the futures company

The Future Shopper

How changing shopper attitudes and technology are reshaping retail

KANTAR RETAIL

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The Future Shopper

Bill Gates once said that, "we overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10." Shoppers and shopping are just reaching the tipping point between the short term and the long. In this Future Perspective we explore how the combination of digital technologies, consumer expectations and socio-economic change is transforming the way we shop and what it means for suppliers, manufacturers and retailers alike.

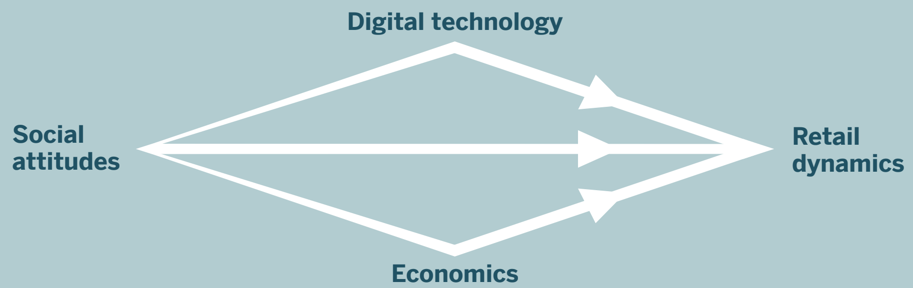
One thing is clear: The change in shopper behavior and attitudes that has been linked by some to the financial crisis is, in fact, a deeper shift caused by the intersection of changing social attitudes and technology, and reinforced by the economic environment. Similar changes are seen in both richer markets and emerging markets, even though the latter have been affected less by the aftermath of the financial crisis.

This Future Perspective starts by reviewing the ways in which shopper behavior has been—and will be—transformed by the digital and mobile revolution. It then moves on to look at the broader trends shaping the shopping environment before introducing a model that helps retailers and manufacturers sharpen up their strategies in the new shopper environment. Finally, we look at some of the emerging retail models that are attempting to marry virtual and physical environments which are becoming increasingly blurred.

It is, of course, difficult to discuss the future of shoppers without also discussing the future of the retail environment, and inevitably these issues are intertwined here.

What's striking about the story that we are telling here is the collision of the old and the new. It is a world in which the needs of shoppers remain, in many ways, largely unchanged—but their expectations of how businesses will fulfill those needs are being transformed.

The changing shopper world



Everywhere commerce

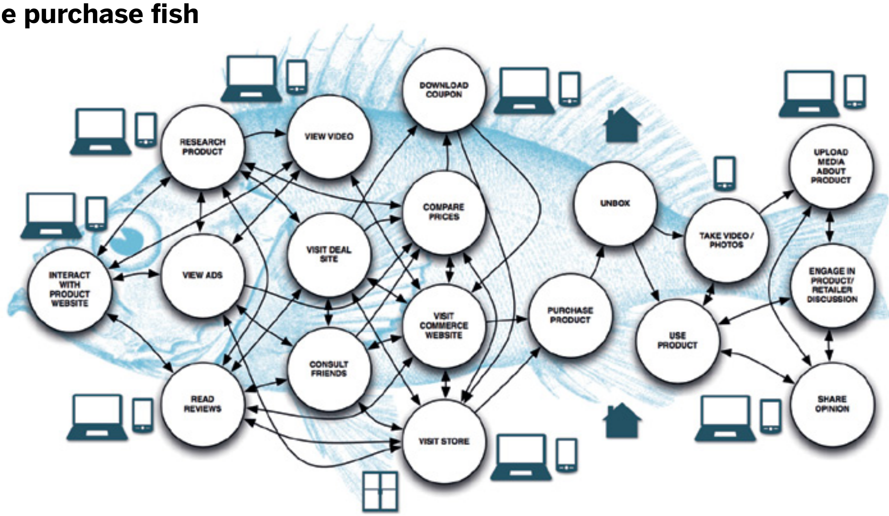
Understanding shoppers used to be simple. They were understood as people who did things in a linear way, progressing in a beeline from awareness through to purchase. Awareness would lead to Consideration, which would then lead to Selection and Purchase, and after Purchase, to Loyalty. There were acronyms such as AIDA (Awareness-Interest-Decision-Action) to help. Prospects would be ushered along a purchase funnel, arriving along the journey at one or more 'moments of truth' that led to purchase. While it probably was never that simple, at least outside of the Marketing 101 textbooks, it is certainly not true now. The purchase funnel has become a 'purchase fish,' a complex world of feedback involving research, multi-channel contact with the seller and eventual purchase, as well as the testing of opinion with an ever-larger group of other consumers.[1] This increasingly complex purchase world was identified in 2004 in pioneering research for AOL by The Futures Company (as The Henley Centre).[2]

As Steve Yankovich of eBay Mobile told the *New York Times* in December 2012:

The 'purchase funnel' has become a 'purchase fish'—a complex world of feedback and opinion testing

"They might discover an item on a phone or tablet, do a saved-search push later on some other screen

The purchase fish

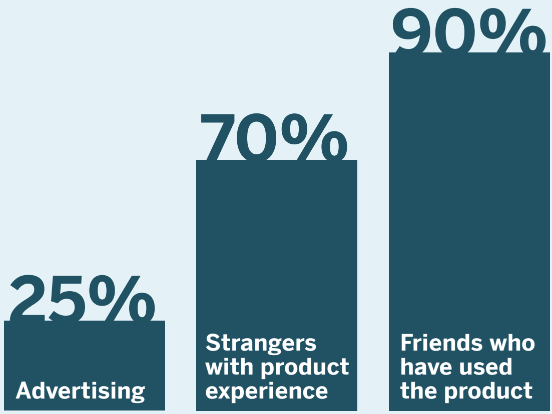


Source: The Futures Company/Kelly and Rollins, The Open Brand

and eventually close on the website. People are buying and shopping and consuming potentially every waking moment of the day."[3]

So it is not surprising that definitions of e-commerce are getting murkier. *The Harvard Business Review* asked, in 2011, "Is it e-commerce if the customer goes to a store, finds the product is out of stock and uses an in-store terminal to have another location ship it to her home? Or if she finds a lower price through her smartphone and orders it electronically for in-store pickup?"[4]

Who do you trust?



Source: Edelman Trust Barometer, US consumer survey, 2010

As shopping changes, the shopper's experience becomes more complex, and harder for retailers and brand owners to manage. Transactional costs fall in an 'everywhere-commerce' world, and so do knowledge and information costs. Increasingly, it is the flattening costs of knowledge and information that are making the biggest difference to the shopper.

From the customers' perspective, they now expect access to the whole catalog, not just the range of goods in a particular location, and they also expect the retailer to keep track of their personal shopping history with that retailer, regardless of location or platform. In other words, the customers want the retailer to manage their "3 Ps" (profile, personal history and preferences) and let them have access to it whenever and wherever they want it.

From the retailers' perspective, they are now in a world where there are far more intermediaries than there were before, making it much harder to communicate directly with the shopper. Shopping decisions are now framed and managed by aggregators, deal sites, social media and social recommendations. The speed of this change has been remarkable. Only a quarter of Americans believe that advertising is a credible source of product information; friends who have used the product are mentioned more than three times more frequently.

But there is an upside here. Companies that do manage to make the connection with their shoppers are rewarded with permission to have a fuller relationship than traditional, mainstream bricks-and-mortar retailers ever did.

All of this new conversation is being shaped and enabled by a surge in personal, portable digital technologies, mostly smartphones, but also tablets. These are already widely used for shopper R'n'R (research and recommendation) and are being used for purchase

E-commerce snapshots

- **In South Africa, Internet retailing grew 15 percent in 2011.**
- **140 million Chinese have made purchases through online channels.**
- **In Brazil, courier company Direct Express now makes only 60 percent of its deliveries to affluent areas.**
- **Online channels in the U.K. now account for approximately 10 percent of all sales.[7]**

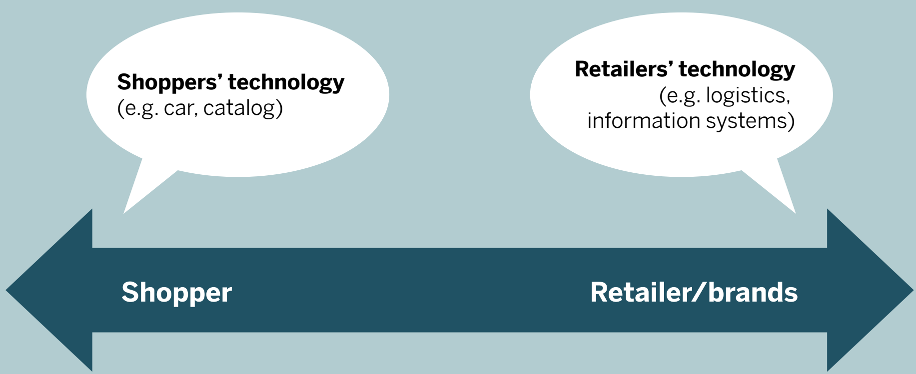
as well, especially by younger shoppers. This intersection between shoppers, retailers and technology has, for the first time, given shoppers the potential to access retailers' management and information systems—provided the retailer is willing to allow it. In the future, doing this well will be a source of retail competitive advantage.

It is easy to imagine that this is a phenomenon largely restricted to rich markets. But the rapid growth of mobile—the mobile Internet, in particular—in emerging markets means that both digital purchases and other digital shopper behavior is growing rapidly in emerging markets as well. Globally, 48 percent of smartphone users have downloaded a retailer app. Of these, 90 percent say they've found it useful.[5] Even by the end of the last decade, 16 percent of Indonesian mobile phone users had made a payment via their phone, compared with just five percent of U.S. mobile users in 2010. The comparable figure for Japan was 40 percent.[6]

From digital immigrant to digital dependent

Two interlocking trends, one social and one technological, mean that these changes are likely to accelerate. The first is the change in generational behaviors around digital

The old shopper conversation



Source: The Futures Company/Kantar Retail technology. The notion of 'digital immigrants' and 'digital natives' is well-known. Natives grew up in a world of screens and digital devices, with the Web and some connectivity, and expect to use all of them. Immigrants, who tend to be older, started work in a world in which the desktop computers (or even typewriters) were still the most widespread piece of office technology. They have had to learn (or more accurately re-learn) how to function in the digital world.

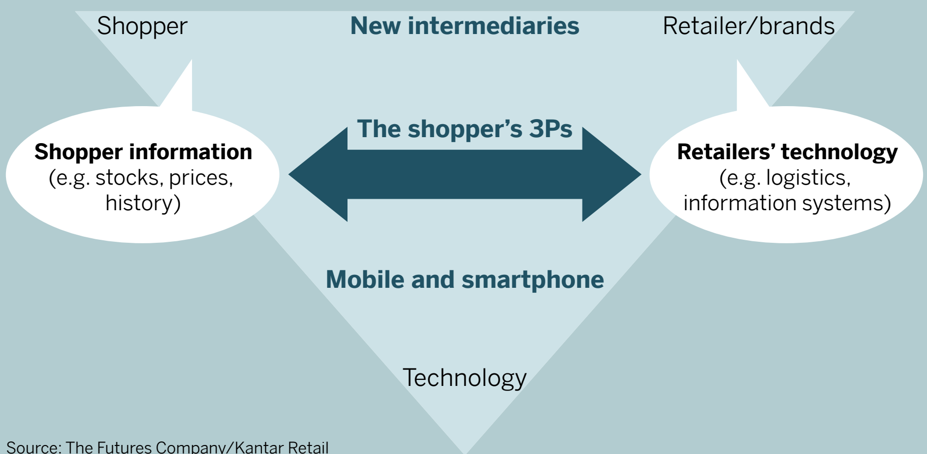
Now, however, even natives have been superseded by a new generation of digital dependents whose lives and behaviors are shaped by the seamless interconnectivity between devices enabled by wireless and broadband.

In terms of their shopper behavior, the three groups are distinct. Digital immigrants, born and raised before PCs, tend to see technology as a parallel track to digital retail, and have a relatively rigid association between category and channel. They have not assimilated mobile into their shopping world, beyond perhaps using it for wishlists or checking in with a question while shopping.

Digital natives, by contrast, were born in the age of the PC and raised in the era of the Internet. They have integrated technology into their shopping habits and, as a result, move fluidly between in-store and online, based on price, convenience, quality, brand and personal fit. For them, mobile is a tool for comparison, discovery and, increasingly, transactions.

The younger **digital dependents**, born since the Web was invented, see technology as integral to all of their interactions. They have grown up surrounded by tech and become frustrated if they don't have access to it, whether in a retail setting or elsewhere. (For example, this generation can regard access to social media as a deal-breaker when choosing jobs.) Mobile is their default platform, and they won't trade off convenience or control for savings. But if retailers think

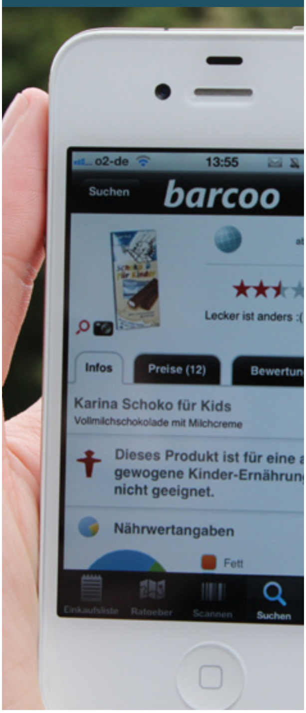
The new shopper conversation



Source: The Futures Company/Kantar Retail

The see-through product

The German Android app Barcoo combines QR scanning and GPS technology to direct shoppers to providers that are the cheapest and closest to them. It also provides information on the eco-footprints of companies and 'nutritional traffic lights.' Everything you need to know about a product is now available to you—on the device in your hand.



that this gives them time to respond while the digital-dependent generation comes of age, they should think again. As digital technology has matured over the past two decades, younger, leading-edge users have invariably educated older users about the possibilities of new applications, such that usage has boomed among older generations. We saw this with texting a decade ago. Now we're seeing something similar with video-calling services such as Skype or Apple FaceTime.

SoLoMo

The second trend is the interaction between smartphones, typically carried by purposeful users, and dumb location-based information, embedded in objects through sensors.

SoLoMo is an ugly, if catchy, acronym; it stands for the forms of exchange, media and commerce that are enabled by the growth in personal portable platforms: **So**cial, **Lo**cational and **Mo**bile. The phone enables all three in combination. Social media applications become place-specific when operated on mobile devices, while social media is rapidly turning into 'social commerce' (see panel).

> Going to market is a human behavior that dates back 10,000 years

Smartphone-enhanced shopping is becoming standard. Two-thirds of smartphone owners in the U.S. say they use them while shopping in grocery stores; nine percent say they use them to download and redeem coupons.[8]

But 'locational' is the most transformative of these three elements. Most consumers say they're willing to allow their phone to share their location in exchange for perks, such as mobile coupons or free use of apps. One-tenth of American cellphone owners use mobile location services at least weekly.[9] The venture capitalist and tech analyst, Bill Gurley, suggests there is significant growth to come here, especially in local markets, enabled by services such as the U.S.-based Yelp and vertical service providers such as OpenTable or AirBnB. Only 12 percent of U.S. restaurant reservations were booked online in 2011, whereas mature Internet sectors are now at saturation. Southwest Airlines, by comparison, booked 86 percent of its revenue online in the fourth quarter of 2011.[10]

In this SoLoMo world, it is possible to build up a picture of how the emerging digital generations will integrate social and mobile platforms into their lives. In short, there are seven stories:

- The first screen will be a portable screen, likely to be a tablet device or a mobile with a larger screen size than most current mobile phones.
- There's an app for that—an app designed to maximize the potential of the portable platform, not downsized from a laptop package.
- It is a personal portal providing access to personal resources stored in the cloud, allowing you to get what you need when you need it.
- Intuitive interfaces including voice controls, facial recognition and gestural management make the portable device more personal, more secure, more useful and easier to manage.
- It knows what you want, at least some of the time, because it knows where you are and has built up a picture of your habits over time.
- It carries cash, not literally, but has an interface (as likely to be hardware as software) that allows you to buy small value products and services effortlessly—and also take payments and other credits (e.g. store points). Everyone becomes a merchant.
- It knows who you are and can verify this to others, enabling you to access buildings, such as workplaces, and to confirm your age or identity.

It's worth underlining that despite the ubiquitous nature of personal and portable technology in this shopper environment, it does not follow that the continuing growth in e-commerce will be either inevitable or relentless. There are many reasons for this, ranging from the specific characteristics of the goods in a given category (perishability, bulk, uniqueness, etc.), to the economics of the logistics involved, to social habit. After all, going to market is a human behavior dating back 10,000 years to the early history of ancient Persian civilization.

What we're seeing in 'early adopter' e-commerce markets is, at best, steady, slow growth. By 2020, e-commerce is forecast to reach 14 to 15 percent of total sales in the U.K., 10 percent in the U.S. and five to six percent in Japan.

The growth of social commerce

- **Social networking has created a new direct selling channel. People, according to research group Altimeter, are becoming the fifth "P" of marketing—after product, price, placement and promotion.[11]**
- **By 2009, Dell Outlet had sold $6.5 million in products through its Twitter feed.[12]**
- **Sales of goods through social channels are predicted to hit $30 billion by 2015—up from $5 billion in 2011.**
- **In North America, B2C companies have already acquired new customers through Facebook.**

The wider trends shaping the shopper

Although technology has been the most visible factor shaping shopper behavior, there are other macro factors that are at least as influential, including a cluster of attitudinal factors. The outcome is that shoppers are increasingly sophisticated, increasingly savvy and increasingly considered in their shopping decisions.

The global context

The story so far has been one of different types of digital interfaces between shoppers and retailers, creating new flows of information and knowledge, and changing the balance of power between them. But this story is playing out against some significant shifts in the overall global landscape. These also are shaping the retailer response. In this section we take a top-level look at these trends.

The growing global market

Brazil, Russia, India and China are now among the top 10 economies in the world, with China, now the second-largest economy in the world, forecast to account for about a quarter of all global retail sales by 2022—twice as much as the U.S..[13] In another 15 years, consumption patterns will have changed again. A second generation of countries is following the BRICs. The lists of these countries vary, but any of Bangladesh, Colombia, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Africa, South Korea and Vietnam could see sustained growth.[14] For companies in recession-hit markets, the future seems to be a foreign country.[15] That said, it is easy to exaggerate the scale of the opportunity and the speed at which it will unfold. In our Future Perspective *Unlocking new sources of growth*, published last year, we noted that many middle-income countries never cross

The growth of modern retail

Modern retail is advancing rapidly in Asia, albeit unevenly. In China, modern trade grew from 34 percent of the market in 2000 to 64 percent in 2009. In India, only five percent of packaged grocery trade takes place through modern, formal channels. In former Asian tiger Malaysia, 70 percent of shoppers still visit independent grocery stores two to three times a week.[16]

the threshold to high-income markets. As a strategic bet based on historical experience, most developing countries today are a long way from being a sure thing.[17]

Changing household structures

The average size of shopping baskets is getting smaller and the average number of weekly shopping trips is falling. Globally, households are increasing in number but decreasing in size. More people are living alone. More children are being brought up in single-parent households. This is a worldwide phenomenon. The number of single-person households in Brazil is approximately nine million—a threefold increase since 1995. In Japan, single-parent households are expected to grow in number by 22 percent between 2000 and 2030. European households, meanwhile, now have an average of 2.4 people, compared with 3.9 in 1980.[18]

In search of value

In richer markets, the financial crisis gave permission to people to look for value, although the trend predates the crisis. In emerging markets this has long been the case. Shoppers are better informed—partly as a result of digital and social media—about deals and about whether they represent good value. Discount retailing is booming. In Germany, home to Aldi and Lidl, discounters now control nearly 46 percent of the grocery sector.[19] This is not just a reflection of continuing income disparities in high-growth markets. In China, where the "*tuanguo*" practice of group-buying originated, there's a strong tradition of the "best deal." Discounters are expanding in these markets too: In China, Mexico and Brazil, they're predicted to grow more than 60 percent between 2010 and 2015.[20]

For increasing numbers of consumers, price and value are more important than brand. One outcome will be the continuing strength of private label.[21]

In search of assurance

Shoppers are adopting shrewder and savvier approaches to their purchase decisions. There are a number of important attitudes and behaviors behind this. Consumers, in general, are skeptical of the promises and claims made by businesses, and in the shopper environment this translates into a need for other sources of information that are more trustworthy. In China, as we reported in our Future Perspective *China's Challenges*, anger about food quality has forced the government to tighten regulations and impose tougher penalties, including death, for offenders. In Europe, scandals such as the continuing horsemeat affair underline a general and widespread view that if businesses think they can get away with something, they will try to do so. Shoppers, certainly in richer markets, are also more risk-averse than they used to be; shorter of time and money, they have less margin for error. And at the same time, they are more able to express their opinions and to share their views outside of mainstream channels.

The implication for retailers and manufacturers is that they have to design products and services with better guarantees and warranties, that encourage people to feel confident in using them, and also to engage better with shoppers sources of trusted information and advice.

In search of mental space

Across the world, in richer markets as well as poorer ones, shoppers are responding to economic and social pressure by reducing the emotional and mental clutter in their lives so they can make space for the important things in their lives. They are looking to simplify, so they can create more time and space in their lives and can take more control. In richer markets this can be because they are having to work longer hours or have increased responsibilities as caregivers as levels of social protection are cut back by governments.

What this means in practice is that shoppers avoid, or remove from their repertoires, products that create additional complexity in their lives or generate more emotional clutter. It also means that their time is more important—and that retailers cannot afford to waste their shoppers' time on transactions that ought to be straightforward. Convenience formats are growing in richer and emerging markets alike. In the U.S., Walmart has unveiled its 'express' format. In the U.K., upmarket grocery chain Waitrose is opening convenience stores called Little Waitroses, often close to train stations. In South Africa and Mexico, Pick n Pay and Oxxo stores are luring cash-rich, time-poor shoppers willing to pay premium prices. The increased demand for convenience is closely linked to increased urbanization and changing employment patterns. In Indonesia, for example, the number of convenience stores increased more than fivefold to 11,500 between 2000 and 2010.[22]

The winners—in terms of retailers and manufacturers—are the ones who design formats, products or services to be more streamlined at point of decision or purchase. This can mean revisiting the category to decode language, packaging, or messaging.

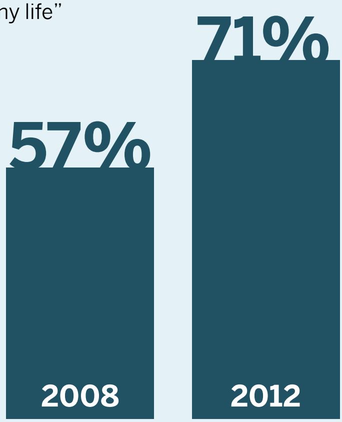
In search of quality

Nevertheless, even shoppers who are squeezed for money and short of time still desire

Consumers want to simplify

"More and more, I find I am looking for ways to simplify my life"

Global average
% total agree



Source: The Futures Company, Global MONITOR

To make money, you have to understand your shoppers better than ever before

quality. Some have used e-commerce to reduce the cost and time involved in buying basics so they can spend more of both on quality. As awareness of food and manufacturing processes rises, so shoppers are looking out for specialist providers that can ensure the quality of food. One of the flip sides of the rise of discount clothing and apparel companies has been greater interest in manufacturing quality and durability.

In the U.K., the number of butchers, bakers, farm shops and fishmongers has increased by 11 percent since 2008.[23] Specialist chains in the U.S. such as Trader Joe's and Whole Foods continue to expand. In developing markets, meanwhile, specialists fit with the tradition of independent retail.

At the same time, perceptions of quality extend to the production chain. Shoppers increasingly understand that cheaper goods are more likely to involve compromises, whether this is to do with the quality or type of labor, the environmental impact or the returns to suppliers. Some of this overlaps with the desire for assurance: Sales of organic products in China quadrupled between 2007 and 2012, and are growing at a rate of 40 percent per year in Brazil.[24] Demand for ethical business and CSR remains high globally—holding steady despite economic turmoil at 71 percent of consumers in 2011.[25]

Taken altogether, these shopper perspectives represent a challenge to big retailers. Some drive down margins; some reduce sales. Some reduce the overall value of baskets at the supermarket checkout while reducing the premium element at the same time. Finding new and imaginative ways to match shoppers' desires for value, assurance, mental space and quality will become priorities. It is still possible to make money, but you have to understand your shoppers better than ever before. Simply put, retailers will have to be more clever.

Watching the demographics

German supermarket Kaiser's has opened a branch in Berlin specially adapted for older shoppers, with brighter lighting, non-slip floors, steps to access shelves and magnifying glasses for reading labels. In South Korea, SK Energy has opened special gas stations for female customers. These stations are magenta and pink and include powder rooms.

Getting CLEVer

So the world of retail is in transition as digital technology disrupts shoppers' expectations regarding how they interact with the world around them—a world in which computing is no longer locked up in devices but embedded in everything, pervasive and persistent, sensitive to the presence of people and objects.

Both retailers and suppliers alike will need to adapt to this new world to survive the shoppers' changing expectations about how they wish to engage all along their path to purchase. Digital tears down the walls of the store, and the successful retailers of the future will need to tear down the walls of their current thinking about retailing. The retailers that win in the new environment will do at least more than one of these things well:

- Reinvent convenience.
- Redefine loyalty.
- Re-imagine experience.
- Reposition value.

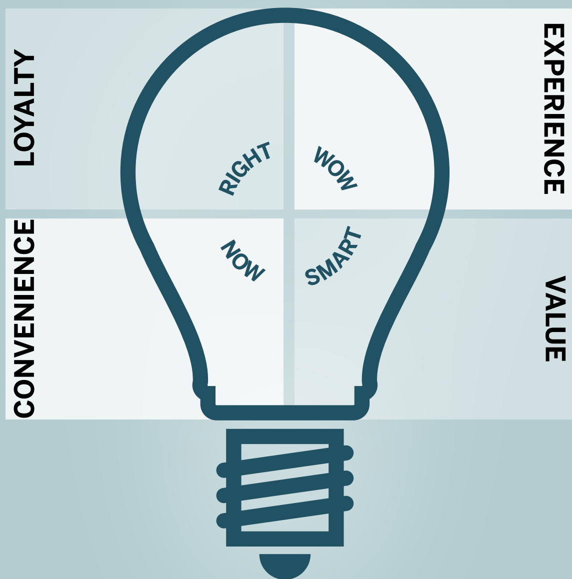
In short, they will have found new ways to address underlying shopper needs across channels, formats and touchpoints.

Reinventing convenience

Historically, 'Convenience' has referred to a physical channel or store that caters to shopper missions such as fill-in, top-up, impulse or distress. These shopper need states have historically been addressed through smaller stores with optimized assortments intended to save the shopper time. However, this definition of Convenience is no longer sufficient in a world in which the shopper is digitally dependent and channel agnostic.

In order to meet the needs of the future shopper, the

CLEV:
Convenience, Loyalty, Experience, Value



Source: Kantar Retail analysis

Photo: The Futures Company

Amazon customers in the U.K. can choose to have a product delivered to one of its standalone lockers rather than a home address if this is more convenient. This locker is situated in a shopping center close to a transport hub.

idea of Convenience will not necessarily involve a physical location and will shift to contextual and situational methods of solving the 'now' need state of the shopper for instant gratification all the way along their path to purchase.

We can simplify the 'now' need state into three main buckets:

- Shopping (information gathering)
- Purchasing (transacting)
- Fulfillment (taking ownership of the purchase)

Retailers and suppliers must be ruthless in understanding how the shopper behaves within each of the buckets, and active in creating multiple options for the shopper to move between them. In stores, this might involve arming the floor staff with mobile devices to facilitate in-aisle purchasing, or building robust mobile applications that allow the shopper to browse and purchase virtually while in the store.

The 'Drive' model, which is now a significant feature of the French groceries market, saves customers time by unbundling the shopping, purchasing and fulfillment elements. Different stores operate different models, but in essence 'Drive' allows customers to order online (or, in some cases, on arrival at the Drive location) and then collect their boxed-up order. The model has taken off in France because French customers are resistant to paying delivery charges and reluctant to block out time at home to wait for deliveries. According to research from Kantar Worldpanel, 2.3 million French households visited a Drive during 2012 and that number will all but double, to 4.5 million in 2015.[26]

Redefining Loyalty

In today's world of large consumer datasets, loyalty has traditionally been about identifying correlations and understanding behavior, with the end goal of optimizing pricing and assortment to maximize trips and basket. This sort of analysis, while being strong on transactional record-keeping, has been weaker at understanding underlying motivations as well as at uncovering shopper activities outside of the confines of the store or dataset. Simply put: current loyalty data reveals the Where, What and When, but fails to reveal the Why.

As described previously, the future digitally dependent shopper has different expectations on how he or she interacts with the world, expectations that are defined, in part by technology. This manifests itself in what Kantar Retail describes as the 'right' need state—an expectation to have a contextualized, tailored and personalized relationship with a retailer or brand, on the shopper's own terms, wherever and however he or she wants. Loyalty is not a strategy; it is an outcome of having a shopper-centric frame of mind.

Augmented reality offers

The Chinese e-commerce player Yihaodian recently launched 1,000 'virtual stores' that could be accessed only in specific locations using the company's Virtual Store app, which uses GPS to create a store on the user's device in a specific location. Each 'store' was packed with offers and discounts—a reward to customers who had downloaded the app and taken the time to find a location. The scheme was acknowledged by Yihaodian's agency, Ogilvy & Mather Advertising, as being a "guerilla marketing stunt," and the locations included stores belonging to competitors and iconic Chinese tourist spots. Sooner or later, though, a savvy retailer is going to execute this on a permanent basis, not as a promotion.[27]

One striking example of how to move beyond store data is the Spanish retailer Mercadona, which conducts more shopper research than any of its competitors. The research allows it to connect what they buy (which it knows from store data) to why they buy. Without in-depth shopper research, motivations are a blind spot. By combining the store data and shopper research, Mercadona opens up new insights into the needs of its customers, creating a platform for improvement and innovation, both in the types and range of goods it sells, and in building more effective communications, messaging and conversations. In turn, this makes it a far higher value partner for its suppliers.

Re-imagining experience

The re-emphasis on Experience has been one of the more obvious levers that retailers are using to meet the expectations of the Future Shopper. New stores with emphasis on design, visual aesthetics, theater and service open every day—often in an attempt to replicate the success of the Apple store without fully understanding Apple's economics. The first task of retailers, then, is to create emotional resonance for the shopper in a way that is contextually appropriate—the 'wow' need state—while also removing the barriers to purchase once shoppers reach their decision points.

Neiman Marcus, a premium U.S. department store, has taken this to heart in how they have leveraged mobile technology into its physical store environment. Through a mobile application, the shopper can check into the store, alerting the Neiman Marcus personal shopper to his or her arrival. The personal shopper then calls up the guest's previous purchases so that he or she can more accurately pull merchandise before the customer arrives. As digital manufacturing processes become more sophisticated, the Experience proposition will extend to personalizing designs and even specifications at the point of sale for later delivery.

One of the key issues for retailers is that getting the emotional environment in perfect tune is not enough; the execution must be flawless as well. Retailers need a

deep understanding of the psychology and mechanics of the purchase process in order to eliminate all barriers to sale.

Repositioning Value

Value is a word often used to describe low prices or to justify higher ones. For the future shopper, value will move beyond simply price to a message from the retailer that the shopper is making a 'smart' decision to purchase from them. Retailers catering to the 'smart' need state of the future shopper are experts on one of the components of the new value equation: price, service and quality.

One of the opportunities afforded by everywhere-commerce is based on the fact that retailers can expect to have information about individual profiles and the shopping history of every shopper. Safeway in the U.S. has introduced 'Just For U' pricing that leverages online and mobile applications to take pricing out of the public domain and tailor it privately to individual shoppers based on their profile and purchase history, satisfying the 'smart' need state by helping the shopper get a better deal.

Just For U is linked to Safeway's Clubcard scheme, but it effectively goes one step beyond the conventional clubcard by providing individualized offers that go beyond the clubcard discount. The company estimates that these represent further savings of between 10 and 20 percent for the shopper; savings are shown on the till receipt. Just For U launched last year, and so far 5.4 million households have signed up for it, representing 45 percent of its sales base.

But value propositions can be simpler. In the apparel category, Zappos has created an unlimited free shipping/ return policy for products bought online—because it identified that shoppers' concern about the cost of returning items was a barrier to sales.

Incorporating the virtual

In Germany, Adidas has been piloting an Adiverse Virtual Footwear Wall that lets customers browse a 3-D footwear catalog in which they can zoom and rotate. When a customer finds a pair of trainers he or she likes, a sales assistant checks stock levels (on a tablet computer, of course) and lets people pay without having to go to a cash register.

Responding to the future shopper

So how should retailers and suppliers respond to the future shopper? For an answer, this Future Perspective turned to Bryan Gildenberg, the Chief Knowledge Officer of Kantar Retail.

One of the main themes of this report is that we're moving from e-commerce to everywhere-commerce. How quickly is that going to happen?

Both more quickly than people realize, and slower than people think. We're not seeing a complete replacement of non-digital retail by digital retail; you'll see the replacement of physical retail by digital retail in some categories, and you'll see pure-play digital retailers competing with retailers with both a massive physical footprint and a massive digital footprint. The broader question, though, is about how people shop. That change is happening incredibly quickly. What we're going to find is that digital, mobile, social and local are going to impact almost everything that's sold.

So if you're looking at this from the point of view of a retailer or a manufacturer, what capabilities and competencies do you need to increase to compete effectively?

All companies need to become more fluent in the tools of the digital world, and that technical fluency is going to have to penetrate parts of an organization that aren't historically digitally-centric or IT-centric. It's difficult to imagine a marketer being effective five years from now without a real understanding of how to connect to shoppers through digital, mobile or social platforms.

Secondly, one of the really interesting challenges for companies will be to get better at assimilating data quickly and reacting to it faster, but without getting unmoored from their strategy. Technology can make the shopper environment much more volatile, and organizations will have to master agility, By 'agility,' I mean the ability to see things and react to them, but not to get knocked off balance. For more capital-intensive businesses, whether physical retailers or manufacturers, the ability to respond is to some extent limited by your capital investment. How do you respond without making your capital base completely inefficient?

Is this a world in which margins and profits are going to be lower?

The question is, how do you respond to competitors who make money in a different way from you? We've seen this challenge play itself out for years, long before digital arrived. As you look today at some of the more specific challenges of the digital world, one is that Amazon, as a competitive entity, is an extraordinarily disruptive business. This isn't about e-commerce in general, this is about Amazon. The way we always look at Amazon is that it is an e-commerce business that monetizes traffic. A business model that monetizes traffic is a different business from one that makes money on the trading margin on buying and selling goods, and if you don't adapt, your margins will get squeezed. So you have to reconstruct your value proposition, and that reconstruction is at the heart of winning in the future shopper landscape. You have to do that in four key ways, by looking at convenience, loyalty, experience and value [as discussed earlier in the report].

One of the things that pure-play online retailers can do more easily than brick and mortar ones is to create very disruptive, fast-moving price points. So we're going to see a lot more retailers move toward more personalized and tailored propositions which are delivered outside of the public domain. Shopping across all retail outlets is going to be faster; it's going to be more aimed at your personal preferences; it's going to be more fun where it makes sense; and the value proposition is going to be more personal, more targeted and more private.

Looking toward 2020 from a shopper point of view, what is the biggest change we'll experience as shoppers?

I'd say that it will be an integration of the digital and physical world, in ways that are in some cases fairly predictable and, in others, difficult to imagine. 'Everywhere-commerce' is going to be the underpinning of what we see. You're going to see more businesses figure out how to get more digitally integrated yet tangible propositions in front of shoppers in far more interesting ways. True integration of the digital and physical world is going to come from retailers who may only have a few products in stock, but have a three-dimensional rendering of the rest of the catalog that you can view and have delivered to your home even before you get back. If I'm Michael Kors, and I'm thinking about how to sell handbags, it would be much easier if I could have a kiosk where I physically stocked my five most popular handbags, and if my customer wants something different or a variation, I can provide a digitized mirror so they can see how it would look, and have it delivered later that day. There's no reason in the world why you couldn't sell $2,000 handbags out of a sophisticated digital vending machine.

What's not going to change?

I suspect that there's still going to be places that you can functionally go and buy stuff that's going to be delivered on a low-cost operating platform. There's always going to be an element of transaction-driven

retail where the shopper is going to be able to buy something simply without a lot of bells and whistles. The story of retail since the Second World War is that those models keep on getting better at replicating the things that premium retailers do.

The job of the retailer that wants to maintain its margins is to keep reinventing and reconfiguring the levers of shopper value in ways where they can extract higher than commoditized margins. The re-imagination of consumer value in the context of your brand proposition is the core strategic challenge on the table for anyone who's trying to win in this future shopping world.

Interview by Andrew Curry

Customer tracking

Retailers have fewer places to hide in the future environment. Pricing is becoming more transparent, and environmentally and socially irresponsible behaviors are publicized online.

At the same time, though, the shopper has few places to hide as well. As with distribution and supply, the Big Data of digital devices mean that retailers can monitor customer behaviors much more closely, and in real time. This takes CRM and 'precision marketing' to unprecedented levels. By mining Big Data, retailers have a stronger platform to better manage existing relationships and start new ones. However, shoppers aren't always fans of such personalization. There is a fine line between helping shoppers and stalking them.

A man walked into Target clutching coupons that had been sent to his daughter, and he was angry. "My daughter got this in the mail!" he said. "She's still in high school, and you're sending her coupons for baby clothes and cribs? Are you trying to encourage her to get pregnant?" The manager apologized and called a few days later to apologize again. On the phone, the father was somewhat abashed. "I had a talk with my daughter," he said. "It turns out there's been some activities in my house I haven't been aware of. She's due in August."

The new rules

In this emerging world, where the shopper and retailer interact in more places and also more often, there are some important new ground rules. These help businesses to manage in a world where technology, economics, social behavior and modern retail interact in increasingly complex ways. As the management theorist Peter Drucker once observed, "The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic." In this final section, we lay out nine rules for rethinking the shopper proposition.

1. The shopper context has changed for good

Shoppers have changed for good. Although this is partly about the technology, changing attitudes are at least as important. And although these were cemented, at least in rich markets, by the financial crisis and by household debt levels, many of the signs of change were there before. Shoppers will continue to be concerned about trust and transparency, just as they are going to continue to seek to simplify their lives and free up mental space while also trying to make sure they get fair value from retailers.

2. The shopping process has been disaggregated—and this will continue

The shift from a 'purchase funnel' to 'purchase fish' model means that different stages of the shopper process are happening in different places, and through different channels, many of which are beyond the control of the retailer. There are also new intermediaries (see rule 8, below). This opens up new strategic opportunities for retailers to relate to shoppers in different ways at different parts of the process. For example, a hybrid store such as Tesco's Homeplus store in Seoul's Seolleung subway station is a virtual shop 'stocked' with pictures and barcodes, aimed at 'digital native' commuters who are too busy to go the supermarket. People shop there with their smartphones, scanning the QR codes of the products they want. Tesco guarantees same-day delivery for orders placed before 1 p.m.

3. The store needs to be extended in time and space

Because the shopping process has been disaggregated, the store needs to extend itself in time and space, beyond a physical location or website, and technology enables this. But even though, from a shopper perspective, computing will be everywhere, the strategic question is how best to optimize the store's extended presence to best fit its positioning and competitive advantage. Whether by life stage, context, mode, behavior or category, shoppers will engage with retail more or less virtually and more or less physically, in ways that fit their preferences about shopping at any given time. One big change: The store will be able to maintain a relationship with shopper and product after point of sale. Think of the 'intelligent warranty' that maintains and repairs a smart product even before the customer realizes it has a fault.

4. If you're in bricks and mortar, you're in digital too

Beyond the smallest and simplest local shops, a retail business that has a physical presence will need to have a digital presence as well. This involves rethinking your digital presence beyond the walls of the store, and within them. For example, the Japanese-owned clothes chain Uniqlo uses digitized mirrors in some stores to show customers the item they are trying on but in the other colors in the range—speeding up the selection process for customers while reducing the amount of stock that needs to be returned to racks by staff. There can be surprising benefits. The department store John Lewis in the U.K. has found that opening mid-sized stores specializing in its homeware proposition, John Lewis Home, increases the level of online sales in the store's trading (or catchment) area. Within the stores, service staff are quick to help people go online to get the goods they need rather than being limited to what's available on the retail floor.

5. If you're in bricks and mortar, make the most of the physical contact

It's obvious, but bricks and mortar can do things that pure-play digital competitors can't match. The physical store has to be more than just a place to buy things. So Whole Foods has its chefs cooking with its fresh ingredients in full view—combining a fresh food market with a cafe. Similarly, it offers tours of its cheese department, where shoppers can learn about the cheeses and taste them. In the U.K., the clothes company Hackett has added services such as hair care and shoeshine to its flagship store. Beyond this, there is the store as showroom—where it is not possible to buy. The future of retail is 'high-touch' as well as 'high tech.'

6. Pricing will be become more personal

As seen in the Safeway example, the digital and personalized world of the future shopper enables retailers to offer personalized pricing—and we expect that this will come increasingly commonplace, especially as a way of rewarding regular or frequent customers. But fairness is an essential part of such a proposition. It works only if the retailer can demonstrate that the offers are not arbitrary, and that some rationale sits behind them.

7. If your shopper marketing is being done in-store, it's being done too late

Much of shoppers' research and planning is now being done long before they ever reach the store—whether that store is physical, virtual or some combination of the two. The moments of truth tend to happen outside of the store, even when it is still the point of purchase. The consequence of this is that shopper marketing needs to move to where the shoppers are. If your shopper marketing budgets are still being spent in-store, you are probably wasting most of them.

8. Manage your intermediaries

One of the results of disaggregation—and we have seen this repeatedly since the arrival of the World Wide Web—is that it opens up spaces for new intermediaries. Typically they position themselves between shopper and retailer, often as a market portal. In particular, they tend to accumulate cross-category information and comparison data. In a world of considered consumption, they can be more trusted than retailers or manufacturers. Engage with them and keep them onside.

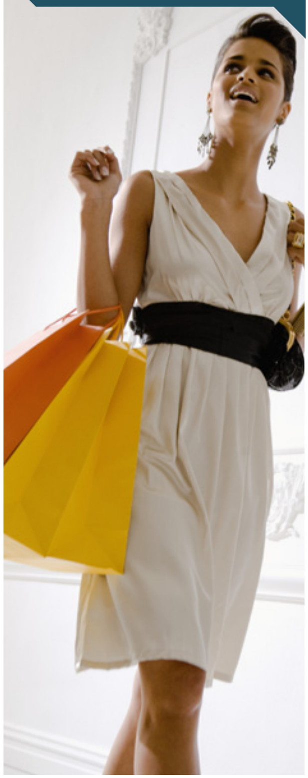
9. Put a smile on your shoppers' faces by surprising them

One of the recurring stories in this Future Perspective is that shopper needs are to a large extent familiar, but their expectations about how they are delivered are changing. There's no substitute for putting a smile on your shoppers' faces from time to time. This can be anything from the free and personalized product bundled into Safeway's 'Just for U' offer at any given time, to the 'pop-up store' from the condiment brand Marmite that appeared in London selling branded tea towels and other homewares that are not sold elsewhere.

* * *

The interaction between the physical and the digital world opens up new business models that were impossible to imagine a generation ago, creating bold possibilities for reimagining retail. To generate value, retailers will have to understand more fundamentally what their shoppers need and how best to deliver it. It is an old challenge in a new world. The winners will be retailers able to hold both parts of this paradox in their hands at the same time, and then put them back together in a new way that better serves retailers and shoppers alike.

Retailers still need to understand what their shoppers need and how best to deliver it. It is an old challenge in a new world.



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With our proprietary knowledge, including **Global MONITOR** and the **Global Energies**, The Futures Company can help you to understand how key trends and broader macro drivers are changing in different markets and geographies, and what this means for your Future Shopper.

Using our **Strategic Insight** approach, we can help you understand how behavior around digital and social technologies is changing and how this will shape attitudes towards your category and shopping behavior.

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How Kantar Retail can help

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Credits

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About Kantar Retail

Kantar Retail is the world's leading shopper and retail insights and consulting business and is part of the Kantar group of WPP. The company works with leading branded manufacturers and retailers to help them transform the purchase behavior of consumers, shoppers and retailers through the use of retail insights, consulting, analytics and organizational development services. Kantar Retail tracks and forecasts over 1000 retailers globally, has purchase data on over 200m shoppers and among its market-leading reports are the annual PoweRanking survey (USA and China), and Industry Shopper Study Across Retailers. Kantar Retail works with over 400 clients and has 20 offices in 15 markets around the globe.

The 50-year disruption

“A century and a half ago, the growth of big cities and the rise of railroad networks made possible the modern department store. Mass-produced automobiles came along 50 years later, and soon shopping malls lined with specialty retailers were dotting the newly forming suburbs and challenging the city-based department stores. The 1960s and 1970s saw the spread of discount chains [and] big-box ‘category killers’. ... Each wave of change doesn’t eliminate what came before it, but it reshapes the landscape and redefines consumer expectations, often beyond recognition.”

Darrell Rigby, Harvard Business Review, December 2011[3]

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