



The Store of the Future 2012-15 report findings

April 2008

1. Introduction

The Store of the Future 2012-15 report, commissioned by Visa Europe and produced by the Centre for Retail Research, Nottingham, analyses the key customer, payments, technology and social responsibility issues affecting the likely development of retail stores in Europe.

The report focuses on four key *themes*:

- ❑ **The physical shape of retailing:** changes in the number of stores, customer automation, the role of multi-channel retailing and the use of the Internet;
- ❑ **Information for customers:** the role of technology in enhancing customer awareness of products, such as product information, sourcing, how it is produced and how the product will look;
- ❑ **Payment systems:** the role of changing payment systems, the speed of adoption of advanced payment capabilities, in supporting retail change, retail automation, and loyalty systems;
- ❑ **Social responsibility and ethical retailing:** the extent to which social and environmental concerns will affect the way retailers deliver information to customers.

This document includes findings linked to the *theme of technology* and how this is likely to impact on the retail environment of the future.

2. Methodology

Three hundred retailers in the following countries were interviewed about their plans and predictions for the store of the future to be operated by their businesses by 2012-15:

- ❑ United Kingdom
- ❑ France
- ❑ Germany
- ❑ The Netherlands
- ❑ Norway
- ❑ Italy
- ❑ Sweden

These countries were thought to be broadly representative of the retail sector in Western Europe. Two hundred of the retailers were large (more than 150 stores or turnover greater than €200 million) and 100 were medium-sized businesses. The retailers chosen for this study represented a cross-section of different kinds of business, including hardware/DIY, supermarkets, convenience stores, department stores, fashion, cosmetics/pharmacies, and electrical goods.

All average results are 'weighted averages; the average weighted in proportion to the size of every country surveyed

This report should be regarded as a qualitative study that examines likely developments in the European retail market over what is a fairly long timescale in retail terms. The results provided in this report should be regarded as significant.

3. Key Findings

3.1 RETAIL SALES OVER THE INTERNET

Surveyed retailers expected 18.8% of retail turnover would result from Internet sales by 2012-15. The highest proportion of retail sales, 25.5%, was forecast to occur in Norway, followed by the UK with 22.4%. In contrast, German and Italian retailers expected a rather lower figure, 16.7%. Even the lowest estimates, however, still represent one-sixth of retail sales in those countries and thus would have a major impact on retail structure.

The average for all vertical retail markets was 18.7%. Vertical markets likely to have the highest Internet share of sales were DVDs, films, games, CDs (42.0%), mobile phones (41.6%), computers, cables (37.2%), and books (34.7%). Vertical markets with the lowest Internet shares were thought to be in household goods (11.4%), beds, furniture and carpets (12.9%), and supermarkets (13.4%).

Regarding types of retail websites, the research found that by 2012-15, one-fifth (20.1%) of retail websites would be informational (existing to provide information and drive customers to stores, with 69.5% transactional (allowing customers to select and order goods) The highest proportion of transactional sites was likely to be in Germany (82.4%) and Norway (73.4%) and the lowest proportion was expected to be in Italy (59.7%). German retailers were especially committed to the need to establish transactional websites. The highest proportion of informational sites was expected to be France (29.4%) and Italy (25.6%).

3.2 CHANGES TO PHYSICAL OUTLETS

The growth in Internet sales to 18.7% was expected to affect the number and type of retail outlets that the surveyed retail businesses operated.

17.2% of retailers expected store numbers to grow, 28.7% expected the number to fall, while 30.9% estimated that store numbers would probably be much the same as 2008.

Almost two-thirds (62.5%) of the retailers that predicted growing store numbers expected to open larger stores in the future with a renewed emphasis upon shopping malls (43.0%) and retail parks (45.0%). Around 35.1% expected to focus more upon medium-sized stores and only 12.5% on small stores. Amongst retailers predicting falls in store numbers, 42.7% likely to open more large stores, 38.2% more medium-sized stores and 15.8% smaller stores.

Regarding the format of stores in the future, more than two-thirds of retailers (68.6%) expected to launch a new format alongside or instead of their existing formats. Retailers in the UK and The Netherlands were most likely to introduce a new format; those in Italy and France were least likely to report they were going to introduce a new format.

The most likely format changes were 'more information services in-store' There was also support for the idea that local stores would provide local pick-up for customers who had ordered on the web as well as for the concept of smaller stores focusing more on customer information and being supported by internet services. These results do not show what retailers *predict* will be the state of play in 2012-15; rather they are what is planned or expected in their own business.

Another key format change identified by the retailers is the growth in automated transaction options particularly self scanning. A proportion of retailers already use automated transactions, particularly Sweden (11.5%) and the UK (11.4%). On average, 22.2% of retailers from the seven countries expected to introduce some form of automated self-scanning for customers by 2012-15. The most enthusiastic retailers for this technology were Norway (24.8%) and the UK (22.6%). The lowest proportions were expected to occur in Italy (17.2%) and France (18.5%): both countries currently have relatively low levels of self-scanning and hence are expecting a comparatively rapid rate of increase in the technology. In addition, retailers thought that one-fifth (20.6%) of their customers would make use of self-scanning to some extent whilst shopping during the stated period.

3.3 CHANGES IN CUSTOMER INFORMATION

In addition to the sales of goods over the Internet, a significant feature of modern retailing has been the use by customers of Internet websites to conduct research before they make their purchases. In the UK, pre-purchase Internet searches are thought to occur in almost 50% of purchase decisions (including Internet-only purchases) (Jones and Twiggs, 2007).

The weighted average amongst the retailers surveyed showed that 45.3% of consumers were thought to carry out pre-purchase research using the Internet and this would be expected to rise to 71.3% by 2012-15.

47.2% of retailers expect to provide electronic devices for customers in the form of electronic kiosks or by screens or tablets by 2012-15. The functions of these screens, kiosks and tablets would be to provide customers with information and/or to enable them to order products, either for collection in-store or delivery via the Internet. Sweden (52.7%) and Germany (52.6%) were most likely to have brought in these technologies to some or all of their stores, although more than 40% of retailers in all countries surveyed thought it was likely they would make use of electronic information systems.

Kiosks and screens were likely to be adopted by 38.5% and 35.0% of retailers respectively and 38.4% expected that customers would use mobile devices in-store to access information and receive information about promotions. Concerns were expressed about making customer reviews available in-store, but nevertheless slightly more than one-fifth of respondents were prepared to do this although 67.3% were opposed to it.

There were evident differences between countries, with the UK being most likely to use kiosks (44.0%), Italy (37.0%) and Germany (36.9%) of screens. The differences between countries were not particularly large and it seems evident that retailers in different countries are more focused on certain technologies than on others.

With regard to the changing focus of stores, 71.3% of respondents thought that their stores would display or hold a full range of merchandise and 67.8% felt that a key operational element would involve recommending complementary items. 25.3% of retailers expected that their stores would become more about using products than simply displaying them and 22.9% felt that their stores would emphasise the experiences in using the product. 28.6% expected there to be touchscreens (or similar electronic devices) located near products to give customers information and 18.3% felt that networking-type technology could be used to build up a social network focused around the store and the products. Finally, 18.2% felt that by 2012-15, their stores might have available screens showing clothing or accessories being worn by the potential purchaser, with the option to change the colour or fabric without having physically to try on different garments, with the possibility of downloading the results to a cameraphone so that the pictures could be sent to friends or partners likely to have an interest in the buying decision.

Retailers are also considering ways in which technology may be used to give customers promotional information to encourage them to use physical stores, the retailer's website. By 2012-15, retailers expected that use of customer mobiles and email to send promotions would increase to 11.7% and 13.2% respectively and they individually expected the retail industry to make even greater use of these technologies – 15.9% sending promotional messages to mobiles and 18.5% to customer email addresses.

Security and private concerns regarding website usage by customers provoked a strong response from the retailers, with only 18.8% feeling that the impact of security concerns was 'unimportant' or 'very unimportant' to customers. In all seven countries, more than 60.0% of retailers felt that security concerns had an 'important' or 'very important' impact on the use of their website. It was felt that security concerns mainly limited what customers were prepared to do on the Internet rather than keep them away from the Internet completely.

3.4 PAYMENT SYSTEMS

The use of cheques is declining in most countries as a result of the development of electronic payment systems. The weighted average of retailers that do not accept cheques is 20.3% in 2008 and by 2012-15; the weighted average of those retailers that do not accept cheques is expected to be 59.3%, with more than three-quarters of retailers in Sweden, Norway, The Netherlands and the UK refusing to do so. The majority of retailers that will continue to accept cheques by 2012-15 are most likely to be found in France and Italy.

A major trend in all countries surveyed has been the growth in electronic methods of making payments. This has been associated with the use of payment cards and, in some countries, with electronic giro systems and direct bank transfers. The use of electronic payments is important to achieving customer-controlled retail transactions retail automation (customer self-service including automated payments, also termed *retail automation*

The weighted average of electronic payments for the seven countries studied was 51.7%, the highest being in Norway (68.0%) and the UK (65.3%). The lowest figures were found in Italy (43.2%) and Germany (43.9%) where cash payments are more typical, although even here the situation is changing. By 2012-15 the proportion of electronic payments is expected to rise to 58.7%, Norway and the UK having the highest proportions as now with 75.3% and 72.5% respectively.

In physical stores, there was a high degree of acceptance of advanced payment capabilities by retailers. This is the term used for newer forms of electronic payment options such as contactless payment cards, multi-application payment cards that can be either debit or credit cards etc. Multi-application cards and phone-enabled promotional offers were expected to be used by 35.2% and 34.6% of retailers respectively, and pre-paid cards by 33.9%. Phone-enabled contactless payments were also highly rated (32.7%) and contactless cards by 26.4%. Keyfobs/tags were expected to be accepted by 19.1%. The proportion of store retailers that were unlikely at this stage to use the technology was a fairly constant 41% to 50% of the sample surveyed.

In retail web stores, the pattern was rather different, although phone-enabled retail offers would be used by 39.2%, almost 5% higher than in physical stores. Multi-application cards were expected to be accepted by 32.7%. Contactless cards (10.3%), phone enabled contactless payments (17.9%)

In physical stores, contactless payment and phone-enabled contactless payment was most popular in the UK and Italy - 30.2% and 40.1% and 28.4% and 38.7% respectively. The UK and Norway were the most likely to take up payment via keyfobs and tags (24.2% and 22.0% respectively). Phone enabled promotional offers were most likely to be adopted in the UK and Italy (40.9% and 38.4% respectively) as were multi-application payment cards.

As to the reasons for this interest in new technology by customers, the perceived advantages were seen as being convenience (73.6%), fewer cards or vouchers to carry (64.6%), and the fact that for many people the mobile phone is a key piece of equipment they carry everywhere and use for many types of communication (68.1%). Other advantages of the new advanced payment capabilities included that they were seen as modern and up-to-date as well as reducing the need to carry change (38.9%). Other features were thought to be innovative (27.3%), greater security (24.6%) and providing greater control (18.5%).

Regarding the issue of loyalty systems, 26.6% of retailers thought there would be advantages in combining loyalty systems with payment cards. This would reduce the number of cards that people needed to carry, ensure that the loyalty card was always presented for crediting by the retailer and would be more convenient for customers. The countries whose retailers were most likely to hold this view were the UK (32.0%) and Germany (27.3%), with France (22.0%) and Italy (24.0%) being least likely. Linked to this, 28.6% thought there would be a 'large rise' or 'some rise' in loyalty programmes compared with 39.3% that thought loyalty programmes would fall.

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Notes

About the Centre for Retail Research

The Centre for Retail Research was established in 1997 to conduct authoritative and independent research for the retail sector in the UK and the rest of Europe. This report has been prepared by Professor Bamfield, the Centre's Director.

About Visa Europe

In Europe, there are over 348 million Visa debit, credit and commercial cards. In the 12 months ending September 2007, those cards were used to make purchases and cash withdrawals to the value of over €1.3 trillion. 11.4% of consumer spending at point of sale in Europe is with a Visa card.

Visa Europe is a membership association - an organisation owned and operated by its 4,600 European member banks – that was incorporated in July 2004. In October 2007, Visa Europe became independent of the new global Visa Inc., with an exclusive, irrevocable and perpetual licence in Europe.

As a dedicated European payment system it is able to respond quickly to the specific market needs of European banks and their customers – cardholders and retailers, and to meet the European Commission's objective to create a true internal market for payments.

Visa enjoys unsurpassed acceptance around the world. In addition, Visa/PLUS is one of the world's largest global ATM networks, offering cash access in local currency in over 170 countries.

For more information, visit www.visaeurope.com