The Store of the Future 2012-15 – Part II
June 2008

1. Introduction

The Store of the Future 2012-15 Part II final report analyses the key customer, payments, technology and social responsibility issues affecting the likely development of retail stores in Europe. It is a qualitative study that examines likely developments in the European retail market over what is a fairly long timescale in retail terms.

The Report focuses on four key areas or 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.

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 representative 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.

THE PHYSICAL SHAPE OF RETAILING – FINDINGS

Internet sales are predicted to make up 18.7% of total retailer turnover by 2012-15. This, in turn, is expected to impact on the number and type of retail outlets operating by that time.

According to the study, 17.2% of retailers expected store numbers to grow, 30.9% estimated that store numbers would stay at current levels, and 28.7% expected that the number to fall. Norwegian and German retailers were most likely to expect store numbers to rise, with French and Dutch retailers most likely to expect store numbers to fall. The results echo the market trend in retail that has seen store numbers falling for some years. Regarding employee numbers, 62.2% of retailers expected some fall in employee numbers.

Regarding store size and location, almost two-thirds (62.5%) of growing retailers expected to open larger stores in the future with a renewed emphasis upon shopping malls (43.0%) and retail parks (45.0%). The pattern for retailers expecting to reduce their store numbers was similar with 42.7% likely to open more large stores. On the issue of format, over two-thirds of retailers (68.6%) expected to launch a new format alongside or instead of their existing formats, with retailers in the UK and The Netherlands most likely to predict the introduction of new formats and those in Italy and France least likely to report it.

Multi-channel retailing (retailing in physical stores and the web) was also predicted to be a key growth area in the industry. The likely changes in retail stores required to support this were 'more information services in-store', provision of local pick-up by local for customers who had ordered on the web, smaller stores focusing more on customer information and online support for purchases. Other store changes likely by 2012-15 included local despatch and delivery services based on Internet ordering and the purchasing of goods in-store.

In addition, laser scanning (in the form of customer self-scanning or automated self-checkout in stores) was expected to continue as a growth area, with 22.2% of retailers surveyed expecting to introduce some form of automated self-scanning for customers by 2012-15. The most enthusiastic retailers for this technology were in 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 (4.8% and 5.9%) and hence are expecting a comparatively rapid rate of increase in the technology. A proportion of retailers already use automated transactions (an average of 7.4%), particularly Sweden (11.5%) and the UK (11.4%). Overall, retailers thought that one-fifth of customers (20.6%) would make use of self-scanning to some extent whilst shopping.

INFORMATION FOR CUSTOMERS - FINDINGS

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. The weighted average amongst the retailers surveyed for this Report showed that 45.3% of consumers were thought to carry out pre-purchase research using the Internet, rising to 71.3% by 2012-15. Countries expected to have a high Internet pre-purchase research rate by 2012-15 included Norway (76.9%), Sweden (75.8%), and Germany (75.6%).

47.2% of retailers expected 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. At this stage the key function for kiosks and screens was to support or enable goods to be ordered and sold (38.7%) and in this context they could be used by the customer alone or in conjunction with a member of staff. Other important uses were to enable customers to access product reviews (27.9%), detailed product information comparable to website data (22.1%), and reviews prepared by customers (20.7%). There was also some interest in enabling customers to download their own wish lists or lists of presents for local access in store (18.5%) and to hold wedding lists for use by customers or to be used with support from the sales staff.

There were evident differences between countries, with the UK (44.0%) and Italy (37.0%) the most likely to make of use kiosks, Germany (36.9%) of screens, and Italy (48.7%) and Norway (45.7%) most likely to provide customers with in-store ordering facilities. Germany (44.0%) and Sweden (41.6%) were most likely to use wireless mobile devices in-store. However 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.

Retailers also predicted a change in the focus of stores by 2012-15. 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. A little more than one-quarter (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 (as exemplified by Apple stores).

18.9% thought that part of their store might be given over to showing how products are used or the items are experienced. 28.6% expected there to be touch screens (or similar electronic devices) located near products to give customers information about the items available for sale. 18.3% felt that networking-type technology could be used to build up a social network focused around the store and the products.

A minority, although a significant one, of retailers surveyed expected their stores to use technology to emphasise much more the customer's experiences, to make more information readily available, to simplify the presentation of goods and to assist customers to involve others in the purchase experience. 'Guided selling' (staff using IT to take the customer through the sales process and make the payment) was considered to be 'very likely' or 'likely' by 39.4% of respondents.

Promotions were also identified as a key area for future development, with 46.6% of retailers expecting that they would use customer-targeted promotions based on customer demographics or loyalty card information. However, retailers are also considering ways in which technology may be used to give customers promotional information to encourage them to use physical stores and / or retailer's websites. As a result, they expected that use of customer mobiles and email to send promotions would increase to 11.7% and 13.2% by 2012-15. More than one-third (35.5%) of retailers wished to drive customers to both store and website, 26.1% to the website alone, 17.3% to the physical store and 10.4% to a call centre.

Unsurprisingly, with a predicted emphasis on new technology, 64.2% retailers stated that security concerns would have an 'important' or 'very important' impact on customer use of the 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. Some well-known retailers thought they benefited from security concerns because their brand name was more trusted for Internet sales than a comparatively unknown virtual retailer.

44% of surveyed retailers felt that privacy or security concerns would prevent full use being made of multiple retail channels by retailers. The countries with the highest proportion of retailers concerned that security issues would adversely affect customer use of multiple channels in an 'important' or 'very important' way were the UK (49.4%) and Italy (48.0%).

PAYMENT SYSTEMS - FINDINGS

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 in achieving customer-controlled retail transactions (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%. Key fobs/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%) made up the rest.

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 key fobs 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.

SOCIAL RESPONSIBILITY AND ETHICAL RETAILING - FINDINGS

In recent years, there has been a growing additional emphasis upon what is perceived to be a more *ethical* stance in response to such issues as environmental concerns, global warming, packaging, waste, labour conditions amongst suppliers, food air miles etc.

The key differentiating factors, measured by the weighted averages for each factor, were thought to be:

- ❑ Local sourcing (83.4%)
- ❑ Reducing packaging and waste (81.4%)
- ❑ Use of natural products (79.1%)
- ❑ Reducing carbon footprint (78.2%)
- ❑ Healthy products (76.0%)
- ❑ Concern for animal welfare (75.3%)

Retailers may often be held responsible by the public or government for the policies they adopt regarding packaging or stocking certain ranges of merchandise. However, when questioned, the key issues identified as the ones retailers should be most responsible or accountable for were healthy eating and reducing packaging.

For promoting healthy eating, 28.7% of retailers thought they were responsible 'largely' or 'primarily', although 31.0% felt that this was an issue that should be shared equally between the government, manufacturers and the retail sector. A significant minority (34.5%) of retailers felt this issue was either not a retail responsibility or only 'to a small extent'. By country, French and Norwegian retailers were most likely to believe that healthy eating was a retail responsibility. In the UK retailers were least likely to feel this was a retail responsibility.

Regarding packaging, 23% of retailers thought they were responsible 'largely' or 'primarily' for reducing packaging although 33.8% thought this issue was either not a retail responsibility or only 'to a small extent'. 28.3% felt the task of reducing packaging should be shared equally between consumers, manufacturers / retailers and the government. In addition, the responses showed clear retail concerns that the public was not doing enough to reduce packaging use. Only 20.1% of retailers thought it 'likely' that customers went to a lot of trouble to avoid highly packaged products and only 16.7% thought customers brought their own bags with them to stores, 5.9% felt customers were not worried about the aesthetics of packaging, and only 9.4% thought that customers would accept a higher rate of damage if packaging were reduced.

For the store of the future, it is expected that retailers will use technology to provide additional information to customers about the products themselves, the manufacturing process behind them, environmental issues and usage information. The most significant areas seemed to be providing support for nutritional information (including additive and allergy information), packaging costs, and specific energy or carbon implications of the product. A significant minority of retailers were prepared to provide electronic devices to support customers wanting to verify claims about manufacture, supply, product dating, and product performance.

A significant proportion of retailers also saw themselves using technology by 2012-15 to support customers wanting to eat more healthily and to know more about their food. Indeed many food retailers said they were already doing this through in-store literature and their websites.

In addition, 41.1% of retailers thought it was 'likely' or 'very likely' they would provide electronic or other in-store means to support customers who wished to eat more healthily. They were prepared to use a range of approaches; 36.7% were 'likely' or 'very likely' to use e-mail to suggest options to customers that registered and 34.1% would use texting to mobile phones. The UK (25.3%) was most likely to use electronic features to support healthy eating with Italy (18.7%) and France (19.3%) the least likely.

A number of retailers were considering utilising electronic features to help customers reduce their carbon footprint. 46.1% of retailers would provide information electronically about the retailer's environmental and ethical plans and about local support groups. 37.4% were 'likely' or 'very likely' to provide Information about where to dispose of sensitive products such as electrical items, batteries, oil and provide web links to local authority, waste and recycling departments. More than one-quarter (25.3%) of retailers would provide information to customers about their options to reduce their global footprint. However, some retailers were opposed to any involvement in these proposals.

A little more than one-eighth (14.8%) of retailers expected to enlist their customers in achieving their environmental goals and would do this through websites (41.7%), a multi-channel approach (33.1%), e-mails (22.9%) and texting (26.0%). Retailers in the UK and Norway were most likely to adopt electronic in-store means to inform customers about the Company's environmental strategy (Table 41): 45.0% of UK retailers and 41.9% of Norwegian retailers were 'very likely' or 'likely' to do this.

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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.

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