



OUR CONSUMER

THE WORLD VIEW
ON DIGITAL

RETAIL'S NEW CONSUMER PERSONAS

UNDERSTANDING BEHAVIOURS AND BUYING
HABITS OF TODAY'S GLOBAL CONSUMER



WORLD RETAIL
CONGRESS
AN ASCENTIAL COMPANY
A WORLD RETAIL CONGRESS PUBLICATION

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IAN MCGARRIGLE
CHAIRMAN
WORLD RETAIL CONGRESS
IAN.MCGARRIGLE@WORLDRETAILCONGRESS.COM

EXPERT VIEW

One of the most frequently asked questions that we heard when we were beginning to build the 2022 Congress programme was “has consumer behaviour been changed forever” as a result of living under the shadow of Covid-19?

Retailers and brands would always have prided themselves on knowing their customers but that suddenly became so much harder to do as a result of global lockdowns.

Living and working from home across all age groups has resulted in a whole new range of behaviours. What will stay and what will revert back to the “normal”

of pre-pandemic times is still hard to tell. Which is why we see the Congress programme pillar of “Our Consumer” as so important.

This special report, sponsored by Railsbank, brings together some of the very latest and best data and analysis to help understand the new consumer. The report identifies some key consumer profiles which retailers will be able to identify but also learn from.

We hope you find this report useful and also challenging as you look to become even more “customer centric”.

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NIGEL VERDON
CEO AND CO-FOUNDER
RAILSBANK

RAILSBANK IS THE WORLD'S LEADING
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PLATFORM, ENABLING BRANDS,
PRODUCTS AND SERVICE PROVIDERS TO
GO BEYOND FINANCIAL TRANSACTIONS,
AND DELIVER THE SEAMLESS DIGITAL
EXPERIENCES THEIR CUSTOMERS
EXPECT

COUNTLESS CHALLENGES - BUT THE FUTURE IS BRIGHT

We all know that the retail sector is currently facing countless challenges.

The pandemic, not yet over, has wreaked havoc on all of us. And far from the “roaring twenties” some economists had promised us, we are now facing runaway inflation and major geopolitical issues.

Yet, from where we sit in the financial services sector, what the pandemic has done is speed up what was going to happen anyway. The move from physical cash to digital money was on the cards before the pandemic, as was the growth in ecommerce. What the pandemic did was to exaggerate the need for such changes, bringing it into focus for a battered consumer.

And, what this report makes clear, is that consumers young and old are now highly experienced with digital retail experiences because of Covid-19.

Looking forward, I'd like to highlight two main challenges for the traditional bricks and website retailers.

First, now, more than ever, is how to compete for the new digitally experienced consumer with digitally native ecommerce merchants.

Second, is how to deliver a joined up ecommerce and in-store experience to the consumer, one which knows the consumer in-store and online, and rewards and engages that same consumer.

This report, thanks to sterling work from the team at World Retail Congress, throws light on what retailers have to focus on in the future.

That future is bright for retailers that create 360-degree ecommerce and a digital experience around the consumer.

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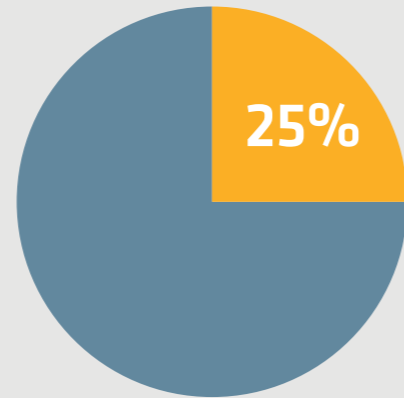
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SIX STATISTICS ABOUT THE NEW CONSUMER

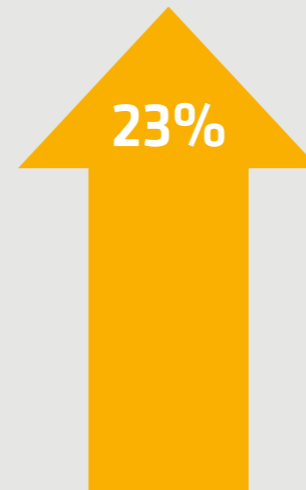
ENTERING THE NEW UNIVERSE OF ONLINE SHOPPING AND RETAIL

The rise of the metaverse to the huge increase in online searches in numbers and statistics



By 2026 25% of people will spend an hour a day in the metaverse

Source: Gartner



The UK subscription market was worth £395m in 2021 - up 23% on the previous year according to Barclaycard

\$10.3bn

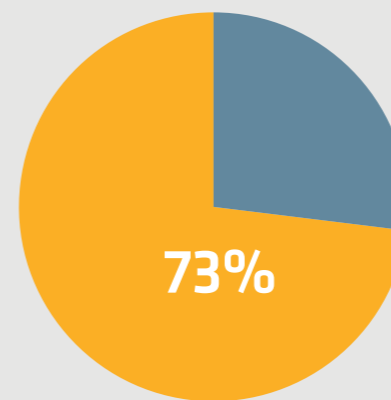
- the amount Meta (formerly Facebook) invested in the metaverse in 2021

X3

- the increase of regular online grocery shoppers at Waitrose in 2020 vs 2019

In 2020, 73% of the growth in retail searches on Google in the UK was from new or rarely searched terms

Source: Google



Nov 2016

18.8%

Internet sales as a total percentage of retail sales

Source: ONS

Nov 2021

30.4%

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MEET THE NEW CONSUMERS

FOUR DISTINCT CONSUMER GROUPS HAVE EMERGED FROM THE PANDEMIC THAT WILL INFLUENCE SPENDING FOR YEARS TO COME. WE PROFILE WHO THEY ARE AND WHAT THIS MEANS FOR RETAILERS' INVESTMENT PLANS

It seemed like we'd never see the day, but the UK has waved goodbye to most of its coronavirus restrictions. With commuter and tube trains now busier, the tinkering sound of office lights humming back into life with the arrival of hybrid workers, and travel restrictions ended as of March 18, life is starting to feel something like returning to normal. Almost.

As tempting as it is to think of the Covid-19 pandemic as now over, it's not, officially, and despite dramatically-reduced numbers of infections there are still over 13,000 people in hospital at the time of writing - meaning the effects on the consumer are lasting.

When the world came to a grinding halt in March 2020 - the first time the UK went into official lockdown - two key things happened.

Firstly, that great pause gave consumers time to reflect on how they lived, what they bought and what they wanted for their futures.

Secondly, that unprecedented disruption jolted other consumers out of their comfort zones, hurtling them into new experiences.

Those twin trends provided fertile ground for the seedlings of consumer changes already at a nascent stage pre-pandemic - green shoots that are now bursting into full bloom in the light of a restriction-free market.

The result - new consumer personas with different wants and needs. Fresh challenges for retailers, yes, but plentiful opportunities for those that get their strategy right.

In this report, Retail's New Consumer Personas, produced in association with Railsbank, we introduce you to four distinct consumer groups identified by Retail Week, explore which retailers are already winning them over, and ask what these groups mean for the evolution of online and offline experiences.

So, who are they?

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THE PERSONAS

THE DIGITAL ARRIVALS

It's true to say that the eye-watering levels of online penetration of retail sales seen during the height of the Covid-19 pandemic have calmed down.

Figures from business data and intelligence firm Statista reveal that internet retail sales, as a percentage of total retail sales, reached a giddy high of 37.8% in January 2021, up from the more standard 19.1% in March 2020. This was the period when consumers stayed at home while the Delta variant of Coronavirus was at its peak in the UK.

However, things haven't simply snapped back to the way they were before the virus. Statista data shows internet retail sales were still at 27.1% of total retail sales in January 2022. This shows that a great number of the consumers, that found themselves with little option other than to shop online during the pandemic, have decided to keep doing so, awakened to the convenience, choice and ability to easily shop around that online retail offers.

These shoppers are the Digital Arrivals. They may not be entirely new to online shopping - most consumers had some experience of it over the past 20 years - but pre-pandemic they preferred the physical shopping



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experience; the environment, the ability to touch and feel products and talk to store staff, without having to learn how to navigate search engines, websites and new technology.

This group typically, though not exclusively, includes older consumers less au fait with ecommerce, and more used to browsing and buying in shops.

For example, in its 2020 report *How Britain Shops Online*, supermarket Waitrose noted that the most marked increase in online grocery shopping was in the over-55 age group, where regular online shoppers nearly tripled - from 8% of total shoppers in 2019 to 23% in 2020.

Digital Arrivals don't know what to expect online, don't necessarily know what they want from the experience, or how to find the brands and products they are looking for.

This is where retail strategy comes in. Retailers can't simply expect Digital Arrivals to shop their websites in the same way their existing, digitally-savvy consumers do. Retailers need to make the UX clear with easily-navigable sites, with content tailored to this new group.

However, the right messaging for this audience is critical. The below chart from global brand strategy and consumer insight consultancy BAV Group with WPP is drawn from data on 8,000 international consumers and reveals the attributes that Digital Arrivals look for in the retailers and brands they shop with. 'Traditional', 'kind', 'simple' messaging is far more likely to generate respect than brands that focus on being progressive, up-to-date or daring.

WHAT ATTRIBUTES DESCRIBE THE MOST AND LEAST RESPECTED BRANDS AMONG DIGITAL ARRIVALS?

Digital Arrivals connect with brands that are 'traditional', 'kind' and 'simple' and do not necessarily connect with brands that are 'up to date', 'progressive' and 'daring'



Source: BAV Group with WPP. Digital Arrivals & All Adults 2019-2022

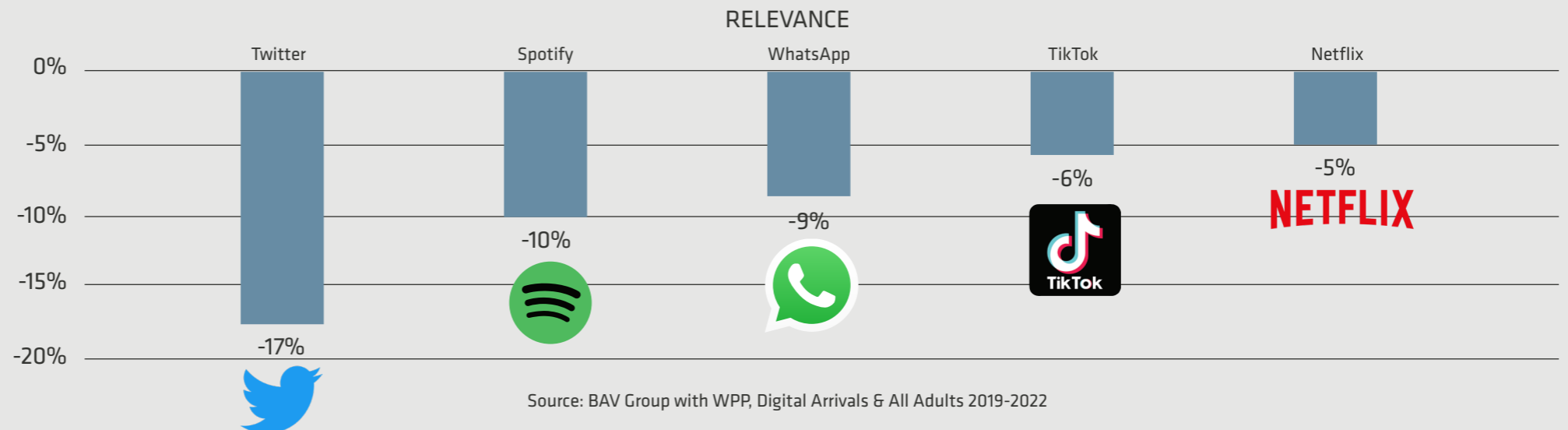
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WHICH BRANDS ARE LESS RELEVANT AMONG DIGITAL ARRIVALS?

Brands in the digital world, such as social media or streaming services, are less relevant among Digital Arrivals compared to all adults



Source: BAV Group with WPP, Digital Arrivals & All Adults 2019-2022

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THE SUBSCRIBERS

The subscription market wasn't created by the pandemic, but it's a prime example of green shoots leading to fast growth.

The Royal Mail's *Subscription Box Market Report*, published in June 2021, revealed the sector more than doubled in size in three years, and that consumers across the UK spent more than £1.4bn on subscription boxes in 2020 alone, with fulfilment providers delivering more than 88 million to customers across the country.

It reports that, as of June 2021, 27.4% of UK consumers are currently signed up to a subscription box service, either for themselves or on behalf of somebody else.

Furthermore, Royal Mail forecasts the UK subscription box market is set to be worth £1.8 billion by 2025.

Data from financial intelligence and software company PitchBook shows that more than \$3bn (£2.2bn) of capital was invested worldwide in the sector between 2018 and 2020, with UK players such as Gousto raising over \$155m (£114m) in equity in 2020 alone.

It has also led to a fresh round of partnerships between established retailers and subscription box start-ups, such as the co-branded recipe box tie-up between Waitrose and Mindful Chef in December 2021.

This, in turn, has seen more established retail brands wade into the subscription box market – including luxury store Liberty, which launched its own subscription service in October 2021 called The Beauty Drop.



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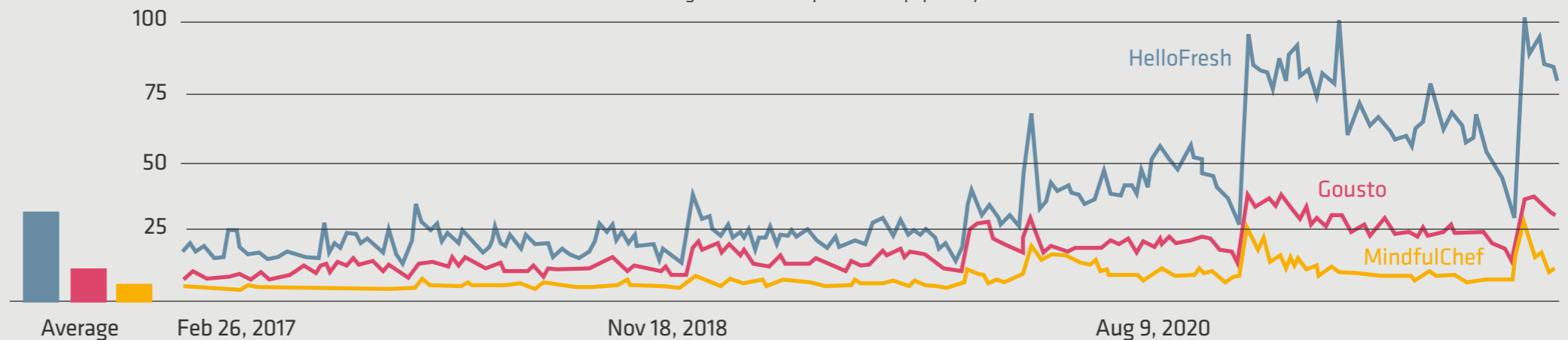
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MEAL SUBSCRIPTION SEARCHES

The pandemic had an effect on people's desire to cook more adventurously at home

Source: Google Trends. 100 = peak search popularity



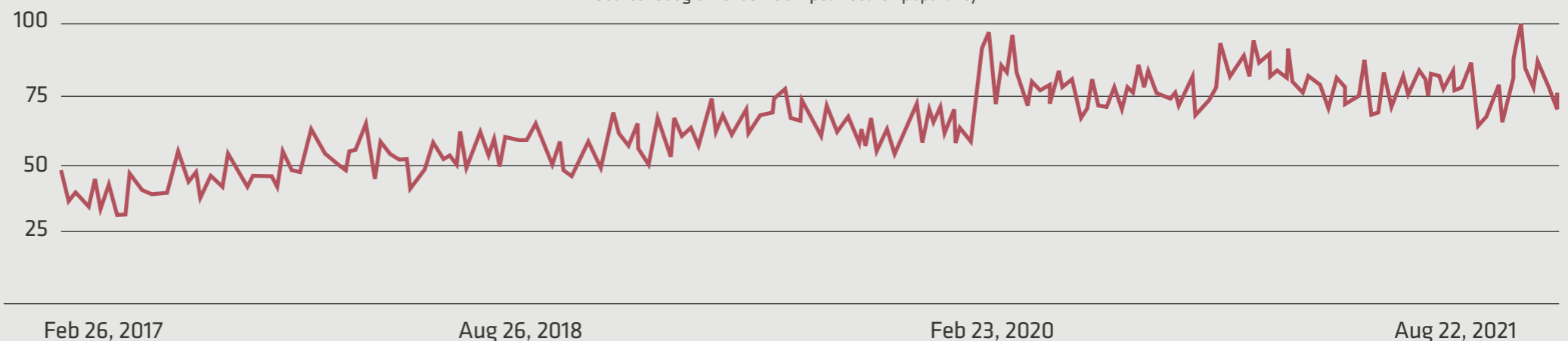
Meanwhile, newer entrants such as Beauty Pie recorded a 70% surge in membership and doubled sales in the year following the onset of the pandemic in March 2020. Flower subscription service Bloom & Wild raised funds of £125m in 2021, which allowed it to snap up international competitors and expand outside of the UK.

One of the big winners in this space in 2021 was British meal kit recipe box provider Gousto. The brand, which delivers fresh food along with recipes, raised more than \$150m (£111m) at a funding round in November 2021 from tech investment giant SoftBank's Vision Fund 2.

SEARCHES FOR 'CANCEL SUBSCRIPTION'

While subscriptions may have been popular during the pandemic many of these proved to be short-term

Source: Google Trends. 100 = peak search popularity



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SO WHO ARE THE SUBSCRIBERS?

Subscriptions have been particularly popular with the young, with 52.1% of 25-34s signed up to at least one, according to the Royal Mail data, which was based upon research with 2,000 UK shoppers. This compares with just 11.7% of 55-64s and 7.6% of those over-65s.

Men are also more likely to purchase subscriptions than women, with 30.6% of males signed up, compared to 24.3% of females, perhaps reflecting popularity of male-focused boxes such as shaving and beer subscriptions, among others.

The report also found that London is where subscription boxes are most popular, with 50.7% being signed up. In turn, the capital's younger, affluent consumers and dense population have made it an attractive testing ground for

subscription trials and start ups.

“There’s not been that many people who have trialed recipe boxes,” says Mindful Chef founder Giles Humphries. “The potential market is enormous across the spend of groceries as a whole. Ourselves and all of our competitors in this space, we barely cover a fraction of that spend combined, so the opportunity is pretty big.”

Retail Week’s own research of 1,000 UK consumers in August 2021 supports the rise of the Subscribers, with 11% of respondents confirming they had signed up to more subscription services since the onset of the pandemic in March 2020. These included brands such as Netflix and HelloFresh, alongside more burgeoning brands such as shaving subscription service Estring.

WHAT GETS PEOPLE TALKING?

What qualities get retail subscribers recommending brands to friends in the UK?

TOP CORRELATED ATTRIBUTES TO “RECOMMEND TO A FRIEND”



Source: BAV UK, All Adults 2022

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THE ETHICAL CONSUMERS

Once upon a time, 'value' was synonymous with mass-produced products at bargain prices. But 'value' has a whole different meaning in 2022.

This group of consumers straddles age groups. They are the Alphas (those born after 2010) and Generation Z (those born between 1995 and 2009), inspired by the likes of young activist Greta Thunberg and the #MeToo and Black Lives Matters movements.

They include millennials and boomers who have watched the plastic pollution and climate crisis documentaries, and left their desks to join their younger peers on the marches, glue themselves to motorways, or crucially switched the brands they shop with and the products they buy to more sustainable options.

They want products produced, marketed, sold and delivered in a way that aligns with their environmental and social values. There is a long and growing list of retailers investing in environmental, social and governance agendas, and as well as just being the right thing to do for the planet and society, it also makes business sense. For example, Retail Week's *Green is the New Black* report surveyed 1,000 UK consumers

in January 2022 and found that 59% of consumers are more likely to buy from a retailer or brand with a strong ethical and sustainable ethos.

The chart below shows the steady increase in online searches for 'ethical' and 'sustainable' clothing, with 'ethical' slightly winning the race on average.

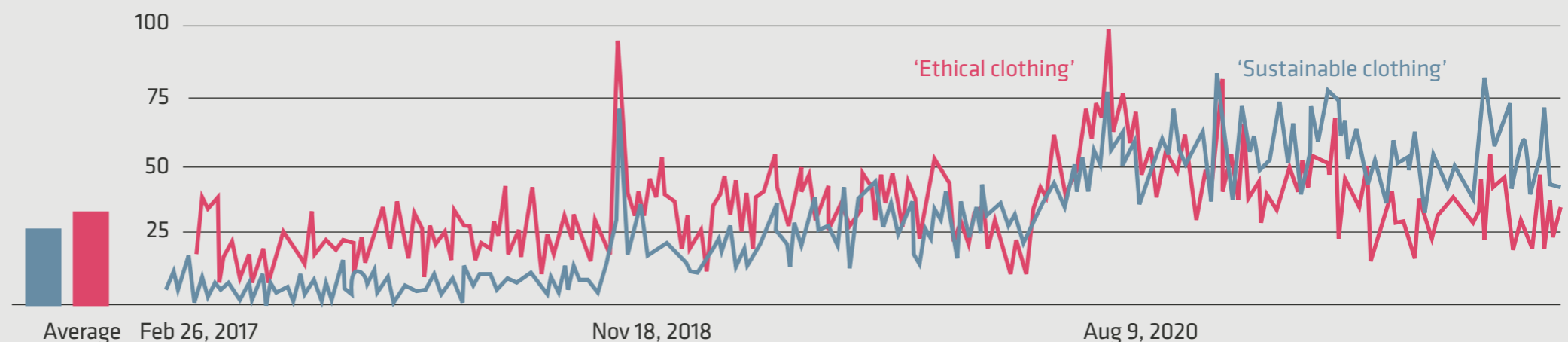
This trend is also reflected in how consumers are actually spending. The Co-op's ethical consumerism report was released at the start of 2022 and showed that consumers increasingly turned to plant-based foods, secondhand clothes and furniture, and greener gadgets during 2020 (the year for which the most comprehensive data was available). It found consumers spent almost £61bn on ethical products and services, a rise of 30% from 2019. This figure on sustainable spending equates to £2,189 per household, more than double the £1,028 level recorded in 2010.

This group of consumers watched last November's COP26 in Glasgow keenly, which saw numerous retailers make pledges to reduce their environmental impact.

Fashion's key climate initiative, the UN Fashion Industry Charter for Climate Action, upgraded its commitments. The charter includes 130 signatory brands such as Primark, H&M

SEARCHES FOR SUSTAINABLE AND ETHICAL FASHION (UK)

Source: Google Trends. 100 = peak search popularity



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and Inditex, and brought French luxury conglomerate LVMH on board following years of reluctance.

Under the new pact, signatories must reach net-zero emissions by 2050, and either halve their emissions by 2030 or set science-based targets by the end of 2023 (see below).

In grocery, five supermarkets - Tesco, Sainsbury's, Waitrose, the Co-op and Marks & Spencer - pledged to halve the environmental impact of the weekly shop by 2030.

The grocers made promises as part of COP26 to reduce carbon emissions, food waste, packaging, and deforestation connected to the food they produce.

In this context, retailers and what they offer are under the microscope. They can't hold back the tide of this movement, but if they move with it, they will win advocates that in turn generate not just long-term sustainable businesses, but critically, profits.

SCOPE TARGETS

Science-based targets provide companies with a clearly defined path to reduce emissions. More than 2,000 businesses around the world, including retailers such as Asos and JD Sports, are already working with the Science Based Targets initiative (SBTi), making real strides behind the scenes.

The initiative advises retailers to break their carbon emissions into three sections:

Scope 1 – Direct GHG emissions that occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment.

Scope 2 – Emissions from purchased electricity, heat and steam for use in business operations. Scope 2 emissions physically occur at the facility where electricity is generated and so would fall into the scope 1 category for the power generator.

Scope 3 – A reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company, typically as a result of supplier or customer activities. These can be up or down the value chain – for example, transport and distribution or the disposal of goods or services after they reach the consumer. Some examples of scope 3 activities are the extraction and production of purchased materials, transportation of purchased fuels and the use of sold products and services.



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THE THRILL SEEKERS

There is a swell of consumers looking for greater interaction and enjoyment from shopping, demanding more playfulness in retail marketing alongside gamified elements.

Barely a day goes by now where you don't read about NFTs (non-fungible tokens) or the metaverse, and retailers entering the virtual world - from sportswear giants Nike and Adidas through to department stores such as John Lewis and Selfridges, as well as luxury brands including Dolce & Gabbana, Gucci and Givenchy.

In the digital space the Thrill Seekers tend to be younger consumers, aged under 25, who never knew a world without the internet or smart phones. Technology is simply second nature to them, and they expect the retailers they interact with to be able to serve them in the channel they want, whether that be online, in-store or within the metaverse.

Certainly some of the world's biggest tech players are spending big, most notably Facebook, which has invested \$10bn (£7.6bn) over the past year and even changed its name to Meta, and Microsoft, which is looking to spend almost £60bn on games developer Activision Blizzard. As David Roth, chairman of WPP's BAV Group, points out, Apple is yet to show its hand. When it does, he believes, the speed of take-up will accelerate. "Apple will make it cool," he says.

Indeed Roth is a big advocate of the metaverse and its growing relevance to retail. He points out that a generation has grown up as gamers. The virtual online environment is not alien to them: they are used to the technology and the experience; they will search out new experiences.

As a predominantly social tool, it's unsurprising that the metaverse is the space where Thrill Seekers want to be able to buy new goods - from fashion, to art, to property - to

show their peers. Retailers, increasingly, are going to need to be there ready to meet and sell to them within these virtual worlds, because if they don't, someone else will.

But Thrill Seekers aren't just looking for those experiences online.

Having endured multiple lockdowns, consumers are eager to get out and experience new things, not just virtually, but in the physical world too, and this is where this consumer group widens to include older age groups.

Shops will continue to become less transactional spaces and instead become destinations where consumers can discover and play with products and engage with brands; blending digital and virtual channels. It's now up to retailers to provide the experiences they are looking for.



MEETING THEIR DIGITAL EXPECTATIONS

CHAPTER 2

MEETING DIGITAL EXPECTATIONS

MEETING DIGITAL EXPECTATIONS

ECOMMERCE STRATEGIES NOW NEED TO BE SPED UP TO PIERCE THE WHITE NOISE OF COMPETITION ONLINE. IN THIS CHAPTER, RETAIL WEEK AND WRC INVESTIGATE WHAT THAT LOOKS LIKE STRATEGICALLY

In chapter one we detailed how the level of online penetration has settled back to a new normal of around 27% - well up from its previous level of around 19%.

However, more online customer means greater online competition, making it much more difficult for businesses to pierce through the white noise.

Clearly, retailers are now under far greater pressure than ever to invest in their digital strategies to market to customers in the right channels, at the right time and with the right products, and then be able to sell to those consumers with ease.

With our consumer personas in mind, what do they want from the digital experience?

WHAT BEST-IN-CLASS UX LOOKS LIKE

“Slick interface”, “Website updated often”, “Good product pictures” and “Easy checkout”.

Last year, Retail Week surveyed 1,000 UK consumers to discover their favourite retail websites and these were just four of the reasons given behind their choices.

So what does best-in-class online UX look like in 2022? And what is the framework businesses can follow to create a website that drives repeat traffic?

British Airways is a £3.7bn business, and is one of the UK’s busiest websites with over 13 million visitors in the month of February alone. Clearly, the airline industry has been fraught with challenges during the past two years, which has required a laser-like focus on customer experience and user experience (UX) online to stay afloat and grow.



CHAPTER 2

MEETING DIGITAL EXPECTATIONS

Speaking at Retail Week’s Accelerating Ecommerce Week Summit in March, British Airways digital director Jack Smith explained that fixing “broken” user journeys that flipped customers between its mobile app and website was a priority, as well as investing in its digital team internally.

Smith asserted that retailers need to focus on the connected customer journey. “We tend to talk about apps and websites in isolation, but it is a big ecosystem out there, so we need to work out where people are coming from.”

The ease of navigation, search, and transaction that Smith talks about is particularly relevant to Digital Arrivals. These are consumers who are not used to shopping across digital channels, so every point of friction is a potential for large volumes of lost sales. Helping them to find what they are looking for, easily, is critical.

“I’m a big believer in behaviour-led personalisation. So less about ‘I can work out who you are’, and more about understanding what you’re doing at that point in time,” he revealed.

Smith’s approach at British Airways was to put a big focus on A/B testing at scale and the organisation now runs thousands of variants on its homepage to get to grips with customer behaviour, as well as investing in AI and machine learning, though more on that topic below.

STEP INTO THE METAVERSE

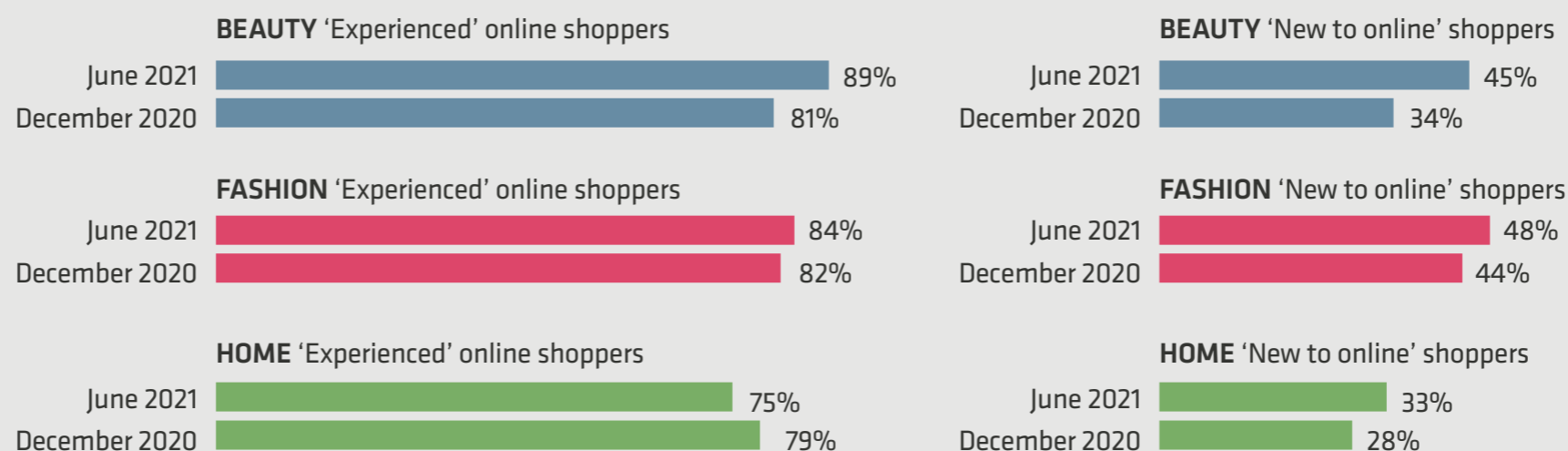
The metaverse is set to change the way consumers live and shop. While this won’t be a key investment area for Digital Arrivals, it will be critical for the digitally-native Thrill Seekers and also offers opportunities for both the Subscribers and Ethical Consumers.

The race is already on among brands and tech giants to develop this immersive digital reality and the economic opportunity it presents.

In 2019, Alibaba launched its own virtual world, Taobao Life, which has become a successful revenue driver for several retail brands, while in December 2021, Nike acquired virtual fashion platform RTFKT. Burberry, Dolce & Gabbana and Louis Vuitton have also all partnered with gaming platforms.

ONLINE SHOPPING HAS BECOME MORE ESTABLISHED FOR ‘NEW TO ONLINE’ SHOPPERS: INCREASE IN EXPECTATIONS OF SHOPPING MOSTLY/ALWAYS ONLINE IN THE NEXT SIX MONTHS

Source: Google/Trinity McQueen, July 2021, n=1,000 per category, all demos and shopper types



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CHAPTER 2

MEETING DIGITAL EXPECTATIONS

Speaking at Retail Week's Accelerating Ecommerce Week Summit, Alibaba head of fashion and luxury for UK, Spain and Northern Europe and head of US luxury Mei Chen explained: "The metaverse for me is about merging that online and offline experience. From the comfort of your own home or office you can play, you can work, you can transact. It's a new playing field, not only for customers but for brands to interact with them more".

Unlike in the West, where NFTs are bought and traded, in China retailers can gift them to consumers, but they cannot buy them for themselves and they can't be traded.

She explained that Alibaba's recent pilots with around seven retailers, including Burberry, Coach and La Perla, where the Chinese ecommerce titan selected certain products from the most recent collections to launch as NFTs in the metaverse, included initiatives such as allowing the first 1,000 customers to acquire the NFT along with their physical purchase.

For some brands it has even become a key provenance check - if the consumer owns the NFT for the product from the retailer, they can prove the authenticity of their item.

"We realised around 10-15% of customers, particularly the younger ones, were aiming to acquire the NFT more than the physical product, which is a really interesting trend we are seeing in China," she added. This is the kind of innovation The Thrill Seekers want to see.

Chen revealed that Alibaba started this pilot scheme as a marketing project to allow brands to engage with consumers without having a commercial sales goal. However, she said: "What we realised at the end of that journey is that the brands made a really high ROI, around 7-8 times of their initial investment. As you dressed up your avatars you would share that on social media with your friends, and if you wanted to you could buy the full look in real life. So it was a great way of blending the physical experience with digital."

But, as we discussed above, there are also opportunities to win over the Ethical Consumers.

CCP Games CEO Hilmar V. Pétursson, whose business runs popular metaverse multiplayer game Eve Online, explains it in simple terms: "Physical presence and consumption is destroying the planet. We are throwing away perfectly good clothes just because they are out of fashion. This is probably the best way to transpose human need and greed in the social context into an environment where it doesn't ruin the planet. There will be absolute zero tolerance for waste in the human physical world. Our kids won't do that because they will know the externalised cost of having too many shoes."

There is also no reason why subscriptions can't and won't be expanded into this space too. In a metaverse where consumers have avatars to dress, cars they want to drive and virtual homes they want to decorate, they will likely need access to the very same subscriptions they enjoy in the physical world.





CHAPTER 2

MEETING DIGITAL EXPECTATIONS

THE ROLE OF DATA AND AI

Data and AI are not new trends within retail, but the ratcheting up in competition in the online space and within the wider retail market means they are now becoming the differentiator between winning and losing businesses.

Critically, the use of predictive AI has taken retailers beyond analysing historical data to determine future trading patterns, and even beyond understanding real time data to be ready for tomorrow. Instead, buying strategy can be based around projections over how consumers will shop.

Merchandising decisions can be informed both by what the data says about how consumers will shop, as well as external factors such as weather patterns that may affect product categories such as fashion. AI can also be used to combine data sources, such as scanning the market and customer behavioural trends to establish pricing architecture and make intelligent decisions on when to discount or promote.

The Very Group digital customer experience director Paul Hornby explains the online retailer has been using predictive AI to personalise the customer journey in terms of product

and UX, understand customers' propensity to lapse from being an active customer and to think about the interventions it can make to prevent that, as well as trying to understand when a customer is going to need to replenish an item.

However, it is important to strike the right balance between using AI to personalise and not forcing customers down rabbit-holes. "We see it as a pyramid, and at the foundation is creating a seamless experience for everyone. We try to avoid pushing people in an echo chamber. We don't want to just show them what they have done, viewed or purchased in the past. They need to see our wider offer," said Hornby.

Data and AI have the power to win the spend of all of our consumer personas. Thrill Seekers want curated, exciting experiences. The subscription economy is essentially based on using data to take the headache out of everyday essentials and product discovery for the customer.

Similarly for the Ethical Consumers it can help them find the brands and retailers that best fit their sustainability and ethical needs. While for the Digital Arrivals, data can be used to make their journeys as simple as possible.

"THE METAVERSE IS ABOUT MERGING THAT ONLINE AND OFFLINE EXPERIENCE. FROM THE COMFORT OF YOUR OWN HOME OR OFFICE YOU CAN PLAY, YOU CAN WORK, YOU CAN TRANSACT. IT'S A NEW PLAYING FIELD, NOT ONLY FOR CUSTOMERS BUT FOR BRANDS TO INTERACT WITH THEM MORE"

Mei Chen, Alibaba

DELIVERING THE NEW STORE EXPERIENCE

CHAPTER 3

DELIVERING THE NEW STORE EXPERIENCE

DELIVERING THE NEW STORE EXPERIENCE

The retail store has spent years defying the naysayers sounding its death knell, and the Covid-19 pandemic was no different.

Bricks-and-mortar retailing weathered the storm of the past two years, and at first glance, with growing numbers of consumers milling around in shops up and down the country, it almost seems like nothing has changed.

But it has irrevocably.

Store openings have drastically slowed - research from the Local Data Company and PwC found the number of net new store openings declined 26% in 2021 compared to 2019. Meanwhile, in the final quarter of 2021 the national UK vacancy rate stood at 14.4%, according to the BRC-LDC Vacancy Monitor, up from 10.9% in 2017 but lower than quarter three's 14.5% figure, showing there has been a slight improvement.

So, against a still challenging backdrop, stores need to work harder to survive and thrive. This, by and large, is about modernising the experience they offer, or for many, redefining purpose.

The Thrill Seekers, the Ethical Consumers and the Subscribers are all expecting to step into shops that either offer a technologically-enabled superior level of convenience or service, or stores that offer immersive, unique, destination brand experiences.

Even The Digital Arrivals, that veritable aficionado of the retail shop, is now digitally literate and will, as a result, want to step into stores that blend channels seamlessly.

So what does the store of the future look like and more specifically in what should retailers be investing in to deliver on the desires of these new customer personas?

THE CASHIERLESS STORE

Where Amazon leads - in this case with its Amazon Go concept in the US in 2018 - others follow.

The cashierless store has gone from bleeding edge technology to mainstream - particularly over the past year.

Aldi became the latest grocer to launch the format when it opened its first Aldi Shop&Go on January 18 "for public testing" in Greenwich, London, following a test period with staff over the preceding few months.

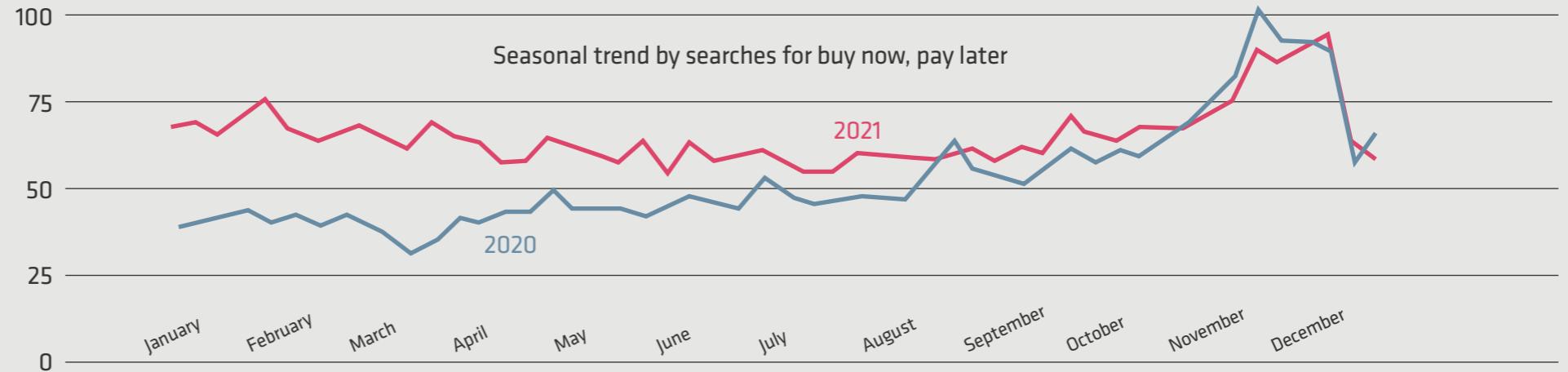
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DIFFERENT FORMS OF PAYMENTS HAVE ARISEN IN RECENT YEARS WITH BNPL SEEING HUGE GROWTH IN 2021 AND SUSTAINED OVER BLACK FRIDAY 2021

Around 11% of UK adults have used buy now pay later and queries grew 21% in 2021

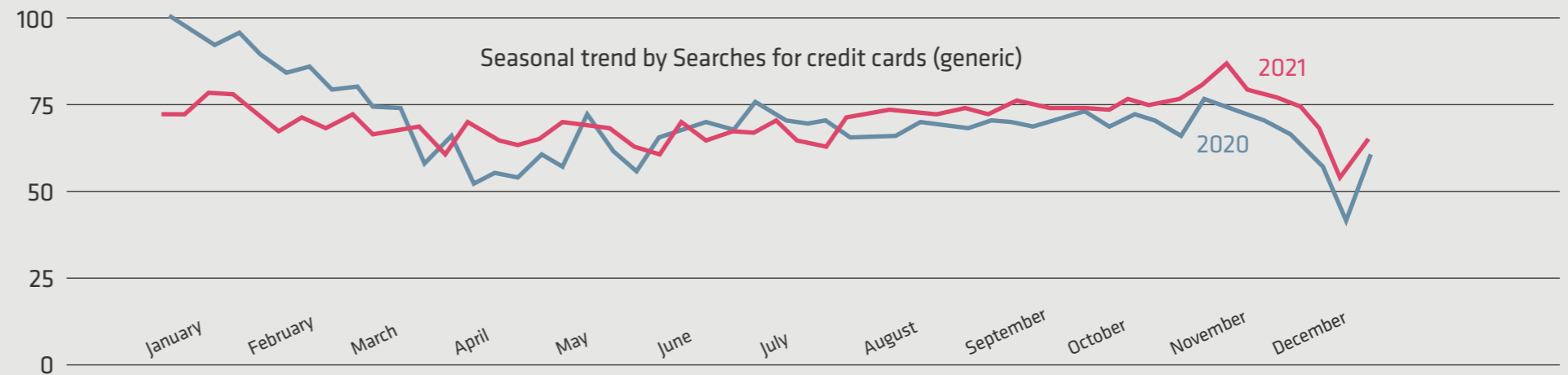
Source: Google Internal, 2020-2021 | UK. 100 = peak search popularity



CREDIT CARD DEMAND IS ALSO MAKING A COMEBACK, UP 9% VS 2020

As inflation continues to put pressure on consumer finances, the demand for credit is expected to continue

Source: Google Internal, 2020-2021 | UK. 100 = peak search popularity



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Customers download the Aldi Shop&Go app, enabling them to enter the 5,242sq ft store, pick up their shopping, and walk straight out afterwards.

Once a customer leaves the shop they are automatically charged using their selected payment method, and a receipt appears in the app on their phone.

The technology is powered by Aldi partner AiFi, and uses specially-positioned cameras to detect which products customers have picked up, before charging them to their Aldi Shop&Go account when they leave the store.

For customers wishing to purchase alcohol and tobacco, facial age estimation technology will be available to authorise purchases linked to the app.

This kind of experience is likely to appeal to the Thrill Seekers, a digitally native consumer who is likely to come to expect this kind of proposition.

Some of Aldi's main competitors had already entered the cashierless fray. Tesco opened its first such branch in High Holborn, central London last autumn, followed shortly after by Sainsbury's in Holborn Circus, near to the Tesco store, which had previously experimented with a similar format.

The trend really took off in the UK when Amazon opened its first UK Amazon Go shop a year ago in Ealing, west London.



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CHAPTER 3

DELIVERING THE NEW STORE EXPERIENCE

CHANGING UP FORMATS

The lives of all four consumer personas have changed, and therefore require new store formats to reflect those realities.

Take Ikea, for example. The doyen of Scandi style opened its first-of-its-kind small-format store in the UK in London in February, marking its first step into high streets.

The new store, which is a quarter of the size of the traditional blue boxes the furniture giant is best known for, measures 46,000 sq ft across two floors.

The shop is focused on selling small homewares and takeaway items, while giving inspiration and the ability to order the full Ikea range for home delivery - something now increasingly important to the Digital Arrivals. It is also Ikea's first cashless store with self-checkout stations.

Ikea UK chief executive and chief sustainability officer Peter Jelkeby said: "We went completely cashless in order to simplify things and make it easier to shop. We hope we will be busy, and it will allow customers to come in and out in a fairly efficient way." Ikea has said that it will invest £1bn in London over the next three years to bring its stores closer to where customers live, work and shop.

He added that Ikea is likely to take any learnings from the store and apply it to the Oxford Street store opening, scheduled for next year.

Ikea isn't the only retailer to make this move. Garden centre retailer Dobbies opened a smaller format on high streets called Little Dobbies in October 2020.

Poundland, meanwhile, has gone the other way - it launched its first large-format stores with a focus on fresh food in Nottingham and in Teeside in February.

Subscription companies are also making moves to cater to the needs of customers returning to physical stores.

"When we started Pasta Evangelists five years ago, we envisioned DTC to be the future," says chief executive Alessandro Savelli. "In our view now, an omnichannel approach is more powerful than a pure ecommerce strategy."

Pasta Evangelists has struck distribution deals with Ocado and M&S, but is also growing a takeout delivery service through Deliveroo. So The Subscribers is likely to remain a key consumer group going forward, as the the companies they subscribe to shift their offers to maintain their loyalty.



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DIFFERENTIATED EXPERIENCES

One area where we are likely to see new experiences being offered, and which in part is an extension of new formats, is retailers partnering to create real destinations.

The Greggs and Primark tie-up in February, for example, saw the F&B operator open a shop-in-shop at Birmingham's Primark flagship - also its largest store in the world - where it joins a barbers, beauty studio and Disney cafe.

Primark's new business development director Tim Kelly said of the partnership, which also includes an 11-piece clothing line: "We want to give our customers incredible experiences in our stores and offer collections they can't find anywhere else with brands we know they love."

Inspiration can also be taken from across the pond, where Walmart has been a consistent leader in in-store innovation. In February it unveiled what it's calling an "interactive store" format which it is testing at its Store 4108 incubator location in Springdale, Arkansas.

The new store format, which Walmart has called Time Well Spent, features improved lighting and use of space, more dynamic digital displays, and includes QR codes and screens that the retailer said "create opportunities for digital exploration" for customers.

Walmart also said the space would take the "store-within-a-store experience to the next level". Using apparel as an

example, Walmart said the store will highlight its own- and third-party brands. There is also more of an emphasis on showcasing products to "touch, feel and try" that customers might later choose to purchase online in areas like beauty - again, showing how retailers can appeal to consumers such as Digital Arrivals.

"We're amplifying the physical, human and digital design elements in our stores to inspire customers and elevate the experience," said Walmart vice-president of marketing, store design, innovation and experience Alvis Washington .

He added: "Physical elements include lighting, space enhancements, dynamic displays and more. Our visual merchandising experts have highlighted exciting brands and created engaging experiences that bring to life the human element. Finally, QR codes and digital screens create opportunities for digital exploration."



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DELIVERING THE NEW STORE EXPERIENCE

GREEN INNOVATION

One group that will be watching the development of store offers keenly will be the Ethical Consumers.

Many retailers are already working to ensure stores are part of the circular economy.

Fast fashion retailers come in for harsh criticism when it comes to sustainability, but many are looking at ways to reduce their environmental footprint.

H&M is trialling a clothing-to-clothing recycling scheme in its home country, Sweden, and offers clothing take-back schemes in its stores globally, for example.

Meanwhile, ahead of COP26 Ikea launched new Sustainable Living Shops in UK stores to help customers live more eco-friendly lives at home. The shop-in-shop concept focuses on five key areas in which to inspire and educate customers on where they can take action: use less energy, create less waste, reduce single use, care, repair, resell and recycle, and use less water.

This kind of focus is likely to be a key determinant in where the Ethical Consumers seek to shop.

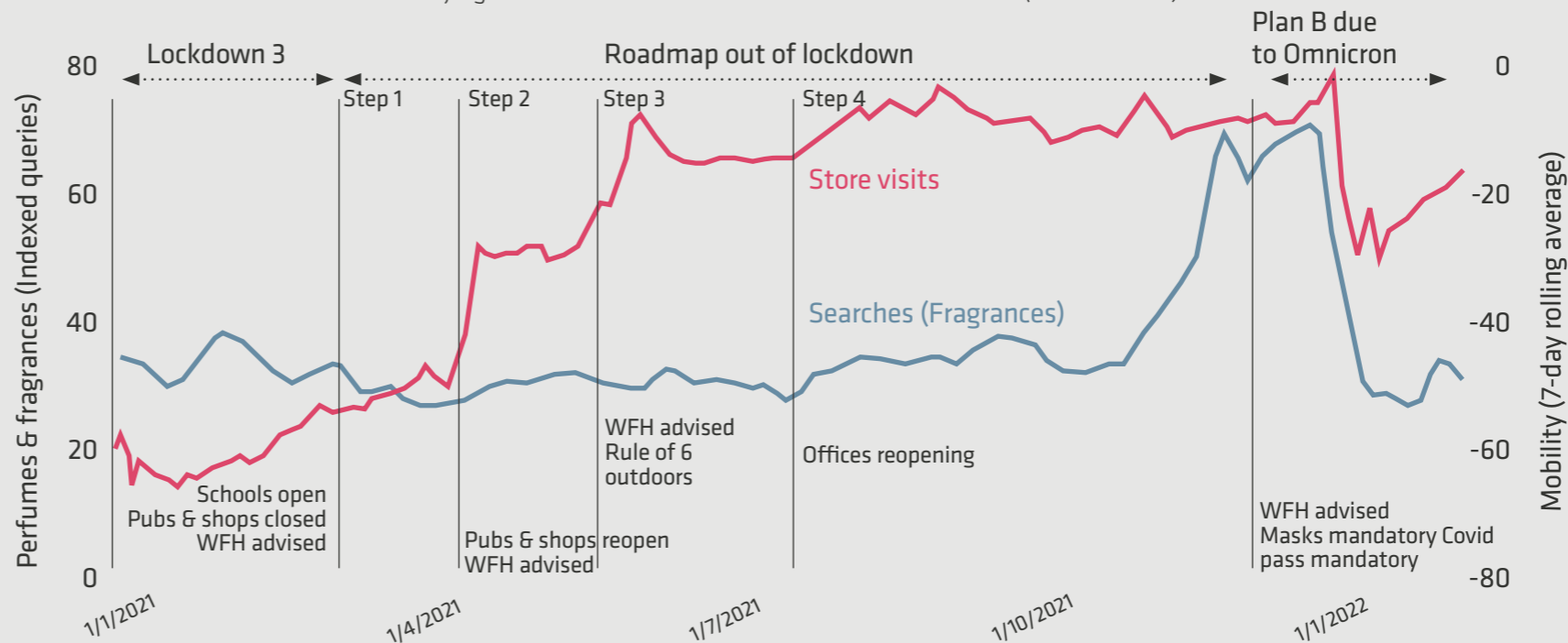


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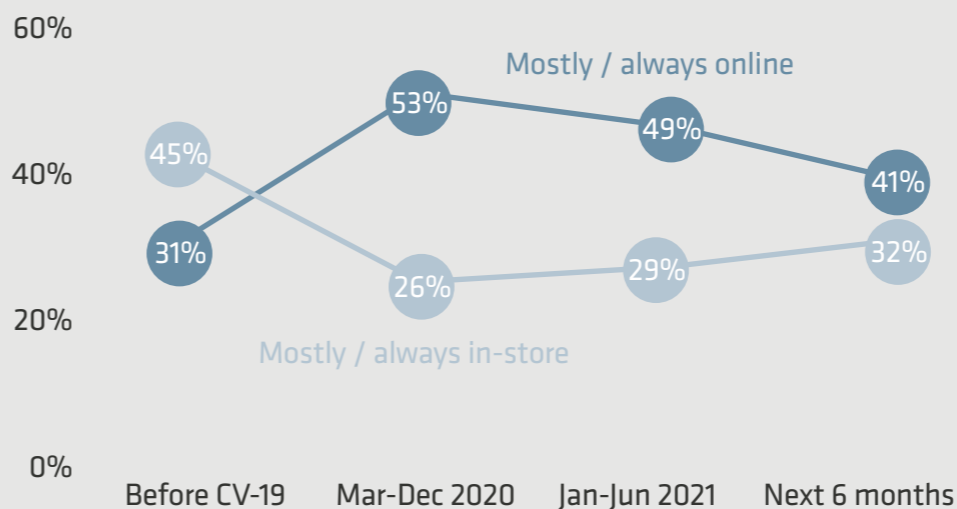
STORES REOPENING HAS NOT IMPACTED ONLINE DEMAND FOR FRAGRANCES

Indexed fragrances online demand vs store visits to retail stores (% vs baseline)



QS STORES REOPEN, THE SHOCK TO BEHAVIOUR NORMALISES, BUT ONLINE RETAINS A DOMINANT POSITION VS. PRE PANDEMIC

% beauty shoppers shopping or expecting to shop via online vs in-store



Source: Google/Trinity McQueen, June 2021, n=1,020

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CONCLUSION

Countless column inches have been devoted to the pandemic. How it impacted retail. How it changed the consumer. What it will mean for the industry.

But now the day-to-day firefighting is done, it's time to focus squarely on the future.

Retailers must understand who the new consumer is, what their value set is, what their priorities are.

Below, we crystallise the key takeaways from this report, The new consumer personas, so that you don't have to.

These steps should help inform and guide strategy as retailers seek to win spend and drive loyalty

CONSUMER STRATEGY DISTILLED

SIX STEPS TO WIN LOYALTY AND DRIVE SPEND

1 REMOVE FRICTION

The competition online is now so intense, retailers simply cannot afford to allow friction within the customer journey. Every point of friction has the potential for high volumes of lost sales, so investment in ecommerce UX and IT infrastructure is critical.

2 USE DATA AND AI TO ENHANCE CUSTOMER EXPERIENCE

Personalisation is nothing new, but now data and its application using AI will help retailers offer a service incomparable to those who don't and appeal to diverse consumers from the digital native Thrill Seeker, through to the 'trepidatious' Digital Arrival, and the convenience and product discovery hungry Subscriber. Meet that need and they will repay with loyalty.

3 STEP INTO THE METAVERSE

It may look and sound like the Emperor's new (digital) clothes, but it's not. Consumers, particularly Generation Z and for the purposes of this report, the Thrill Seekers, really are spending time in these digital universes and do want retailers to sell to them in those spaces. There is a metaverse full of avatars waiting to be dressed, housed and interacted with out there - go get them.

4 CHANGE UP STORE FORMATS

There is no mistaking consumers' lives have changed. They don't work or often live in the same places as they did pre-pandemic, so locations need to change. And when they get into stores they need and want to see new things - products catered to local demands, larger stores offering a fuller range or products, or smaller in-town stores that allow them to access big-box retail offers without having to go out-of-town.

5 DITCH THE CASH

Retail has been talking about a future 'cashless society' for years. Well, it's here. The trickle of cashless stores is gaining momentum. It's better to be upstream, delivering on consumers' expectations - from the Thrill Seeker through to the Digital Arrival - before the competition does.

6 TIME TO GO GREEN

Retailers not only should do the right thing because it is the right thing, but it also makes business sense because it's what consumers are asking for. A growing cohort of customers now understand, value and search out retailers that put ESG front-and-centre in their overall strategy, as we have seen with the Ethical Consumers within this report. It will be those retailers that not only act sustainably, but become truly financially sustainable.



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