



THE iGENERATION

Europe's top 100 retailers and their real estate strategies: The store's the star

Published by



retail property analyst

Sponsored by

TH TIAA Henderson
Real Estate

CONTENTS

1. Foreword

The omni-channel scenario by TH Real Estate

2. Macro-trends: Omni-channel and retail real estate

Omni-channel retailing has seen retailers merge all their channels, while clear trends are emerging in the real estate needs of international retailers.

3. The basics

An A-Z of omni-channel retail, social networking and digital realisation.

4. Innovators: Ten trends for 2015

The global retailers and landlords leading change and exploiting omni-channel opportunities. Innovation has always been the heartbeat of retail and the digital pioneers reflect a mix of legacy giants and start-ups.

5. Mobile retailing: Leveraging location

The domination of mobile-technology-based retail has enhanced online sales and supported location-based retailing, where retailers and mall owners have engaged, notably beacons.

6. Social media: A commercial future?

The use of social media is even more recent than online ecommerce but while Facebook and Twitter continue to dominate, a new breed of social networking sites with a more commercialised approach is emerging.

7. Future shopping and its impact on real estate

New technologies and cultural behaviour have changed dramatically, with further shopping shifts inevitable and the rise of catchment-based locations for logistics.

8. News round-up: Some of the key stories about digital retail from the pages of Retail Property Analyst.

The iGeneration: Retail, real estate and technology

Angela Goodings, Associate Director of Research, TH Real Estate

As a researcher, I am often asked how technology will shape our retail landscape and what the impact will be on our physical retail assets. In truth, I don't believe there is a correct answer - the advancement in technology will intensify over the next twenty years and continually move the goal posts in creating a perfect solution to 'future' retailing. Whilst there is no black and white answer, at TH Real Estate, we are increasingly looking at how longer term drivers / megatrends will impact real estate performance. For the retail sector, technology is an important megatrend and we constantly analyse how current technologies are affecting consumers, retailers, landlords and investors, in addition to the impact future technologies will have on these four key stakeholders.

Technology has revolutionised the retail industry over the past ten years with multichannel retailing now well established and effectively working in collaboration. Click & Collect continues to gain market share and is often cited as the fastest growing channel in retail. Retail property plays a fundamental role in promoting its success and we have worked hard to improve click and collect facilities throughout our retail portfolio examining whether this is best driven by retailers to enhance 'up-selling' or the creation of central hubs which effectively store and manage deliveries in a convenient manner.

Enhancing retail environments has been a strategy among landlords to ensure our assets remain viable trading locations in the future and to defend against online retail formats. We believe consumers now want more; whilst they continue to be attracted to retail destinations they also want social connections and experiences within their physical environment. The connected consumer is not a new phenomenon with social networking long connecting consumers with each other and with retailers. Landlords have the ability to enhance consumer connections through shopping centre beacon technology which enables landlords to track physical movements and talk with consumers- this can be an effective tool if used correctly. Such technology also enhances Personalisation – this year's popular retail buzzword.

Personalisation involves using technology to account for individual differences of a broader population of consumers with respect to their consumption patterns. It can allow retailers to access search history of their customers and make more educated attempts to offer a personalised service and attract them into shops. It can save time and increase sales turnover by suggesting goods a customer might like and appropriate 'add-ons'. Personalisation is driven by the availability of consumer data, which will also be its biggest challenge as consumers remain cautious about why and who they give their data to.

Whilst personalisation has been a popular buzzword, I believe it is here to stay. By their very



nature, shopping centres have an advantage as they benefit from one-to one personal contact with shoppers, making sure this connection is a positive experience is essential. Whilst technology continues to enhance and change behaviours, survey data highlights that a social connection is still very much valued by consumers.

As a researcher, I think the growing availability of data (big data) which can be analysed and effectively used to enhance our shopping centres is one of our biggest opportunities to continue to develop, manage and invest in some of the strongest retail assets across the globe.

The iGeneration: Omni-channel and retail real estate

An omni-channel environment has created a literal world of opportunity for some retailers and has signalled the demise or downsizing of others. Understanding and responding to the change in retail real estate requirements requires immediate action, a rewriting of the rule books and an ability to be flexible.

In producing our fifth report on the dominant retail and real estate topic of recent times, Retail Property Analyst continues to be unique as a publication positioned to consider the impact of omni-channel developments on property requirements. In each year of publication, these impacts have changed and the focus on retailing and property has altered, often quite dramatically. This illustrates the fast-paced nature of the sector and also the fact that even those at the cutting-edge continue to find their way against an ever-changing backdrop.

The property industry had still been guilty of largely ignoring the issue when we began these reports – with some commendable exceptions among developers and investors – and a pervasive view has taken hold that somehow retail units and requirements would be left unchanged by the revolution of e-commerce, the proliferation of mobile-technology and the explosion in the power and ubiquity of social media. This view no longer holds sway, although it is notable that even now the conversations had by retailers on the subject and those had at property networking events differ markedly, with real estate behind on the curve. Issues seen as key by many retailers are being overlooked by too many landlords. A disconnect remains, which we hope this report plays its own small part in narrowing.

Consumers are now interacting with the multiple channels in an ad hoc manner. An increasing number of consumers are researching products in bricks-and-mortar retail stores before purchasing online, using click-and-collect or showrooming, a subject this report looks at in some detail although it has become less of a topic than it was in 2013. How the consumer touches the retailer or the brand differs by person, time of day, location and mood. It is why multi has become omni – the channels can no longer be treated as a series of silos, they are integrated, blended and potentially revenue capturing for those who can bring each of their channels under a clear, consistent and relevant banner.

This report considers both the technological and cultural trends but also then examines how these

translate across European retail activities. The analysis considers what the retailers are doing, how they are doing it and how it is impacting their real estate strategies.

A number of clear trends have emerged compared with last year, notably the ongoing and now relatively long running rise in mobile-based retailing, the surge in international delivery, the strengthening of the third party delivery relationships and the downscaling in store numbers among a number of retailers, notably in the fashion sector. Click and collect has also become a vital component of location planning and few of the retailers in our listing do not offer such a service. Increasingly, landlords are also looking to such centralised services.

SOME INDICATIVE DATA

European online retail sales will reach €191 billion by 2017, up from €112 billion in 2012 – reflecting an 11% compound annual growth rate (CAGR) over the next five years (Forrester)

US online retail sales will hit \$370 billion by 2017, up from \$231 billion in 2012 (Forrester)

Highest internet penetration: Singapore 99.9% (IMRG)

Global broadband subscribers, end of 2011: 678.6 million (forecast: 2018 – 940 million) (Point Topic)

Access to internet shopping: Laptop 55%, smartphone 19%, tablet 11% (WorldPay)

UK market: Mobile accounts for 40% of all sales (IMRG CapGemini)

Global broadband use, 2018: 1.6 zettabytes (Cisco)

Top 100 retailers in Europe, key findings

1. The UK retail market remains the most advanced in Europe in terms of omni-channel retail, with home delivery services among grocers particularly strong but with an ongoing and strong shift towards click-and-collect, especially from convenience stores. Dedicated third party click-and-collect such as Collect+ and Doodle are also emerging strongly. However, some locker trials have been abandoned.
2. France continues to pioneer a Drive format for grocery retail, with click-and-collect dedicated services at an increasing number of stores. France operates the only dedicated Drive format, using a warehouse-style dark store. Although the concept behind Drive is likely to have universal appeal across mature European markets, to date none of the French retailers have been able to run solace sites profitably. We expect to see more Drive sites as part of a hypermarket offer, with the latter format growing in popularity again.

INFRASTRUCTURE ISSUES - BROADBAND: A EUROPEAN PROJECT

At the heart of e-commerce is the infrastructure backbone upon which it must operate. The European Union has grandiose visions for speed of development, while progress is surprisingly diverse across the continent.

The European Commission last year released its annual Digital Agenda Scoreboard, which tracks the progress of technology adoption in the region, including online shopping. It says more consumers are buying online but few are purchasing from retailers outside their home countries. The European Commission announced the Digital Agenda Europe (DAE) in 2010. It outlines 101 goals designed to expand the use of Internet technology in the European Union. The second edition of the scoreboard reports on the progress the EU made between June 2011 and May 2012. This remains the most up-to-date information available.

Progress towards achieving the commission's target of 50% of all EU adults buying online by 2015 is steady, with the percentage increasing to 43% in 2012 from 40% in 2011. The share of Internet users buying on the web edged up to 58% from 57%.

Among the main products sold online in Europe during the period were films, music, books, software; travel and accommodation; and clothing and sporting goods. These products were each purchased by more than half of consumers shopping online. However, the number of consumers buying software, magazines, music or films online decreased three percentage points to 57% from a peak in 2010 of 60%.

Other highlights from the report included:

- Only 15% of businesses in the EU sell via the web, less than half the 2015 target of 33%.
- 45% of all consumers between 16 and 74 shopped online in Malta, up seven percentage points from a year earlier, making that country first in terms of online shopping growth. Greece and Lithuania jumped five percentage points each, up to 18% and 16%, respectively.

The report also said that growth in EU consumers buying from retailers outside their home countries increased to 9.6% in 2011, up from 8.8% in 2010 and 8.2% in 2009. Digital Agenda Europe has set a 2015 target of 20%.

Citizens of small countries are more likely to shop across borders if retailers market to them in their own or a similar language, the report notes. "National e-commerce strongly underpins cross-border e-commerce, with virtually nobody shopping across the border without shopping in his or her own country first," the report said.

Countries with strong growth in online shopping across borders include Finland (increasing six percentage points to 28% of consumers) followed by Ireland, Belgium (up four percentage points each) and Malta, Austria, Estonia, Luxemburg and Sweden (each up three percentage points).

Andrus Ansip, the European Commission vice president responsible for the Digital Agenda, said in November 2014:

"The Telecoms Single Market is an essential building block of the Digital Single Market. Without it, we cannot achieve the rest. The European Council asked for it in October 2013. Our citizens want the best the

internet can offer, they want an internet that is safe and accessible to everybody. This is not a reality in Europe today.

“There is even more work to do to achieve a truly connected digital single market. A market where every consumer is able to enjoy digital content and services - wherever they are in the EU, including government services. It means every company should be able to share and sell its wares to a market of 500 million, using seamless online channels.

Today, a small business trying to spread across the EU faces 28 rules for consumer protection, data protection, contract law, tax rates. Consumers trying to buy online face endless barriers. And it just costs too much, both for consumers and businesses. I want to see more efficient parcel delivery across Member States and to tackle e-commerce. I want to make sure we can do online what is possible offline. This is why I have proposed a set of initiatives to my fellow Commissioners and committed to focus on six main areas of work that I will steer and coordinate in my role as Vice-President.

“A first area of our work will be about building trust and confidence in the online world. As I said during my European Parliament hearing last month, both these issues matter a great deal to me. They are vital if a Digital Single Market is to exist in Europe and function properly. This means moving further on consumer rights, ensuring that the consumer rights directive is fully implemented but also simplifying and modernising rules for online purchases and digital products. It also means concluding negotiations on data protection rules and cyber-security.

“Another work area relates to removing restrictions and preventing new ones from appearing. One particular area to address will involve putting a stop to blocking of online consumers based on their location or residence. This will be about reforming and modernising copyright rules and getting rid of unjustified curbs on transfer and access to digital assets. I am committed to getting rid of geo-blocking. This goes against the core principles of Europe's Single Market.”

However, omni-channel retail is also becoming increasingly influential across Europe, with all the major western European markets evolving their own versions of an effective omni-channel strategy. Similarly, as can be seen from the tables below, while Amazon and Apple, plus eBay, dominate the generic markets to varying degrees, strong legacy players have also been able to maintain very high visitor rates.

| Global online population (millions) | | | |
|--|-------------|-------------|---------------------|
| Region | 2009 | 2014 | Increase (%) |
| North America | 259 | 292 | 12.7 |
| Europe | 415 | 500 | 17.0 |
| Asia/Asia Pacific | 645 | 1,033 | 37.6 |
| Latin America/Caribbean | 178 | 255 | 30.2 |
| MENA | 135 | 241 | 44.0 |
| Total | 1,632 | 2,321 | 29.7 |

Source: Forrester Research

showroom does not set a foot wrong and equally creates no waves. They follow norms with room sets and do a nice job of giving customers the feeling that this is a thoughtfully curated and well-loved environment. They also have helpful staff who can support customers' choices. In addition they offer a few nice treats, projecting catalogue items near to displayed physical product, and offer up their endless aisle on tablets."

He also cites US retailer Bonobos Guideshops for "an excellent job of delivering a seamless customer journey from online to in-store" and says: "One thing you will notice when walking into a Bonobos Guideshop is that there's not clutter, either with merchandise or with people. Booking fittings in advance online means only two or three customers are in-store at one time, making the service feel exclusive and tailored to you. Just like the fresh, clean lines of its website, the Guideshop doesn't spoil you with choice but does spoil you with experience. Here the aim is to allow the customer and the brand to interact."

Similarly Hyundai Rockar in Bluewater has re-invented car sales by presenting the car in a fast paced boutique in the high traffic mall and opens the Hyundai brand up to a new audience with a whole new approach to the sector. "The use of digital content in Rockar has been an integral part of the design and forms a core part of the experience. By immersing the customer in a full digital wrap, we are able to communicate an entirely new shopping journey in engaging components which are then easily updated as confidence grows," says Ross Phillips, associate design director, digital, at design agency Dalziel & Pow.

Online sports retailer Pro-Direct has integrated its in-store with the use of digital technology and campaigns that cover anything from product histories through to the latest breaking news such as transfers or capturing moments from key football matches. Pro-Direct focuses on finding educational content and also provides information such as which players will be wearing the boots and which items make up the collection, using interactive podiums where the staff guide customers through the content, instead of the customer swiping through at high speed.

"The Pro-Direct store serves as a party space, brand launch platform and digital playground," says GDR's Kate Ancketill. "It's brilliant for socially-connected young football fans who are hungry for detail: which boot scored which goal, what tournaments are taking place, what's being posted right now on featured products. Its dark theatrical interior and digital mannequins allow for ultimate flexibility and it can shape-shift to fulfil all the different functions of physical retail - part gaming arena, part showroom, part bar/club."

What all the stores share is a brand-first approach which ensures that the physical space meets the digitally-created expectation. Add to that a ruthless analysis of data and a penchant for drama and theatricality, and the next generation stores from pure players show every sign of breaking plenty more rules.

Omni-channel retail: The basics

Aware of the diversity in knowledge levels of omni-channel retail, the following is a quick guide to the terminology used.

3G: Mobile-network provided internet support for mobile phones and portable computer tablets.

4G: Enhanced mobile-network provided internet support for mobile phones and portable computer tablets. Industry experts predict this will provide Wi-Fi quality connection. Implementation to begin this year.

5G: Currently being developed with launch pilots expected in 2018 and offering far higher data speeds.

Amazon Lockers: Delivery lockers for Amazon orders, accessed via mobile phone password. Lockers have been fitted in a number of malls and within stores, while a number of rival locker systems have been launched.

Augmented reality: Technology allowing products to be 'brought to life' via mobile/tablet screens. Projects by Lego, Mattel and Asda are among the first retail applications.

Beacons: Geo-locational system for identifying shopper position via smartphone and communicating offers or information.

Bricks-and-clicks: Term for a stores plus online strategy.

Click-and-collect: Online reservations system where the customer picks the ordered product up from the retailer's store, or from a third party provider or sister retail operation.

Dark stores: Supermarkets developed purely to service online orders and not available to the public.

Digital posters: Display systems using digital technology in order to interact or display changeable promotional and brand messaging.

Drive: French invented click-and-collect drive-thru system primarily for grocery retail. Innovators include Auchan and E.Leclerc in France and Tesco in the UK.

Drones: Pilotless mini-aircraft being trialled for delivery services.

E-Boutique: Term coined by Marks & Spencer to describe its digitally-enabled stores going into France and the Netherlands.

E-commerce: General name for retail carried out over any online medium.

Facebook: The largest social networking site, which has proven hugely successful as a medium for interaction but which is less established as a retail medium.

Google Glass: Google Glass enables wearers to gain information, shop and share through internet-enabled 'sunglasses'-like eye glasses.

Home delivery: Online delivery to the consumer's home.

Instagram: Picture-based social networking site – the precursor to a number of 'visual-based' sites and a major movement in 2012 and 2013.

Marketplace: Websites which act as 'marketplaces' for other retailers and brands to sell their products.

M-commerce: General name for retail carried out over any mobile device.

Mega-sheds: New style, huge logistics hubs being created by pure players and multi-channel retailers to service the greater demand for online sales. Most associated with Amazon.

Multi-channel: The first term used to describe retailers which traded over two or more channels.

Omni-channel: The evolution of multi-channel – both terms are often used interchangeably but omni-channel suggests that the channels work seamlessly together and has become the preferred terminology.

Near Field Technology: The technology used to enable contactless payment and payment via a variety of competing e-wallets.

Oculus Rift: Augmented reality headset enabling gaming, entertainment and in the future virtual shopping. Lower cost rivals are also being launched.

Pinterest: Pinboard style social networking site, which allows users to put favourite products up on their page for sharing. Because of its approach, Pinterest (and a host of variations) have been backed as most likely among social networking sites to encourage retail sales.

Pure play: An online-only retailer.

QR codes: 'Barcode'-style way of capturing information on mobile phones which can be used to access deals or shop in virtual 'QR stores'. Numerous such trials have been run.

Showrooming: The act of a consumer browsing stock within a physical store but then price comparing and ordering elsewhere via their mobile device.

Social networks: Websites dedicated to connecting people via the Internet.

Smartphones: Any phone with access to websites, mobile apps etc.

Tablets: Mobile mini-computers offering access to websites, mobile apps etc.

Twitter: Mini-blog social networking site.

Unified commerce: First coined at the NRF Big Show in New York, January 2016, this is the latest attempt to

IGENERATION: THE INNOVATORS

Every retail generation has its innovators and if in the past it was Wal-Mart's every day low prices, Gap's fashion democratisation or Body Shop's catalyst for social change consumerism, in 2015 it is the omni-channel revolutionaries.

One of the most striking elements to emerge from Retail Property Analyst's exclusive analysis of the omni-channel strategies of Europe's top 100 is that innovation and deep omni-channel adoption do not always sit within the groups which have spearheaded real estate revolution. So Zara and H&M are not at the forefront of e-tail, while a smaller player such as New Look has avowed to become a significant omni-channel player. The UK's pure player Asos continues to take huge strides forward, while Italian fashion retail does not. And a once all-powerful corporation like Gap, still struggling to realign its global offer, has taken a major leap into omni-channel by predicating global expansion on its website, not the capital expenditure intensive route of store openings.

In the research below we have selected ten key innovations being driven by omni-channel retailers and considered their adoption. Few of these featured in the report last year, again underlining the speed of change within the market.

Innovation 1: Drive

German retailer Real has become the latest European supermarket chain to push ahead with a click-and-collect service called Drive, a system that could well overtake home delivery for groceries. While the Drive concept was first established across a number of pioneering retail chains in the USA, it has become especially popular in France, and as consumers respond positively to the offer, Drive has emerged as a surprise hit with limited tests heading towards rollout going on in other major European markets such as Germany, through Real, and the UK, via Tesco and Asda.

The rise of Drive has come about for cultural as much as technological reasons. In France home delivery is, by comparison with some other European countries, quite expensive and delivery hours predominate around typical business working hours - this inflexibility has meant home delivery is not especially popular. Consequently, the cheaper and more convenient Drive formats have thrived, with French grocery chain Auchan in particular pushing forward with not only its own service but also taking a majority stake in pure player Chronodrive, which provides a click-and-collect only service from a so-called 'dark store' format. Consumers can either pre-order online and collect from the full product offering or turn up and order on-site at a terminal from a more limited assortment of 500 basics and popular sellers.

Orders can be ready two hours after purchase online and packing the car is guaranteed within five minutes of pulling up at the warehouse. Missed orders are held for 24 hours. Chronodrive has expanded its selection

to a minimum of 5,000 items in each store from 3,500 initially, and many stores now offer 7,000 products. The company has replaced freezer units for frozen food with freezer rooms, which makes it possible to fulfil orders more quickly.

Auchan opened a new hybrid Drive store concept in Villeparisis, Seine-et-Marne on 28 February 2013 and called it Arcimbo, referring to the Italian painter Arcimboldo, who composed his human portraits from fruits and vegetables. The concept is a new iteration of Auchan's successful 'drive' stores, but with an additional food space with what Auchan called a "predominance of fresh food", including fruit, vegetables and a bakery.

In taking this route, Auchan is attempting to address what is seen as the major weak point of this format, the low share of fresh products in the average basket.

Drive purchases are currently primarily devoted to products such as canned goods, or heavy items and drinks, while fresh cuts of meat, fish, fruits and vegetables sell far more poorly, with French consumers preferring to touch and select these categories directly in-store. Auchan is trialling the new fresh elements, which will require the customers to get out of their cars to shop in a c-store sized unit dedicated to fresh food and including a baker, butcher and fishmonger in a market-style proposition. The Arcimbo store is for now a one-off, while Auchan assesses its performance and customer perception.

For inspiration, Auchan has apparently looked at the success a number of UK supermarket groups have had in persuading customers to buy fresh produce online. In France this has proven far more difficult, not least because of the knowledgeable consumer base in the country.

The size of the prize is clear, however. In 2012, fresh products (fruits, vegetables, bakery, deli, cheese, fish, meat) represented €23 billion of sales in food supermarkets, according to Symphony IRI Institute. Auchan would like a bigger bite of the pie with its Drive formats. Auchan has not been afraid to experiment and in recent years has launched several concepts devoted to fresh products (such as Les Halles of Auchan, or more recently, 'premium' stores) and the latest innovation, The Heart of Nature, is a specialist in organic products and opened in May 2012 in Brétigny-sur-Orge (Essonne).

However, the performance of this initiative is not yet conclusive and "For the moment, costs are a little high compared with the attendance," Vincent Mignot, director of Auchan France, conceded in January.

The desire to improve the customer offer is laudable and the Auchan experiment does make sense, but major misgivings remain about whether consumers who love the convenience of Drive will then want to get out of their cars to complete in effect a second shop. However, UK and German grocery groups, which have been nowhere near as bullish in rolling out Drive stores as have the French, will also be looking on with interest.

There is also plenty of activity among Auchan's rivals. E.Leclerc opened its first Express Drive in 2007 in Roques sur Garonne near Toulouse and has extended this service to 65 Leclerc stores, opening stores at the rate of two or three a month. Groupe Casino has opened 42 Drive stores after trialling the service just before the summer of 2009 at its supermarket in Ratarieux Etienne. In December 2009 it tested out the concept at Géant Casino. Casino also operates in the Paris region through coursengo.com, where currently 29 Franprix and Leader Price stores provide home delivery or collection from their warehouses.

2013. Trinity Kitchen offers cooking demonstrations, street food vendors and pop-up market stalls within a shopping centre environment in what it calls a 'street market' curated by Richard Johnson, UK food journalist and broadcaster and the brains behind the emerging British Street Food movement and British Street Food Awards.

Land Securities points out that the approach allows it to bring in food providers – typically operating from vans - who would not normally even consider operating in a mall environment. The landlord will allow them to rotate their occupation and go off to festivals and seasonal events during the year. For a major corporate beast it is a big departure from its normal way of doing things but the company says that as this only represents 5% of its projected income from the mall it has been able to persuade investors to try the idea out.

Another major developer and operator, Hammerson, had to go back to one of its flagship schemes after under-estimating the number of restaurant outlets it should include in the Bullring, Birmingham. Hammerson held its hands up, admitted it had got its sums wrong and created a new restaurant quarter within the scheme.

There seems little chance that Hammerson, or any other developer, will make the same mistake again. Restaurants have become a key component of the make-up of most malls and there are few signs of that abating, all of which is providing landlords with plenty of food for thought.

MOBILE RETAILING: LEVERAGING LOCATION

The huge increase in online-enabled mobile machines has recreated the advantage of place, but only for those retailers and landlords able to capitalise on the opportunities.

Huge rise in mobile and tablet retail continues

Expansion of mobile capabilities has created 'showrooming' which retailers have responded to with new strategies

Increase in mobile applications brings back advantage of place

Shopping centres and retailers providing rather than resisting free Wi-Fi

First trials of Beacons in shopping centres

Widespread introduction of 4G, with 5G being predicted for 2018

The huge recent changes in technology have created a paradigm shift in the way people shop in a "once in a lifetime" change in consumer habits, Google vice president of product management, shopping products, Sameer. He said this was a fundamental change in shopping behaviour, which retailers needed to adjust to.

"How does continuous connection impact consumers, well it means continuous shopping. It makes shopping trips shorter, in the US there has been a decline in footfall of 55%, yet sales went up, so consumers are arriving at stores much better informed," he said. "Where we are going is really to personalised shopping. That personalisation, with Google as a connector, is what we are working on."

Samat said that in terms of connection, one of its major innovations has been the introduction of Google Express, a same day delivery service which has been launched in the San Francisco area and has been running for about a year.

"In terms of connectedness, it is about being where the customer is," he said. "In most cases our retail partners have the product within four miles of the consumer, so it's a question of getting it to them."

He added: "We have also shifted from plus mobile to mobile first. In the past we tried to develop for mobile, now we start with it."

In early 2012 online giant eBay predicted that it would achieve \$8bn in global mobile sales in 2012, while payment system operator PayPal projected that its global mobile payment volume will hit \$7bn this year. The arrival of universal 4G in the UK would boost the retail economy by around £1.8 billion annually, according to research by eBay.

Just under a third of all UK adults now use a smartphone for some aspect of their shopping journey - whether that is browsing, finding inspiration, price checking or buying - while around one in ten use a smartphone for making purchases.

Technology is transforming the shopping habits of consumers with services such as in-store connectivity and availability of self-service tills increasingly influencing the choice of where to shop, according to a report released by Westfield in 2014.

The Westfield *How We Shop Now* report, based on research from over 8,000 UK consumers, explores how people are shopping and what this means for retail.

It revealed that almost half of shoppers decide where to shop based either on the quality of mobile signal or the availability of wi-fi in store, while a third of under-24s have walked out of a shop because it didn't have mobile signal.

The research also showed that shoppers are increasingly looking for the store to be faceless, relying on technology to give the instant service they crave, from click-and-collect to self-service tills, and from online price checking to touchscreen ordering kiosks.

In all, 63% of shoppers said they prefer self-service to service and over 75% added that they would like to use touchscreen ordering points. It's only when looking for additional information that consumers seek out sales assistants, looking to them for in-depth advice.

Shoppers do not tolerate queues in stores because they are used to the instant automated service offered online with a staggering 54% of shoppers willing to pay extra for an express till. Retailers who fail to deliver excellent service are missing out on £5.4bn of potential annual sales.

Myf Ryan, director at Westfield, said: "Technology is driving the retail experience, with the majority of consumers going into 'machine mode' when shopping. Customers are treating their mobiles and tablets as life support machines and if their supply is cut off they walk. It is also evident that technology helps to drive sales, with over a third of 14-34 year olds saying new technology in-store would encourage them to spend more."

According to the Westfield report, shoppers are looking to technology for guidance and inspiration with 57% tempted by interactive digital displays. Two-thirds say they would be interested in virtual mirrors, while 52% are keen to experience other types of augmented reality to enhance their overall shopping experience.

Ryan said: "The way consumers are using technology when shopping is focused on having control and efficiency, with click and collect, self-service tills, reading online reviews and checking prices being the most valued technologies. However, our research shows there is a growing appetite from consumers for technology that inspires and enhances the shopper journey, whether that's avoiding the need to try things on by using virtual mirrors or making their purchases through e-wallets.

"Westfield Labs, our research team dedicated to developing new retail experiences, has been responding to these findings by developing exciting new technology experiences that inspire consumers. This includes the introduction of the newly developed Express parking system now available at Westfield London, which uses Radio-Frequency Identification Tags so you will never need a coin or a ticket again. The technology will remember past visits and reward users for returning."

House of Fraser's O2 customers. The central element of the campaign saw House of Fraser provide free O2 Wi-Fi in 11 of its stores, including its flagship store on London's Oxford Street.

The campaign was initiated to drive footfall, brand awareness and loyalty and particularly to increase incremental sales and drive purchase decisions around specific offers and promotions during the critical Christmas shopping period. O2 Media's real time location services were also used to direct consumers into House of Fraser stores by offering a range of promotional activities, including rich media messages, such as pictures and videos of in-store fashion shows and products.

CONTACTLESS PAYMENT

PayPal took a giant step from online to in-store operator this year, when America's biggest DIY chain Home Depot confirmed that it would roll-out PayPal-enabled payments in almost all of its 2,000 stores.

The secured payment system operator, owned by online merchant and auction platform eBay, had been trialled successfully for six weeks in a number of Home Depot stores, starting in the East Bay area of San Francisco. By the end of April 2012 the 51-store pilot programme had turned into a 2,000 store offer.

For PayPal, the trial and subsequent roll-out at Home Depot represents fruition of plans to move into bricks-and-mortar stores, with the provider announcing in October that in-store payment acceptance was next on its growth agenda. PayPal processed \$118bn in payments in 2011, up 29% year on year, of which \$4bn of payments were by mobile. The mobile total is expected to rise to \$7bn in 2012, up from \$150m in 2009, and this latest move reflects its desire to expand from the confines of online payment processing to the potentially much larger in-store market. The Home Depot win also comes at a crucial time, with new rivals announcing similar aspirations for the in-store market.

The way it works at Home Depot, consumers can use their PayPal accounts in-store either by entering their phone number as well as a PIN number into a point-of-sale terminal - the telephone number associated with the corresponding PayPal account – or alternatively by swiping a PayPal-issued card tied to a PayPal account.

In the UK, the Pizza Express restaurant chain already has a PayPal app which sends the bill to a customer's phone and allows them to pay without using a till or a credit card. Last week PayPal announced that it had agreed a deal with business travel hotel group Yotel to allow travellers to book at the hotel chain using their smartphones, without having to use a credit card or download an app. PayPal says it hopes to be available within 20 retail chains by the end of the year.

Apple also has technology on trial at its stores in the US, using iTunes as a virtual bank. The technology is being used for buying accessories and the customer scans the barcode with their iPhone, then enters their Apple ID username and password. Payment is taken from the credit card linked to their iPhone account.

But it is not the only initiative from PayPal, which is seeking to become a universal payment system for consumers. At this year's Mobile World Congress event in Barcelona, the company launched its PayPal Carrier Payment Network, which aims to give merchants a bigger share of the revenues generated by mobile payments. In a blog post, PayPal's David Marcus said the company is hoping to push mobile purchases for a broader range of products than the online games market which has dominated until now. He blamed hefty fees for some of the slow take-up issues across other categories.

However, PayPal also has heavyweight rivals in the race to develop and have widely adopted a mobile payment service that can be used in physical stores. Boku Inc, an online mobile payments company backed by venture capital firms including Andreessen Horowitz and Benchmark Capital, has unveiled a new service – Boku Accounts - that allows consumers to pay using any mobile phone at any location where credit cards are accepted. Boku already provides carrier billing through about 230 wireless network groups, including AT&T, Vodafone Group and Verizon Communications in more than 60 countries. Its service allows people to pay with their mobile number and have the transactions charged directly to their monthly phone bill.

However, there may be limitations to such an approach. While customers are showing a greater willingness to buy things through their smartphones, big-ticket items like cars or household appliances have not yet become a significant element of mobile commerce. Many doubt that consumers will be willing to face high price items appearing on their monthly mobile phone bill.

Online giant Google is also trying to get its Google Wallet service into stores through a partnership with credit payment providers such as MasterCard and Citigroup. Google Wallet works with phones that have what is called Near-Field Communication, or NFC, chips in them and merchants need a terminal that supports this technology. Boku's service comes with a sticker that users can put on the back of their mobile phones, making any handset an NFC-enabled device. It also comes with a payment card that can be swiped.

But perhaps the biggest challenge all providers face is persuading customers that using one of their cards or payments methods is any easier than a regular bank or credit card.

CASE STUDY: FOOTFALL LOYALTY - SHOPKICK

One of the new battlegrounds for landlords will be footfall, which is likely increasingly to be seen as an equivalent to web traffic and which will be the principle delivery mechanism for a landlord, given the growing complexity of click-and-collect, showrooming and in-store returns.

Although there are a number of loyalty programmes, we have chosen to focus on the app, Shopkick, which is based on a simple premise: that if shopping centre operators and town centres are to persuade retailers that they should continue to invest in and run stores then they need to do more to attract people. One of the most effective ways to do that is to reward shoppers for simply visiting their locations.

The important thing to note is that visiting, not buying, is the first trigger for – in the case of Shopkick – ‘kicks’, which in effect are loyalty points which can be accumulated and transferred into financial rewards and discounts with participating retailers and food outlets. According to Cyriac Roeding, co-founder and chief executive of Shopkick, this is a vital distinction because it encourages people to come out to a destination because they know they will be rewarded, without the pressure to spend.

In the case of Shopkick further loyalty points are then acquired for purchases at participating retailers, with additional boosts for spending above certain basket points, aimed at encouraging shoppers to spend above those trigger points. They can be redeemed at a different chain to where they were acquired, so for example kicks achieved buying clothing might be spent on a free Starbucks coffee.

It all works through something called geo-fencing and involves having a virtually fenced-off geographical location. This technology has been used over recent years for a range of purposes, from helping parents who want to keep tabs on their children's location to assisting corporations that want to keep track of meandering delivery drivers. The technology is low cost, does not require Wi-Fi and is accurate enough to

distinguish between stores.

Shopkick is in fact the latest company to recognise that consumers are increasingly interested in letting their friends know where they are and where they have been, downloading by the millions apps such as Facebook Places, foursquare and Wallit among others. In these apps, a consumer checks in at a location via the GPS technology in his or her smart phone, allowing others to see their physical location. Some retailers have begun communicating with these consumers.

As an example, in the US Cinnabon is using its venue pages - which contain a location's GPS geo-code and information on the location as well as special offers or coupons - on foursquare and Facebook Places to reward customers. When a foursquare or Facebook Places user opens one of the apps, the app pinpoints their location using the smart phone's GPS technology, then displays a list of nearby stores, restaurants and other locations. When the user sees a Cinnabon bakery, they can tap it and view a store's page with the special offer. After Cinnabon began making special offers, foursquare check-ins increased 43% and Facebook Places check-ins and Facebook mobile Likes increased 86%, Cinnabon said.

Roeding's view is that apps like Shopkick provide a way in which to overlay the physical experience of shopping with a digital layer and also to offer a rebut to what has now been dubbed 'showrooming', where a shopper comes to a store and scans a product with their smart phone or tablet in order to find it cheaper online, before completing an online purchase while still in the store. Shopkick and its ilk are designed to be the antidote to all that and it has been enough to persuade retail partners such as Best Buy, Old Navy, Crate & Barrel, Macy's, Target and Simon Malls (the largest US mall owner) to sign up.

THE BIG ISSUE: SHOWROOMING AND PRICE, CONSUMER ELECTRICALS

One of the biggest issues concerning the ability for consumers to be online while in-store is what is called in the US 'Showrooming'. This, a self-explanatory practice, involves the consumer researching merchandise in a retail store and then purchasing it elsewhere – and it is increasingly common both in the US and now in Europe.

Comparison shopping applications, the mobile Web and QR codes enable the consumer to be more informed and savvy when they are in a retail location. Unless retailers can compete with online prices for the same product, there is a strong chance they will lose the consumer to an online retailer at a better price somewhere on the mobile Web.

ComScore reports that the leading mobile retail activities among people using smartphones are to find a store (33%), compare prices (21%) and look for deals (20%). Consequently, bricks-and-mortar retailers who suspect that their stores may be serving as showrooms need to develop better conversion tactics in their stores or they will be at risk of losing sales.

Interestingly, one of those areas hardest hit by online retail is a category which is fighting back, with Best Buy in the US and the Dixons Group in Europe both trying to respond effectively to these challenges.

Let us consider their approaches:



with the customer, entertaining them and making the shopping centre the destination to come to," she said.

After the test phase, these innovations will be rolled out throughout Klepierre's main centres in Europe.

The company has also created an 'Inspiration Corridor' concept, currently under development, through which shoppers would interact with large touch-screens in order to get inspiration for accessories and new fashions, to which they would then be directed within the mall.

"We hope it will be a source of inspiration and help for shoppers," said Beer-Gabel.

SOCIAL NETWORKING: A COMMERCIAL FUTURE?

Although retailers and the big social networks have tried to link the two activities, online shopping and socialising remain uneasy bedfellows. However, a pinboard network is leading a new wave of sites that could be about to change all that.

Quest continues to commercialise social networking sites

Retailers and brands driving strong marketing but not strong sales

Highest growth is with Pinterest, plus new host of imitators

Pinterest appears most likely to connect social networking and consumer spending

COMMERCIALISING SOCIAL MEDIA

‘Monetising’ social networking, in the parlance of those hoping to make commercial gain out of otherwise social-based activities, has become an obsession in trying to convert Facebook, Twitter and other virtual gathering places into viable sales drivers. To date they have proved effective platforms for promotions, brand building and pr stunts, while retailers such as UK online fashion player Asos have become exemplars at managing customer relationships through Facebook, often stepping in to deal with complaints and converting their biggest critics into their loudest advocates.

But when it comes to straight sales, in the same way that users appear comfortable with separating the family and friends nature of Facebook with the business contacts application of LinkedIn, social networks are not where people seem to want to do their shopping. Instead users appear to view these sites as their own spaces, in which they do not expect or welcome commercial intrusion.

The answer may be ‘contextual commerce’, which blends the power of mobile devices and their inherent data about their owners’ preferences with consumers’ presence in the real world. For example, when finishing up a meal at your favorite restaurant, your mobile device can pay the check via your OpenTable app, and also ask you if you’re ready for a ride home via Uber or Lyft.

When out shopping with friends, your phone may be able to notify you that the hard-to-find perfume you’ve been considering buying for your girlfriend is available at the shop on the corner. As our devices

Having had numerous planning applications turned down, the project has allowed Wal-Mart to bring its store offer to New York and Chicago through the internet, at a time when it is also taking other steps to ramp up its e-commerce and m-commerce efforts, which currently represent just 2% of total sales. These include selling big-ticket items such as Sony and Samsung HDTVs exclusively online, allowing customers to order out-of-stock items from their smartphones, and launching an app for in-store aisle search.

THE POWER OF LIKES

- On Facebook in the UK, France and Germany, 32% of a user's time is spent on the Homepage/News Feed, the primary location where branded content is consumed. While the News Feed is the main driver of branded exposure on Facebook relative to the brand page, only a small portion of Fans see content from a brand in a given week (across retail and other categories)
- Branded marketing messages delivered to Fans can be virally amplified to extend brand reach to Friends of Fans when Fans engage with the message (ie "like", comment, share, check-in, etc). European retail brands such as ASOS, H&M and Zara have the ability to disseminate marketing messages to up to 44 Friends of Fans for every Fan the brand has on Facebook.
- Friends of Fans often have slightly different demographic profiles to the core Fan base of a brand. Understanding where the differences lie provides brands the ammunition to strategically target these demographics and help engage them as consumers, and even drive them into the physical or online stores.
- Fans and Friends of Fans of retail brands (and other categories' brands) often represent higher value customers. For example, ASOS fans were 3.6x as likely to visit the ASOS website than non-fans, which may be expected given their stated affinity for the brand. However, Friends of Fans were 2.7x as likely to visit the site as well, which may speak to both the inherent similarities between the Fan and Friend of Fan groups but also to the persuasive effects of earned media exposure on Friends of Fans.
- Not only were social impressions effective at generating positive brand engagement for ASOS, but paid impressions were also effective and achieving behavioural lifts. Facebook paid ads generated 130% uplift in purchase behaviour on the ASOS website in the four weeks following ad exposure in comparison to consumers who were not exposed but had a similar affinity to ASOS (in terms of site visitation and purchase) as the test group in the four weeks prior to the advertising campaign.

Source: ComScore

FUTURE SHOPPING AND ITS IMPACT ON REAL ESTATE STRATEGIES

While the implications of omni-channel retail seep into every aspect of retail, and in compiling this report it is inevitable that we have touched on many of these inter-connecting trends, the focus of our research is on real estate.

As a landlord, developer or investor the impact of online retail in all its many guises is fundamental to the direction that future expansion, investment and asset management will be placed in the future. That this permeates through high streets, secondary malls, major retail destinations, distribution centres, retail parks and designer outlets underlines the all-encompassing nature of omni-channel retail.

In the final section we profile each of 100 retailers operating extensively in Europe and here we bring some of these findings plus the implications in our other coverage together to consider the direct and most immediate implications for retail real estate management.

RETAIL REAL ESTATE IN AN OMNI-CHANNEL WORLD

1. The implications of Drive and click-and-collect

After home delivery, the emergence of click-and-collect has realigned the retail market. For retail property there are a number of direct impacts.

Hypermarkets will get smaller as the requirement to dedicate large space to non-food diminishes as sales migrate online. However, storage will be required to fulfil orders collected in-store. Convenience stores located on local and urban high streets will continue to proliferate as they become a distribution channel for online orders, offering location close to people's homes and places of work. Some of these stores will provide third party fulfilment. Grocers will therefore focus much of their European growth on smaller format stores, especially in high density locations.

In response to lower level penetration of fresh food sales compared with general grocery items, French grocer Auchan has piloted a Drive point with a c-store selling fresh produce. Customers need to leave their cars to carry out this additional shopping mission, but they can 'touch and feel' the produce.

In the UK House of Fraser has trialled two click-and-collect only stores with landlords Hammerson and Grosvenor. The stores are quite utilitarian and performance is understood to be mixed but modified versions of these outlets, perhaps as hybrid part-store/part-

pickup location are likely to be developed by others, or new stores built with enhanced click-and-collect built in.

In consumer electronics retailers are largely replacing their smaller, urban sites with larger showrooms in retail parks and on edge-of-town sites. This is likely to become the permanent future model as it allows the retailers to make significant operational savings, enabling them to compete with pure players on price. This is in part to reduce costs and in part to demonstrate a full range of products.

2. The implications of warehouse-style dark stores

Distribution centres are about to go through a period of fundamental change and for landlords these represent a genuine opportunity. Fulfilment of online orders is now more complex than in the previous, multi-channel silo market, where certain centres focused on delivery to store and others on fulfilling online orders. Many retailers now operate hybrid schemes.

However, especially in the grocery market, where regular deliveries to the same households are made, this model is already showing evidence of changing again. UK market leader Tesco has begun to establish specialised distribution centres around London and has invested increasingly heavily in the technology within those 'sheds'. This makes the investment a long term play, giving landlords strong security of tenure as relocation would be costly for the retailer.

In the medium term we expect to see retailers begin to evaluate distribution centre location by catchment and spend, in much the same way as a developer might evaluate the virtues of a shopping centre location. This catchment modelling may produce suitable distribution locations which are different from those their current logistics models would support.

We also believe that in a further evolution a number of grocers may seek to emulate the French ChronoDrive model and allow drive-up and even limited on-site ordering. Retailers may also find this an easier way of achieving planning permission for a 'dark store' than opening a conventional grocery outlet.

3. The high street

The role of the high street has come under particular focus in the UK, where many of the European-wide issues have come to a head early, due to a mix of practical, cultural and consumer behaviours which have seen significant polarisation between high traffic high streets, market and affluent towns and finally tertiary high streets.

In fashion it is highly unlikely that Europe's major fashion chains will continue to support