber's revenue, with expectations of having exceeded revenues of \$3bn in 2017. For transportation services, this was a welcome disruption in an industry that has been slow to respond to the times, with traditional methods such as hailing a cab or placing a booking order through phones not always reliable. For partner companies with these food delivery services, it also offers positives, outsourcing delivery services at minimal infrastructure and labor costs with a commission rate and charge to the customer.

Tech startups generally lead to aggressive expansion

A common trait of the new tech startups is that a dozen copycat firms generally spring up and then aggressively expand in order to capture market share, leading to the companies spending the billions of investment trying to monopolize the market to then recover costs. This is not only true of rideshare apps, where Uber and Lyft duel in several US cities to capture both passengers and drivers. In Austin, Texas, the exit of Uber and Lyft saw dozens of ride-share apps spring up to fill the void. Elsewhere in the world, bike-sharing apps have become omnipresent in China, with Mobike and Ofo the two main competitors. Cities such as Hangzhou have been flooded with brightly colored bicycles leased out by the company, and the two have expanded to Singapore and also the UK, with Mobike in Manchester and Ofo trialing on a smaller scale in Cambridge. China has seen a degree of consolidation, as Didi Chuxing became the dominant provider after Uber retreated in exchange for a stake in the company which has an estimated 80% share in the ride sharing app market in China.

Sharing economy has led to the rise of the gig economy

The consequence of a prospering sharing economy is it has given rise to a similar phenomenon in the labor market, known as the gig economy and characterized by precarious employment conditions. A gig economy is an environment in which temporary positions are common and organizations contract with independent workers for short-term engagements. In the gig economy, instead of a regular wage, workers get paid for the "gigs" they do, such as a food delivery or a car journey. In the UK it's estimated that five million people are employed in this type of capacity, while 9.2 million Americans are expected to be employed in the gig economy by 2021, according to Intuit and Emergent Research.

This has become increasingly prevalent with the arrival of e-commerce in the delivery sectors, with many tech startups utilizing the lack of clearly defined legal precedent in an effort to keep labor costs low and the workforce "flexible"- they only pay when the work is available, and don't incur staff costs when the demand is not there. Gig economy workers being classed as independent contractors means they have no protection against unfair dismissal, no right to redundancy payments, and no right to receive the national minimum wage, paid holiday or sickness pay. The e-commerce firms have seen delivery firms competing for delivery contracts, with companies such as Hermes and DPD using these arrangements. Further, while Uber can increase its market share it has no cap on its drivers, which can lead to an oversupply on the supply side with drivers facing diminished earnings and the company facing no obligation to supplement income.

TECHNOLOGY GETTING READY TO TRANSFORM SHOPPING EXPERIENCES

E-commerce has frequently been hailed as the death nail to physical outlets. Detractors should delay further condemnation: retailers are beginning to realize the full effect technological advancements can have on consumer shopping experiences. Not only will retailers increasingly introduce technology to close the divide between online and physical shopping but features to enhance the high-street store will help sustain the physical store business model. Declarations of imminent demise are now likely to be wound down.

Virtual reality will change how consumers purchase high-value items

Revolution in use of technology on the high-street is most commonly associated with apparel retail, yet significant gains are ready to be had in other parts of the industry. Consumers in furniture stores have historically struggled to decide upon furniture befitting of their homes, resulting in a costly and time-consuming returns and replacement process. The same can be said for firms involved in bathrooms and kitchens. Virtual reality is increasingly being used to take furniture into homes before any purchase is made. Major opportunities for reductions in business costs and improvements in efficiencies loom large.

Virtual reality enables consumers to view renderings of future purchases and assess functionality. Not only is the shopping experience made smoother by removing the need for customers to imagine how a new kitchen would appear but customization to suit the needs of buyers improves the initial product. Provided companies are willing to invest the required amount, the experience can be made immersive. Some Lowe's retail outlets provide a room that consumers can enter to see what products would look like in the real world; a tablet allows for the environment to be changed instantly. Ikea CEO Jesper Brodin described a 'major shift' in technology as being the motivation for a fundamental re-examination of store design. However, all of this demands significant investment on behalf of companies, which has so far limited the scale of ambitions in large-scale roll-outs across chains.

Other developments allow people to view how potential changes to their homes will appear without needing to visit a store. The Houzz app uses the Apple ARKit to detect walls and allow users to hang to-scale objects on walls. Still in development, the app is one of several others which bring the shop into the home. Integration of technology is predicted to continue at a rapid pace. Ikea previously released an app designed to place virtual furniture inside rooms using 3D visualization, but it required a physical paper catalogue to make it work properly. The systems also suffered from scaling problems. Advancements solving such problems have been forthcoming. Ikea now claims the Place app displays furniture with 98% accuracy, in addition to lighting and shadows. Consumer interaction of this sort is a boon for companies such as Ikea; customers are more likely to be happy with purchases, reducing returns, but also more likely to make future purchases.

Figure 17: Ikea virtual reality app



SOURCE: Ikea YouTube

MARKETLINE

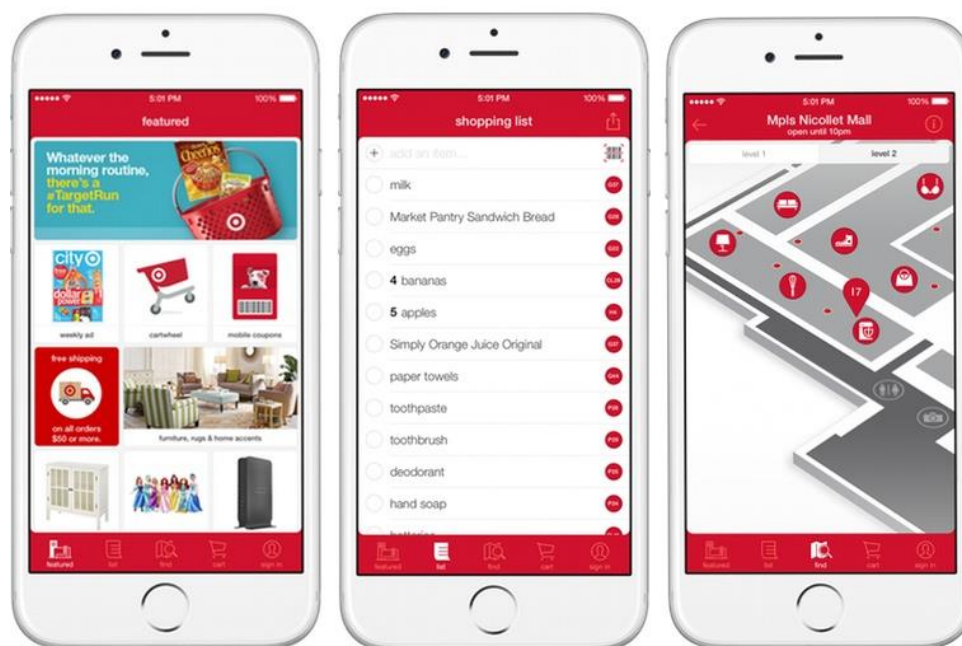
For clothing retailers, the potential gains are substantial. Heikki Haldre, chief executive and founder of London-based Fits.me went on record as saying almost one in four garments are returned, 70% of which are because the purchaser got the incorrect size. For every 100 sales there are 162 shipments due to returns and exchanges. To help solve this problem the company developed a virtual fitting room. Virtual mannequins can be dressed with different sizes, allowing consumers to see how different garments would fit. This works in conjunction with the physical store, providing reasons for consumers to avoid e-commerce and enter a shop. Other developments by apparel rivals are coming, pushing up the degree of competition, reducing costs. Indeed, as costs fall large retail chain companies will be better able to roll-out virtual reality into large number of stores.

In-store retail apps close gap between online and physical store customer experience

To retailers the value of in-store apps is the providing of information which makes the shopping experience more worthwhile for the average consumer. Catering for the digital age whilst customizing the in-store environment is beginning to make significant headway in transforming what the shop will look like to such an extent that talk about the death of the physical store (a prominent view held in countries such as the United Kingdom, in which e-commerce is especially well received) has dampened down. The advent of new technology is creating an immersive environment for consumers and is expected to become ubiquitous in retail stores over the coming years; millennials have been reported as being keen on the merging of the online and physical shopping experiences. Now that is possible. By one estimate 35% of online-shopping abandonment is due to websites demanding the creation of accounts; many people frequently forget passwords, lengthening the buying process and resulting in abandoned online baskets. In-store apps can now bring the fast check-out to the physical store through the use of Paypal or other methods, limiting the number of passwords required to just one. Better still, the lengthy queue, which is almost a permanent feature of popular apparel outlets such as Zara, could soon become an irritation of the past.

Reports within the retail industry show that many, even a majority, of consumers use apps inside shops. The demand for such developments is clear. For retailers this is good news. Customers who use apps in stores are likely to become more loyal than those who do not. Redeeming in-store discounts, price comparison, viewing products not immediately available in-store and examining reviews and ratings are driving the demand. Embracing this desire from consumers for greater access to information easily found online but when in a physical store is now essential for any major retailer. Those able to merge the online and physical shopping experiences the best are likely to gain competitive advantages that will be difficult for rivals to overcome. Personalized shopping is an essential feature of the future shop to drop out of widespread use of apps inside stores. One study conducted by Apadmi, a UK based app development company, concluded one in five consumers wants retailers to implement technology that will make shopping more personal.

Figure 18: Target in-store app



SOURCE: Target Corporate

MARKETLINE

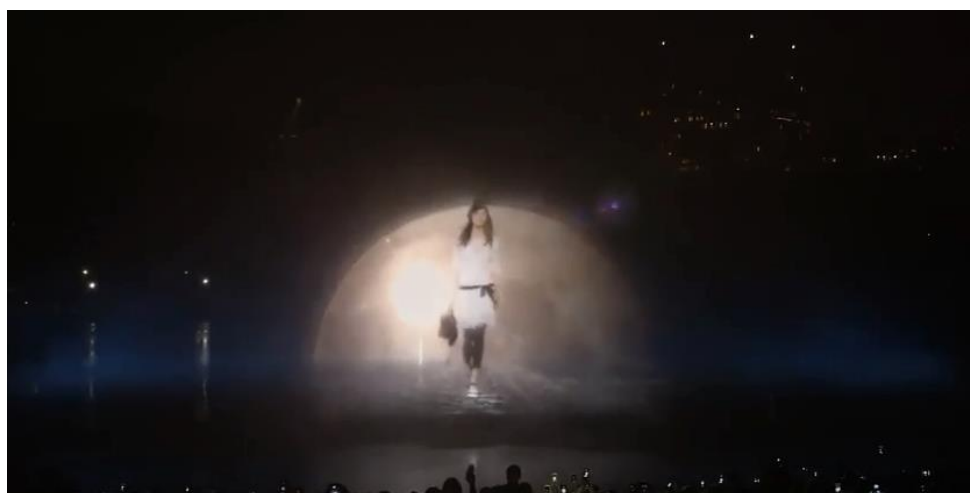
The importance of companies getting on top of developments swiftly is hard to overstate. Dick's Sporting Goods in the United States has used apps to improve in-store shopping since 2014. Success has been struck by improving convenience via phone based apps. All of the firm's shops are geofenced, meaning when a consumer activates the company app the retailer will activate in-store modes such as maps to help people navigate to products they are most likely to purchase. So far the most popular features have been those which combine the best parts of the shop and online experiences. Demand appears to be growing as retailers exert greater efforts to cater technology for consumer tastes, speeding up development.

Holographic technology creating new and immersive shopping experiences

Retailers have been skeptical about the potential impact of holographic technology on shopping experiences but there is reason to believe holograms will in time become a feature of high-street retailers in the coming years. There is plenty of motivation to try. Matthew Drinkwater, head of the London College of Fashion's innovation agency, went on record to say 3D images on website boost clicks by between 20% and 40%. Given the upturn in clicks, when the costs become low enough for retailers to risk large-scale roll-out of holographic tools in stores the average apparel shopping experience will probably undergo major change. Luxury brands have been experimenting for some time – at least by the standards of rapidly developing technology.

In 2015 Ralph Lauren launched the company's first holographic and interactive window display to celebrate the release of the Polo Sport line. Displays showed five different vignettes that represent Polo Sport's core qualities of strength, speed, movement, and style. Motion-sensing infrared cameras tracked people passing by, replicating their movements on the screen. Gimmicky though it was, such tools are expected to become commonplace once the cost falls to a sufficiently low level. (The first display was erected in the prestigious 5th Ave in New York, making the expense more worthwhile.) For companies such as Ralph Lauren the use of cutting-edge technology is important for the maintenance of a sophisticated brand image – others will follow.

Figure 19: Ralph Lauren holographic fashion show, 2015



SOURCE: Fashion News

MARKETLINE

Further developments using cloud computing technology to track consumer behavior and improve the shopping experience are expected to arrive in shops over the coming years. Retail start-up Wheelys has created a hologram store assistant, powered by artificial intelligence, to take the place of humans in the firm's mobile stores. The technology enables the company to tailor products to specific areas and means shops can remain open around the clock without the need for any staff. Whilst still very much in development as a concept, the potential use of holographic tools to cater shops to the demands of consumers is becoming increasingly relevant. For apparel retail the benefits are potentially transformative in how a shop functions. The ability for consumers to walk around and change an entire outfit without having to collect clothing off racks could create demands which will force major change. However, the extent to which this can catch-on for the 'fast fashion' retailers remains shrouded in doubt. Fast-fashion has made squeezing the maximum amount of clothing into a store into a finely tuned practice. The space needed for many customers to experiment with holograms is not available. For now, at least, it would appear there is some way to go before every apparel shop can support such features, limiting the immediate use to just luxury brands able to make the required investment.

London-based Kino-Mo also claims holograms will soon become affordable to high-street retailers. The company claims holograms can now be created using standard 3D software, eliminating the time consuming and costly methods of the recent past. So far the company has attracted a great deal of attention. Were the speed of development to continue at the present rate, and the reduction of cost follow a similar trajectory, the implementation of holograms in ordinary stores will take place earlier than even relatively recent estimations predicted.

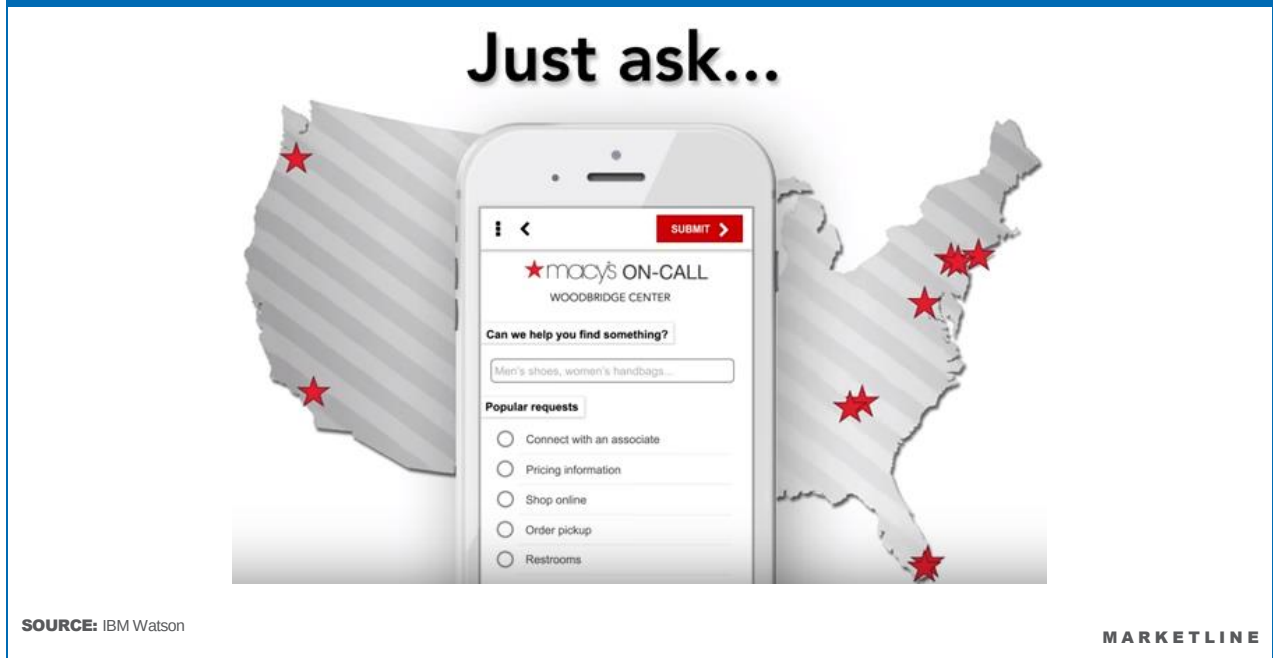
Artificial intelligence personal assistant predicted to transform future shopping experiences

The potential for artificial intelligence (AI) to change how the average consumer goes about shopping is said to be enormous. AI shopping assistants are predicted to have the ability to track the shopping habits of millions of customers, placing data into cloud computing databases which can then be mine for trends. Whilst extensive data collection is routine for major retailers, information regarding what friends think, the ability to trace recommendations and what ideas suits the individual is information that is much harder to gather. AI assistants are believed to have the potential to change that. However, much development in technology needs to take place before that point is reached, but it is approaching at increasing speed as interest in potential usage grows.

Immediate ambitions are much less grandiose however. Macy's trialed a system in 2016 labelled 'Macy's On Call' in which customers input questions into a phone regarding products and stock levels. The idea was customers would receive customized answers.

The company also incorporated a Spanish language function, showing how firms can use AI to appeal to a wider range of people shopping on mobile devices. Other systems are emerging to help consumers find items across many retailers without having to visit every website. Founded in 2013, Shoptagr provides online shoppers with a personal AI shopping assistant. An online and mobile plug-in allows consumers to save items while browsing over 1,000 popular retail stores online.

Figure 20: Macy's On Call AI



North Face has also experimented with artificial intelligence becoming involved in purchasing decisions at a very practical level. Using IBM Watson's cognitive computing technology North Face is using technology to help guide consumers through the entire product range to best determine which apparel items are best given the intended use. Commuting needs are very different to those of people trekking through mountains. The system should identify the differences in the information provided by the service user, identifying the best option. Published in 2015, pilot results, based on data collected from 55,000 users, resulted in a 60% click-through rate and 75% total sales conversions. 'Expert Personal Shopper' (XPS) software followed. Consumers can expect to see more of this as efforts to merge the online and physical shopping experiences prove increasingly fruitful.

The shop in which the customer is greeted by an AI robot remains seemingly far away. The first robotic shop assistant used in the United Kingdom was withdrawn from service after a week, suggesting the sight of robots in most stores remains in the distant future. Fabio, the Pepper robot, produced by Japanese company Softbank, was hired as a retail assistant at a Margiotta supermarket in Edinburgh. But the robot failed to help customers, telling them beer could be found "in the alcohol section," rather than directing customers to the location of the beer according to reports in The Telegraph newspaper. For the immediate future a more pragmatic version of AI is on course to influence how consumers shop and how retailers must relate to customer demands. However, given the pace of advancement in this area, the AI shop assistant may very well be closer than many anticipate.

Interactive mirrors and video technology are propelling change in apparel stores

Providing consumers with the ability to shop in a different fashion to maintain the need to have a physical store has increasingly become a pre-occupation of many retailers. Video screens are a technology which is immediately available and relatively cheap compared to some of the more futuristic trends many observers are predicting, meaning implementation is happening now.

Several years ago Burberry launched a feature in the company's leading London store in which radio-frequency identification technology (RFID) triggered related catwalk footage when some products were taken into a fitting room, or near a video screen. Many predict success for this more immersive means of selling clothing. People love seeing, interacting, touching and experiencing things, according to Sky. The company states consumers want to be drawn into something rather than looking at something static, hence why companies invest so much money and effort into customer engagement.

Interactive technology is now being taken into the changing rooms of apparel retailers. The mirror in the fitting room of the Rebecca Minkoff SoHo store doubles as a personal shopping assistant. A touchscreen display suggests alternative designs and consumers can search through options, buy an item or change the lighting to suit a certain outfit. The technology worked: sales soared 200% in both 2016 and 2017 following installations in other stores. Millennials, the company says, are particularly attracted by the technology. Samsung has developed similar products. A 55-inch LCD display can drape a necklace over the reflection of someone directly facing what appears to be a mirror. Other features enable users to see themselves with multiple makeup looks and dress options. Resultantly many outfits and combinations can be tried in a very short space of time without having to collect a new set of clothes for each change. In terms of store design this could have a major impact because no longer will retailers have to cram stores with apparel, enabling a more spacious environment to be created.

Figure 21: Samsung interactive mirror



SOURCE: techradar

MARKETLINE

The role of video screens is increasing in most areas of retail. UK based Dixons Carphone is installing in 10 stores 11 screens, nine of which are 2.5m x 1.5m LED screens that feature a 2.8mm pixel pitch. This marks a significant shift in how the retailer interacts with consumers. Screens allow a brand to be flexible in how products are sold but also in how the brand image is expressed. More such screens put into stores in which consumers routinely part with large sums of money are predicted to follow. Whether screens depicting models on catwalks when clothing items are picked up from a rack catch-on remains to be seen, but retailers are likely to continue to experiment with how best to use video screens to improve the shopping experience.

UNTAPPED MARKETS: RETAILERS MUST ADJUST TO SUIT OLDER GENERATIONS

As retailers come to terms with the new normal of ever more aggressive discounting, one group of consumers that has historically been left largely untapped could relieve pressure. Older age groups – mainly those over 65 years old – now command a substantial chunk of overall spending potential. Not only must retailers adapt stores and the overall shopping experience to attract these consumers, but online stores too. Many older people have experience of online shopping – something that has for too long been presumed to be the preserve of younger customers. Dubbed the ‘grey pound’, succeeding in the challenge of attracting older consumers without losing high-spending young consumer groups will come to dominate retail strategy in the coming years.

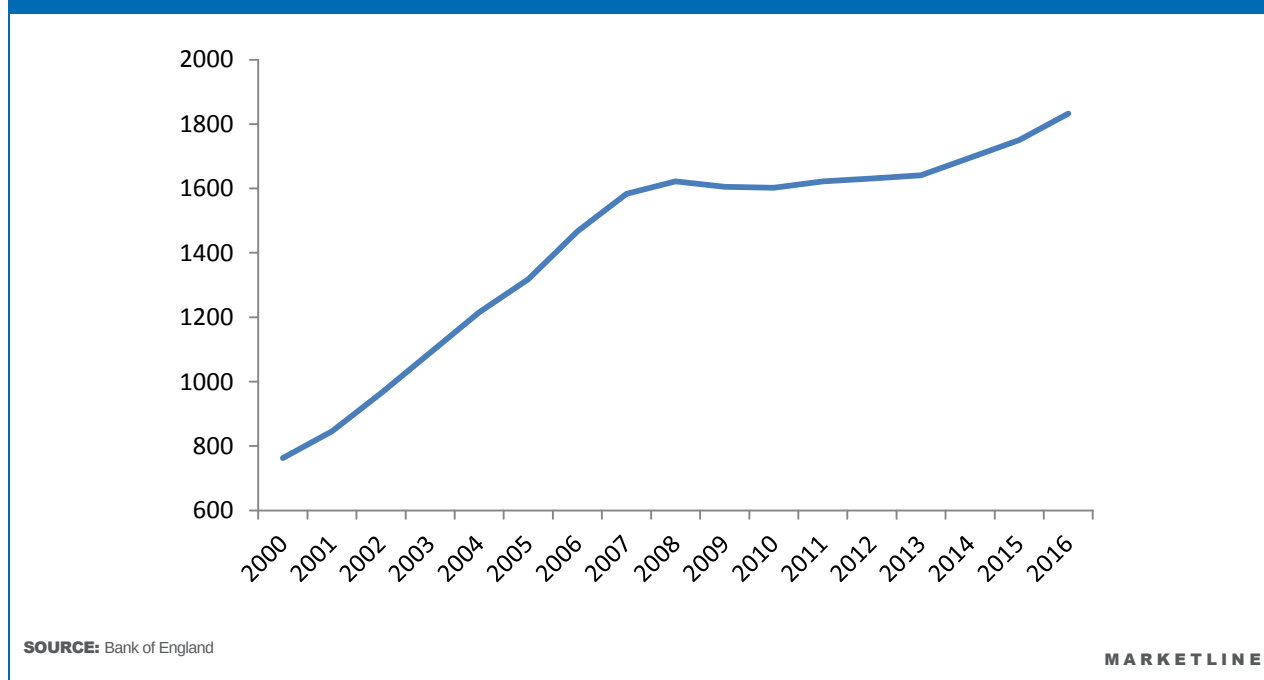
Older shoppers have extensive spending power, offering retailers lucrative sales opportunities

Commonly referred to as the ‘grey pound’, the spending power of older consumers has ramped up considerably over recent years. The Office for National Statistics (ONS) states around 1.4 million people in the United Kingdom now work beyond the age of 65, many in higher status jobs. Resultantly, the over 65 group accounts for one in five of every pound spent; within two decades that number is expected to rise to one in four pounds. For retailers the group represents one of the few lucrative growth opportunities, suggesting significant change is afoot in the industry. Younger consumers are suffering under debt, squeezed wages and rising costs of housing, resulting in a trend developing towards seeking out the best possible deals. Consequently over 50-year-olds now account for 47% of consumer spending as of 2015, up from 41% in 2003. Such has been the expansion in spending by older consumers relative to other consumer groups the UK economy is now dependent upon the ‘grey pound’ for future growth. Furthermore, the view that consumers aged between 21 and 34 years as being the most important group is now no longer true.

The situation is likely to persist. The ‘triple-lock’ policy the UK government maintains on pension payments appears set to remain and would be politically dangerous to tamper with. Given the existence of final salary pensions, the spending power of current retirees will make them an ever-important consumer group to leading retailers. Information supplied by GlobalData shows UK baby boomers hold very little debt, control 80% of the UK’s wealth and are predicted to account for 57.5% of all in-store plus click and collect sales growth by 2025. They also spend 42% more on retail goods than any other demographic and 66% more than millennials. Spending power on this scale should be of interest to major retailers. Accessing the ‘grey pound’ will become ever more important, especially if another recession strikes. Other high-spending groups carry much more debt and are subject to wage stagnation; both factors play only minor roles in the over 65-years group. Such a situation makes the ‘grey pound’ more commercially valuable than has previously been the case.

Targeting these shoppers is likely to become more important in the face of dangers facing the future spending capacity of working-age sections of the demographic. Unsecured borrowing in the United Kingdom reached levels not seen since the last financial crisis during early 2018. Analysis by the Bank of England and the Financial Conduct Authority reveals it has become common for people to remain in debt even after paying off one of their credit cards, shifting debts from one lender to another. Personal debt now tops £200bn, £70bn of which is on credit cards. For leading retailers, reliance upon these sections of the demographic is becoming increasingly risky. As older consumers behave more and more like their younger counterparts, shifting focus towards the older demographics is a retail trend that is likely to take on increasing prominence.

Figure 22: UK Household debt (£bn) 2000-2016



Movement towards a greater focus upon older shoppers has been surprisingly slow over the past decade. An insight into the future direction of retail can be seen in Japan. Numerous stores are changing to take advantage of the spending power older shoppers have, and the pace of development is speeding up. Elsewhere, companies able to successfully target the 'grey pound' first could become positioned to become long-term market leaders. However, a note of caution is useful. While at present retirees have extensive spending power, as time passes the over-65-year-old group will become inhabited by more people with less spending power. Regardless, the most potent growth opportunities now lay not with young consumers but with older consumers, creating the conditions for leading retailers to redirect attention towards the 'grey pound'.

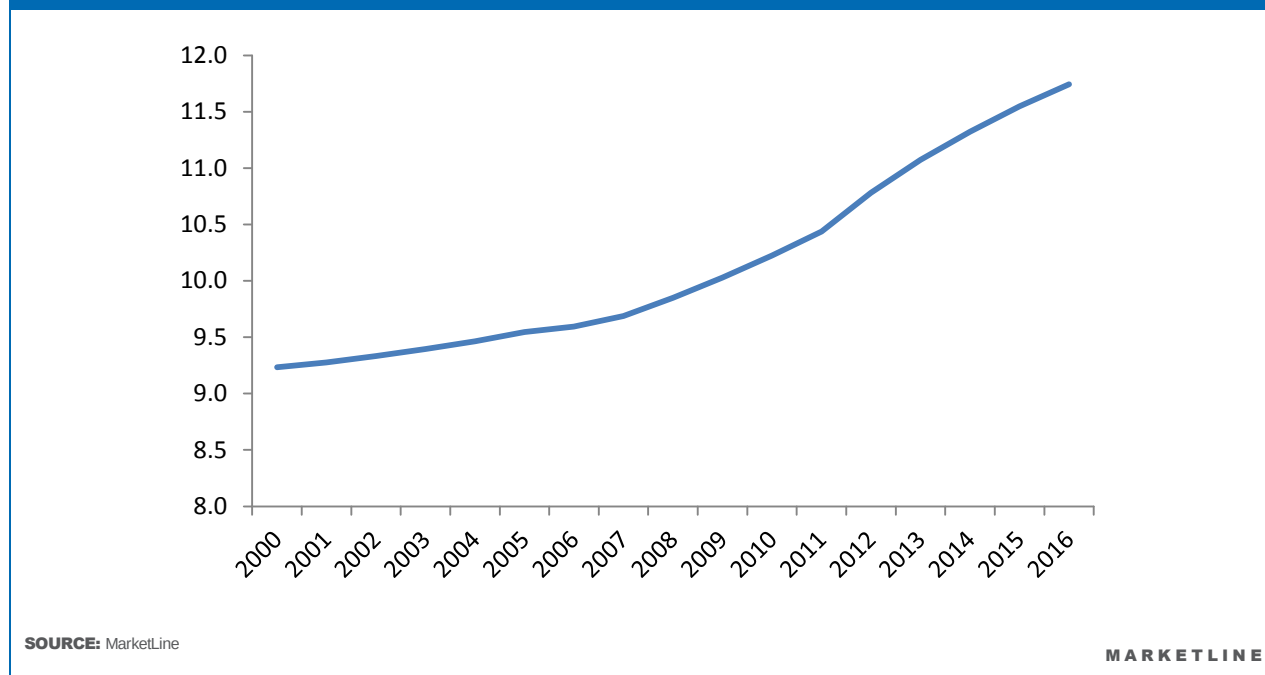
Retailers have so far failed to take sufficient notice of older consumers – this will change

A fundamental point that has been found to dissuade older consumers from entering stores or making purchases online is the belief they are being treated as though they are old. Speaking generally, they do not like it. Retailers will increasingly work to solve this problem as the market for younger consumers becomes increasingly close to becoming wholly saturated. Globally the over 60-years age group spends approximately four trillion dollars – a number that is expected to grow. Yet capturing this market, or even defining it, is much harder than for the remainder of the demographic. What constitutes an older consumer is not really known; each sub-section of the over 65-years group has distinct tastes, toughening the task of establishing a coherent sales strategy. So far there is little sign consumers from this group feel retailers are taking sufficient notice of them. The Economist Intelligence Unit found only 31% of firms polled took into account increased age when making plans for sales and marketing. One study by fast.Map found 68% of British 65-74-year-olds 'don't relate' to advertising that they see on television.

There is strong reason to believe older consumers will increasingly become of interest, especially as more shopping takes place online. In 2015 the British Retail Consortium estimated online spending to have reached £5.8bn and predicted that number to rise. Furthermore, roughly 78% of internet users aged over 65 years have made online purchases. When it comes to using the internet as a means of shopping that figure puts the over 65-years age group surprisingly close to younger groups – 93% of internet users aged below 65-years have shopped online. This shows retailers should take greater notice of the older groups. With the passing of time this task will become easier. Baby boomers have integrated much technology into their lives and are on the whole much more accepting and aware of modern trends.

The percentage of people counted among older generations who are using social media is increasing at a pace, enabling more modern methods retailers employ to be used to attempt to capture the attention of older shoppers. An old presumption that aging consumers do not understand developing consumer trends is eroding and will continue to do so.

Figure 23: UK over-65-year-old population (millions)



Rivalry among leading retailers has resulted in ever more aggressive discounts to attract increasingly savvy consumers. Yet with consumer debt disconcertingly high, the consumer market for working-age-people appears close to saturation. Continued growth must come from somewhere, and the older age groups appear economically well placed to supply that growth. Based upon the condition of the retail industry, leading companies will increasingly be tempted to risk losing some of the conventional working-age market in favor of targeting the 'baby boomer' generation. However, there are problems involved in such a move. Marked differences exist between the sub-groups of the over 65-year-old age group. One means of attracting a segment will not be so impactful for another – and all that whilst companies attempt to maintain market share in the working age groups.

Over time the problems of catering for the tastes and needs of older people should become easier. Attitudes among the over 65-years age group are different to what would previously have been the case. Many recent members of that group do not consider themselves as being old; rather they often 'think young' despite their advancing years. That should signal a shift in how products are advertised. Old stereotypes of how to sell goods to the retired are likely to reduce in effectiveness at an advancing pace, forcing change in leading retail companies.

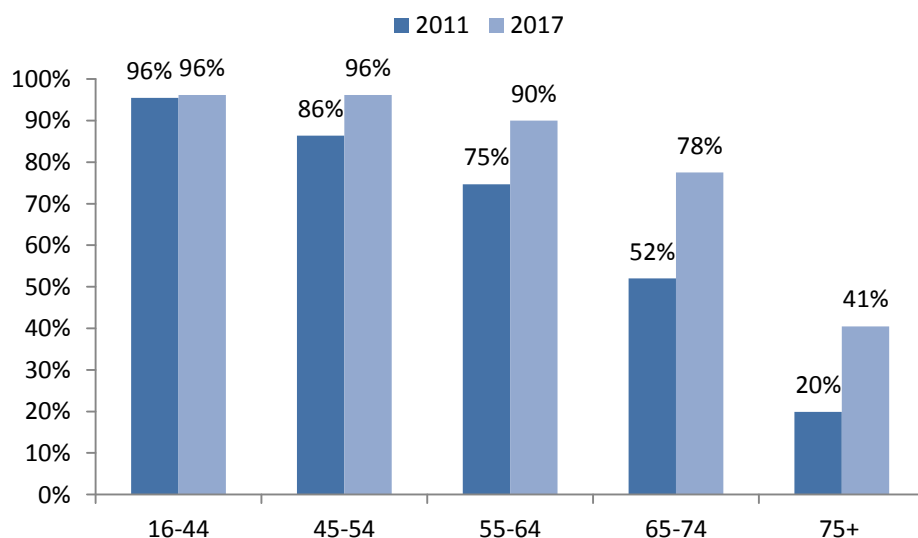
Retailers are beginning to cater store design towards needs of older generations

A developing trend regarding online retail is the closing gap between the percentages of over-65-year-olds who have made online purchases compared to the working age and teenage populations. For many of those entering retirement age the internet is something that has been commonplace for roughly two decades. This contrasts with those people aged over 85-years, many of whom were already retired before internet coverage became ubiquitous. Consequently, the knowledge of technology held by so called 'silver surfers' is considerably better now than it was even a few years ago. To that end retailers are beginning to design online shopping platforms with older consumers in mind, but there is reason to believe the amount of development has been insufficient compared to the scale of the potential market.

At present, only a minority of retailers purposefully target older consumers – even some of those are struggling after failing to successfully appeal to their tastes – but signs are retailers are beginning to place greater emphasis on developing strategies for older customers. Amazon launched the '50+ Active and Healthy Living Store' to target this group back in 2013, highlighting how relatively slow the move towards catering for older people has been. With older consumers behaving more and more like working-age consumers it may very well be the case that retailers are banking on the trend continuing so only minimal changes are required. The internet knowledge of consumers has helped JD Williams convert users of catalogues to online shopping, helping the company to streamline services and compete in a segment of the market that is notoriously high in rivalry. Chief executive Angela Spindler is on record as having said customers aged over 50-years are “transacting happily and increasingly on mobile”, suggesting longstanding assumptions about shopping habits of older consumers are increasingly false. This is borne out by results released by UK regulator Ofcom stating that four in 10 internet users who are over 75 now have social media accounts.

As more shopping by older age groups takes place online, so internet pages are predicted to become simplified. One problem leading companies face is if an older consumer clicks on an advert, confronting them with a complex landing page, this serves as a deterrence to make a purchase. Large fonts, clear buttons and a minimum number of clicks required to buy an item improve the percentage of selected goods which result in a completed transaction. This is of increasing importance, particularly in regard to advertising through social media: Figures released by the UK based Office for National Statistics (ONS) shows in 2016 over 50% more over 65-year-olds used social media compared to the previous year; in 2011 that figure stood at 45%. Furthermore, those people are also using the internet to research products much more than were even recently the case. Overall, in 2015, 9% of online purchases were made after viewing an internet advert.

Figure 24: Recent internet use in 2011 and 2017 by age group, UK



SOURCE: Office for National Statistics

MARKETLINE

Some major online retailers around the world are now catching onto the potential tailoring services to older consumers can unlock. Chinese online giant Alibaba is targeting the over 65-year-old audience despite the presence of an expanding middle-class and rising living standards. In early 2018 the company announced a policy to recruit among the over-60s to help make the online shopping platforms more amenable. The company also launched an elderly-friendly version of the Taobao shopping app and is investing in bricks-and-mortar stores which older consumers are more likely to use. Chief among the motivating factors is slowing growth. Retail companies are predicted to follow the Alibaba example with increasing regularity over the coming years, marking a major trend in retail development.

Bricks-and-mortar stores begin to adapt to spending power of over-65-year-old shoppers

Older consumers have reported they still like physical stores and prefer not to have to travel far to reach them. Given the population of the over-65-year-old group is expanding at a reasonably fast pace, retailers will increasingly pay attention to adapting store design to cater for the needs of older shoppers. Furthermore, consumers who shop at a physical store are more likely to use the online version of the same company instead of switching to a rival. Wider aisles, larger and easier to read signage as well as brighter lighting (seniors can require light up to five times brighter to read than their younger counterparts, so bright, direct illumination is used) are relatively minor changes to store design which can attract a loyal following among the older age groups. The Keio department store in Japan has proven such changes make business sense. 70% of customers were found to be aged over 50 years and reported the layout of the stores was counter to what consumers demanded. Changes included rearranging the women's clothing by price, size and color, rather than brand. Significant increases in sales followed.

Figure 25: Lack of seating deters older shoppers



SOURCE: Daily Mail

MARKETLINE

The International Longevity Centre conducted a study during 2016 in the United Kingdom in which older consumers were asked about their shopping experiences. Some of the results proved startling: the retail industry, the report concluded, is losing billions-of-dollars' worth of business because older customers have nowhere to sit. One in five people aged over 70 reported being put off going to high-streets due to lack of seating. The organization claimed the removal of seats and benches means older people are less likely to spend money. Consequently 14.5% less money was spent compared to younger shoppers. This is at a time when retirees have higher average disposable incomes than during any previous period, largely thanks to healthy pensions and property prices. The corollary is leading retailers could improve results by implementing relatively cheap and easy to achieve changes in store design. As companies depend upon the 'grey pound' to an increasing degree, the shape of physical retail outlets will change. Unlike other developments which could deter working-age consumers, the addition of seating would not discourage the young and fashionable from entering and spending money.

Companies such as Sainsbury's began trialing a specialized service for elderly and vulnerable customers designed to make shopping easier and less stressful. The 'Slow Shopping' service includes customers being greeted at the door by staff and customers being assisted with shopping. Chairs are also provided at the end of each aisle and help points provided around the store. Whilst such schemes remain in their infancy there is reason to believe more will follow.

However, the end sections of aisles are extremely valuable retail real estate and it is unlikely a company will sacrifice them for seating on a permanent basis or even across many stores. Even though older shoppers are an undervalued consumer group, retailers must be careful not to sacrifice features which generate meaningful income. Regardless, retailers will increasingly take measures to ensure the custom of older consumers can be secured – it is a trend that is only likely to grow stronger.

KEY FINDINGS

- Bricks and mortar stores are not going to slowly disappear until there are none, left quite the contrary, we may even be in for a boom period of sorts. There is in fact a key business need for physical locations and the online retailers know it and are creating their own concept stores. High street stores have a great deal to offer, from handling and inspecting products before purchasing, to creating a kind of physical brand ambassador space that is highly visible to consumers and when backed up by strong e-commerce, it can be a compelling combination.
- The current state of delivery in e-commerce is actually quite poor. Delays and missed deliveries are commonplace and a major change and some innovation is needed to perhaps rethink the way consumers get hold of their products. A number of companies have been working on this problem and the designs are quite radical, from autonomous delivery bots to huge airship drones. It's still not clear what the answer is, but the traditional carriers will soon have major headaches competing with the most powerful retail companies within the delivery and transport sector.
- It is clear that millennials and generation z do want many of the types of products that have always attracted retail customers. But these two generations expect different services to other generations. Retailers need to bear in mind that generation z in particular are highly sophisticated internet users and are more skeptically and socially educated, meaning they won't fall for the same old marketing tricks and will be very likely to research a business before they give you their custom. There is also a strong tendency to perform aspirational shopping which can be very tricky for companies to negotiate.
- A number of new technologies are being readied for stores and they may help to really enhance the instore experience so that it can keep up with the innovations being made by online commerce. From VR enhanced stores to AI powered personal shopping apps. There are a number of new technologies that have been tried and failed however and will take a few years before their proper introduction. These include things such as AI Robot store assistants which have been trialed but mostly unsuccessfully so far.
- Many stores that traditionally catered for the older consumer were tempted by new emerging consumer groups and tried wrongly to completely redesign their offering for these groups. However there is a clear opportunity to better cater for older generations in retail, particularly given that internet sophistication levels are much higher than they have been in the past in older generations and these groups have much more spending power than the underemployed young groups below them.

APPENDIX

Further Reading

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