



The **evolution** of the physical store



Contents

CEO statement and executive summary	03
-------------------------------------	----

Why store — singular — not stores of the future?	04
--	----

IGD's four forces of change: 'STAR'gazing	05
---	----

Foundations for our analysis	07
------------------------------	----

What will retailers and suppliers have to do to prepare for the store of the future?	11
--	----

Conclusion: preparing and building for the future, now	20
--	----

Our consideration checklist	22
-----------------------------	----

CEO statement



Joanne Denney-Finch OBE
IGD Chief Executive

The global food and grocery industry is undergoing a genuine revolution. It's a revolution in what products are sold, how they are sold and how they are made, and it's being driven by technology, social and cultural change and the economy, marching hand in hand.

At IGD we monitor grocery retailing around the world and we've identified the three critical battlegrounds that we believe will shape the future of global food and grocery. Will the shoppers of the future go online, or will they visit a physical store? Will they favour a larger store, or a smaller convenience shop? And finally, will they buy food they can eat on-the-go, or food they can enjoy later, at home?

We believe there will always be a place for bricks and mortar stores in grocery retailing. However, to ensure that the physical store remains relevant for shoppers, retailers and manufacturers must work collaboratively to prepare for the very different future that is taking shape around us.

Change also signals opportunity, and we're delighted to share IGD's research into how stores will need to evolve in this special report, prepared for The Consumer Goods Forum and its E2E Value Chain Learning Series. We hope our insight brings you one step closer to seizing the great opportunities that lie ahead.

Executive summary

Shoppers' expectations are continually rising. They want shopping to be quicker, more effective and fulfilling. They also expect their investment of time and money to be better and more consistently rewarded, increasingly at a personal level.

They demand similar levels of service and quality throughout their shopping journey. Online shopping, which is increasingly convenient and commonplace at a global level, is partly driving this.

Physical stores must rapidly evolve and innovate to remain relevant. As digital solutions create a world where channels become less relevant, retailers need to approach the challenge of evolving physical stores for the future in innovative ways.


The physical store will continue to play a significant role in the future of shopping. Despite the growth of e-commerce and subscription models enabling shoppers to save time and money, the physical store of the future will stay relevant, with

the very best retailers continuing to drive footfall.

By removing the chore of buying products that shoppers do not want to invest time in, through subscription models and instant reordering, retailers will be able to create in-store offers that excite and engage shoppers more than online shopping can. Retailers and suppliers will work together to attract shoppers to the categories they want to invest time in, inspiring them with new products and engaged staff.

Best-in-class retailers who collaborate with suppliers will provide more sources of inspiration and reward shoppers' loyalty more clearly and consistently than promotions can.

Ten areas have been identified for retailers and suppliers to consider as they prepare for the physical store of the future. Investigating these opportunities will enable all sides to benefit from evolving shopping patterns.



Why store — singular — not stores of the future?

In our analysis, we are discussing the store of the future, rather than looking channel by channel at how each could evolve and develop. Shoppers do not identify with or understand channels; they simply go shopping.

Our vision for the store of the future applies to both retailers and manufacturers. It will be centred around a focus on the shopper, utilising increased involvement of digital solutions and automation, amongst other elements.

As technology enables stores to meet a broad range of shopper missions, demands on the physical store will likely narrow to a core set of products or ranges. Retailers will be able to remove other products or give them less space.

However, at this stage, retailers will need to be aware that merely moving towards a more efficient store model will not help them stand out. They will also have to emphasise those elements of their offer – around personality and those hero categories for which they are famous – that help them stand out.

While discussions of format used to be the endpoint for retailers

and suppliers, this is changing as the role of formats evolves. Increasingly small, urban stores can meet the needs of shoppers looking to complete a large weekly or monthly shop. Retailers need to consider how they can make the most of every touchpoint with shoppers, especially as individuals.

All formats – hypermarkets, supermarkets, discounters and convenience stores – will evolve in the longer term. Also, the evolution of the physical store will not be a straight line or be the same for every country, due to changes in a country's economic and shopper outlook.

We believe understanding how shopping will evolve will help companies consider what they need to do to prepare each store. It will also help retailers think about how many stores they need and drive a better return on investment.

Ultimately, the topic requires a long-term approach. By maintaining existing structures and processes and fitting future views of retail development onto them, many are limiting the potential of their stores.

IGD's four forces of change: 'STAR'gazing

Success can be achieved through thought leadership that comes from being visionary. To be truly visionary, retailers and suppliers need to understand and plan for the changing forces influencing shoppers' needs. At IGD we have developed our 'Four Forces of Change' to help businesses consider the issues shaping the future.

Stores will be impacted by these changes; continuing urbanisation and aging populations, the increasing use of automation, the rise of anti-establishment feelings and the potential for a reversing of the process of globalisation.

To survive and thrive, businesses need to know and understand

these four forces, assess the potential impacts and opportunities, and apply this thinking to their future strategies.

It is through this model that we approach all our future thinking – be it around shoppers, supply chains or skills needs – with this informing our physical store of the future analysis.

In this report, we will present real store examples we have visited. These have helped inform the direction of the physical store of the future. We will show how these innovative stores link to our Four Forces of Change and the potential driving force behind the development.

The four forces informing and influencing store evolution

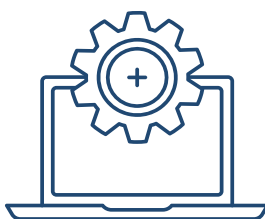
Look out for the four forces icons signposted throughout the report



Societal Shifts



Resource Resilience



Transformative Technology



Altering Authorities



Foundations of our analysis

Physical stores will have a continued role to play

Through our global retail programme, which last year saw us visit over 700 stores in more than 50 countries, and network of industry contacts, we believe that there is a place for physical stores in the long-term future of grocery retailing.

Despite e-commerce's growth, shoppers, even in advanced markets, still use stores for many missions, top-up or distress purchases, or because they enjoy shopping. For many, stores let them see, touch and feel products, and give them the instant gratification of being able to buy something instantly.

It is currently easier to inspire someone to buy something in a store, if retailers build on the emotional elements that a store can offer. Given that stores will have to evolve to compete, bold retailers, in collaboration with suppliers, can attract shoppers to stores by offering a unique experience that plays to each retailer's own strengths and differences.

Retailers will focus ever more on the shopper

IGD believes that it is best to start analysis with the shopper. In recent years, not every decision taken by retailers or suppliers has had the shopper at the heart of the decision-making process. The sharing of global best practice has also meant that some ideas have been adopted widely, potentially without thinking about whether those developments work locally.

The store will also play a different role as demographics change. In the future, the store could provide a social element, helping elderly shoppers, acting as a focal point for the community or providing information to update and advise people.

Overall the store of the future will be focused on meeting the needs of local shoppers, especially as individuals. Through better use of data, retailers and suppliers will consider how they can truly understand shoppers as individuals. The new levels of insight will help them reflect on what shoppers need, and when, where and how shoppers want those needs met.

Ultimately, especially in the short term, not every innovation needs to drastically change shoppers' lives, but each development will need to make shopping more convenient and help retailers to be more relevant and profitable.

CHALO! FRESHCO, SOBEYS, CANADA

By 2031, it is forecast that one in three Canadians will be from a visible minority, with immigration accounting for around 80% of population growth over the next 16 years. Sobeys opened its first ethnic store format, Chalo! FreshCo in 2015.

IGD was shown the store to understand how Sobeys has adapted its FreshCo discount grocery format to focus on South Asians, one of the largest ethnic groups in Canada. We saw how from the external and internal branding, to the graphics and merchandising, this store takes many design cues from grocery stores in South Asia. In developing the concept, the Sobeys team undertook numerous trips to India to learn more about appealing to South Asian shoppers and to build supplier relationships.





WAITROSE, UK



Waitrose is trialling video-enabled shelf-edge labelling, which builds on existing electronic shelf-edge labelling systems. This system makes it significantly easier to centrally coordinate price changes at the shelf edge. Full colour, video-enabled shelf-edges will enable Waitrose and its suppliers to build deeper shopper engagement.

Categories where shoppers tend to interact at the shelf-edge and seek inspiration, guidance and education are the most likely to benefit. In beer, wines and spirits, for example, this could allow seasonal recommendations and tasting notes, as well as targeting specific times of the week or day.

And cut the number and frequency of promotions

The growth of e-commerce subscription-like models and the price transparency that online stores provide is already reducing the impact of promotions.

Shoppers can easily compare prices between retailers. This will mean that in-store they will demand clearer pricing and promotional information. Given this, lower, more stable pricing is becoming more important, with this likely to grow as retailers look to other strategies and initiatives to drive footfall to stores. Our UK shopper research shows that 63% of all shoppers agree that there should be fewer promotions, preferring retailers to offer everyday low prices.

Instead of eye-catching promotions, service and staff will become the differentiator for best-

in-class retailers. They will also rely more on the services that stores provide to engage with shoppers who have moved their core purchases online and have more time to invest in the remaining categories.

Our vision of the store of the future is focussed on experiences. A key area where stores can meet this need is with events. Retailers can be creative and tie events into local traditions, or mirror their shoppers' beliefs or values.

The expected reduction in the number and size of promotions will help smooth demand for retailers and suppliers alike. This will in turn enable supply chains to adapt to changing needs and meet shopper demands, rather than having to deal with the highs and lows in demand brought about by promotional activity.

There will be fewer and smaller stores

Despite our belief in stores' long-term viability, given the expected shift of certain products online, retailers will aim to reduce costs and operate fewer of them. Stores will also be smaller, on average, than they are today as there will be less need to carry as much stock.

Online retailing will provide ever more price transparency. There will be fewer promotions, while footfall will be driven less by price. Combining this with higher operating costs and an increase in the number of competitors, retailers' ability to operate unprofitable stores for an extended period will decline significantly.

Retailers need to generate a return on investment from every store. As omnichannel strategies become more embedded and investment is required across more channels, there will be less money to invest in store estates. This will see investment focused in expanding and remodelling stores that help meet a range of shopper missions and needs as part of an omnichannel strategy.

Fewer global retailers — more specialist operators

The competitive pressures being felt globally by grocery retailers are leading to slimmer margins and reduced profitability. To invest in stores and to continue this spending to maintain their relevance, retailers will need to be even more profit and cost-focused.

This will challenge the need for a physical store in every region or country. We expect continued retail retrenchment and a focus on reaching market-leading positions.

At a local level, it is likely that grocery retailing will become more competitive as niche and specialist retailers emerge to meet specific or local shopper needs and tastes. This will mean greater choice for shoppers, but more fragmentation for suppliers.



SEIYU, WALMART, JAPAN

Walmart has opened a new hybrid Seiyu store in Tokyo, Japan. It is designed to address the demands of omnichannel shopping. The format was specifically designed to satisfy the digital and physical shopping needs of Japanese customers.

The store is a mix of a traditional convenience grocery store on the first floor, and an online grocery warehouse (dark store) on the second floor. The store is uniquely positioned to cater to a mass audience. By having dedicated inventories for e-commerce, they can meet more online orders, even for a store with a small footprint.

In addition, it maximises inventory turnovers as the store can pick from online inventories on the second floor, whilst also being able to select some items – such as produce and meat – from the physical store.



Some 83% of UK shoppers are open to using technology to help them with their grocery shopping now and in the future

Robotics and Artificial Intelligence (AI) will make stores more efficient

Rapid advances in machine capabilities, combining both AI and robotics, promise to transform the economics of retailing and help improve the outlook for stores. AI and robotics will enable retailers to make stores more efficient, although there will be short-term challenges on how to balance improved in-store services and reduced costs.

Discovering where the best uses of robotics will come, means looking outside the grocery industry; for example foodservice operators.

Striking the right balance between automation and human interaction will be critical in winning shopper loyalty and making stores more attractive. Robots are set to mirror the benefits of e-commerce, minimising the routine tasks that add to labour costs.

Robotics should aid shoppers' perception of stores by minimising mistakes and improving on the accuracy of routine tasks. This will limit frequent shopper frustrations, such as out of stocks, incorrect changes to store designs and planograms and helping mission-focused solutions, like dual locations. If retailers are able to use robots and machine learning to carry out routine jobs, staff can be freed up to focus more on customer service and interaction in-store.



LAWSON, JAPAN


Convenience store chain Lawson and Panasonic are testing a staff-less checkout, Reji Robo. The automated checkout calculates the transactions and automatically packs products.

At the checkout, shoppers place the basket in a designated area of the cashier table, then swipe products through a barcode reader. A screen displays the total cost of the purchases.

After the payment is done, the basket slides down through a hole in the cashier table and the machine packs the purchased items in a bag automatically.

One of the reported reasons for introducing Reji Robo is to alleviate a staff shortage, due to challenges in finding people to fill the role, and to reduce peak-time congestion.





What will retailers and suppliers have to do to prepare for the store of the future?

We have identified 10 areas to consider as the store of the future evolves.

Services

1. Understand shoppers and their missions

Best-in-class retailers recognise and cater for shopper missions, but there is more to be done. This is especially the case in our vision of the future, where distinctions between formats will become less relevant and retailers and suppliers engage and interact with shoppers in a more personalised way.

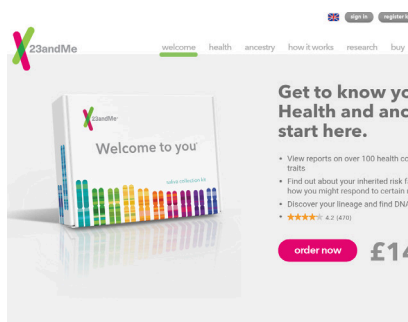
This understanding should start outside the store, in order to build an understanding of the complete shopper journey. In-store this will enable stimulation using shopper psychology, incorporating smell, taste and making stores more exciting.

This will require a focus on a core subset of shopper journeys, while

not rejecting any key missions that shoppers go on. Retailers and suppliers can then collaborate to build solutions and invest in a more manageable subset of missions, rather than trying to spread the same amount of money more thinly across a larger number of missions. There will also be a need to better communicate the role of mission-focused stores to shoppers.

The same shopper is on different missions at separate times of the day, month or year. For example, there is a need to differentiate when a shopper may be dieting or when they are looking to indulge themselves or when they might be visiting with their children. In each set of circumstances, the product suggestions could be different.

Social listening tools will allow better tracking and understanding of shoppers' needs. This will help inform and drive a quicker decision-making process.



What your DNA says about you.

Find out how your genetics relate to things like abnormal blood clotting, cystic fibrosis or response to certain medications. Also see if your body metabolises caffeine quickly or if you're likely lactose intolerant. We believe the more you know about your DNA, the more you know about yourself. [Learn more](#)

Keep in mind that many conditions and traits are influenced by multiple factors. Our reports are intended for informational purposes only and do not diagnose disease or illness.

Because genetic information is hereditary, knowing something about your genetics also tells you something about the related to you. Your family may or may not want to know this information as well, and relationships with others can be learning about your DNA.



Inherited Conditions

40+ reports

Find out if you are at risk for passing on an inherited condition.



Drug Response

10+ reports

Learn information about how genetics might affect your response to certain medicines.



Genetic Risk Factors

10+ reports

Understand your genetic risk factors. Change what you can, manage what you can't.



Traits

40+ reports

Explore your genetic traits like everything from lactose intolerance to male pattern baldness.

23andMe.com

A great example of personalisation is 23andMe solution,

which uses genetics to guide shoppers to better food choices. In conjunction with third parties, like Zipongo, 23andMe provides personalised nutrition plans.

These take into account individual food preferences, health goals and biometrics, but also genetic markers impacting how bodies may respond to food choices.

Users can then adapt their shopping choices with information at a genetic level.



2. Better data to enable better service

Enhanced use of data and analytics will help retailers identify shoppers on an ongoing basis. This will help retailers to make more informed decisions around the assortment different stores carry and the quantities needed. It will also help them to understand the price elasticity of certain products, which will be key in markets where franchising accounts for a larger share of store owners and operators.

Personalisation – from engagement to tailored product and curated ranges – will be a major part of the store of the future. More data will be collected in-store. Sensors will be used to create interactive shelves that identify individual shoppers in-aisle, enabling personalised incentives and product suggestions.

Unique products

Enabling a shopper to create a unique product is ever more appealing for people and helps a retailer, supplier or brand to stand out. Shoppers are searching out experiences over mass-market products, which has been accelerated by digital and e-commerce solutions across the retailing industry. Although much hyped, it is likely that 3D printing will still play a role to enable companies to create unique

products.

Unique engagement

Retailers and suppliers will need to collaborate to engage with people as individuals, both in-store but also along the whole shopper journey. This will involve building stronger emotional connections with shoppers and will evolve to give shoppers targeted and personalised offers.

Over time, retailers will adapt their strategies to focus on the most loyal shopper, focussing less on amount spent, rather on proportion of disposable income. Rewarding this different view of loyalty, rather than simply total spend, will be a key differentiator for best-in-class retailers of the future.

This development will require retailers to reflect individual shopper values. Shopper data will support this, but will become harder to exploit as shopping patterns fragment.

New sources of insight will be needed to understand shopper values. This will include purchasing data, but increasingly insight on their values, beliefs and preferences. It will become ever more challenging for retailers and will require further investment in data acquisition. It will also need the tools to allow quicker and more efficient collation of insights.

42% of shoppers are interested in promotional notifications when near a store

44% are interested in being alerted to offers on their phone in different parts of the store

44% are interested in collecting and using their loyalty card points through their phone

3D-PRINTED HOUSE, RUSSIA



Apis Cor, a 3D-printing company, built a 400 sq. m house using an on-site mobile printer in 24 hours. The house was built in one day with most of it – internal and external walls – printed, with additional fixtures – windows and furnishings – added later.

The house was built for only US\$10,134. The fact that the house was built on-site, rather than off-site and assembled on-site, underlines the changing nature of the technology, and its increasing adaptability.

Unique inspiration

As shopping patterns adapt, so more purchasing decisions are likely to be encouraged or inspired in store. Retailers will need to mirror online suggestion mechanics so that stores can recommend products that would work well with items already purchased – for example with relevant recipes.

Unique promotions

Until retailers have the insight to target by values, beliefs and preferences, they will continue to use demographic information. Push notifications will enable retailers to provide more tailored, time of day promotions in the short term as shoppers reach the store.

3. Be ready to enable flexible store designs

Robotics and other solutions will free up space in-store to excite and engage shoppers and drive footfall. This will enable space to be dedicated to hero categories, helping them to spotlight those they feel are important for their shoppers. This will lead to more focus on fresh food, mission-focused fixtures and convenient meal solutions.

Store layouts will require greater differentiation and store managers will be given greater autonomy. This unique vision for stores will need to be counterweighted by the need to maintain an efficient supply chain.

Modular store formats – whereby shelving or units can be moved more easily and quickly to enable spaces to evolve and react to shopper demands – will play a more significant role in our vision of the store of the future.

This is becoming increasingly feasible, especially as 3D printing technology improves and becomes cheaper. It will also become ever more necessary for retailers to be able to build stores that offer the right range in the right location, whatever the size of the store.

This may seem at odds with the need to generate economies of scale to maintain profits. But it will help retailers to build links with shoppers and drive footfall. This will require better clustering of stores to allow more strategic investment. It will also require companies to identify their base offer so that all stores meet shoppers' expectations.

Curated ranges that are easy for store staff to maintain, and easy to shop, are ever more key for retailers. This will create challenges, especially from a supply chain point of view. However, as stores aim to drive footfall, engage with and excite shoppers more, so retailers will have to build solutions that fit this need. They will also need to consistently keep it fresh, surprising and attractive.

4. Free up time for, and invest in, employees

Freeing in-store staff will be one of the main benefits of robotics and the in-store efficiencies that technology will bring. This allows employees to focus on value added services that meet shoppers' needs. As technology removes some of the human elements of in-store services, it will be essential for stores to have a friendly face and to bring their brands to life with a unique personality. A retailer's staff will become even more important in our vision of the store of the future – it will be key in differentiating the store from its rivals.

Staff investment will enable true added value for shoppers. Given the vast amount of information online, staff will need to be more

and better informed, so they can mirror online solutions around product information. Staff will also need to be able to offer inspiring and exciting answers to the questions that shoppers have around meals, flavours and product choices.

Employees should be able to add creativity, empathy and passion to the answers they give shoppers, so they are set apart from more mechanical solutions. For this, employee engagement and motivation is key. For long-term loyalty, retailers will need to make emotional connections with their shoppers, and their staff need to play a leading role in that engagement.

For suppliers, investing in sales staff and in-store merchandisers will also be key. They will help

encourage sampling, add excitement and create a more marketplace feel that will attract shoppers.

However, retailers will need to make sure that employees do not feel they must engage with every visitor. Understanding when shoppers want help will be key to keep them coming back. Shoppers should be encouraged to perceive stores as a source of information and inspiration, rather than feeling sold at or harried to purchase something. This is fundamental, as staff will play a leading role in driving loyalty as part of shoppers' omnichannel journey.

Ongoing training is a major part of keeping employees engaged for longer, so that they can play a long-term role in engaging with loyal shoppers. Well-trained staff who provide tips, help and advice as part of in-store schools and in categories where shopper understanding is limited are likely to have an impact on sales. Employees can reassure a shopper the product is right for them or inspire them to try something new, leading to an additional item or two to be added to a shopper's basket.

Engaged and engaging staff will also be key in ageing and increasingly health-conscious societies where there is a need for in-store advice and recommendations. The ability for staff to recognise if a customer may have dementia, for example, and how to help them will become more important as populations age.



COSTCO, US

Costco pays its staff a comparatively high wage from the start, which, along with a generous benefits package helps to attract and retain people.

When **IGD has been in-store** with Costco in Canada, Australia, Japan and the UK (or globally) we see first-hand how this has helped create an engaged staff, who then interact and connect with shoppers in-store. One area where it does focus this effort is with its

free samples, which are a very effective way to get shoppers to try something new, while also helping staff interact with shoppers too.

The sampling also helps Costco offset some of the perception that it does not invest in its stores, given their comparatively austere look and feel, while also helping them appear generous and putting the shopper at the centre of what they do.



More of shoppers' regular purchases will have shifted online, so stores' ranges will need to be unique, flexible and relevant to sustain footfall

5. Reconsider stores' ranges

An element in creating an engaging store will be in adapting and evolving the range that they carry. The aim will be to offer what e-commerce cannot. More of shoppers' regular purchases will have shifted online, so stores' ranges will need to be unique, flexible and relevant to sustain footfall.

A part of this will come through product optimisation, i.e. having the right number of SKUs for a given category, rather than simply their removal. There will always be a place for brands in which manufacturers invest and innovate with.

Our vision of the store of the future will see a more exciting experience, where certain ranges are consistent but specific products are only available for a brief period. It will also require buyers, the supply chain and stores to enable products to be

rotated more often and efficiently to reflect seasonal or topical trends.

Stores will also need to stock more local variations or products. Despite many younger shoppers being globally minded and connected, the desire to have links to local regions or areas and buy products from them remains strong. Supporting small and medium-sized producers is positively perceived by shoppers, helps them sustain their community and allows them to feel special as they have something unique.

Centralised buying organisations have helped drive efficiencies throughout the buying process, but they have also led to ranges looking more similar across retailers. Enabling stores to mirror the local flavour of their neighbourhoods will help to tie shoppers to those stores for longer.

ALBERT HEIJN XL, PURMEREND, NETHERLANDS

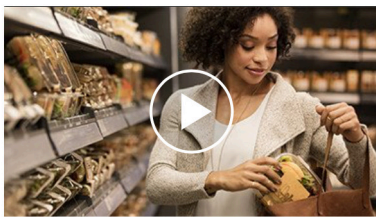


When IGD visited

Albert Heijn's newly renovated store in Purmerend, we saw its 'growing wall'. The exciting and engaging fixture enables shoppers to cut the amount of herbs they want.

This is the retailer's hero category. The fixture is attractive and reaffirms the quality on offer, conveying messages of freshness to shoppers as they enter.





amazon go

Introducing Amazon Go and the world's most advanced shopping technology. No lines, no checkout—just grab and go!

AMAZON GO



Despite it not being the first to offer a 'just walk out solution', Amazon Go has generated a lot of coverage and is becoming the store shoppers are comparing others against.

Amazon's 'just walk out' technology will enable shoppers to simply pay through their app and leave the store without having to queue at the checkout.

Operations

6. Remove friction from the whole journey

Initially, this will focus on payment options, but there will be a constant need for retailers to understand where and why there is friction in shopper journeys around the store. A speedy experience at the checkout is very important to shoppers. This will also free up space for new features and fixtures and gives staff the opportunity to spend more time helping and inspiring shoppers or to create a more spacious environment.

This is likely to be an incremental development process and will require more flexible and a wider range of payment options. Smartphones will be a major part in this journey and will require retailers to align their development alongside the trend towards more personalisation. Smartphones should also enable shoppers to budget more effectively.

The flexibility of payment solutions will need to be replicated by enabling shoppers to use any mobile device. Optimising stores in the short term for mobile devices will be key, but in the longer-term changes in devices will need to be closely watched.

The use of digital tools within stores will be important as shoppers use their devices ever more. The store of the future will need to incorporate digital solutions to create a richer, more connected experience.

Companies will need to be careful how and when they combine technology and staff so that it is complimentary to shoppers' journeys, rather than intrusive. Digital solutions must play a role in delivering a truly omnichannel experience that provides consistent messaging to shoppers.

Brands and retailers will need to collaborate to make sure that content and information about products is given in an effective and compelling way

CADBURY AND SNAPCHAT



Cadbury ran a campaign through Snapchat playing on Crunchie's 'Friday Feeling' tagline.

Cadbury enabled Snapchat filters on three Fridays in May 2016 with it almost hitting its target for the whole campaign in the first week.

Also, as Snapchat provides a more personal interaction, so the engagement with the brand is potentially a lot more beneficial to the brand than through less targeted means.

7. Build and support brands

Investment in brands will be important in preparing for the store of the future. Brand integrity is crucial. Manufacturers will need to continue to invest to find creative ways to build and support their brands so that customers trust them implicitly.

For those products and categories sold through subscription models and solutions, building a brand in the short term will mean they become the 'go to' brand for a category. This is key in a world of repeat purchases, as brands are likely to become less visible or less regularly seen if they are bought on subscription, as they will not be seen on a shelf or screen. Also, as the focus on online profitability becomes more important in the short term, given the functional nature of these categories, it is likely that retailers will look to grow private label ranges to support their margins.

Only products that offer true development for the category will be required as a result. Minor changes in product development will not get marketing airtime or space on the shelf and are less likely to generate the desired return on investment. Suppliers will need to invest more in insight to make sure the product development process is effective, while also enabling it to react quickly to changes in shopper demands. This process will be easier for retailers who have access to loyalty card and other sources of data in the short term. However, in many cases, branded manufacturers are likely to understand and know their shoppers better and can add real value to the category in the longer term.

The number of channels that companies communicate through will need to evolve too, while mass market messages will provide less of a return as personalisation grows. In the short term, finding ways to build emotional connections through social media channels like Instagram, Snapchat and YouTube, where shoppers look for inspiration, will be a major shift for brands. Companies will have to consider how best to do this, as our consumer research shows that 52% of UK-based shoppers cannot imagine reading or looking at social media posts as part of the pre-shop process. Convincing shoppers of the benefits of engaging with them in the short term, though, will provide retailers and manufacturers with the opportunity to understand their shoppers more in the future.

How and what brands spotlight as benefits to shoppers will need to be adapted and aligned by country, initially, and then personalised further in the longer term. What shoppers are looking for from 'health', 'wellness' or 'wellbeing' products differs strongly by region and country – and by individual. Spotting the same benefits for several shoppers will not work.

In-store marketing will play a role in reinforcing these messages, but will need to complement shoppers' journeys, rather than interrupt. Brands and retailers will need to collaborate to make sure that content and information about products is given in an effective and compelling way. Brand ambassadors, ideally not connected to any of the parties involved, will play a role in raising the visibility of a brand or product in an engaging and unbiased way.

8. Involve the supply chain team earlier and more often

To meet shoppers' growing demands of stores, they, in turn, will challenge retailers' supply chains. As a result, understanding demand planning on an ongoing basis and being able to react quickly will require greater understanding of the end-to-end profitability of supply chains.

As margins are squeezed as competitive pressures drive down prices and costs rise due to increasing complexity, supply chain efficiency becomes more critical. Better availability and innovative solutions to meet shopper needs will support sales growth, while greater efficiencies will make them financially more sustainable. Supply chains play an increasingly strategic role in business plans and supporting overall goals, despite an ultra-competitive and reactive trading environment.

The role of supply chains has typically been viewed more on cost reduction rather than driving growth, which has been more the preserve of commercial and marketing functions. But as shopper expectations increase, around availability and fresh solutions to meet their needs, supply chains have stepped up to play a bigger role in delivering growth. Focusing on costs eventually runs into a fundamental limit.

Removing logistics costs, which gets incrementally harder, would end efficiency opportunities. However, there is no limit to growth, so focusing the role of supply chains on meeting and pre-empting shopper demands unlocks far greater potential.

Innovative ways of working

9. New stores will require new KPIs and new JBPs

In an omnichannel world where stores play a key role in meeting specific shopper missions, stores and their employees cannot have their performance measured in the traditional ways. Retailers will need to come up with new KPIs that measure the right things for the store of the future and the demands that shoppers are placing on it.

For retailers

This is a challenge that many listed retailers are facing now. Growth is a requirement for analysts, with comparable or like-for-like or identical store sales the measure against which retailers' stores are measured. Focusing solely on sales will miss the other key elements that the store is playing in a retailer's evolution. As stores are key to a retailer's engagement, further KPIs should track marketing, brand building strategy, and how they inspire shoppers.

This is accentuated by the expectation that retailers will be looking to move the routine purchases online to enable shoppers to maximise their time in-store and to be inspired. Retailers' online stores should not be viewed as 'cannibalising' or 'stealing' sales from stores. Instead retailers who are building true omnichannel strategies that have evolving stores at their core need to be growing their total sales. Thinking and measuring operations in silos or by channels will limit the way retailers develop

a consistent strategy that advances the whole business, potentially hurting its long-term prospects.

Benchmarking performance will need to evolve from a focus on short-term measures to other elements, like shopper loyalty, their lifetime value and the share of spend with a given retailer.

For staff

In-store efficiency is a key measure, with replenishment, stock levels and staffing costs as a share of store sales all closely watched. However, as automation plays a bigger role and employees are focused on the more value adding elements of their role – engagement, services and inspiration – costs will likely have to rise in the short term. As such, success will be measured by sales and customers' engagement with the brand and how deeply stores are involved in shoppers' interaction with a retailer.

Data and analytics will play an increasing role in helping staff range their store. Meanwhile, in the medium term, retailers will need to acquire more in-house technical expertise and creative talent to create more in-store excitement, while also targeting them against these changing needs. Ultimately, new models will need to be built so that retailers can measure where stores and staff are meeting the needs of shoppers at a personal level.

Only then will retailers be able to measure and show that the store is truly offering what shoppers want on a softer engagement level, rather than solely from a sales point of view.

10. Get buy in from the top

Creating the store of the future will require investment and long-term planning. Retailers will need to establish and maintain a company-wide view of how the store will develop for their brands, putting the shopper at the heart of this evolution.

Senior teams will need to commit to drive such wide ranging, long-term changes.

Realising that a change in the way stores and employees need to be measured will be important in enabling leadership teams to manage change effectively. This will be fundamental for teams who support stores and have limited or no contact with shoppers on an ongoing basis.

KROGER, US

Kroger enjoyed a run of 52 quarters of continued positive same store sales growth, which ended in Q4 2016, underlining the long-term success that it has enjoyed following the implementation of its customer-centric strategy. The model's execution, informed by shopper research, was driven from the top.



Discussing the strategy, the company's chief executive, David Dillon, has said, "if you have short-term thinking, it's hard to have long-term goals", underlining the need to put in place and then embed those initiatives over an extended timeframe.



Conclusion: preparing and building for the future, now

Physical stores are best placed to deliver instant gratification, impulse purchases and customer service that enables face-to-face engagement. We are seeing stores experiment in many ways to enhance the experience, concentrating on visual appeal, product freshness, provenance and health.

The digital world advances at lightning speed and the online shopping experience will just keep improving. Some products will be replenished automatically in future as sensors in our homes detect the need for another delivery. This will make it even more challenging for physical stores to remain relevant and engaging.

Our vision of the store of the future will require investment. This is increasingly challenging given slimmer margins, falling profits and a growing range of demands on capital expenditure. Set against this is the issue that not every solution will be profitable or will take a period to provide a positive return on investment. There are risks in building the foundations for the store of the future. However, given our belief in the store, the risks of not investing are clearly even higher.

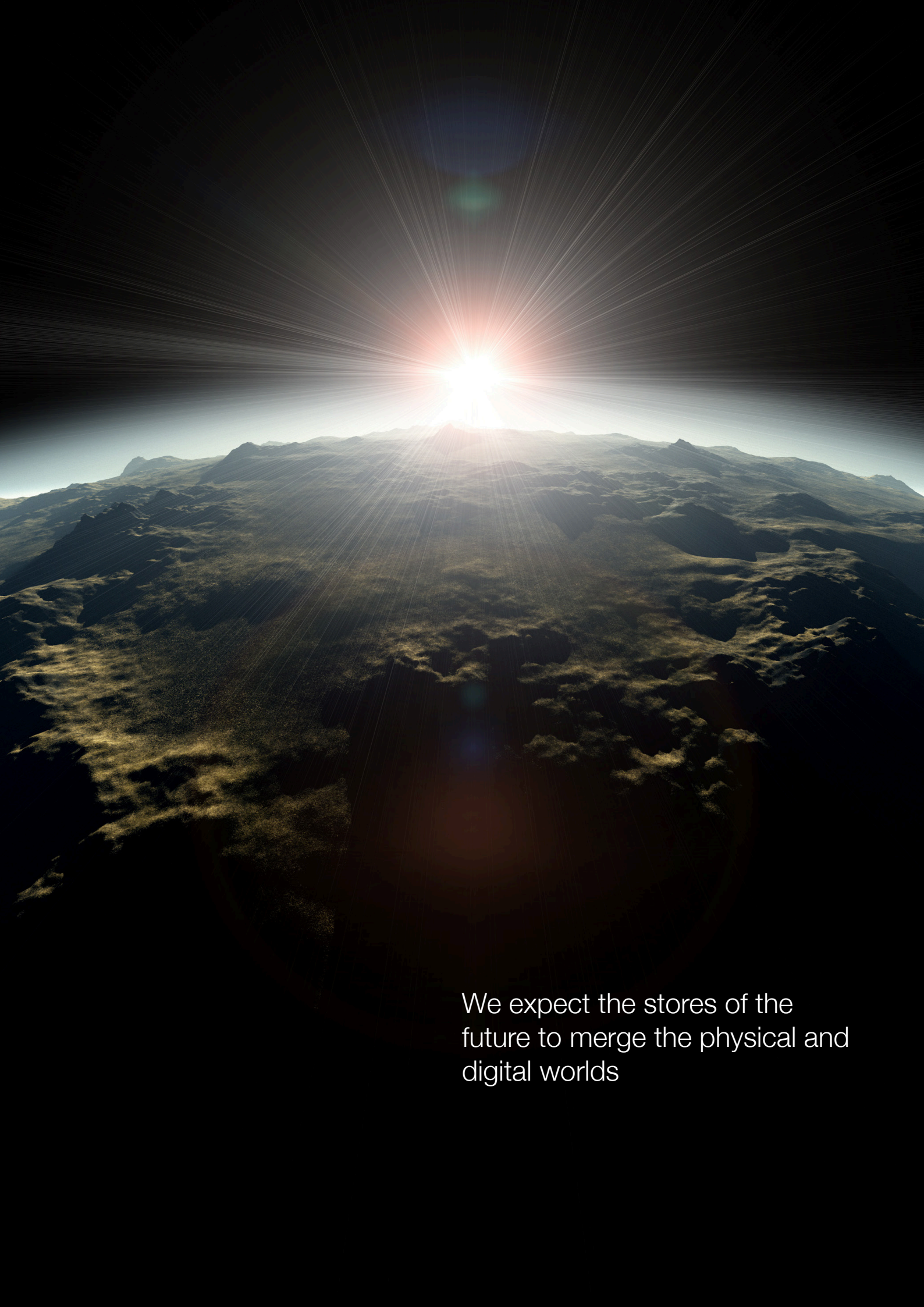
The challenge for retailers will be picking through the noise of

what shoppers say they want and focusing initially on those elements that they are most ready to adopt as part of their shopper journeys. This is where using data in the right way will be important.

Not only will this help drive adaptations to range and store layout, but it will also provide insight into those technologies that shoppers are using and how they are using them. This will provide a business case for prioritising investment in those technologies that shoppers want to be introduced or developed further. To maximise the return on investment, collaborating with other third party service providers is a route to generate a more profitable result, quicker.

We therefore expect the stores of the future to merge the physical and digital worlds, to create a much more absorbing experience featuring fresh food, new products, unique events and more ways to taste, learn and discover. Experts will be on hand to give advice and deliver a personal service, while new digital solutions will help to make shopping less of a chore.

These initiatives may just be what earns you long-lasting customer loyalty.



We expect the stores of the
future to merge the physical and
digital worlds



Our consideration checklist

What can retailers and manufacturers do differently to prepare and benefit from our vision of the Store of the Future?

For retailers approaching the topic of the Store of the Future, we would propose:

1

Knowledge of shopper trends and behaviour

It will be crucial when thinking about how your stores will develop to understand shoppers and their missions, by the time of day or occasion.

2

Invest in cashless shopping

Removing the checkout will be the first step to enable shoppers to save time and allow them to pick up products and go.

3

Consider mission-based layouts and fixtures

Help shoppers save time by introducing more cross-category merchandising, especially for food-to-go and evening meals. Also consider how such thinking could inspire other categories.

4

Develop a mobile first approach

Utilise smartphones to influence the shopper journey at numerous touchpoints. Develop more ways to integrate smartphones to help shoppers save time, save money and provide inspiration.

5

Integrate online and subscription models

Online solutions will take more share in future. Understanding which categories and how quickly they will move online will help you improve the shopper experience and collaboration that fits in with shoppers' preference for buying little and often.

6

Inspire and educate shoppers in-store

Adapt store layouts with more store-in-store concepts, food courts and personalisation. Install more digital solutions to share meal and recipe suggestions, product heritage and quality credentials.

For suppliers, we suggest they consider:

Provide more time-saving solutions

Invest in product solutions and formats that help these shoppers save more time e.g. pre-cut, meal kits, on-the-go breakfast solutions; quick to prepare meals using pre-prepared and raw ingredients.

Build an emotional connection

With post-millennials favouring brands, build an emotional connection through advertising, social media, packaging design and in-store merchandising.

Innovate with inspiring NPD

Look into bold new product types and formats that provide time-saving solutions, and build interest and variety to grocery shopping.

Focus more on healthy options

Demonstrate your health credentials more to these shoppers. Promote healthier food-to-go options, reduced processed foods and products with lower carbohydrates.

Tap into demand for food-to-go and evening meals

With post-millennials more likely to shop for food for now and later, respond with product solutions that inspire them and help them to save time shopping and cooking.

Adapt your multi-channel strategy

With these shoppers preferring to shop more in convenience stores, flex your product range and format to appeal more to these shoppers. Address their concerns with shopping in larger stores.

About The Consumer Goods Forum

The Consumer Goods Forum (“CGF”) is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 3.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises more than 50 manufacturer and retailer CEOs.

For more information, please visit:
www.theconsumergoodsforum.com

Contact

Ruediger Hagedorn
+49 171 693 5583
r.hagedorn@theconsumergoodsforum.com

About IGD

IGD is a research and training charity, undertaking research for the benefit of the public. Our reach is global, with experts based in the UK, Singapore and North America and more than 1,000 corporate members and their subsidiaries across 40 countries.

Our in-depth understanding of shoppers, international retailing, food-to-go and supply chains is supported by our deep knowledge of the broader topics affecting the industry – the skills required for the future, health, nutrition, sustainability and economics among them.

We offer a unique blend of best practice knowledge, practical commercial experience and passion for people development.

Our team of 150, including industry experts, trainers and facilitators, have extensive experience in creating and delivering a range of customised solutions across:

- Category management and shopper insight
- Commercial and account management
- Retailer and channel strategies
- Future supply chain and building capability
- The future of retail, stores and categories

We invest the net income we make into our charitable activities. We're dedicated to inspiring thinking and lifetime learning for those in the industry both now and in the future.

Customised solutions

If you have a specific business challenge or training requirement we can tap into our expertise and put together something just for you.

Contact

Nick Downing
+ 44 (0) 7730 822274
Nick.Downing@igd.com

Louise Spillard
+ 44 (0) 7713 264061
Louise.Spillard@igd.com

IGD
+44 (0) 1923 857141
AskIgd@igd.com

© IGD 2017. IGD owns all intellectual property rights in the Report including know how and copyright and no part of this Report may be reproduced or transmitted without the prior permission of IGD.

Whilst every effort has been made to ensure that the information contained in this report is correct, neither IGD nor any of its employees shall be liable for errors or omissions however caused.



IG