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MEGATRENDS
IN EUROPEAN REAL ESTATE

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RETAIL: WHAT LIES AHEAD FOR SHOPPING STREETS & MALLS?

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Capturing spend:
A matter of principle

Consumers will expect a customer-centric shopping experience

In the mid-term future (2020-2030) goods and services will have to cater to the principles and lifestyle of both the rapidly growing ageing population and the dynamic young consumer. By that time all generations will be online-savvy and connected. Value, convenience, ethical buying, sharing and personalisation are the principles that are likely to determine their consumerist behaviour.

Connectivity: Shopping behaviour is changing under the wide availability of connected devices and fast internet. The growing influence of social media on consumer choices and the convenience of online comparison have contributed to the increase of online sales. The Millennials have led the way, but all consumer groups use their mobile devices extensively for making purchases and gathering product information. The most successful retailers have kept in step with these cultural changes and have merged the digital and physical models of their businesses in an integrated channel.

Value: Following a long period of economic austerity, consumers are more price conscious and research a lot before spending. Online price comparison, customer reviews, blogs and vlogs are influencing buying decisions and are setting trends. In this context shopping choices have become more polarised between value and aspirational goods, with the mass market losing distinction and market share. 'Value' has become as much defined by quality of service as it is with quality of product, with consumers being prepared to part with more cash on goods where the overall experience is heightened.

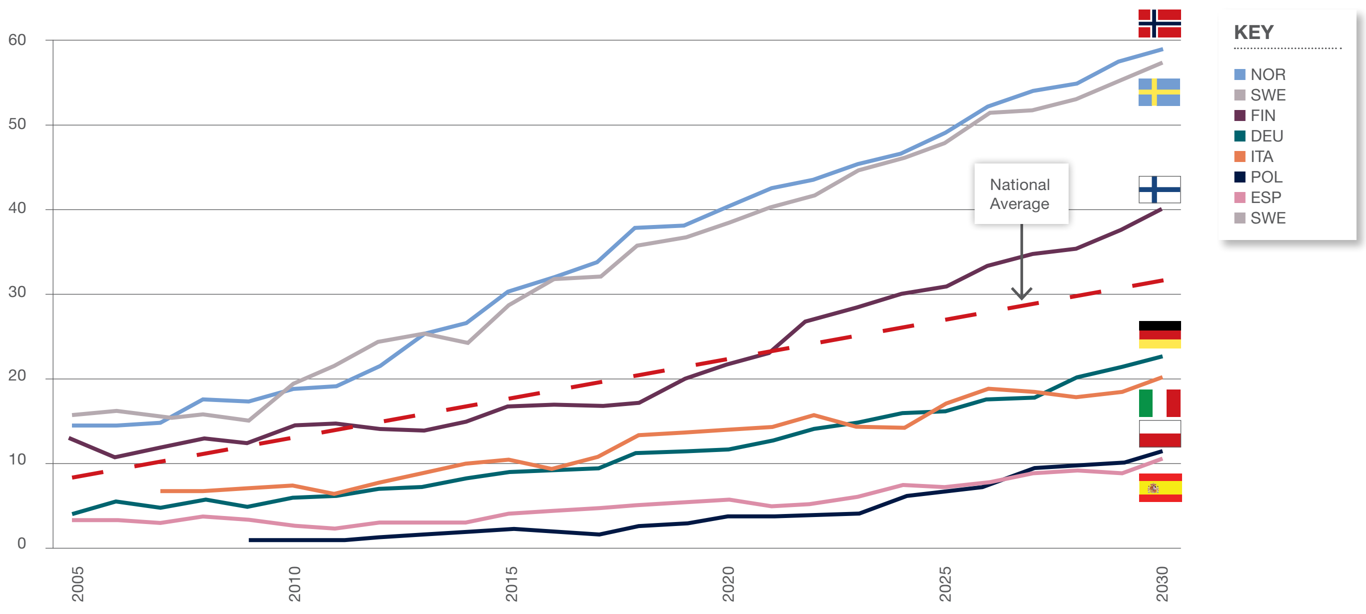
Convenience: This has become important across the demographic spectrum. Lack of time and widespread use of technology on the go have created the demand for convenience in shopping. Convenience is no longer the realm of grocery and service retail alone, but includes many fashion and homeware goods that meet everyday affordable and frequent purchase needs, rather than requiring specialist or destination retail trips. This impacts retailing in different ways; from the need for integrated cross-channel stores and strategies to the revival of neighbourhood high streets and shopping centres to respond to the need for shorter travel distances.

Ethical buying: Sustainability will increasingly determine spending in the future. Consumers are well informed and more aware of what they consume. They are interested in a responsible consumption style, which takes into account green issues, corporate responsibility, fair trade, health and wellbeing.

Sharing: The Millennials as a generation are as happy to rent as buy; to share as own. Young people are already used to sharing ideas through social media and inspiring each other creating new lifestyle trends. At the same time sharing of services and goods is growing, changing the way consumers think of ownership. Access has become more important than possession and collaborative consumption is responding to this need through pooling resources and offering on-demand service with the help of advanced technology. This is mostly visible in cars, homes, music, films but is also extending to other goods such as clothing etc.

Personalisation: Consumers striving to remain individual in a connected world choose customised goods to suit their preferences. Personalisation of products and services to respond to different age groups, different needs and specialty interests through research, design, innovation and introduction of niche products will grow in the future. However, it is personalised service and experiences that will really prove to capture the imagination of the modern consumer. Big Data and technologies such as near-field communication, geofencing and facial recognition will allow real time micro-personalisation in stores, tailoring the product offer and retailing experience to purchase history, social media or even the consumer's current mood.

FIGURE 1
Internet use by persons aged 75+ Both younger and older generation will be online-savvy by 2030



Source: OEDCD, The Future of Families to 2030

Note: Projection based on Internet usage in younger age groups

The most successful retailers have kept in step with cultural changes

'Value' is defined as much by quality of service as it is with quality of product

Technology is changing shopping behaviour

Technology matters: Clicks & bricks united

In 2025 the question 'online vs offline shopping' will cease to make sense

The consumer lives the blended experience of the online and real world. The internet has become a seamless entity that is integral to modern living as any other utility; Omni-channel retailing is now just retailing.

65% of the EU population used the internet daily in 2014, compared with less than a 31% in 2006. Nearly 60% of EU internet users shop online. E-Commerce is growing rapidly at an average annual growth rate of 22%. Although the growth of online sales will not continue with two-digit rates, it could reach 20–25% in most retail sectors.

In the next decade people of all ages will have become 'Omni-consumers'; combining the online and offline world in their daily lives and will expect an unconditional offer to switch back and forth between these different worlds.

Retailing will need to service customers through high street outlets and virtual stores, through mobile applications and interactive stores, through in store purchase-home delivery and click and collect options.

Under these pressures many retailers that have resisted change will have disappeared from the high streets but innovators will have appeared to replace them, while some manufacturers and pure online market players will close the gap by opening stores as a result of consumer expectations. Retailers who will be able to change the customer–client relationship into a friend-friend relationship will enjoy great advantages.

Stores will become a 'walk-in-web-store' with a WiFi and additional technical features offering access to social networks. Their purpose will not be to 'sell' products but to offer solutions, service or an exciting experience. Consumers see themselves as buying fun, advantage and adventure. A welcome feeling in an inviting environment, smart staging and a bit of skillful seduction will help to win their attention.

By 2025 consumers will seemlessly order via digital, traditional and other channels as yet unknown. They will expect next-day delivery, same-day delivery or even same-hour delivery. Retailers and logistics providers must be capable to manage complex order and distribution channels.

Online and offline shopping will become indistinguishable and this will have a positive impact on the retail and distribution sector in general. According to the EC, employment is forecast to grow by 6.2% till 2025 in this sector, near double the rate of all other sectors.

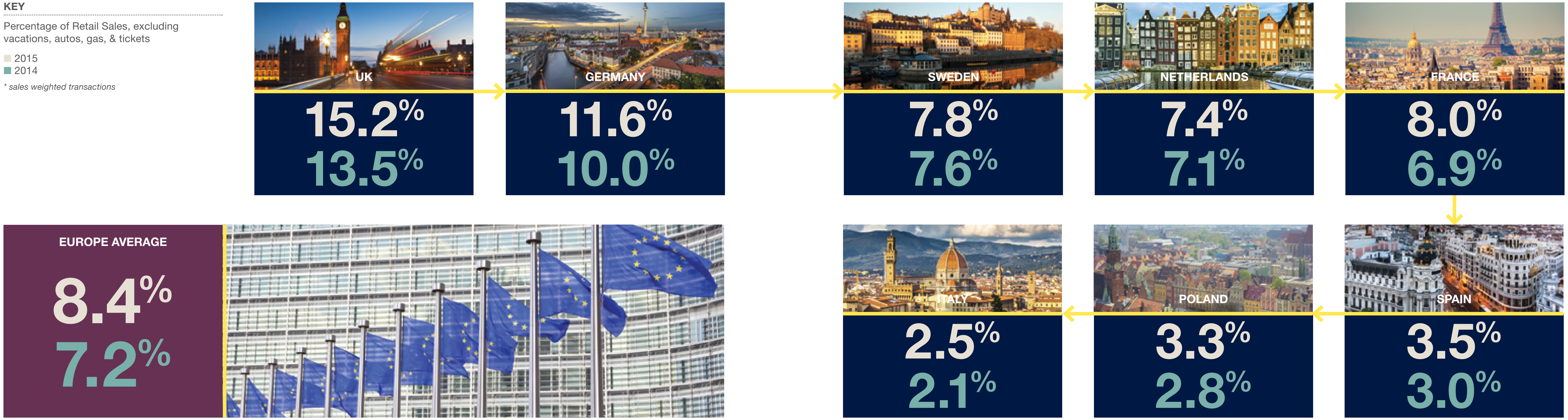
FIGURE 2
Online market shares in Europe still comparatively low, with good prospects of growth

KEY

Percentage of Retail Sales, excluding vacations, autos, gas, & tickets

2015
2014

** sales weighted transactions*



	2015	2014
UK	15.2%	13.5%
GERMANY	11.6%	10.0%
SWEDEN	7.8%	7.6%
NETHERLANDS	7.4%	7.1%
FRANCE	8.0%	6.9%
SPAIN	3.5%	3.0%
POLAND	3.3%	2.8%
ITALY	2.5%	2.1%
EUROPE AVERAGE	8.4%	7.2%

Source: ecommercenews.eu/ retailresearch.org

The importance of physical stores remains high for shoppers

Shopping streets: Generating direct & mobile sales

Despite the growth of online shopping, retail stores will remain important

Cyclical and structural changes in the retail sector have led to higher vacancies in tertiary retail locations but also to stronger demand for space in retail destinations with high connectivity and footfall. Secondary high streets have had to reestablish their identities, having often been over spaced or unsuitable to trends for larger purpose built retail units.

But the need for fewer stores has turned a corner, with the shift in attitudes that convenience, frequent and value shopping trips are best delivered locally. Small town centre units provide opportunities for 'hub and spoke' retailing that help to deliver a full product line to shoppers at the local level, and thus allow retailers to grow their portfolios significantly and reinvigorate the high street.

Despite the continuous rise of online sales, the importance of physical stores for shoppers will remain high. Shopping centres are community hubs where people come to interact, shop, experience. High streets are the focal point of public social interaction, urban experience and a point of attraction for tourists.

Not all types of retail space will have survived the fast changes of the sector.

The principles and needs that drive consumer behaviour will determine the winners and the losers. Efficiency and ease will be important for time-poor shoppers. Accessibility and convenience will be a priority for the ageing population. Flexibility and personalised service will be in demand by all shopper groups.

Destination retail spaces offering specialist trips that are increasingly experiential, e.g. prime streets and regional shopping malls, will have an increasingly important role in providing the greatest experience.

Shopping centre managers and local planning authorities will be putting their efforts to enhance the attractiveness of indoor and outdoor shopping experience. This would be achieved by improving accessibility and the quality of space and including more experiential dimensions such as entertainment, fitness, restaurants and cafes.

Additionally, we expect the redefinition of convenience and the revival of neighbourhood and secondary high streets and shopping centres. Convenience stores, click and collect (C&C) points, services, cafes and restaurants will support the needs of the community at a local level. Change of use will be addressing redundant, long-term vacant space, including conversion to residential or work space that in itself will generate further convenience led retail demand.

In 2025, the majority of Europeans will be living in highly urbanised areas. Almost half (47%) of the workforce will be Millennials. However, employment rates of older workers are also projected to increase, from 40% in 2004 for the EU-25 to 47% by 2010 and 59% in 2025.

The importance of retail stores as the point of inspiration for these different profiles of consumers is in offering convenience, experience, showrooming and service thus generating both direct sales and mobile device transactions.

Retailers in the next decade will be more efficiently meeting the demand of taking their product direct to the consumer either via home delivery, C&C opportunities or from a purely convenience basis with implications on store numbers and efficient distribution of logistics space. In addition a response to urbanisation could be the reverse trend to rationalisation with more/ smaller sale points.

Small town centre units provide opportunities for 'hub and spoke' retailing

Efficiency and ease will be important for time-poor shoppers

Change of use will address redundant, long-term vacant space

GRAPH 3
The changing face of high street The return of convenience stores and services

Source: Experian

SUMMARY

MEGATRENDS in retail

Shopping in 2025

■ Over the next decade retail sales will grow by 19% in EU 28 and by 39% in the top 10 countries, which are all in CEE. By 2030, the European population will have grown by 2% and will be close to 515m people; 55% of which will live in Germany, UK, France and Italy. A quarter of the population will be above 65 years and there will be only 2.6 people working for every retired person.

■ At least one third of elderly people 75+ will use the internet by the end of the next decade compared to less than 1 out of 10 today. Consumers across the demographic spectrum will remain price conscious whether they are buying value or luxury products. Shopping across the price spectrum will become normal.

■ Yet, despite changing consumer shopping preferences and a 10-year increase to 20-25% of spend expected to be generated online, the biggest share of retail sales will continue to take place in physical shops; the store will be as relevant as it ever has been.

■ However, retailers will have to evolve to meet new challenges. There will be higher need for retail facilities to cater for the needs of older people and to offer accessibility, convenience, security and community. Smart and flexible logistics solutions will require a combined network of smaller and larger distribution/storage/sales points. New technologies such as driverless cars, drones and 3D printing will pose challenges on the traditional retail and distribution formats.

■ The store will remain pivotal for retailing as a portal of access to the customer through experience, personalisation, service and direct customer engagement. The need for convenience shopping and services, potential for higher fuel prices, an ageing population and e-commerce will lead to the revival of local shopping and therefore neighbourhood shopping malls and high streets. In-town retail locations and smaller neighbourhood units will be targeted by retailers for smaller formats and shopping centre managers who will adapt to the need of the consumers for attracting the destination shopping trip.

■ Change brings with it opportunity. Higher internet usage across age groups will increase the competition from online shopping, but many ‘pure-plays’ will have progressed to taking stores. Gaps left by traditional retailers that have failed to adjust to changing consumer habits will be filled in by emerging brands. Many of the technological advancements of the first two decades of the millennium will have filtered down to smaller high streets.

■ Problems with too much space in town centres will see changes of use to non-retail formats in terms of living and work space and these will drive new convenience led retail demand. Change of use will reduce voids and make selling space more efficient.

■ Logistics will continue to create new challenges for retailers, whether through growing and optimising distribution channels, last mile delivery, click & collect, or the ‘returns’ conundrum. This will be particularly difficult in parts of Europe that are remote, under developed, or where internet usage is in its infancy.

■ Age of stock will also need to be addressed. There is over 110m sqm of shopping centre space in Europe that by 2025 will be 10 years or older. High levels of mature supply will see the need for refurbishment projects in order to keep pace with competition and consumer preferences.

■ Ultimately, the next decade will see a number of trends that in their infancy in the first 15 years of the millennium will become established and typical across the region. New retail and technological innovations will attempt to engage the consumer, and will either drive new trends or whither away. Shoppers will continue to want to experience the theatre of the specialist shopping trip while demanding convenience and value for frequent, essential shopping trips. Retailers, landlords and local authorities will need to be dynamic in meeting the right need in the right location.

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