



**NEW**

**STRATEGIES**

TOMORROW'S  
SPONTANEOUS  
CONSUMERS

**IES**

Consumer  
RELATIONSHIPS

I NEED SOMETHING  
SPECIAL...

consumer control

Shopping  
emerging needs

Look ahead to the year 2017. Given today's breakneck pace of change, it might seem crazy to ask what retailing will look like in 15 years' time.

By then, many of us will be thinking about retirement (if we haven't already done so). We're unlikely to be working for the same company, and the chances of our still doing our current job are small.

Yet, 15 years is a typical depreciation period for most retailers' biggest investment – their stores. If CEOs and their strategy advisers are to invest wisely

today, they need to have some sort of vision of this longer-term future.

Likewise with our own careers. Not to place bets – that would be far too risky – but to create and maximise options.

So the Coca-Cola Retail Research Group asked us to peer into the future – into changing consumer needs and expectations and changing technologies and likely retailer responses and strategies. Our conclusion? Surprise, surprise! In some ways, retailing in 2017

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## The store of tomorrow

THE FUTURE

by Maureen Johnson  
London

In retailing, six months often seems like a lifetime. So why look 15 years into the future? Because today's strategy makers need to know where we're heading...

will be just like today, only more so. More of the same is a critical theme. But in other ways, massive change is on the cards. The trick, of course, is to find the right mix of continuity and transformation. So let's start with consumers.

### Tomorrow's consumers

Certain long-term trends apply (to varying degrees) across the whole of Europe. We have an ageing population, generally smaller households, more working women, greater affluence, mounting time pressures, and greater consumer power. These all affect consumers attitudes towards shopping, shopping behaviours and consumption patterns. And they don't all point in the same direction.

An ageing population, for example, implies that habits formed yesterday – such as “the weekly shop” – are likely to be influential tomorrow.

Time pressures put a premium on impulse purchasing and convenience. Because consumers are more demanding and discerning, they often want to feel more in control. Yet, at the same time, bombarded with ever-more choice and information, they can also feel insecure, lacking in expertise and willing to delegate.

The rising importance of value for time, in addition to value for money, means markets are changing in character. Some

appeal to consumers' wish to *elaborate* – to invest their time in a heightened experience. Others appeal to their wish to *streamline* – to invest less time in less-rewarding activities.

In addition, consumers are increasingly “modal” in their behaviour. In other words, the consumer is not “one person” but someone who takes on many different roles at different times, and has many different needs. The same consumer may therefore want different things from the same retailer at different times or in different situations.

In our research, we identified six key shopping modes. They are:

*Planned: “We always buy...”* The classic mission-shopping trip, to buy all those products necessary to keep the household running. Planned shoppers want to buy as many staple items under one roof, with as little inconvenience as possible. They look for wide and deep choice, and good value for money. Typically, planned shopping takes place in hypermarkets or supermarkets, on a weekly or fortnightly basis. Average basket values are high.

*Opportunistic: “I might as well...”* Opportunistic shopping visits are fitted into our schedules, when the time and place is right. Opportunistic shoppers pick up whatever they need at the time, whether it's top-up groceries, fresh foods or snacks. A wide but shallow range of products is required, favouring

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**Value for time is rising in importance. Some consumers want a heightened experience. Others want to save time – to invest it in more rewarding activities**

supermarkets. Accessibility is key, so convenient locations and long opening hours help to attract extra trade.

*Immediate:* "I need it now..." Immediate purchases are bought for instant consumption, including food for tonight's meal, snacks, treats and distress items. With immediate shopping, the need for speed and accessibility often outweighs low price. The most obvious outlets are convenience stores, sited at high-traffic locations. Average basket values are low, but rising fast.

*Expert:* "I need something special..." Expert shopping trips are used when catering for particular dietary needs, such as allergies or organic food, for special occasions such as entertaining, Christmas, weekend treats or for "eventing" – the growing trend we are picking up from the US (New Year, Halloween, for example). Expert shoppers look for specialist ranges, informed service and enticing ambience. Low price is not a primary concern. Expert shopping is conducted at the independent fishmonger, health food shop or department store food hall.

*Constrained:* "It's all I can get..." In constrained shopping, consumers' choices are limited by a lack of money, immobility or a limited choice of stores, such as in rural areas or sink housing estates. Although constrained shopping is most common among low-income groups, the very elderly, or mothers with young

children, it can affect all consumers on some occasions. Price is generally a concern but by definition, constrained shoppers have to accept what they can get.

*Social:* "I want something more (than just shopping)..." The act of shopping fulfils many needs over and above the act of purchase. In all societies shopping is imbued with routines and rituals. For example, a trip to the shops can be a way to get out of the house and interact with other people, a meeting place, or a day out with family and friends. In social shopping trips, purchases are incidental to the experience. The shopper may spend nothing, make a token purchase, or splash out on an expensive indulgence.

### Differences across Europe

While the basic long-term consumer trends are common across the whole of Europe, the relative importance of these different shopping modes varies greatly – as do their underlying trends.

In the UK, for instance, we see a steady rise in "expert" shopping and a continued decline in both "planned" and "opportunistic" shopping, with the "immediate" mode overtaking both.

Currently, in the UK, planned shopping is by far the biggest category accounting for 35 per cent of total spend. But planned shopping is declining, and the proportion of planned shopping done remotely (eg, via the Internet) is rising.



Trends are smaller...

By 2017, the core business of most UK hypermarkets – providing most footfall – could plummet from 35 per cent of total spend to around 25 per cent (see Figure 1). If this happens, many existing hypermarket business models could become unsustainable.

We see similar trends unfolding in Germany, with two key differences. Constrained shopping will fall rapidly, and opportunistic shopping will rise.

In other markets, however, the trends will be different. In Greece, for instance, the main shopping modes today are immediate and constrained. But they will quickly be overtaken by a rapid rise in planned shopping – with major implications for retail strategies.

The lesson? While many underlying consumer trends are similar, their effects in national markets will be very different. No single pan-European retail strategy will encompass them all. Different national markets will continue to evolve in different directions and at different speeds.

### Emerging technologies

The speed of technical change is stunning. Ten years ago, hardly anyone had heard of the Internet. Today, the average 15-year-old in northern European countries simply takes it granted. But consumers tend to be disrespectful of technology. Whatever the grand plans of

people supplying the gadget, if it does not answer a genuine need it will not reach the mass market.

To understand the impact of technologies already under development, we asked companies such as IBM, BT and Sun Microsystems to give a quick overview of how quickly various new technologies will come on stream (see Figure 2).

While it is difficult to envisage exactly what devices consumers will be carrying around in 2015, the current communications revolution means it is safe to assume they will provide instant, always-on access to a communications network, an evolved version of what we currently call the Internet.

The magnetic stripe card is likely to become obsolete and the portable communication device will act as a payment, data storage and transmission device, as well as filtering tool.

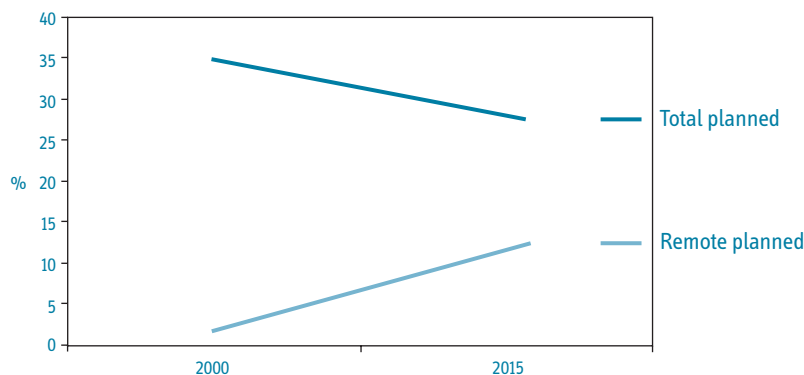
Early in 2001, for example, Sun Microsystems showed its vision of the connected future where the home acts as a *network gateway* for consumers. Sun says consumers will be able to manage a wide variety of home services remotely via their gateway. While sitting at work, users will be able to control their house temperature, shut the garage door and receive alerts of any maintenance problems.

Looking in a different direction, in the

...but markets are diverging

Technology is transforming retailing – and shopping

Figure 1 The rise and rise of remote shopping (UK)



Four key retail strategies  
1. Focus on transactions

US, a group of retailers has joined with the Massachusetts Institute of Technology (MIT) and the Uniform Code Council to form the Auto-ID Centre, with the mission of creating an *Internet of things*. It has created a new symbol dubbed the EPC or Electronic Product Code, which is likely to be widespread within 10 years.

Unlike the old code, which needed a scanning device to read a limited amount of information, EPCs will use a tiny chip to emit much more information about an item and it will do so in real time, using wireless technology.

An EPC can tell a user or machine whether an item has been fully paid for, how long it will stay fresh, how long it should be cooked, where it was manufactured and so on.

Eventually, a recent MIT report explains, “shoppers will bypass checkout counters altogether, as their tagged purchases are automatically debited to their accounts on the way out of the door”.

Many of the emerging technologies allow far more information from and about consumers to be gathered, stored and analysed. One key issue for retailers will be privacy and the need for “permission marketing”. That in turn will depend on the sorts of relationships retailers build with consumers. Indeed, we believe retail success will depend largely on what sorts of relationship strategies retailers decide to pursue.

Consumer relationships

Tomorrow’s “relationship landscape” will be far more complex than today’s. But within it, we have identified four underlying approaches. They are not necessarily mutually exclusive – the very nature of the modal consumer means he or she will want to have different relationships at different times, for different categories.

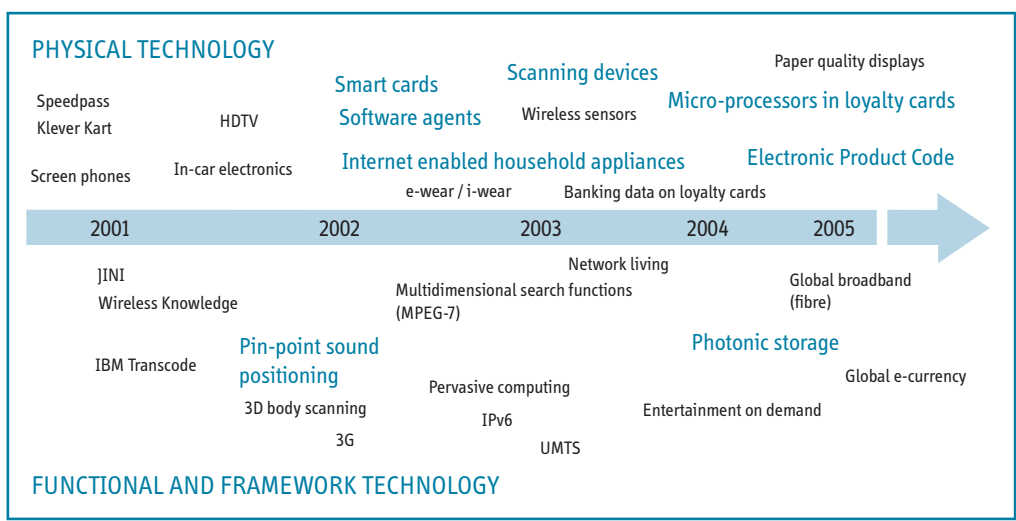
Also, the same retailer may decide to segment his customer base according to relationship strategy. Maintaining a more distant relationship with the majority of his customers but seeking to develop a much closer relationship with a smaller minority of best, high-value customers, for example.

Here are the four relationship types in detail.

*Transactional:* This relationship type is closest to the model practised by most retailers and experienced by many consumers today. It is driven by access and availability. There is little personal involvement from either party. They are quite content to interact at the level of *acquaintance* rather than *friend*.

For the retailer it is all about maximising the number and value of customer transactions – laying out one’s stall to appeal to a broad base of customers. For the consumer it is simply about accessing the required goods as and when they are needed.

Figure 2 Retailing transformed? A technology timeline



Source: Research International, The Store 2001

## 2. Get ever closer to consumers

The retailer's goal of maintaining a consistently better deal may require a lot of effort, but if value can be sustained on a consistent basis and if honesty about the transaction prevails (for example, Aldi), this can be a strong base on which to build. However, we anticipate that tomorrow's consumer expectations will be higher than today's experience.

Providing outstanding value (good quality at a great price) will be the key consumer attraction. Best placed will be those with the scale to leverage buying power with suppliers and with the operational excellence and operational skills and systems to optimise efficiencies across the business – to own low price.

At the same time, because consumers will also increasingly value intangible benefits, such as value for time, transactional retailers will need to offer ways to make decision-making easier and reduce waiting time, and may need to provide access to a wider range of goods and services, offering ideas and inspiration. The trick will be to do this with minimal on-cost.

*Retail driven:* This retailer will be obsessive about getting closer to the consumer in order to satisfy needs and pre-empt wants, and will therefore focus increasingly on gaining access to a wealth of transactional data, for example, from customer loyalty card schemes.

As new technologies come on stream, we expect to see more interventionist means of identifying consumer needs, modes and in-store behaviour. Retailers can use linked databases, data mining and partnering with suppliers to tailor ranges, solutions and services to shoppers who use their stores. Sophisticated analysis of an individual's transactions will help them identify *best* customers and the most attractive targets for the development of a closer, one-to-one relationship.

As this requirement for high levels of investment in data collection and management will leave the retailer driven operator with a higher cost structure than a transactional operator, it will need to match lowest prices on those items which consumers actively compare and improve its margins on added-value lines and services.

The retailer driven operator is constantly seeking ways to broaden the appeal of its offer to counter any temptation of low-price offers from the transactional retailer. Therefore the retailer driven operator will be constantly innovating. It will create consumer access by developing new channels and by tailoring store formats, opening hours, product ranges and services to customer needs. For larger stores, non-food ranges will become an



increasingly important element of the product range.

The offer of services will be vital to this relationship building. The retailer driven operator will be seeking new revenue streams from services to add value to its offer, reinforce its brand values and increase customer dependency.

The possibilities include provision of financial services, event-planning and catering, home and domestic appliance maintenance, home cleaning, leisure and holiday services, childcare or holiday activity centres, educational services and health or personal care-related services.

As alternative therapies become more mainstream, we will see some retailers extending their service offering to include homeopathy, aromatherapy and other previously marginal treatments. However, unlike the transactional retailer, the retailer driven operator will be careful to ensure any extension will be a logical fit with its brand values, as opposed to an indiscriminate opportunity to make a margin.

In the retailer driven relationship, the retailer effectively becomes the customer's gatekeeper, ensuring the merchandise is safe, reliable and of good quality. The ability to deliver quality will be enhanced by investments in the supply chain.

Equally, customer service will be an important element in relationship-

building. This will lead retailers to invest in the development of skills among its customer-facing staff.

*Partnership:* We anticipate that the most-developed retailer driven relationships will evolve one step further, into partner relationships – where both the retailer and the consumer wish to be actively involved with one another.

The retailer seeks a committed relationship with its best customers. The consumer, making judgements based on past experience, becomes increasingly reliant on the retailer and the services provided.

Hence both parties are equally involved in making this a mutually beneficial relationship. This relationship type is ideal for highly developed retailer brands where familiarity is established and trust is high. Transparency and innovation are its core values. The customer knows the retailer can deliver and trusts it not to be exploitative.

Technological advances will foster a closer relationship by giving the retailer data information and interpretation and by providing opportunities for ongoing interaction and dialogue between the customer and the store.

Partner retailers will invest heavily in database and communications systems, which enable state-of-the-art customer

3. Become the consumer's 'partner'

The retailer driven operator will seek new revenue streams such as financial services, event-planning, and home and domestic appliance maintenance

relationship management. They will develop an enhanced service for customers, run by expert staff who act as brand advocates.

The partnership will develop when a customer recognises that the retailer can be trusted to take over responsibility for various aspects of their life.

Price is less important to the customer involved in a partnership, because the value supplied by this intimate relationship is extremely high. Furthermore, switching costs are enormous.

The relationship naturally starts with shopping but has the potential to extend into other areas such as home-delivered goods and services (laundry or prepared meals), home-based services (cleaning, maintenance, loan or hire of equipment) and in-home support staff (waitress service for entertaining, house-sitting, security services and mobility support).

Retailers who have developed home-shopping services will be in a prime position to develop a partner relationship with customers using these services. Already, the more successful of these retailers are seeing customer dependency growing.

However, home shopping is not necessarily critical for all customers. Web sites, call centres, e-mail facilities and other services which encourage networks

and communities of interest, are a vital way of moving customers towards lifetime partnership.

With an intimate knowledge of the customer and his or her household, their preferences, needs and purchasing behaviour, the partner retailer will be able to customise products or services to the customer's specific requirements. This will be on-line or at the point of purchase, once mass customisation technology comes on stream.

This need not necessarily be uneconomic, as there may be opportunities for economies of scale where demand can be predicted. In addition, with this type of relationship the customer will be less price-sensitive and more inclined to pay for added value.

Partnership may be seen by some retailers as a means of "locking in" their best consumers, but smacks too much of a supply-led view of the world. In fact, the hallmark of healthy partner relationships will be equality between supplier and consumer, where the relationship is long term and the loyalty reciprocal.

In fact, many retailers will seek to build partnership as a means of fending off the inherent threats in our fourth and final consumer control relationship.

*Consumer control:* In the consumer control relationship, the store is largely passive and the customer is in control. The

4. Become the consumer's agent

Partnerships develop when a consumer realises that the retailer can be trusted to take over responsibility for various aspects of their life

customer has access to information, typically through the Internet and increasingly in the future via electronic agents.

With technological advances, the consumer has the capability to manage this access and locate the information, goods and services he or she requires when and wherever needed. When the customer wants something he or she will ask for it.

Most likely, any relationship will be between the customer and the *agent*, either virtual (eg, shop bots) or human (personal shoppers).

There are several motivations behind this search for information. Some consumers enjoy the hunt for bargains. Others, in 'expert' mode, may know exactly what they want and simply want the quickest and/or cheapest way to get it.

Cash-rich, time-starved consumers will turn to a new generation of agents offering bundled access to known-value goods and reliable services such as house removals, holidays, transport and entertaining at home.

Transactions would not necessarily all be Web-based but access to information on the Web about the retailer's offer could drive the shopper's choice of store. Electronic agents would range from search engines, demand-collection systems such as Priceline.com and competitive tender-based agents.

Everyone, from AOL and Amazon to Mercedes and American Express, is a potential competitor for the customer's transactions.

Technology availability and access will drive the consumer control relationship. In the short term (around five years) this relationship type will represent potential for only a limited number of consumers. But this potential could grow as the number of people connected to the Web increases and as Internet services develop. Today's early teenagers are likely to be more predisposed to use these services than their parents.

For the consumer control relationship to succeed, there will need to be a high degree of interactivity and the system must be convenient and easy to use, so that it offers the consumer a chance to save both time and money.

Currently the consumer control relationship offers the retailer the least commercial opportunity. But for retailers with the appropriate brand values, it could allow them to become agents for specific categories or services, thereby extending their scope and potential beyond the world of bricks and mortar.

#### **Future formats**

The evolution of retail formats will be heavily influenced by regulations dealing with issues such as transport, opening and



working hours and town planning. However, we believe consumer pressure will be the strongest force.

As consumers become accustomed to less planning and more spontaneity in their lives, the proportion of planned shopping will decline and the food store will increasingly need to provide immediate access to food, groceries and home meal replacements. This will fuel the development of convenience formats, tailored to the very local needs of customers.

Convenience stores were once the domain of independent operators, but by 2015 we expect to see a highly professional and competitive c-store sector, dominated by large grocery businesses.

Convenience formats of the future will generally consist of larger versions of today's corner stores with ranges which extend beyond food, groceries and home meal replacements to include convenience non-food and essential services geared to the demands of customers in that particular location.

Services could include access to remote banking and the Internet, outsourced pharmacy supplies, dry cleaning and shoe repairs, video rental, photo processing and pick-up for goods ordered remotely.

Location will be dictated by the amount of customer traffic and the potential for transactions. Sites are likely to be similar

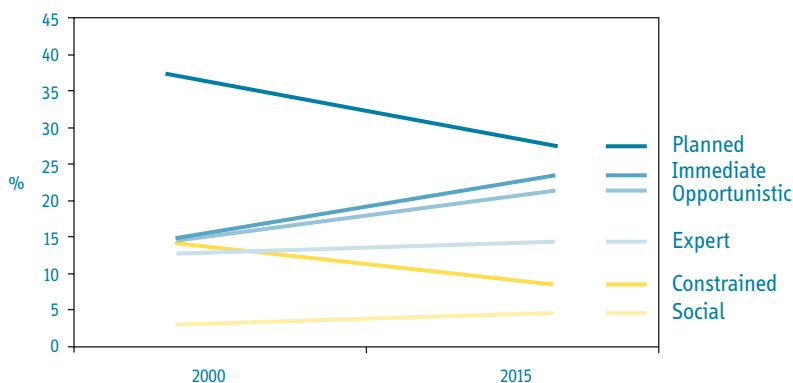
to today's city centre stores, local convenience outlets, petrol forecourt shops, shops in transport hubs and workplace stores.

Where demand exists, the convenience store could even take the form of a mobile shop, which brings the shopping to the customer. In meeting the need for this format, the traditional retail sector will face competition from manufacturers entering the fray via vending machines, kiosks and refreshment centres at transport hubs and shopping centres.

The decline of planned shopping and the rise of immediate shopping in northern and western Europe will have important repercussions for hypermarkets and superstores (see Figure 3 for example). Traditionally, much of their trade depended on high-value, planned shopping trips. To make matters worse, as we have shown earlier, most of the growth in remote shopping will be for planned shopping occasions.

In eastern and southern Europe, where shopping modes are less developed, these stores will continue to represent an opportunity for both leisure and routine shopping and planned shopping will grow at the expense of traditional immediate shopping (see Figure 4 for example). But by 2015, even in the east and south, hypermarkets will need to change radically to maintain their viability.

Figure 3 Projected shopping trends in Germany



If they are to remain profitable – perhaps even to survive – hypermarkets and superstores will need to find ways to exploit the growing demands for expert and social shopping. In addition, successful hypermarkets will increasingly need to meet a growing demand for remote ordering, not necessarily just web-based, and for a back-of-store pick and pack service.

Superstores are affected by the same factors as hypermarkets. Those which are closer to densely populated areas could, however, be affected to a lesser degree, especially if they have the scale to develop as destinations for experiential retailing which serves local communities.

The most vulnerable format will be today's mid-range supermarket, limited by size or accessibility from meeting the growing demand for immediate food. Some shops in this format may have potential in converting to extended fresh food stores in five to 10 years' time, if they are in appropriate locations and can be used to complement remote shopping for routine or commodity groceries.

### Conclusions

In the food store of the future, current supply-centric retail concerns will become subservient to the role of the store in generating and perpetuating relationships with the consumer. Future

formats will be driven by consumer shopping modes and relationships, rather than the other way round.

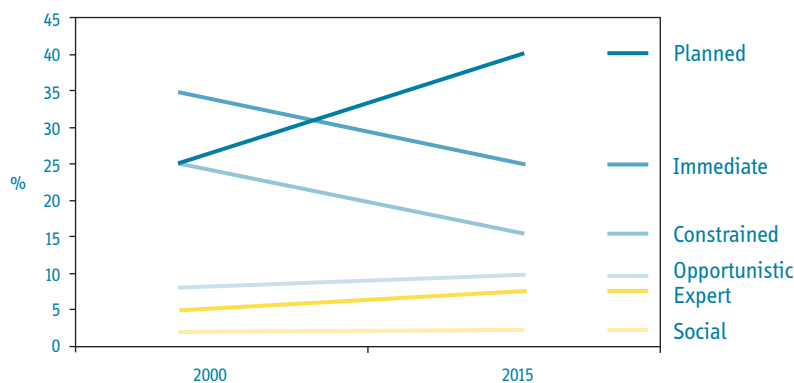
Of the existing formats, hypermarkets are most under threat. To survive they will need to reinvent themselves. The hottest competition will be in the convenience sector. This is likely to have a knock-on effect on supermarkets, which will have to adapt and take up the opportunity to become extended convenience stores.

Remote shopping will grow further but not just as we know it – goods will not necessarily be delivered to the home. The front and back of store will blur and reconfigure to mould to the new consumer retail landscape.

As the consumer will control a highly evolved portfolio of interactions with his or her suppliers, the store of the future will be multi-channel and multi-format, to capture the attention, and hopefully the engagement, of the consumer on as many fronts as are compatible with the retailer's brand.

As consumer expectations continue to rise and as more and more consumers exercise their desire for control, tailored, bespoke goods and services will become the rule, not the exception. In this saturated and highly competitive market, a differentiated and coherent brand positioning will be essential.

Figure 4 Projected shopping trends in Greece



Source: Research International, The Store 2001