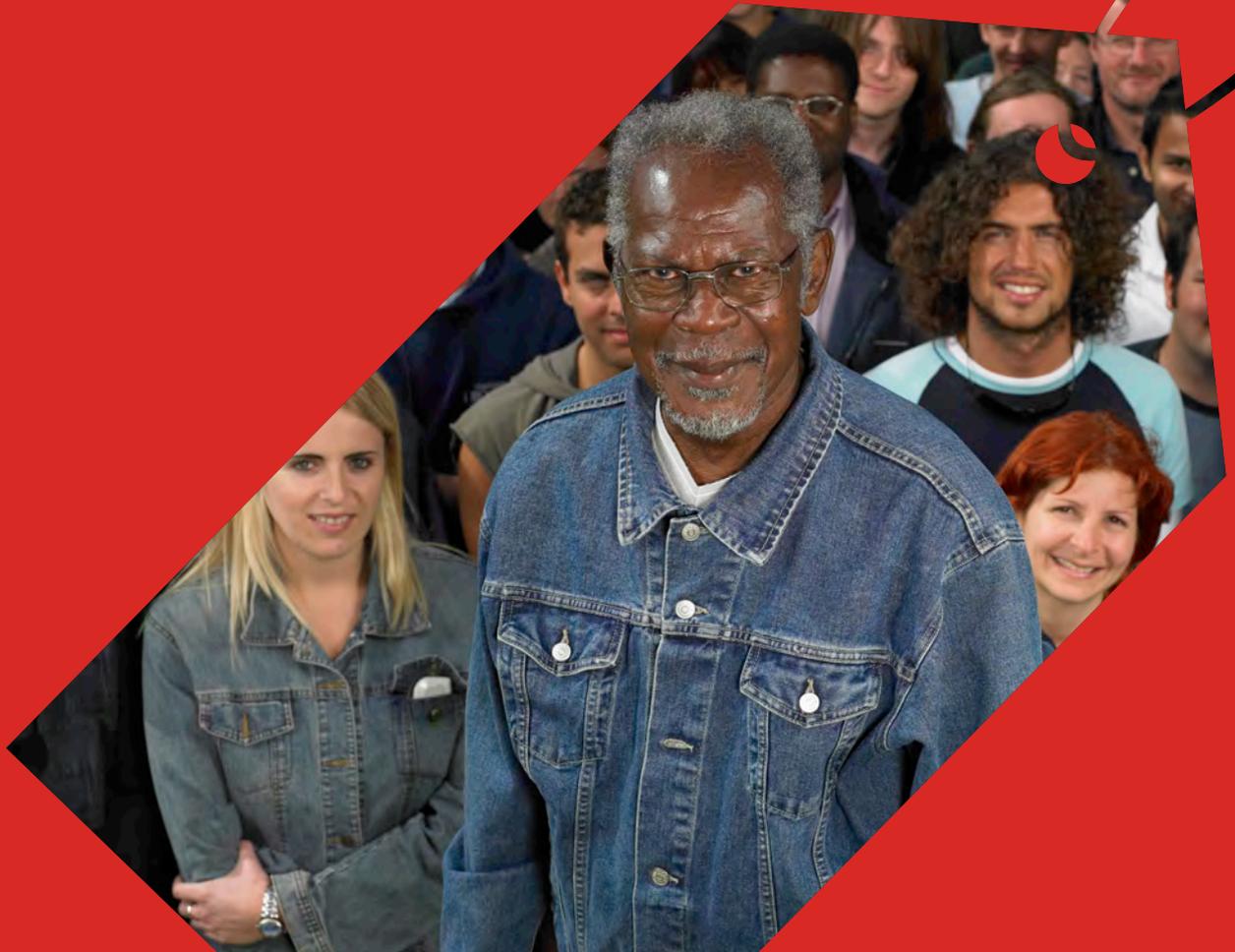


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Retail 2020
Power to the People
Consumer Cut-through



Real value in a changing world

Retail **2020**

Power to the People

The Swing of the Pendulum

Back in the 1980s, retailers were emboldened by the idea that the pendulum had swung, irrevocably, away from manufacturers and to the distributors.

At that time, increasing supply meant that retailers now had a choice and competition between manufacturers led to favourable margin negotiations. Not only that but retailers started to manufacture their own labels and also become brands in their own right. Finally, legislation like the end to the national book agreement in Britain released retailers to set their own prices. Hypermarket chain Edouard Leclerc, led the movement in France. The power was in the hands of the retail sector and nothing could stop their rise. Until now.

The pendulum is swinging again, this time placing power gradually in the hands of the consumer. Suddenly, asymmetrical information, the weighting of information favourably towards one party (in this case the retailer), is being undermined. It used to be hard work for the customer to compare prices between retailers. It used to be difficult to find out where stock was held. It was very difficult to shop across borders. All that is changing and **the fast, accessible internet is proving to be the great leveller of information and liberator of consumer power.**

We've seen, over a relatively short space of time, a host of new online tools placed in consumer hands and witnessed an amazing amount of consumer willingness to use what is available. Price-comparison sites, voucher sites, chatrooms, anti-brand campaign sites are springing up regularly - and all have the power to readjust the information equilibrium towards consumers.

Retailers used to invent marketing strategies 'where the customer is king'. Today, the bald truth is that, increasingly, this is becoming reality, whether retailers like it or not. **Power isn't needing to be given, savvy consumers are taking it regardless.**



The Arrival of a Game Changer

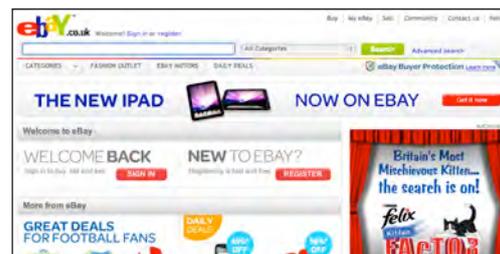
Looking forward, we can see that the power-grab by consumers is in its infancy. The next game changer is, of course, the smart phone tied in to 4G networks and 10 times faster data transfer speeds. What will the mobile internet give, in the relatively short term future?

Well, we will see more consumers red laser scanning barcodes in-store, looking up comparative prices for that item instantaneously online and going to the staff to negotiate purchase at the lowest price on offer across the whole marketplace.

Meanwhile, consumers will be using mobile apps to communicate the good, the bad and the ugly about their retail experience in real time. Someone Tweets (*twitter.com*) that a retailer has a good promotion and sell-through is accelerated; another customer uses Foursquare (*foursquare.com*) to say where they've been shopping and what they rated highly, traffic flow rises; someone else posts to their blog about the appalling customer service that they've just received – a whole torrent of abuse is stirred up; Yowza (*getyowza.com*) pushes out instant coupons to consumers' mobiles and causes a mini stampede to another part of the Shopping Centre.

A separate angle to Power to the People, is the way some 'retail' initiatives are now peer-to-peer, missing out the middle man completely. This report will reference eBay (*ebay.com*) later but other networks include Freecycle (*uk.freecycle.org*) – giving away what you no longer want – and clothes swapping parties (*swishing.co.uk*). These last two are perhaps less significant in their impact on new sales through retail than in what they say about people's desire to make up their own grass roots rules of commerce. These small scale initiatives will continue at the margins going forwards.

We will also see more consumer based initiatives to relaunch local retail in neighbourhoods and rural areas which have lost their community shopping, for example Britain's 'Rural Shops Alliance'. Once again, these initiatives have little bearing on mainstream retail sales but show another aspect of consumers' confidence – exerting political power. On a larger scale, anti-brand sites like Ad Busters (*adbusters.org*) and TescoPoly (*tescopoly.org*) demonstrate a new form of challenging consumer who will not be bulldozed – however big the retailer opposite.



Some 'retail' initiatives are missing out the middle man completely

Supply and Demand

Of course, the shift of *Power to the People* is not only an internet phenomenon. Once there was over-supply of manufacturers, retailers got stronger. Now that there is relative over-supply of retailers and retail space, consumers have been strengthened.

In the near - term future, more space provision and lower spending will see the relationship tilted still further in the consumers' direction. And once again, consumers will meet this challenge with enthusiasm. Today's clever consumer is already mature enough to be saying, with increasing frequency: "I'd be a fool not to negotiate / try it on / let them get away with it". **Success is breeding success and tomorrow's wised-up consumer will be even more likely to argue, to negotiate the listed price, to bypass the physical retail channel.**

And, of course, all of this will be deflationary – or more accurately disinflationary. The economic forecasters bear this out. Where the consumer price index (CPI)* is flat-lining, this says a great deal about the relative power relationship and the inability of retailers to force price increases onto consumers.

Note that, consistent with the Going East imperative, Central and Eastern Europe will have a relatively stronger retail power bargaining structure over the next 10 years compared to the West.

Source: IHS Global Insight, February, 2010

Consumer Price Index, Year-on-Year Percent Change											
GEOGRAPHY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010
European Union	1,68	1,80	1,92	1,88	1,93	1,91	1,89	1,91	1,93	1,93	1,92
Western Europe	1,58	1,70	1,84	1,82	1,88	1,84	1,82	1,84	1,87	1,87	1,86
Eastern Europe	4,71	3,99	3,98	3,40	3,24	3,14	3,07	3,01	2,95	2,88	2,80
Central Europe	2,78	2,78	2,60	2,47	2,40	2,43	2,45	2,40	2,37	2,31	2,26
United Kingdom	2,82	1,62	1,94	2,13	2,25	2,11	1,95	1,92	1,93	1,92	1,93
Italy	1,47	1,87	1,88	1,54	1,43	1,53	1,59	1,74	1,83	1,82	1,83
France	1,75	1,78	1,89	1,80	2,08	2,07	2,05	2,07	2,03	2,05	2,01
Russia	6,46	6,22	5,63	5,09	4,58	4,12	3,71	3,34	3,00	2,77	2,64
Germany	1,19	1,41	1,41	1,47	1,45	1,44	1,46	1,47	1,52	1,51	1,51
Turkey	8,14	5,68	6,31	5,02	4,60	4,30	4,10	4,00	3,90	3,80	3,60
Spain	1,12	1,88	2,23	2,07	2,07	1,96	1,93	1,84	1,91	1,96	2,01

* CPI = an inflationary indicator that measures the change in the cost of a fixed basket of products and services

Note that, consistent with the *Going East* imperative, Central and Eastern Europe will have a relatively stronger retail power bargaining structure over the next 10 years compared to the West.

There are some key implications of an increasingly powerful consumer. Let's list some:

- whereas supermarkets gave consumers pricing power from the 1960s onwards, the internet is now doing the same; the internet is a kind of 'supermarket 2.0'
- retailers and shopping centres will fight back and create added-value offers that people will pay top dollar for
- many offers will be experiences and services that are harder to compare price-wise
- store staff will be empowered to match internet prices and even be incentivised on making online sales
- skilled store staff will enter into negotiations with an armoury of added-value promotions, warranties, additional services etc. to keep the sale in-house
- fixed pricing will fade; we might even see, before the decade is out, early experiments in dynamic pricing at the level of the individual. In other words, as a retailer, I will know any customer well enough (I have lots of your personal data) to make you a personalised pricing offer. Someone I know to be less price sensitive will be quoted a different price).
- the conversation will become two way as retailers find new ways to outreach to their customers and rebalance the relationship
- ecologically aware consumers will demand more social responsibility (although expect some degree of 'green fatigue' to set in towards over the mid-term); retailers will have to respond by unlocking what 'sustainable value' really means for their consumers
- low consumer price inflation will put an increasing strain on the retailer-landlord ecosystem

Tomorrow's
consumer will be
even more likely to
negotiate the price



Manufacturer's Fight Back

There is a twist in this tale of reduced retail strength through *Power to the People* as manufacturers themselves reclaim some power lost to retailers.

Virtually every supplier with a consumer brand now has a website and whilst some remain strictly marketing vehicles (eg. Chanel, Canon), increasingly these are transactional (e.g. Christian Dior, Timex). The opportunity is to build relationships directly with end customers and to take a stake to control distribution better. Of course, Dell is the prime example of a supplier who has opted for direct-to-customer sales as the fundamental differentiator in its business model.

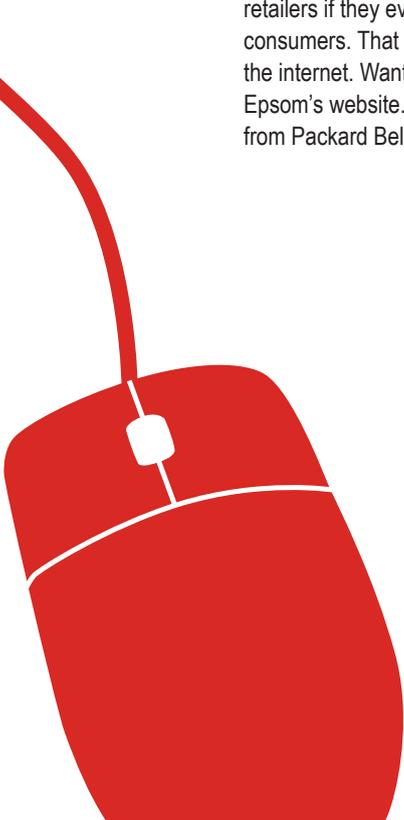
In contrast, note that by Spring 2010, some European retailers still did not have a transactional website meaning that whilst suppliers are going direct to their customers online, some retailers still are not.

It used to be that suppliers incurred the wrath of retailers if they even hinted at selling directly to consumers. That has all gone by the wayside with the internet. Want ink for your printer? Buy it from Epsom's website. Want a computer? Get one online from Packard Bell's store.

Both P&G and Unilever are toying with transactional websites. P&G's "eStore" is piloting as at writing and is part of P&G's stated aim to sell more online. P&G gets about \$0.5bn from online sales out of a total of \$79bn. Given their plans, this small fraction is sure to grow.

Some manufacturers are going one stage further and setting up a physical store chain. This is not new, of course (think luxury fashion brands, Nike Town or Swarovski) but we will see more new launches over the next ten years. For example, Nokia who has dabbled with retail in the past (they've already had two different flagships on London's Regent's Street) want to see more total sales generated from their own store network in the future. In early 2010, Samsung has plans to open on the Champs Elysées in Paris and LG is also rumoured to be looking to open outlets. Dell will perhaps also add standalone retail, if pan-European experiments with 'partners' like Tesco and Carrefour prove successful.

So, expect this business-to-consumer (B2C) pressure to increase as manufacturers refuse to get into a death-match with retailers and see the online benefits of global reach and the retail benefits of expanded consumer knowledge.

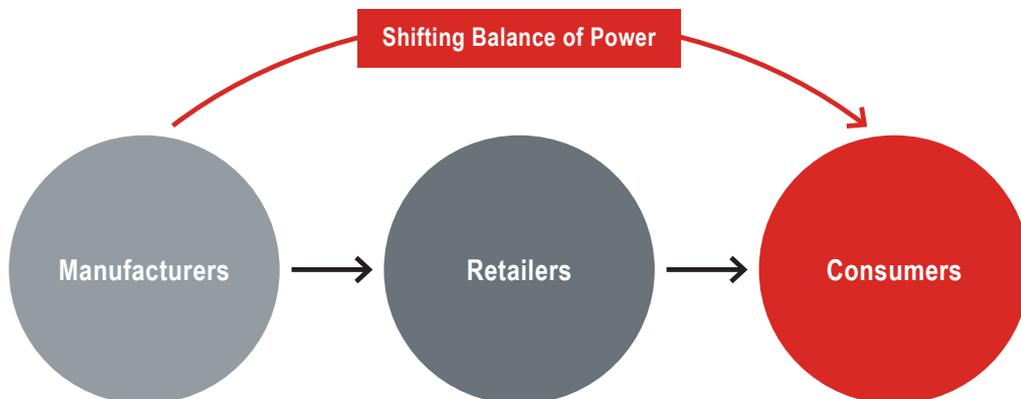


How the Balance is Tipping

The balance of power between the key actors in the supplychain will exhibit more flux over the next decade than the one just passed.

We will see important new movements as shown below. It is too early to talk of the dis-intermediation of retail, but trends point towards, rather than away from this. Starting from a very strong position, retailers will suffer, nonetheless, from an erosion of their power base over the next decade. One key response will be for them to emphasise private labels, thus reducing the corrosive margin effects of price-comparison sites. Selling more services will also step up as an increasingly attractive source of revenue where prices remain more elastic. And in the face of suppliers' threats to move into retail, they may just have to become more strategic in negotiations over shelf-space and promotional funding.

Retail will also fight back collectively – and this is where Shopping Centre managers have an extremely pivotal role to play. As a key stakeholder, Shopping Centre managers can choose to tie retailer's hands or liberate them to redress the power shift to consumers. In the future, Shopping Centres will use real time information to inform, amuse and guide consumers within their schemes, increasing their enjoyment of the shopping experience whilst optimising their spend.



Consumer Cut-through

Consumer Complexity

Consumers are changing in many other ways, of course. They have become harder to capture, harder to understand, harder to predict.



One month they are price-sensitive, the next the spending floodgates have opened. On one shopping trip they want speed, but the following week's visit to the same store sees them spending time to compare and negotiate. Then, during the same foodstore visit, they've bought Beluga caviar and generic green beans.

Is this relative complexity set to continue? Yes, and not only continue but grow as well. European society has truly transformed over the last 30 years and the rupture that has moved us from a top-down hierarchy to a bottom up loosely organised network has given

huge opportunities for the individual to grow, mature and take control. If, as consumers, we are more difficult to discern by marketers, it's because we have learnt new strategies and new coping mechanisms and have the maturity to apply these to our lives. In simple terms, we've gone from being governed by what is deemed to be right for us to what we believe is right for us. An example would be consumers who've decided that they, personally, like red wine with fish – rather than bend to the 'white-wine-with-fish' social rule.

Having decided that others either don't care what they do – or that others' opinions don't matter – people now please themselves. So it's 'yes' to some Beluga caviar indulgence but also to a bit of budgeting on the beans front.

Consumers are not going to unlearn this paradoxical behaviour over the next decade. It will simply increase as more people reach the maturity to dare to do as they please. By the way, the biggest evolutions will be seen in the more traditional countries to the East, where 'catch-up' market liberalisation, industrialisation – and consumerism itself – will accelerate the progress of private individuals towards autonomy and self determination.

Making Sense of Tomorrow's Consumers

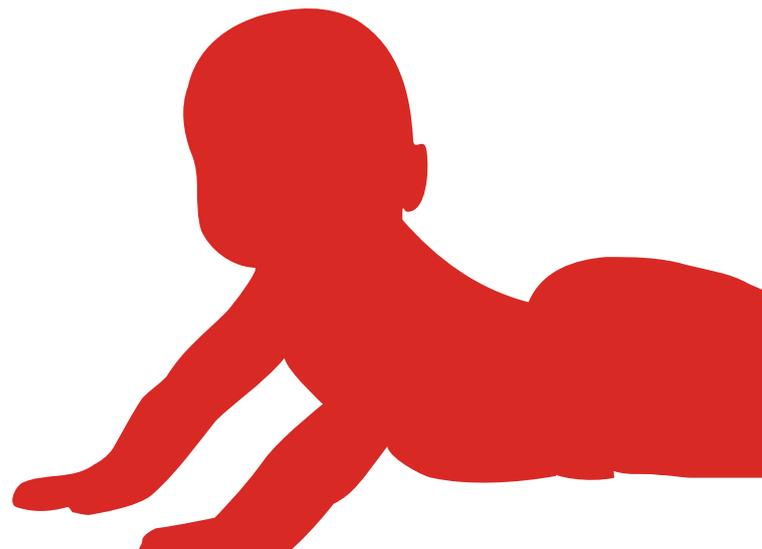
The trick for owners and occupiers going forwards will be to make some sense out consumers' apparently inscrutable and paradoxical behaviour and this is where the concept of Consumer Cut-through will be helpful.

In the future, much more detailed consumer information will come to retail marketers through zeros and ones. Towards the end of the decade, traditional consumer research as we know it will fade relative to this precise, real-time streamed behavioural data. In its place, consumer researchers and business developers will have to think more deeply about the implications of consumer change and pinpoint, perhaps, just a handful of key insights which matter to their business. *(In a very deliberate sense, this report is, itself, typical of this new wave of deeper thinking about implications).*

An example of *Consumer Cut-through* would be Pampers nappies. Their brand team's insight was that dry babies were happy babies who had a good night's sleep and therefore were better players and learners the next day. Message to parents: "If you want an intelligent kid, use Pampers".

So, what *Consumer Cut-through* insights will retailers and Shopping Centre owners be working with over the next decade?

Researchers will
have to think about
the implications of
consumer change



Needs-Based Marketing

Surprisingly, perhaps, retailers will have to go ‘back to the knitting’ and revisit some *needs* that were somewhat ignored over the recent ‘boom decade’.



The retail industry got so obsessed with meeting an ever-growing list of consumer wants, that some of the basic housekeeping factors got relatively overlooked. Consumers, too, were prepared to forgive practical inconveniences in the surge to spend. But the economic and social climate has turned away from this exuberance and the next decade will see retailers having to attend better to practicalities. The Consumer Cut-through being: “attend to my basic needs better – or lose my custom entirely”.

Here are three key need-states for 2010-2020.

As with all human needs, these three have always been with us, but they will build further over the next 10 years.

- Social tensions will almost inevitably build over the decade as they have done throughout extended bear markets in the past; safety and security issues will rise
- Congestion is set to increase over the decade as more cars per household and more freedoms to move hit the barriers of car gridlock and decaying infrastructure. Anticipated restrictions on cars entering cities may make circulation more fluid but will probably extend travel times and personal inconvenience
- Finally, there is little hope that fast-paced European lifestyles will slow down over the decade. If anything, pressure on job-success will grow and the economic context will mean that both partners in a relationship will have to work. The consumers’ need to call an occasional time out or to simplify things will only increase

NEED STATE	FROM THE CONSUMER’S MOUTH
Protective Bubble	“Keep me safe and free from all feelings of fear, stress and anxiety. Keep me warm and dry at all times.”
Mobility Impulse	“Please iron out all barriers to easy travelling, accessibility and parking. Allow me to circulate freely whilst shopping.”
Easy Life	“Save me time and effort as life becomes more complex.”



Overlay all of this with an ageing population. As people age, social scientists know they become more fearful, not less. Doctors show how physiologically, problems with mobility can set in well before retirement and handicap people's movements as they age. And whilst retirement may bring more time, somehow people keep busy and complicated lives retired people say: "I don't know how I ever found time to work".

And so the point is this. **Shopping Centre Managers and retailers cannot afford to tick the box saying that basic needs are being met.** The needs are getting greater, and the provision has never been excellent in the past. Car parks can still be windy, shadowy and multi-storey. There are very often too few toilets, and those that exist are difficult to find and sometimes unpleasant. People like driver Shopping Centres to be busy (safety in numbers) and physical barging can be acceptable (just) but when traffic flow keeps a shopper from advancing at their pace, frustration is easy to set in. And can carrying all those shopping bags all day be the 'Easy Life'?

Meanwhile, consumers hate getting disorientated and lost; they lose power and become anxious. In France, the backlash against hypermarkets comes down, in part, to their size and to hyper-choice; people simply find them not shoppable.

The reality is that these three needs will have to be better met in the future and owners and occupiers will rise to the challenge. Not doing so would be to play into the hands of that other channel – you know, the one where you sit in the safety of your own warm home, engage in micro mobility (clicking a mouse or pushing a screen with your finger) and save your precious time for something else you'd rather do.

Retired people keep busy and complicated lives, and wonder how they ever found time to work.



Developing Wants for a New Decade

It goes without saying that the next ten years will not see consumers' *wants* disappear. There are important social trends developing and the best retailers and asset managers will analyse the *Consumer Cut-through* and develop a response.

The table below shows just five. The growth of these five consumer wants points to an essential, overarching observation: **consumers want more genuine, emotional connection with the things they have and do in their lives.** Our behaviours must make sense to us and, increasingly so, since we are now responsible for piloting our own life chances. All aspects of our lives must be meaningful.

One key *Consumer Cut-through* is that, **in the future, especially in the West, going shopping simply to acquire more stuff is unlikely to bring enough meaning for more and more people.** It's not that people will want to stop consuming – the vast majority of the mainstream will not become post-materialist

over the period – but, as this report will explain, they'll want to consume different things and in different ways.

A second *Consumer Cut-through* is that every actor will have to take part in the heavy lifting. To explain, it will simply not be good enough for Shopping Centres to expect retailers to provide for all these wants, whilst the Centre itself is simply a clean, efficient backcloth. Generating 'art of living' will test the best (for the real McCoy is often found in time-worn town niches, wrapped by local history and culture) and any absence of joined-up thinking will be seen through by consumers sensitive to phoniness. Confirming this, we can confidently expect a reinvestment in local community retailing locations over the next 10 years.

WANT	FROM THE CONSUMER'S MOUTH
Art of Living	"I want my life to be rich and fulfilled, surrounded by friends and enjoyable experiences."
Multiculturalism	"Create diversity for me and help me experience the World."
Design & Longevity	"Bring lasting beauty to my life."
Feminisation	"Recognise me as a woman" and "Make shopping less intimidating and/or enjoyable as a man."
Green & Lean	"Together let's save the planet – whilst saving me money."

What this speaks to is a **need for Shopping Centre Managers and owners to rebalance retail brands within Shopping Centres with strong internal concepts; the overall scheme will increasingly need a distinct emotional tone and feel for consumers.** Selfridges successfully did this rebalancing act with its 1990s make-over and Shopping Centres like Bluewater, London really do deliver an 'Art of Living/Multicultural/Design & Longevity' ambiances. Looking forward, expect more Shopping Centres to deliver an authentic 'Art of Living'.

Looking at the feminisation social trend, **we can also expect more men to be shopping in the future.** This sounds paradoxical in a feminising society, but the two are intimately connected. Not only are women more assertive, but men are being asked/forced to blur roles and take on new responsibilities which were traditionally women's affairs. Childcare is the obvious one but shopping is also on the radar. Once again, the internet plays its role as a social catalyst, men finding it easier, less stigmatising (and more fun) to order groceries, gadgets and gear online. Meanwhile, retailers like Costco and Best Buy seem to take the intimidation out of retail and put back real interest for both women *and* men. The mantra of making shops more welcoming to women and you'll attract more men will never be truer than over the next decade. **So, look out for a feminisation of society and a masculinisation of shopping.**

A word about Green and Lean. This has not faded with the recession but people have artfully combined the desire to save the planet with the need to save money. Expect this impulse to grow – both as a principle and as an excuse i.e. when I cannot afford something, I can tell myself that I'm saving the planet by not buying it. We will see packaging reducing substantially and recycling possibilities everywhere. But, there will come a time towards the end of the next decade where being ecological is just what one does – as a business or a private individual. In other words, for the retail industry, the marketing value of being greener will be a relatively short window of opportunity before this becomes a basic housekeeping factor. Sure, **consumers will continue to punish those who aren't green and ethical, but will be less concerned in giving credit to those who are.**

Meantime, retail will have to take on ever-increasing costs as legislation insists on carbon neutral buildings, carbon trading, footprint monitoring, energy reduction initiatives and so on. When consumers simply shrug their shoulders, this effort will be borne by the industry alone and be another hit for the overall business model.

Note that the probable exception to all of this will be the very youngest consumer generation. They are very serious about saving the planet and love innovative solutions. J.Sainsbury's store at Gloucester Quays, England, uses 'kinetic road plates' to collect the energy of cars moving through the car park and generates enough electricity to power its tills. Other retailers can learn from initiatives such as this to help gain young consumers' allegiances.

In the sustainability debate, it is clear that current attention and effort has concentrated on making today's retail model and supply chain more sustainable. We will witness a ramping up of effort in this direction over the next 10 years (carbon footprint, energy efficiency, water recycling...). However, what should be most worrying for retailers is that very little focus is being placed on coming up with entirely new retail business models which place an emphasis on promoting more sustainable consumption choices. This will become more topical in the second part of the decade ahead.



The Size and Structure of the Market

Turning to socio-demographics, there are a number of other significant *Consumer Cut-through* insights the retail industry will need to respond to going forwards.

Looking across the whole of Europe, the next decade will witness zero population growth. Think about it. Whilst America and Asia will continue to see their internal markets grow, the number of consumers in Europe will be static – probably for the first decade ever (if you exclude pandemic plagues and catastrophic wars).

Examining the figures below in more detail shows an uneven picture of growth and decline leading to this overall zero sum:

	2020 Population (M)	% chg 2010-2020
Western Europe	191	1.1%
Eastern Europe	282	(3.4)%
Southern Europe	157	2.4%
Northern Europe	103	4.5%
Europe	733	0.0%

Source: UN, 2008 Population Updates

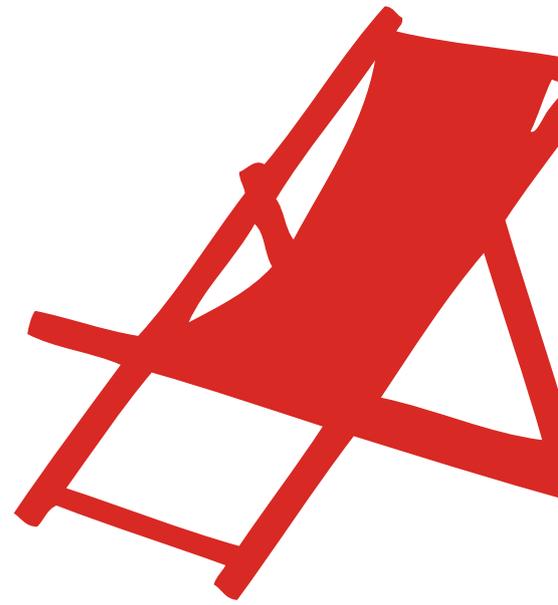
Eastern Europe has, far and away, the highest absolute population (good for *Going East*) but will see relative declines. Note, too, Northern Europe's increase but from the smallest base. It is also worth remembering that Russia's population is in absolute decline. According to the UN, it will fall by 3.5% from 2010-2020.

Looking beyond the overall population projections provides key *Consumer Cut-through*, particularly by examining the age pyramid and the cohorts* making up the population structure.

Three insights stand out as defining factors for retail over the next ten years:

- 1.** The high spending Early Baby Boomer cohort will retire en masse
- 2.** There will be many fewer young adults (Gen Y) than any time over the last 50 years
- 3.** There will be a widening base of consumerist segments

* A cohort is a population segment which has shared similar experiences having been born around the same time. The European cohort structure is shown in Appendix 1. Appendix 2 shows the population forecasts, 2010-2020 for these cohorts respectively.



Retiring Boomers

The Early Baby Boomers have been dubbed the lucky generation. They flooded the job market in the 1970s, drove up home prices from the 1980s, inflated stock prices in the 1990s – and have held political power since they grabbed it during the student riots of 1968.

The French talk of 'les trente glorieuses' – 30 years of peace and prosperity after the war and this generation benefited from every single moment of it.

But here's the point. Suddenly, this charmed generation is retiring. Many will retire well with full pensions, owning their own homes and with social welfare still funded and functioning. And they will retire rich - the over 50s holding the vast majority of wealth across Europe. Nevertheless, they will retire, meaning:

- budgeting (pension income will be lower than salary income so spending patterns will change)
- downsizing (selling stocks not buying; trading-down to smaller houses; consuming less)
- more time (no work or chosen work; time for passions, family and friends)
- fighting boredom (this is a active generation who will want to find things to do)
- new priorities (less emphasis on the working wardrobe and clothes in general; more emphasis on homes, tourism and health)
- moving back (from suburbs to town centres with ample, accessible shops, shows and services)
- some suffering (some Early Boomers will retire poor, having under-provided for their pensions, and/or having lost asset wealth in the recession)

The retail industry will adjust to these new realities and **many smart retailers and asset managers are already preparing for retiring Baby Boomers**. For example, in Germany, the Astertal Mall in Hamburg, is targeted at older generations with more cafés, abundant seating areas, concierge services and home deliveries. Polish Shopping Centres seem to serve this generation well, too. Expect many more

to move in this direction within three to five years. There will be new offers, too. For example, many Baby Boomers take responsibility for their elderly parents so will want a 'drop-off' service. **Today, we think 'kid's crèche', but tomorrow we will think 'senior's care centre'**. Loyalty schemes will also prove popular to challenge the online threat (most Boomers are enthusiastic, able surfers). Discount privileges and transport concessions will prove popular.

Many visitor attractions (gardens, stately homes, art galleries, working farms etc.) can expect a flood of Baby Boomer customers, eager to spend a pleasant day out. Retail will increasingly integrate offers into these leisure settings. Today, embedded retail is often independent but tomorrow's offer will become more professionalised. Retail chains will benefit from captive audiences who are less price sensitive and who will want to buy merchandise memories of their day out. The opportunity for add on services, (educational, charitable...) will also challenge the best retail minds.

The Holy Grail for Shopping Centres, particularly on the High Street, will be to create a community-based shopping experience where retired Boomers feel so comfortable and entertained that they return daily – or even more than once a day. Whilst this is a great definition of success, Shopping Centres will have to change their trading philosophy to achieve this.

Retreating Gen Y

Turning to young adults, Gen Y will come of age over the next 10 years falling into the 15-34 year old age bands. They will represent two key challenges to retail.

Firstly, their falling numbers:

	Millions 15-24 y.o.	vs Early Boomers
1970 Early Boomers	103	
2000 Gen X	101	(2.0%)
2020 Gen Y	76	(26.2%)

Source: United Nations Population Database

Whilst Gen Y will do like every young adult generation before it, and spend every penny they have, there will be relatively fewer of them. We will see, inevitably, a shift in Shopping Centres' tenant mix away from some of the young fashion brands. Meanwhile, retailers owning portfolios of fascias (e.g. Inditex) will ably shuffle their deck to follow the money. We can expect new formats to appear which emphasise the relative shift from young adult generations (GenY) to young retired generations (Early Boomers).

Meanwhile, lack of young adults will cause a problem for the marketing philosophy of 'get them whilst they are young'. So retailer brands will reject any lingering

ideas of getting old with their customers. Instead, **expect shorter lives for formats as brand life cycles accelerate.** Indeed, some retailers will adopt a 'celebrity' approach to their brands using social media and pop-up retail to fast-track growth, appeal and recognition and so harvest maximum sales before moving on to the next celebrity project.

We will also see more full-range initiatives like HMV. Rather than being caught out by demographics, HMV is expanding its offer well beyond music and books to include toys and clothes and so have broader appeal.





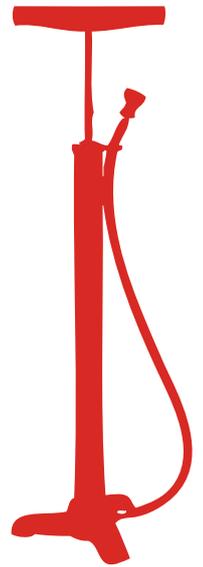
The second challenge represented by Gen Y is attitudinal. Yes, they like spending but they like to do it on their own terms – which are radically different from previous generations. When they become adult consumers, they will want anything anytime, anywhere, anyhow. They are used to the ubiquitous, frontier-less virtual world. And they expect the same from the physical environment simply because they, themselves, do not make the distinction between the two realities.

To respond to Gen Y, retail will have to move more 24/7. It will have to be multi-channel (no online presence is just incomprehensible). Retail websites will have to be less like walled gardens and also be accessible on the move (unlike, for example, the Chanel website which can only be partially accessed today from a mobile phone due to its use of Flash technology).



Meanwhile, retail will also have to have total logistical coherency concerning stock. Try expecting a Gen Y to understand that whilst they have seen on your website that you have stock, your store doesn't and, what is more, can't get hold of it because its a different logistical circuit. In the future, this excuse will be seen as a total nonsense and place retailers in one of two camps: those that 'get-it' and those that 'don't get it'. **Used to transparency, traceability and easy navigation, Gen Y will not give second chances.**

When they become adults, they will want anything anytime, anywhere, anyhow



Splintering Markets

One final Consumer Cut-through relates to the increase in sheer number of consumer segments.

Looking back to 1990, there were really only three broad segments – New Teenagers (GenX at the time), the mass market (Early and Late Baby Boomers) and the older generation (now Seniors) who were the traditional savers, not spending cohort and so counted for very little marketing attention (see Appendix 3).

Zoom forward to 2020 and the Seniors remain, the Boomers have split more distinctly into two (due to retired and working lifestyles) and Gen X has now been joined by Gen Y. Marketers now have 5 key cohorts to target (see Appendix 4).

Not only that, but cohorts can only explain so much about consumer attitudes and behaviour. Socio-economics need to be thought through (i.e. rich and poor) psycho-graphics too (e.g. introverted, extroverted), and why not socio-cultural factors (e.g. traditional or modern values)? As if this were not enough, multi-cultural Europe now begs for ethnic targeting, as well. Finally, won't we need to go towards a market-of-one, targeting people through customer relationship marketing (CRM) as individuals?

A broadening number of segments will have many implications for retail over the decade. Expect more targeting of zones in Shopping Centres, for example, and for more of this zoning to be by consumer values/psycho-graphics than by orthodoxy around socio-economics or shopping mode. **Expect, too, Shopping Centres to become, finally, differentiated brand experiences.** In a splintering market and straightened economic circumstances, asset managers will finally react to the mantra that 'one size does not fit all'.

Interestingly, one reaction to the need to target a wide set of needs and wants will be to reinforce the big box concept. By broadening the assortment, particularly in non-fashion, power retailers will meet most needs under one roof. This signals a promising European future for the likes of Tesco, Media Markt and Best Buy. It also points up **the need for big space which will put pressure on brownfield/in-town political policies.** Out-of-town will continue to be the ideal for category killers and only where no alternatives are possible will multi-storey buildings in town reluctantly be chosen.

Meanwhile **online will give the greatest potential for one-to-one selling** but dynamic pricing in-store has already been mentioned as one initiative offline. The next ten years will bring more personalisation in retail offers, that is for sure. In-store services will aim to provide the kind of personal touch which cannot be realised online. Meanwhile, many retailers will become adept at defining and delivering 'little extras' which give their customers a warm glow and the feeling that they have been recognised and respected as individuals. Runners Need and Cycle Surgery are two excellent examples of online and offline delivery of a personalised service where the perception of one-to-one is high but costs are contained.

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