FutuRetail:
Commerce Disruptors

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Contents

Introduction by Natasha Toothill

Just over a year after completing its acquisition of Nokia, Microsoft announced it would be writing down its investment in the Finnish smartphone maker and laying off much of the company's remaining staff. Nokia was once the world's sixth most valuable brand. The company pioneered mobile technology, created supply chains that were the envy of the industry and invested heavily in research and development. It now sits alongside the likes of Kodak and other businesses that failed to adapt to a changing competitive environment.

Disruption, as the case of Nokia shows, is a threat to even the largest businesses with the greatest resources. Circumstances can turn against companies at an incredible speed, demanding a fundamental change in strategy. Retail is no exception: the supermarkets who occupied a seemingly unassailable position a few years ago have been humbled by the rise of discounters and convenience stores. New models of ownership have arisen that are challenging traditional retail paradigms, and consumers have armed themselves with the technology to buy at a time and place that suits them.

This report shows that disruptive forces are reshaping the world of retail. We first discuss what these forces are and how they will impact retailers. We contend that at the heart of the retail transformation are economic, demographic, technology, urban and consumer trends, which are combining to disrupt the dynamics of commerce. We then discuss, in four shorter articles, the opportunities for retailers to sell in a new global marketplace, transform their physical locations, use technology to 'wow' shoppers and improve the customer experience through offering new ways to pay. Finally, we conclude with some pointers on how retailers can position themselves to benefit from disruption, rather than fall victim to it.

At Visa Europe, we work with retailers to provide the infrastructure that ensures their customers have a great experience every time they pay using our technology, whether they're using a card, app or wearable. We're at the forefront of using payments to create a joined up and seamless purchasing experience and enable you, the retailer, to harness our data and insights. Most of all, we give shoppers the confidence to complete transactions so that you can focus on what's important to you: selling products, delighting shoppers and offering great customer service.

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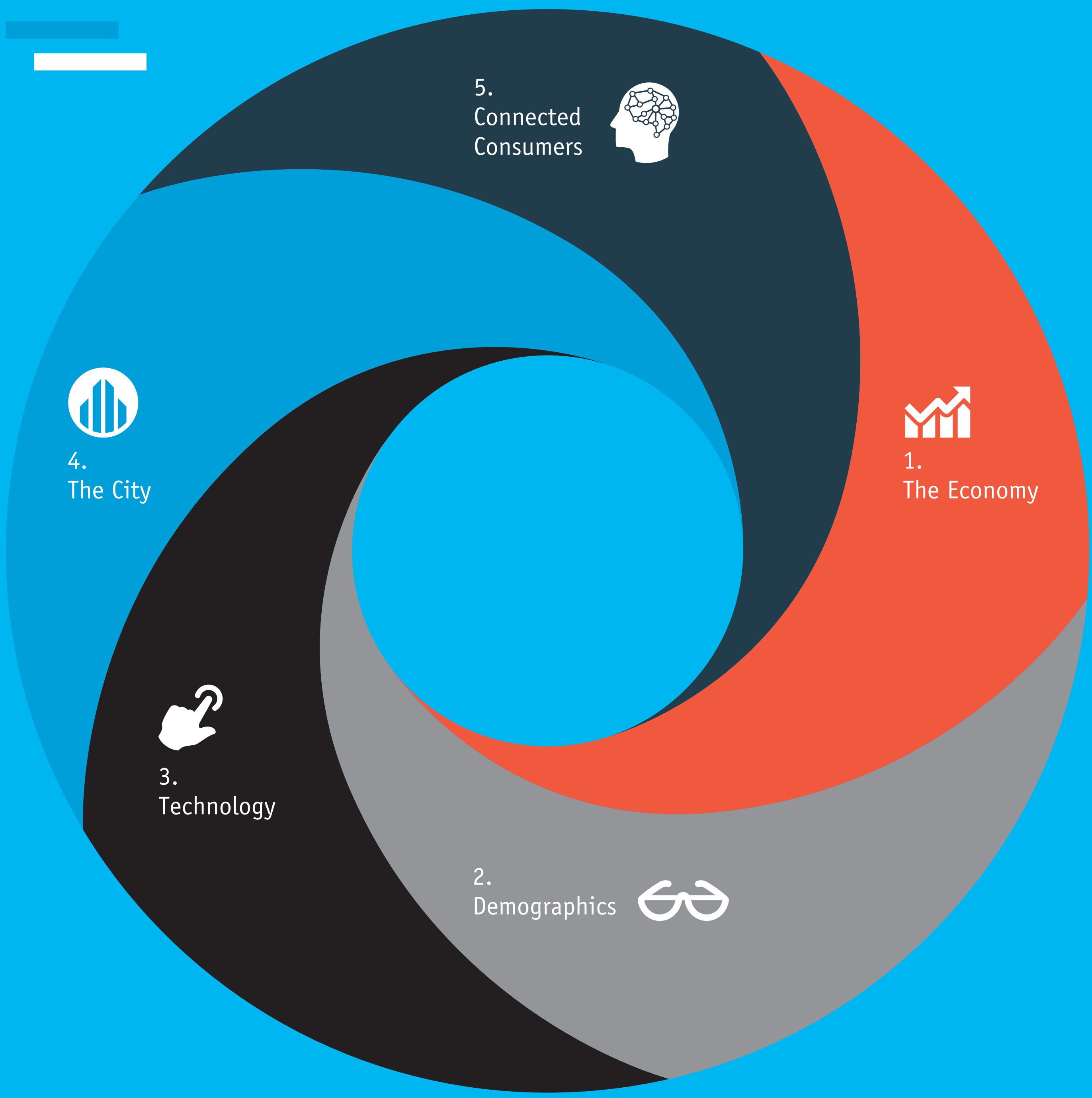
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Commerce Disruptors:
The Five Forces that Will Disrupt Retail

Five interconnected forces are set to disrupt retail, presenting retailers with powerful challenges and opportunities. Economic, demographic, technology, urban and consumer forces are combining to create new markets, transform consumer expectations and reshape the rules of retail. To thrive in this volatile environment, retailers will need to adapt, create unique shopping experiences and develop new formats and methods of fulfilment that give shoppers more convenience and choice.

1. The Economy

The first force disrupting retail is the shift in economic dynamism away from the developed world to emerging economies. Whatever your take on the causes and consequences of the financial crisis, there is broad agreement that economic growth in much of the Western world will be subdued (or even stagnant) for years to come. In Europe, Eurozone GDP still lags behind its pre-crisis peak and credit conditions remain tight despite the European Central Bank's quantitative easing programme.[1] There are growing concerns about the region's long-term economic potential due to low productivity growth, the threat of deflation and the impact of demographic trends (see below).[2] Meanwhile in the United States, still the world's largest retail market, economic growth has slowed to a crawl and retail sales have stalled.[3] Unemployment may be falling, but anaemic wage growth has made shoppers more cautious about spending money at shop tills.[4]

> ...spending patterns have polarised as shoppers have relentlessly traded down on products they're indifferent to so that they can spend more on the items they care about.

The uncertainty that hangs over the economies of the developed world will mean that the recession-trained spending habits shoppers acquired during the financial crisis will not be changing anytime soon. The crisis made shoppers more aware of how money was spent and forced them to reassess how they think about value. Consequently, spending patterns have polarised as shoppers have relentlessly traded down on products they're indifferent to so that they can spend more on the items they care about. In British grocery retailing, this polarisation of spending has proved a boon for both the hard discounters, with Aldi and Lidl growing their sales by double figures in the last few years, and the premium food retailers like Waitrose and Marks and Spencer, who have also taken market share from the big four supermarkets.[5] Across the retail spectrum, mid-market stores are being squeezed by polarisation and forced to reposition themselves as offering either exceptional value or quality.

Sluggish economic growth in the developed world will lead retailers to look with renewed interest at emerging markets, particularly the MINT (Mexico, Indonesia, Nigeria and Turkey) economies, sub-Saharan Africa and China's interior.

Retail sales are expected to grow by almost 15% in Indonesia this year and by 7.4% in Nigeria.[6] Carrefour will later this year open its first African outlet in Ivory Coast, while Wal-Mart, early to recognise the continent's potential, acquired South African retailer MassMart in 2011 because of its network of outlets in twelve sub-Saharan countries. In China, where retail sales are expected to grow to be twice the size of those in the US by 2022, a new generation of consumers is coming of age who have been raised in times of relative abundance.[7] These new consumers are eager to try new things and display their individuality through their purchases.[8]

Capitalising on the growth of consumer spending in these markets won't necessarily mean that retailers will need to open stores in far-flung countries. Increasing Internet connectivity and the willingness of shoppers to buy from abroad will mean that in many cases these markets will come to retailers, either through sales generated online or from the growing numbers of emerging market consumers shopping while travelling abroad. Alibaba and JD.com, a smaller e-commerce rival, are both developing online platforms to make it easier for retailers to sell to shoppers in China.

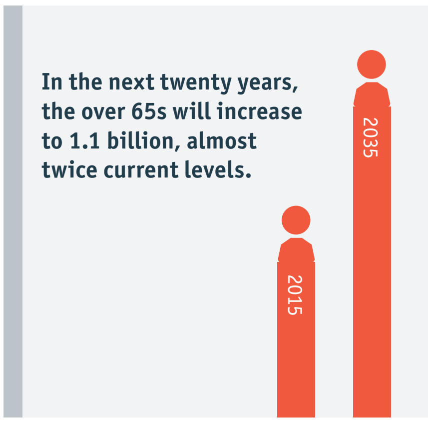
2. Demographics

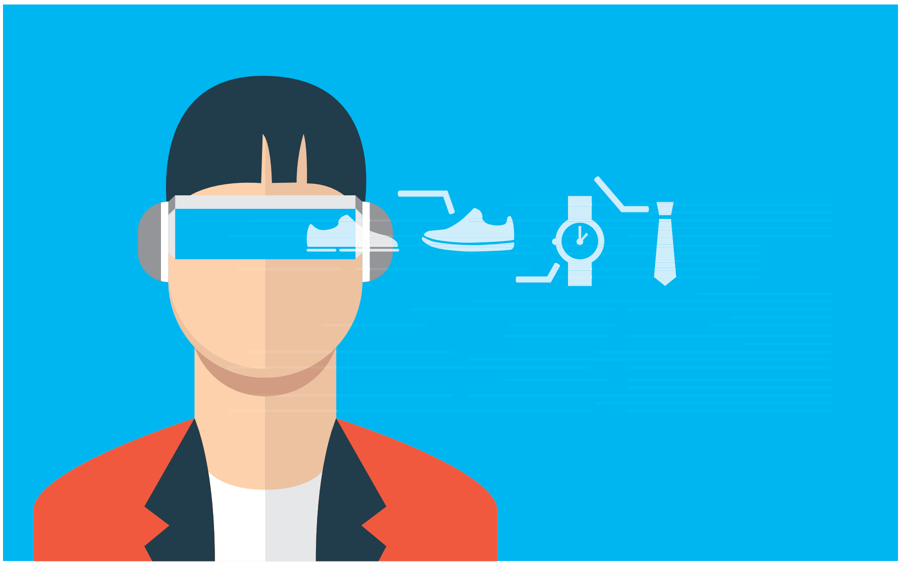
Retailers now face a more complicated and nuanced demographic landscape than ever before. Globally, households are getting smaller, populations are ageing and societies are becoming more ethnically and identity rich. The number of single parent and single person households has grown to historic highs, though retailers still too often rely on outmoded notions of what constitutes a 'family' when thinking about their customer bases. Gender roles have changed too, with more brands recognising the increasing number of men in the aisles and introducing new-gender neutral product categories.

The most disruptive demographic trend for retailers is the ageing of the global population. Yet few retailers have really come to terms with how this will impact their businesses, preferring to focus their energies on younger shoppers and lumping all over 50s into a single 'silver segment'. This will start to change as retailers realise the size of the opportunity that awaits them – over 55s will account for more than half of consumer spending growth in developed markets in the next two decades, making them a high growth segment in otherwise slow growth markets.[9]

Within the ageing consumer demographic, the ballooning number of shoppers over the age of 65 represent a key opportunity.

Within the ageing consumer demographic, the ballooning number of shoppers over the age of 65 represent a key opportunity. In the next twenty years, the over 65s will increase to 1.1 billion, almost twice current levels.[10]





This change will be felt most acutely in Europe, where working age populations will decline sharply. By 2020 Germany's working age population will be shrinking as fast as Japan's.[11] Retailers will, therefore, have to find ways to sell to consumers who have traditionally valued traits like thrift and are increasingly searching for greater quality of life in their old age.

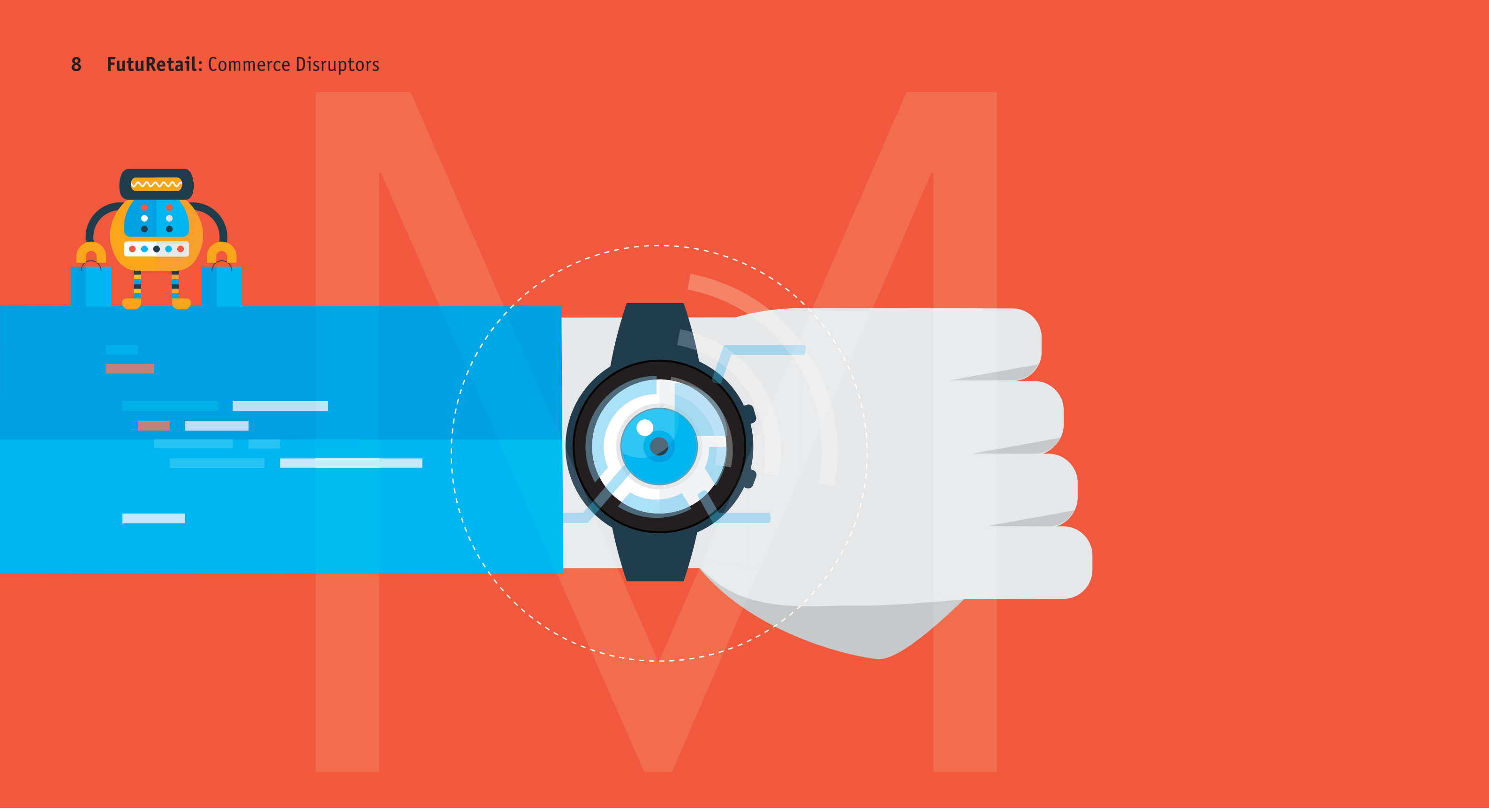
Markets like Japan, where retailers have already begun to experiment with new product lines and formats to appeal to ageing consumers, offer prescient examples. Aeon, the country's largest supermarket group, has launched a 'Grand Generation' strategy, which aims to provide greater in-store amenities to older customers and make shopping environments easier to navigate. At the Funabashi shopping centre in Chiba, just outside Tokyo, older customers can not only do their grocery shopping, but also visit a medical clinic, enjoy a five per cent discount on pension day, join a range of hobby classes, and through the 'Begins Partner' programme, find a date.[12]

At the other end of the age scale, retailers can expect to see many of their longstanding hopes that millennial consumers can expect to bring a surge in spending dashed. While millennials' shopping habits are distinct from other generations in that they are willing to pay a premium for greater quality and experiment with new retail formats, they are the demographic group that have been most adversely affected by the recession.

As digital natives who grew up alongside the Internet, millennials are the early adopters of new technology and keen to try new things.

Across Europe, over a fifth of young adults are unemployed, a figure which is significantly higher in Spain, Italy and Greece.[13]

With fewer employment opportunities and saddled with higher costs of education, millennials are moving out of their parents' homes, forming relationships and starting families much later in life. The upshot of more millennials living at home is that they will exert a strong influence over household spending and introduce older generations to new ways to shop. As digital natives who grew up alongside the Internet, millennials are the early adopters of new technology and keen to try new things. Access to products is more important to this generation than ownership, which has helped fuel the rise of sharing services like Airbnb and Rentez-Vous. Just as millennials educated their parents on the benefits of smartphones and apps like Skype and WhatsApp, they will encourage older consumers to experiment with new shopping apps and retail formats.



3. Technology

Technology is disrupting retail at an increasing pace as m-commerce surges, more devices become connected to the Internet and exponential advances in computing power enable retailers to understand their shoppers in more detail than ever before.

More than fifty years after the invention of the telephone, only half of American households owned one.[14] By contrast, just eight years after release of the first iPhone, half the world's adult population owns a smartphone; in five years' time, 80% will.[15] M-commerce will therefore grow significantly, with global sales topping $638 billion by 2018 – approximately the value of global e-commerce sales in 2013.[16] However, m-commerce shopping behaviours won't simply mimic those of consumers using a laptop. In fact, evidence from South Korea, the world's most developed m-commerce market, shows that consumers who use smartphones to shop are more impulsive in their purchases and tend to go straight to a retailer's website or app, rather than using a search engine to hunt for products.[17] It is imperative, therefore, that retailers build brand recognition to succeed in a world of increasing m-commerce sales.

As smartphones are joined by a range of other smart devices, including wearables, smart home sensors and self-driving cars, shoppers will expect seamless technology in retail environments that make the shopping experience more engaging and unique. Retailers such as New Look and Victoria's Secret have experimented with 3D body scanners that recommend particular brands and styles based on a shopper's shape. Uniqlo has used digital mirrors to allow shoppers to virtually 'try on' different garments, while American fashion house Rebecca Minkoff recently deployed similar mirrors in its New York store that let shoppers request items of clothing directly from a fitting room.[18] Lowe's, a US home improvement store, has even tested a robot shop assistant that can not only respond to vocal requests for products in several languages, but also recognises products which customers bring to the store and helps them find replacements.[19]

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Big data will also disrupt retail by allowing retailers to identify the tastes and preferences of shoppers down to an individual level. While e-commerce players have been generating insights like these for years, new technologies and greater volumes of data will allow physical stores to offer shoppers a more tailored and omnichannel retail experience. In addition to the data mined from till receipts and loyalty cards, retailers already have access to data on the location and movement of customers through telecoms operators. Companies like ShopperTrak and Presence Orb can capture footfall data and build heat maps reporting in-store conversion rates and the effectiveness of displays. Elsewhere, video analytics software designed by Cognitec can recognise a shopper's face, age and gender, and then use this data to trigger targeted advertisements on display screens.

In the next few years, however, the data landscape will grow more complex as the growth of the Internet of Things enables more actions and behaviours to be 'datafied'. It's estimated that by 2020 as many as 28 billion 'things' will be connected to the Internet, ranging from wearable technology to cars, fridges and thermostats.[20]

The data generated by all these device will enable retailers to offer a more personalised service to customers. However, retailers will have to learn to use the insights derived from this data in ways that excite, rather than scare, shoppers. The Edward Snowden revelations, the EU 'right to be forgotten' ruling and the outrage that followed Facebook's conducting of a psychological experiment on its users have all made shoppers more concerned about who has access to their private information.

4. The City

Cities are taking on a new strategic significance for retailers due to the surge in the global urban population. Today, over half the world's population live in cities; by 2050, two-thirds will.[21] Increased urbanisation will bring prosperity to not just millions, but billions of consumers. In the next ten years alone, close to a billion people will join the ranks of the urban consuming class.[22] Even within the same country, however, there will be significant variation in the size of cities and the aspirations of urban shoppers.

Megacities with populations of more than ten million will attract retailers keen to tap into their vast pool of shoppers. There are forecast to be 41 of these cities by 2030, up from 28 today.[23] Demand for retail space in these cities will lead to the re-imaging of the urban landscape, not just in developing markets, but in already highly urbanised ones too. In London, one of Europe's four megacities, the historic turbine halls of Battersea Power Station are being reborn as a new shopping environment. Paris, another European megacity, has become the global capital of luxury retail, attracting shoppers from all over the world to the glitzy stores that line the Avenues des Champs-Élysées, George V, and Montaigne. Megacities, however, will have a very different composition to the small and middleweight cities in which much of the growth in retail sales is likely to occur. It will therefore not make sense for retailers to plan market entry strategies on a country-by-country basis, but look instead for cities that share similar characteristics.

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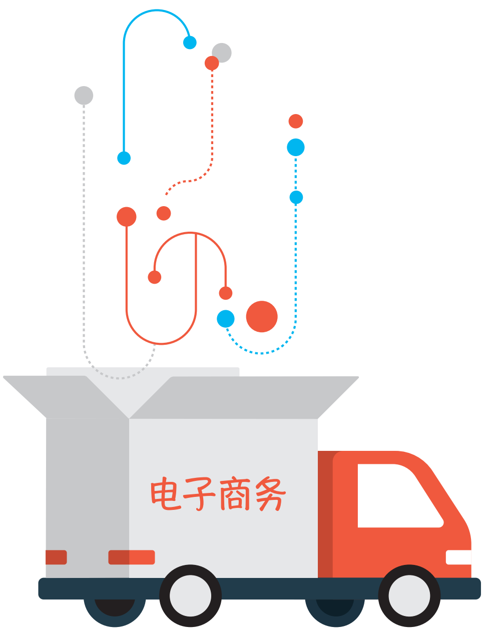
The role of physical retail will also change as more of the world becomes urbanised. Retailers will experiment with new formats and methods of fulfilment that fit around shoppers' busy urban lives. Smaller convenience stores that are open for longer hours, same day delivery services, and click and collect will all grow in significance. In Europe alone, the number of click and collect locations will reach half a million this year.[24] The majority of these locations will not be in high street stores, but in lockers, post offices and third party locations like Westfield London's click and collect hub.[25] Transport hubs will be particularly key, with Transport for London already processing tens of thousands of orders at its click and collect points and John Lewis launching a 'click and commute' store in London's St Pancras station.[26] In France, the success of click-and-drive has spurred Leclerc to roll out the format to Poland, Spain and Portugal. While in Germany, Amazon has recently begun a trial that allows shoppers to have their orders delivered to the boots of their cars.



5. Connected Consumers

The final force disrupting retail is shoppers' changing relationship with technology. As shoppers are spending more time staring at the screens of their smartphones and carefully curating their social media profiles, purchasing behaviours and expectations are being reshaped in profound ways.

First, consumers overstimulated by the wealth of information available at their fingertips have shorter attention spans and a reduced ability to concentrate. The average shopper checks their phone 150 times a day, while 80% check their phone within fifteen minutes of waking up.[27] The 'always on' culture, cycle of constant interruptions from WhatsApp messages and the ability to summon an Uber cab with just a few taps has rewired shoppers' brains to favour simpler experiences that require a low degree of focus. Moreover, the abundance of choice that shopping in the digital world offers makes it an environment where time-pressed consumers are encouraged to scan rather than read; to want everything faster; and to tolerate complexity less.[28]

More retailers are addressing this requirement for simplicity. The rise of the discount supermarkets is not only due to their price advantages, but also because making a decision over which jar of jam to buy is easier when shoppers are confronted with just three varieties, rather than a whole aisle full. Impatient shoppers with shorter attention spans have also helped fuel the rise of last mile delivery companies and the plethora of start-ups providing products and services to consumers on-demand: Shutl, acquired by eBay in 2013, delivers orders made through partner retailers to shoppers within a matter of hours; Laundrap will collect dirty clothes and deliver clean ones to a user's home or office; and both Shuttle Cook and Gousto deliver all the ingredients for a meal, right down to little bags of salt and pepper, along with step by step cooking instructions. Amazon's 'Dash Button', a sticky-backed button that can, for example, be affixed to a washing machine to order laundry powder with just a click, simplifies the purchasing process by allowing shoppers to buy something at the moment they realise they're running low.

Second, spending more time counting likes on Facebook, building their follower numbers on Twitter and posing for selfies to share on Instagram has made shoppers more inward looking and narcissistic. Increasingly, consumers expect retailers to offer experiences that are tailored to them as individuals and are more willing than ever to publically take to task retailers who don't meet their expectations. Forward-thinking retailers have begun to play on this theme to target shoppers. French Connection, for instance, launched its summer collection in 2014 by setting up photo booths in its stores and inviting fans to take selfies modelling the range, with the photos then forming the centre piece of the brand's shop windows.

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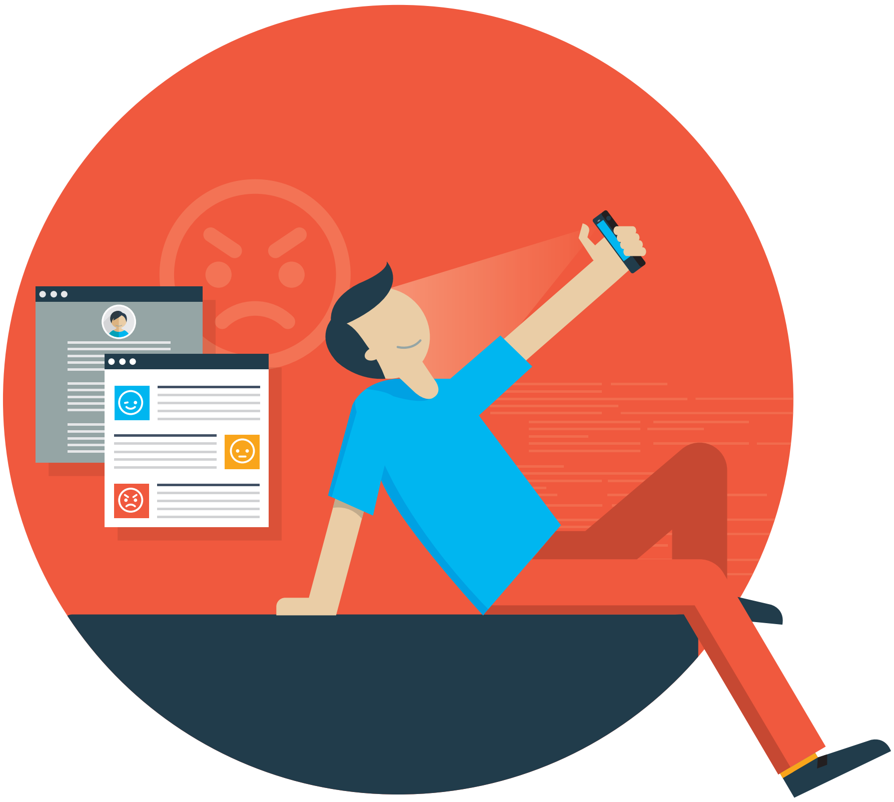

Dealing with the disruption that the confluence of these forces are bringing will be a significant challenge for retailers. Polarisation of spending will mean that many retailers will have to refocus their businesses while positioning themselves to appeal to demographic groups that are becoming more diverse and complex. New ways to sell to shoppers are being created by the ubiquity of smartphones, but these same devices are transforming shoppers' expectations at an incredible pace. Retailers need to understand how each of the forces will impact their businesses, and develop a clear strategic view of how they can thrive in a more turbulent and fast-paced world.

Global, but Local

Cross-border e-commerce transactions and the growing numbers of sales generated from international tourists will mean that retailers of all sizes will soon be competing in a global marketplace.

International expansion used to be an agonising process for retailers, requiring the replication of much of their capabilities in markets where they had identified potential and adapting to language, cultural and legal barriers. Yet technology, business model innovation and the increasing ease with which shoppers can buy from abroad have made it easier than ever to tap into new markets. The rise in cross-border e-commerce transactions and the growing volume of sales from international tourists will mean that retailers won't have to go to shoppers in other countries – these shoppers will increasingly come to them.

Alibaba's record IPO in September 2014 put a new spotlight on China and reaffirmed just how vast the e-commerce market in the world's second largest economy is. The company's flotation was shortly followed by a record Singles Day, the biggest day in China's retail calendar, in which Alibaba made $1 billion in under twenty minutes.[29] Moreover, China's e-commerce market, already the world's largest, still has plenty of room to grow – Internet users represent only around half of the country's population.[30]

What was less generally recognised was the size of the opportunity for retailers from outside China to use Alibaba's B2C platform, Tmall, to connect with the country's shoppers. Indeed, in a market where consumers are increasingly discerning about quality, consumers frequently prefer to buy from foreign brands that have a strong reputation and heritage. Marks and Spencer, for instance, has seen its sales on Tmall jump by 200% in the last year, making it one of the platform's fastest growing brands.[31]
In 2014, Burberry became the first foreign luxury brand to launch its own site on Tmall, at a time when other fashion labels were still deriding the platform as an outlet for cheap knock-offs.

Alibaba and JD.com, a smaller e-commerce rival, have both taken steps to make it easier for foreign brands and retailers to sell to shoppers in China with their Tmall Global and JD Worldwide sites. Other retailers have focused on making it more convenient for Chinese consumers to purchase through their own online stores: Macy's, Saks Fifth Avenue and Neiman Marcus have all begun accepting online payments via Alipay, Alibaba's proprietary payments network.

It's not just established retailers who will benefit from the increasing ease with which shoppers can buy from abroad – small and medium retailers will benefit too. As e-commerce continues to grow, niche brands will be able to tap into larger markets. They will be helped by the growth of platforms that link buyers and sellers. FarFetch, a global marketplace for boutique fashion, has developed a curated catalogue of clothes from three hundred boutiques in 25 countries. The platform empowers these boutiques to sell to shoppers in one hundred and fifty different countries without having to figure out how to offer their sites in different languages or accept local payments, which Farfetch handles. For their part, shoppers get a consistent user experience, with a single shopping cart for all orders and can even collect their purchases from a local FarFetch boutique.

As e-commerce continues to grow, niche brands will be able to tap into larger markets.

Nor is it just online where consumers will demonstrate their increasingly cosmopolitan outlook. More than a billion people travel abroad every year, representing around fifteen per cent of the global population.[32] Sales generated from international travellers have experienced strong growth for the last few years, particularly as more emerging market shoppers have begun to travel.[33] Luxury products are one of the key categories that tourists gravitate towards. Over half of France's luxury industry depends on foreign tourists.[34]

The lowering of barriers to international expansion means that all retailers will soon be competing in a global marketplace. Although it's easier to reach shoppers in far-flung countries, the challenge for retailers will be building brand recognition in an increasingly crowded space.

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The Transformation of the High Street

The role of stores will change as more purchases are carried out online

> **Stores are becoming showrooms, where shoppers go to touch and feel products in a way that's impossible online.**

Opening new stores was once retailers' principle strategy for growing their businesses. Yet with e- and m-commerce sales expanding year-on-year and technology enabling virtual stores to be opened anywhere, the role of physical retail will change.

Big box stores will continue to be disrupted by smaller convenience formats, which will get better at using data to build product selections that match demand. The rise of convenience format stores caught many retailers off guard. They have, therefore, found themselves saddled with real estate they don't know what to do with. Tesco's £6.4bn loss for the 2014 financial year was principally due to a write-down in the value of its larger out of town stores, and follows similar announcements from other supermarkets as consumers choose to shop more frequently in smaller locations.[35] Retailers will have to find new ways of using their existing store networks. Argos is experimenting with a hub-and-spoke distribution system in London that enables all stores, whether large or small, to offer guaranteed same-day or next-day fulfilment on 20,000 products.[36]

Omnichannel, whereby retailers offer shoppers a seamless experience across both online and in store, will continue to redefine the role of physical locations in shoppers' purchasing journeys. Stores are becoming showrooms, where shoppers go to touch and feel products in a way that's impossible online. Even brands like Google have recognised the value of physical retail space, partnering with Currys PC World to offer shoppers the chance to play with its range of Android phones, tablets and Chromebook computers. In the US, Warby Parker, an online retailer of trendy glasses, has begun an aggressive store opening plan. Recognising that shoppers generally purchase their new specs after looking at the brand's website, the retailer has been able to draw customers to complete transactions in store by making their shops highly designed and interesting environments – achieving an average of $3,000 of sales per square foot of retail space.[37]

Other retailers are also experimenting with new formats that satisfy consumers' demands for more personal and unique shopping experiences. Fragrance Lab, a collaboration between Selfridges, Campaign Design and The Future Laboratory, took customers through a series of stages involving selecting objects, answering questions on their personalities and visiting sensory rooms to craft their ideal fragrance. In food retailing, Italian grocer Eataly has combined selling expensive groceries with restaurants, wine tasting and art shows, while Starbucks has launched a high end Reserve Roastery and Tasting Room in its home city of Seattle.

Pop-ups, vending machines and virtual storefronts will also become an increasingly common feature of the high street, challenging traditional notions of what constitutes a physical store and allowing retailers to test new concepts and generate publicity. Lidl launched a pop-up restaurant, Deluxe, at the end of 2014 in London's trendy East End. Zappos partnered with OrderWithMe to set up a pop-up store late last year in Las Vegas that, like the website, was open for business 24/7. Tesco's pioneering use of virtual stores in South Korea, which allowed shoppers to make purchases by using their phones to scan photos of products in underground stations, has been imitated by retailers in other sectors – when launching its Karl Lagerfeld clothing collection, Net-a-porter wrapped the windows of selected stores with scannable images of the collection that directed customers to purchase online.

Both the function and form of physical retail is evolving as shoppers have changed their perspective on what they want from bricks-and-mortar stores. Retailers will need to adapt their locations to be able to make shopping more convenient and experiential.

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Smart Stores

Technology will disrupt retail in a big way

New applications of technology and data will also allow retailers to measure the performance of physical locations in greater detail and streamline their operations.

Technology, and the business model innovation that it enables, has been the source of significant disruption to retail in the past two decades – from supply chain innovations that made retailers vastly more efficient to the advent of e-commerce. Now, a growing number of technologies will impact consumers and reshape their expectations of retailers.

The number of devices connected to the Internet will surge as the Internet of Things (IoT) gathers pace. From networked traffic sensors that cut commuting times to toothbrushes that give users advice on their brushing technique, the IoT will allow previously 'dumb' objects to become 'smart' – providing shoppers with a range of data about their 'quantified self'. Smart homes, which monitor and regulate temperature and electricity usage, have caught the attention of Google, who through its $3.2 billion acquisition of Nest in 2014, is hoping to capture a stake in the emerging space.[38]

Wearable technology will soon become mainstream too. The Apple Watch sold out in minutes following the opening of pre-orders in April 2015, while fitness trackers like Fitbit and Jawbone are becoming increasingly popular. Google may have taken development of Glass out of the public eye, but it's sure to unveil the next iteration of the concept soon. Oculus VR, acquired by Facebook in 2014 for $2 billion, will launch its first consumer virtual reality headset at the beginning of 2016.[39]

As these technologies take a more prominent role in the lives of consumers, retailers should look to use technology to 'wow' shoppers and make retail environments more engaging. Adidas saw sales of footwear surge by up to five hundred per cent at stores where it deployed its virtual footwear wall, which allowed shoppers to view the brand's entire range of shoes on interactive screens.[40] Using Oculus Rift headsets, Topshop gave fans of the brand at its Oxford Circus store a 360-degree view of its autumn 2014 fashion show.

Rebecca Minkoff's partnership with eBay shows how technology can be used to eliminate pain points in the purchasing process. When shoppers enter the store, they select clothes to try on using an interactive screen, which are delivered to a changing room. Instead of tracking down a sales assistant or returning to the shop floor to find a different colour, the right size or matching items, shoppers can request them directly from the changing room's smart mirror. Payment is completed through an app and shoppers can text themselves a record of what they've tried on to save for later.

New applications of technology and data will also allow retailers to measure the performance of physical locations in greater detail and streamline their operations. Using Beacons and other short-range wireless technologies, retailers are beginning to join up their online and offline stores, identifying shoppers who have browsed online and targeting them in store with personalised offers. Elsewhere, Inditex has begun rolling out a Radio-Frequency Identification (RFID) solution to its Zara stores that allows the retailer to assess exactly what products are needed on the shop floor, reducing shrinkage and enabling product displays to be precisely tailored to local demand.

3D printing has the potential to disrupt entire industries and manufacturing processes. Boeing uses the technology to produce parts and components for its aircraft, L'Oréal recently announced plans to print human skin for testing products, and a firm in Shanghai has printed a five-storey apartment building. Most retailers using the technology today have enabled shoppers to customise and print jewellery, trinkets and toys – both Argos and Amazon have set up online stores for precisely these use cases.

Yet the retail applications of 3D printing extend well beyond gifts and toys. Retail environments will be transformed as shoppers create and print products exactly when they want them, rather than searching in store aisles. Lowe's has partnered with Authentise, a 3D printing consultancy, to provide a printing service in stores that allows shoppers to either customise a product and have it printed immediately, or scan a product they've brought with them from home.[41] Shoppers can then choose to have the item printed in a range of materials, including metals and ceramics. They can even print products that are no longer in production.

Technology moves at an exponential pace. Retailers who fail to understand how the advent of these new technologies will shape the preferences and expectations of shoppers risk being left behind.

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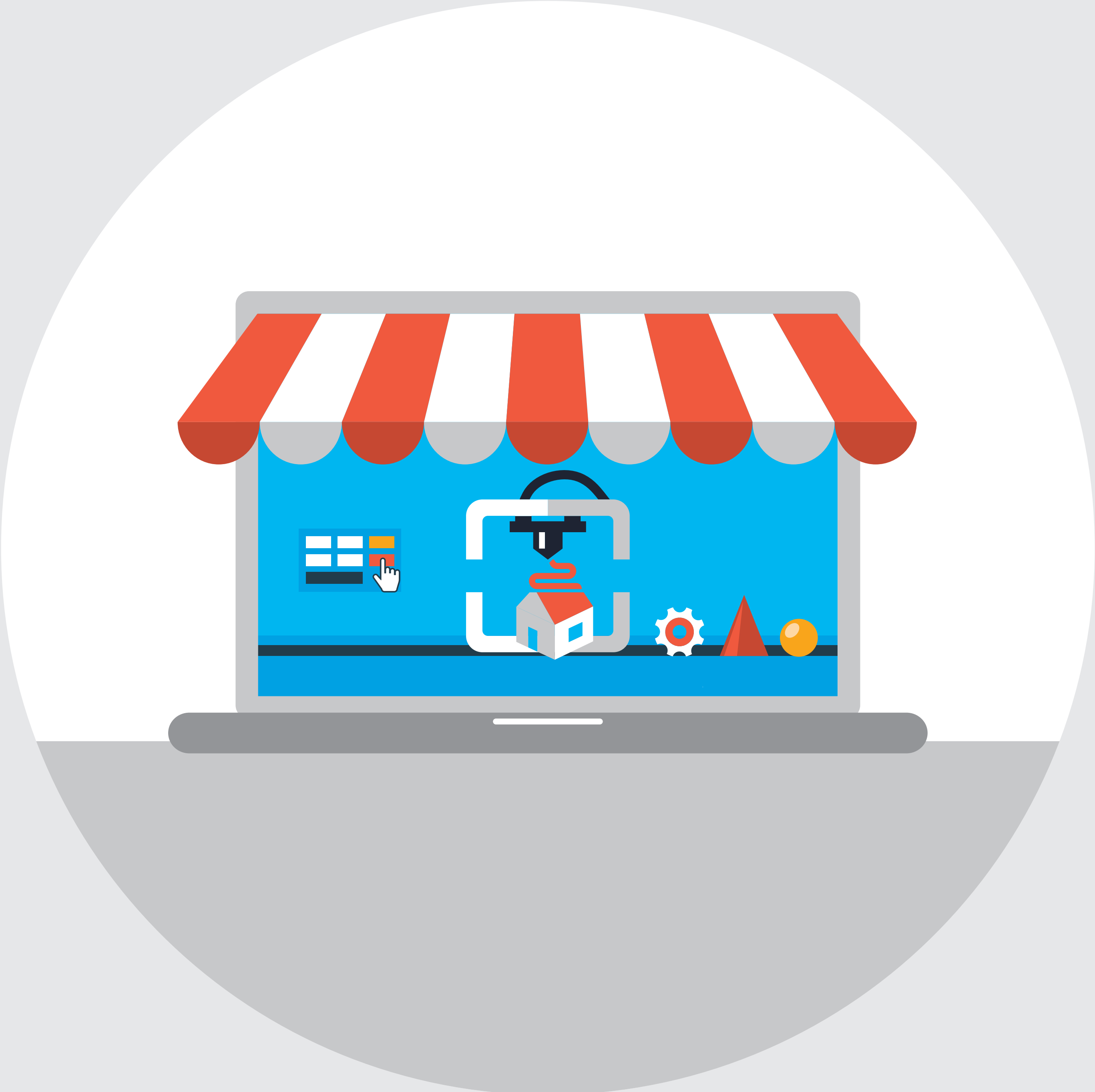

Payment and Digital Wallets

Consumers and retailers will benefit from new ways to pay that will make shopping more frictionless

Too often discussions about the future of payments focus on the enabling technologies, rather than articulating the opportunities that new ways to pay present to retailers and shoppers. While understanding the merits of tokenisation, Near Field Communication (NFC) and underlying APIs is important, these aren't the topics that will get shoppers excited about using a contactless card or paying with their smartphone. In fact, the future of payments isn't about technology. It's about allowing consumers to pay in a way that suits them, offering customers a frictionless experience across retail channels, and ensuring that shoppers feel like they're in control of how their money is spent.

Shoppers have taken enthusiastically to new payment methods, whether in the form of contactless cards, mobile wallets or wearable devices. The value of contactless payments made via a credit or debit card surged in 2014 as consumers quickly recognised the convenience and simplicity of using a contactless card when shopping on the high street. In the UK alone, £2.3 billion was spent last year at contactless terminals, a 255% increase over 2013. As contactless-enabled cards become the industry standard, and the limit on the value of purchases made using a contactless card increases, shoppers will expect to be able to use them wherever they shop.

Mobile payments also achieved considerable traction with the launch of Apple Pay, which is supported at over 700,000 locations in the US and 250,000 in the UK.[42] Payment capabilities are being embedded into wearables too, with Spain's CaixaBank and Barclays in the UK launching wristbands that let users make a purchase by tapping their wrist to a contactless reader. With the rise of the Internet of Things, payments will be a feature of an increasing number of devices, from smart TVs to fridges that can order groceries when they detect that the user is running low.

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For shoppers, these new ways to pay have three distinct advantages over more traditional payment methods like cash. First, they offer greater convenience by eliminating some of the friction points associated with making a purchase. Shoppers quickly took to contactless when they realised that paying with a contactless card saves times, particularly for smaller transactions where they had previously opted to pay with cash. A quicker, more seamless payment experience means shoppers spend less time waiting in queues. Using the PayPal mobile app, shoppers will even be able to pay 'hands free' by selecting what they want before they go to the store, and having the payment made as soon as they walk in the door via the PayPal Beacon. Elsewhere, Visa has shown off in-car payments, which it will be trialling in the US with Pizza Hut this year, that allow customers to order and pay for products from their cars when they pull up to the store.

Second, digital wallets allow consumers to access deals and offers tailored just to them. Retailers can capture a much greater level of insight when shoppers pay with a card or mobile app, which they can then use to deliver instant gratification and location-based services. The loyalty functions embedded into the Starbucks mobile payments app have been key to the app's popularity with users, allowing customers to access instant rewards, offers and soon order coffee while on the way to the store.

Third, although consumers enjoy the convenience offered by contactless and digital wallets, they also want control over their payment data and how they transact. Fingerprint scanners on the newest smartphones remove the need to remember PINs and passwords, but still give consumers reassurance that they're in control of their purchases. The heart rate monitor on the Apple Watch could eventually be used to authenticate transactions via Apple Pay. Zapp, a mobile payments service launching in the UK in 2015, integrates with the mobile banking apps that shoppers are already using, giving them the confidence that their purchases are being conducted through the bank that they know and trust.

Payments are taking a more prominent place in retail as merchants realise that contactless and digital wallets can help them improve the customer experience and understand shoppers in more detail. Even the smallest retailers, through terminals developed by the likes of iZettle and Square, can now accept card payments and start to generate deep insights into their customers. Payments are also one of retail's fastest moving areas, helping retailers to satisfy shoppers' increasing demands for a frictionless, convenient and secure purchasing process.

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Conclusion:
What Retailers Need to Do Next

Hockey superstar Wayne Gretzky put his great success in the game down to his ability to 'skate where the puck is going to be, not where it has been.' For retailers, dealing with the impact of the disruptive forces highlighted in this report, Gretzky's adage is particularly apt – what's worked in the past for retailers won't work in the future. There are five strategies they can adopt to help them surmount the challenges and realise the opportunities of the changes taking place.

1. **Exceptional value or exceptional quality.**
   The polarisation of spending habits is one of the most powerful trends shaping the future of retail. Since the financial crisis, shoppers have become savvier and more willing to shop around for the best deals using price comparison apps. At the same time, consumers remain willing to pay a premium for products in which they perceive genuine quality and shop with retailers who offer superior service. Retailers, however, need to decide whether they're offering shoppers exceptional value for money or exceptional quality and service. Value-oriented retailers will need to invest in productivity boosting technologies, like self-service checkouts, and build the scale required to offer consumers the best price. For retailers offering shoppers premium quality, the customer experience should be rich and engaging, whether they're shopping in a store or on a smartphone. Creating personal and tailored experiences will be key to building loyalty and ensuring shoppers remain willing to pay a premium price.

2. **Capitalising on new markets.**
   The historic shift in economic dynamism to the emerging economies is creating millions of new consumers eager to explore new products and services. At the same time, increasing Internet connectivity is enabling shoppers across the world to buy from abroad with ease. This is a huge opportunity for retailers of all sizes. A first step for retailers looking to test the potential of new markets can be as simple as offering to ship products bought online to more countries. For larger retailers, building strategies that focus on cities with similar characteristics and consumer aspirations are key to international success.

3. **Understanding demographics.**
   As the demographic landscape becomes more complex and nuanced, retailers need to understand how trends like ageing, shrinking households and changing gender roles will impact their businesses. While shoppers might be getting older, their experiences of ageing are changing to reflect the fact that they expect to remain more active and mobile in their later life. Retailers need to be aware of this when they approach the 'silver segment' – reminding shoppers of their age is a strategy guaranteed to fail. At the same time, retailers should experiment with new formats and business models that can persuade more price-sensitive millennial consumers to part with their cash.

4. **Using data right.**
   Realising the opportunities that big data presents will require the creation of new organisational capabilities that are currently unfamiliar to many retailers. With smartphones and other smart devices being increasingly used by shoppers, along with the availability of products that enable retailers to measure the performance of stores in greater detail, data scientists will be indispensable personnel for retailers. However, retailers will have to carefully manage how they use their insights and make sure that shoppers feel like they're getting something in return for sharing personal data.

5. **Frictionless commerce.**
   Shoppers are gravitating to retailers who offer greater convenience and simplicity. Retailers need to embrace new formats and methods of fulfilment that can help them create experiences that fit around consumers' busy lives better – whether it's working with last mile delivery companies to offer speedier fulfilment, or embracing new payment methods that allow shoppers to pay in a way that suits them.

Dealing with disruption is incredibly difficult for any business. The successful retailers of tomorrow will be those with a clear view of the forces reshaping retail, the strategic vision to make bold bets on how these forces will impact their businesses, and who are able to adapt and respond to the changes taking place today.

About Future Retail

FutuRetail focuses on the collision between technology and real estate with an emphasis on omnichannel futures. Through research, events and consultancy it provides a range of services that allow retailers to focus on the future and opportunities for innovation. FutuRetail organises an annual conference that brings together thought leaders, retailers, technologists and property professionals to share ideas, success stories, and trends. FutuRetail also runs workshops and visioning sessions that explore the changes taking place to the retail landscape and advises on the strategies retailers need to succeed in a turbulent world. It undertakes research and trend spotting, as well as focusing on how retailers can transfer ideas from other sectors and geographies.

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About Owen King

Owen King is a consultant at FutuRetail, where he helps clients understand the trends that are shaping the way we shop, live and work. He works with companies to develop strategies to future proof their businesses and conducts leading research projects into all aspects of the future of retail.

Owen holds a first class degree in History and International Relations from Royal Holloway, University of London, where he specialised in quantitative research methods and graduated with a number of prestigious awards. Owen is also a speaker of Mandarin Chinese, which he studied in Nanjing under a scholarship from the Chinese Scholarship Council.

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About Visa Europe

Visa Europe is a payments technology business owned and operated by member banks and other payment service providers from 36 countries across Europe. Visa Europe works at the forefront of technology to create the services and infrastructure which enable millions of European consumers, businesses and governments to make electronic payments. Its members are responsible for issuing cards, signing up retailers and deciding cardholder and retailer fees.

Visa Europe operates a high volume, low cost business model that provides services to its members. Its surplus is reinvested into the business and used to improve capital and reserves. In the last six years, Visa Europe has invested over €1 billion in new technology and infrastructure.

Since 2004, Visa Europe has been independent of Visa Inc. and incorporated in the UK, with an exclusive, irrevocable and perpetual licence in Europe. Both companies work in partnership to enable global Visa payments. As a dedicated European payment system Visa Europe is able to respond quickly to the specific market needs of European banks and their customers – cardholders and retailers – and to meet the European Commission's objective to create a true internal market for payments.

VISA

About Natasha Toothill

Natasha joined Visa in 2009 and heads up Retailer Engagement for Visa Europe. She is responsible for developing long-term strategic relationships and creating preference for Visa with key Retail Partners across Europe, building partnerships throughout the retail community and bringing Visa's digital solutions to life from a Retailer perspective.

In addition to working with retailers on their co brand card strategy, her role covers payment solutions in the omnichannel space, to create a frictionless payment experience whether that be in store, online or mobile. Natasha helps retailers adopt and implement Visa's initiatives with NFC, Visa paywave for contactless and mobile, targeted marketing services and loyalty and retailer analytics. Her team works with Retailers in the key vertical sectors across Europe.

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