

THE STORE OF THE FUTURE

Consumer Relationship Strategies and Evolving Formats
Project IX October 2001

A Study Conducted for
The Coca-Cola Retailing Research Group, Europe
by
The Store



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PREVIOUS STUDIES

- I** Staffing Supermarkets in the 1990's
- II** Food Retailing in Europe
- III** Grocery Distribution in the 90's - *Strategies for fast flow replenishment*
- IV** Building Customer Loyalty in Grocery Retailing
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FORWARD

The Coca-Cola Retailing Research Group Europe (CCRRGE) is dedicated to the development of a better understanding of the food retailing and allied merchandise distribution business in Europe. The focus of its energies is to identify and then to study selected critical issues and problems and, when appropriate, to present the findings in a suitable forum, so that full advantage of the information can be taken to further develop and enhance the effectiveness of the food retailing distribution business.

This report represents the finding of a study commissioned by the CCRRGE to consider the drivers of change affecting the grocery retail industry in Europe over the next 15 years and the practical implications these might have for stores being designed today and their operation in the future.

The project was carried out by The Store, WPP's global retail practice. Member companies of The Store participating in the project were: The Henley Centre, Management Ventures Inc, Research International, Ogilvy, the Relationship Marketing Group and BDG McColl. The work took place from September 2000 to June 2001.

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ABOUT THIS REPORT

The main objective of this report is to look at where retailing and retail formats are going and to define the "Store of the Future". Answering the question: What changes should European retailers anticipate when designing and building stores that will have a life cycle of at least 15 years?

The European food retailing industry is building stores today with an anticipated economic life of at least 15 years. For those new stores to work, the industry needs an understanding of the way society, consumers and markets are likely to develop and what impact this will have on the way people do their shopping in the future.

Over this period, the mature European food retailing market will become even more intensely competitive.

Technological advances and their greater use by the public will also drive changes, making it easier than ever before for retailers to develop personal or interactive relationships with consumers.

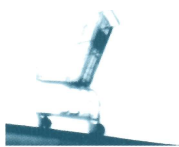
Other drivers of change include demand-side issues such as an ageing population, rising affluence and time pressures.

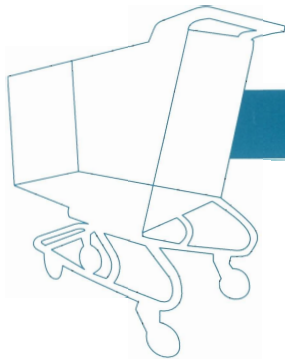
Retail formats will also be driven by the changing level of consumer spend, analysed by shopping "mode". Overall, the amount of planned shopping will fall.

The regulatory and political environment will have implications for planning, transport, environmental and food safety.

Retailers will need to differentiate themselves to survive. This will mean brand-building, delivering consistency around a defined set of expectations, thus generating consumer trust and loyalty.

The result is that in 15 years time, food retailers will be in a different business and its decision-makers will worry about different things. The store — either actual or virtual — will be seen not as an end in itself, but as the outcome of the particular relationship predominating between the brand and the consumer.





EXECUTIVE SUMMARY

- INTRODUCTION
- COMPETITION
- SOCIAL CHANGE
- SHOPPING MODES
- THREATS AND OPPORTUNITIES
- TECHNOLOGY
- CONSUMER RELATIONSHIP TYPES
- THE RETAILER BRAND AND BRAND POSITIONING
- MANUFACTURING IMPLICATIONS
- FORMAT IMPLICATIONS
- CONCLUSION

EXECUTIVE SUMMARY

Introduction

The European food retailing industry has been building stores with an anticipated economic life of at least 15 years. Given the rapid rate of change that is taking place, the industry is starting to question whether they can afford to take such a long-term view.

What changes must be anticipated to ensure the short and long-term viability of the stores they are building now?

What impact will these changes have on the way people do their shopping in the future?

What practical implications do they have for both the shop floor, where the customer has contact with the retailer, and the back of store infrastructure?

In this report we analyse the changes and outline the implications.

Competition

Our argument is that over the next 15 years the mature European food retailing market will become even more intensely competitive than it is today. Increasingly, the stronger players will be obliged to compete with each other rather than take business from smaller, weaker players.

Competition from outside the sector will also grow, in terms of new players and channels. There will be increasing competition for the attention of the consumer, demonstrated by food retail's declining *share of mind and share of stomach*.

Social Change

Tomorrow's society is one that will be older and more affluent than today, time starved and far more fragmented. While consumers will be more demanding and discerning and technology will enable many to feel more in control, potentially there will also be increased feelings of insecurity and willingness to delegate. As a consumer base for the retailer, it is potentially high-maintenance, increasingly difficult to influence and even resistant to persuasion.



Shopping Modes

The store of the future will be multi-format and multi-channel designed to address the needs of a fragmented consumer base: who will have a different repertoire of shopping modes that they will expect to carry out through different channels and different formats. These will be:

Planned

Planned shopping - regular trips to buy all those products necessary to keep the household running - are set to decline over the next 15 years, in particular in the North and West of Europe.

Immediate

Meanwhile there will be a corresponding increase in Immediate shopping – the things I need right now – as all generations continue to shift towards more flexible and spontaneous shopping patterns.

Social

There will also be increases in Social trips- when shoppers want something more from their trip than just to buy things.

Expert

In the north and west, greater affluence will bring more demand for Expert shopping - for those trips when the consumer wants to buy something a bit more special or different.

While Northern and Western Europe will establish these trends, in parts of Southern Europe Planned shopping still has a long way to develop. We also expect substantial increases for Planned shopping in Eastern Europe, as infrastructure investments are made and incomes grow.

Remote

Remote shopping for our routinely purchased goods will experience rapid growth as tomorrow's technology enables us to connect and order goods almost anywhere and at any time.

We anticipate that Remote planned shopping will rise to 13% over the next 15 years.



Threats and Opportunities

Conventional Planned shopping in bricks and mortar stores will be squeezed by changes in lifestyles on the one hand, and on the other, by the rise in the opportunity to shop remotely. This will place traditional supermarkets, superstores and hypermarkets seriously at risk.

But there is a real opportunity for hypermarkets and superstores **in the right locations** to attract traffic, by adapting these stores to automate the predicted growth in Remote shopping, while using the space released to develop more experiential shopping, such as solution or expert zones and other revenue generating services.

The anticipated growth in Immediate shopping will fuel competition in supermarket, convenience and discount formats, particularly with the growing demand for home meal replacement.

Technology

Technology will be a powerful enabler in the future. Fifteen years from now, anyone who wants, will be connected in any way that they might choose.

The implications for the retailer are significant – particularly in the area of relationship building with the consumer. Technology will enable the retailer to play various roles in people's lives, depending, of course, on the willingness of the consumer to participate.

The benefits of a relationship for the consumer will be greater convenience, time saving, value and advice. For the retailer it will be the ability to identify the best customers and the opportunity to retain and maximize the most profitable ones.

Consumer Relationship Types

Tomorrow's relationship landscape will be complex. We have looked at it in terms of the degree to which the consumer wants to be involved with the food store. We also consider the degree of involvement that the food store will seek to have with the consumer.

The skill for the retailer will be in identifying and implementing the right sort of Consumer Relationship.



We believe that four types of consumer/retailer relationship are likely to emerge. Each provides its own value creating opportunity.

Transactional

The Transactional relationship is driven by access and availability. There is little personal involvement from either party. For the consumer it is simply about accessing the required goods as and when they are needed.

In tomorrow's retail environments, the operational efficiency needed to succeed here will be far higher than for today's price based retailers. Tomorrow's successful transactional retailer will blow the doors off operating efficiency. They will **own** low price.

Retailer Driven

The Retailer Driven relationship has low involvement from the consumer but high involvement by the retailer. It is largely a one-way communication **from** the store **to** the customer and is highly dependent on the retailer having information about the consumer and their transactions. Those with a developed loyalty programme will have an advantage.

Partnership

The Partnership relationship demands a high involvement from **both** parties. This is an integrated, listening relationship, with active dialogue between customer and retailer. It will have high value added and one-to-one service, with the retailer's involvement going right into the home. This relationship type can only develop out of a Retailer Driven relationship, where best customers will be wooed to try to develop them into a Partnership.

Consumer Control

The Consumer Control relationship is where the customer is involved and in control, knows where to access what they want or has ways of finding out. In the future, it will be agents rather than retailers with whom these consumers have the relationship; hence it offers the retailer the least commercial opportunity.

The Retailer Brand and Brand Positioning

Each of these relationship types will demand a clear brand and coherent brand positioning from the retailer, if the consumer is to understand the full value of the relationship proposition:



The Transactional relationship will need strong and sustainable positioning, majoring on low price, value for time and access.

The brand will be fundamentally important to the Retailer Driven relationship. It will be the emotional elements that will deliver the trust and reassurance that will lead to loyalty and a greater dependency on the retailer. Innovation, product development and a highly developed own brand, reflecting the retailer's value proposition, will be important.

For Partnership, brand will be critical and personalities which become the face of the brand will be key. These could include, real or virtual personal shoppers, chefs and experts to provide advice that can be trusted. Customers involved in a partnership, will be locked in by opportunities to have products or services customised to their needs.

To succeed at all in a Consumer Control relationship, brand flexibility would need to stretch the retailer out of his bricks and mortar offer into new categories or services. The key here will be to communicate availability and enable access – either directly by the consumer or via consumer agents.

Manufacturer Implications

The challenge for the Manufacturer will be understanding the Retailer's consumer relationship strategy and devising ways of their own to partner with the retailer to add value and to enhance those strategies.

The *Transactional* relationship suggests manufacturer strategies that can take out cost. *Transactional* retailers will be looking to manage assortments to the store level and will be expecting manufacturers to cooperate to facilitate this.

The *Retailer Driven* relationship would potentially benefit from increased partnering between manufacturer and retailer. The retailer will be looking for innovative ways to provide customers with reassurance about product sourcing, food safety and ingredients. They will be turning to suppliers for support in creating expert ranges, customising products and recipes that provide innovation and differentiation. But equally, the *Retailer Driven* relationship poses a threat to manufacturers who do not themselves succeed in developing a strong enough consumer franchise for their brand. Increasingly, they will be replaced by the trusted retailer's own brands and solutions.



The *Partnership* relationship is potentially even more of a threat to the supplier. Increasingly the retailer will control the consumer's access to all the goods and services they need. This suggests the possibility for manufacturers to start thinking about ways in which they could engage and partner with the consumer in the home.

The *Consumer Control* relationship offers the manufacturer the best opportunity to provide direct access to the consumer by offering quality and value, or by creating opportunities for product customisation.

Format Implications

In north western Europe in particular, the hottest competition will be in the Convenience sector as retailers compete for a share of the increasing immediate shopping market.

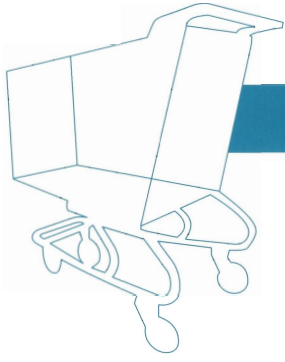
Hypermarkets and Superstores will be under threat unless they reinvent themselves.

Europe-wide, Supermarkets and limited range Discounters will have to adapt too – becoming extended convenience stores where appropriate.

Conclusions

1. The Store of the Future will be multi-format and multi-channel - driven by its consumers shopping modes.
2. The mature European retailing market will experience intensifying competition, where Food stores will no longer define their competition as consisting only of other food stores.
3. Satisfying tomorrow's increasingly polarized and fragmented consumers will demand a better understanding of their needs and closer customer relationships than are common today.
4. Tomorrow's relationship landscape will become more complex, choosing the right type of consumer relationship will be vital for the Retailer.
5. A strong retail brand will differentiate the retailer, add value to and underpin the consumer relationship in this increasingly competitive food-shopping environment.





CHAPTER ONE

MATURE COMPETITION

- I.1 COMPETITION FROM NEW PLAYERS & CHANNELS
- I.2 COMPETITION FOR CONSUMER INTEREST
- I.3 IMPLICATIONS

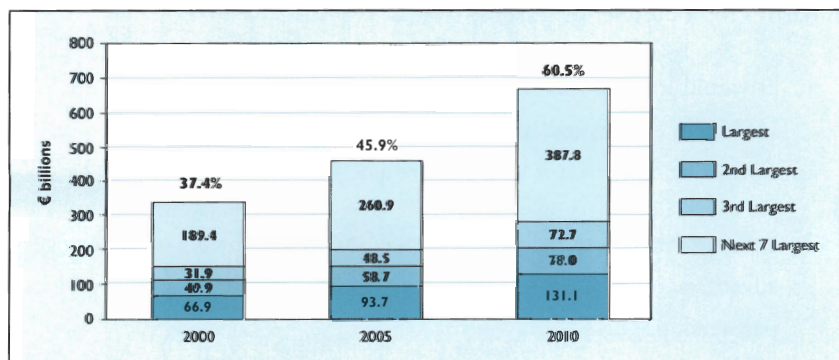
CHAPTER ONE - MATURE COMPETITION

Over the next 15 years the mature European food retailing market will become even more intensely competitive than it is today. The Institute of Grocery Distribution (IGD), an independent research and education body for the food and grocery industry, forecasts that levels of growth in grocery retailing are expected to remain subdued in many European markets, especially when compared to historical levels. The drop in organic growth is prompted by a collection of factors such as market saturation, legislative changes, falling population growth and social shifts.

Some of the leading players are managing to increase their market share through diversification, but the general curtailment of growth is encouraging industry consolidation. This varies from country to country: in 1999, for example, the top three grocery retailers held 95% of the market in Sweden, but in the UK and Germany it was nearer 50% and in Poland it was only 16%. However, in general, the consolidation process is accelerating in both more mature markets and in developing ones, where a “top 15” share has been established very quickly and where the consolidation process is likely to catch up fast.

This trend looks set to continue for the foreseeable future. By 2010, according to IGD research, the market share held by the top 10 food retailers is likely to rise from the current 37.4% to 60.5%. This means that the stronger players will be increasingly obliged to compete with each other rather than take business from smaller, weaker players.

Fig 1 European grocery market concentration



Source: IGD Research & Estimates



This competition is now taking place over a wider geographical range, as market concentration drives the largest retailers to expand globally in order to grow their earnings. For example, the French retail giant Carrefour entered the Spanish market in 1973 and managed to establish a first-mover advantage, giving it top ranking there today. And western retailers responded fast to the opening up of central European markets in the 1990s: over 30 foreign grocery retailers are now active in Poland, Hungary, the Czech Republic and Slovakia, fighting it out in new territory. Since the mid-1990s, countries like Brazil and Thailand have attracted many of the same retailers, turning them into new battlegrounds. (Further details are available in the IGD report *Future Retail Developments*.)

Competition from outside the sector is also growing. This is taking two forms: competition from new players and channels and competition for the attention of the consumer, shown in food retail's declining "share of mind and share of stomach".

1.1 COMPETITION FROM NEW PLAYERS AND CHANNELS

The internet is a galvanising force in this respect, prompting leading businesses with appropriate capabilities to investigate the new opportunities that arise online. Companies with expertise in mail order functions, database marketing, electronic access, logistics and fulfilment (servicing order, processing and delivery) now see an opportunity to compete in the food retailing arena.

For existing grocery retailers considering an online operation, there is a medium-term risk that they could compromise profit margins by maintaining more than one channel. However, retailers realise that they cannot afford to ignore online initiatives for a number of reasons.

1. It would leave the door open to the competition. Peapod in the USA and LeShop in Switzerland, are just two examples of non-established grocery retailers competing in the sector (although Peapod has since been acquired by Ahold).
2. Existing retailers recognise the opportunity (and threat) of first-mover advantage online. Note Tesco's very fast roll-out of Tesco.com and its partnership with Safeway in the US.
3. They are aware of the potential loss of access to the consumer if they do not get involved.



4. While only a small percentage of total retail is currently accounted for by remote shopping – and an even smaller percentage by e-shopping – it is generally accepted that future growth will cannibalise sales from the existing retail market.

For all these apparent threats, existing grocery retailers should not lose sight of one of their key core competencies, which is very difficult to develop from scratch. In today's harried society, the aggregator and consolidator role performed by the grocery retailer – bringing together the products of hundreds of manufacturers – is of great consumer value.

1.2 COMPETITION FOR CONSUMER INTEREST

Increasingly, food retailers are faced with a declining share of the customer's purse because of their declining share of mind and share of stomach. Leisure pursuits, higher interest retail alternatives and eating out are all taking an increasing share of their expenditure. In the United Kingdom, for example, disposable income in the past 10 years has risen by almost a third in real terms. Discretionary income – the money left over once all basic bills have been paid – has increased even faster as the relative cost of groceries and utilities has decreased. While the extra money available is sometimes spent in the sector on upgrading necessities, it is more often spent in other sectors, for example on luxury and leisure goods and services or on eating out.

The eating-out sector is enjoying a huge boom across Europe, as changes in household structure and women's traditional roles creates an atmosphere in which cooking from scratch is a rare luxury rather than a daily necessity for the majority of households. Recent years have seen the growth of eating out as a frequent rather than occasional activity, as well as the casualisation of in-home cooking and the blurring of boundaries between in-home and out-of-home meal preparation. As Villy Rasmussen of FDB observed in a previous Coca-Cola Retailing Research Group report, "much eating-in is virtual eating-out and much eating-out is virtual eating-in". With the introduction of home delivery, hot foods at supermarkets and casual dining, the boundaries of the food sector are becoming ever more blurred. However, as food stores are currently configured, it could be argued that few of them are really fulfilling their potential in this dynamic category as a whole.



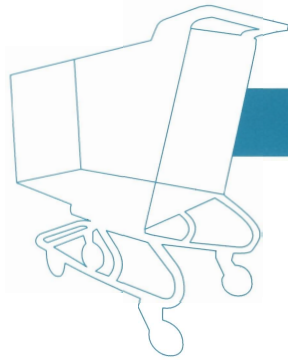
1.3 IMPLICATIONS

There are three key implications emerging from this assessment of the maturity and increasingly competitive nature of European food retailing:

1. Food stores can no longer define their competition as consisting only of other food stores. For offensive and defensive reasons, they need to build strategies to compete for a greater share of stomach and share of mind within a wider competitive set.
2. Retailers need to build relationships with consumers. Good retailers will be those who continually improve their understanding of their needs and wants. For the retailer, the benefit of a relationship is that it helps the retailer to identify, satisfy and thereby retain the most profitable consumers: the average European consumer has an annual retail food market value of approximately 3,000 euros giving a lifetime value of around 175,500 euros. And, as we will show, when tomorrow's consumer is increasingly polarised and fragmented, providing satisfaction for the consumer implies the need for a closer relationship than is common today.
3. Retailers will need to differentiate themselves to survive. Differentiation implies brand building. Good retailer brands are those that deliver consistency around a defined set of expectations and shared values, thus generating trust, commitment and loyalty.

We discuss Relationships in more depth in Section 5 and Branding in Section 6.





CHAPTER TWO

TOMORROW'S SOCIETY

- 2.1.1 AGEING POPULATION
- 2.1.2 HOUSEHOLD FRAGMENTATION
- 2.1.3 MORE WORKING WOMEN
- 2.1.4 GREATER AFFLUENCE
- 2.1.5 MOUNTING TIME PRESSURES
- 2.1.6 CHANGING IDENTITIES
- 2.1.7 CONSUMER POWER
- 2.2 IMPLICATIONS OF TOMORROW'S SOCIETY
FOR THE STORE OF THE FUTURE

CHAPTER TWO – TOMORROW'S SOCIETY

The European food retailing industry is building stores today with an anticipated economic life of at least 15 years. This means that in 15 years time they must be able to handle all the evolutions of aggregation, consolidation, logistics, fulfilment and legislation, and equally must be able to remain meaningful and attractive to an evolved shopper who potentially has a far-expanded portfolio of choice and channels.

For the consumer, the food store can be so much more than a place to buy food. It can be a place to socialise, to be surprised and inspired, to learn about the world, to delight all the senses. All stores, but especially food stores, are sensitive to social change, which affects the way consumers structure their daily lives. In this section we focus our attention on the broader drivers of change, which will combine to influence consumers' needs and expectations of the food store of the future. Reference is made in these trend descriptions to different shopping modes, which are elaborated on at greater length in Section 3.

2.1.1 AGEING POPULATION

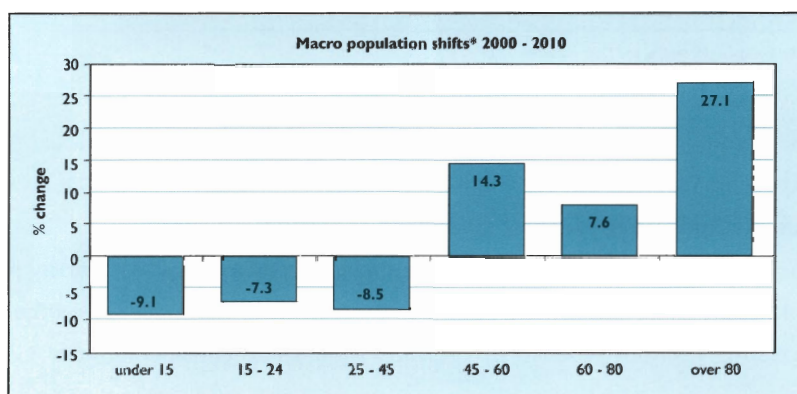
One of the most significant trends in Europe is that of demographic change. While the population is expected to continue growing over the next 15 years, the rate of growth is very slow. Between 2000 and 2015 the 15 countries that make up the European Union will grow by less than 3%, to 388 million. Thereafter there is the prospect of stagnation and decline. Europe's share of the world population is already in decline: in 1950 it accounted for 12% of the world's population but this has dropped to 6% and by 2050 it is predicted to account for no more than 4%. This is explained by Europe's falling birth rate, a trend which began in the 1960s.

Therefore, until recently global food retailers have been enjoying the prospect of green field expansion. With their target market growing, business for expansionist retailers could be as much about winning a completely new customer base, as retaining existing customers. But as the population stops growing the emphasis must shift to retention, as market churn becomes the only way to win new customers.



The falling birth rate and the fact that Europeans continue to enjoy an increased life expectancy combine to create a significant imbalance in the population structure. By 2010 the number of people aged 60 and over will have increased by 10%, while the number of people under 25 will have fallen by 8%. By 2020 there will be more people over 45 than under 45. With fewer people in work supporting a larger group of retirees, the support ratio (those of working age supporting the rest of the population) will decline. In 1950 the ratio was 7:1. Today it is 4:1. But in 50 years it is predicted to be only 2:1. This trend is also already well established.

Fig 2 Large increases in older generations



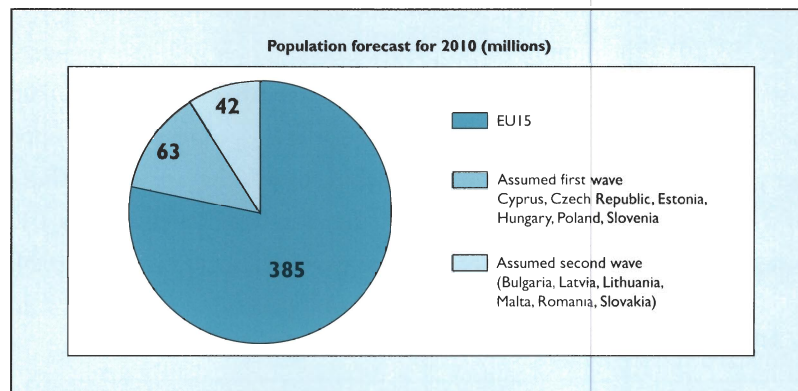
Source: Euromonitor World Consumer Reports
 *Average EU - 15 countries

The age shift will have a very serious impact on the size of the workforce, and its ability to meet Europe's demands for economic growth. Some countries such as the Netherlands are already facing a labour crisis, with few people available to **undertake** less skilled manual jobs. The IT industry is also facing a significant **skill shortage**. Given the near-stability of the working age population, any increase in **the** labour force will depend on politically induced measures such as a change in EU immigration policies or the introduction of incentives for people currently outside the workforce, such as mothers and older workers, to return to work.

The picture will not change to any great degree if and when EU enlargement towards the East takes place. The first and second waves of applicants will add another 63 million and 43 million people respectively (based on predictions for 2010), but the overall profile of an ageing population resulting from falling birth rates and increased life expectancy will remain.



Fig 3 European population after enlargement



Source: European Marketing and Data Statistics, 2000

The imminent threat to retail is of a labour shortage. As young, qualified people become increasingly scarce, it will become more difficult to recruit the necessary staff, at a time when skilled, brand-building staff are becoming ever more critical. The retail sector already has one of the highest turnover rates, with many people looking on retail only as a first job. Thus a scarcity of workers will become an increasingly serious problem that retailers should start considering now.

The moving age fulcrum will shift the centre of political, economic and social life towards a dominant consumer group with different needs and wants. The physical attributes of old age will lead to increased focus on issues such as mobility, medication, health and long-term care. Food stores will feel the impact in terms of location, accessibility and layout. They may also see increased call for appropriate services, such as home delivery. Changing preferences and choices should also be anticipated, leading to revised range planning and merchandising.

The growth of the middle-aged may be good news for planned shopping trips. Tomorrow's grey consumers have grown up with *planned* shopping habits, which they may be loath to change. They may also have more leisure in which to maintain routines which younger consumers find hard to manage. This group is also likely to embrace remote shopping for chore items and to relish the best social and expert shopping experiences. As for the increasing elderly population aged 65 and over, when they are not shopping from home, they are likely to shop little and often from local stores, implying a growth in *social*, *constrained* and *immediate* shopping modes.



We should not automatically assume, however, that these new generations of middle and old-age shoppers will resemble their forebears. In many cases quite the reverse is likely to be true. A key reason for this is that age is becoming an increasingly flexible factor in many decisions. Increased life expectancy and medical advances are taking the urgency out of reaching life stages such as marriage and family and, in the workplace, age is no longer invariably associated with particular forms of employment. With households now so fragmented, family time is much more diverse and individuals are less constrained by social expectations. In terms of their positioning and the relationship with their customers, food stores (and all customer-facing brands) are going to have to re-evaluate the way they communicate and what they offer. An older population is going to be less concerned with the material aspects of shopping and more concerned about the experience and the service.

Fig 4 People are no longer acting their age



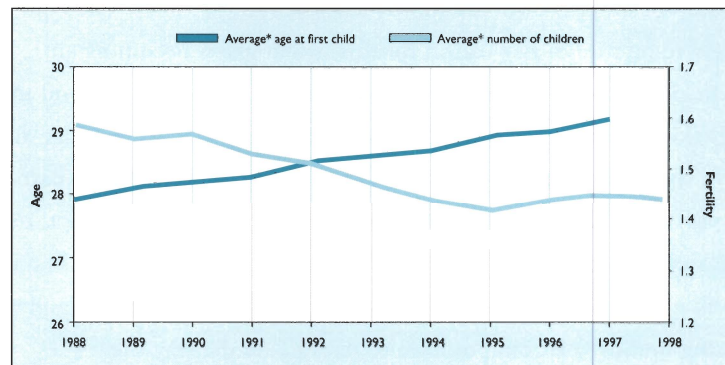
“If we go windsurfing tomorrow, I’ll miss out on my scuba diving lesson.”

2.1.2 HOUSEHOLD FRAGMENTATION

The store of the future will also be affected by changing household size and structure. Couples with children are still the most common household type in most European countries, especially the more Catholic nations with lower divorce rates. But such households are a falling proportion of the total. Women are having fewer children, and they are having them later in life, especially in northern Europe.



Fig 5 Women are having fewer children later in life

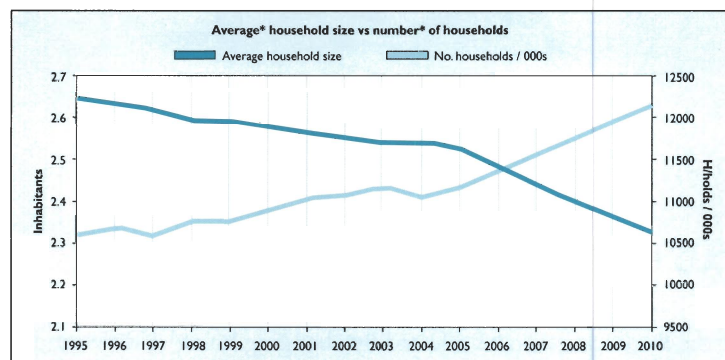


Source: Euro Stat - Yearbook, 2000
 *Average EU - 15 countries

This change, and the impact of a declining marriage rate, increased incidence of divorce and growth of extra-marital births, means that the average household size continues to decline as the number of households rises. In Sweden, for example, over half of all mothers are having children outside marriage. Single parents make up a growing share of all households. This trend is set to increase as divorce rates continue to rise and social taboos on single parents are relaxed.

In terms of understanding store catchment profiles and satisfying local customer needs, traditional demographic classifications such as age and disposable income are already becoming less relevant to foodstores. Of greater relevance in the future will be identifiable lifestyle clusters and their associated purchasing patterns.

Fig 6 Average household size continues to decline



Source: Euromonitor: World Consumer Markets
 *Average EU - 15 countries

The fragmentation of households makes the family meal less important, particularly in Northern Europe. Cooking from scratch has become an uncommon



social event. On a daily basis, individual members of the household are now more likely to buy or prepare their own meal, and to eat it separately from each other. This increasingly frequent phenomenon has been a key driver of the trend towards a blurring of the boundaries between eating in and eating out, which we discussed above. Restaurants, takeaways, fast food and convenience food have all been key beneficiaries of this trend. As a result, there is also a shift away from the bulk family shop towards more opportunistic and immediate shopping.

Not all societies will go in the same direction, however. Cultural differences and the existence of many variables may lead to several possible scenarios in the future. There is a notable north/south split, with the family remaining a central focus for many southern Catholic nations. In those countries, households are generally larger and stay together longer. While the trend in many European countries seems to be moving towards more single person households, there may be a backlash against this in some countries, while in others, the trend may continue to a point where the nuclear family becomes a thing of the past.

Even at the most basic, structural level, there is considerable uncertainty about the future. There is a tendency to take basic data, such as demographics, and to extrapolate a simple, linear continuation of past trends into the future. However, a number of outcomes are possible, each having a different impact on the future customer base of the food store. To illustrate this, The Henley Centre has hypothesised a number of possible scenarios for household and demographic change:

Family backlash – a backlash against modernisation prompts a return to the traditional family model of large, multigenerational, centralised family units.

Regeneration – a world with fewer young people, with the household sustained by increasing numbers of live-in, third- generation dependents such as grandparents.

Stabilisation – a scenario in which the number of single-person households reaches a plateau and household sizes stabilise at current levels.

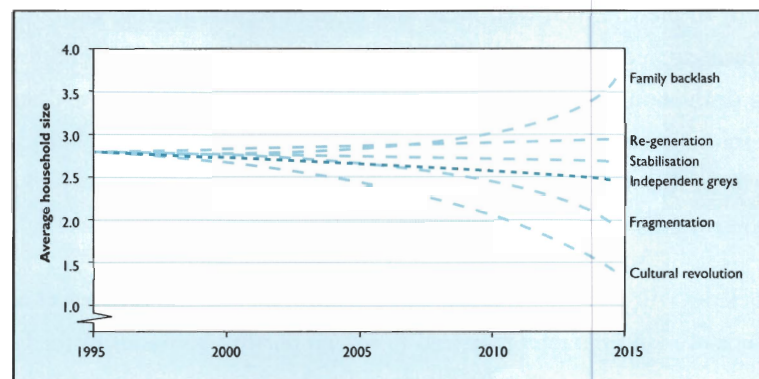
Independent greys – a large increase in the number of third-generation people living independently from other generations, reducing the average overall household size.

Fragmentation – a further decline in marriage and fertility rates leads to fewer, smaller family households, as seen in Scandinavian countries.

Cultural revolution – a widespread shift to independence, dissolution of the nuclear family and the rise of multi-residence co-habitation.



Fig 7 Changing household structures – Italy



Source: The Henley Centre

2.1.3 MORE WORKING WOMEN

In multi-person households, women still tend to be the key food shopper. For this reason, their working status is very important to the food store of the future. As more women participate in the workforce, the time available for planned shopping will reduce and the way they buy and prepare food may change. Although many men currently find the retail environment somewhat alienating and uncomfortable, more will become involved in the family food shop.

Across Europe the percentage of working women has been increasing, although it varies greatly across markets. Since 1960 the number of women in the workplace has increased by half. The EU average now registers 60% of all women in the workplace, with levels significantly higher in northern Europe than in the Mediterranean. Women are also returning to work sooner after childbirth, reflecting the growing commitment required to compete in the modern workplace and the increased flexibility of work patterns.

Depending on the society, this may lead to the following scenarios:

More House Husbands – men take an increasing share of domestic responsibilities, allowing even more women the freedom to enter the job market.

Part timing – changes in employment law liberate and allow women to work more flexibly, taking part-time jobs, thus increasing the number of women in work.

Independence - levels of working women continue to increase, coming more in line with other northern European nations.



Reluctance – cultural values and social pressures restrain the number of women going into employment.

Saturation – numbers of working women have now reached natural saturation.

Family first – a backlash against modern working lifestyles prompts a return to the traditional family model, with the woman as housewife (“cakewinner”).

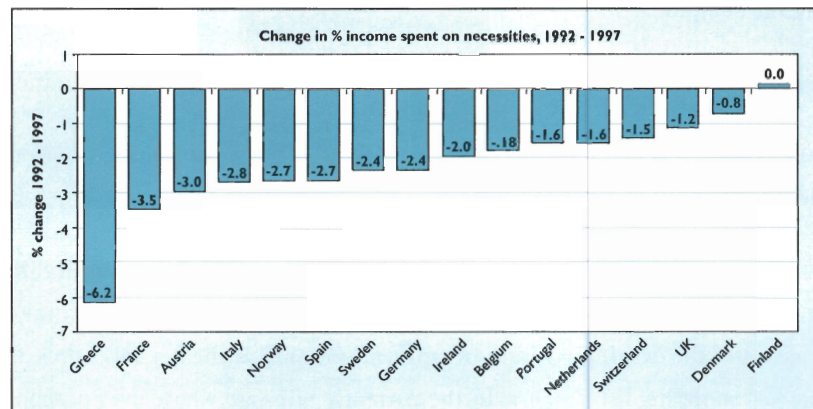
We anticipate that all of the above scenarios are likely to be played out in different countries. The critical issue for the food store will be the extent to which these changes alter the existing position of women, not only as the key food shopper, but as the key shopping list *designer*. In the currently rare case where the household male from a multi-person household is responsible for the main food shop, it is still most likely that he is holding a shopping list drawn up by a woman in the household

2.1.4 GREATER AFFLUENCE

European consumers are now spending proportionately less money on essentials, such as food and clothing, and much more on leisure and services. According to the OECD, British, Spanish and German households are on average nearly twice as wealthy in real terms now as they were 30 years ago. In France, disposable incomes have increased by an average 78% and in Spain by 66%. In eastern Europe, as rising car ownership means easier access to supermarkets, while more refrigerators and freezers allow the storage of food for longer, so planned shopping will increase. In the north and west, greater affluence will bring more demand for high-quality specialist foods, giving rise to more *expert* shopping. In certain areas, consumers will expect broader ranges, increasingly exotic sourcing and increased **focus on** provenance. As the balance shifts away from necessities to experiences, **consumers** may be willing to pay a premium to enhance that experience. **Commodities** that do not add value will find themselves competing in an increasingly transparent price market.



Fig 8 Consumers can afford to spend more money on non-essential items



Source: Euromonitor

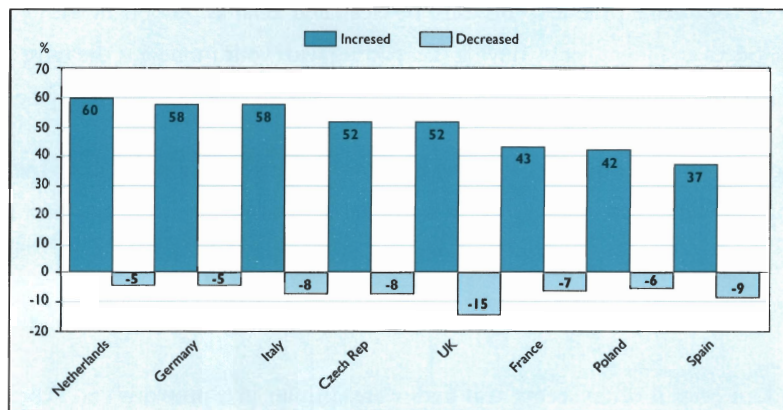
2.1.5 MOUNTING TIME PRESSURES

Across Europe there has been a decline in the number of hours worked each week by full-time employees, following a rise throughout the 1990s. This is partly due to an increase in flexible working practices and a concurrent increase in leisure time. In France, recent legislation has enabled employees to limit their working week to 35 hours without losing out on earnings. All UK government offices now operate on a flexitime programme. In the Netherlands, part-time working is set to increase by 50% and contract working by 32%, a trend expected to be followed in some other EU member states. While in Mediterranean countries, the large number of small, family-run businesses means that many people work weekends and evenings. Unemployment continues to fall across the European Union but there are broad regional variations, exacerbated by low levels of internal migration.

Despite the drop in total hours worked, however, most workers say they feel as if they are under more pressure at work than ever before. This is probably due to greater job insecurity and changing demands. In addition, flexible work patterns lead to more irregular working hours, so more people than ever before in the EU member states are working on a Saturday or Sunday. For consumers in the future, mounting pressure at work will underline the desire to minimise stress in other areas of life, including tasks such as shopping for food.



Fig 9 The pressure I feel at work has increased/decreased in the past three years



Source: The Henley Centre: Planning for Consumer Change in Europe 98/99

These work pressures combined with the household changes described mean that more people do their own food shopping. Other factors add to the pressure: worsening traffic congestion, caring for relatives, the need for continuous education and the intrusiveness of mobile phones, faxes, pagers and such like.

Overall, consumers feel that they have less free time and this trend is likely to accelerate. Approximately half of those questioned in our research claim that they never have enough time to get things done – ranging from 60% in the United Kingdom and France to around 40% in the Netherlands and Italy. Time pressures are particularly pronounced among the executive classes and a number are trading their increased incomes to buy extra leisure time.

Having so many things on which to spend their precious time means consumers' expectations of a satisfying experience are that much higher. Routine or chore food shopping is fitted in around other activities, while *expert* or *social* food shopping may be elevated to the status of leisure activity. Once again, this points to more *opportunistic* and *immediate* purchasing. Retailers will have to provide solutions that at times are convenient, while at others are deeply experiential.

Developing a thorough understanding of where their customers would like to save time and where they might like to invest it, will become increasingly important for food stores. For example, few people enjoy spending time searching for what they want (however much retailers may want to steer them past potential impulse buys). Clear signage and routing, as well as enhanced category management, can accelerate this stage of the shopping process. Allowing more time to be spent



selecting produce, which can be highly engaging, and prepared fresh food. Whilst some may enjoy comparing products, this must be facilitated as far as possible by clarity with weights, prices and ingredients. Buying (i.e. parting with your money) is the most painful part of the process and should be streamlined as far as is technologically possible.

The fact that most consumers also feel that they are juggling a number of roles and fulfilling many different tasks also adds to the sense of time pressure, as we now show.

2.1.6 CHANGING IDENTITIES

To modern eyes, it often seems as if lives were simpler in a previous era. People often lived, worked and played in the same town and their identity was largely predetermined by a society based on class, religion, gender and where they came from. Roles were relatively well defined and complementary. Men were generally the sole provider and acted as guardian and protector. Women acted as carer, housekeeper and nursemaid. They gained fulfilment from acting out these pre-set roles, as well as from the results.

Today, however, life seems much more complicated. Social and economic structures have changed dramatically and people are more mobile in every sense. Gender barriers have been torn down alongside those of geography, social class and occupation. There is less certainty in almost every sphere of life. We can no longer derive our identity from a set of predetermined norms. As a result we are able to re-invent ourselves to some extent as we go along, according to who we are with. We can outsource some of our roles without threatening our identity.

We are living lives in which the balance has shifted from a simple given identity to a complex self-created one. Our demographic identity and sources of pride have been replaced by modal segments: the different, often separate roles we play in different parts of our lives.

Such lives are largely perceived as liberating, offering more choice and freedom than ever before. The flipside, however, is that some people can feel overwhelmed by the sheer number of roles they are called on to play and the absence of clear guidelines on how to perform them. These days people are under pressure to define their own world. This can be exciting, but it also gives people far more responsibility for their own welfare. The emerging challenge is therefore one of life management: how best to control and shape the pattern of one's life.



This is compounded by the changing attitude to trust and the notion of a relationship. Trust in established institutions has been declining for the past 30 years. It is partly a reflection of the shift towards the individual and away from the collective. When trust becomes personal, people feel they can only rely on the individuals or companies they know. People judge on the basis of their own experience and are less prepared to give anyone the benefit of the doubt. Those who manage to deliver on their promises gain considerable strength, while those who disappoint or over-promise cause themselves damage. Today, trust ratings are highest for family and friends, while multinational companies as a group come very low on the list, with only 6% or so of respondents saying they trust them to be honest and fair.

This thesis has important implications for retailers and manufacturers. For example, as we lead busier lives, we are prepared to outsource more activities, especially those that help us in the roles from which we no longer derive our identity. Ready-made meals are an example. And because identity now **needs to be** expressed, not just lived, the way we consume categories such as clothes, home decoration and leisure becomes far more important and selective. Does being a good mother still mean doing the food shop for one's children? Or does the busy executive role supersede the maternal role, as long as the final product on the dinner table is healthy and nutritious?

The issue is further complicated for retailers in that they not only have to try to influence these increasingly modal consumers who want different things at different times, but they also have to bear in mind that people want different things from different shopping trips. This is covered in more depth in Section 3. In brief, however, it does lead us to question the efficacy of the one-to-one approach to marketing into which so much money is currently being poured. The consumer is not "one person" but someone who takes on many different roles at different times and who has many needs. The consumer wants different responses from **the** retailer according to the specific needs being felt in that particular role **and on that** specific occasion. Surely, therefore, the future is more likely to be about many-to-one marketing rather than one-to-one?



2.1.7 CONSUMER POWER

As described above, the challenges associated with changing identities can be liberating, but can also be overwhelming. Some people will be confident enough to do things their own way, while others will seek help and guidance. For the latter there may be an opportunity for the retailer to try to establish some sort of *partnership* with the consumer, assuming that the retailer can gain the consumer's trust. We give an example of how this has worked in the case study below.

Case Study

Supermarkets help the consumer regain control of food safety

Current crises over food safety provide an excellent illustration of the less confident / more confident paradox which many consumers are facing. The listeria outbreak in France, dioxin scares in Belgium, foot and mouth disease in the United Kingdom, the BSE epidemic and the recent focus on GM foods have forced consumers to re-evaluate what were previously thought of as certainties, areas where we felt in control. We no longer trust the institutions to whom we previously would have unthinkingly delegated these concerns and there is currently a *trust gap*, which governments and retailers are trying to fill.

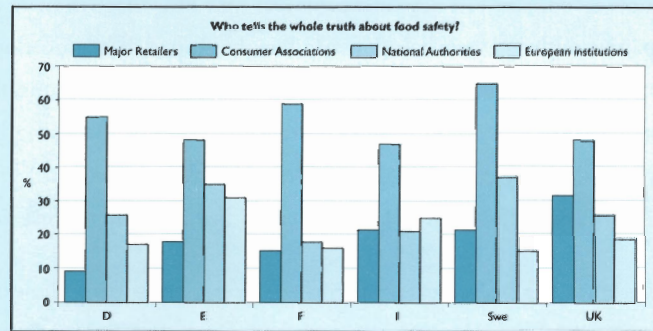
Increased affluence does not necessarily mean that security and survival are as certain as Maslow would have us believe. Maslow's hierarchy suggests that fears over food safety, a basic human need, would shake the foundations of our hierarchy of needs and render us unable to advance to higher levels of need fulfilment. While this may overstate the case, it is certainly true that fears surrounding basic needs make the juggling of priorities a much more complicated process. Having to devote more of our attention to ensuring that the food we consume is safe, while not wishing to compromise on living standards or lifestyle choices, creates anxiety and insecurity among consumers.

While the European Union is looking to harmonise legislation, food safety will generally continue to be seen as a national issue. Governments, however, get low trust ratings and retailers score only slightly better. Only 57% of consumers felt that the information on food labels could be trusted



and most EU consumers place greater trust in consumer associations than they do in any political institution.

Fig 10 Even national governments are not trusted to tell the whole truth



Source: Eurobarometer / Food Safety 1998

Food safety scares have focused attention on the role of the supermarkets. As trust in the ability of official bodies to tell the truth about food safety declines across Europe, consumers are placing increasing trust in the supermarkets themselves to regulate safety. Political institutions are facing mounting pressure from citizens who want them to legislate, but it is the retailers who are feeling the weight of consumer pressure, for example for clearer labelling. A recent poll by Eurobarometer showed that 86% of EU consumers think all GM products should be labelled. As governments fall short, supermarkets are taking on the mantle of food safety accountability and direction. Where trust is sufficient, they can help consumers feel in control, secure in the certainty that the supermarket is negotiating this hazardous area with consumer interests at heart.

Levels of dependency on retailers for food safety guidance are particularly high in the United Kingdom, reflecting both the recent mishandling of food safety issues by politicians and the strengthening of the trust relationship between British retailers and their consumers. In the UK, the large supermarkets have banned GM ingredients from any of their own-label produce, while the food chain Iceland has taken steps to ensure that all of its frozen produce is organically grown. In Germany, retailers are less likely to come under significantly increased pressure because there is already substantial legislation protecting consumers and food safety is almost taken as a given by many.



People are increasingly aware of their power as consumers, and they will use this power more readily. We are seeing the emergence of a far more demanding consumer. Although people may feel powerless as citizens or employees, they believe that as consumers they can make a difference and that for the most part they will be listened to. Consumers decide which brands to support and which products to consume. They buy products that best meet their needs and support companies with whom a relationship has developed. They do not expect companies to get things right all the time, but they dislike it when organisations try to cover up their faults. This increase in expectations shows in the rising levels of complaints. Today consumers are saying: "Don't try to control me, co-operate with me. Don't assume, explain." Consumerism has risen up the life agenda.

The internet has been a catalyst in the process, permitting the development of new business models which reinforce consumers' power. While it may prove to have been an idea before its time, Letsbuyit.com's group purchase model is just one example of this empowerment. Perhaps similar models have existed before, but technology means that consumers can group together at little cost to themselves, independently of the retailer. The provision of instant information and communication means that consumers can organise themselves as effectively as the retailer and possibly more quickly.

2.2 IMPLICATIONS OF TOMORROW'S SOCIETY FOR THE STORE OF THE FUTURE

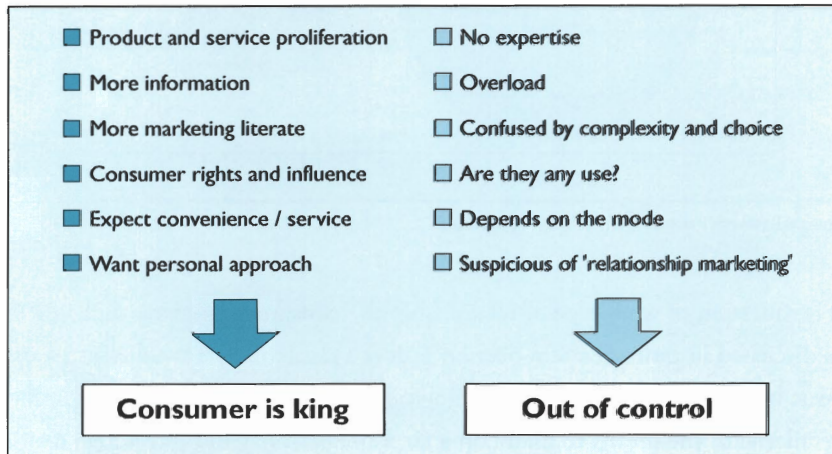
The picture that emerges of tomorrow's society is one which will be older, wealthier, far more fragmented, time-starved, demanding, discerning, but also potentially insecure and willing to delegate. As a consumer base it is potentially high-maintenance, increasingly difficult to influence and even resistant to persuasion.

As we have seen, people can feel increasingly in control as a result of increasing consumer power. Retailers and brand owners are already responding to this, for example by providing more information and putting more emphasis on developing their relationship with the consumer. However, this increase in consumer control can also have its downside. While choice has proliferated to serve their every need, consumers often lack the expertise and the time to evaluate all the choices. New technology provides consumers with information to help them make choices, but



this is a mixed blessing. Few people will have the time and resources to process all the information available. In certain modes and on certain occasions, people will feel they suffer from information overload. In addition, while the idea of personal service is attractive in theory, in practice we are often suspicious of a supplier's true motives in trying to establish a relationship with us.

Fig 11 *The need for partnership*

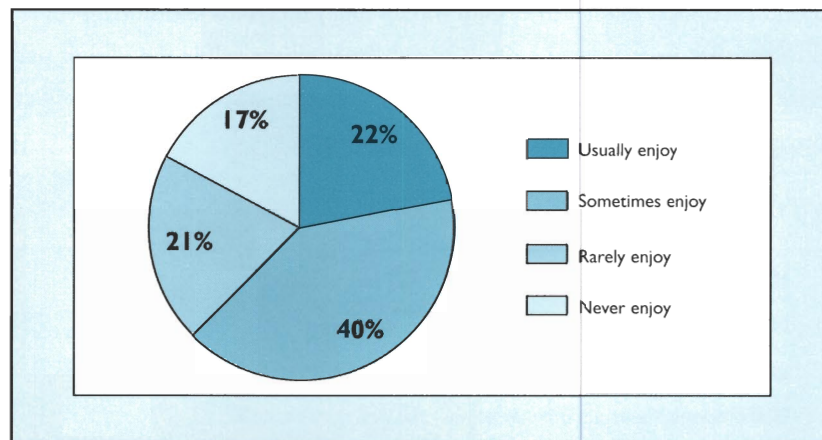


Source: The Henley Centre

What can the retailer do about this? At the very least there is the need to offer flexibility in formats, access and product range in an attempt to cater for the consumer's wide variety of needs. However, trying to satisfy the consumer's many-to-many needs implies going further than this.

From the retailer's perspective there are benefits to be had from developing a relationship with the consumer. But it is also clear from the above that the consumer will also benefit from a relationship with the retailer. The important thing is that different consumers will favour different types of relationship. For confident consumers, the relationship is all about the retailer helping them fulfil their shopping needs, leaving them more time to get on with work and personal pursuits. For less confident consumers, the benefit of a relationship is that they can share or delegate responsibility for making the right choice. This may even vary according to consumer mood and mode, or according to how enjoyable (or otherwise) the consumer finds grocery shopping. Research International has found that while two-thirds of Europeans usually or sometimes enjoy such shopping, one third rarely or never do.



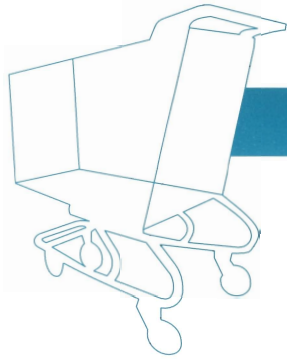
Fig 12 Enjoyment of grocery shopping – main shoppers

Source: Research International, European Survey, 2000

The question of what type of relationship the consumer will have with the retailer is discussed in more detail in Section 5. It is a particularly apt time to discuss the issue because, as we will see, technological breakthroughs are providing tomorrow's retailer with the means to maintain a far more personal and interactive relationship with the consumer than ever before. Potentially this could be seen as invasive if it were wrongly handled. At the same time, the pace at which people are getting connected to the internet continues to increase, pointing to mainstream consumer penetration within a decade. New forms of relationship will be possible with the retailer – just as long as the consumer wants it.

We will focus on changing technology in Section 4, but first we shall examine changing shopping modes in some depth.





CHAPTER THREE

SHOPPING MODES

- 3.1 DEFINITIONS
- 3.2 SHOPPING MODES BY REGION
- 3.32 MODAL IMPLICATIONS FOR SPENDING

CHAPTER THREE – SHOPPING MODES

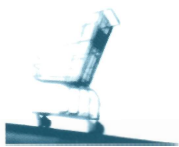
In the previous section we focused on the broader drivers of change, which will combine to influence consumers' needs and expectations of the food store of the future. All stores, but especially food stores that provide for a basic, daily need, are sensitive to social change which affects the way consumers structure their daily lives. As we have shown above, today's consumers are multi-faceted individuals: they lead complex and diverse lives and each can take on any number of different persona as he or she responds to the demands of modern life.

It is the same with the way we shop. New retail formats, longer opening hours and an ever-increasing availability of new and different places to shop all enable consumers to adopt a diverse set of shopping modes. Instead of having to weigh up the pros and cons of different shopping locations, increasingly we are able to shop wherever we find ourselves.

One basic way of distinguishing occasions is to think in terms of *elaboration*, when consumers are willing to invest time and seek a heightened experience, or in terms of *streamlining*, when shoppers want to save time. There is a commonly held belief that most people do not like grocery shopping. But the majority of consumers do find at least some aspects of the shopping process enjoyable. In a recent European survey, Research International found that shoppers are stimulated by choice, the anticipation of consumption, the sensory experience, by bargain hunting and by the thrill of success.

However, these factors only become positives when they are part of shopping as *elaboration*. The logic is that as consumption becomes less about basic needs, consumers choose more carefully and seek an option which provides them with a more rewarding experience. Other situations call for *streamlining*, ways of simplifying the shopping experience to make it less complicated and to unburden the consumer.

In trying to understand the role of shopping and what the consumer values, we need to understand what consumers are seeking from the different types of trip they are making. In other words, we need to understand more about their motivations and needs, according to the nature of the shopping occasion. We refer to these as *modes*: the different ways we shop according to motivation, need, time, location and occasion.



3.1 DEFINITIONS

In grocery shopping, we have gone on to identify six fundamental shopping modes, outlined below:

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 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’ (New Year, Halloween, Saint Nicholas, Burns Night 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 or baker, the organic supermarket, 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.

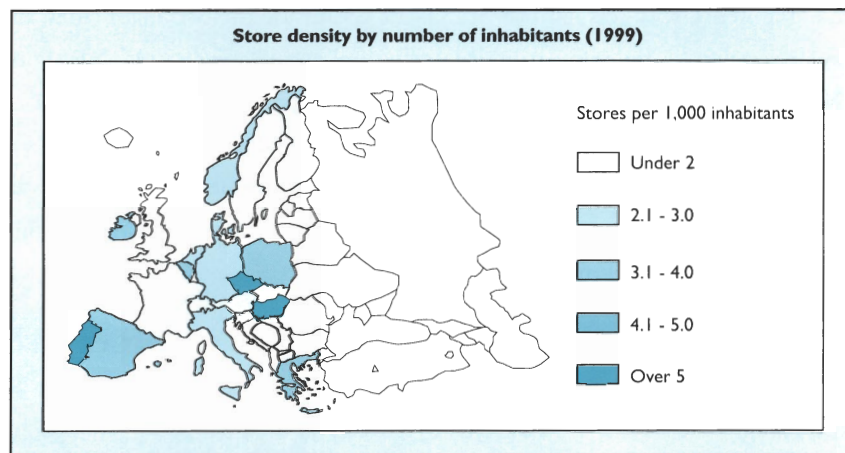
3.2 SHOPPING MODES BY REGION

Based on consumer research, we have estimated European grocery trips and spend by shopping mode. Of course, a Europe-wide picture masks significant regional variations. Despite gradual convergence, Europe is not one market, but many. The mix of shopping modes within a given grocery market will vary according to a wide range of economic, social, geographic and structural factors. The most important drivers are affluence, urbanisation, social attitudes and levels of grocery competition.

In broad terms, the continent can be divided along geographic lines. Northern and Western Europe, including Scandinavia, the United Kingdom, Ireland, France, Germany and Benelux, is at the vanguard of shopping trends albeit with significant national variations. For historic, geographic and cultural reasons Southern and Eastern Europe, including countries such as Spain, Southern Italy, Greece, Hungary and Poland, have not developed (or have yet to develop) in this way.

Retail concentration varies from one country to another with typically a higher number of stores per inhabitant in the less mature markets.



Fig 12a Store density by number of inhabitants

Source: Euromonitor / IGD Research

To illustrate the patterns of shopping across Europe, we have estimated shopping modes for four countries: the United Kingdom, Germany, Greece and Poland. What we have to remember is that de facto, people shop where they can!

The **United Kingdom** is a densely populated country. Most consumers have easy access to food shops. British consumers are relatively affluent, and time-poor, so they expect convenience and service. The grocery market is highly concentrated and competitive, offering an ever-growing choice of store formats. Opportunistic and immediate shopping is common. Britain has a sophisticated marketing and media environment. Internet penetration is high and rising fast. A fledgling remote shopping market is developing, led by Tesco and the market leaders are actively developing convenience stores.

In **Germany**, consumers are highly affluent, despite a residual poverty gap between east and west. Consumers in former East Germany are still constrained by a lack of money and poor access to good shops. Germany is a highly urbanised society, with many large towns and cities. Living patterns are fragmented, and a third of households consist of one person. The grocery market is price-led, with price driven consumers shopping at discount-driven retailers, which are acting as surrogate convenience stores. Most consumers still shop weekly, in town centre or edge-of-town supermarkets. Trading laws restrict out-of-town locations and extended opening hours, so the c-store culture is less prevalent than in the United Kingdom and elsewhere. Fresh food shops, delicatessens and health food shops are also popular.



Greece is a less affluent southern European economy. Most cash is spent on essential items, with less left over for luxuries. Outside the two main cities, Athens and Thessaloniki, the population is largely rural and relatively immobile. Food shops are usually family-run and often little more than kiosks. Constrained shopping is high and planned shopping low, due to poverty and a lack of access to good facilities. Greece has large households governed by traditional family values. Consumers shop little and often, buying food for one or two days. Shopping is an important social ritual in Greece.

The population of Poland (39 million) is relatively poor. Official GDP per capita is just 4450 euros, compared with 30,500 euros in neighbouring Germany. Not surprisingly, most Poles are restricted by poverty in their shopping choices. However, the population is young and aspirational, with some 40% of the population aged under 24. Despite traditional Catholic family values, many Polish women work (a legacy of the communist regime), so convenience is highly valued. Poland has many small shops and few chains. Retail developments have been held back by corruption and red tape. Planned shopping opportunities are therefore limited by poor supermarket provision. According to retail property consultants, Healey & Baker, 46% of Polish consumers shop for food every day. But the hypermarkets have arrived and are already starting to change shopping patterns where consumers have access.

3.3 MODAL IMPLICATIONS FOR SPENDING

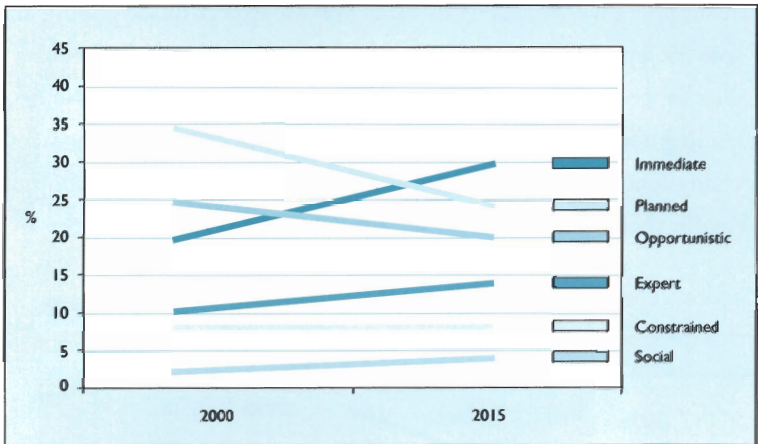
Once again, it is important to look beneath the Europe-wide picture to national and regional markets. In this last section, we outline the likely speed and impact of the big picture trends on the four countries analysed.

HOW THE MODES WERE ESTIMATED

Grocery trips and spend by mode were estimated using existing consumer research on shopping occasions and basket sizes for some key European markets. These were then aggregated, taking into account national differences in population and affluence, to create a Europe-wide picture. Our forecasts took into account the implications of national population and economic growth rates, changing age structures, new social attitudes and competitive dynamics all of which have been described above.



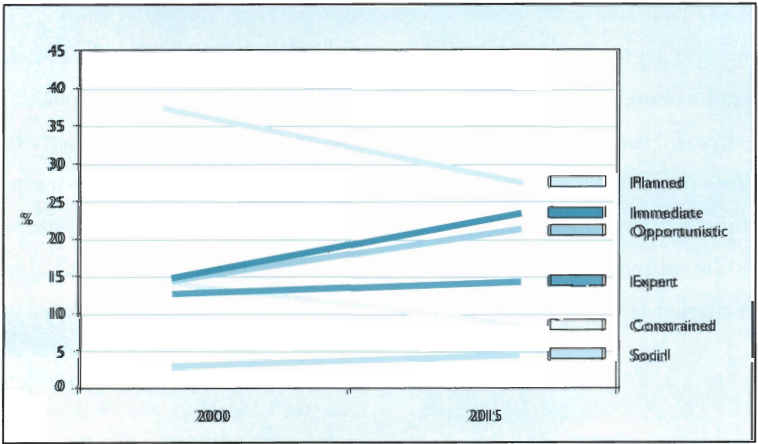
Fig 13 UK - Spend by mode, 2000-2015



Source: Research International, The Store 2001

In the mature United Kingdom economy, growth will be steady, but not spectacular in comparison to its southern or eastern neighbours. As they become more affluent, British consumers will switch their extra spend from goods into services. To attract their custom, retailers will pursue multi-format strategies, providing ready access across place and time. Remote shopping will take off for chore grocery purchases, but immediate, expert and social shopping will also become more significant.

Fig 14 Germany - Spend by mode, 2000-2015

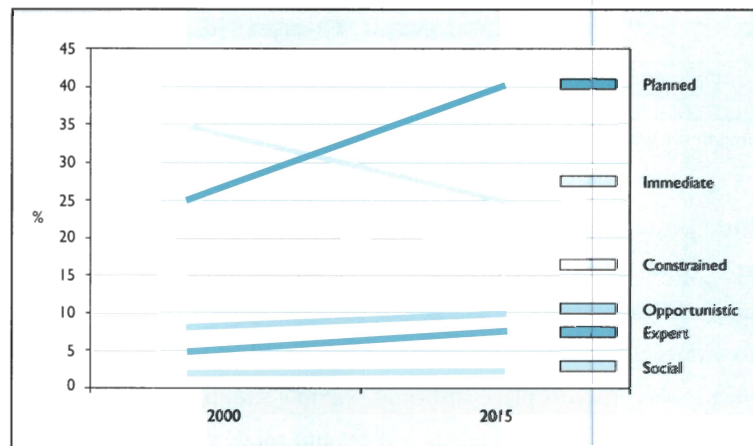


Source: Research International, The Store 2001

Over the next 15 years, the gap between western and eastern Germany will narrow significantly. There will be continuing retail and transport investment in eastern

Germany. As eastern consumers become wealthier and more shops are opened, constrained shopping will be less of an issue. We also expect to see trading and planning laws loosened, allowing a convenience culture to develop. Germans will welcome the chance to shop as and when they want. Consumers will also become more demanding about quality and service as well as price. Affluent Germans can afford speciality foods and are increasingly health conscious, so expert shopping will rise. Finally, there will be a rapid take-up of remote shopping services.

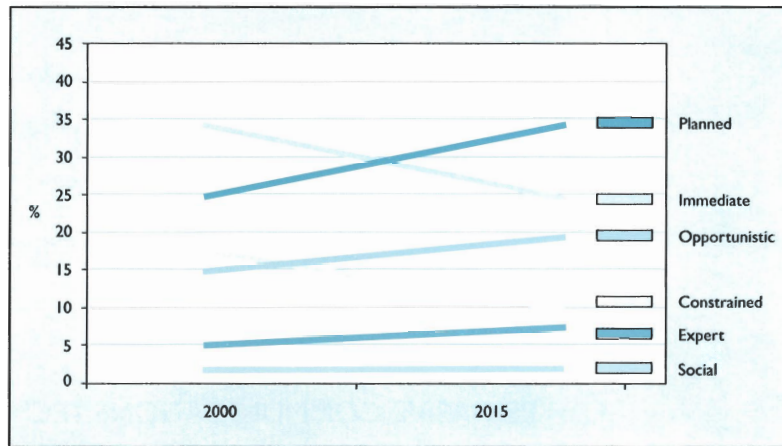
Fig 15 Greece - Spend by mode, 2000-2015



Source: Research International, The Store 2001

In Greece, GDP per capita is expected to rise fast. The OECD predicts 25% growth in the next five years alone. Greek consumers are becoming more demanding and aspirational. With an increasingly less rural population and some foreign retailers entering Greek cities and towns, more Greek consumers will have access to supermarkets. Therefore planned shopping will rise, while constrained and old-style immediate shopping will fall. At the same time, more c-stores and later opening hours will facilitate opportunistic and modern immediate shopping. However, Greece remains a dispersed, relatively isolated country and will always lag behind in market trends.

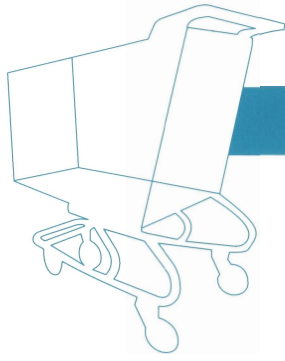


Fig 16 Poland – Spend by mode, 2000-2015

Source: Research International, The Store 2001

Poland is also expected to experience strong economic growth, (29% over five years) but will remain far poorer than its western neighbours. Unlike most other European countries, the Polish population will grow rapidly over the next decade, especially in urban areas. The youthful Polish population aspires to consumer goods of all types. Foreign retailers will continue to be attracted to the long-term potential of Poland, a large population at the geographic heart of the new Europe. There will be ongoing investment in cities and large towns. With more money and stores, Poles will have a greater choice. Constrained shopping will fall, while planned and opportunistic shopping will rise. Traditional, immediate shopping habits will decline.





CHAPTER FOUR

TECHNOLOGY

- 4.1 TECHNOLOGY TIMELINES
- 4.2 WHAT TECHNOLOGY CAN DO
 - 4.2.1 PERVASIVE COMMUNICATIONS TECHNOLOGY
 - 4.2.2 PERMISSION MARKETING
 - 4.2.3 DATA STORAGE AND MANIPULATION

CHAPTER FOUR – TECHNOLOGY, THE IMPACT ON RETAILING

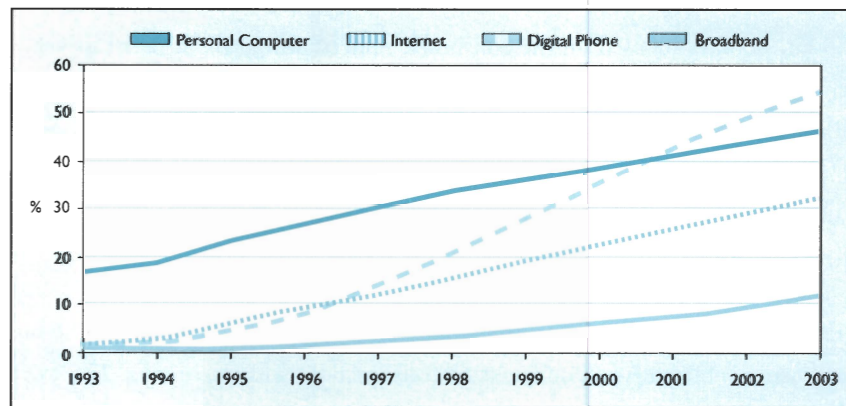
So far, we have focused on the consumer, understanding the broader drivers of change and expectations of the food store of the future. We have also focused on shopping modes, the different ways we shop according to motivation, need, time, location and occasion. We now move on to discuss the impact of technology, a subject which needs exploration from both the consumer and the retailer perspective.

Technology has an impact on many parts of our lives, whether it is in the business-to-business, business-to-consumer or consumer-to-consumer arena. The world of food retailing is no exception. In fact, the likelihood is that food retailing will be affected very significantly and technological breakthroughs which are imminent will give tomorrow's retailer the option to have a far more personal, invasive and interactive relationship with the consumer than ever before. Equally, as the number of people using the internet rapidly increases and it becomes a more mainstream activity, new forms of consumer relationships will also be possible with the retailer.

Technological change is making it possible and affordable for brands to communicate with people on a one-to-one basis and is bringing the storefront into the home. The internet has brought about greater choice, information and convenience. Today's 15-year-old takes it for granted. Technology moves on daily and it is reasonable to assume that 15 years from now, anyone will be connected to the internet via a number of possible devices. We have taken this as our starting point. The interesting question is not the connection itself but what it can offer and how it will be used. Technological development therefore will have a major impact on the development of retailer relationships with consumers. It will enable the store to be a life manager, decision agent and general enabler for the consumer, but only if the consumer wants it.



Fig 17 Technology take-up in Europe – % penetration amongst 16+ population: France, Germany, Netherlands, Sweden, UK



Source: Forrester

Germany and the United Kingdom together account for 60% of all EU online transactions, and the top 10 e-tailers account for a quarter of online transactions. In the United Kingdom, 93% of online purchases are made by credit card. In Germany, the figure is below 20%. In Italy, only 39% of online transactions are through clicks-and-bricks retailers. In the Netherlands, the figure is 73%. And in Europe, online retailers generate almost all of their sales from the country they are based in; only 7% of sales come from other countries.

Convenience is still the main driver of internet shopping, and the net is still primarily used to gather information rather than to make the actual purchase. The Henley Centre has found that 89% of internet shoppers think it is important to look at more than one site before making a decision.

Early internet commentators predicted the death of the offline shopping experience. Today, although internet access is rising rapidly, most people accept the concept of a clicks and mortar combination. Consumers have had a broad choice of retail channels for some time, including mail-order and telephone shopping, so the addition of one extra channel may not be as revolutionary as sometimes thought.

By 2015 most shoppers will have the opportunity to order goods remotely for collection from a store (with picking and packing from dedicated 'warerooms'), or for delivery to home, work or alternative location.

Remote ordering and delivery is most suitable for planned, expert and constrained shopping modes and we expect to see a substitution between *bricks* and *clicks* in



these areas. We estimate that by 2015, 15% of European grocery shopping spend will go remote, with 13% of this taking place in the planned shopping mode. In other words, used for routinely purchased items that represent the bulk of a household's planned shopping – typically those categories of merchandise that do not engage the shopper. This will not necessarily be restricted to branded packaged goods. As long as the consumer has trust in the retailer and brand, the use of remote shopping may extend to other produce and commoditised non-food items such as basic clothing items, stationery, etc. Essentially then, it is likely to be those goods that represent the volume in the shopping basket which are most likely to go remote and could potentially disappear from the shelves.

The proportion of the population using new technologies such as digital telephones and the internet is steadily increasing. But technology must be understood in terms of behaviour and attitudes as well as statistics. Consumers tend to be disrespectful of technology. Whatever the grand plans of the people supplying the gadget, if it does not answer a genuine need, it will not reach the mass market. So we need to look at consumer lifestyles to understand the situations in which technology will be welcomed, and then assume that the technology will be there, perhaps in a crude form, to fill those needs.

The focus from the consumer's point of view is on four key benefits:

- Easier collection, storage and supply of information
- Easier and cheaper communication between anyone or anything, anywhere
- Freedom from the previous constraints of place or time
- More personalised offers

For the retailer, technological development must be linked to issues of consumer control. Where there is direct contact with the consumer, it will always be constrained by the extent to which the consumer gives permission for that level of contact.

Technology gives consumers more control over some aspects of life. In the case of shopping, it gives more control over where and when they choose to shop, how much choice they want, how modal they want to be, what pricing model they employ, where on the value-equivalence line they will engage, and the quantity and quality of information they demand.

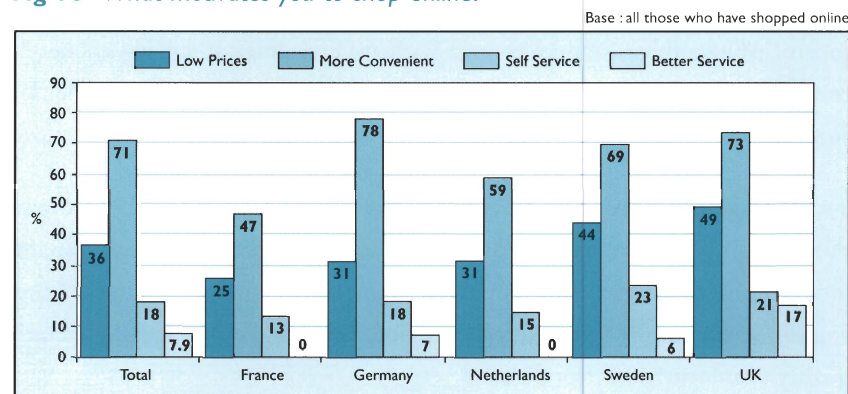


However, it also takes away control in some areas. For many, financial security on the internet is still a key barrier to shopping online. Privacy about personal information is a strong emotional issue for some: what is personal service for some consumers will be seen as invasion of privacy by others. This loss of control associated with technology may be substantial enough to inhibit the growth of e-commerce. Technology also removes the human interface and for some people this human contact is a very important and attractive dimension of shopping. So consumers will move along the control spectrum according to experience, preference, mood and mode.

In many ways, food shopping does not fundamentally change just because of technological changes. The underlying motivations and needs remain the same. The difference is that in the future, the shopping process will be 'dismembered' and the context of shopping may be lost. For example, an email ad might trigger a purchase, which is ordered via a mobile phone from a bricks-and-mortar store and then delivered to a local pick-up point. Technology may also encourage consumers to become more demanding and the *online* experience will certainly have an impact on *offline* expectations about service, price, range and convenience.

At the moment, convenience is the primary motivation for consumers to shop online, far outstripping cost. But only a minority of people shop with efficiency in mind. They also shop for personal reasons such as diversion and sensory stimulation, or social ones such as making contact with the outside world, role-playing, mixing with a peer group or getting pleasure from bargaining. Websites and chat rooms only allow the user to project onto the world, without context and feedback.

Fig 18 What motivates you to shop online?



Source: Forrester Technographics 1999



Technology raises the game for retailers. It requires them to make consistent advances, for example in the variety of channels or formats that the food store offers to consumers, in convergence standards that allow different media to interact with each other, and in improved levels of convenience and information.

4.1 TECHNOLOGY TIMELINES

To put future technologies into a chronological context figures 19, 20 and 21 map out one possible vision of the future (thanks to input from technology providers like BT, IBM and Sun Microsystems).

Fig 19 Technology timeline – 2001 to 2005

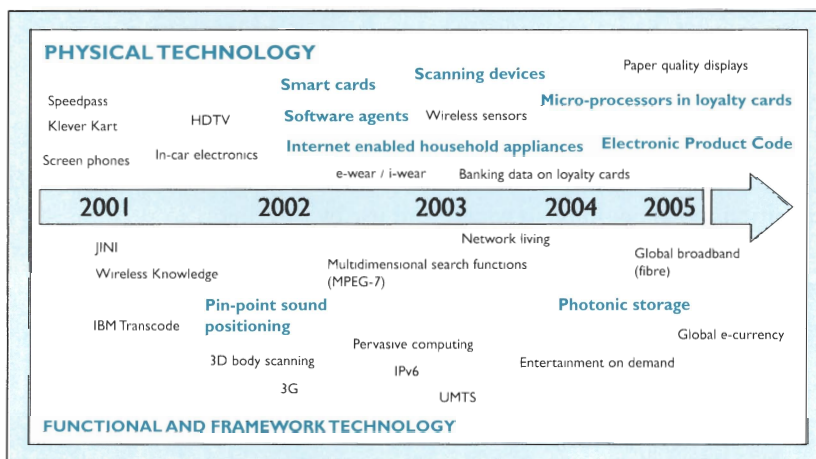


Figure 19 shows how technology might emerge in the next few years. For example smart, chip-enabled multi-purpose payment cards will become the norm, audio technology will have advanced to be able to target messages to very small areas of space in a store, and photonic storage will enable much more data to be stored, retrieved and manipulated more easily.



Fig 20 Technology timeline – 2006 to 2010

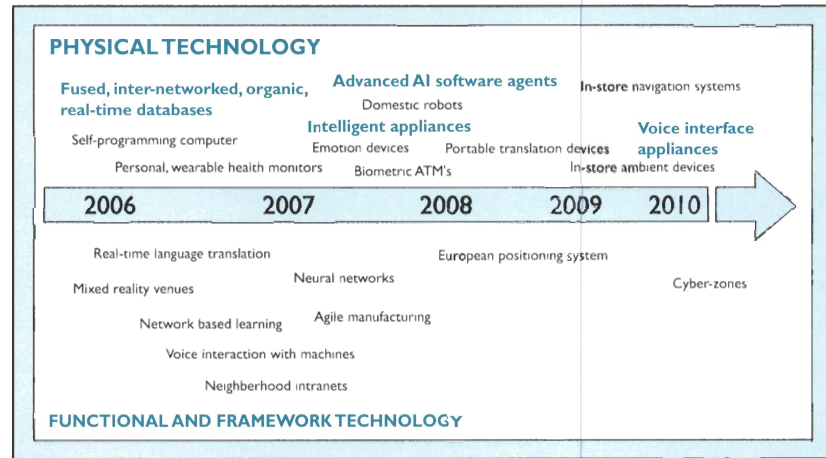
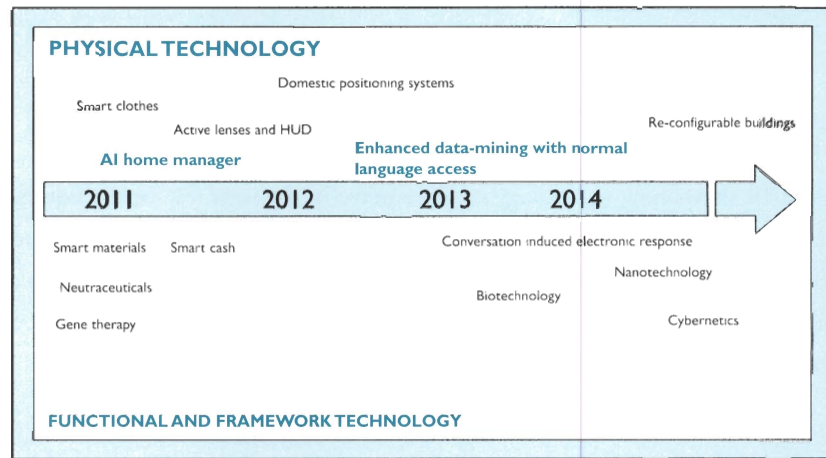


Figure 20 shows how other applications may emerge up to 2010. A key development will be intelligent software emerging as intelligent electronic agents, intelligent appliances and intelligent databases. It is also likely that normal speech recognition tools should be in widespread use by this time.

Fig 21 Technology timeline – 2011 to 2015



The final five-year projection focuses more on the applications of technology as it is difficult to predict the actual devices that might appear. One expectation is that the artificial intelligence and speech recognition tools mentioned in figure 24 will be combined to make possible human-like interactions with non-human devices.



4.2 WHAT TECHNOLOGY CAN DO

New technologies already enable stores to do different things than they did 10 or 20 years ago. Future changes – many of them hard to imagine – will continue to transform retailing. However, the issue is not just about what technology can do, but how it impacts on the relationship strategies outlined in Section 5. In this section, we prefer not to speculate on possibilities or to make predictions, but to describe some of the technologies already in existence today, which provide evidence of the scenarios elaborated later on.

With each technological development, we are also mindful of the issues around control explored earlier in the report. Will consumers want this device or technique? How will they use and adapt it, for example in unforeseen ways that give them more power than expected? And does it have implications for the retailer's relationship with the consumer, for example in permitting the brand to enter the home?

The nature of technological change comes under three main umbrellas: pervasive communications technology, permission marketing and data storage and collection.

4.2.1 PERVASIVE COMMUNICATIONS TECHNOLOGY

While it is difficult to envisage exactly what devices consumers will be carrying around in 2015, the current communications revolution means that it is safe to assume that they will provide instant, always-on access to a communications network, an evolved version of what we currently call the internet. In the future, improved bandwidth and computer power will enable rich, real-time content on portable devices. While technical convergence will allow communication to a wide range of other devices, making it possible for a retailer to speak directly to a consumer outside of the existing card-based system. 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 say that 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.



Sun claims that 10.7 million active home networks will be installed in the USA by 2002.

Frigidaire, Bosch, Siemens and Whirlpool have all been busy developing *networked fridges*, which can alert users to a shortfall in supplies. In February 2001, Whirlpool announced that it would be extending a US-based trial of networked domestic appliances to Europe. Consumers participating in the pilot tests will be able to control their home appliances remotely over the internet.

Whirlpool was recently selected to provide a full line of smart appliances for Playa Vista, a 13,000-home community under construction west of Los Angeles. Playa Vista will be the first fully internet-connected community in North America. Each of the planned new homes will come with a high-speed broadband connection. The idea is to make the technology so smart that it is virtually transparent.

Notes on the refrigerator door could be replaced with a web tablet available from next year on some Whirlpool and KitchenAid appliances. This offers always-on access to the internet and software which helps families manage schedules and keep track of grocery and household items –even to the point of ordering such items automatically and scheduling a convenient delivery. The integrated web browser can search for recipes that match the food items on hand and then connect to a film slot, perhaps a celebrity chef, which shows how the meal should be prepared.

The much-awaited *Bluetooth* will allow us to take some of the first steps towards a society where pervasive communications technology is taken for granted. Named after a 10th century Danish King, Bluetooth uses radio frequencies to transmit voice and data over relatively short distances. In theory it will permit various different devices to communicate with each other without the consumer even knowing.

In the United States, a group of retailers have 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 from now.

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 the door”. It is also the EPC that enables the refrigerator to place food orders automatically, the microwave to download cooking instructions from the web and the washing machine to “turn itself off when it detects a red sock in a pile of white laundry”.

In the UK, Symbol Technologies has produced a credit card-sized device called the Virtual Shop Assistant, which uses radio waves to communicate between customer and supermarket when he or she is in store. It can stimulate the supermarket shelves to show changing prices, or it can even show prices on the card itself. According to Symbol, the card has numerous applications, particularly when it is linked to a customer’s transaction history. It will even be able to help customers by providing cooking suggestions and prompting shopping lists. The Virtual Shop Assistant has already been put through trials by Safeway.

Along the same lines, IBM has developed scanners that can recognise different fruits and vegetables without the use of bar codes. It claims to be sensitive enough to be able to distinguish between different kinds of parsley.

4.2.2 PERMISSION MARKETING

While the technology described above can create the potential for greater invasion of privacy, it can also empower the consumer by allowing him or her to filter messages and decide what gets through. This makes branding crucial for the retailer. Consumers are likely to create and manage personal profiles that act as gatekeepers, acting on criteria that includes brands and brand values.

In an extreme case, the sorting and selection function may be delegated to intelligent software agents evolved from today’s shop bots, which emulate an individual’s decision-making process. Intelligent agents could help provide an automated customised service, delivering personalised information and seeking out information which will interest the user. Agents will be able to remember information on individuals such as birthdays and anniversaries, preferred meals and allergies, offering the user a choice between receiving a reminder or automatic



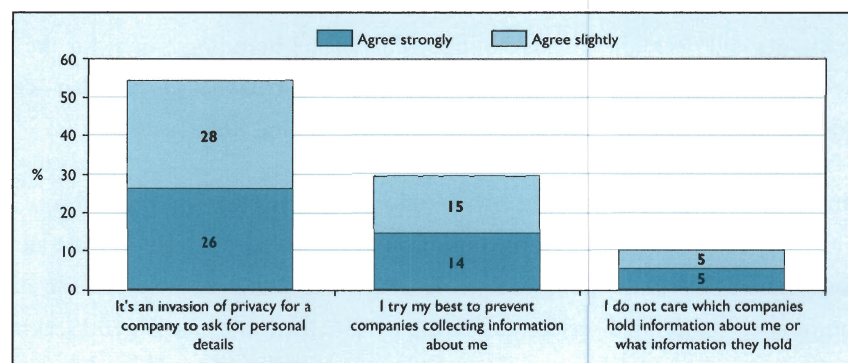
action on the part of the agent – for example, to choose and send a gift. Some agents will block advertising while others ensure that the right message is delivered to the right person at the right time, eliminating wastage. A retailer’s agent can measure shopping habits of individual consumers, reward loyal customers or encourage those who shop less. But the user has the ultimate control, as the agent can be switched on and off.

Devices will also give consumers the power to use real-time filtering at the point of decision and point of sale. The shopper of the future could put on virtual reality glasses linked to the individual’s portable device which reconfigure the store with the products he or she prefers, or which displays relevant information. Store space currently used to stock goods could then be released to use for brand messaging, which would be negotiated between the retailer and manufacturer.

4.2.3 DATA STORAGE AND MANIPULATION

Improved techniques such as photonic storage will drastically increase the amount and type of data that can be collected. At the same time, improvements in computing power and speech recognition will allow rapid access to customer data and manipulation of the information. Any information on a particular customer could be accessed by any member of staff at any store. But for this ability to have any added value, staff would need to know what information to retrieve, and how to use it in a way that will enhance the relationship. In addition, there may be a negative reaction to it by consumers who want to protect their privacy.

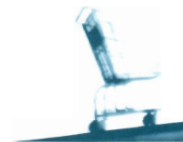
Fig 22 A majority of consumers are hesitant about giving personal information

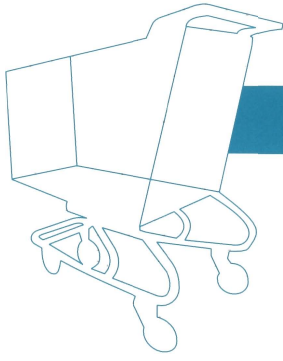


Source: Planning for Consumer Change 2000



So tomorrow's *relationship landscape* will become more complex. Some retailers will aim to develop closer relationships with their consumers, while some will not. Equally, some consumers will choose to develop closer relationships with retailers and some will not. Since consumers behave and shop modally, it is probable that they will make different choices on different occasions. However, we believe that it will be possible to identify a preferred relationship choice. We move on to discuss the anticipated relationship types in more detail.





CHAPTER FIVE

CONSUMER RELATIONSHIPS

- 5.1 TRANSACTIONAL
- 5.2 RETAILER DRIVEN
- 5.3 PARTNERSHIP
- 5.4 CONSUMER CONTROL

CHAPTER FIVE – CONSUMER RELATIONSHIPS

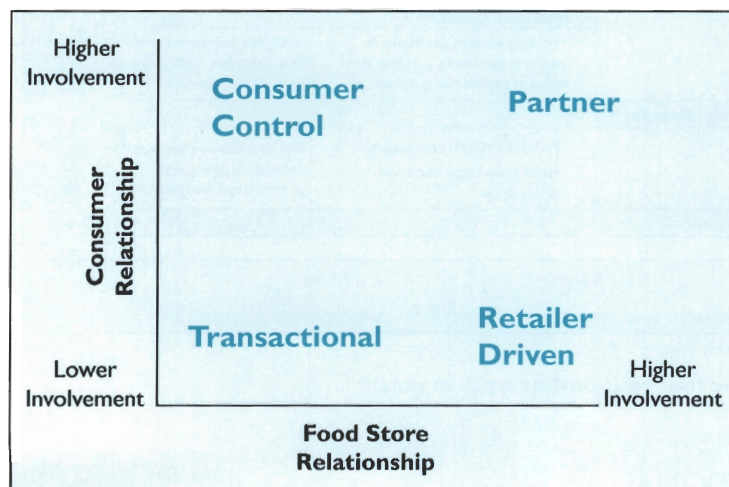
The changes described above in retailer and consumer needs, in technological possibilities and in their uptake by consumers, leads us to conclude that tomorrow's *relationship landscape* will incorporate new, more complex dimensions.

What Options do we Envisage?

In order to simplify discussion of the relationship landscape, we have looked at it in terms of the degree to which the consumer wants to be involved with the food store. For example, a high level of involvement occurs where the consumer seeks active, ongoing dialogue with the food store and is therefore looking for an interactive relationship. Since relationships are two-way, we also consider the degree of involvement that the food store will seek to have with the consumer.

As a result, we can envisage four unique relationship types: Transactional, Retailer Driven, Partnership and Consumer Control. Each one provides a value-creating strategic opportunity for the food store.

Fig 23 Parameters of relationships in the future



It is important to state at the outset that these four relationship types are not necessarily mutually exclusive. Different consumers will want to have different relationships at different times, for different categories of goods, in different shopping modes. While there is nothing new in this modal behaviour, where people make different choices on different occasions (see Section 3 on Modes), the

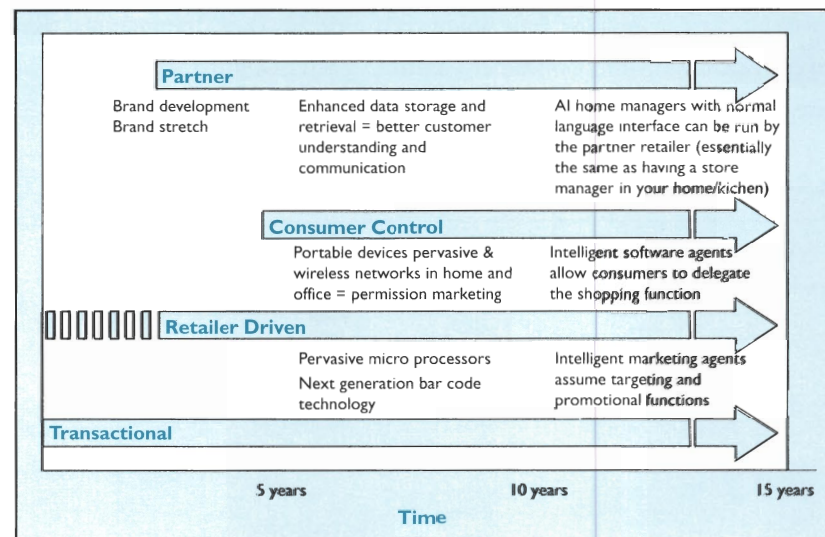


degree to which consumers will expect their needs and modes to be satisfied will increase because of the greater choice and channel access that they now have.

Nor are the relationship types mutually exclusive from the retailer's perspective: a retailer may choose to position itself for a more distant relationship with the majority of its customers, but actively seek to develop a closer relationship with its 'best' customers

The majority of today's European retailers can be described as having a Transactional relationship with their customers. Some of them, particularly those with developed loyalty schemes, are already working towards a Retailer Driven relationship. As discussed above, technological advances will govern the development of these relationships to a large extent.

Fig 24 Relationship evolution timeline



Here are the four relationship types in detail:

5.1 TRANSACTIONAL

This relationship type is the easiest to illustrate because it is closest to the model practised by most retailers and experienced by most consumers today.

The Transactional relationship is driven by access and availability. There is little personal involvement from either party. For the retailer it is all about maximising

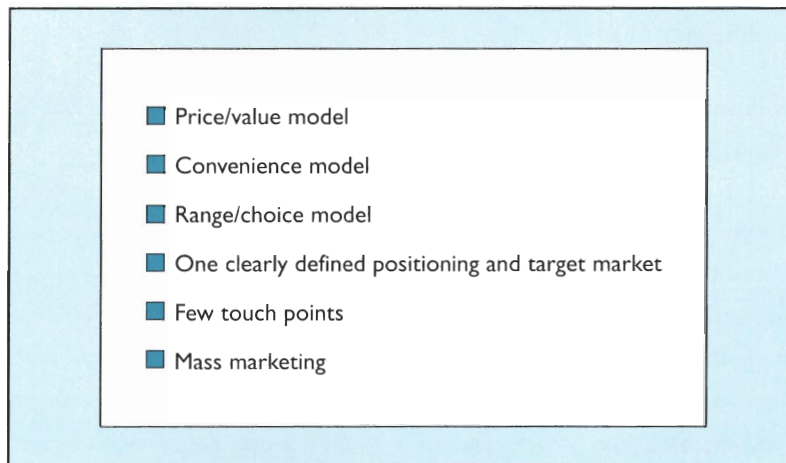


the number and value of customer transactions – laying out one's stall to appeal to a broad base of customers. For the consumer it is simply about accessing the required goods as and when they are needed.

While this might appear to be a low level of interaction, it should be remembered that it is the starting point for most commercial transactions: you pay your money and you take the goods. In addition, people do not want to have deep and meaningful relationships with every company, they are quite content to interact at the level of *acquaintance* rather than *friend*.

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.

Fig 25 Relationship characteristics – transactional



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. Because this is a low cost model we envisage that it will be primarily the domain of large-scale operators. We anticipate that, by transforming today's standards of operating efficiency, they will effectively lock out players with lesser capabilities and will come to *own* low price.



However, even Transactional retailers will recognise that a value proposition which simply consists of balancing price with quality and service will no longer be sufficient for tomorrow's consumer. The consumer notion of value is broadening to incorporate a wider set of tangible and intangible needs, such as an increasing concern with value for time spent. In this respect the Transactional retailer will need to offer not only easy access but also an easier way to locate specific things. It will also need to concentrate on 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. But the trick will be to do this with minimal on-cost.

While the emphasis will be on mass marketing and merchandising, the Transactional retailer will have developed a very comprehensive understanding of customer demand by different store types, catchment areas and traffic flows, which will enable product choice and promotions to be targeted down to individual stores and times of trading. A state-of-the-art ability to model customer demand by catchment area will drive the store portfolio and will enable range optimisation down to the individual outlet level.

This is illustrated by Alan Mitchell in his book *Right Side Up*, where Wal-Mart's stock replenishment system is highlighted.

Retail systems of a decade or two ago were based upon manufacturers pushing stock at retailers and encouraging them to take more through devices such as volume discounts. Increasingly retailers are sending orders to suppliers based on what was sold in the stores over, say, the past 24 hours. Wal-Mart was the pioneer here. It has invented an implicit consumer control mechanism based upon highly sophisticated information systems and fast and flexible logistics systems. Instead of buying products from manufacturers and then trying to sell them – a classic Retailer approach – it is moving towards a situation where it only sources what it sells. Wal-Mart estimates that in 1987 only 26% of in-store replenishment decisions were driven by customers, as expressed by their behaviour at the checkout. The vast majority were driven by traditional producer promotional activity or by internal departmental manager decisions. Already by 1996, 90% of replenishment decisions were driven directly by customers.

Typically the Transactional offer will encompass a wide but shallow range of merchandise at highly competitive prices. Fresh food ranges, including ever-larger ranges of pre-prepared food, will be geared to the mass market. Non-food ranges



will be an important element, with an emphasis on low-priced manufactured branded goods, supplemented by regular amazingly low price deals designed to generate traffic and excitement and to drive up transaction values. While in-store *retail-tainment* will be virtually non-existent, stores will have fast food or refreshment facilities and basic customer comfort zones.

5.2 RETAILER DRIVEN

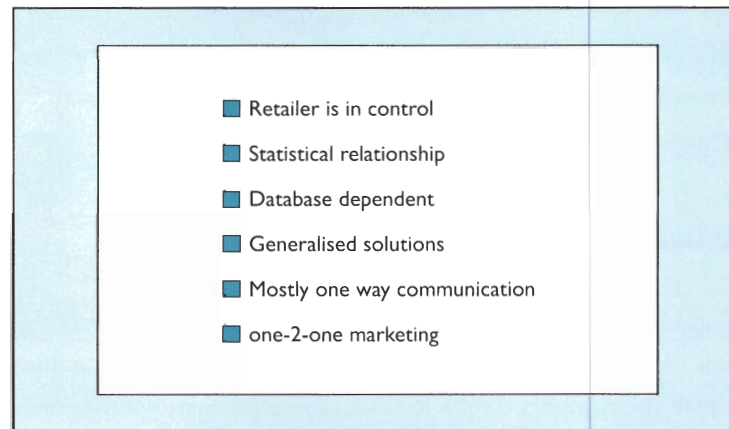
In this relationship type there is a low level of involvement on the part of the consumer, but a high one from the retailer. It is largely a one-way communication from the store to the customer. In the Retailer Driven relationship, the retailer is in control and is aiming to increase the customer's dependency.

Our mission is to earn and grow the lifetime loyalty of our customers.

Terry Leahy, CEO Tesco

Because of the consumer's low involvement, the retailer will initially be forced to continue using today's market research and catchment analysis tools and will work at a segment rather than individual level. However, the successful Retailer Driven operator of tomorrow will be obsessive about getting closer to the consumer in order to satisfy needs and pre-empt wants. The retailer will therefore become increasingly dependent on having 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 the 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.



Fig 26 Relationship characteristics – retailer driven

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, so its understanding of consumer price sensitivity will have to be outstanding. It will need to match lowest prices on the items which consumers actively compare and which are important to their assessment of value, and improve its margin opportunities on added value lines and services.

The Retailer Driven operator is constantly seeking ways to broaden the appeal of its offer and to lock in the consumer's franchise. The store's objective is to persuade the consumer to spend more and to value the experience enough to become loyal. In doing so it aims to counter any temptation of low price offers from the Transactional retailer.

This shift is possible if the benefits are there for both parties. The retailer will be seeking to add value for the customer, knowing that the more confidence and trust the shopper has in its brand, the more likely that customer will be to extend the range of products and services it is willing to buy. 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. One of the best examples of this happening already is Tesco in the UK with Express, Metro, Superstore, Compact, Extra and Tesco.com.



Fig 26a Tesco – multi format and multi channels

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 that any extension will be a logical fit with their brand values, as opposed to an indiscriminate opportunity to make a margin.

The Retailer Driven operator needs to provide reassurance about the quality, safety and sourcing of merchandise, in order to promote the development of trust on the part of the consumer. In the case of fresh and prepared food, careful control and management of sourcing will be a crucial part of such reassurance. In the Retailer Driven relationship the retailer effectively becomes the customer's gatekeeper, ensuring that 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 them to invest in the development of skills among its customer-facing staff.

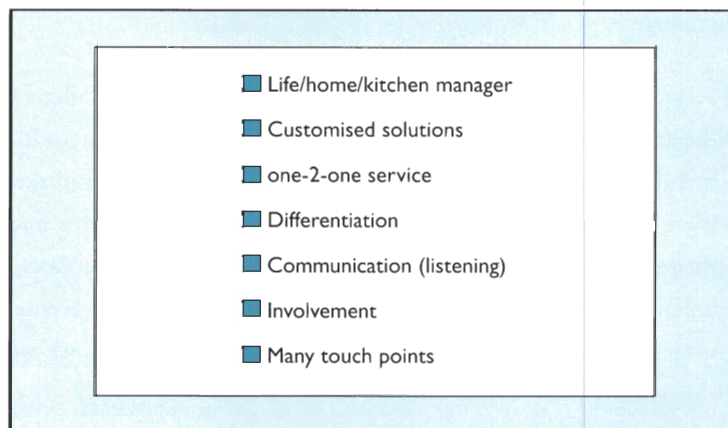


5.3 PARTNERSHIP

This relationship type is based on both the retailer and the consumer wishing to be actively involved with one another: the two parties are each other's *friends*.

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.

Fig 27 Relationship characteristics – partner



We anticipate that the Partner relationship will grow primarily out of a Retailer Driven relationship. 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 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. As the relationship grows, developed trust and a growing dependency will enable brand stretch into other areas, for instance: 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).

Home Delivery has the potential to help the retailer gain increasing access to the home, or at least to secure areas. 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, while home shopping will be an important component of this relationship, it will not necessarily be critical for all customers. On the other hand, websites, call centres, email 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, its 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 online 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.

However, the relationship should never be taken for granted. People's circumstances can change, as can the threat posed by competition. For years, Kodak was able to assume that it held the high ground in photography in many countries: it stood for memories and had strong associations for most people. Then Fuji came along and began to change the rules, creating a personality that appealed to younger people. In other words, the development of strong meanings and associations for a brand is important but a product with a real benefit or advantage will win most times. Brands have to be aware of the need to maintain their "power" and refresh their meaning.



Furthermore, to describe the Partnership relationship as a means of locking in the best consumers, is to assume that the consumer is willing to be influenced in this way – it is a supply-led view of the world. In fact, the ascendant model is one of real equality between supplier and consumer, where the relationship is long-term and the loyalty reciprocal. This will be the hallmark of the very best Partner relationships. But it may take the further development of the inherent threats associated with the relationship we describe next, the Consumer Control relationship, before retailers take genuine heed of this development.

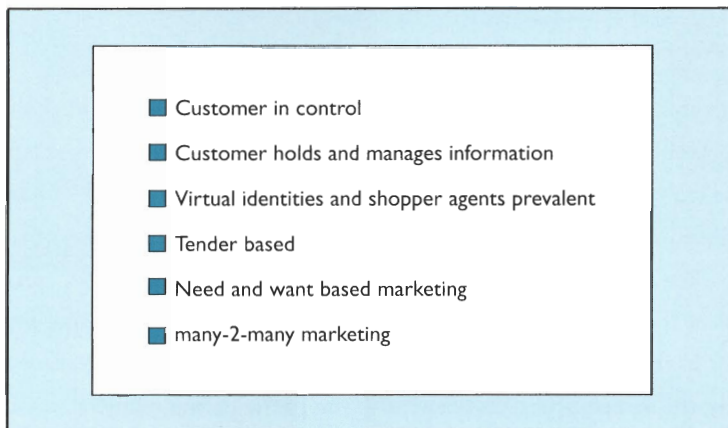
5.4 CONSUMER CONTROL

In the Consumer Control relationship, the store is largely passive and the customer is in control. The 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 (e.g. shop bots) or human (personal shoppers).

There are several motivations behind this search for information. It can grow out of a highly developed need to hunt for bargains or deals rather than out of economic necessity, although for some people this will clearly play a role. It may also be driven by the requirements of specific shopping modes (see Modes in Section 3). For example, when the shopper is in expert mode he or she will look for an extended range and for advice, information and maybe support for a specific category of goods or services. 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.



Fig 28 Relationship characteristics – consumer control

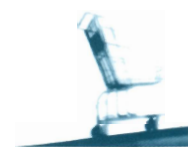


Transactions would not necessarily all be web-based but access to information on the web about the retailer's offer could drive the shopper's choice of store. Electronic agents would range from search engines, demand-collection systems such as Priceline.com and competitive tender-based agents such as LetsBuyit.com. Everyone from AOL and Amazon to Mercedes and American Express are potential competitors 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 and/or shopping modes and its potential for grocery will be even more limited. But this potential could grow as the number of people connected to the web increases and as internet services develop.

For the Consumer Control relationship to succeed, there will need to be a high degree of interactivity and the system will need to be convenient and easy to use, so that it offers the consumer a chance to save both time and money. Today's early teenagers, who are key customers for the store of the future, are likely to be more predisposed to use web-based services than their older siblings or parents.

The US based WebHouse Club, which only ran for about 12 months, going out of business in 2001, was a prime example of an agent servicing a Consumer Control relationship.



Case Study

The WebHouse Club

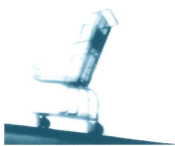
For an annual membership fee of US\$36, subscribers of Priceline's US-based WebHouse Club could submit their grocery-shopping basket online to the club, specifying the price they were prepared to pay for the basket. Member-retailers near the customer would submit tenders for the price of the basket and the first to match the customer's price would be awarded the business. The customer would then visit the store and pick the specified basket in the normal way, quoting a reference number at the checkout and paying the agreed price. The benefit to the participating retailers was in potentially incremental traffic and opportunities for crossover shopping. When it was launched, WebHouse Club caught the imagination of shoppers to such an extent that in its first week it served 15,000 customers and was very quickly forced to advance its rollout strategy. The company had arrangements with 7,200 grocery stores and 6,000 petrol stations nationwide, including the Winn Dixie grocery chain. However, its financial model was not viable.

It is suggested that WebHouse Club was before its time. Had the demographic groups which represented most potential for this service been able to access the service easily, the economies of demand at local levels may well have been enough to support the large capital commitment required to create an appropriate network of retail petrol and grocery stores.

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.

For instance, the UK retailer Boots – which has established values in the healthcare and well-being sector – could become a virtual agent for slimmers who may not even use the store on a regular basis, by supplying a programme of information, home-delivered meals and dietary supplements.

A Transactional retailer with an established reputation for branded consumer goods at remarkably low prices could, by promoting an extended offer on its website,



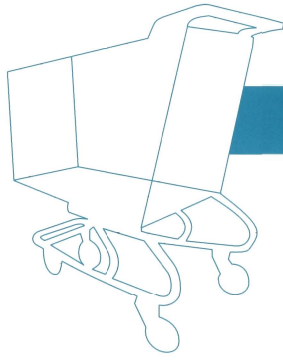
become a first stop for Consumer Control customers seeking items that are not typically found in the retailer's bricks-and-mortar stores (for example bulky consumer durables). Hence a new revenue stream could be provided via the web, together with the possibility of growing store volume from crossover transactions, if the customer could be persuaded to follow up or clinch the transaction by a visit to the store.

There are also potential opportunities for retailers to link with consumers' buying agents.

Letsbuyit.com would be a perfect fit with Tesco's range of services... for non-core/traditional items – say TVs or toasters. Tesco could use Letsbuyit.com's systems to aggregate demand for particular items

Alan Mitchell, journalist and author, interviewed May 2001





CHAPTER SIX

RETAIL BRANDING

- 6.1 THE CASE FOR RETAILER BRAND-BUILDING
- 6.2 RELATIONSHIP TYPES AND THE ROLE OF BRAND
 - 6.2.1 BRAND BUILDING
 - TRANSACTIONAL RELATIONSHIP
 - 6.2.2 BRAND BUILDING
 - RETAILER DRIVEN RELATIONSHIP
 - 6.2.3 BRAND BUILDING
 - PARTNERSHIP RELATIONSHIP
 - 6.2.4 BRAND BUILDING
 - CONSUMER CONTROL RELATIONSHIP

CHAPTER SIX – IMPLICATIONS FOR RETAIL BRANDING

6.1 THE CASE FOR RETAILER BRAND-BUILDING

As we have described above, in a period of competitive pressure and rapid change, food retailers will seek to retain and build their customer base and safeguard their margins. As many parts of Europe become increasingly over-stored, choice is approaching overload and consumers will often lack the *expertise* and, perhaps more importantly, the *time* to evaluate all the choices. Who wants to think about *where* to shop when there are important decisions about healthcare, jobs and education to make? Reducing or being much more selective about the number of retailers or brands they use, will be one way for consumers to reduce the complexity they face.

We have argued that relationships are at the heart of the retailer's route to differentiation and therefore at the heart of its route to branding. The challenge will be to build an enduring link with customers that will help build stable, long-term demand. This is achieved by identifying the type of relationship the store of the future wishes to have with its customers, and then by building the retail brand in a way that supports the relationship.

Brands which consumers trust become navigators through the complex waters of life: listening and responding to customers, providing advice, guiding them through unfamiliar territory and making life simpler and easier to manage.

In a report published in March 2001, Young & Rubicam argued:

'Brands are the new religion. People turn to them for meaning. The brands that are successful are those with the strongest beliefs and original ideas. They are also the ones that have the passion and energy to change the world, and to convert people to their way of thinking through outstanding communications'

As examples of the power of the brand they point out that 12,000 people have been married at Disney World since 1991 and that Harley Davidson motorbike aficionados in the USA are regularly choosing to be buried in Harley Davidson branded coffins.

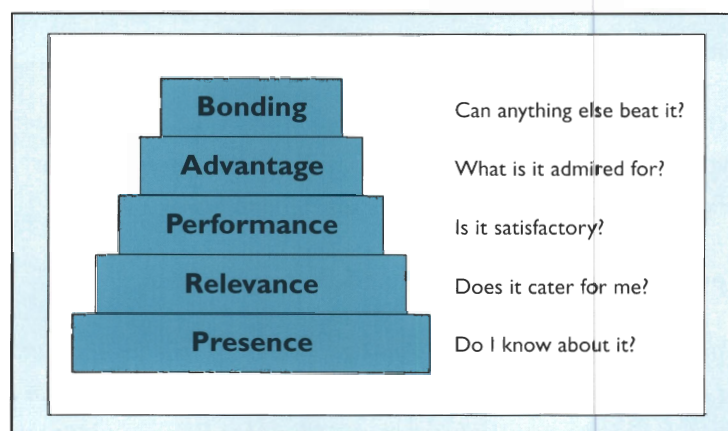


In the future, such opportunities are not beyond the realms of possibility for some retailer brands. The caveat is that the *trust* brand has to work at all levels of the organisation, based on an identifiable core set of values which are relevant to its consumer target and which are delivered consistently and coherently at every point where the consumer makes contact, from products and services to the organisation's telephone operators. Clearly, Disney and Harley Davidson have achieved this, but not all retailer brands will have the potential to become *trust* brands in the future.

Some retailers have been very successful at inspiring loyalty in their customers, to the extent that shoppers bond with the brand and become advocates.

BRANDZ is a WPP proprietary study that looks at brands through the eyes of customers worldwide. Over a quarter of a million consumers have been interviewed in the three years since it was launched across more than 70 different product and service categories. One hundred and thirty nine retail brands have been assessed in 10 European countries. The brand dynamics pyramid, shown below, was used to understand the relationship of each consumer with the brand, based on awareness of each brand and attitudes to it.

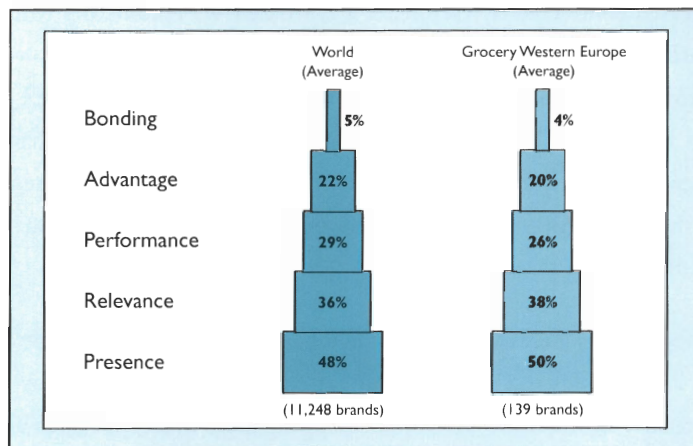
Fig 29 BrandDynamics™ pyramid – identifying brand benefits



Each consumer is positioned at one level of the pyramid for each brand in the category. Consumers at the top of the pyramid – the bonded ones – not only have a stronger relationship with the brand, they also spend a much higher proportion on that brand than those at the bottom for whom it only exists as part of a repertoire. The average bonding score of 4% for western European grocery retailers, is similar to the overall world average across **all** brands.



Fig 30 BrandDynamics™ pyramids – bonding averages

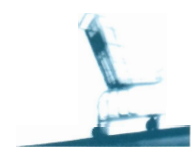


However, there are some startling exceptions across Europe, three of the most notable being Albert Heijn, Migros and Tesco.

Fig 31 Top bonding retail brands by country

TOP PRESENCE	TOP BONDING	
Migros (Switzerland)	AH (Netherlands)	39
ICA (Sweden)	Migros (Switzerland)	36
AH (Netherlands)	Tesco (UK)	27
GB (Belgium)	Delhaize (Belgium)	21
Aldi (Germany)	Carrefour (France)	20
Tesco (UK)	A B Vassilop's (Gr)	17
Leclerc (France)	Hipercor/El C I (Sp)	15
Pryca (Spain)	Co-op (Italy)	15
Marinopolous (Greece)	Real (Germany)	10
Standa (Italy)	Obs (Sweden)	10

Why are these brands such high performers? BRANDZ data suggests that high levels of bonding are driven not just by rational factors such as range, quality, price and service but by less tangible, emotional factors such as popularity. These are brands that people approve of and which they are happy to recommend to others. Successful brands have deeper relationships with their consumers. As can be seen from the brand pyramid, the route to consumer bonding is the journey from the base of the pyramid upwards.



Further support for the growing importance of brands in the future comes from proprietary research conducted by Geppetto, a US-based WPP company which monitors the attitudes and behaviour of children and young people. These will be important customers of the store of the future. Geppetto found that in the United States, Western Europe and Japan, young teenagers aged 12 to 15 already have a deep and authentic involvement with brands. Some go as far as defining themselves by the brands they use or becoming brand zealots, waging their own information campaigns on the net.

Research on shopping by Research International has shown that increasingly, young women are no longer following the shopping patterns and preferences set by their mothers, particularly in the more developed shopping areas of Europe such as the United Kingdom, France and Netherlands. In many of today's households, teenagers are already assuming the role of guide and tutor in areas such as technology, fashion and even food, telling their parents where to shop and what to buy. In some households they will be the arbiters of choice when it comes to selecting technical equipment such as computers or DVD systems.

6.2 RELATIONSHIP TYPES AND THE ROLE OF BRAND

Each of the four relationship types we have outlined provides value-creating opportunities for the retailer. But each needs to be matched with a clear brand and coherent brand positioning, if the consumer is to understand the full value of the relationship proposition.

6.2.1 BRAND BUILDING – TRANSACTIONAL RELATIONSHIP

The Transactional relationship, for example, needs to be positioned so that the retailer can offer low price, value for time and easy access on a consistent and sustainable basis. These values will be at the core of the brand and will be reflected in the product range, services and in-store service. In this way the consumer will understand the proposition clearly and be able to relate to it as appropriate. Total coherency within the brand will enable the Transactional retailer to stretch into new categories and services and open new channels and formats, assured that the customer's expectations of the offer will be in line with the Transactional brand's promise.



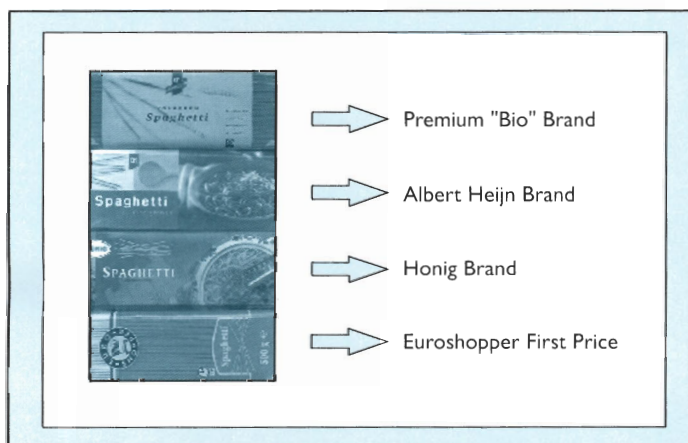
The most effective and dynamic Transactional retailers will constantly seek ways to raise the bar on brand value with the minimum impact on their operational costs. They will try to automate away the Retailer Driven operator's relationship with the customer.

6.2.2 BRAND BUILDING – RETAILER DRIVEN RELATIONSHIP

The retailer brand is fundamentally important to the Retailer Driven relationship. The functional aspects of the brand are a given, but it is the emotional elements that deliver the trust and reassurance that lead to loyalty and a greater dependency on the retailer. Successful retailers adopting this strategy will recognise the importance of giving the brand a personality at different levels of interaction with the consumer.

A highly developed own-brand, which reflects the retailer's value proposition is important to brand-building, as is new product development and innovation. Some Retailer Driven operators will choose to segment their own brand proposition, for example into a value range which provides a low price option in certain commodity categories, an added value alternative, a premium brand and possibly an organic brand. Detailed understanding of customer purchasing behaviour will enable the retailer to identify solutions and target them to the needs of shoppers in its different formats.

Fig 32 Albert Heijn own brand portfolio - pasta



Source: Management Ventures

While initially, some will seek third-party support to help in the process of brand stretch, the most developed brands will be trusted by the consumer to stretch



seamlessly into categories and services which are coherent with the Retailer Driven brand values.

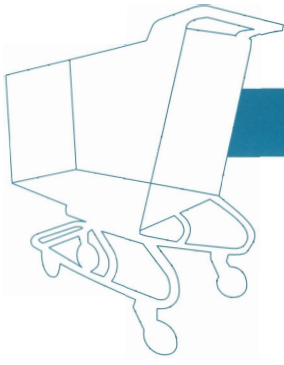
6.2.3 BRAND BUILDING – PARTNERSHIP RELATIONSHIP

For the Partnership relationship, brand is critical. The Partnership will have grown from a sense of trust in the retail brand to a state of bonding and emotional dependency. Personalities which act as the brand's face play an important role. These could include real or virtual personal shoppers, chefs and experts who provide advice and who can be trusted to take on tasks that make the life of the consumer easier.

6.2.4 BRAND BUILDING – CONSUMER CONTROL RELATIONSHIP

For a retailer to succeed in a Consumer Control relationship, brand flexibility is key. This enables the retailer to stretch the bricks-and-mortar offer into new categories or services. The key here will be to communicate availability and to enable access, either directly by the consumer or via consumer agents.





CHAPTER SEVEN

REGULATORY DRIVERS

- 7.1 PUBLIC TRANSPORT
- 7.2 OPENING HOURS
- 7.3 RETAIL PROPERTY

CHAPTER SEVEN – REGULATORY DRIVERS

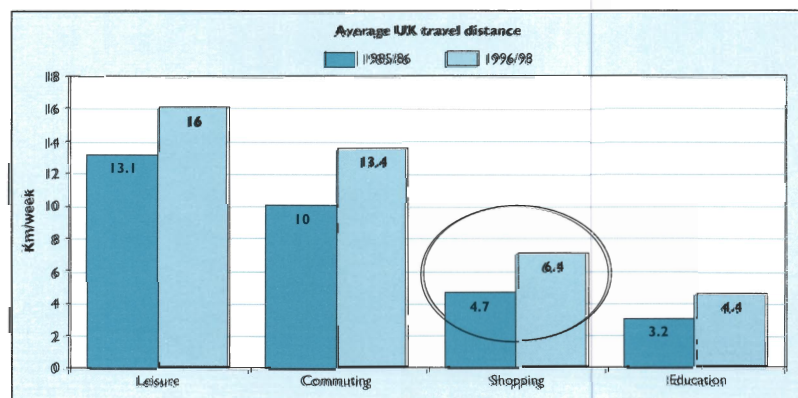
Earlier in the report we focused on the key consumer trends that will be shaping the food store. There are also a number of regulatory or legislative changes on the horizon which could potentially have a significant impact on the way consumers and products reach the store, on access and on physical limits to the store. Retail markets in Western Europe are highly regulated, with legislation covering planning, pricing and store opening hours. Real access to the store of the future will be directly affected by policy changes in public transport.

This report does not have the space to investigate these issues market-by-market, but we summarise them here as a checklist of considerations that are worthy of further investigation within particular markets.

7.1 PUBLIC TRANSPORT

Private car ownership is increasing across the European Union, although a significant number of households still do not have access to a car. As a result, there has been an increase in long-distance and car-dependent shopping trips in many European countries. Increases in income and car ownership have led many people to choose to live out of town. Shopping centres and workplaces are increasingly located on green field sites with greater parking capacity. This has increased average trip times, not only to stores but also to the workplace, schools and leisure facilities, creating greater traffic on local road systems.

Fig 33 *Travel distances for shopping trips are increasing*



Source: UK Department of the Environment, Transport and the Regions



Bluewater, the largest out-of-town retail site in the United Kingdom, illustrates what this trend means in practice. It has 13,000 parking spaces and 10km of roadways. The whole site covers more than one million square metres, but the actual retail space accounts for less than 8% of this. At peak times over 60 buses arrive at Bluewater every hour.

Across Europe, expenditure on private transport accounts for about 12% of total household spending (Eurostat, 1996). Spending on public transport has consistently represented just less than 3% of total household spending since the 1980s. In many countries, including the United Kingdom and Denmark, the costs of running a car have stayed level or declined, while the costs of public transport have risen relative to disposable incomes. This has shifted the price incentive in favour of private cars. The additional incentives of convenience, security and comfort pose serious problems for legislators looking to reduce road traffic and congestion.

EU transport policy is placing increasing pressure on road users to pay for the external costs of road transport, such as noise, pollution and infrastructure costs, on the basis of the polluter pays principle. Current EU estimates show that only a third of these external costs are currently recovered from relevant taxes, charges, tolls and fines. Any new policy is likely to insist that more costs be met by road users, leading to higher road taxes and charges.

This pressure is likely to focus attention on technological and operational efficiencies among heavy road users such as freight companies and home delivery services. It may also support the drive to reduce private transport use and give public transport more priority. This would place pressure on retailers to provide transport services to large out of town or edge of town stores. It will be a further factor militating against the growth of free home deliveries for grocery shopping and would support the combined trip to collect pre-ordered routinely bought goods, whilst personally shopping for the more engaging products

One area of European policy that will have a direct impact on retailers is vehicle use. New legislation is demanding a reduction in trips where there are very few people in the car. If enacted, this would make a quick run to the shops uneconomical. On the other hand, it would reinforce convenience shopping for immediate needs, given that retailers will create access.



There is a parallel drive to increase load factors on trucks, for example by penalising empty-hauling which currently accounts for around a third of all truck kilometres travelled. This will force suppliers to rethink supply-chain and distribution network efficiencies.

7.2 OPENING HOURS

Access to shops is also regulated by legislation on opening hours, a contentious issue in many European countries. Moves to relax limitations on Sunday trading have met fierce opposition from many retailers in Finland, Denmark and Spain. Small retailers fear that they will not be able to compete and will lose out to supermarkets. But although the majority of individual Danish retailers are opposed to a change in legislation, a recent survey showed that 83% of them saw extended opening as a crucial element of their future success.

It is highly likely that regulations will be relaxed and become more standardised across Europe as governments feel the pressure of having to move at the pace of the quickest. For example, pressure for Sunday opening intensified in Denmark after the opening of a road bridge with Sweden, where opening hours are longer. And in Austria, shoppers near the Hungarian border are lobbying their local authority to relax the country's restrictive opening hours, because of the lure of extended opening hours in a Tesco hypermarket across the border in Sopron.

7.3 RETAIL PROPERTY

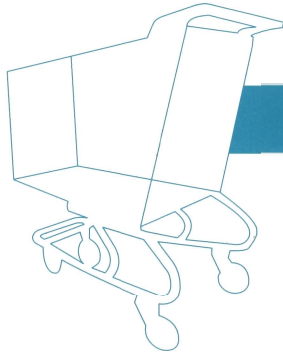
Legislation concerning retail property is controlled by national governments and varies substantially between them. Retailers operating across the European market are able to take account of differences. For example, Ireland currently has strict limitations on the total floor space allocated to retailers, which have discouraged the larger international players and arguably have kept domestic retail growth stunted. Any change in the rules would offer massive opportunities for major retailers to move into these relatively immature markets. In Spain, the merger of the two companies comprising the Carrefour chain of hypermarkets led to fears of a monopoly. As a result, property consultancy Hillier Parker believes that new foreign competitors such as Wal-Mart would now be welcomed there.



Ireland is not alone in its controls. Many countries have toughened planning regulations to stop the decline of the high street and the movement of retail chains to out-of-town shopping centres, or to protect small independent retailers. In some less mature markets, local retailers are lobbying their governments to keep foreign competition out. In the United Kingdom, there are rules making it difficult to open new out-of-town stores while in Germany, France, Spain and Italy, permission for stores over a certain size must win approval from local groups or public bodies, according to the Institute of Grocery Distribution.

Rental rates are even more specific to the local area and are unlikely to come under EU regulation in the immediate future. One area of contention in the United Kingdom has been over rent reviews in a booming market. During 2000 rent increases hit 5.6%, exceeding increases in retail sales which registered 4%. This is squeezing margins, even among some of the more established retailers, and withdrawals from prime sites are becoming increasingly common.





CHAPTER EIGHT

FUTURE FORMATS

- 8.1 FORMATS AND SHOPPING MODES
- 8.2 FORMATS AND RELATIONSHIPS
 - 8.2.1 TRANSACTIONAL RELATIONSHIP
 - 8.2.2 RETAILER DRIVEN RELATIONSHIP
 - 8.2.3 PARTNER RELATIONSHIP
 - 8.2.4 CONSUMER CONTROL RELATIONSHIP

CHAPTER EIGHT – FUTURE FORMATS

Throughout this report, we have stressed the need for retailers to offer a variety of formats to their customers, as a way of maximising access for different customers at different times and in different shopping modes. Future formats will be driven by these consumer-shopping modes and by the relationships outlined earlier in Section 5. The regulatory constraints discussed above will have some bearing on the development of future formats. We do however believe that consumer pressure and demand will mean that retailers in different countries will be more or less successful in convincing governments to allow them to deliver the formats outlined in this section.

8.1 FORMATS AND SHOPPING MODES

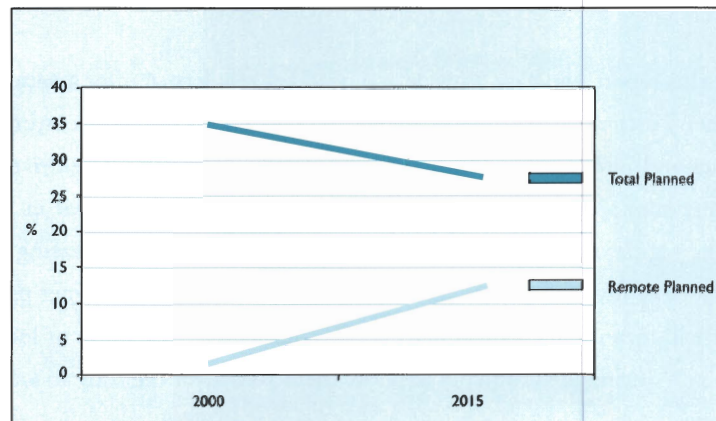
As consumers become accustomed to less planning and more spontaneity in their lives, the proportion of planned shopping will decline and the food store will increasingly need to provide immediate access to food, groceries and home meal replacements. This will fuel the development of Convenience formats,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



Fig 34 Change in spend on planned shopping by channel



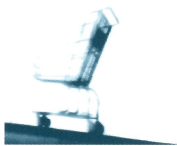
Source: Research International, The Store 2001

The decline of planned shopping in northern and Western Europe will have important repercussions for Hypermarkets and Superstores. 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. But by 2015, even in the east and south hypermarkets will need to change radically to maintain their viability.

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. This will start to become a reality in around five years' time, in particular for retailers with a Retailer Driven relationship model, becoming more mainstream within 10 to 15 years.

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 services 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 5 to 10 years time, if they are in appropriate locations and can be used to complement remote shopping for routine or commodity groceries.

8.2 FORMATS AND RELATIONSHIPS

Retailers will reconfigure their formats or retail solutions around one or more of the four relationship types outlined earlier. This puts relationships at the heart of the retailer's route to differentiation and branding. As we have said earlier, each of these relationships has value creating opportunities. The evolution of the formats and their ability to enable or support the relationship opportunities will be governed to a large extent by the technology timelines which we have outlined in Section 4.

The following headings each contain scenarios, which paint a picture of how it could all work, as well as examples from current practice.

8.2.1 TRANSACTIONAL RELATIONSHIP

As discussed earlier, the transactional relationship is driven by the creation of consumer access and availability. The retailer's aim is to maximise traffic flow and transaction values, while managing operational efficiencies and maintaining a low cost base.

The leading edge retailers in this class will have a coherent brand proposition that reflects their core values, enabling them to stretch their offer and move into new territories. In the short term, large format propositions with the space to extend the range into an expanded non-food and mass services offer will provide the transactional retailer the greatest potential. They will, however, need to develop multi-channel capabilities as technological developments, time pressured, fragmented and multi-modal consumers (see Chapter 2. Tomorrow's Society) drive the demand for remote shopping.

Most of today's retailers already operate a transactional model in a wide range of formats. In the future, increasing consolidation and even more intense competition means that small-scale transactional retailers will find it increasingly difficult to compete with global or continental players with their opportunities for reduced



buying costs and the ability to leverage operational efficiencies across an ever increasing portfolio of stores and formats.

Timelines will vary by retailer and by region, but we anticipate that for the next five years at least, the transactional retailer's hypermarkets and superstores will continue to be destinations for routine planned shopping and serendipitous outings to see what's on offer. We do not believe that the pure transactional retailers will be the first to offer remote shopping; their constant aim will be to drive traffic to the stores.

However, around 10 years from now, we expect the growing demand for remote shopping to begin to have an impact on these formats. Initially picking will be carried out from the shop floor but as Remote develops so retailers will need to create back-of-store warehouse rooms where staff can pick and pack orders for the volume stock-keeping units that are most likely to be ordered remotely. Typically these will be known-quantity and branded replenishment items that are bought routinely by shoppers and which do not engage them in the purchase process. To service those customers not ordering remotely, reduced facings of these items will still be located on the shop floor. Further down the line, in about 15 years, remote ordering will become so mainstream that the pick-and-pack service will be automated and will demand increasing floor space.

Increasingly, where retail space is at a premium, transactional retailers will not be able to justify warehouse use for what was initially built as a retail space, which could put the viability of the stores into serious jeopardy.

Retailers will need to extend their offer constantly, in order to encourage consumers to keep up the regular visits on which these large formats depend. It will not be enough simply to offer a pick-up point for remotely ordered merchandise. At the same time, retailers will focus on categories or lines with a mass-market appeal. Volume and margin will be the name of the game.

The increasing demand for convenience foods and home-meal replacements will lead transactional retailers to work with suppliers in order to identify and create solutions which will service customers and reinforce the value of the shop visit, while still satisfying the demands of the **mass** customer base. An understanding of customer demand on the level of individual stores and the ability to forecast that demand, will provide the foundation for range-planning, whereby retailers can ensure customer satisfaction while maintaining operational efficiencies.



As space is released by reductions in the facings of volume skus, it can be used for extended display of solutions and non-food ranges. Transactional retailers will increasingly compete with mass merchandisers in the sale of home and kitchenware, soft furnishings, clothing, toys, music, electrical goods, gardening, DIY and sporting goods. Product ranges will be broad but without depth, designed to appeal to a mass-market customer base and offer something for everyone. The common denominator will be consistent, advantageously low prices for a known quantity of merchandise.

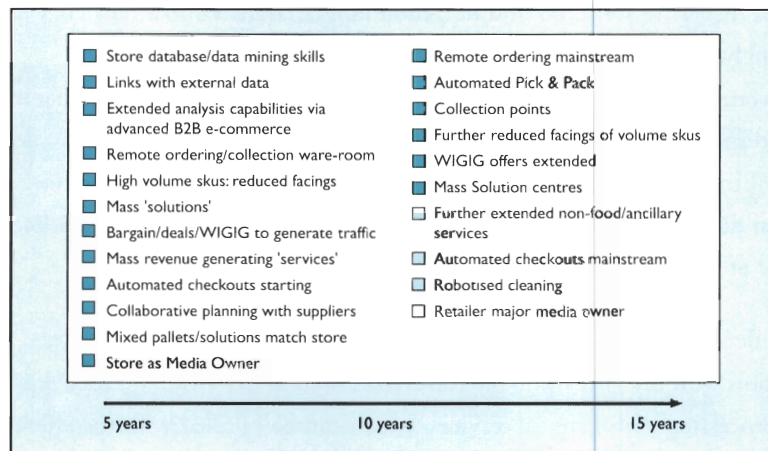
Other offers which will help drive customer traffic and maintain customer satisfaction with the visit will be mass services such as dry cleaning, shoe repairs, photo processing and financial services, which can be fulfilled with the efficiencies that accompany scale. The store itself will not be experiential in terms of engaging the shopper in its design, merchandising, special displays or retail-tainment. The engagement will be via the store's convenience and the access it offers to a broad range of highly competitively priced merchandise, along with the serendipity of finding amazing When it's Gone it's Gone (WIGIG) deals.

As soon as it becomes economically viable, transactional retailers will start to introduce automated checkouts. The prime driver will be the need to reduce staff overheads. Increasing customer satisfaction will be a secondary motive, unless it can be shown to represent a significant competitive advantage, thereby ultimately increasing traffic. The best in class or cutting-edge transactional retailer will never increase costs without first ensuring benefits to the bottom line.

With cost reduction and efficiency in mind, those transactional retailers operating on a big enough scale to encourage supplier cooperation and partnering will collaborate with suppliers to plan promotions and events which aim to stimulate demand and increase customer satisfaction. Shelf-ready pallets, special displays and solutions designed to match the demands of the store's customer base will be delivered to individual outlets ready for the shop floor, thereby reducing staff overheads further.

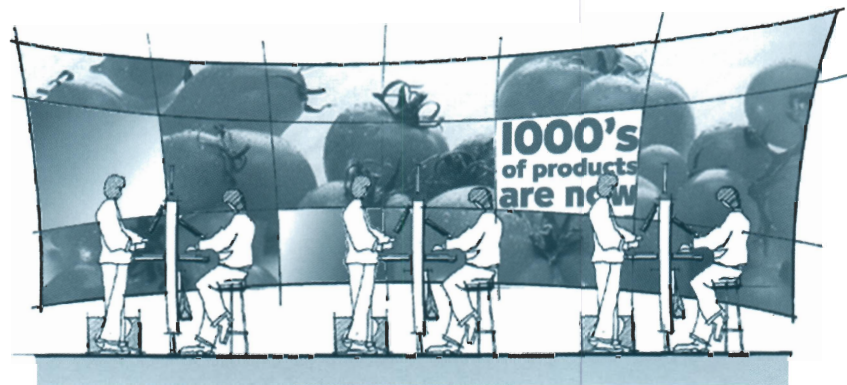


Fig 35 Transactional relationship – hypermarket/superstore development time line



In the search for new revenue streams, retailers in the future will have identified the opportunities represented by the store as a medium. Already we can see revenues being generated from special display points, features at point of sale, collaborative advertising in above-the-line media and so on. In the future, enabled by technology, retailers will be offering suppliers advertising and promotional slots in the store and online, calibrated by the time of day and day of the week.

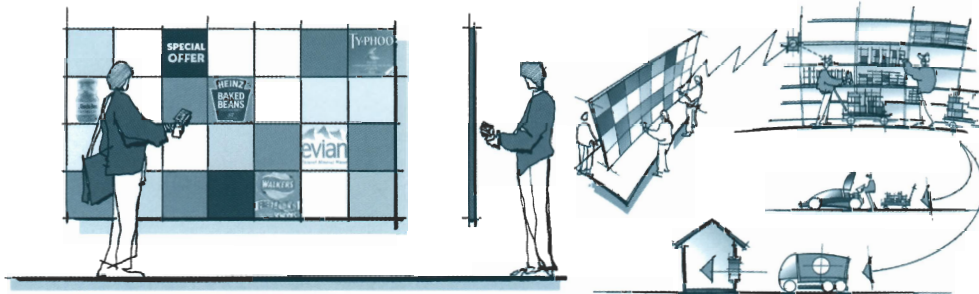
Fig 36 Hypermarket format 2010 - 2015



There will be opportunities to target shoppers via infotainment centres and intelligent displays in car parks, in departments and at the point of purchase. All of these will represent revenue-generating opportunities for the transactional retailer. Store-based opportunities apart, some transactional retailers will become media owners or at least partners with existing players. This will involve TV, radio and web-based services.



Fig 37 Hypermarket format 2010 - 2015



Transactional Relationship Scenario

Carla is racing against time to pick up her children from school at 3:30 and she still has her grocery shopping to do. She pulls into the ValuMart car park. As she gets out the car, an infotainment screen is showing a commercial for a new milk drink from Neserver. Once in the store, she goes straight to the order point to register her remote order. This is one of three stores she uses on a fairly regular basis. It is known for carrying a wide range of fresh Asian prepared meals because of its catchment population. The remote order point recognises her smart card and up pops her last order. Six specials from ValuMart appear on her screen as she is scrolling her list. Two are for products which she regularly buys: both are multibuy but look to be a good deal so she adds them to her order. She transmits the order, confirms a pick-up time in 30 minutes and accepts a credit on her card for a new one-hour dry cleaning service which ValuMart has just launched.

She heads straight for the 'meals for today section', scans today's four choices in the children's selection and grabs a fish dish for Lisa and a vegetarian dish for Toni. She looks next for ideas for tonight for herself and Jo. There are five options to choose from: given that they have already eaten pasta and fish this week, she opts for ValuMart's beef stroganoff with rice and vegetables, which comes pre-packed in a bag for two, and a tarte citron from tonight's dessert selection. She then whizzes into the Asian prepared



meals section and picks up several family packs for later in the week. When she picks up the stroganoff, her trolley flashes an offer on Rioja, so she moves on to the wine section where she takes a couple of bottles at the remarkable price of 48 euros for two.

The final stop is kidswear. Little Katie needs some tee-shirts and underwear for school camp. ValuMart's kidswear is really good value: it has many lines of mixed multi-packs in fun designs and bright colours which children love and the prices are unbelievable. A plasma screen in that department features a commercial for a new range specially designed for ValuMart by Levis. She is tempted — the prices are good — but not today. On the way she cannot resist taking a look at today's WIGIG (when it's gone it's gone) offers — her trolley has been reminding her to do this since she came into the store. As usual she succumbs and picks up a beige Armani shirt for 220 euros, a travel pack of Christian Dior skin care and a set of patio lights for an unbelievable 145 euros — they must be half price!

She wheels her cart through the checkout scanner. As it registers her Smart card, her list of purchases appears on the screen and she notes that her remote order is packed and waiting at the collection bay. She transfers the list to her PDA to check later — no time to do this now but then ValuMart rarely makes mistakes — notes that she has been debited €1,070 and steers her trolley to the car.

At the collection point, she picks up her remote grocery order along with the three bags of garden compost and two trays of geraniums which Jo ordered while watching the gardening programme on ValuMart's TV channel last night. Then she is on her way to the school with 10 minutes to spare.

The fictitious ValuMart illustrates the characteristics of the transactional retailer. Some products have been bundled together to provide complete meal occasion solutions and the emphasis appears to be on value by presenting a streamlined operation both front and back of store. Many bulky or low margin products have limited or no actual shelf space, being replaced by branded in-store order points. Even the transactional retailer will have invested in technology to enable customers to order goods remotely.



As discussed earlier, supermarkets in north-western Europe are also threatened by the decline of Planned shopping and growth of Remote. On the other hand, the predicted growth in Immediate shopping presents these stores with an opportunity to reinvent themselves as a service to local communities. Their viability will be dictated by the access they can provide for local communities and their ability to tailor their offer to the particular demands of that catchment area on a cost-effective basis.

Those transactional retailers that have invested in systems which enable prediction of demand down to the level of the individual store, as well as state-of-the-art fulfilment and operating efficiencies, could use this information to extend their offer to smaller formats. Mid-range supermarkets, for example, could be reinvented as extended convenience or discount stores. The decision would depend on the location of the store, levels of demand in the catchment area and the retailer's ability to provide and support a tailored local offer with maximum efficiency.

The extended convenience format could include a facility whereby customers could pick up remotely ordered goods or buy edited ranges of packaged groceries, solutions and home meal replacements, all geared to the particular area. Depending on local demand, the retailer could offer access to additional services which could deliver additional revenues. Local outlets would also have opportunities to generate media revenues from suppliers.

8.2.2 RETAILER DRIVEN RELATIONSHIP

Already, across Europe we are seeing some food retailers starting to evolve Retailer Driven relationship strategies. Albert Heijn in the Netherlands is a classic example, as is Superquinn in Ireland and Tesco in the United Kingdom.

What will distinguish the Retailer Driven from the Transactional retailer will be their ambition to have a closer relationship with the customer, whereby the customer bonds with the retailer, becoming a committed and extended customer. To do this a retailer needs to have information about customer purchasing behaviour and about individual transactions. Ideally, this will not be restricted to only their own channels; they should also be able to access and mine other data sources. Even without advanced diagnosis and interpretation of data, information from sales linked to store formats, loyalty card and transaction data from home shopping trials is already enabling retailers to make decisions about product ranges,



store formats and locations which are more scientifically based. Some are also using data to target individual customers with tailored offers.

Case Study

Tesco UK

Every quarter Tesco sends out a statement to its 10m regular Club Card users, yet only one in every 40 will receive the same communication. Tesco mails a quarter of a million variations of its quarterly statement, each offering a different mix of product coupons to incentivise and reward the store's loyal customers.

The next step will be for retailers to invest intensively in customer relationship management in order to help identify best customers and understand what drives their loyalty. Activity and rewards that aim (with the customer's permission) to increase dependency and commitment can then be tailored to their specific needs.

Case Study

Dorothy Lane Markets

Dorothy Lane Markets, based in Dayton, Ohio, has created a radical but highly effective loyalty programme by starting a club (Club DLM) and sending a monthly newsletter to the company's top 9,000 customers, based on an analysis of their purchasing history. The newsletters come in different editions, each one pegged to different spending levels and containing specifically targeted coupons and special offers. Every month, customers receive up to six postcard-size communications giving information about special events and promotions in-store.

The program has given DLM an extra three points of gross margin which is used to reward best customers. Rewards include bouquets of flowers, free turkeys at Thanksgiving and invitations to concerts. The loyalty programme fits well with the DLM culture and its grassroots orientation, which aims to bond with best customers and keep them for life. It delivers groceries at a loss to 175 elderly customers, simply because they have shopped at the store and have been good customers all their lives. It has a Kids Club, members of which come to the store for Saturday events such as cake-



decorating competitions or Hawaiian luau. Toddlers compete in its Baby Derby, to be crowned "Dayton's swiftest crawler". The manager of the wine department organises wine shows, bottle signings and jazz nights.

Increasingly, Retailer Driven operators will offer incentives to customers to provide more and more information about their own and their household's needs and wants. Of course when the retailer is operating across multi-channels and it becomes possible to link together in-store and on-line behaviour, the opportunity to have a real one-to-one relationship becomes a reality.

An advanced understanding of how the needs of different types of shoppers vary by their different shopping modes, as well as what drives their choice of store for each mode, will enable the retailer to develop solutions tailored to individual stores, based on the lifestyles and need-states of shoppers using them.

For a large scale Retailer Driven operator, this will demand a multi-format strategy. We believe that Retailer Driven relationship strategies will lead the conversion to remote shopping ahead of the Transactional players. Opportunities will develop to order remotely and collect from the store, or for deliveries to be made to home, work or other collection points. Already, budding Retailer Driven operators in western Europe such as Tesco, Albert Heijn and Sainsbury's are providing home-shopping services to customers. Superquinn has partnered with Texaco to operate forecourt convenience shops which also create access to its Tusa Bank via an ATM and provide pick-up points for Superquinn 4 Food internet shopping. As technology enables easier consumer access to remote shopping and removes some of the obstacles to it, so those budding Retailer Driven operators will be poised to fulfil the growing demand as it comes on stream.

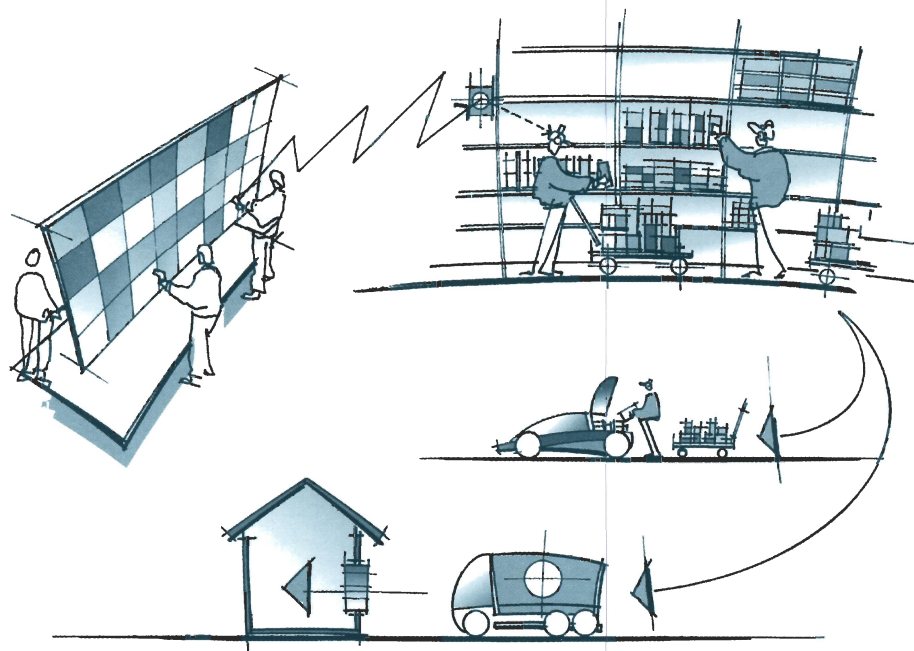
For all the reasons discussed earlier in this report, hypermarkets and superstores are under threat. Where planned shopping still has some way to grow, for example in eastern and southern Europe, these formats still represent a development opportunity as long as they are built with future flexibility in mind. In north-western Europe, however, it is unlikely that new hypermarkets or superstore developments will feature in future plans.

All the same, there are opportunities to reinvent existing hypermarkets and superstores over time to maintain their viability. In particular, prospects look less



bleak for stores that do not require long drive times and which are within easy access of local communities. The need to stimulate footfall will be critical, just as it is for Transactional retailers, so Retailer Driven operators will be under the same pressure to service picking, packing and collection of remote shopping from these stores. In the longer term, we believe that cutting edge retailers developing Retailer Driven relationships will have created compelling reasons to visit their large-format stores. This could mean that the work needed to service remote volume could be moved to less costly locations.

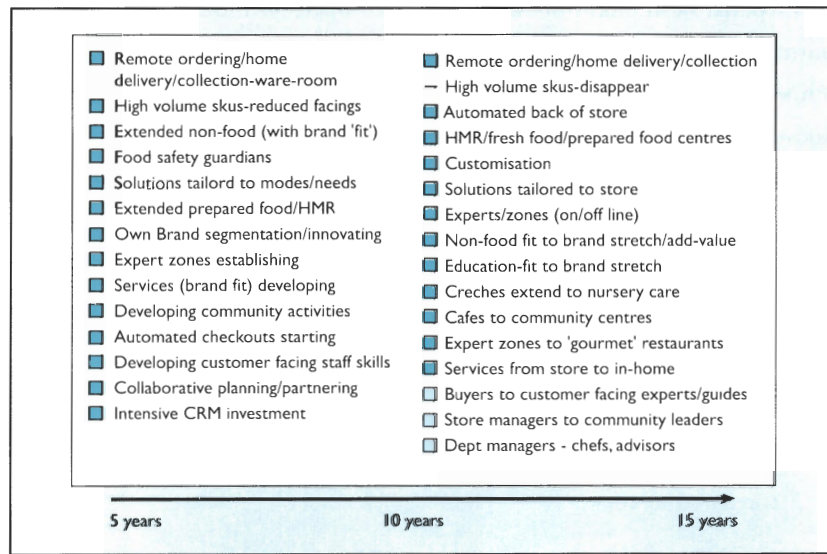
Fig 38 Hypermarket format 2010 - 2015



Unlike the Transactional retailers, Retailer Driven operators will be prepared to meet the growing demand for home delivery arising from remote orders. In the next five to 10 years, the growth of remote ordering and investments in systems and logistics will enable state-of-the-art fulfilment of this demand which will be good enough to justify the extra cost to the consumer. The service will involve the delivery of food and groceries to the home, as well as access to ancillary services such as dry cleaning, laundry or shoe repair, photo processing and the delivery of gifts. These retailers may exempt their best customers from any charges for this service, considering it a worthwhile investment in targeting these customers who will become potential Partners in the future.



Fig 39 Retailer driven relationships – hypermarket / superstore timelines



Those items which are most likely to be ordered remotely and which do not engage the shopper, are likely to disappear from the Retailer Driven operator's shop floor and move into an automated warehouse room faster than in the case of Transactional operators. In 10 to 15 years' time, the only place they are likely to be found in store will be as part of a solution. For example, an offer of hard surface cleaners as part of a spring-cleaning solution. These volume skus will still be accessible but only via touch screen, virtual reality, full-size displays of single facings of a product that the shopper calls up by either category or end-use. They will then be automatically picked and packed for collection as the customer leaves the store.

The Retailer Driven operator's brand proposition and its ability to stretch the brand will guide its development and influence the route it takes to building relationships. Putting food at the centre of the proposition, for example by providing reassurance about its safety, origins and ingredients, is likely to be a threshold benefit in the future but will be exploited differently by different retailers as an aspect of image-building. Superquinn in Ireland has been a pioneer in this area for some time. Some retailers are already making investments in the supply chain, for example by sponsoring growers and imposing their own controls over how produce is farmed. It will be innovation, sourcing and expertise that provide key differentiators for Retailer Driven operators in the future, together with softer, more emotional benefits which provide the "magic dust".



Innovation in food will involve the creation of menus for home-meal replacements and prepared fresh food dishes, which can compete with the best offered by gourmet chefs and speciality restaurants. This helps the Retailer Driven operator compete for the customer's eating out purse rather than just for the money allocated to shopping. Innovation in fresh food solutions will give the customer access to variety and an exciting choice in a convenient way. Innovation in sourcing will attract those customers with a growing interest in developing their expertise. The US has pioneered this trend but a number of Europe's leading grocery retailers are already beginning to experiment in this area, as is Pick & Pay in South Africa.

Case Study

Superquinn in Ireland creates a C.T.T. zone (Can't cook, no Time to cook, too Tired to cook)

CTT Zone includes

- Deli Hot & Cold
- Pizza
- Salad Bars
- Juice Surprise
- Wok Kitchen
- Cheese Market
- Ready Meals
- Prepared Veg
- Hot Baguette Station

With supplier support, innovation could lead to opportunities for the retailer to customise ingredients for meals, snacks, desserts, sauces and so on. These could be prepared in-store by resident chefs or sold with the help of automation technology, for example machines that enable customers to mix their own blend of coffee, ice cream, pasta sauce and some toiletry products. The chance to customise products will engage the shopper and contribute to his or her satisfaction with the overall shopping experience.



Innovation and expertise in food is an important way for a Retailer Driven operator to position itself and build its image, but it is not the only way it can stretch the brand into new areas and develop a closer bond with customers. The ability to stretch will depend on the brand's heritage and its core values. For example, in the United Kingdom, Boots The Chemist chain has the potential to stretch into beauty therapy, well-being and healthcare and in the United States, a regional chain based in Virginia has proved that this route can be successfully followed by a grocery retailer.

Case Study

Ukrops grocery chain provides nutrition counselling

The levels of service at Ukrops, a US grocery chain based in Richmond, Virginia, prompt rave reviews. Among other things, it provides individual nutrition counselling for shoppers who can make an appointment with a dietician and runs free wellness classes by the same dieticians to explore the role of nutrition in avoiding a variety of health problems. It also runs "Wellness Day" screenings to test for blood pressure, cholesterol levels, diabetes and to dispense flu vaccines. All employees are given training in the company's values by its top executive, the president and founder, which includes an extended discussion on issues such as honesty and fairness, competence and quality of life.

Case Study

The Boots Wellbeing Centre

Boots The Chemist opened a Wellbeing Centre in a retail park near Greenford, UK in September 2001. It offers a gym, a 20-metre swimming pool, a whirlpool spa, sauna and steam room, a café, crèche and lounge area. In terms of health treatments it plans to offer physiotherapy, osteopathy, nutrition, chiropody, reflexology, aromatherapy, herbalism, homeopathy and relaxation. Beauty treatments will include facials, body wraps, massages, manicures, pedicures, laser hair removal, body art and hairdressing. Fitness services include exercise classes, activity advisors and a Fitlinx electronic personal trainer. While lifestyle services include advice sessions on getting beyond stress, managing your weight, quit smoking, happy life skills and sleeping well.



All these innovations will lay the foundation for the Retailer Driven operator to develop Expert zones in large store formats, the aim being to service an increasing demand for expert shopping. Timing will be critical to the success of these zones. They will need to spot the growing demand in good time and then to source products and deliver the expertise with credibility. A human element – for example in-store chefs or regular visits to the store by expert buyers – will be a crucial element of this delivery and will offer a powerful differentiator, but they will also support this with technology as it comes on stream. For example, intelligent point-of-sale services that deliver advice, recipes, articles and words of wisdom to customers' PDAs or guide them to and within appropriate shopping zones. Zones will be supported by infotainment centres that provide ambience for themed areas such as wines from Bulgaria, sausages from Nuremberg or Tuscan cooking, featuring mood-setting backcloths or demonstrations.

A growing reputation for expertise in particular fields will enable these retailers to move from in-store demonstration to provision of education classes for customers. While this has the potential to provide new revenue streams, more importantly, it will help build the brand and create an opportunity for social contact, something which is important for those customers operating in social mode. For instance, the Canadian based Loblaws chain provides fee-based cookery, wine-tasting and flower arranging classes and these are generally over-subscribed. The retailer may choose to use these events to help develop its relationship with selected customers by offering them the service for free.

Retailer Driven Relationship Scenario

Luis is busy finalising a financial analysis for a client, when he remembers that it is his turn to organise the food shopping. He and his wife Petra usually take it in turns, but she is away on business in Munich. Because Luis works from home, he decides that he could do with a break, so he drives over to CasaQuinn. But first he consults his PDA and finds that CasaQuinn had already sent him a reminder that the refrigerator was running low on various essentials. He also finds that Petra had requested some recipe details for their dinner party at the weekend and CasaQuinn has already sent an order confirmation for the ingredients.

Luis picks out some e-coupons sent by CasaQuinn and sets off for the store. As he enters, his PDA tells him that many of his regular purchases,



plus the special dinner party items, have already been collated and can be ready for him to collect at the Drive-Thru by the car park exit. He chooses to accept most of the suggested products along with a double loyalty points offer on various items shown on his PDA. He pauses at the infotainment centre, which automatically starts to run a film showing how to prepare the dishes that he and Petra will cook at the weekend. He stops the film and downloads it to his PDA before continuing into the store.

His grumbling stomach drives him first to Food for Now where he is almost overwhelmed by the sights, aromas and opportunities to taste that greet him. Too hungry to take home, he decides to order the stroganoff with noodles to eat in the in-store diner and gets them to add a green salad and glass of red wine for good measure.

Whilst he is eating his food he calls up the CasaQuinn Wine Club on the tabletop screen. He joined the Club two weeks ago. There is an invitation to join a weekend Vineyard tour and wine tasting in the Loire next month - coinciding with his wedding anniversary. The trip is not cheap but there is a complimentary Chateau visit and bottle of champagne. He has heard from a work colleague that these are really prestigious events and can be a lot of fun. He receives an onscreen message that Hans Muga, CasaQuinn's renowned wine buyer is in store today to introduce a new range of Chilean and Argentinean wines. When he registered for the wine club he expressed a strong interest in new world wines. He decides to pay the department a visit.

On his way to the Wine Zone Luis stops by Food for Tonight and selects a Cantonese dinner for two from CasaQuinn's Chinese selection. He can never resist the theatre in the fresh fish department and finds himself in front of the live fish tank. There he selects a couple of trout for dinner tomorrow night. Passing by The Bakery he picks up a box of the twins favourite chocolate-topped doughnuts. Heide sent him a message this morning that they are bringing some friends back to play after school. Tempted by the amazing breads, he picks up a walnut loaf and some olive bread to put in the freezer.

Moving on, he is then attracted by some music to CasaQuinn's Town Square, where there is a fashion show taking place, featuring Zango's latest range for the under 5's, exclusively designed for CasaQuinn. The models



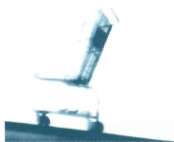
are children from the store's nursery, watched like hawks by their nannies and being clucked over by a group of proud mothers who have managed to slip away from work to see their kids perform.

In the Wine Zone, as a result of his discussion with Hans Muga, he places an order for a case each of Lujan de Cuyo Malbec and El Ceibo Merlot. When he registers the order for the wine, his PDA shows a message from Wellbeing for a free massage as he is in store, featuring a new 'deep muscle' treatment. He smiles, they know he plays football every week. Would have been great had he more time. The message still draws him into Wellbeing where he downloads a film on the massage treatments to watch later and finds himself buying a bottle of the new massage oil!

On his way out of the store he selects a bunch of lilies for Petra. As he make his way to the Drive-Thru he recalls the stressful days when he hated food shopping, there was little pleasure and lots of aggravation: queuing at the checkout, unpacking and packing a trolley load of groceries. He has rather enjoyed his excursion today and is already looking forward to the prospect of a glass or two of the Merlot that evening and maybe a chunk of walnut bread with some cheese when he gets home.

The CasaQuinn scenario illustrates how a Retailer Driven Relationship differs from the Transactional Relationship in that Casa Quinn is harnessing communications and database technology to make relevant offers to its customer base. A society which has embraced pervasive communications makes features like auto-replenishment possible when Luis and Petra's refrigerator literally communicates with the retailer. In this example, it is likely that Luis and Petra are rewarded in some way by CasaQuinn for making this kind of information available (for example, the e-coupons, the offer of a free massage and the opportunity to join the vineyard tour with complimentary chateau visit and champagne). Like ValuMart, CasaQuinn has also streamlined its front and back of store operations, but it is able to present the result as a customer benefit. Human expert support has been replaced with interactive infotainment which is also designed to add value to the customer relationship.

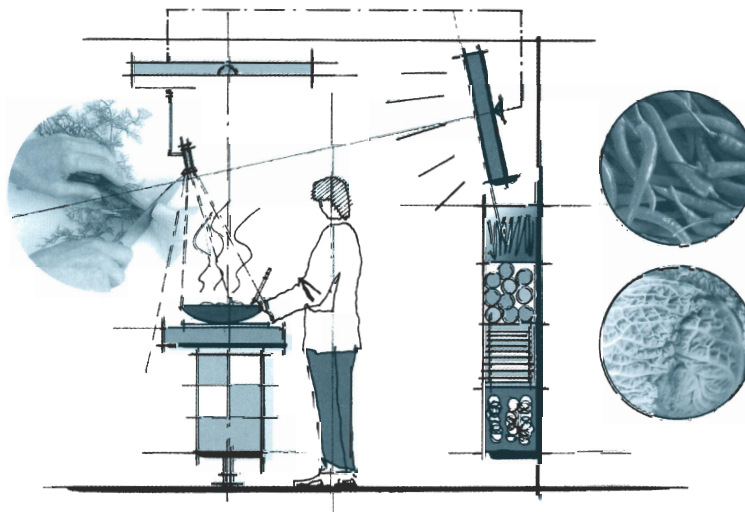
Ten or 15 years down the line, the Retailer Driven operator's expertise could potentially develop in the provision of services that come into the home or even into the workplace. In-home catering for dinner parties and special events, home



cleaning and home maintenance, personal care services, well-being and alternative therapies all represent potential as long as the retailer inspires enough trust in the consumer and offers appropriate values for the brand and expertise.

The Retailer Driven operator's internet sites of today will develop so that they offer the customer a way of accessing the store's expertise and support online from the home or indeed, as new technologies come on stream, from wherever the customer happens to be. From today's menu-based home shopping, which depends on the customer initiating demand, tomorrow's Retailer Driven relationship will provide an intelligent service that will automatically replenish and prompt the customer according to a set of previously agreed procedures.

Fig 40 *In-house service provision – 'virtual chefs' in the kitchen*



In 10 to 15 years, in addition to servicing a growing demand for acquiring expertise through education and advice, the store of the future will play an important role in some parts of Europe in fulfilling some of the social needs of the communities it serves. Superstores close to local communities will be best placed to provide this kind of support. From today's crèches, retailers represent the potential to become trusted providers of paid-for nursery care. Their cafés can become community centres or meeting places and their in-store restaurants could become gourmet restaurants, if they are backed up with appropriate expertise and ambience. In short, store managers could become community leaders.



Case Study

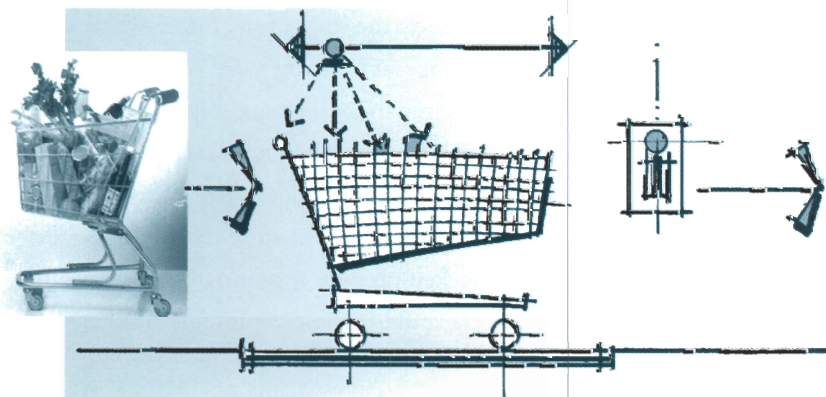
H-E-B

The H-E-B grocery chain has nearly 300 stores primarily in southern Texas and northern Mexico. The retailer, a privately owned company, is known for quality and freshness of produce and customer service. Wal-Mart may price things very low, but its merchandise is not rotated and it does not offer cookery classes, as H-E-B does.

The chain took this approach further with its "Feast of Sharing Holiday Dinners", an effort to "combat hunger throughout Texas and Mexico". In this annual event, the company serves free hot holiday meals to the hungry, needy and lonely in communities across Texas and Monterrey. Guests receive light entertainment and free services, such as free long-distance telephone calls to family on the other side of the border and counselling for first-time homebuyers. The company also flags its conservation efforts, which include the use of a transport fleet that runs on liquid natural gas rather than petrol.

Adding value to the Retailer Driven relationship will be as much about reducing the hassle of shopping as it will about enhancing the shopping experience. Remote shopping will be only part of this. Ultimately, just as with the Transactional retailer, this will lead to the introduction of automated checkouts. It is likely, however, that this will be a phased introduction, so that best or potential best customers are given the opportunity to use them first.

Fig 41 Automated checkouts 2005 - 2010



Most of the above discussion has been focused on the larger store formats, but in terms of relationship-building, it has implications for all formats. A critical aspect of relationship-building is that the store will need to be able to recognise the individual customer in whichever channel or format that customer happens to be. The decline of Planned shopping and the growing demand for Immediate shopping will lead Retailer Driven operators to reinvent supermarket formats and turn them into extended convenience stores, with an emphasis on innovative, fresh prepared food ranges and home meal replacement lines. Packaged goods and solutions will also be features of the convenience range but these will be largely geared to the retailer's own brand and solutions. Such will be the trust in the Retailer Driven operator's own brand that manufacturer's brands will only feature if the retailer has not developed an own-brand equivalent.

Where appropriate, services will be included in the convenience offer, depending on local needs. These could include basic services such as photographic processing and dry cleaning, which are often already made available to shoppers, but also more developed services such as customised catering advice or event-planning, equipment hire and service and access to visiting specialists for treatments offered as part of the Retailer Driven proposition. Depending on location and access, the extended convenience store could also provide a collection point for remotely ordered merchandise.

While the Transactional operator will see the media opportunities represented by the store of the future as a potential new revenue stream, the Retailer Driven operator will view them first and foremost as an opportunity to reinforce its brand values. There will be opportunities to generate revenues from suppliers, but extreme care will be taken to ensure that any communication, products or services being promoted fits with its Retailer Driven positioning and in some way contributes to its relationship with the customer.

8.2.3 PARTNER RELATIONSHIP

The partner relationship depends on the retailer having an intimate understanding of the customer's household, shopping behaviour, preferences and needs. This knowledge will have been gained from a variety of sources but the more intimate knowledge that will really make a difference will be provided directly by the customer. The motivation for the customer to do this will be an increasing



dependency on the retailer and recognition of the fact that the **more information** provided, the greater the practical benefits and potential rewards **in return**.

A Partner relationship is most likely to grow out of a Retailer Driven relationship, with those customers that the retailer identifies as **potential best** customers, representing a high lifetime value. Anything the retailer **offers will** be permission-based – the customer's agreement to the **interaction must** be secured – **proactive** and based on dialogue. The forerunners of partnering **can be found in** other retail sectors, for instance department and clothing stores that offer **personal shopping** services.

Servicing a partnership will not come cheaply. The **Partner** retailer will **want to** be sure that the payoff will warrant the investment made **in technology and support** services.

For the food store in the future, artificial intelligence developments will enable the retailer to provide customers with an intelligent personal agent to **provide a remote service** wherever they happen to be. Examples of what **this means in practice** include:

- A Home Manager which advises **the customer of appropriate new products**, services and opportunities. The **Home Manager has the potential to** organise home maintenance, manage the **household's diary**, **plan** events, advise on forthcoming events and, if requested, offer **advice and service support** for those events.
- In-home access to the retailer's virtual or real **chefs who tailor menus** for the customer, on a regular basis, for **special events** or to **meet special needs**.
- Intelligent Personal Shoppers, given **information on the household's** preferences and shopping history, which are able to **interact with intelligent** devices such as refrigerators to **maintain the household's grocery** requirements. The personal shopper **could make intelligent decisions and** shop on behalf of the customer for **specific occasions such as** routine family meals or a dinner party for four with **specified guests**.
- Passion Partners or experts who provide **the customer with guidance, advice,** opinions and opportunities related to his or her **passion, for example wine,** cheese, specific regions or beauty therapies.



As Retailer Driven operations aiming for a Partner relationship develop expertise in providing associated services and running support systems, so the customers who become partners will be allowed increasing access to these services and more customised support. The retailer is likely to have to foot the bill for investment in virtual agents, but support services provided to the home or to the individual will be paid for by the customer on a contractual or as-needed basis.

Typically these could include: event planning and servicing (dinners, parties, weddings, etc); in-home catering; household and appliance maintenance contracts; holiday/leisure planning; household utilities telecoms, etc. It could also involve extended and customised access to clubs and education facilities created by the Retailer Driven operator but customised for its partners, for example crèches and nursery care, health and well being clubs; wine and gourmet clubs.

Following on from Levi's success with its customised jeans and Nike's initiative in sports footwear, customisation of consumer packaged goods is already starting to take place in number of categories. Proctor & Gamble has done this in the skincare and cosmetics sector with Reflect.com, which allows the customer to create tailored products based on lists of options. Other manufacturers are running experiments designed to deliver a customised product in-store or over the internet. We believe that customisation will be an important aspect of the partner retailer's offer to the customer. It will start with services but will extend to products, ingredients, packaging and possibly even delivery systems. For example, the retailer could offer containers of personal care products, household cleaning products or cooking ingredients that match the customer's décor or even make a particular design statement. Skincare products could take account of skin types or allergies and customised prepared meals could be created to meet the family's preferences, perhaps delivered in freezer-ready multi-packs.

Partnership Relationship Scenario

Nina returns home from her morning run and goes to the refrigerator for a glass of cold water. While she stands there she calls up her diary. Crisis: she had totally forgotten about the dinner party she had planned two weeks ago. She should have asked for an alert to be sent to her PDA yesterday.

She calls up her personal Teshein Intelligent Digital Assistant, Jamie. "What can I do for you?" he asks. "Jamie, I've got a dinner party tonight for six



people, and I don't have a clue what to make. Sam Stein, my sister, Katrin, Jak Kwist, my new boss and my partner Hans and myself will all be there. You don't have my boss's profile but I do know that he doesn't eat red meat. Please create a temporary profile for him, his name's Manuel Hertz. What can you recommend?" "Is your sister still on a diet?" "Oh, I had forgotten about that. But don't consider it, my boss is the main guest." "What about seafood then? There are some lovely fresh prawns, mussels and langoustines at the fresh fish counter, I could create a menu for you from that?" "That sounds excellent!" "Done, all the ingredients will be with you at three o'clock. Do you need any help with serving and clearing, shall I get the service manager to send a waitress over?" "No thanks Jamie, I think I can cope, my sister and Hans will lend a hand." "Oh, and by the way, would you like some flowers sent too? The stephanotis you bought at the store last week must be way past their prime."

30 minutes later the screen flashes a message from Jamie. He has sent her menu with a demonstration to be run as she prepares the food. There is a list of the ingredients he will be sending and the wines, etc to accompany the food. Nina smiles, Jamie has recommended her favourite Pouilly Fume to accompany the fish, a Beaujolais to go with the cheeseboard (which includes Hans' favourite soft cheeses) and a Riesling Auslese for the dessert. They haven't tried that particular dessert wine before but she has learnt to trust Jamie's recommendations.

Accompanying the delivery is a package from Simon her Teshein Home Manager. It is a set of refills she had requested only that morning for the custom bathroom toiletry dispensers Teshein's Aromatherapy supplied them with last year. When Aromatherapy created their personal product formulae, Nina and Hans selected dispensers to complement their bathroom décor. The formula is stored by Teshein and refills are supplied on demand.

She spends the next three hours working but can't resist checking now and again how her four year old daughter, Katy and toddler, Josef, are behaving at Teshein's nursery. They both seem to be playing happily with the other kids and when she calls up the link at 12:30, she can see them both settled eating their lunch.



As she prepares herself a tuna salad she notes that there is a message on the fridge screen from Simon. He has sent her his recommendations for the summer planting for her garden. She calls up his visualisations and apart from changing the colour palette slightly and requesting a vigorous, evergreen climbing shrub to help disguise Hans' new shed, she signs off his plans and chooses a date and time for the planting to begin.

The food for the dinner party arrives at 2:45. Everything looks perfect, most of the ingredients are in a chiller box, with the breads Jamie has chosen, the cheeses and red wines in an ambient container. Jamie has sent peach and cream roses which will complement perfectly her dining room colour scheme and there is a complimentary box of petits fours to serve after the meal.

Teshein customer, Nina, is happy with her 21st century grocery retailer. She willingly provides it with information about her lifestyle and family and friends in return for a highly personalised shopping and life management service. A significant investment in advanced technology behind the scenes makes this kind of relationship possible. Computers which use artificial intelligence, advanced voice recognition and generation programmes like the ubiquitous Jamie and Simon have become personalised agents. They are able to store and understand Nina's past behaviour and, thanks to a sophisticated inventory management system, can make real-time purchase recommendations based on that knowledge. Both are probably funded by Teshein and as such, represent and symbolise its brand. Teshein has become Nina's life management brand of choice.

8.2.4 CONSUMER CONTROL RELATIONSHIP

As we have described in Section 5, in the Consumer Control relationship the store is largely passive and is not actively seeking a relationship with the individual customer. Technological advances enable the consumer to be in control and to have access to information, goods and services when and wherever needed. In the future this access will be typically made via intelligent software agents. These may have evolved from today's shop bots, which emulate an individual's decision-making process. For a small minority of consumers, however, the agents could be personal shoppers or agents – tomorrow's butlers.



Intelligent agents could be enlisted by the individual user for an automated customised service which delivers personalised information, seeks goods and services and finds information which it identifies as being of interest to the customer. If the customer wishes, agents could have access to personal information such as the dates of birthdays and anniversaries, allergies, preferred meals, holiday destinations, products and brands or details of share portfolios and investments. They could use this information to remind users of important dates, send gifts automatically, suggest venues for a forthcoming event, manage investments or identify financial service options tailored to the customer's needs. However, the user has ultimate control, as the agent can be switched on and off.

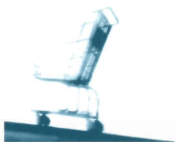
As we described earlier, the Consumer Control relationship represents limited potential for the retailer. But there are opportunities:

- The availability of price lists and promotions online could enable this type of consumer or his agent to compare shopping baskets, promotional offers and best buys and either buy online or via the store.
- Consumer agents in the future may put out to tender their customer's requirements, for example a year's contract for the monthly supply of replenishment grocery products. Tenders at this level of volume may well appeal to the Transactional retailer.
- The Transactional retailer may extend its bricks-and-mortar offer outside the traditional range of merchandise, offering online goods, for example cars, holiday packages or furniture. This could enable the transactional retailer to reverse the flow.

As described in Section 5 on relationships, there is potential for retailers to become consumer agents themselves. In Germany, for example, Aldi has a second-to-none reputation for providing the consumer access to value merchandise via its stores. It is conceivable that in the future, Aldi could build on these values and become an online agent to consumers for an extended list of value merchandise or even services.

Consumer Control Relationship Scenario

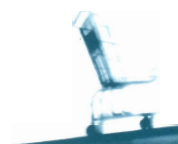
It is Wednesday evening and Birgit receives a reminder on her digi-fax about the dinner she has planned for Saturday. She accesses her 'e-Villa' terminal and calls up her PDA. Using her light pen, she highlights options for the search and the friends that are going to be there, having already saved their profiles.

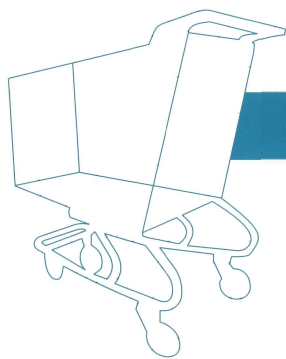


She selects a menu from her file of favourites and in the comments form, she requests that the electronic assistant sources recipes for the menu from her favourite foodstore websites. On Thursday she checks back with the assistant. Her recipe options are there, along with information about where she can get all the ingredients. She notices that CasaQuinn is somewhat more expensive than Foods Galore and that their menus use some novel ingredients. "I'm not surprised," she thinks, "CasaQuinn's own-brand range of food is great quality and they have some really innovative products in their range." The assistant also informs her that CasaQuinn has a drive-through pick-up service and it is not at all out of her way. She authorises the agent to place the order. The next evening she picks up the ingredients. "Here you go," says the person at the collection depot. "You'll notice that we've included some fresh flowers: we thought you might be planning a special meal. Would you be interested in a DVD about our kitchen management service?"

On the drive home her in-car terminal flashes a message from her assistant. At the traffic lights she can't resist a quick check. The decoration, furnishing and equipment options for her new study have been prepared and are waiting for her to make a selection. Over a glass of wine, she calls up the various options her agent has prepared. Each is within the budget and time scale she specified and there are visualisations of the options that have been prepared. Each option includes decorating and fitting costs as well as the supply of the materials, equipment and furnishings. Her agent has done an excellent job. The options are sufficiently different to enable her to make a selection without too much difficulty while providing her with a genuine choice. Her preferred option is from the new division of Teshein – Ikeco, she has never used them before but has seen some of their furniture and fittings in the homes of friends.

Birgit is an affluent 21st century consumer who has taken control. She is using communications technology to filter out messages. She has entrusted her shopping to an artificial intelligence intermediary agent who, on Birgit's behalf and in the blink of an eye, stages a mini-tender process for all of her purchasing requirements. Birgit has invested a lot of her own time in "teaching" her agent about her needs, wants and expectations. And he continues to learn more about her with every new transaction. In order to respond to Birgit's requirements the retailers her agent deals with must also have invested in the same kind of technology. Brands are still an important part of Birgit's ultimate decision-making process, but her agent will intuitively limit Birgit's brand choices based on some basic objective requirements like price, quality and timing.





CHAPTER NINE

OPERATIONAL IMPLICATIONS

- 9.1 IMPLICATIONS FOR STAFFING
- 9.2 IMPLICATIONS FOR SUPPLIERS
 - 9.2.1 RETAILER SCALE
 - 9.2.2 RETAILER RELATIONSHIP TYPE

CHAPTER NINE – IMPLICATIONS FOR STAFFING AND SUPPLIERS

The previous section looked at format solutions which take account of consumer shopping modes and relationships. In this section, we move on to consider the issues that influence the retailer's ability to make those solutions possible. We summarise these as Implications for staffing and Implications for Suppliers.

9.1 IMPLICATIONS FOR STAFFING

Clearly, customer-facing staff are going to play an increasingly important role in relationship building with the customer. The leading Retailer Driven operators of tomorrow will have already started a programme of staff recruitment and training geared to delivering superior customer service. Superquinn for instance has invested in the re-skilling of its Human Resources Department (now known as the Talent Department) with a clear brief to develop, retain and attract the best talent in the food retailing industry. This will be particularly important for store and departmental management, staff serving at service counters in fresh food departments, or chefs preparing eat-in or takeaway food. The Retailer Driven operator's ability to deliver expertise and support remotely will also be important.

The imminent threat to retail is of a labour shortage. As young, qualified people become increasingly scarce it will become more difficult to recruit the necessary staff. The retail sector already has one of the highest turnover rates, with many people looking on retail only as a first job. Thus a scarcity of workers will become an increasingly serious problem, which retailers should start considering now.

They need to identify the risk of labour shortages and anticipate the issues associated with an evolving mix in their staff's composition as older workers, working mothers and immigrants make up an ever-increasing share of the overall workforce. Identifying opportunities for in-store automation, gearing up for even more flexi-time working and provision of language training are just three examples of initiatives which retailers may need to take. The ability to draw on manufacturer support for store-based tasks up the supply chain, for instance, shelf ready pallets, shop floor ready displays, etc will present the scale players with further opportunities to reduce staff tasks.



Fig 42 Changing roles of staff – technology/automation will enable staff reduction

Today	2015
Supervise/manage staff	<ul style="list-style-type: none"> ■ Aided by advanced systems/analytical tools to aid localised decision making
Received goods	<ul style="list-style-type: none"> ■ More palletised for store
<ul style="list-style-type: none"> ■ Checkout operations ■ Clean ■ Shelf filling 	<ul style="list-style-type: none"> ■ Electronic scanning/direct debiting ■ Robotised? ■ More customised store/shelf-ready displays/modular shelving/dollies: 'solutions' <ul style="list-style-type: none"> – scale wins: – only for large customers ■ Manufacturer - Who gains pays! <ul style="list-style-type: none"> – deliver shop floor ready displays ■ Point of difference/added value (or don't have it) <ul style="list-style-type: none"> – Preparation/service-Advice – Customisation – (Pick order for delivery) ■ Expert Staff <ul style="list-style-type: none"> – Departmental managers/customer facing roles – Expert systems facilitate tailored to store demand merchandising/promotional activity
<ul style="list-style-type: none"> ■ Special displays ■ Erection/Maintenance ■ Maintain service dept's (eg fresh) 	
<ul style="list-style-type: none"> ■ Manage departments/promotions/etc 	

Retailing in the future will create demands for more highly developed and even totally new skill sets, particularly in Retailer Driven and Partner relationship scenarios. Through the use of technology and advanced systems based on data mining and modelling, store managers will have an understanding of their customers' needs and wants and an ability to anticipate demand that puts even the traditional corner shop to shame.

Technology will enable customer-facing staff to identify individual shoppers, know their preferences, know about events that are important to them (such as key birthdays or religious festivals), and know what delights them. All of this will demand new skill sets across the business. The ability to manage and interpret data, to understand the implications of the information and take appropriate actions will need to be taken into account in staff recruitment, systems development and staff training.

Many retailers already have staff within the business who are specialists or acknowledged experts in their field, such as department managers or buyers. In tomorrow's Retailer Driven retailing scenarios, where expertise will be increasingly valued, department managers and some buyers will become customer facing – as guides and educators of the customer and advocates of the Retailer Driven retailer brand.



9.2 IMPLICATIONS FOR SUPPLIERS

The biggest challenge for suppliers comes from two areas, retailer scale and retailer relationship type:

9.2.1 RETAILER SCALE

As their retailer customers continue to operate on an increasingly multinational or global scale, suppliers will be affected in the following ways:

- The concentration of retailer volume on a global scale will create a whole new item-level economics and the creation of global business units. Economies of scale change immensely as the cost of an item moves from \$10m to \$25m to \$50m to \$500m. It allows scaled customisation, whereby global retailers will have their own unique packs on key branded items, or joint brand development through co-branded products. Global retailers will continue to be more involved in research and development with key suppliers
- Retailer concentration allows a captive supply and access to lower cost manufacturing. Global retailers will begin to negotiate with suppliers about which factories they devote to their products, in an attempt to gain the lowest cost production for their products.
- Concentration provides retailers with an advantage in general merchandise sourcing. Category management evolves significantly so that retailers and suppliers think less about broad-based category analysis and develop a better understanding of the role of each item in the assortment. Category management frameworks will be helpful, but each item will be understood in the context of the other items that sell with it and this understanding will be critical to understanding what role the item has in the store. In essence, each item will be its own category.

9.2.2 RETAILER RELATIONSHIP TYPE

The trend for retail outlets to operate on an increasingly multinational or global scale allows for customer-specific costing. Suppliers will continue to route volume and resources to the most profitable customers but these resources will vary by retailer relationship type.



- The Transactional relationship involves a focus on data processing, customised packaging and shipping and improved forecasting technology driven by item-level identification to allow Fed-Ex style package tracking through the supply chain. Transactional retailers are an attractive outlet to a branded manufacturer as brands perform well in that context, but their very size and focus on core items means they are able to put pressure on the manufacturer to lower prices.
- Retailer Driven operators will battle the manufacturer for brand supremacy with the shopper and are likely to have extensive private label programmes. Their data management and affinity merchandising will be state-of-the-art to enable them to understand individual shopping patterns and allow for customer-specific pricing and promotions.
- Because of the shopper's higher level of commitment, Partner retailers will have brand supremacy and will be able to sell their customers whichever brands they think meet their needs best. The level of work required to maintain this type of relationship and the lack of brand leverage on the part of the supplier, makes Partner retailers complex customers and they will, by and large, be the most difficult for large suppliers to work with.

Suppliers need to manage their own organisation to take account of the growing influence of global customers. They need to organise around these customers, perhaps by creating customer-specific business units for key clients. Suppliers also need to make sure that best in class business practices get moved from market to market. Suppliers bring capabilities to the table in category management, demand creation, supply chain expertise and inventory management that are much stronger in their developed markets than in less developed markets. They therefore need to organise themselves to make sure that these practices flow from market to market where appropriate.

Human resources and career development become vital capabilities for these major suppliers, as the concept of organising globally pushes against many of their traditional structures and reward and recognition systems.

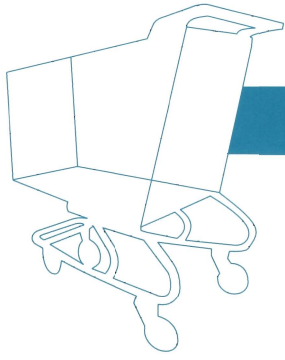
Own-brand manufacture will become more common even for larger branded manufacturers and will simply become an accepted part of category management for large brands. Many suppliers will look to outsource key parts of their operation



to focus on brand development and specialty firms will evolve in the core areas of manufacturing and distribution.

Another scenario is that more suppliers will try to become direct retailers. In categories such as entertainment where the product is digital this may make sense, as virtual stores have more compelling economics than physical ones. However, while many suppliers will try this route, few will have the speed and agility to do it well.





CHAPTER TEN

LOOKING FORWARD TO THE (R)EVOLUTION

CHAPTER TEN – LOOKING FORWARD TO THE (R)EVOLUTION

Our investigation into the food store of the future has thrown up a world where the current supply-centric retail concerns become subservient to the role of the store in terms of the way in which it generates and perpetuates its relationship with the consumer.

In a saturated and highly competitive market, a differentiated and coherent brand positioning will be essential.

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

As the consumer will control a highly evolved portfolio of interaction 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 brand.

Of the existing formats, Hypermarkets are most under threat. Configured primarily to satisfy the Planned shopping mode, they are inevitably at risk in those countries where we predict significant decline in this form of shopping (principally NW Europe). To survive they will need to reinvent themselves, focusing on becoming a magnet for the one-stop shopping trip which is increasingly more oriented around non-food than it is around food.

In countries where spend on Planned shopping decreases, spend on Immediate, convenience-oriented shopping will grow. The hottest competition here will be in the Convenience sector. This is likely to have a knock-on effect on supermarkets who 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.

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.

The front and back of store will blur and reconfigure to mould to the new consumer retail landscape.



Staff, who will be a key manifestation of the store and its brand, will find themselves facing new and challenging roles and responsibilities.

"The days of brand building defined simply by awareness and driven by marketing alone are over.

Those companies that thrive will be the ones that create the most compelling and consistent brand experience for their customers. These organisations will build their brand in conjunction with their customers and supported by all parts of the organisation.

The depth of the relationship between the brand and its customers will be the foundation for ongoing success and sustained competitive advantage despite disruptions in the marketplace"

Michael Dunn, CEO Prophet, 2001



