

The Retail Experience Economy: The Behavioural Revolution



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The Retail Experience Economy

A consumer survey was distributed between Friday 17th March and Tuesday 21st March 2017 and includes answers from a sample of over 2,000 nationally representative individuals.

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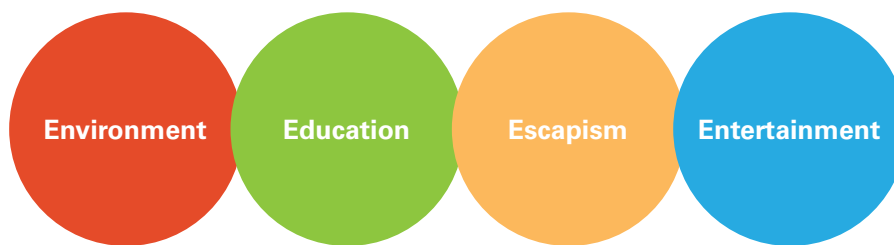
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Executive summary

UK retail is currently experiencing significant structural change. Evolutionary processes have guided economic value from commodities to goods, services and now experiences. Evidenced by falling retail spending as a proportion of total consumer spending heralds an era where techno-interactive environments tantalise and beckon the senses in favour of the purely material. Consumer empowerment via technology has upset the traditional power differential between the retailer and consumer. Customers now expect more.

The genesis of an emerging economy is rearing its head – **the Experience Economy**. This paper enhances the experience economy concept, first coined by Pine and Gilmore in 1999, and applies the framework directly to the retail industry. While previous research has been conducted in the fields of tourism and festivals, where parallels are obvious, its application to retail has so far been superficial, despite its many references.

The Retail Experience Economy Model identifies four key factors determining a customer's shopping experience:



Environment encompasses the overall atmosphere and ease of transactions.

Education refers to participation of events driven by consumers' desire to improve knowledge/skills (e.g. demos, product advice, and how-to info).

Escapism encapsulates the desire to seek changes in one's daily routine.

Entertainment captures the activities designed to influence desire of products/brands (e.g. exhibitions and live events).

Summary Findings

Findings from research, conducted by Retail Economics and Squire Patton Boggs, highlight the relevant impact of these factors based on a detailed consumer panel research of 2,000 respondents.

Summarily, it was found that the overarching impact of these four factors was, in order of relative importance: Environment, followed by Escapism, Entertainment and then Education.

Differences emerge following cross-comparison analysis of consumer's age:

- Entertainment ranked the highest for younger consumers (35% of respondents aged 18-24 years old), compared with just 13% for the 65+ age group.
- Every other age group suggested Environment was the most important aspect of a meaningful experience, selected by almost half (46%) of 35-44 year olds.



Environment: The 'online vs store' battle unravels intuitively within this realm. Stores offer tangible experiences that online shopping cannot. Accordingly, it was discovered that 43% of shoppers said that they are likely

to spend more money in the future with a retailer who offers a meaningful shopping experience in-store. This is echoed by findings that almost two thirds of consumers are more willing to shop at destinations with social meeting points (e.g. cafes/bars).



Education: Findings crystallise the notion that older consumers value educational aspects of retail (e.g. product advice, tutorials and online guides) over their younger counterparts.

Diffusion of new technology and its impact on the entire retail customer journey could explain this phenomenon.



Escapism: Findings suggested that all consumer age groups recognise the inherent value in the escapist aspect of shopping. Interestingly, consumers in age brackets 35-44, 55-64 and 65+ appeared to place greater

importance on this than younger consumers. This could reflect associated levels of social/economic commitments in line with age-related routines.



Entertainment: Almost a quarter of respondents said they would willingly pay more for the same product if it meant they would receive a meaningful experience when purchasing it. Naturally, this encompasses elements

of entertainment such as shows, live product demos/launches and was most valued by younger consumers. Embedding memories via this realm can be more readily accessible for retailers attempting to anchor positive experiences for their customers.

It is clear that successful retailers need to embrace the ideological shift from intrinsic value embedded in the product/service towards the *experience* and they must identify the right experience. Retailers must respect this evolutionary progression throughout the entire customer journey, engineering seamless experiences that envelope the consumer in beautiful retail environments that entertain, provide escapism and relevant education. Intertwining analytical yet innovative solutions in order to understand and harvest the inherent opportunities will be key. The traditional role of the store is morphing into a more multifunctional, 'experience-based' setting in order to invite, inspire, win and retain loyalty.

In the future, technology, demographic shifts and changes in perceived value will likely remain the causative forces driving retail progress. Community-based mentality dovetailing with advancing technology (artificial intelligence, augmented reality, 3D printing, total information networks and drones) is likely to mould the consciousness of consumers, presenting both opportunities and challenges for the entire retail industry. Retailers' abilities to predict, analyse and adapt to forthcoming waves of technopsychological shifts will differentiate them from their competitors.

Introduction: The behavioural revolution

UK retail is undergoing significant structural change. The growth and adoption of digital and mobile technologies has caused a fundamental shift in the way we interact with retailers of all sizes and types, in all locations and channels. The power dynamic between retailers and consumers has shifted. As a result, today's consumers are more empowered than ever before. In order to grow and be successful, retailers must adapt to new challenges and capitalise on key trends.

Unlimited access to goods, together with transparency in pricing, service and quality, has exposed the consumer to an abundance of choice and merchandise.

This evolution in retail has 'commoditised' goods and services in a dynamic environment where consumer choice is increasingly being driven to the lowest common denominator – price.

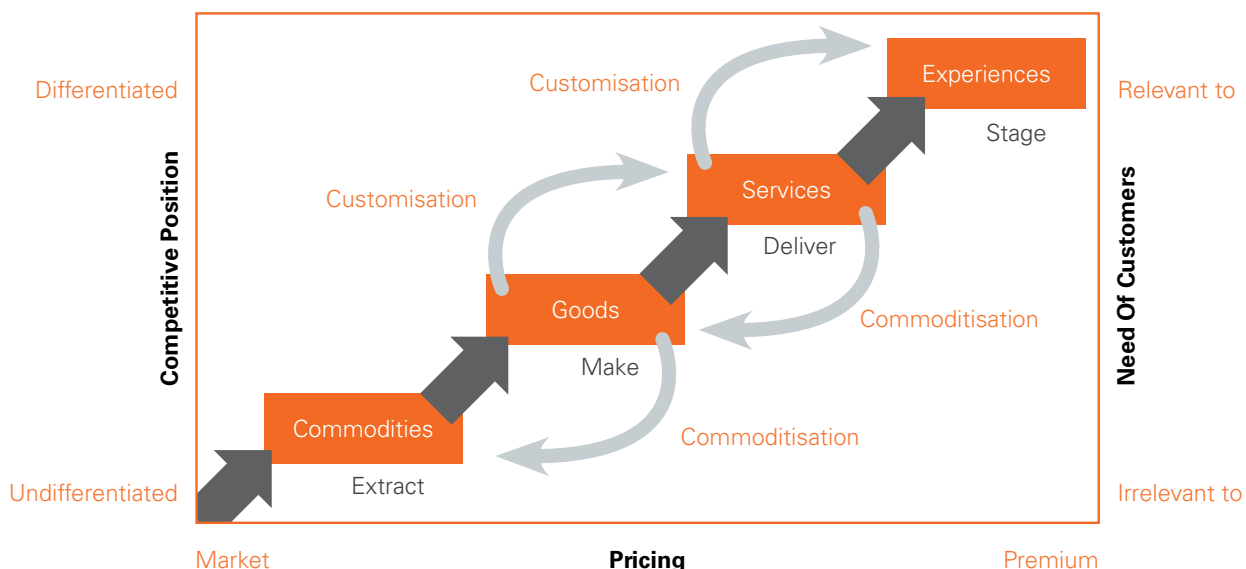
Despite these advances, consumers still want more. Currently, we are undergoing a transformational shift in what people value most – experiences. In this new paradigm, *experiences* are taking prominence over products. The value that consumers attach to their shopping experience has grown significantly. This presents profound implications within a fiercely competitive industry. Only those who are able to understand, harness and harvest the flow of unfolding opportunities will be able to maintain a competitive advantage.

The key battleground for retailers now centres on the staging of meaningful experiences throughout the entire omnichannel customer journey, and the Experience Economy will drive that retail revolution.

The Experience Economy

In a wider context, the Experience Economy refers to an evolutionary stage in the process of creating economic value [Fig.1]. In the 18th Century we predominantly functioned around an agrarian economy where the principle store of value was in *commodities* and farming. As the industrial revolution took hold, the economy shifted towards the trade of *goods*. In turn, as goods became commoditised, the *service* economy advanced. Currently at this evolutionary stage, companies are now increasingly using *experiences* to differentiate themselves from their competitors – the Experience Economy is emerging.

Figure 1 – The evolution of economic value



The Experience Economy was first coined by Pine and Gilmore (1999) and is not a new concept, but its influence on the retail industry has accelerated as consumers have undergone a transformational shift in what they value most. Instead of accumulating material possessions, consumers are increasingly opting to spend a higher proportion of their income on creating memories that can be shared with family and friends, in part, through social media.

Companies increasingly recognise the importance of generating memorable events for their customers, because that memory itself then becomes a distinct product – the “experience”. This evolution of economic value is having a profound impact on the retail industry and will continue to do so in proportion with the diffusion of technology into society.

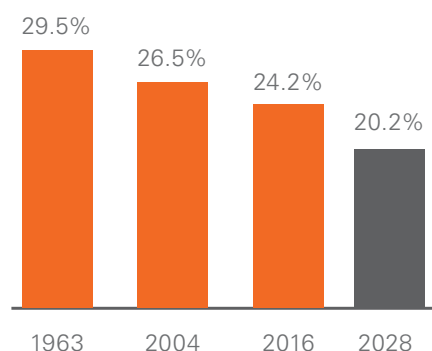
For the purpose of this report, we directly apply the Experience Economy concept to retail while developing the relevant components in order to better understand the industry as we move into the future.

How important is the Experience Economy?

Total consumer spending accounts for over 60% of UK GDP and is therefore critical to the overall health of the UK economy. As the Experience Economy has emerged, the structural shift in consumer spending has accelerated away from retail spending.

From a retailer perspective, it is critical to understand what proportion of total consumer spending is allocated to particular categories such as food, clothing, recreation and culture, housing and utilities, transport and education to form their long-term strategies.

Figure 2 – Retail spending as a proportion of consumer spending

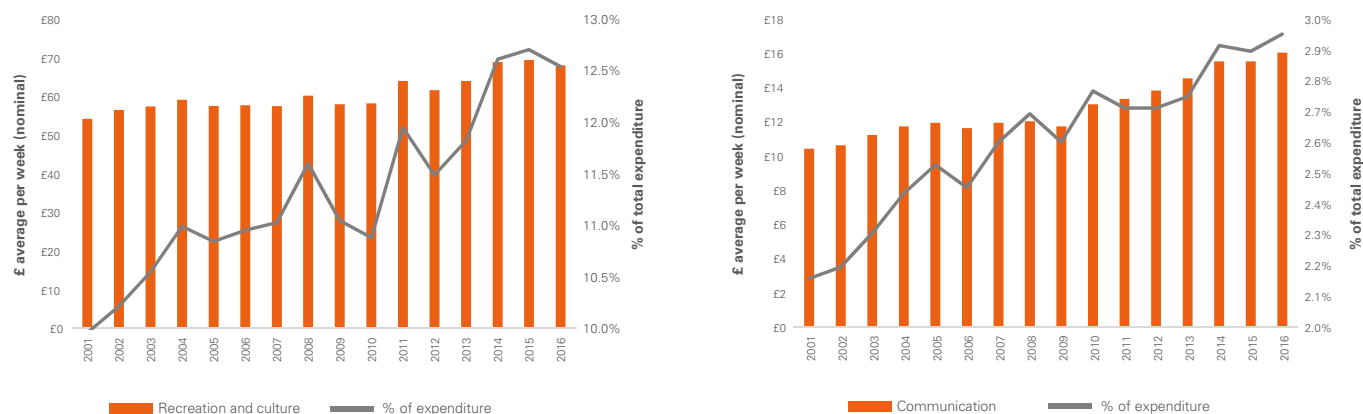


Source: ONS, Retail Economics analysis

As shown above [Fig.2], retail spending accounted for 29.5% of total consumer spending in 1963, driven by a considerable proportion of expenditure, almost a quarter, being spent on food. However, over the next 40 years the proportion spent within the retail sector fell to 26.5% in real terms (adjusting for inflation). The shift in spending accelerated further and, by 2016, retail accounted for 24.2% of consumer spending.

During this time, the proportion of households' expenditure on housing, recreation and culture and communication all rose, while traditional retail spending steadily declined [Fig.3].

Figure 3 – Shift in consumer expenditure over the last decade



Source: ONS, Retail Economics analysis

As general living standards increased with the commoditisation of consumer products, people appeared to care less about owning physical products and care more about gaining experiences. As such, the proportion spent on retail products has declined markedly over the last few years.

To support official spending data, research carried out by Retail Economics and Squire Patton Boggs showed that 36% of consumers thought that they had spent a higher proportion of their income on experiences over the last 12 months. When asked about the coming year, a further 28% said that they were likely to spend a higher proportion of their income on experiences – despite the current weaker outlook for the economy and personal finances.



The Retail Experience Economy

The Retail Experience Economy touches all parts of the industry, from beautifully designed shopping centres promoting entertainment, socialisation and relaxed shopping environments, to omnichannel retailers who empower their customers through the implementation of same-day delivery on products they have ordered on mobile-optimised platforms, moments after they have touched them in-store.

Regardless of channel, be it the shopping centre, high street, retail park, online, in-store or a combination, experiences are driving a shift in the perception of economic value, which is becoming increasingly prevalent for the industry.

Providing a unique consumer experience resides at the epicentre of the retail experience economy – which goes beyond merely offering products and services. Consequently, staging memorable experiences has become an effective differentiator in consumer choice.

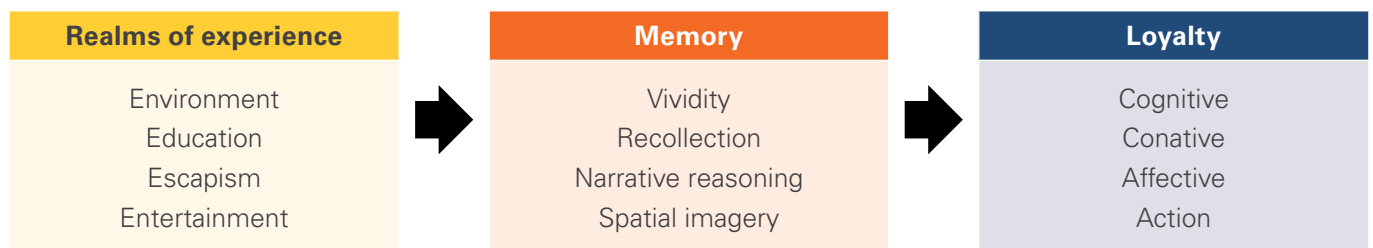
The essence of providing a meaningful and memorable experience is created wholly in the mind of the shopper who is exposed at an emotional, physical and intellectual level. This delineates a clear departure from the purchase of commoditised goods and services, which are solely external stimuli. Retailers must create memorable experiences that add value to the customer journey – experiences they are willing to pay a premium for.

The Retail Experience Economy Model [Fig.4], which builds on the work conducted by Pine and Gilmore, comprises three overarching stages: Experience, Memory and Loyalty.

Of these, four components constitute the realms of experience:

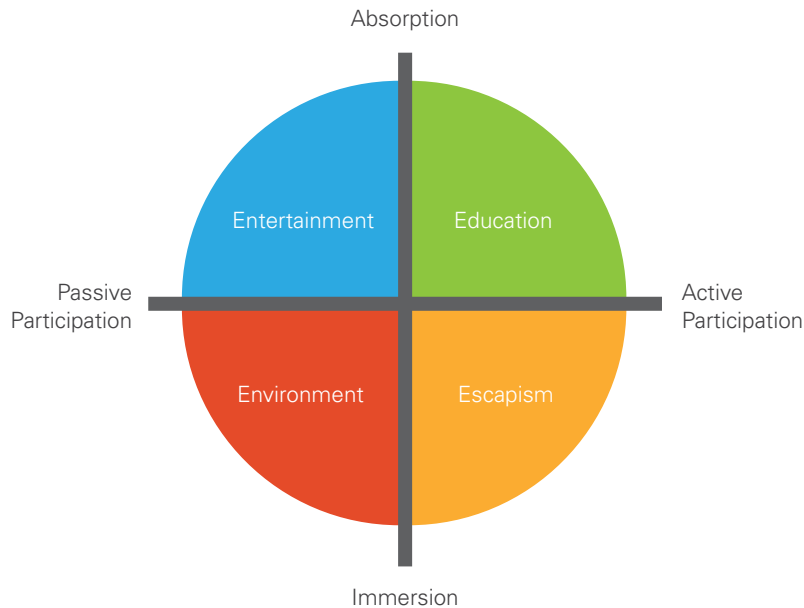


Figure 4 – Retail Experience Economy Model



Source: Retail Economics, 2017

Figure 5 – The four realms of experience



Source: Pine and Gilmore, 1999

Focussing in greater detail on the realms of experience [Fig.5], the following points provide a summary explanation of the constituent elements:

	<p>Environment</p> <p>The immersion into a retail space (virtual or physical) and overall atmosphere, including the ease of transactions.</p>
	<p>Educational</p> <p>The participation and absorption in an event, which is driven by consumers' desire to self-educate or improve knowledge and skills.</p>
	<p>Escapist</p> <p>The desire for consumers to seek changes and novel experiences in order to escape from their everyday environment.</p>
	<p>Entertainment</p> <p>A surrounding that enables consumers to passively absorb activities and performances to excite and build desire over brands and products.</p>

An authentic and desirable customer journey provides positive experiences across multiple touch-points, whether in-store or online. These experiences become etched into the consumer's conscious and unconscious memory, which then form the basis for new preferences and expectations.

Those with a particular interest in consumer psychology may be curious to note that memory of a consumer's transaction is anchored by four key factors:

- Narrative reasoning
- Emotions
- Recollection
- Vividness

In summary, there are three key points of consideration. Firstly, a shopper's frequency and their lifetime value creation increases when they accrue and retain useful information from their previous experience. Secondly, all previous experiences regarding retailer transactions are viewed as credible and treated as a first-hand information source. Thirdly, and most intuitively, all past experiences greatly influence future behavioural intentions.

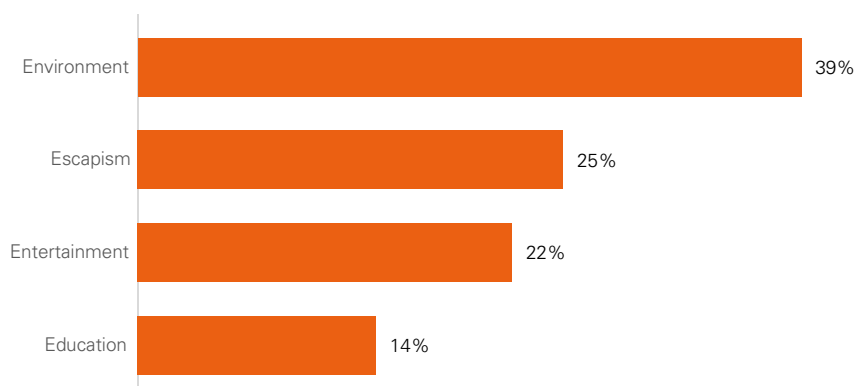
In its purest sense, the Retail Experience Economy is still in its infancy. Ultimately, retailers do not sell experiences as their main economic offering because they do not charge shoppers an admission fee to enter their store; at least not yet.

That said, the staging of omnichannel experiences is emerging as a key battleground for retailers as it is critical to: drive better engagement, increase loyalty and conversion, improve purchase frequency and enhance lifetime value creation. For this reason, an 'experience-first' model is emerging where retailers and brands are embracing the experience culture and delivering richer and more meaningful engagement with their customers.

Experiences reside in the minds of consumers. Hence, the more personalised the customer journey, the more prevalent the experience. This notion highlights the importance of customer data and personalised content. Accordingly, experiences evoke varying emotions dependent on age group and gender across different parts of society. Furthermore, consumers want different experiences depending on the type of product, price point, complexity of product and much more.

At its broadest level, our research showed that Environment was the most important aspect of a meaningful shopping experience for consumers, selected by almost two in five respondents [Fig.6]. This was followed by roughly an equal number of respondents who chose either Escapism or Entertainment, with Education appearing to be the least sought-after experience.

Figure 6 – What do you think the most important aspect of a meaningful shopping experience is?



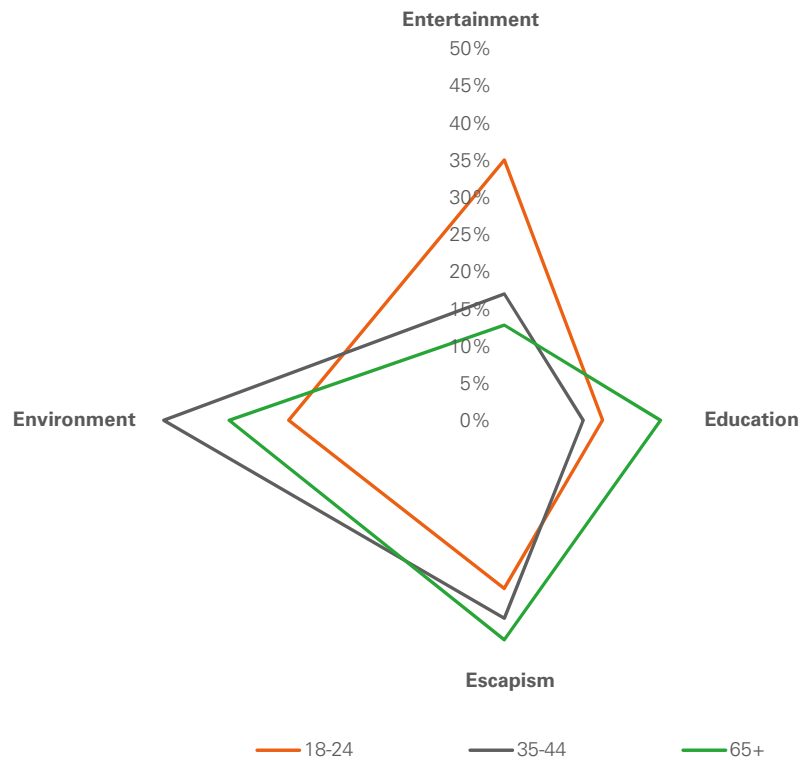
Source: Retail Economics, 2017



In reality, this is not a discrete choice. Consumers thirst for a blend of experiences to represent their 'optimal' preference. In this sense, the combined responses give a more accurate indication of what consumers desire in the broadest sense of a meaningful retail offering [Fig. 6].

However, differences emerge when comparing across age groups [Fig.7]. Entertainment ranked the highest for younger consumers, selected by 35% of respondents aged 18-24, compared with just 13% for the 65+ age group. Every other age group suggested Environment was the most important aspect of a meaningful experience, selected by almost half (46%) of 35-44 year olds.

Figure 7 – Breakdown of meaningful shopping experience by age



Source: Retail Economics, 2017

While experiences are unique to individuals, we are able to draw certain inferences from consumer segments from within our research. For example, our research showed that the consumer's age played an important and key distinguishing feature. The following sections examine the four realms of experience and their relative importance.

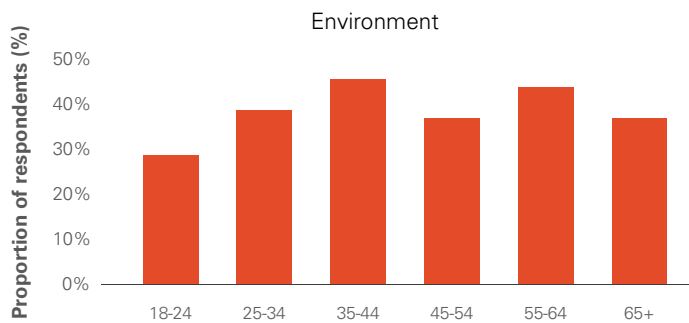


Environment: Immersive store environment

The growth of the Experience Economy highlights the importance of the physical retail environment in the overall consumer journey.

Inevitably, stores offer an experience that cannot be replicated online, but the store environment *can* cultivate direct and meaningful relationships with customers. Furthermore, while online retailing undeniably plays an increasingly important role in the customer journey, store-based retail still accounts for over 85% of total retail spending according to the Office for National Statistics.

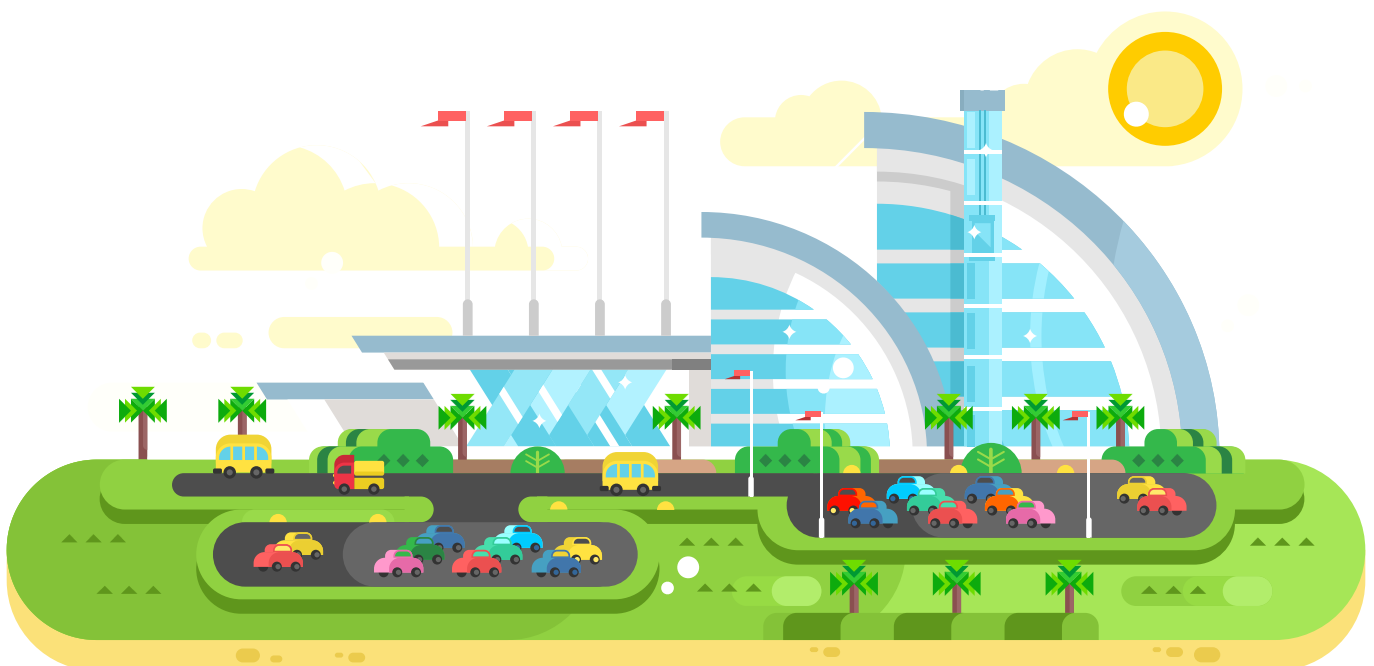
Figure 8 – Importance of environment experience by age



Source: *Retail Economics*, 2017

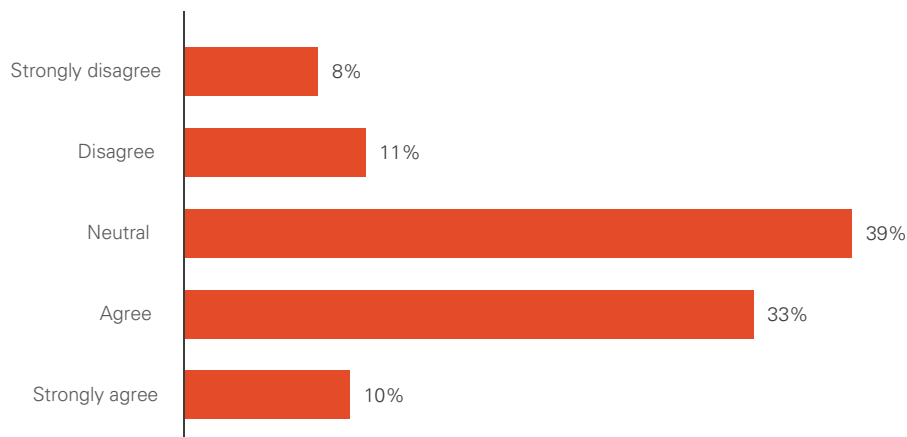
Retailers can no longer meet their customers' needs simply by supplying a product at the right price. The adoption of online and digital technologies has created near 'perfect-knowledge' within some sectors. Needless to say, shoppers who know exactly what they want and demand the best possible price will naturally gravitate towards online retailers.

Online retail has created an arena for contention; however, one key differentiator centres on meeting the customers' increasing intangible demands for an immersive and desirable shopping experience. In context, the most successful stores create a completely unique and unforgettable brand experience that routinely imprints itself on the customer's memory. These stores engineer environments where customers feel relaxed, comfortable and encouraged to spend time browsing and discovering new products which are showcased in aspirational settings.



Retailers able to meet such demands build deeper loyalty with their customers, increasing their lifetime value. Evidently, our research shows that 43% of shoppers said that they are likely to spend more money in the future with a retailer who offered a meaningful shopping experience in-store [Fig.9].

Figure 9 – If a retailer offers a meaningful shopping experience in-store, I am likely to spend more money with them over the coming months

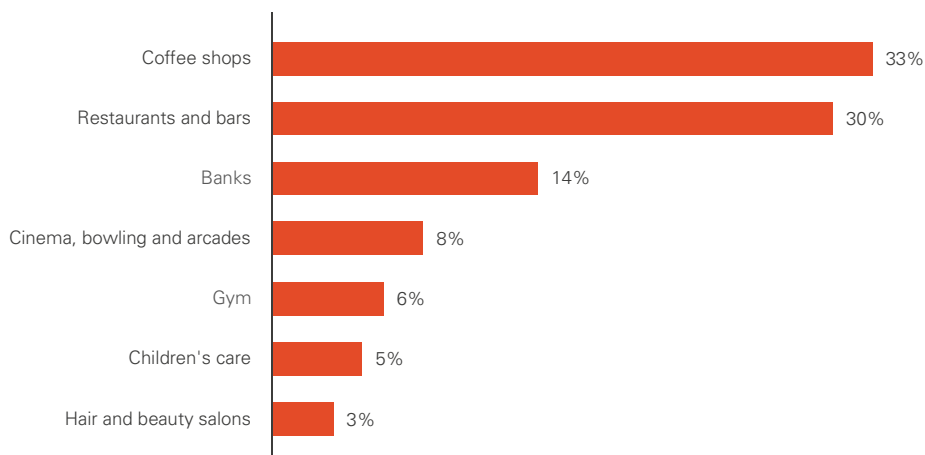


Source: Retail Economics, 2017

This is not to imply that online and offline are mutually exclusive channels – quite the opposite. Successful retailers provide an omnichannel experience which combines stores, online and mobile, seamlessly. Research from Deloitte found that 28% of in-store sales were influenced by a digital experience in some way. Increasingly, people are using stores to touch, feel and immerse themselves in the tangible experience with the intention of purchasing the product through a different channel. In fact, our research showed that 29% of consumers said that they would visit a retail store with the intention of experiencing the brand to generate ideas and then purchase online.

The pursuit of a desirable environment goes beyond the store too. As the Experience Economy evolves, retailers must embrace consumers' demands for shopping to become more integrated into consumers' lifestyles. Our research [Fig.10] suggests that almost two thirds of consumers are more willing to shop at destinations that house cafes, restaurants and bars as they must serve a multipurpose, with social meeting points as a high priority.

Figure 10 – I am more likely to go out shopping if I know that in the same location there will be:



Source: Retail Economics, 2017

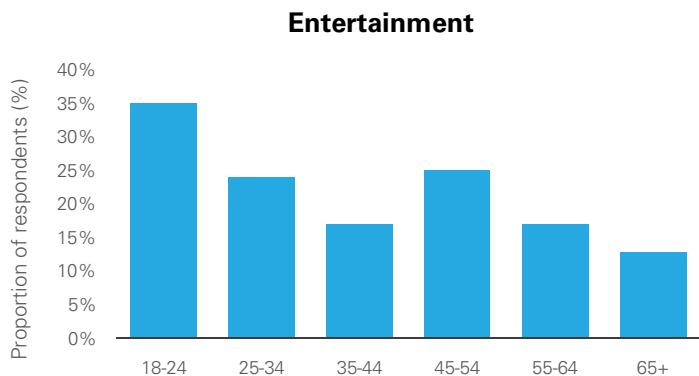
Retailers and shopping centres need to create opportunities for consumers to share experiences with friends and family, enabling the expression of social, commercial, political and cultural interests.

Entertainment: A captivated audience

Entertaining consumers by providing attention-grabbing and captivating content plays an essential role in delivering an absorbing overall experience.

This can include anything from live product demonstrations, to glitzy fashion shows, to celebrity book signings or even live streaming. These types of experiences encourage customers to visit in-store and online, help nurture brands and communities, and ignite passions which can be shared with friends and family by word-of-mouth or social media.

Figure 11 – Importance of Entertainment experience by age

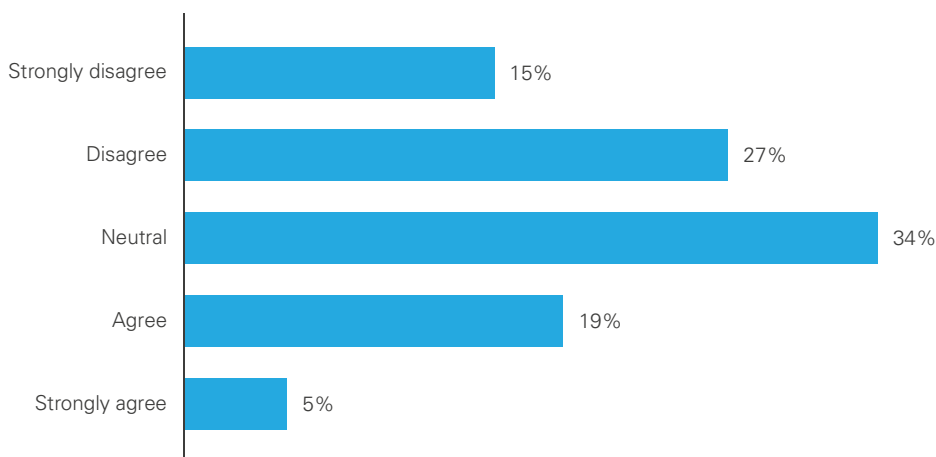


Source: Retail Economics, 2017

Meaningful experiences through scheduled entertainment also enable retailers to reacquire a form of control from consumers entirely on their own terms. Capturing their attention and imaginations can lead to increased dwell times, higher conversions and increased spend, which develops deeper loyalty.

Moreover, consumers that demand these experiences are often prepared to pay a premium for them. Our research [Fig. 12] found that almost a quarter of respondents said they would willingly pay more for the same product if it meant they would receive a meaningful experience when purchasing it.

Figure 12 – I am willing to pay more for the same product elsewhere if I receive a meaningful experience when purchasing it



Source: Retail Economics, 2017

Retailers who truly understand the evolving nature of value created throughout the customer journey appreciate that stores are no longer as productive and profitable as they once were by conventional measures. The applicability of metrics such as like-for-like sales growth, sales densities or sales per employee per hour is becoming more obsolete. Essentially, the traditional role of the store has evolved. They are now fundamental in the distribution of experiences and creating deeper and more meaningful engagement with customers. Consequently, retailers will require more advanced metrics to accurately measure customer engagement, interaction, experiential satisfaction and social approval.

According to our research, the importance of entertainment in the overall retail experience differed considerably by age. Unsurprisingly, younger consumers ranked it as their most important attribute. For this segment in particular, distractions will only increase as interactions with friends and companies avail an additional strata of information through technology such as chatbots and voice-controlled devices such as Apple's Siri, Amazon's Alexa, Microsoft's Cortana and Google Home.

In the future, an integrated entertainment-based approach will be key to driving meaningful retail experiences as social identities become aligned with social media platforms and experiences liberally shared.

Retailers should also be mindful that millennials (and in all likelihood Generation Z that follows) engage with retailers with an entirely different level of expectation. The entertainment experience must cater for shorter attention spans, increased expectations of free products, social media-backed trust and transparency of views. The millennial generation represents the future path of retail and as this generation becomes more commercially significant, retailers must continually adapt their provision of experiences to an audience that is more mobile, social, collaborative and technologically integrated.

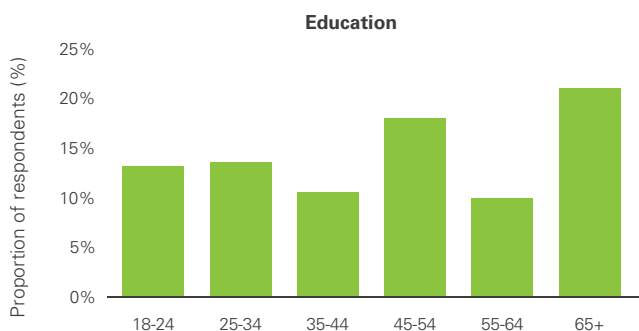


Education: Inspire and educate

Retailers are increasingly educating their consumers in-store, online and through social media to help optimise the customer journey, in parallel to creating seamless and desirable experiences.

Generally, educational retailer experiences tend to involve more active participation from consumers, but they occur while still on the fringes of the event and not fully immersed. The educational experience can assume many forms across the customer journey. They are also more likely to occur when products are complex to understand, high value or if they need a level of skill or expertise to implement. In many cases, educational experiences will be supported by in-store personnel that have good technical knowledge and increasingly by online video content, chatbots or online support.

Figure 13 – Importance of Education experience by age



Source: Retail Economics, 2017

The educational realm is, therefore, more sector specific than others. For example, newly released technology can often be challenging to understand, and the benefits and features can be sold more effectively in-person, particularly when consumers are undecided on specification or brand. Equally, educational experiences occur when customers lack the skills or confidence to undertake specific projects, e.g. home improvements.

In certain settings, the educational experience created by sales personnel and the props used to stage the event are every bit as important as the actual product itself. For consumers and retailers alike, experience becomes the pre-eminent concern, rather than price.

Our research [Fig.13] showed that, overall, older consumers value educational aspects of shopping more than younger consumers.

For example, garden centres, especially in rural locations, frequently run workshops and tutorials or even invite external speakers to inform customers on best practices and latest products. The focus can be tailored for products that are incumbent with lifestyles. For the customer journey that involves technical and hands-on applications, the shopping experience matters just as much as the product.



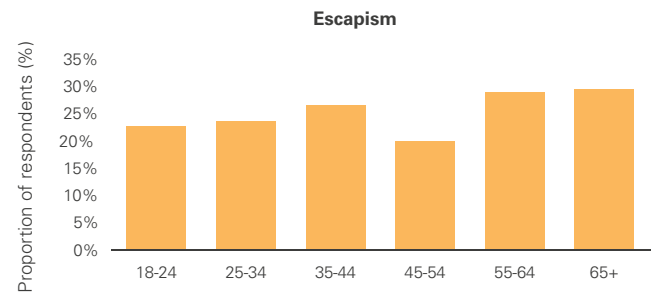
Escapism: Step off the beaten track

Providing the opportunity for shoppers to embrace time away from their normal routines is often an easy win when attempting to generate meaningful retail experiences.

Nevertheless, people are increasingly becoming more selective about where they shop and socialise. A noticeable trend has identified a proportion of consumers shying away from cloned high streets in the search of more novel experiences to escape from their everyday environment.

Accordingly, retailers are migrating away from traditional retail settings to more avant-garde, trendsetting locations that offer greater creative scope to deliver new experiences and where consumers can detach themselves from their everyday lives. Our research shows that all consumer age groups recognise the psychological value of escapism while shopping [Fig. 14], which agrees with the thesis that *experience* is being elevated in respect to products and services. Interestingly, consumer age brackets including 35-44 years, 55-64 years and 65+ appeared to place more importance on escapism than younger consumers. This could be explained by the respective level of social responsibility, commitment and routine during these periods of life.

Figure 14 – Importance of Escapism experience by age



Source: Retail Economics, 2017

Concept stores are emerging more frequently, breaking the mould of traditional outlets and occasionally offering products unavailable at normal stores. The origin of concept stores is rooted in Italy with the retailer 10 Corso Como describing themselves as a 'multifunctional space, a meeting place, union of culture and commerce'. Now 25 years on, 10 Corso Como's 1,200sqm of space incorporates a bookshop, gallery, store, café/restaurant and a three-room hotel. Consumers can immerse themselves in fashion, art, food, music and design, in an environment of beautifully constructed, interwoven spaces where they can detach themselves from their everyday routine while basking on the rooftop garden.

Closer to home, novel stores like East London's Late Night Chameleon Café (LN-CC) is hidden down an unassuming alleyway. The in-store experience is built around a central tunnel with individual rooms off to each side. Luxury apparel from aspiring designers simulate art installations alongside a library of rare vinyl and books.

The central theme is that consumers increasingly desire to shop in an innovative and novel environment, combined with digital touchpoints and knowledgeable service. A masterful infusion of digital technology (interactive content, storytelling, promotion and showcase), seamless convenience (click and collect and mobile optimised) and customer service (efficient and face-to-face) in an inspiring environment can form a powerful escapism experience.

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Richard is CEO of Retail Economics. He previously headed the Insight and Analytics team at the British Retail Consortium and before that worked in mergers and acquisitions for Citi. Richard has a wealth of experience in retail, economics and consumer research.



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Matthew is head of the firm's Retail Group and coordinates our retail offering. This includes running our annual Retail Debate and Multichannel survey of retailers and shoppers. Matthew is also a director of the retail-focused credit union, Retail CURE, supported by the Retail Trust and major retailers, to be launched in 2017.



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