

THE FUTURE OF SHOPPING

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THE FUTURE JORG SNOECK & PAULINE NEERMAN OF SHOPPING

WHERE EVERYONE IS A RETAILER

// CONTENTS //

	Preface	7
	Retail has a permanent new face	11
	New game, new rules	15
	Welcome to the new consumer	15
	From push to pull	17
	Retail is everywhere – and everything	18
	What the hell happened?	19
	Retail 2.0: the glory years of mass consumption	22
	Retail 3.0: the pre- and post-Amazon era	25
	Retail 4.0: at the heart of the fourth industrial revolution	32
	‘Future of the Consumer’: demographic shifts – or earthquakes	49
	The new normal	50
	The clash of generations	52
	The shopper of the future is multi-coloured	71
	Polarization of the extremities	74
	Transparency and sustainability: the new prerequisites	84
	‘Future of Technology’: all things internet	95
	E-commerce vs. omnichannel: the battle is already won	96
	Big data leads to Me-tail	105
	The internet of all things	115
	Robots behind the scenes – and in front	123
	‘The Future of Payments’: payments in the near future	130
	Blockchain, the platform killer	135

	‘Future of the Store’: experience has many meanings	141
	Do we still need shops?	142
	Choosing between faster and slower	143
	Give shoppers the ultimate experience	145
	Phygital, live or omnichannel: it’s all retail	154
	Smart cities work hand in hand with retail	162
	‘Future of Retail’: to each their niche	175
	New businesses are rising from the ashes	176
	The service retailer	184
	‘The Future of Marketing’: made-to-measure at micro-level	197
	‘The Future of Supply Chain’: the challenge of efficient delivery	208
	‘Future of the Supermarket’: will the supermarket survive the 21st century?	223
	The end of the lowest price?	224
	FMCG finally online?	237
	What will the supermarket of tomorrow look like?	245
	What will the supermarket of tomorrow sell?	247
	Everyone is a retailer	253
	The new customer journey	255
	The new service package of retail	260
	Trust is precious	262
	New business models for the future	263
	Making the shopping experience truly relevant	266
	Every one is a retailer... and so are we!	268
	A final word	269
	Quotes	271
	Endnotes	277
	Bibliography	279



Preface

In many ways, the past year has been a dream come true. One year after *The Future of Shopping* originally appeared in Dutch, we are incredibly grateful and proud to present the English edition of our critically acclaimed book.

It has been an amazing roller coaster, leading up to this updated, international version which – we are excited to announce – appears both in an English and a Chinese language edition. We are profoundly grateful that our very first book already won the prestigious award ‘Managementboek van het Jaar 2018’ (which translates into management book of the year 2018) in the Benelux.

According to the professional jury *The Future of Shopping* is an accessible must-read, not only for everyone active in the industry, but also for policy-makers, educators, students and beyond, as (retail) consumption touches upon every aspect of society and every one of us.

As a result, we have been on the road virtually non-stop for keynote lectures, panel discussions and university guest lectures all over Europe. And of course, in doing so, we have been finding even more retail inspiration, encountering innovative new ideas and meeting visionary thinkers and entrepreneurs. Quite a few of these progressive insights have found their way into this revised edition.

Retail is changing ever so rapidly, shifting and shaping as we speak. Yet, our ground work has proven to be stable: throughout the tumultuous changes of the last decades, we have been able to lay bare the ground rules and underlying factors of that change.

In every chapter of this book we drill down on each of the crucial elements shaping today’s dynamics in the FMCG and retailing industry. From new consumer demographics (think of the continuous population growth) to new distribution channels (from mobile commerce to automatic replenishment), producers, processors and distributors must all change their approach to succeed.

THE FUTURE OF SHOPPING

Each and everyone involved in the supply chain must adapt. By offering myriad examples and case studies from across the world and across all branches, the aim of this book is to inspire and enlighten, as well as to give readers food for thought and for discussion. Our insights are meant to be shared, both inside and outside your companies, because sharing knowledge and practices is more important than ever.

We hope you will enjoy this updated and internationalized edition. Have an inspiring read and feel free to reach out – to us and to others. Only through honest sharing we can make the industry future-proof and ready to tackle the challenges that lie ahead.

Jorg and Pauline



Retail has a permanent new face

How can brands and retailers survive in the future of shopping? Day after day, they need to prove their added value to increasingly difficult shoppers. But how can they do this, now that Alexa and your smartphone already put together your shopping list and automatically provide you with meals for the whole week?

Retail, as we have known it for centuries, is dead. Economic, demographic and technological developments have killed it. Or, rather, have made it unnecessary. Traditionally, it was the role of shopkeepers to buy products in large quantities and then sell them in smaller, more manageable quantities (de- and re-bundling), allowing these products to be brought closer to people, their customers.

// Retail, as we have known it for centuries, is dead. Economic, demographic and technological developments have killed it. Or, rather, have made it unnecessary. //



Today, the internet has eliminated the need for shops to be close to people. Digitalization has turned the world into a single large marketplace, a dream that has been around for a long time, but has now become a reality. Nowadays, no-one gives it a second thought if a package from China arrives in their letter box or if their friends bring back cheaper electronic goods from their trip to the United States. Whereas in the past retailers could see their competitors simply by looking out of the shop window, the whole world is now a potential rival.

What's more, everyone can open a shop or even become a producer, selling goods directly to customers. Today's 'shops' transcend the original meaning of the word. What is a shop nowadays? There are many different forms: physical shops, websites, apps, posters on the wall, virtual spaces, holograms and various intermixtures of all the above. Anything can be a shop. No matter how crazy your idea, someone has probably already thought of it. And for modern consumers, the crazier, the better - as long as it doesn't take things too far. A new type of consumer has been born: multi-cultural, self aware and... grey.

Falling purchasing power since the 1990s, the continuing ageing of the population and increasing migration are leading to a new kind of purchasing behaviour. The economic crisis of 2008 further diminished consumer confidence. People continue to hunt for the best bargains and the lowest prices, a search that has been made easier than ever before thanks to the ability to compare things online. This revolution in transparency has both emancipated shoppers and given them a powerful weapon.

Retailers are being forced - if they want to remain competitive - to cut back on their number of stores (i.e. close them). Otherwise, they will end up in the same boat as Toys "R" Us, Mexx, RadioShack and countless other retail traders. All the things that retail used to stand for are now up for discussion. Everything needs to be reinvented. And that is the purpose of this book: to allow retailers to get back in touch with the consumers of today and tomorrow.

This book has been written specifically for retailers, brand producers, wholesalers, distributors and anyone else closely connected with the industry, but also makes an eye-opening read for students and for the shopper in each and every one of us. After all, we are all consumers and, as this book will show, we are increasingly becoming retailers as well. The book deals with online and physical retail, for both food and non-food, mainly in Western Europe and the United States .

Because we are convinced that all retailers and producers focused on consumers need to profile themselves as a brand, we have used the term 'brand' in this book in the wider sense of its meaning. We will use the supermarket branch, where all the recent trends and evolutions come together and which was the last branch to switch to retail 4.0, as a case study. So let's now enter the new world of retail. Get ready for a fascinating journey!



New game, new rules

There is an epidemic of bankruptcies that is striking terror into the heart of many retailers. The finger of blame is usually pointed at digitalization, but the problem goes much deeper than that. It is actually down to a combination of circumstances, which have changed the face of retail as we know it.

Retail is in a state of revolution. It is not the first revolution it has experienced and it won't be the last. But it does mean that things will never be the same again. Running parallel with the recent revolution in society, which has radically altered traditional thinking about how we live, where we live, with whom we live and for how long, we are standing on the threshold of a new economic and industrial era. This fourth industrial revolution is powered by smart technology, which for the first time is now capable of self-learning. In addition to the physical world, there is now a new digital dimension, which is starting to intertwine itself inextricably with the corporeal.

// Today, everything can be a shop or a sales point and everyone is a potential retailer. //



Retail has changed for good, but there is more of it than ever before. Nowadays, retail is everywhere. You can find it at all times and in all places. Shopping is no longer an activity that you go somewhere to do. Except for an occasional day out or a little bit of pleasure shopping, it is now something you do intuitively, constantly and wherever you like. Today, everything can be a shop or a sales point and everyone is a potential retailer.

Welcome to the new consumer

The world is in flux. The global population continues to grow. There are more old people and they are living longer. People in some parts of the planet are plagued

THE FUTURE OF SHOPPING

by problems caused by climate change, political unrest, scarcity of natural resources and terrorism, so that many now wish to seek a better life in the more stable and more prosperous West. The result is a new melting pot of cultures, all with different backgrounds and different frames of reference.

This requires us to look again at our own frames of reference, also as retailers and brands. New socio-demographic profiles now determine demand, purchasing behaviour and exactly how those purchases are made. Multiculturalism, societal ageing, single parent families, blended families... these are all phenomena that lead to shopping patterns very different from those of 'the Joneses' retailers and brands we used to love so much. Global is becoming local, with influences from all over the world now within the reach of even the smallest village. But local is also becoming global: digital contacts and interactions bypass national boundaries as though they no longer exist, resulting in parallel import and cross-border transactions.

It may sound paradoxical, but the growing availability and dominance of the 'global' is actually rekindling interest in the 'local'. An American study by Deloitte and others (2016) revealed that the desire for transparency is more important than demographic or regional factors. The demand for authentic local products and brands is increasing, from both the conservative and the progressive segments of society. It is not just the 'millennials' and the well-to-do whose purchasing behaviour is changing. More and more shoppers of all types are starting to take new impulses into consideration: health and welfare, safety, social impact, experience, etc.

This move towards a more conscious consumption is already in full swing. More than ever before, shoppers now insist on being well-informed. They search for information online, via social media and mobile applications. Brands that want to win will need to provide the information the customers want via the channels they most like to use.

As a result, earning models are set to change. People now like to buy things as directly as possible, based on the conviction that this will give them back control over what they consume. They become shareholders in a co-operative, have their

dividend paid through the harvest and dine at the table with the farmer. This sharing or peer-to-peer economy transforms the consumer into a producer. In the sharing economy, which has changed from being controversial to mainstream almost overnight, apartments become hotel rooms (thanks to Airbnb), amateur cooks become restaurateurs (thanks to Homemade and the likes) and a taxi company like Uber can turn a whole industry on its head. Thanks to the power of the internet, access has become more important than ownership. This has created a whole new playing field.

The consumer is changing fundamentally and this poses a serious challenge for manufacturers and retailers. It means they need to try and understand the consumer by remaining in constant dialogue with him. Fortunately, today's sophisticated technology makes it possible to interpret behavioural data and purchasing intentions in real time, which in turn makes it possible for companies to create relevant communication and experiences at the individual level. Welcome to the age of hypercontext, predictive personalization and so much more!

From push to pull

For decades, the consumer was overloaded with consumption goods that he was constantly told he simply couldn't do without. Neither time nor money was spared to employ every available channel to sell him an amalgam of products. Every possible means was used to attract his attention and excite his interest, in the hope that this would persuade him to make a purchase. This was the classic 'purchase funnel'. But today that funnel looks very different.

Consumers are no longer willing to blindly follow the stories told to them by retailers. If you want to attract the attention of modern consumers, you first need to look at your own set-up, to make sure you are offering them what they really want. It is no longer possible to pull people on board of your train; they need to get on voluntarily - and they will tell you when they are ready to leave, from which station, which special services they require on the way and where, ultimately, they intend to get off. And don't forget your letter of recommendation from satisfied past customers; you are going to need it more than ever!

In other words, it is now the shopper who decides the fate of brands and stores. He determines whether they do well or not. And don't think you can convince him simply by banging your own drum and telling him how good you are. He will use his own network to find out if he really wants to do business with you - or not. To a large extent this will depend on whether you can offer him a unique experience and a fantastic story. The brand that can create a community of enthusiastic brand fans to sell its story will be the brand that has the best chance of success.

Retail is everywhere - and everything

During the past decade, the digital selling process has switched from the laptop to the mobile and now finally to super-smart applications inside your home. We are on the eve of the breakthrough of the 'internet of things', machine-to-machine retail and FMCG. These changes are dramatic: from buy buttons in apps on our smartphones, we are evolving towards buy buttons in our homes and fridges that fill themselves. Over the course of 2016 and 2017, we went from Siri, who told you the way to the nearest shop, to Alexa, who orders whatever you want and has it delivered to your front door. And we ain't seen nothing yet.



// In less than a few years, we went from Siri, who tells you the way to the nearest shop, to Alexa, who orders whatever you want. //

Apart from greater ease, retail is also evolving towards more service and better experiences. Since the 'non-fun' element has now been automated out of shopping, people now have more time and energy to immerse themselves in the shop experience. Technology is the perfect ally to provide more inspiration, better service, more comfort, a more personal offer and more appropriate pricing.

A virtual shelf is never empty, while shops are great at focusing attention on best-selling products and the most eye-catching articles. The interaction between digital and physical finds its expression in a non-stop retail experience into which the shopper can dip as and when he pleases. The customer journey no longer has a beginning and an end: the shop simply follows him wherever he goes.

Quite literally. In the near future, the smart mirror in your house will record all your sizes and measurements, which you can then use anywhere to filter the on-line offer for what you need. Even in the shopping streets you can try products and have them kept to one side, without the need to buy or pay for them immediately. You do this with your mobile app, but only after you have first shown your partner later that evening the 3D film you made in the fitting room. Your television will then show you a range of matching products, also filtered to reflect your personal preferences. Add what you like to your shopping basket and simply pick it up the next morning.

Shops are moving closer to the customer, even literally, with mobile shops, pop-ups at places where demand is predicted to be high, or virtual shopping spaces and kiosks. To make this possible, data is the key. Data is the future of retail. Channels will give way to a single integrated experience, targeted at the individual purchaser.

The same is true for service: seamless live shopping means that people will continue to be helped in the same well-informed manner, but now that can happen just as easily at home or at work as in the shop. Depending on the time and place, this service will be provided by chatbots, human staff, brand fans, hologram presentations or robots. Robots know where to find everything and can lead shoppers to what they need or even fetch it for them. Being ready for the customer, around the clock, is a prerequisite for the future: retail must become a new kind of 24/7 business.

What the hell happened?

From top to bottom, from producers to trader, and from trader to consumer. For more than a century, that was the logical order of things. The producers provided the products, the trader added on his margin and the consumer paid the end price. That's what we all learned, isn't it?

But today, that no longer holds good. The whole value chain is on the point of disintegration: shops are no longer the only sales channels and the typical top-down approach, with companies at the top of the ladder and customers at the bottom, has now been superseded. We are living in a period of change.

What kind of change? The consumer now approaches purchasing from the opposite end. He is in command and to a large extent dictates the value chain. In this world of rapid change, all the links in the consumer-retail-industry chain need to work together if they want to remain up to date instead of out of date.



// The world is in flux. Its population continues to grow, but the gap between rich and poor is getting bigger all the time. //

The world is in flux. Its population continues to grow, but the gap between rich and poor is getting bigger all the time. The West is getting older, while some fast-growing regions are confronted with a scarcity of resources, the consequences of climate change and political and social instability (nowadays described under the collective name of 'terrorism'). This results in new patterns of migration, resulting in a very different looking and more diverse streetscape in Western Europe, concentrated above all in rapidly expanding urban centres.

At the same time, technology has led to a shift in the balance of economic power, placing at our disposal endless rows off shopping shelves from Albania to Zimbabwe. Faced with this cornucopia, shoppers are searching for ways to make their lives easier and technology ensures that this ease take new forms. The consequences are making themselves felt, especially in the shopping streets. We can probably all name a number of shopping chains that have closed down entirely in recent years.

In the United States the term 'Retail Apocalypse' has even been coined to refer to the large number of store closures and bankruptcies. In 2017 nearly 7,000 stores closed, twice as much as the year before and a record-breaking number for the industry –exceeding even crisis year 2008. Western Europe follows the American trend: whereas in 2011, 78 chain stores in the Netherlands had a total of 6,687 branches, by 2017, their number had fallen to 3,239 branches, a drop of 52%, according to a survey by Ebeltoft en Q&A (2017). In UK high streets 5,855 stores closed in 2017, meaning a staggering average of 16 store closures a day (see **FIGURE 1**).