



# Store of the future 2020: How to drive footfall during and post Covid 19 - what retailers are or should be doing

## Best case examples from across the globe



August 2020



# Retail change

## Online boom, category spend changes, recession impact to come

We now live in a stay-at-home society, more or less on a global level. As a result the shift to digital activities has been breath taking (from working from home to online learning, gaming and shopping).

For the retail sector the changes have been immense. Across the globe most food service has been closed and most travel and tourism suspended. Consumer spend on out of home has been severely restricted (meal delivery apps notwithstanding). This has driven much spend on food consumption back into the grocers.

When restaurants, bars and cafes fully reopen, there will be some bounce back. This will be offset though by many customers unable or unwilling to spend freely due to macro economic headwinds, with restaurant meals always the first casualties of a recession.

Initially many food service operators will have to reduce capacity for social distancing measures (in some countries only every second table will be available, until restrictions will be eased) to entice customers to dare venturing out again and spend without the fear of contracting Coronavirus.

In their offline store estates the grocers have reacted with new hygiene standards and procedures. They have introduced social distancing measures for staff and shoppers, and in many countries wearing masks is obligatory. Many retailers also had to introduce crowd management control procedures and restricted access, when footfall become too strong.

There have been huge changes within the ranges around loose, open products, with pick & mix, self service bakery counters etc seeing steep

sales declines. (Perceived) hygiene benefits have had a huge impact on single use plastic. Concern about infection has driven consumers back to throwaway packaging, and the switch from eating out to buying food to have at home has also pushed up demand for packaging.

Similarly, back in shoppers' homes the adoption of Voice and Alexa especially have witnessed a boom, with voice commands being more hygienic than touch activation of devices.

For obvious reasons there has been a channel shift to online. Non food retailers whose stores were shut had no other route to market. This channel shift will probably endure to a great extent going forward.

For those retailers deemed non essential (many non food businesses) footfall has gone to zero, as their

outlets were shut. To exaggerate a bit, airport retailing and much of tourism retailing is pretty dead for now, with domestic travel and commuting retailing heavily impacted, especially food to go outlets in travel locations or near offices have been in the eye of the storm.

It should be noted that online deliveries are generally working well right now, as shoppers have been forced to stay and be at home, they have been around for receiving deliveries.

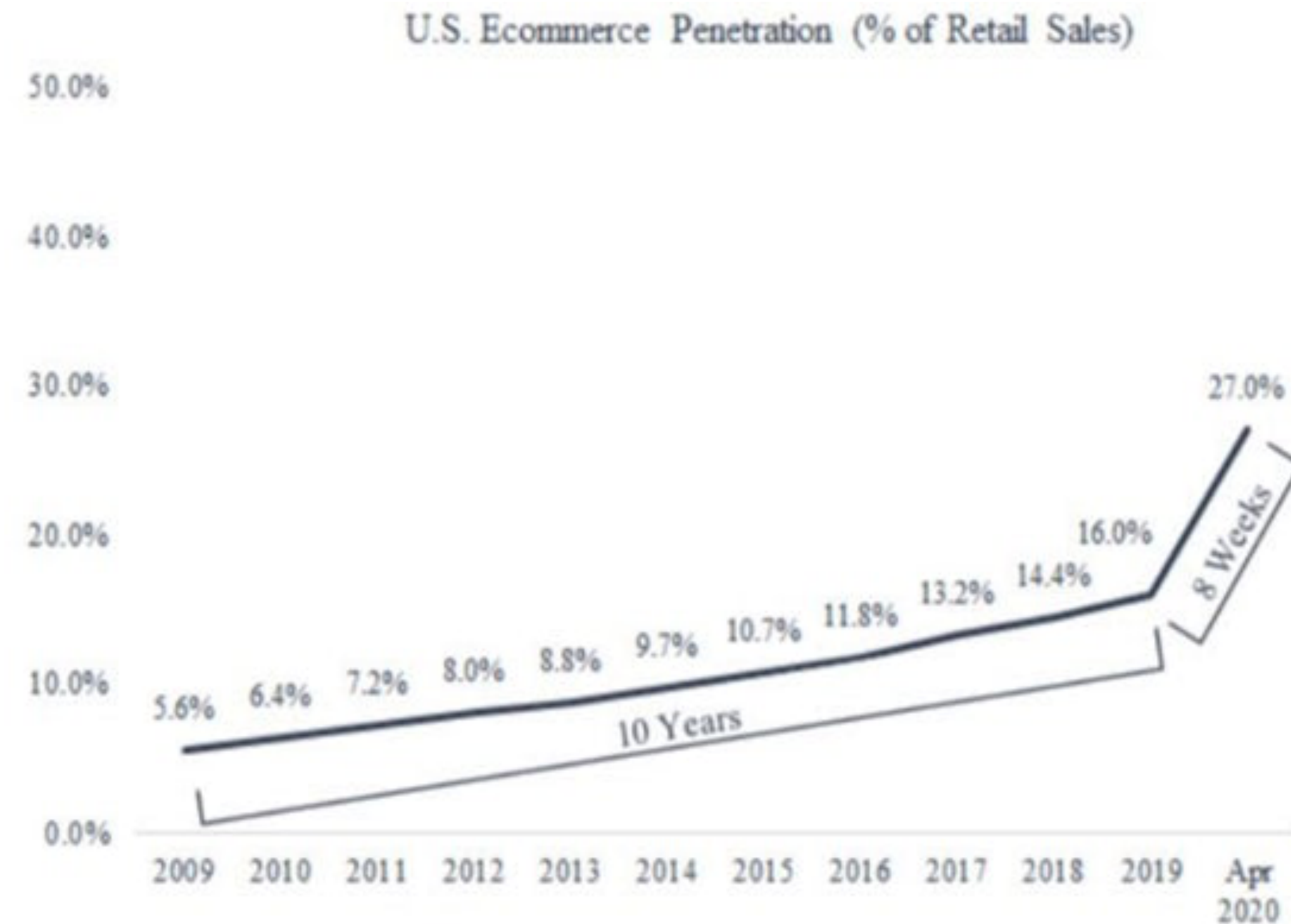
D2C has seen a boom, but this is mostly a niche play, despite the considerable amount of pulling power from challenger brands.

In other words the online channel has not been able to offset the losses incurred from physical outlets being shut - for the overwhelming majority of retailers.



# Retail change

## Coronavirus - the online boom



Source: Bank of America, U.S. Department of Commerce, ShawSpring Research

Accompanying the channel shift has been a huge boom in click & collect. From a shoppers' perspective this is the most socially distant option, less touch-points are involved, and it is usually much cheaper than home delivery.

As no one likes queuing, scan and go solutions have taken off, mostly via an app on shoppers mobile and at the traditional check outs mobile/contactless payment have now almost become the norm in many countries. All these developments have clearly given a renewed impetus for new store models such as Amazon GO, which almost seems to have been designed for the pandemic.

In general though, perhaps with the exception of some grocers, footfall has been down massively, transactions have also trended down, but this has been offset by better conversions and higher baskets. In other words, once shoppers have gone to the trouble to queue to get into a shop, in many countries wearing face masks, they are much more likely to buy something.

There's a much higher percentage of retail demand online right now. This will likely soften a little, but will continue into the future, unquestionably far above the percentage it was at prior to the arrival of Covid-19.

# Introduction

## Retailing in the pandemic

- **Covid-19 has changed everything and it is fair to say that the tech industry has stepped up to the plate by and large, when it comes to retail.** On the other hand a lot of the solutions described in this report have been around for some time - and now represent old wine in new bottles. In our view the only real novelty and real innovation remains Amazon Go and its just walk out technology. That said, now many of the solutions are appearing in a new light due to changed circumstances brought upon by the outbreak of Covid-19. Whereas, for example, a self check out solution with computer vision capabilities to add up the prices in real time was mainly about eliminating costs, associated with manual check out staff and improving flow throughput, it is now all about hygiene issues and avoiding human contact, touchpoints and eliminating queues. In other words we have seen a big pivot not so much in the solutions themselves, but in the marketing around their use cases and capabilities.
- Nevertheless, every decade new revolutionary retail concepts emerge (the Apple store turned electronics retailing upside down) and we think Peloton is one of these players. Like Apple, Peloton's strategy is helped by selling its own product, the retailer has managed to combine social media, gaming and fitness with a subscription model and a significant draw for shoppers to visit their locations.
- Obviously, tracking what Peloton does or how a running shoe retailer overcomes the crisis will have limited usefulness for other sectors at first sight, but there are elements that can be incorporated into other business models - especially around social media communication, online communities, engagement and the like.
- Other currently successful retail case examples heavily involve online in some shape or form, be it the various (unmanned) click & collect stations, automated stores, lockers and vending machines or retailers using Zoom type offerings to sell to shoppers at home. The zero inventory stores are an inversion of this concept and should work well with clothes (especially when changing room use is heavily restricted).
- Even now there are techniques how retailers can drive footfall to their stores, many of them involving tech, but not all of them. Much of the secret lies in retailers utilising their store locations in a much better way to regain authenticity and localize their stores. And we don't mean building MFCs adjacent to their stores (even though that might be a good solution for some retailers).
- In any case, coupled with the shift to online, the lockdown and the subsequent easing of it has revealed that a lot of physical retail is in a precarious state. **So what will happen next?** We don't believe it's contentious to predict that we are looking at a global recession to come. The likely recession impact will see many businesses going to the wall and unemployment rising fast, so we expect a channel shift to the discounters (Aldi and Lidl will win again). There will be huge distress on the high street, with retail bankruptcies forcing change on the property sector and rents and rate regimes (spreading upstream to pension funds as property investors and PE and so on). For all surviving retailers a huge speeding up of digitalisation trends is ongoing.
- We believe that new tech enabled generation of stores will replace the old model battered by online and Covid-19. Finally, tech alone will not get retailers through the crisis, but it will play a crucial part towards finding a solution or many partial solutions that combined enable something akin to a return to a pre-Covid normality.

# Features

- Case examples of successful retailers during Covid-19 from various sectors and markets
- **Analytical deep dive and store visit of AmazonGO stores**
- Data on footfall and payment choices during Covid-19
- **In depth discussion of robots, automated stores, unmanned vending/lockers**
- Insights on queue management and clienteling
- **Strategic recommendations**

# Benefits

- Understand how to choose the right tech innovation for your business, catchment and customers
- **Grasp how much to invest in multichannel capabilities (depending on your specific sector circumstances)**
- Follow the strategies of stand out performers and incorporate learnings into your own proposition
- **Each section features real life, practical case studies, sharing key learnings and pointing out pitfalls to avoid.**
- While these solutions cannot guarantee success in every single case, they will greatly help retailers to regain the initiative.
- **Learn from best practice examples**

# Key Questions answered

## Store of the future

- **How can you drive footfall back into stores, once you have covered the basics on hygiene and social distancing?**
- Given that price focus will return with the recession to come, how can you best deliver on price promises in store across a national estate?
- **What role will technology innovations play and what solutions promise the best returns?**
- How big will zoom retailing become? How can you turn queuing into clienteling? How far has cashless got to go?
- **What can you learn from standout performers such as Wiebelhaus or Peloton?**
- Will robots dominate the high street in future? Will there be a boom in MFCs?
- **What will the stores of the future look like? Is it all about Amazon Go and eradicating barriers to payment and queue management?**
- Will zero inventory stores now have their breakthrough in the Covid era?
- **Will the property sector move to turnover rents? And if so, how do you account for online sales?**
- How can retailers take into consideration the wider environment and context of their stores, especially for driving footfall?
- **What can clothing retailers do now? Can flagships save the department store?**
- How can you make stores secure during Covid-19?
- **Will personalisation become a reality through loyalty apps and clienteling? Will this travel across from luxury into mass retail?**
- Why is in-store technology critical for survival? What kind of technologies should retailers consider? Both at the back end and front end.



# How to manage price focus

## Price integrity - the case for ESLs

- In terms of price focus, pricing integrity across the multichannel proposition is becoming paramount, as online has grown so rapidly. Shoppers expect to pay (at least roughly) the same prices on and offline. Online every retailer is following Amazon, as its web crawlers usually match the cheapest price available, often matching prices from retailers who have gone on promotion. This has lowered the price floor of entire categories. Another price driver is the marketplace, which exudes huge deflationary pressure, by design, the more sellers selling certain SKUs the more competition between them will focus on price. Chinese sellers going direct to the end consumer have also had an impact.
- In the EU in many markets grocers are following Aldi's price leadership - and due to technological advances they could now use AI to match their prices or at least lower them enough to remain competitive. Retailers could consider electronic shelf edge labels, very much the standard in northern Europe, where labour costs are high (with perhaps the exception of the UK). Such an investment also ties in with the broader trend of tech replacement of workers (for hygiene reasons, and cost).
- We think that AmazonGo stores will play a significant role a going forward. For retailers who do not want to invest huge sums in an unproven technology (at least in terms of consumer adoption, the tech works just fine) electronic shelf edge is a good step. In terms ESL there are cost drawbacks and technical debt issues perhaps, also if a pricing

mistake is made centrally, it gets applied to the whole estate. Other issues include network outages and even hacking.

- But ESL can be good for managing OSA, for promotional push through, especially on planograms, and centralised price changes in real time. These changes will obviously depend on the model used - ESL can have some local options and exceptions. The more responsive they are, the better they would be for managing Covid impacted stock and shortages.
- Many European retailers, including Carrefour, Marks & Spencer and SPAR, have adopted the use of battery powered ESLs and E-ink (digital paper) because of their respective sustainability benefits. It should also be noted that most retailers only change the prices at night for customer relationship reasons. However this could change in future, online frequent price changes are a reality already. Currently retailers manage this with loyalty apps (Tesco, Lidl)
- **Especially if ESL are partnered with newer functions such as scan and go, footfall measurement to enable AB tests in store and between stores and even in store picking for online grocery pickers with the shelves lighting up at the product where picks are set to take place they could become a solution seeing much greater uptake due to Covid-19.**

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The background of the slide is a composite image. On the left, there's a view into an Amazon Go store showing shelves stocked with various products and a person standing near a counter. On the right, there's a view of the store's exterior with large glass windows and doors. A semi-transparent grey box is overlaid on the right side of the image, containing text and a list of bullet points. A dark blue button is in the top right corner, and a red arrow-shaped banner is at the bottom.

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