

THE KEY DRIVERS OF RETAIL CHANGE – NOW AND NEXT

Insights from GfK's Retail Trend Monitor 2017



TABLE OF CONTENTS

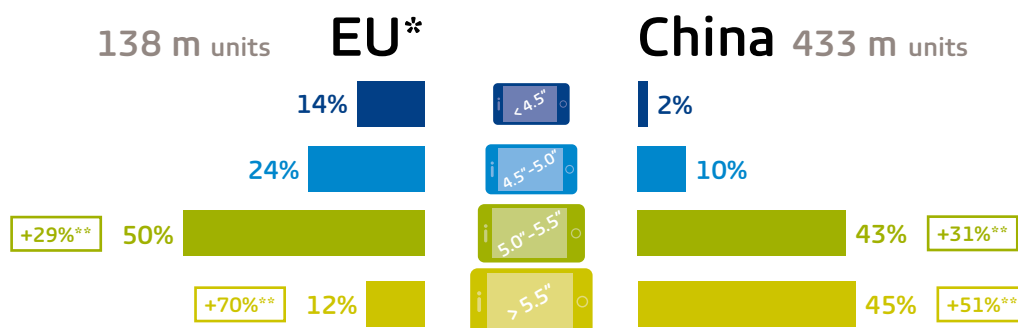
- 1. Introduction: The evolving retail landscape3
- 2. The big retail trends: Which are driving retail developments?4
- 3. The retail formats of the future: Which will succeed?7
- 4. The technologies behind the trends: Which to invest in?8
- 5. The impact: How are these trends affecting channel sales?10
- 6. Summary: The retail outlook – now and next?11

1. INTRODUCTION: THE EVOLVING RETAIL LANDSCAPE

The retail landscape is evolving, driven in part by the mobile revolution and changing consumer preferences related to this. There's a strong and growing demand among European consumers

for large-screen smartphones that enable them to more easily shop anytime and anywhere, for instance. In fact, consumer demand in Europe for these devices is now beginning to catch up with that of the leading market, China.

Sales of large-screen smartphones are growing



*EU 18: AT, BE, CH, CZ, DE, ES, FI, FR, GB, HU, IT, NL, PL, PT, RU, SK, UA.

**Moving annual total (April 2016 to March 2017)

Source: GfK Point of Sales Tracking

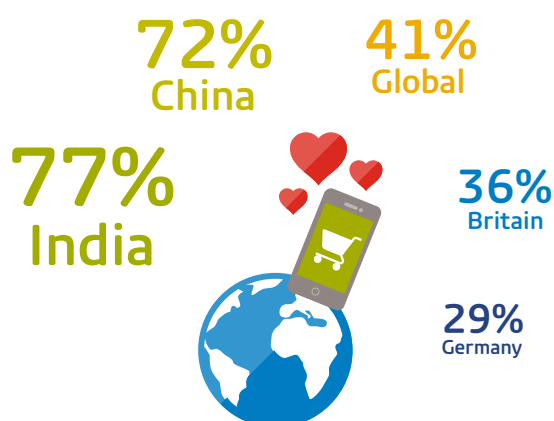
At the same time, shoppers' behaviors and attitudes are changing. Such developments differ by shopper segments, such as by age group (Generation Z vs. Generation X), and by country as show in the graphic on mobile shopping preferences. Retailers need an early understanding of these changes in order to respond to them and identify gaps in the market. However, with many of the arising opportunities

requiring significant investment in technology, retailers need to know which of these they should invest in.

To help them answer this, we conducted our global retail trend study with the aim of:

- gaining a deeper understanding of the current retail trends
- determining how technological developments are driving these trends
- identifying which technologies retailers should invest in to secure future success

"My mobile phone is quickly becoming my most important shopping tool"



Source: GfK Future Buy 2016

Last carried out in 2015, our 2017 Retail Trend Monitor involved an online survey of 346 retailers and industry experts across 51 countries, with results weighted 50/50 between these two groups.

For retailers, the challenge is to tap into those trends that will have the most impact on retail now and in the future. The **number one driver of change** in retail globally, according to 89% of the retail experts who took part in our study, is **convenience**. But, what is this exactly, and how do you achieve it? Furthermore, what else is driving retail developments?

2. THE BIG RETAIL TRENDS: WHICH ARE DRIVING RETAIL DEVELOPMENTS?

According to the retail experts who participated in our 2017 study, the convenience of the shopping experience (89%), followed by the **internet** and then **mobile communication** (85% and 84% respectively) are the leading drivers of current developments in retail. The same top three drivers were identified by our 2015 study.

Our 2017 study participants expect mobile communication to be the top driver of retail developments in the future owing to the growing consumer trend for shopping anytime and anywhere using mobile devices.

They think the need for retailers to create a **seamless experience across retail channels** will also grow in relevance in the future as a result of this trend. Furthermore, they believe that **personalized marketing**, which is the key to building stronger relationships with consumers and driving long-term sales, will have a greater impact on retail developments in the future.

At the other end of the spectrum, they predict that the impact of **price competition** on developments in the retail industry will continue to decline.

The top ten retail trends

Rank 2017	Rank 2015	Retail trend	Relevance dev. forecast	Scale (+1 or +2) Current relevance	Expected future relevance
1.	1.	Convenience	↘	89%	85%
2.	2.	Internet	→	85%	83%
3.	3.	Mobile communication	→	84%	86%
4.	6.	Transparency (access to information – e.g. price comparison/review websites and social media)	→	82%	83%
5.	7.	Search engine power and SEO	→	80%	77%
6.	8.	Social media	↘	79%	75%
7.	5.	Seamless multichannel retailing	↗	78%	82%
8.	4.	Price competition	↓	76%	66%
9.	-	Personalized marketing	↑	75%	83%
10.	10.	Retail concentration	↓	67%	62%

n = 346 (173 retailers, 173 experts, weighted)

→ ± 0 – 3%

↗ + 4%

↑ ≥ +5%

↘ - 4%

↓ ≤ -5%

Source: GfK Retail Trend Monitor, 2017, Que. A1a/b: To what extent do you expect the following trends to have an impact on developments in retail in your country, currently/in future? Please rate on a scale from -2 ("not at all") and +2 ("to a very high extent").

Trend spotlight: Convenience

Convenience isn't only a driver of retail developments; it also underpins other drivers of change and innovations in the retail space. We've already mentioned the growing trend for shopping anytime and anyplace using mobile devices. This is the result of consumers' desire for convenience: to shop where and when they want, using the device or channel of their choosing. Convenience is, of course, also closely related to anything that makes consumers' lives easier. For this reason, the concept of convenience is constantly evolving.

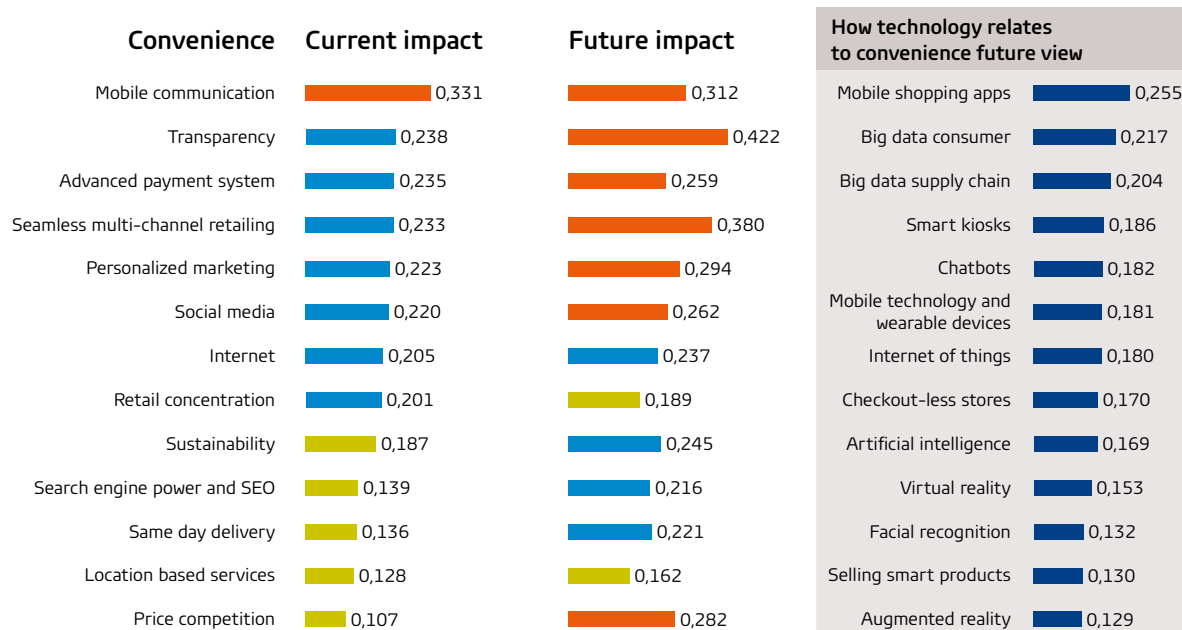
Based on the study results, convenience today is most closely associated with mobile communication. In the future, as mobile retail solutions become even more sophisticated, the concept of **convenience** will change. It will become more about **transparency**. Retailers might in the future, for example, provide greater transparency of information by comparing their prices with those of competitors on their own websites. Price competition will therefore have a closer link to convenience in the future. Convenience will also be about retailers providing a seamless retail experience across channels, personalized marketing information and offers, and them

integrating **social media** and **advanced payment** options into their offering.

Making shopping more convenient for consumers in the future (and fulfilling their idea of convenience) is also identified by our study participants as the driving force behind certain retail technological developments. These innovations include:

- **mobile shopping apps** that allow consumers to more easily complete their shopping journeys using a mobile device
- **big data capabilities** that empower retailers to provide consumers with a more personalized online shopping experience using data collected on their past shopping behavior
- **smart kiosks and in-store technology** that provide a new level of self-service by enabling consumers to research items online and to check if they are available in-store
- **chatbots** that can help consumers to navigate a store more efficiently by responding to their texted enquiries regarding a specific product to let them know whether it is in stock and where to find it in-store

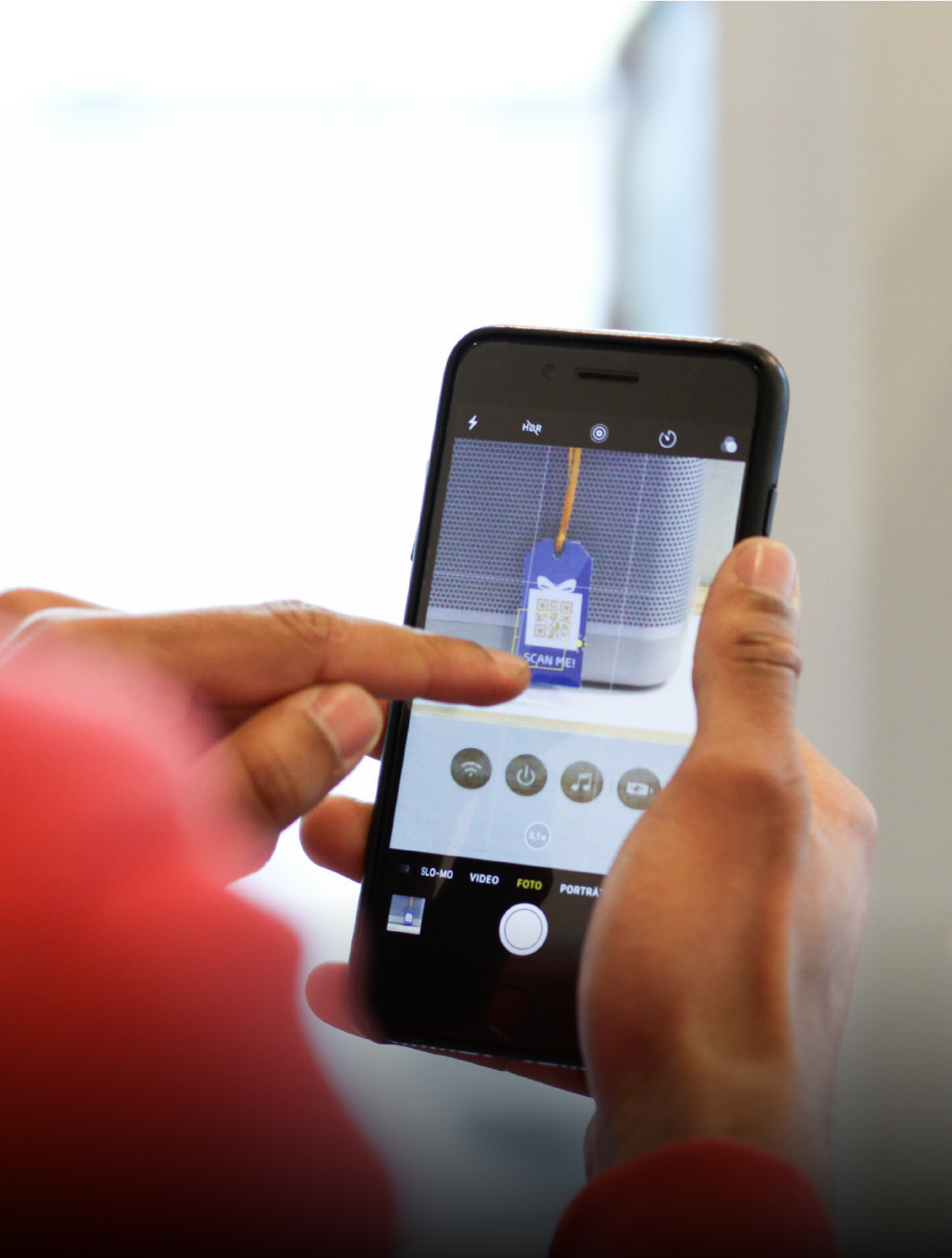
Deep dive trends: Relationships with convenience current vs. future impact



Source: GfK Retail Trend Monitor, Que. A1a/b: and Que. D01b: Only significant correlations are shown – items are measured on a scale -2 to +2; classification of correlations (interrelations) in ■ high, ■ medium and ■ low is based on empirical thresholds for convenience only.

As we head towards a more sophisticated notion of convenience in the retail space, what does this

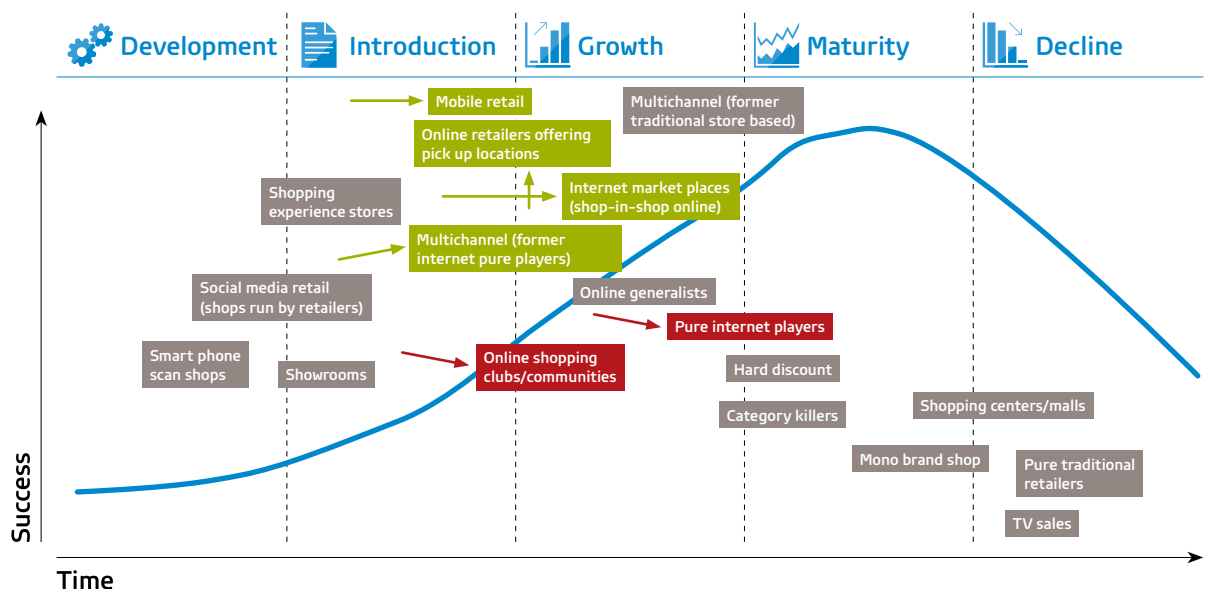
mean for the future development and success of retail formats?



3. THE RETAIL FORMATS OF THE FUTURE: WHICH WILL SUCCEED?

The results of the Retail Trend Monitor 2017 emphasize that the retail formats that will dominate in the future will be those that offer an exciting new shopping experience and/or convenience across channels.

The retail formats ripe for success: The life stages of a retail format



Source: GfK Retail Trend Monitor, Que. B1a: Where would you position each format in terms of its stage in the life cycle? Que. B1b: What future success do you expect for each format in your country? Scale from -2 ("decreasing impact in the future") to +2 ("increasing impact in the future")

Mobile retail, which refers to any shopping journey that can be completed using a mobile device, is expected to be the most successful retail format in the future (this format has indeed matured since our 2015 study). In addition, the retail experts who participated in our study anticipate the different variants of multi-channel retail will be very successful. In particular, they expect traditional store-based retailers that now also have an online presence will thrive. Those retailers offering consumers a choice of locations from which to pick up a purchase they've made online will also do well. As will the multichannel approaches of those retailers that originally only had an online presence. Also predicted to continue is the success of Internet marketplaces as a retail format, which provide consumers with access to a vast range of products offered by different registered sellers.

In contrast, our study participants believe that "pure" formats – i.e. retailers that only have bricks and mortar stores, or only have an online presence – will be less successful in the future. The shopping experience store is the only retail format with a focus on physical stores that they think will be successful in the future. Such stores will offer consumers a reason beyond making a purchase to visit them. For example, sports retailers might attract customers to their stores with the offer to test a new product or take part in a training session.

The development of retail formats today is very closely related to and often driven by technological developments. So, which technologies should be the focus of future investment by retailers and what retail developments will they drive?

4. THE TECHNOLOGIES BEHIND THE TRENDS: WHICH TO INVEST IN?

The growth of digital touchpoints, mobile communication and mobile retail, all of which allow for the gathering of consumer information, have led to an abundance of data that retailers can use to improve the customer experience.

The need to better understand consumers in order to deliver them a truly personalized experience and a tailored selection of goods/ services means that their **big data analytics** capabilities will, according to our study 2017 study participants, continue to be the chief focus of retailers' investment in technology. They also believe that retailers will, as part of their investment in big data, need to demonstrate the

security of their data to consumers if they are to build their trust.

Our respondents believe the next main area of investment for retailers will be **mobile shopping apps**, which, once again, can help to deliver an enhanced personalized shopping experience to consumers. Mobile apps can also play an important role in driving traffic to a retailers' online shops and of providing a seamless experience across their channels. What's more, mobile apps can capture a massive amount of consumer data that can then feed into retailers' big data analytics capabilities.

The top five technologies impacting retail today

Scale (+2 or +1)

	Impact retail today	Future investment focus	Retail outcome driven by technology
Big data consumer	69,5%	84,4%	<ul style="list-style-type: none"> Improves personalized marketing (65.9%) Drive shoppers need for security of personal data (60.3%) Improve customer service levels (49.4%)
Mobile shopping apps	69,4%	82,7%	<ul style="list-style-type: none"> Drive traffic online (51.7%) Improve personalized marketing (41%) Drive seamless multi-channel experience to meet consumer expectation (39.5%)
Big data supply chain	65,9%	80,7%	<ul style="list-style-type: none"> Improve speed in supply chain (64.3%) Reduced stock holding levels in supply chain and store (61.3%) Supply chain cost efficiency through operational improvements (55.6%)
Mobile technology and wearables	58,7%	75,8%	<ul style="list-style-type: none"> Drive need for security of personal data (31.7%) Drive traffic online (30.8%) Drive seamless multi-channel experience to meet consumer expectation (27.9%)
Internet of things	55,6%	77,9%	<ul style="list-style-type: none"> Drive traffic online (39.8%) Drive seamless multi-channel experience to meet consumer expectation (29.1%) Drive shoppers need for security of personal data (27.9%)

Que. D1a: To what extent do you think the developments listed below are impacting retail operation today, please use a scale of -2 ("Not At All") to +2 ("very high impact").

Que. D1b: Do you see future investment focus in these technologies (next 3 years) to drive future retail operation, please use a scale of -2 ("not likely investment focus") to +2 ("very high focus for investment").

Que. D2: Thinking of the technology developments we have just seen, we are now interested in how they will affect the retail landscape in the next 3 years. On the next few screens you will see a statement relating to a retail outcome, and under this the list of technology developments. Please indicate the top 3 technologies that you feel will most drive this outcome, by entering an X in the boxes provided.

The technology evolution will transform the shopping experience

Personalized and convenient shopping experiences are the key to future success. Retailers therefore need to understand how new technologies can help to deliver them. They will also want to ensure they stay one step ahead of the competition by anticipating the most influential technologies of tomorrow. By analyzing technological developments in terms of their perceived current relevance and the likelihood of them being the focus of future investment by retailers, it is possible to identify precisely which are the future technologies to invest in.

- **Checkout-less stores** that, for example, use mobile apps and **advanced payment systems** that enable consumers to shop and go.
- **Augmented reality and virtual reality** that allows consumers to, for example, take a virtual tour of their holiday destination before making a booking.
- **Facial recognition technology** that helps retailers to provide shoppers with a more personal and tailored experience in-store by enabling them to collect data on the shopping behavior of individuals (always respecting the need for personal data security).
- **Robotics/artificial intelligence that helps retailers** to, for example, fulfill consumer demand to receive goods quicker by enabling them to streamline their warehouse operations and introduce new delivery methods such as drones.

The technologies to focus future investments on

Scale (+2 or +1)

	Impact retail today	Investment/relevance gap	Future investment focus	Retail outcome
Checkout-less stores	31,2%	31	61,6%	<ul style="list-style-type: none"> Reduce staffing levels (41.1%) Improve in-store look and feel (27.9%) Improve customer service levels (21.3%)
Augmented reality	34,9%	30	64,8%	<ul style="list-style-type: none"> Shopping becomes an entertainment experience (47.7%) Improve in-store look and feel (34.4%) Increase footfall in stores (26.7%)
Virtual reality	29,9%	29	59,1%	<ul style="list-style-type: none"> Shopping becomes an entertainment experience (58%) Improve in-store look and feel (42.2%) Increase footfall in stores (27.9%)
Facial recognition	24,5%	26	50,5%	<ul style="list-style-type: none"> Drive shoppers need for security of personal data (31.4%) Improve personalized marketing (29.1%) Improve in-store look and feel (12.6%)
Robotics	30,8%	25	56,3%	<ul style="list-style-type: none"> Reduce staffing levels (46%) Supply chain cost efficiency (39.9%) Improve speed in supply chain (32.9%)

Que. D1a: To what extent do you think the developments listed below are impacting retail operation today, please use a scale of -2 ("Not At All") to +2 ("very high impact").

Que. D1b: Do you see future investment focus in these technologies (next 3 years) to drive future retail operation, please use a scale of -2 ("not likely investment focus") to +2 ("very high focus for investment").

Que. D2: Thinking of the technology developments we have just seen, we are now interested in how they will affect the retail landscape in the next 3 years. On the next few screens you will see a statement relating to a retail outcome, and under this the list of technology developments. Please indicate the top 3 technologies that you feel will most drive this outcome, by entering an X in the boxes provided.

By investing in technological developments such as those outlined here, retailers can provide the innovative, exciting and enhanced shopping

experiences that consumers are quickly coming to expect.

5. THE IMPACT: HOW ARE THESE TRENDS AFFECTING CHANNEL SALES?

As the lines between online and offline shopping blur, so retailers are having to change and adapt to the new environment. The digital world continues to account for an increasing share of overall sales. Those retail experts who took part in our study forecast that it will account for 29% of tangible technical consumer goods (TCG) (e.g. IT products, office equipment, small domestic appliances like hairdryers and major domestic appliances such as washing machines) sales in 2020, growing to 42% in 2030. What's more, they expect that mobile's share of online sales in the future will reach up to around 50% for TCG and fashion items, and even more for goods that consumers download or stream like music and movies.

To ensure their future success and meet their customers' needs, retailers must understand the dynamics of the market and know which products or services are in greatest demand. With this knowledge, they can set clear strategies for commercial growth.

Online shopping will account for 42% of tangible technical consumer goods sales in 2030.

The growth in online's share of TCG sales

	Total	Change from 2015 study	Mobile commerce share	Change from 2015 study
Tangible technical consumer goods	2017 <20% ¹		2017	
	2020 29%	→	2020 32%	↗
	2030 42%	→	2030 48%	↑
Downloadable goods	2020 54%	→	2020 47%	→
	2030 69%	↗	2030 62%	↗
Fashion	2020 26%	→	2020 32%	↑
	2030 38%	→	2030 47%	↑
n = 324			n = 324	

→ ± 0 – 3%

↗ + 4%

↑ ≥ +5%

↘ - 4%

↓ ≤ -5%

¹ Global estimate 2017 15 – 20% – based on POS tracking | 22 participants did not answer the question | n = Weighted base
Que. C1: Many discussions are going on about internet sales and its future development. For the area of technical consumer goods, the current internet share is roughly between 5% and 35% of total sales depending on the country and category (higher for software, etc.). What is your expectation of the level of internet share for tangible technical consumer goods, for downloadable goods (software, music, etc.) and for fashion in the years 2020 and 2030 in your country? Please enter a percentage between 0 and 100%. And regarding this internet share, which portion of it do you expect to be generated through mobile shopping? (As a share of the internet sales)

6. SUMMARY: THE RETAIL OUTLOOK – NOW AND NEXT

Convenience and personalization will, as we've seen, play a major role in shaping the future of retail. Achieving a more convenient and personalized shopping experience, one that meets consumers' expectations, is dependent on choosing the right retail format and investing in

the right technology. With the right intelligence, retailers have the opportunity to not only address but also exceed consumers' expectations, thereby surprising and delighting them. Those retailers that achieve this will be the success stories of today and tomorrow.

For more retail trends insights and further information about GfK Point of Sales Tracking data, contact: Andrew Hayers at andrew.hayers@gfk.com or Markus Tuschl at markus.tuschl@gfk.com





About GfK

GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. More than 13,000 market research experts combine their passion with GfK's long-standing data science experience. This allows GfK to deliver vital global insights matched with local market intelligence from more than 100 countries. By using innovative technologies and data sciences, GfK turns big data into smart data, enabling its clients to improve their competitive edge and enrich consumers' experiences and choices.

www.gfk.com

GfK. Growth from Knowledge