Trends Report:

Retail

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dentsu network

Contents

Introduction

The UK retail market is in a state of radical flux. With confirmation that the UK has entered a double dip recession, consumers are under pressure as never before. Traditional retail models are in decline. Nearly one in six high street shops lie empty and – for the first time in 40 years – there will be no major retail development in the UK this year.

Adding further pressure to traditional retail models, online sales now account for nearly 10% of all retail spend, of which it is predicted that 12% will be made via mobile devices this year[1].

In this transformational business environment, legacy and challenger brands alike must identify social, technological and economic trends in the context of which they can leverage disruptive innovation to compete and succeed.

This report identifies five themes, which together provide a framework for understanding the drivers for retail innovation.

Our five themes are:
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1. Immersion – In-store retail experiences compete (and increasingly blend) with online.
2. Intimacy - Physical retail becomes more personalised, responsive and intuitive than ever before, enabled by rich behavioural data capture and CRM.
3. Real Time – The fashion cycle accelerates. Key trends appear on the shop floor as rapidly as they can be conceived. DIY manufacturing is both a threat and an opportunity for retail brands.
4. Social – Shopping's social context is foregrounded in new experiences, powered by online social network platforms.
5. Hyperlocal – High-speed rail decentralises the UK's urban landscape. Shopping malls replace the high street as hubs for the local community. Retailers access Big Data to profile and understand their customers and tailor niche offerings.

According to William Gibson, 'the future is already here, it is just unevenly distributed'. Forward-looking retailers, be they global or local, bricks-and-mortar or online, are already responding to these trends. For each theme, we describe services and products which have already been brought to market, or which are in active development for deployment over the next year, by best-in-class retail innovators.

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[1] The Portas Review, December 2011.

1 Immersion

The lines between on- and offline are becoming increasingly blurred. Online retailers are already exploiting physical presence to bring their brand and offer to life. Consider NET-A-PORTER's pop-up graphic store The Window Shop for Vogue's Fashion Night Out in September 2011. The fashion site bought its website to life with interactive shop windows in London and New York, displaying clothes and other items that viewers could snap with their smartphones or iPads and then purchase.

Net-a-Porter. The Window Shop

London boutique LN-CC realised that it had enough space in its online warehouse to create a store there. According to the owners, 'The concept space designed by renowned artist and set designer Gary Card is more of an installation piece than a traditional shop fit and sets us apart from any other London retailer.'[2] Visits to the store are appointment-only, which adds to its exclusivity. Amazon recently caused controversy (and doubtless, clicks) with its price scan app, which offered discounts to consumers who recorded the price of a product in a local store and then bought it from Amazon instead. However, these moves will look like mere tinkering, as retailers start to fully immerse consumers in a world blending on- and offline.

LN CC

Immersive retail

Some of the world's most successful retailers have long recognised that their store presence is just that – a physical touchpoint with the customer that provides an added benefit. Forward-thinking retailers already see the store as only one part of the consumer journey – albeit a vital one. Barnes & Noble is driving adoption of its Nook eReader by offering readers 'More in Store' via WiFi, including free e-book downloads – an obvious competitive advantage over the bookseller's purely online rival Amazon. Similarly, its 'magic places' promotion saw Barnes & Noble tie up with Angry Birds to offer Nook users exclusive gaming content in-store, again only accessible when they hooked their eBooks into the store's WiFi.

[2] Quoted in Dezeen, 11th June 2011.

Barnes & Noble Nook eReader

One obvious added benefit of the in-store environment is face-to-face service. Consider the success of Apple's Genius Bars in driving footfall to their stores, as well as increasing trust in the brand. Disney stores have a similar objective – to provide 'the best 30 minutes of a child's day' – all meshed with the other brand touchpoints. Both of these brands are entertainment brands first, and retailers second. They are selling a lifestyle experience, of which their store is just a component.

Living brands

Some retail brands are reappraising their offer to sell space, as well as product. In 2010, Starbucks refurbished its café chain interiors in order to give them more of a local, convivial feel. In doing so, the chain moved further along the path from merely selling coffee to selling the 'Starbucks experience'. Starbucks now plans to selling beer and wine in order to absorb more of the consumers' day. According to Starbucks, 'It's less about the wine and beer as it is about creating a new occasion'[3].

Muji Village

Ikea - Strand East

Other lifestyle brands are taking this on a step further – by actually constructing a world for their consumers to live in. Disney's 'model town', Celebration, is a residential town in Florida with a population of currently around 7,000[4]. The town has had its detractors (as well as a rather unfortunate murder) but it was ahead of its time in bringing a brand ethos to life. Celebration is an attempt to replicate an idealised, 'Disney-fied' version of the American Dream – with white picket fences and village shops. Muji opened its residential 'brand town', Muji Village, in Tsudanuma on the outskirts of Tokyo in 2010. Ikea is currently following suit – not with a town full of Ikea products but with Strand East - an East London development built to the Ikea ideal of affordable design.

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3   'Starbucks acquires a taste for booze', CBS News 24th January 2012.
4   2010 US Census.

Playfulness

According to Philip Handford, of Campaign Design, one of the biggest issues with the retail sector is that it has 'become boring'[5]. Retailers have stopped challenging consumers' expectations and all offer an identikit experience. In order to challenge this, some retailers are playing with the idea of what the traditional store can be, and emulating aspects of online behaviour as well as of traditional media.

The H&M Home store in Stockholm replicates a traditional catalogue that shoppers walk through, collecting magnetic tabs of the products they want to purchase as they go. They then hand these tabs to the cashier who collects the items for them. Kochaus in Berlin combines a grocery store and a cook shop with food displayed as complete meals laid out in store. Customers shop by recipe card and buy all the relevant ingredients. The 'walk in cookbook' is also a gentle way of provided edited choice.

H&M Home

Kochaus

Adiverse virtual footwear wall

Playfulness and interaction provide more than mere fun and some good PR - they are also starting to produce hard results. The adiverse Virtual Footwear Wall by adidas was installed in the brand's Oxford Street store in November 2011. The installation is made up of multiple LCD touch screens that use facial recognition to detect a customer's gender on approach to the wall. The wall then customises the product experience for that gender, and helps guide them to their perfect shoe, or alternatively, lets them browse the entire range of products, with each rendered in real-time 3D. The most popular products get the full content play, with videos, game stats, product specs and even Twitter feeds fed through to the customer. Customers can add products into a virtual cart, and check out via an iPad that sales staff hold, paying with credit card or cash.

[5] Retail Futures 2012, The Future Laboratory.

This installation resulted in a fivefold increase in sales – one store sold in two weeks what it normally sells in three stores in six weeks[6]. The wall will now feature as part of the brand's Olympics 2012 activities. Another example of monetised playfulness is The Slide@T3 – a four-storey slide at Singapore's Changi Airport that travellers can ride down after they make a S$10 (approx. Euro 5.70) purchase in one of the shops in Terminal 3.

Changi Airport Slide@T3

Gamification

Gamification – whereby the behaviours and motivators of game play are repurposed for other means – is gaining traction. Weight Watchers UK have incorporated a gamification element into their latest marketing campaign, recognising that its weight loss plan is – in many ways – already like a game, with points and so on. Meanwhile, online game Fantasy Shopper gives players virtual currency to spend on outfits and accessories currently stocked by real shops. Shoppers can visit in-game
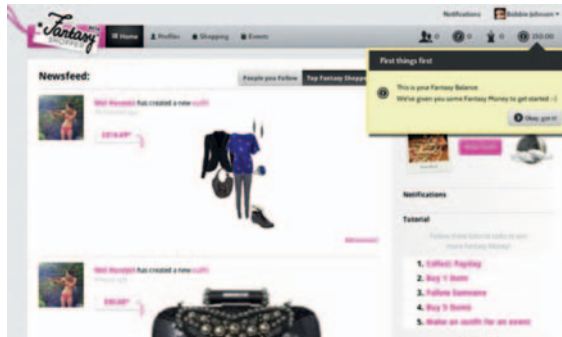
Fantasy Shopper
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storefronts, sift through hundreds of thousands of items from some of Britain's biggest retailers, test items, build outfits and put their purchases in a virtual wardrobe. There are lots of engaging avenues for experimentation, and every few hours they get an injection of cash into their account, in what is termed a 'payday'. The more they play, share and unlock, the more their paydays are worth.

Retailers are beginning to explore the ways in which game elements can be bought into the retail space, and in particular hone in on the way that casual gaming brands such as Angry Birds and Draw Something have engaged so many smartphone users.

A game-like experience that connects and integrates the online experience with the offline, whilst also driving transactions and interactions with the brand, is very powerful, particularly if it is engineered to offer a social aspect.

6   'In-store technologies, Retail's Big Show' – WGSN, 31st January 2012.

Store as advertising

Nursery retailer Kiddicare is the latest online player to make audacious steps into the physical world with its purchase of 10 Best Buy stores. Kiddicare already runs one store alongside its main warehouse in Peterborough, but until now has been mainly known to consumers as an online retailer. The move has been a savvy one, not least because Best Buy paid Kiddicare (and its owner Morrisons) to take the stores off its hands – an indicator of the opportunities the current economic environment offers the brave. A successful Kiddicare store roll-out will offer a case study in how retailers will start to use stores – as advertising. The Best Buy purchase has already created a huge amount of PR for Kiddicare - which the stores will continue to generate, if rolled out successfully. The stores will also provide a sandpit where Kiddicare can experiment with the blending of on- and offline, and where it can bring its online expertise and understanding of its customers to the in-store experience.

Increasingly, stores are about generating a presence rather than just footfall and sales. Spanish retailer Zara – which does not use traditional advertising – has recently invested $324m in a Fifth Avenue store – a move more about presence than anything else. According

to The Economist, 'The aim is not merely to sell to New Yorkers, but to convince shoppers everywhere that Zara is hip'[7].

Storytelling

Online fashion brands such as NET-A-PORTER and my-wardrobe.com have successfully emulated the magazine model by using editorial to sell clothes. There has been a noticeable migration of editorial talent to these sites, with Jeremy Langmead (ex editor of Esquire) at Mr Porter being one of the more high profile examples. The editorial approach uses storytelling to make fashion part of an aspirational narrative – a 'buy me, I'll change your life' approach. Unlike a print magazines however, websites can use metrics to dynamically inform tactics. According to Fiona MacIntosh, Creative Director at my-wardobe.com, 'We are starting to track readers' responses to our editorial. If a certain story doesn't generate more sales, then we'll bin that and find a new way of engaging the consumer'[8].

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[7]   'Zara, Spain's most successful brand, is trying to go global', The Economist 24th March 2012.
[8]   Quoted in BusinessOfFashion.com, 28th June 2011.

TopShop Edited

Expect to see more bricks-and-mortar retailers editorialising their content, on- and offline. TopShop in Oxford Street has already begun. Its 'Edited' boutique targets an older, more discerning shopper who doesn't want to get down and dirty with the racks of fast fashion in the rest of the megastore. A new collection is curated each week and available as such both online and in a dedicated (and accessible) space in the London Regent Street store. Similarly, fashion website ASOS sees itself as an entertainment brand competing for attention as well as cash: 'We see ASOS as being much more than a shop; it is also fashion media and a technical enabler of fashion, competing for a percentage of our twenty-something customer's time as well as an increasing percentage of their fashion purse.'[9]

Online, Offline

Physical retailers are starting to emulate, replicate and exploit typically online behaviours in-store. Rather than ignore disruptive consumer behaviour, Dixons and John Lewis have recognised and are leveraging 'showrooming' -- whereby consumers investigate a product offline in-store and then purchase it more cheaply online. Enabling and encouraging customers to price match feeds nicely into John Lewis's longstanding proposition of being 'never knowingly undersold'.

From April this year, property developer Land Securities began to offer free WiFi across its shopping centres in a bid to encourage – and tap into – price checking and recommendation behaviours.


With these moves, retailers are showing that they can't prevent disruptive consumer behaviour such as price matching – but they can embrace and extend the behaviour for their own benefit.

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[9] ASOS.com.

'We have got to get over ourselves and realise the Internet isn't going to be the end of the property industry. The two can co-exist and we've got to start creating a seamless experience for customers.' – Ronan Faherty, Land Securities[10]

Retailers are also keying into peer-to-peer behaviours relevant to their sector. Beauty recommendation sites such as MakeupAlley are thriving online, busily introducing new concepts such as 'skin twin' (which describes peers who have similar skincare experiences). Venerable US department store Macy's now enables consumers to explore such concepts (and its products) in-store via collaboration with Intel. At Macy's, interactive kiosks invite shoppers to experience multiple products based on their own skin type and personal style. Replicating the openness of online, shoppers can see reviews from other shoppers, and download content - which ranges from make-up trends to promotions - to their mobile devices. The kiosks are currently being trialled in four of the retailer's pilot stores, where they will introduce the ideas of peer-to-peer beauty to entirely new demographics, including older consumers.
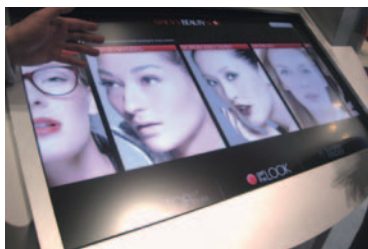
Macy's and Intel Beauty Spot

Le Metier de Beaute Neiman Marcus

Retailers are also using technology in-store to repair the deficiencies of the traditional retail model. It is estimated that beauty brands lose between 15% to 20% of customers in busy stores – those potential customers who walk away when they aren't being served immediately[11]. At Neiman Marcus, beauty brand Le Métier de Beauté collaborated with Microsoft Surface and Samsung to create a platform for customers to find out about products when a 'real' assistant isn't available. Shoppers can place any product on the top of the device and – through electronic tags – instantly find out information about that product. Notes, product information and photos of the made-up consumer can be added and – via an online service – accessed at home or at another store for purchase. In February 2012, the device was available in six Neiman Marcus stores with a view to international roll-out.

[10] 'Will WiFi in shopping centres kill physical retail?', Retail Week 17th April 2012
[11] Source: WGSN.com.

Shops where the shoppers are

Social media experts often talk of 'fishing where the fish are' – recognising that there is often no need to create a new online space when so many of us already cluster around social network platforms such as Facebook and Twitter. Similarly, retailers are starting to reach out to consumers where they are actually are, when in a purchasing need-state, rather than looking to out-of-town or the traditional high street locations. The success of WH Smith's retail locations at travel hubs is a case in point.

In April, WH Smith's travel division, which operates from 586 outlets, reported consistent growth, with operating profit up 8 per cent to £27m[12].

And it's not just the expected retailers – such as newsagents and coffee merchants – who are getting in on the travel hub action. American Apparel has just opened its first travel outlet at King's Cross in London where a new station concourse opened on 19th March. The new concourse has double the retail space of the old station – in recognition of the fact that King's Cross currently has the highest yield per square foot of any station operated by Network Rail[13]. John Brooks – business development manager for American Apparel – comes from an airport retail background and recognises that travel retail has useful similarities to online: it relies

on convenience, accessibility and convenience. Travel outlets tend to be around a third smaller than regular stores and so carry a smaller range. The stock is therefore curated to maximise the chance of a quicker purchase, as well as stocking items most suited to a specific location.

Consumers' 'in between' times – such as commuting – are also being exploited as a time for retailers to initiate a conversation. Tesco's Homeplus in Seoul made use of commuters' waiting time by bringing a render of its store to the train platform. The displays looked identical to those in-store but with QR codes enabling users to purchase the goods. More than 10,000 consumers participated and online sales grew 130%[14].

Homeplus Virtual store

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[12] 'WH Smith to continue travel hub strategy', Financial Times 19th April 2012.
[13] 'Retail therapy by the ticket office', The Economist 16th March 2012.
[14] Source: theinspirationroom.com 22nd June 2011.

Maureen Hinton of Verdict thinks that this approach may well represent a future for retail: 'Retailers won't disappear off high streets completely, but they certainly won't need as much space. In the future, the most successful retailers will have flagship stores in high-density locations where large numbers of shoppers congregate, plus satellite stores carrying a much smaller range, with click and collect and online ordering facilities. Retailers will use online and mobile commerce to fill any gaps.'[15]

Her vision is – to an extent – already being implemented by House of Fraser. Its two 'virtual department stores' in Aberdeen and Liverpool are a fraction of the size of a normal store and enable customers to pick up deliveries, try things on in changing rooms and order through online kiosks – a blend of real and virtual store focusing on the most convenient attributes of both.

[15] 'Internet accelerates rush from high street', Financial Times 17th January 2012.

Intimacy

'Loyalty cards, smartphones, and the internet enable us to have a more personal relationship [with customers] than perhaps has existed for a generation.' - Justin King, Chief Executive, Sainsbury's.[16]

By 2013, existing loyalty schemes and other CRM will be drastically enhanced by real-time data and social media, increasing retailers' proximity to the customer experience and response. Social media monitoring systems such as Radian6 act as a listening post on social media, enabling brands and services to track and pre-empt consumer needs. CRM platform Salesforce purchased Radian6 in March 2011 for $326m for precisely this purpose.


Brands and services are beginning to use such systems to achieve a single, live, social view of the customer journey and consumer response to service delivery, pricing, and retail experience. As the ability of these systems to 'understand' the data that passes through them increases via the emerging science of Quantitative Narrative Analysis (QNA), they will increasingly automate the production of real-time qualitative and qualitative market research data – which currently requires time and expense to produce. Retailers who develop processes to ingest and react to this data will have the edge in reducing their new product and service development cycles – another enabler of the real-time retail innovation trend Real Time, detailed later in this report.

Active listening

Meanwhile, brands are already gaining increased proximity to their consumer through on-going online research programmes such as Asda's Mumdex, a quarterly survey of nearly 4,000 mums. Having identified mums as a key customer for the supermarket chain, Asda now tracks mums' usage and attitudes via this panel. Some 80% of Asda's customer base are women, and according to the retailer's chief operating office Judith McKenna:

'Listening is at the heart of our business – understanding how mums cope with balancing the household books is core to our strategy. It used to be true that retailers were defined by the products on the shelves; but now we're defined by who we sell to, and how we sell it.'[17]

Expect more examples of retailers defining, befriending and tracking their core consumer in this way.
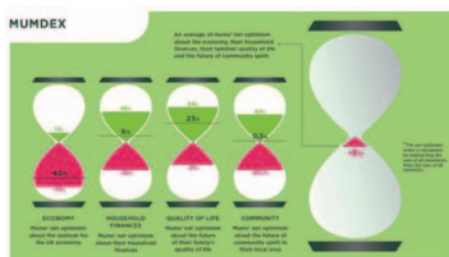
Asda Mumdex

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16 City Food Lecture, 15th February 2012.

17 Asda.mumdex.com

Share of pocket

Mobile - and in particular NFC - will further enhance retailers' knowledge of and engagement with the customer. The most recent initiative is Barclaycard's PayTag, which sticks on any mobile phone to enable contactless payment. Google, Visa and Apple have either launched or are intending to launch 'mobile wallets' which offer convenience and speed to the consumer, and also provide a wealth of behavioural and targeting data to retailers. Services such as Square also supply devices which add-on this functionality to smartphones.

Barclaycard PayTag

Simply Tap – which retailer Stuart Rose joined as chairman in March 2011 – enables users to buy goods by holding their smartphones in front of an image of whatever it is they want to purchase, whether it is on a billboard sign, Facebook page or an in-store promotion. It uses image recognition, a scanned QR matrix or typed-in code to allow users to order delivery

of a product to their selected address without having to go on the Web. Stuart Rose told the BBC: 'I make no bones about it, we've got to get retailers to step up to the plate and recognise this is where things are going and tell them about £2.4bn of lost business because people say it's too much hassle to use their websites.'[18]

Moreover, because they are location-aware and can track users' shopping and purchasing behaviour in real time, these systems will start to drive 'personal shopper' services triggered when a shopper enters a store, and which communicate targeted offers and promotions, as well as radically enhancing customer service. Square uses geo-location to inform retailers when their customers are nearby, and pops up the customers' details on an in-store iPad. Square also enables anyone to turn their iPad into a register – making in-store payment by card a possibility for even the most basic independent retail operation.

Square iPad register

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[18] Sir Stuart Rose and the app designed to shake up retail, 25th April 2012.

Opt in and lock in

Increasingly, this joined-up world offers the possibility for (consensual) access to Amazon's recommendation technology to be made manifest in-store based on past purchase behaviour, or for Google search history or Facebook interactions to inform the way retailers promote to customers. Some observers believe that convenience will win over any privacy concerns in this brave new, tailored world, much as many London commuters have been won over by Oyster --- which similarly tracks our movements. Perry Hewitt, director of digital communications and communications at Harvard University notes, 'A smartphone that can swipe me into the subway, buy my latte and bagel, and serve as an ID to get me into my building may well be a privacy nightmare, but it's also a harried urban commuter's dream.'[19]

In Japan – where mobile commerce is mainstream – QR codes are the device by which consumers opt in and are then locked in to relationships with retailers, often through offers and incentives. QR Codes may not reach mainstream adoption in the UK, but NFC could – especially if driven by smartphone adoption. We will then see a similar opt-in and lock-in relationship between users and retailers, enabled by mobile wallet payment.

PAYG living

As consumers emerge slowly from a prolonged recession, some downturn behaviours will remain or at least take time to shake off.

A need for value-orientated and targeted offers will remain, as consumers – at least in the mid-term – refuse to return to profligacy and retain a 'smart shopper' attitude. Retailers will therefore need to enhance their relationship offer to include rewards, coupons and incentives. Value-added services such as subscription and Pay As You Go models will become the norm, particularly for non-discretionary purchases. PAYG is all about providing customers with what they need, and forming an ongoing relationship, in contrast to the overconsumption of yore.

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[19] Quoted in Pew Internet's Future of Money report, 17th April 2012.

Amazon already offers (in beta), a service called Subscribe & Save for on-going purchases such as nappies and other consumables. The premise of 'never run out again' coupled with a 10% discount will be increasingly compelling to a post- downturn consumer – and yet another way in which Amazon is making a play for retail dominance.
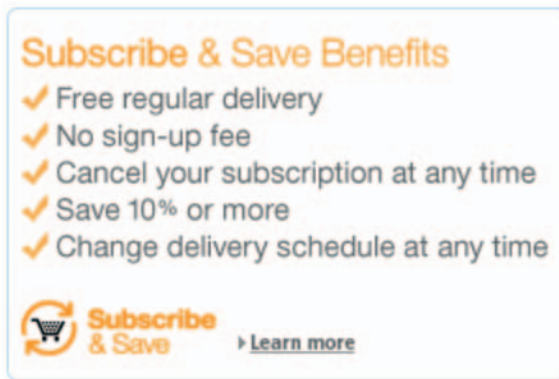
Amazon Subscribe & Save

Another disruptive, consumer-orientated offer is the Dollar Shave Club in the US, which has just raised over $1m of seed funding[20]. Global sales of mens' shaving products hit $15bn in 2010. The market is dominated by just two players: Gillette and Energizer[21]. Such is the relative expense of shaving items that razors regularly show up in lists of the most shoplifted items[22]. The Dollar Shave Club aims to disrupt this market by direct approach to distributors coupled with a consumer-facing subscription model for razors. Futhermore, the brand

has bypassed traditional advertising (and its censorious tendencies) to produce an online video boasting that its razors 'are f***king great', which has received over 4m views on YouTube.

Dollar Shaving Club supports the claim of Aileen Lee – a partner at Kleiner Perkins – that e-commerce has now matured to a point where speciality online retailers with excellent supply chains can make huge profits from such targeted – and consumer-centric – offerings[23].

[20] Crunchbase.com profile.
[21] Euromonitor.
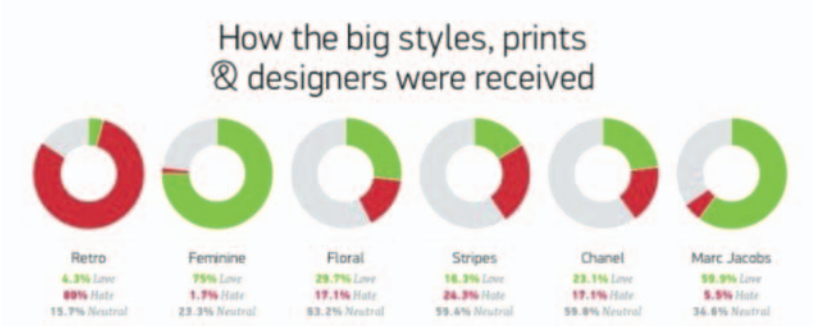[22] Global Retail Theft Barometer 2011.
[23] 'Tweaking the whiskers of the shaving world's giants', The Economist 31st March 2012.

Real Time

Manufacturing is becoming ever more accelerated, making the notion of Fast Fashion seem antiquated. EditD is a research service, which combines social media tracking and trend analysis to keep brands up to date with live trends. According to its founders, the production cycle is now so fast – in fashion terms – that this is the only model that works:

'Seasonal fashion is dead and speed-to-market now is the market – even on the high end. Many brands that work with us are doing 10 or more drops a year, so although the weather is seasonal, fashion is constantly variable. People expect to see new garments on every visit to a store and the production capacity is there to make it happen. Traditional forecasting isn't a good fit when production can be so close to the market.'[24]

'Seasonal fashion is dead and speed-to-market now is the market – even on the high end.' – Julia Fowler, Co-Founder, EditD

How the big styles, prints & designers were received

Retro	Feminine	Floral	Stripes	Chanel	Marc Jacobs
6.3% Love	75% Love	29.7% Love	16.3% Love	23.1% Love	59.9% Love
80% Hate	1.7% Hate	17.1% Hate	24.3% Hate	17.1% Hate	5.5% Hate
15.7% Neutral	23.3% Neutral	53.2% Neutral	59.6% Neutral	59.8% Neutral	34.6% Neutral

EditD

Speed manufacturing

Social manufacturing is the process whereby crowdsourcing, online and 3D printing combine to produce an ever faster, responsive and efficient production cycle. Online service Quirky, with the help of a growing user community, produces two new consumer products a week. A user submits a product idea, and if enough people vote for it, Quirky's product development team make a prototype. Users review this prototype online and can contribute their time and talents towards its final design, packaging and marketing, and help set a price for it. Quirky then looks for suitable manufacturers, after which the product is sold on the Quirky website and, if demand grows, by retail chains. Quirky also handles patents and standards approvals, and gives a 30% share of revenue from direct sales to the inventors and others who have helped it.

Quirky Pivot Power

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[24] Julia Fowler of Editd interviewed by BusinessOfFashion.com, 3rd August 2011.

And it works. Quirky's most successful product to date is the Pivot Power – a $29.99 electrical extension lead with adjustable sockets, making it easier to plug in different chargers. Jake Zien – a high school student in Milwaukee – came up with the idea, submitted it to Quirky and was helped by 709 people to bring it to market. By early April, with over 200,000 of the gadgets sold, Mr Zien had made $124,000 from his invention[25].

Services such as Quirky not just cut retailers out of the process, they also collapse the manufacturing limitations of scale, time and imagination. The message is that anyone can become a maker now. According to Ben Kaufman, Quirky's chief executive:


'The amount of creativity that happens when you are standing next to a machine that's making hundreds of things is much greater than when you are working 4,000 miles away. Your mind is spinning as to what you else you can design for the machine to make'[26].

Last year, online manufacturing community Shapeways, founded in the Netherlands in 2007, shipped 750,000 products and continues to grow rapidly[27]. Shapeways' users upload their designs to get instant automated quotes for printing with industrial 3D printing machines in a variety of different materials. Users call

also sell their goods online, setting their own prices. So now, not only can anyone become a manufacturer – they can be a seller as well.

The implications of this for manufacturing – and for retailers – are huge. Speed to market, risk and possibility all converge. Moreover, the potential for design piracy becomes huge. Infamous BitTorrent directory The Pirate Bay has already staked a claim. In a blog post in January 2012, the site declared:
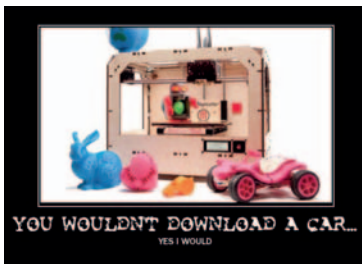
Pirate Bay Physibles

'We believe that the next step in copying will be made from digital form into physical form. It will be physical objects. Or as we decided to call them: Physibles. Data objects that are able (and feasible) to become physical.' – The Pirate Bay

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25 'All together now: the advantages of crowdsourcing', The Economist 21st April 2012.
26 Quoted in The Economist, Ibid.
27 Ibid.

Manufacturing may be about to face the kind of seismic challenges to intellectual property protection and distribution that music and film have experienced over the past 20 years. But also something much more profound – a shift to live, constant, evolving production, with all the issues and complexities, opportunities and innovation that will come with that.

Retail – live

Retailers now need to find a role in this massively accelerated landscape, where consumer insight is king and the middle-man is cut out of the process. Already, sites such as made.com are putting consumers directly in touch with manufacturers, whilst on the flipside, maker communities such as Etsy question the need for mass manufactured goods.

One response for retailers and brands is for them to embrace social manufacturing and give consumers the tools, designs and materials to manufacture or customise goods themselves, in the context of a branded experience, either online or in-store.

Some brands have been offering DIY making services for a while now – examples include Nike ID for custom(er)-designed trainers and Kotori's online store for personalised headphones. But others are already beginning to bring the DIY ethic in-store, wrapped in an

immersive brand experience. Puma's Creative Factory concept brings the shoemaker's studio into the store and invites the customer to participate in the craft experience. Customers are invited to sit around a traditional workbench with shoe parts whilst iPads are pre-loaded with custom shoe design software.

According to Ryan Eckel, head of marketing for Puma in Eastern Europe: 'It helps to visualise the design process in an analogue way. The whole thing screams: 'Make a shoe!''[28] Once the design is complete, the customer can send the digital design to a customer assistant and make the purchase. Puma now plan to incorporate a social media element so that customers can share their designs and potentially even sell them – a logical next step in the co-creation process. The initiative shows how the store space can become a facilitator for a 'live' experience of the brand.

Puma Creative Factory

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[28] Quoted in The Future Laboratory's Retail Trends 2012.

Social

Facebook and other social media platforms continue to command huge swathes of our attention. With nearly half of all Britons on Facebook[29], it is little wonder that both Facebook itself and brands are keen to leverage this attention. However, straightforward transactional f-commerce has yet to come to fruition.

ASOS opened Europe's fully transactional Facebook site in January 2011 but indications are that the site is not generating the expected returns[30]. However, what is starting to gain traction is the insight that informed it – social shopping, whereby people's recommendations and conversations drive sales. Off the Facebook site itself, the increasing ubiquity of the Like button on individual items on retail sites foreshadows the near the future of social shopping, whereby a click tells your (real) friends what you t(actually) like, be that a new tablet computer, a pair of shoes, or a whole 'look'.

Psychographics

In 2011 NET-A-PORTER launched 'NET-A-PORTER Live' – a real time visualisation of who is buying what on the site, and where in the world they are doing that. Basically an in-house sales tool taken public, the service demonstrates how accelerated – and disparate – fashion retail has now become, as a sunshine yellow Joseph pantsuit drops into one basket and a Burberry mac into another. According to founder Natalie Massenet, 'Seeing which

items are being selected by other customers creates an excitement around certain products, and further to that, we expect that offering the ability to share these choices with others will turn into a powerful selling tool that will be unleashed worldwide.'[31]

Net-a-Porter Live

Aside from the voyeuristic element, NET-A-PORTER Live demonstrates how the opening up of consumer data is a Pandora's Box for retail. Although anonymous, the data presents NET-A-PORTER's customers as a coherent group – a psychographic engaged with high fashion – live.
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[29] Source: socialbakers.com, April 2012.
[30] Reported insight from ASOS's International Director, Jon Kamaluddin presentation at Retail Insights Conference, September 2011.
[31] Quoted in the Daily Telegraph, 11th June 2011.

Pro-shoppers

Smartphone adoption is bringing about a new mobile, social Internet. Shoppers around the world are expected to spend about £73bn on goods and services via mobile by 2015[32]. Over half of Britons now have a smartphone[33] and 37% of adults and 60% of teens admit to being 'highly addicted' to their device[34].

However, whilst m-commerce seems to the buzzword of the day, it is not merely transactional behaviour that retailers need to capture. Users are using smartphones to price-check, compare and share information about products. A key consumer group driving this behaviour is mums. Studies from the USA regularly report that new moms are more likely to own smartphones than the rest of the population. In 2011 Babycenter found that more than half of 'smartphone moms' specifically upgraded to a new device because they were about to become a parent. One insight from a focus group explains why mobile devices are so compelling for this group – pragmatism. 'Have you tried breastfeeding a baby and using a laptop at the same time?'

Mums' love of price-matching and recommendation via their mobile devices has now driven some retailers – for example Mamas & Papas and Kiddicare – to introduce free WiFi in their stores. But expect to see more initiatives leveraging this behaviour, particularly as this group orientate around bargain hunting and convenience. Morrisons recently reported on the rise of a 'professional shopper'.[35]

'Professional Shoppers are customers who are spending to a specific budget - they are spending more time cooking at home, so cooking from scratch. And they are shouting about the bargains that they see out there, going on to social media checking for them and communicating them.' – Dalton Philips, Chief Executive, Morrisons

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[32] Source: ABI Research.

[33] 50.3% of the UK population own a smartphone, Kantar Worldpanel ComTech 22nd January 2012.

[34] OfCom Communications Report, August 2011.

[35] 'Rise of the Professional Shopper', Daily Mail 19th March 2012.

Layared-reality

This web-based behaviour translated into the store environment is indicative of what Robert Bready, CEO of online retailer ASOS calls 'the second generation of e-shoppers… To them, it's all the same and they're as exacting of the retail experience in-store of their experience online.'[36] Augmented Reality is the logical next step for this shopper, enhancing the experience with offers, information and other privileged content. According to Maarten Lens-Fitzgerald of AR browsing software company Layar:

'The future for AR in retail is limitless. In retail, people can have new engagements with brands in-store. The parking place of a supermarket, for instance, could enable children to run around collecting branded virtual items while their mother is shopping. Instead of aisles, children could see racing trucks in-store, helping to keep them busy, but in a branded way.'

Fantastic (and possibly dangerous) as that sounds, some of the more successful applications of AR to date offer real practical assistance to consumers. Users of USPS in the US can now visit PriorityMail.com and use AR technology to determine what size box they need to ship an item. All they need to do is print a logo available on the site, hold it up to a webcam and then compare the size of the item

to be shipped with the AR image of the box that appears on the screen. They can then have the appropriate box shipped to them.

AR's true potential may not lie in producing a fantasy, branded layer over our shopping experiences but rather an immersive functionality that tells us more about where the food we are buying came from, or shows us how to use or try on clothes. Google's AR glasses – Google Goggles – offer to do just that.

Marketers have for years plugged into our desire for a fantasy – an aspirational lifestyle. Augmented Reality doesn't need to be squeezed to fit the frame of a smartphone screen: we are already re-animating dead rap stars to create 'real world' augmented experiences. Our senses are increasingly dulled to the difference between the real and the simulation. When long-dead rapper Tupac Shakur appeared (as a projection) at the Coachella festival this year, how many fans really cared that what they were seeing was a simulation? For some, the chance to experience a legend as he had lived would have been enough – for others (and for the event's organisers) the spectacle would have been all. Retailers – and all brands that purport to offer a lifestyle, an experience – will be taking note and plan accordingly.

[36] Quoted in The Future Laboratory's Retail Trends 2012.

Digi-anarchy

Since the dawn of MySpace's digital anarchy of gifs, neon and nasty little signs, consumers – and particularly younger consumers – have been expressing their self-image online. Platforms such as Tumblr and Pinterest cascade with the content of users' self-expression. Tumblr currently hosts over 53 million blogs and over half of their content is photographs[37].

Some brands are entering this space – tentatively at least. Wholefoods in the US has plugged into Pinterest's mood board aesthetic with its 'vitality' board. Kotex in Israel has gone even further, engaging users with packages full of Kotex branded items such as cupcakes emulating their Pinterest interests. Nearly 100% of those women targeted by the campaign pinned and commented on their gifts[38].

Kotex Pinterest

Retailers and brands are working to connect this cut-out and paste-on scrapbook culture with brand and in-store experience. Already, platforms such as Polyvore invite users to contribute 'real world' products to match users' boards. Witness the rush of recommendations to emulate Gwyneth Paltrow's look from cult film The Royal Tenenbaums, using real products on Polyvore. Retailers already engage with bloggers – for example Forever 21's campaign with fashion blogger Bip Ling[39] – but rarely to they truly facilitate the culture of fandom around both these influencers and influential platforms.

We're only a couple of start-ups away from a service which will integrate a platform like Polyvore with Facebook's Like button and a sales platform. This would enable consumers to assemble lookbooks of their favourite things, and retail them to their network of friends, while generating meaningful analytics and insights into their shopping behaviours and those of their cohort.


Polyvore

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37 Source: tumblr.com.

38 '4 reason Pinterest wins with women (and Facebook loses)', Forbes 10th April 2012.

39 www.bipling.com

On the flipside of this sharing culture, are the brands and retailers who appropriate users' online style creations. Urban Outfitters seems to be caught 'being inspired' by Etsy makers on an almost weekly basis, while designer Jeremy Scott has been accused of ripping off a number of female bloggers with his latest 90s-inspired collection.
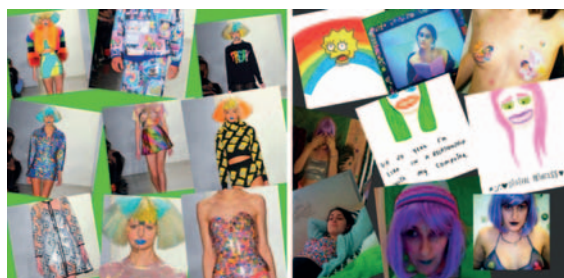
Jeremy Scott Grace Miceli

Hyperlocal

'Ageing population, changing work patterns due to technology, local pick up points, transport costs will all drive us to local shop' – tweet by Maureen Hinton, Verdict research.[40]

A term most often frequently used to describe ultra-local news services, hyperlocal will increasingly be a focus for retailers. Mary Portas posits the notion of a new 'post office' in her recommendations for the saving Britain's high streets. This thought is seconded by retailer Phil Wrigley[41]. He has predicted the rise of 'local depositories' where residents can arrange for their online purchases to be delivered. In Japan, local shops already benefit from providing pick up points for Amazon Japan – an offer emulated by Land Securities' inclusion of Amazon lockers in its shopping centres. Alan White, Chief Executive of catalogue retailer N Brown already sees the benefit of shops leveraging their location and accessibility in this way:

'The myth of online shopping is that home delivery is convenient. In the next 12 to 18 months we will see a revolution in delivery to 'somewhere near your home/work'. It will be the next boost to online shopping and will bring in lots of people who currently 'don't do online shopping.'[42]

As the high street as we know it disappears, local shopping environments will increasingly need to serve the needs of their communities. Already, shopping centres such as Westfield Stratford City and Trinity Leeds have either stated or acted upon commitments to local retailers. Westfield's centre in Stratford is becoming – as planned – a local social hub for young people, where there was previously nothing. Likewise, Trinity Leeds is intended

to reinvigorate Leeds' day- and night-time economies, and to offer local residents a retail alternative to trips to Manchester or London. Major retailers are also starting to extend their commitment to local causes and charities beyond the traditional CSR, and charitable donations. For instance, via Waitrose's 'green coin' initiative, shoppers can use a token at checkout to vote for which local charity their supermarket will support.

Local-centric

The UK is also becoming increasingly decentralised. With travel times increasingly reduced by high-speed rail, regional hubs are increasing in importance, with London becoming one (important) economic node amongst many. The trends of higher transport costs and the changing work patterns highlighted by Maureen Hinton at Verdict (above) will also drive us ever inward-looking and local, as will increasing desires to support local producers and businesses. Sainsbury's Chief Executive Justin King recently confirmed that his supermarket chain was seeing more shopping on foot – physically making people connect with their communities – and that subsequently 'retailers are tapping into this investing in skills, service and jobs, building stores more locally.'[43]

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[40] 30th March 2012.

[41] 'Let high streets die off', Daily Mail 2nd February 2012.

[42] Speaking at Retail Week annual conference 2012.

[43] Sainsbury's press release, 15th February 2012.

Foyles is one UK retailer – in a declining sector – already doing well by catering to local tastes and needs. According to Lisa Byfield-Green, an analyst at Retail Planet:

'Foyles are growing their sales and their store base, but they're relatively small and they're able to tailor their stock to their local customers. That's where the national chains need to re-focus. You have to give local customers what they want. If you do that, there's always room for specialists.'

Other local efforts are more community-based. Witness the reinvigoration (and subsequent gentrification) kick-started in East London by the Chatsworth Road Market Neighbourhood Plan and sustained by local traders. Mary Portas's high street review highlighted the growing importance of markets and reinvigoration programmes through the UK, such as those of West Norwood East, Hitchin Market and Tavistock Real Cheese Fair.

Even in recessionary times, local hub businesses such as coffee shops and bike shops are thriving. And brands are getting in on this hyperlocal action. With its 'Get in the Saddle' campaign, denim brand Levi's joined forces with retail brand Urban Outfitters to open a free bicycle maintenance shop that toured the US.

The People's Supermarket – a food co-operative – has reported sales of more than £1m in its first full year of trading[45].

The People's Supermarket

Local purchasing

Delivery services such as hubbub.com already put local producers and retailers in touch with local customers. And coupon service Groupon's model is predicated on connecting local businesses with local deal-seekers. Local purchasing is set to get even more dynamic with the arrival of mobile apps such as eBay's Milo local search engine and Groupon's Now which offers time-limited local deals.

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44 'Game over: the end for bricks and mortar games retailing?',
     The Guardian 27th March 2012.
45 'Million pound landmark for the People's Supermarket', The Grocer 19th April 2012.

Social currency

In Greece, one town has replaced the Euro with a social bartering system. If you have goods or services to offer, you gain credit, with one Euro equivalent to one 'TEM'. You can then use your 'savings' to buy whatever else is being offered through the network. The whole system is organised online, with members holding TEM accounts, which are debited with each virtual transaction. The network now has 800 members and is stimulating similar schemes across Greece. 'We have reached the bottom of our lives and we now have to think in a different way,' Tasos, a vegetable-seller, told the BBC[46].

An extreme example perhaps, but one which shows how turning everyone sellers and consumers can galvanise a local economy. A more playful example was East London's Dalston Slice – a currency made out of bread to be spent only in local Dalston shops. Or, of course, eaten.

Volos TEM

Behavioural clustering

Check-in culture – driven by FourSquare and Facebook Places – is set to be re-purposed for retailers and services through its use in behavioural clustering. Sites such as PlaceIQ.com and Livehoods.com identify the places and times where particular social cohorts gather, by tracking check-ins, mentions on social sites and so on. According to the Livehood's developers 'Livehoods reveal how the people and places of a city come together to form the dynamic character of local urban areas'.

For retailers, such data can offer fresh opportunities to understand and react to real behaviours, by quantifying how real people use real space, and how urban tribes claim, explore, and grow their territories.

[46] 'Greece bartering system popular in Volos', bbc.co.uk/news 12th April 2012.

Conclusion

Retailers have a choice. Like journalism, retail isn't broken – but sticking to the old model of delivering it might be. Any retailer that sticks to just one channel, that fails to intuitively grasp and respond to the needs to the needs of the customer and who doesn't simply keep up with the pace of change will be relegated to the past. There is much to learn from technology companies' 'always in beta' mentality, as Seth Godin explains:

'The web is R&D in public. So are apps. Not just for tech companies. For any company that is trying to figure out how its customers think and what they want. We shouldn't be so quick to excoriate those companies that launch interactive tools that fail. In fact, we should be critical of those that don't.'[47]

The store – like the web – should be seen as a test bed. Some of the world's most successful companies – Google and Apple – constantly experiment through both on and offline, both facilitating current consumer behaviours and creating new ones. Retailers – to survive and thrive – need to do the same.