

# The Reshaping of Retail

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# Foreword

The retail environment is changing more quickly than ever. The digital revolution is having a profound effect on how people shop, and how retailers operate. The retail sector is under scrutiny more than ever before, with high-profile retailer failures dominating the headlines.

As one of the pre-eminent owners of retail property in the UK, Hammerson clearly has a strong interest in the future of retailing. And while there are undoubtedly huge challenges facing the sector, we are excited about the opportunities in retail today. That was why we took the decision to become a purely retail focused property company.

But there is no doubt that tomorrow's retail world will look very different to today's, which is why we commissioned this report, working with leading retail consultants Conlumino. Neil Saunders, MD of Conlumino is one of the most recognised experts on retailing in the UK today, and we asked him to look at how the face of the industry will change over the years ahead.

The report has been independently written and as you will see, it is frank about the challenges facing the sector, and predicts there will be fewer shops by 2020.

However, the overriding story is about opportunity. Retail sales are going to grow more rapidly over the next decade, driven by the growth in the numbers of older shoppers. We reveal that we're entering a new era of buying behaviour and one of the Considered Consumer. This is a change in mindset to the pre-recessionary times. Online, and particularly the use of mobile devices, will play an ever more important role as part of the multi-channel mix and help improve the shopping experience.

Most importantly, the report confirms our view that while sub-scale retail locations face real challenges, those which provide shoppers with true convenience and a genuine experience will continue to prosper. Now, more than ever, owners of shopping centres and retail parks need to give consumers a reason to visit. A larger range of stores from the UK and around the world, a great choice of places to eat and easy accessibility are all absolutely vital.

Hammerson is committed to that mission, but we can't do it alone. The report shows that those retailers which will prosper in what Conlumino calls the age of Considered Consumption will need to have a clearly differentiated offer, with products which are genuinely 'must have'. Their stores will need to be true showcases for their brands, and make multi-channel shopping easy for customers.

As ever, in the cut-throat UK retail market, there will be winners and losers. But for those in the retail market who continue to meet and anticipate customer needs, there are exciting opportunities ahead.

David Atkins  
Chief Executive  
Hammerson



# Introduction

Over the next ten years we will see significant changes in how households spend their money.

By 2022 retail spending will have reached £377bn, up 26% on current levels. People will, in general, become more affluent and will wield much greater spending power; however, there will continue to be pressure on the household budget, meaning retail spend will have to fight harder for its share.

During the recession, discretionary income has continued to fall. From 2013, we expect to see it start to modestly rise again, partly due to limited positive increases in wage settlements leading to an improvement in household budgets. This will help stimulate annual average growth in retail spending.

While the consumer economy will recover over the next ten years, growth will not be evenly distributed across all consumer segments. Retailers and retail destinations need to understand where the opportunities are and seek them out. One of the most significant opportunities over the medium term is among older consumers.





1969  
GAP  
1969

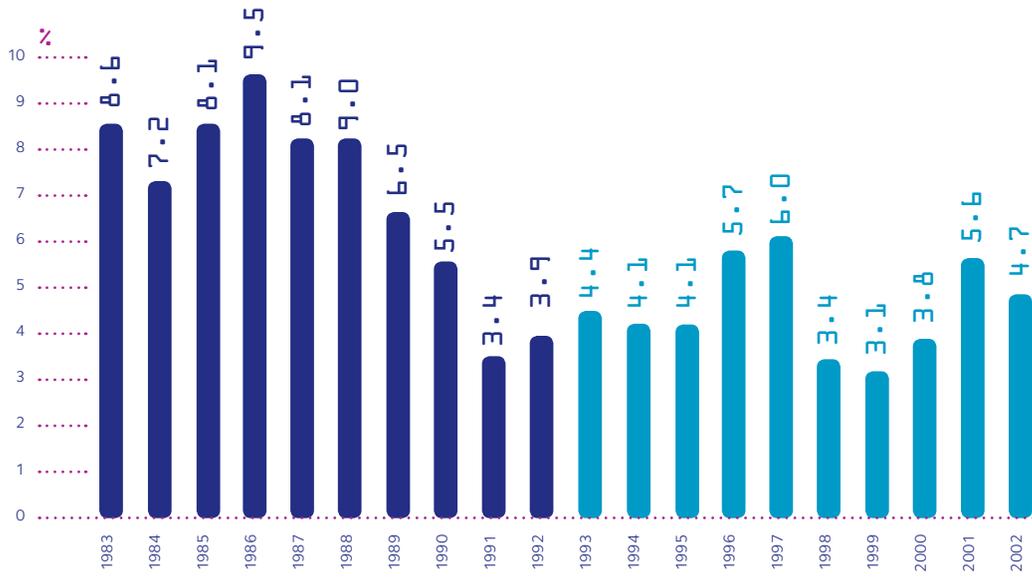
1969



# The Four Ages of Growth

For the next ten years we estimate annual average growth in terms of retail spending will be 2.4%. While this is a marked improvement on the past ten years, the latter of which have been characterised by the recession - it is a long way below growth rates of the 1980s and 1990s.

## Growth rates in retail spending



1983-1992 The carefree years

7% Average annual growth

1993-2002 The careless years

4.5% Average annual growth

# 1

1983 - 1992

## Carefree Consumption

Strong growth in retail, funded mostly by real term increases in income and wealth plus the taking on of more debt, albeit from low initial levels. A strong housing market and rising home ownership.

# 2

1993 - 2002

## Careless Consumption

Continued growth in retail, funded mostly by taking on extra debt (from already high levels), encouraged by low interest rates. Rising house prices fuelled mortgage equity withdrawal which, in part, funded consumption.

# 3

2003 - 2012

## Careful Consumption

A recessionary mindset characterised by cuts in the amount of product purchased, as well as some trading down activity. Spending levels generally very subdued.

# 4

2013 - 2022

## Considered Consumption

Considered Consumption is an emerging consumer mindset. It is characterised by a consumer who is less concerned with the pure acquisition of products and is more concerned about the nature of those products and their real value.

The considered consumer is less impulse driven and questions much more before they buy. Do they really need the item? Do they need it now? Is it worth the money? What is the quality like? How long will it last?

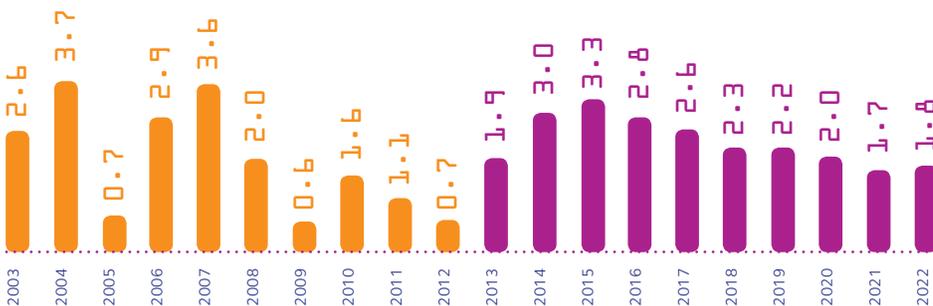
Inherent within this is the fact that considered consumption is a much more holistic form of purchasing.

Considered consumers are not only concerned with the product itself, but are also concerned with the realities behind the product – the ethical soundness of the supply chain, the environment in which the product is sold, and the corporate responsibility of the company which sells it.

The considered consumer takes more time to research purchases, particularly online and will seek out product reviews, and expert opinion as well as checking on price.

As a result, Considered Consumption is a less impulsive form of buying behaviour. It is also less about volume purchasing and more about selective purchasing where fewer, perhaps more expensive, items are selected because of their quality, convenience or value to the consumer.

Real value will also be measured by excellent customer service and the retail experience when purchasing products.



2003-2012 The careful years

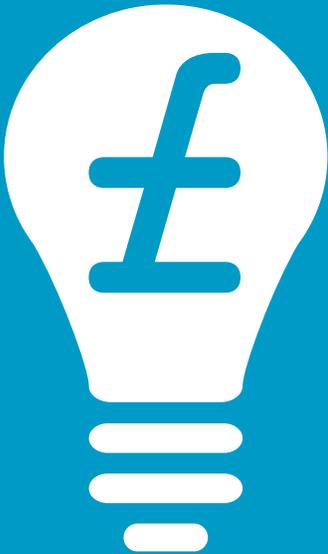
1.9% Average annual growth

2013-2022 The considered years

2.4% Average annual growth

# Considered Consumption

.....  
Considered Consumption  
and a changing  
demographic will change  
the way consumers behave  
as well as changing the  
way retailers need to  
react.



# Winning Propositions

The frivolous, carefree consumerism of the past has given way to Considered Consumption, where other priorities are demanding a greater share of traditional retail spend.

Part of the change will involve understanding the consumer and engaging with their values. Compared to 20 years ago, a far greater proportion of our spending is now on indulgent, rather than needs-based goods.

The key for retailers will be to inspire people to 'want' things, in other words, to really sell to them.

Consumer demand has become increasingly fragmented and it has become less viable to go after the whole market. Retailers must break down and segment their ranges into discrete areas that have relevance to individual consumer groups, ensuring that they are offering compelling products.

To succeed in the era of the considered consumer retailers, stores and retail destinations need to establish reasons which compel shoppers to visit them. Those that flourish will excite and inspire consumers, and brands which are unable to differentiate or excite shoppers will find it tough.

Old mindset:  
Careless  
Consumption

Quantity  
I buy lots of things; some I need, some I don't...

Product  
It's mainly about the product...

Price  
I want everyday low prices...

Impulse  
I buy things without thinking much...

Newest mindset:  
Considered  
Consumption

Quantity  
I buy things that I really want...

Holistic  
It's about the product and the background to the product.

Value  
I don't mind paying for good things...

Considered  
I research online, buy things I like, but think about what I'm buying...

# Who's Shopping?

Our population is ageing. Over the next ten years we will see an explosion of growth among older age demographics. The over 55's will also contribute the lion's share of growth over the next ten years, some 62% of all retail growth (£48.7bn). This is due to the actual growth in the size of these segments (driven mostly by an ageing baby boomer cohort); a real terms increase in incomes for this segment over the ten year period; and, a change in mind-set whereby older consumers of tomorrow will be far more engaged and interested in retail than their equivalents of today.

Although older shoppers will represent a strong growth potential, retailers will need to work hard to persuade them to spend, giving them compelling, interesting and engaging offers to entice them into buying. This is a particular challenge, as most retailers and shopping destinations have not traditionally targeted older consumer segments and so far they have been a missed opportunity.

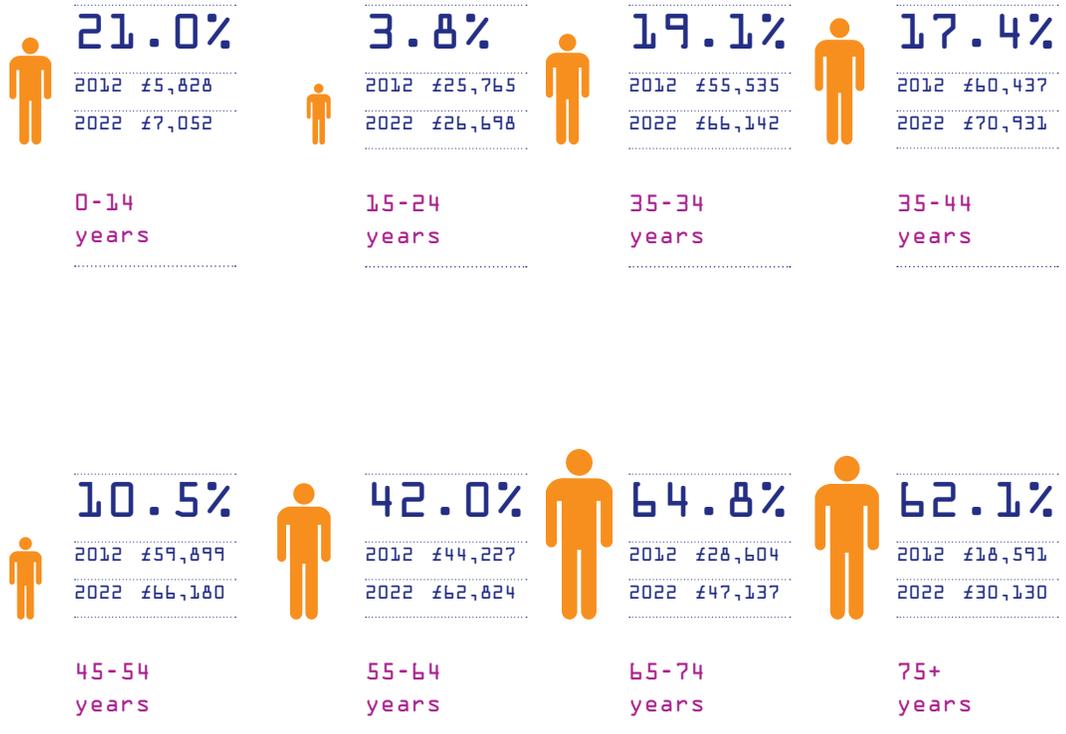


# Changing Demographics

## Total annual retail expenditure by segment

### Key:

- Total % growth in spending from 2012-2022
- Total spend by age group £m



# How we're consuming

The emergence of mobile technology and the maturity of online retail inevitably means that consumers are using more channels during the purchasing process which creates new opportunities for sales growth.



# The New Rules of Retail

A strong, differentiated brand and 'must have' products.

The slowing in expenditure is not coming about because of a decline in household incomes but because of buying behaviour.

Strong brands that promote lifestyle values that consumers recognise and buy into will be the ones best placed to do well.

Engage with consumers more often.

It's no longer a case of putting products on shelves and expecting them to sell. Retailers that create interesting environments that stimulate consumers and give them a reason to visit their stores will be the ones that secure sales growth.

Adapt the business models to a slower growth environment.

Some will need fewer physical stores than they used to and others may need to rationalise their product offer. Others will need larger stores in the right location. Retailers that do not review and change their business propositions will be the ones that lose out.

## Old selling skills

Price  
Choice  
Range  
Product as a brand  
Self Service  
Product Marketing  
Signage



## New selling skills

Product  
Differentiation  
Niche  
Retailer as a brand  
Personal Service  
Brand Marketing  
Experience

# Time is Money

The myriad of purchasing channels and the greater ease with which consumers can research purchasing is lengthening the buying process.

In 2001, the average shopper would typically spend about an hour when making a higher value purchase (i.e. not everyday products such as food and basic clothing). By 2014, this figure is set to reach over two and a quarter hours (again for higher value purchases).

Considered Consumption is key to the change in buying behaviour. The emergence of online, mobile and tablet technology has made it significantly more convenient for consumers to research retailer ranges and compare price. While at the same time, the post-recessionary consumer has become more considered with their spending.

## Time spent on purchasing

All numbers are minutes

	2001	>	2014
 Thinking	38	>	97
 Researching	18	>	44
 Buying	3	>	14
 Receiving	2	>	6
Total	61	>	161

# Multi-tasking and Multi-channel

Back in 2001, when online shopping remained in its relative infancy and mobile retailing was non-existent, the majority of consumers used two channels (physical stores and catalogue) during the purchase process. By 2014, we forecast that the picture will have evolved to the extent that 69% will be using an average of three or more channels.

This abundance of channels means the consumer purchasing process is becoming more complex for retailers and more convenient for consumers. For retailers and retail destinations, continued investment in servicing consumers is essential. Greater discipline is required to create a consistent experience across these channels. If a shopper feels let down utilising one channel, this reflects negatively on perceptions of the whole retail proposition.

## Average numbers of channels used in the purchasing process

Channels:	1	2	3	4	5	6	7
2001	16.4%	66.2%	10.1%	7.3%	0.0%	0.0%	0.0%
2014	2.1%	28.6%	32.7%	14.9%	9.6%	5.4%	6.7%

### Channels:



physical stores



catalogue



online via desktop/  
laptop



online via mobile/  
tablet



social media



telephone ordering



interactive TV

# Smart Shopping

The rising penetration of smartphones and tablets is blurring the lines of where consumers are shopping. Places for retail are no longer fixed, with today's consumer being able to buy and research from anywhere.

Mobile will continue to grow as a direct sales channel in its own right, and while remaining a relatively immature channel today, mobile retail is currently responsible for £2.9bn of both direct and indirect spending. Inevitably, the coming decade will see this value rise rapidly. By 2020, we forecast that mobile will be worth £53.9bn of direct and indirect sales; just over a quarter of all retail sales.

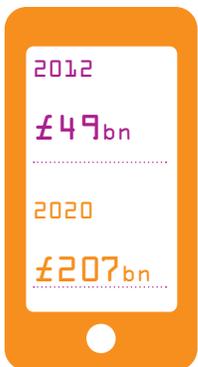
This evolution is having direct implications, not only for the relevance of physical stores and retail destinations, but also in relation to how retailers manage factors such as the configuration of websites and stores and enlarging the number of competitors and price comparisons – which is becoming more transparent across channels and locations.

The use of in-store technology is also increasing with tablets and terminals making the experience more convenient for consumers.

## The value of mobile retail

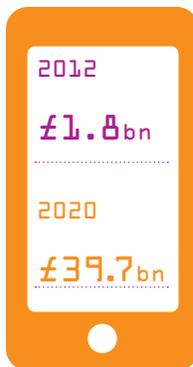
### Reach:

total retail spend of mobile users



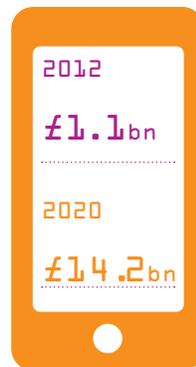
### Influence:

spend linked to mobile browsing and price checking



### Value:

sales made directly via mobile





HOUSE OF FRASER.COM



# The Store Evolution

The role of the store for both retailers and consumers is undoubtedly changing.

Wider pressures on spending and the rise of multi-channel retail is changing how and where consumers are shopping. The downturn has served only to accelerate structural trends already prevalent in UK retail. Having rode the crest of an expansionary wave during the late 90s and early 00s, UK retail is at overcapacity, a situation which is now correcting itself.

We forecast that between 2010-2020, total store numbers across the country will decline 10.3%, with retail space falling 5.7%. This will have a more significant impact on in-town locations, where store numbers are set to fall 31%.

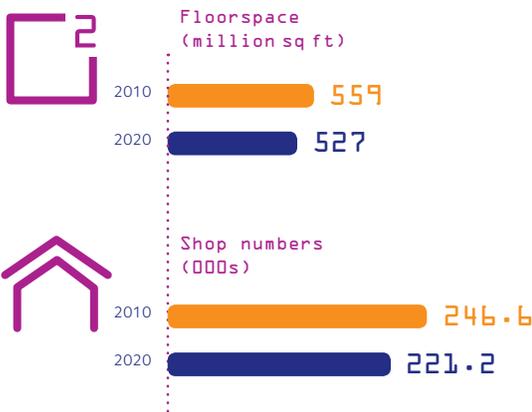
The watchwords for retailers are Fewer, Bigger, Best. This means better merchandised, better supported by multi-channel capabilities and situated only in the best locations.

As a result, retailers will need to 'rightsize' the store portfolio. In the era of Considered Consumption the performance of each and every store becomes paramount.

Retailers need to ensure that all stores are trading well. This means moving away from a 'one size fits all' store portfolio to ensure local and tailored demographic demand is met. Store expansion will become more flexible, and traditional high-street retailers will seek out-of-town presence in retail parks.

Multiple retailers will increasingly look to focus expansion on major cities and destination shopping centres to take advantage both of the high footfall and growing prestige of these locations.

The importance of each store in heightening brand awareness will rise markedly. It will become imperative that stores command strong experiential attributes, showcase a retailers' full product offer. Tailoring propositions in line with the rise of mobile is as important now as it was for online investment a decade ago.



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# Winning Locations

Winning locations are attracting consumers by offering either the best in convenience and or experience at retail destinations across the UK.

In relation to convenience, the growing importance of factors such as accessibility and cost of parking, while appearing mundane are symptomatic of the changing role of physical locations and the increasing popularity of services such as click & collect.

Partially indicative of the popularity of retail as a hobby, consumers are also increasingly looking to retail locations to provide more than just shops. Consumers are increasingly being drawn to retail destinations which command a strong retail mix with international brands. Rising consumer expectations also dictate that successful destinations need a relevant leisure offer.

The addition of leisure to the retail mix gives shoppers a fully rounded day out and consumers are becoming more accepting of retail environments as a dining out destination in their own right.

Attributes of most visited retail locations which rank very good/good (in %)



# Bricks and Clicks

Rather than diminish the relevance of physical stores, the growth of spend to multi-channel retail is evolving the role of stores.

One of the most important trends has been the proliferation of click & collect services. 59% of consumers have reserved online and then picked up from store, and 57% have bought online and picked up from a store. The growth of click & collect services is increasing both the influence and profile of out-of-town retail parks, which are capitalising on their traditional strengths such as free parking and ease of access to become important fulfilment centres.

Use of online-to-store services



# Conclusion

The age of considered consumption represents a time of opportunity for retailers and retail destinations. Despite the well-publicised challenges facing the sector, sales growth should be more rapid over the next decade than it has been over the challenging one just past.

However, obtaining a share of that growth won't be easy. Consumers have more control than ever, with very fast growth in the use of mobile devices meaning the customer is better informed, demanding greater price competitiveness and greater product knowledge in store too.

Differentiation will be key. Tomorrow's consumer needs a reason to buy. Stores need to be the best possible physical embodiments of the brand, but at the same time, provide efficient click & collect services.

The market is more competitive than ever, the customer more open minded than ever. Those retailers which fail to keep up in the multi-channel world will struggle. But those which don't just meet, but anticipate their customers' expectations, have nothing to fear from the age of considered consumption which lies ahead.

# Report methodology

Consumer research in this report is based on a survey conducted with a UK-nationally representative survey of 2,000 shoppers.

All numbers relating to expenditure and forecast expenditure are taken from Conlumino's own retail model. This is updated on an ongoing basis with inputs from both official sources (such as the BRC and ONS), retailers' results and trading updates, other secondary sources and industry surveys, Conlumino's ongoing programme of research into consumer spending and habits, and underlying economic drivers and trends.

Unless otherwise stated, all sources of information are derived from Conlumino's and Hammerson's own research and should be referenced to Hammerson/ Conlumino.



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