

How Consumers Value Experiences in Times of Crisis



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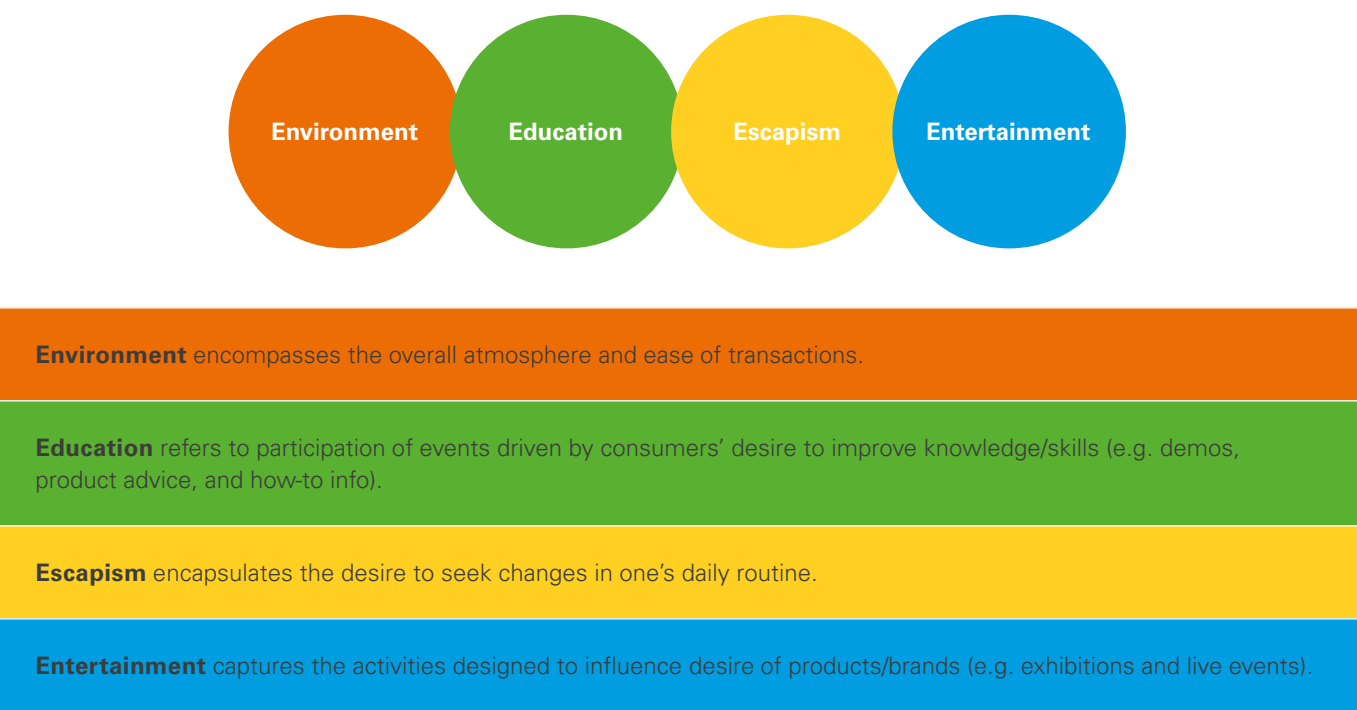
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Welcome

This report provides an important sequel to “The Retail Experience Economy: The Behavioural Revolution”¹, the first thought leadership paper published by Squire Patton Boggs in collaboration with Retail Economics. Five years on, the key themes of Environment, Education, Escapism and Entertainment that govern the shopping experience still hold relevance today, but the report focuses specifically on how the Retail Experience Economy will need to adapt and evolve over the coming years to reflect the lasting impacts of COVID-19 and the unfolding cost-of-living crisis.




We launch the Retail Experience Economy 2.0 Report in the wake of national lockdowns into a place where consumers are further seeking escapism and new experiences that diverge from their everyday lives. Yet, supply chain disruption, raw material shortages and the Russia-Ukraine conflict are just a handful of factors that are driving up the cost of living, in turn, forcing consumers to prioritise essential purchases over luxuries and special experiences. Thus, retailers are grappling with the conflicting forces of a consumer drive for escapism versus an existential cost of living crisis.


With consumers feeling a pinch in the purse, delivering value for money is key for retailers who are competing for a shrinking portion of consumer spend. This goes beyond the price point to include customer service, brand values and convenience – essentially incorporating all of the factors that create a holistic shopping experience. The four E's of the Experience Economy Model (Escapism, Entertainment, Education and Environment), as discussed in this report, can help retailers understand how to deliver value in line with rapidly changing consumer desires.

Methodology

The research contains insights drawn from a nationally representative consumer panel of UK households. The sample comprised more than 2,000 adults with survey data collected in April 2021 and April 2022 to be able to obtain consumer insights at different stages of the pandemic.



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1 Previous report can be downloaded here: <https://www.squirepattonboggs.com/en/insights/publications/2017/06/the-retail-experience-economy-the-behavioural-revolution>

Retail Trust Foreword

Retail leaders would be forgiven for hoping for simpler times as we move out of two years of COVID-19. Yet the war in Ukraine and a cost-of-living crisis has brought with them new challenges to an already-pressured industry.

What has been clear, however, is that the businesses that have grasped the opportunity to adapt fastest across the crisis have found ways to get closer to their customers than ever before.

Retail brands throughout the pandemic were often another emergency service to the most vulnerable. For many of the rest of us, retail was a source of pleasure and connection in a world that was otherwise locked down. In all of this, “experience” was critical to the brands that came out of the last two years stronger.

Now more than ever, consumers are demanding that the brands they interact with are relevant to a society demanding change. How retailers move forward and invest in the right experiences to build purposeful connections with their customers will determine the winners and losers in what is sure to be a very tough 12 months.

For all the developments in technology, nothing will determine success more than a customer’s interaction with the retail colleagues serving them, whether in stores, online, at point of delivery or in customer services.

Yet, research shows us that UK retail has huge issues to confront in this space. A worrying 83% of retail employees have experienced a deterioration in their mental wellbeing in the last year and close to one in four are looking to leave the sector.

If customer connectivity is to thrive, retail must confront its challenges around colleague wellbeing and make sure health and wellbeing strategies run seamlessly with the drive to create meaningful consumer experiences.

It is little surprise that those businesses that continue to win market share and customer loyalty also have the happiest and most engaged teams in the country.



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Introduction

Households have been forced to transition from a global pandemic to a cost-of-living crisis. The retail sector benefited from strong pent-up demand post-lockdowns, but this is now under threat as many consumers cut back in the face of inflationary pressures. As with COVID-19, consumers will begin to reassess their values in response to rising living costs. In part, this means adjusting what kind of retail experiences they expect, and what kind of experiences they want.

As consumer expectations grow and loyalties become increasingly fragile, there is increasing urgency for retailers to deliver meaningful, positive customer experiences – both online and in-store. This is particularly important in today’s macro environment, where surging inflation and geopolitical tensions are taking their toll, and with the power dynamic between the consumer and retailer shifting more towards shoppers.

Many consumers will be looking to balance their wants and needs against the harsh economic reality of squeezed discretionary income. Retail Economics estimates that the average UK household will have £650 less in 2022 to put towards discretionary purchases as a result of the cost-of-living crisis.

As retailers and brands compete for a shrinking share of discretionary spend, success will increasingly hinge on tailored propositions that resonate with a core customer base, while attracting new shoppers who are now primed for trying new brands and experiences. In this context, three key areas of opportunity arise: (1) rising demand for value (beyond just price); (2) the post-COVID renaissance of the experience economy; and (3) continued development of omnichannel capabilities.

This research looks at how COVID-19 and the cost-of-living crisis impacts the Retail Experience Economy and explores what retailers and brands can do to combat some of the key challenges ahead. The insights contained are critical for business leaders wanting to better understand the dynamics involved with a view to improving strategies.

The report is divided into five main sections:



Coined by Pine and Gilmore in 1999, the Experience Economy describes a particular stage in the historical creation of economic value where consumers begin to value experiences over material possessions. It is akin to a consumer revolution that centres upon the creation and sharing of memories, where the memory (from induced experiences) itself becomes the commodity.

What Is the Retail Experience Economy?

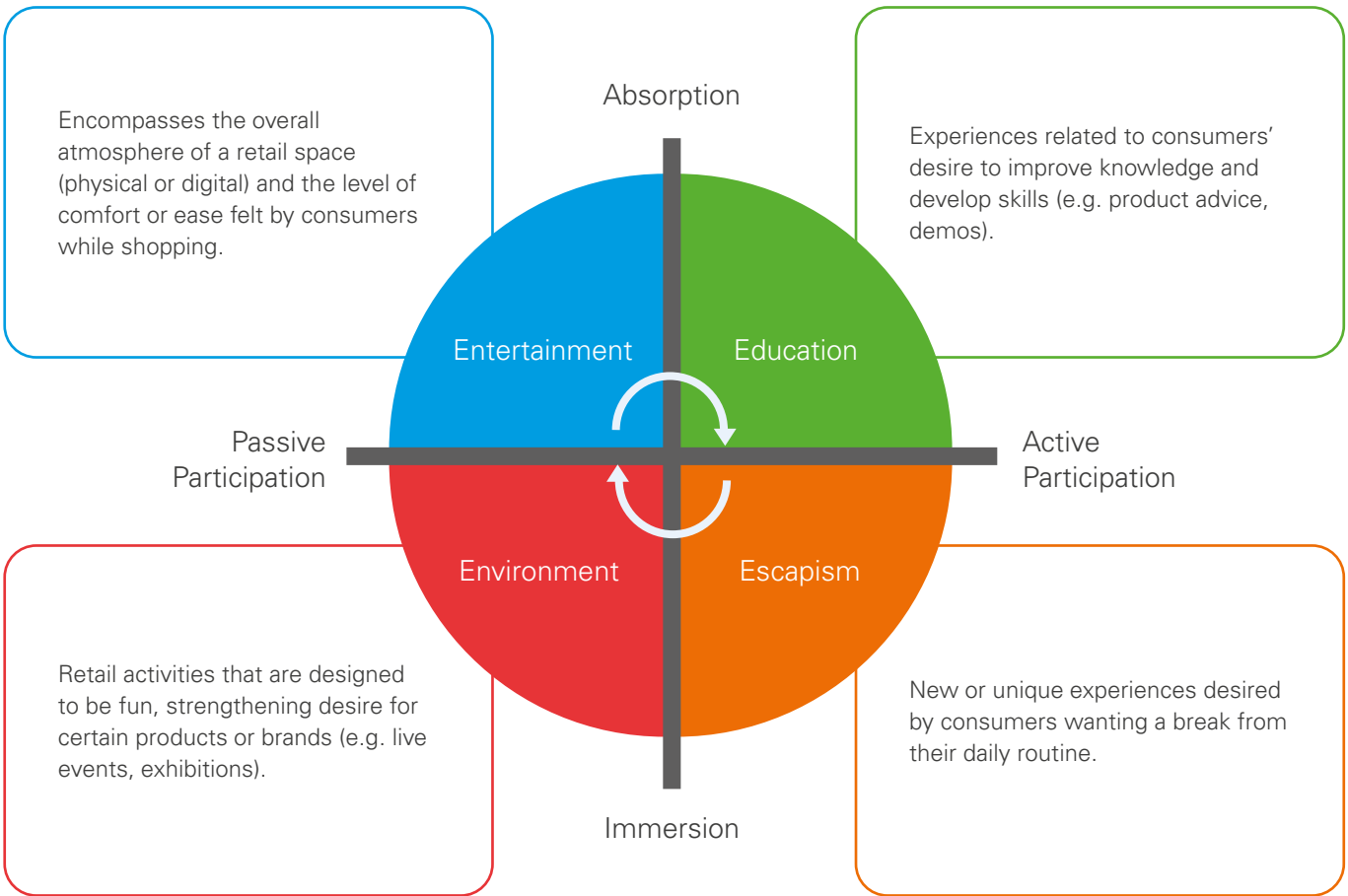
The “experience economy” is embedded throughout the entire retail industry. Its features are wide ranging and can be seen, for example, in the inspirational design of shopping centres, live promotional events, and retailers and brands blending physical and digital realms to provide inspirational customer journeys.

In recent years, the concept of over-consumption or “peak stuff” has played a major role in driving desire for consumer experiences, together with other shifts in consumer values linked to environmental and ethical considerations. Since our first report in 2017, two other significant factors have emerged – global health in the form of a pandemic, and the current cost-of-living crisis. Both of which will have ongoing and far-reaching ramifications – permanently changing attitudes to want and need.

As shoppers buy products and services, they invariably want to feel fulfilled by the purchases they make, having acquired them through meaningful experiences online or in-store. These experiences are psychological in nature, created at an emotional, physical and intellectual level. Importantly, they become etched into the consumer’s conscious (and unconscious) memory, which subsequently forms the basis for new shopping preferences and expectations.

The Retail Experience Economy Model: The Four Realms of Experience

Our Retail Experience Economy Model (REEM) identifies four key realms (or components) of a customer’s shopping experience:



Source: Retail Economics, Squire Patton Boggs

The value that consumers attach to each of the four realms of experience can change over time and is influenced by various factors (e.g. purpose of a shopping trip, culture, interests or life stage). For instance, a routine shopping trip for top-up groceries elicits a different set of expectations and emotions compared with a high-value purchase such as a new TV or sofa. For the latter, Education is a key experiential realm, whereas everyday purchases are usually based on limited information, with the Environment being the primary influence.

Report at a Glance

Cost of Living Cut Back

- The average UK household will have £650 less to put towards discretionary purchases in 2022 due to the cost-of-living crisis.
- Over two-thirds of consumers plan to spend less on non-essentials in 2022. Significantly, over a quarter say they plan to stop buying non-essentials altogether.
- Almost one in three shoppers are consciously looking to switch to cheaper brands or retailers.

Heightened Expectations

- Over a third of consumers say that the pandemic has changed their expectations when shopping, with greater value now attached to experiences over material possessions.
- Despite squeezed budgets, nearly a quarter of consumers would happily pay more for a better or memorable shopping experience.
- A third of consumers are looking for some form of Escapism from their retail experience in 2022, compared to just one in five before the pandemic.

Environmental, Social and Governance (ESG)

- Three quarters of consumers would not switch to a cheaper brand if the values of the company were not aligned with their own.
- Over 60% of consumers believe their experience of shopping with a retailer is enhanced if they are able to clearly demonstrate strong ethical and environmental credentials.
- One in four consumers plan to buy second-hand or shop on resale sites in response to the rising cost of living.



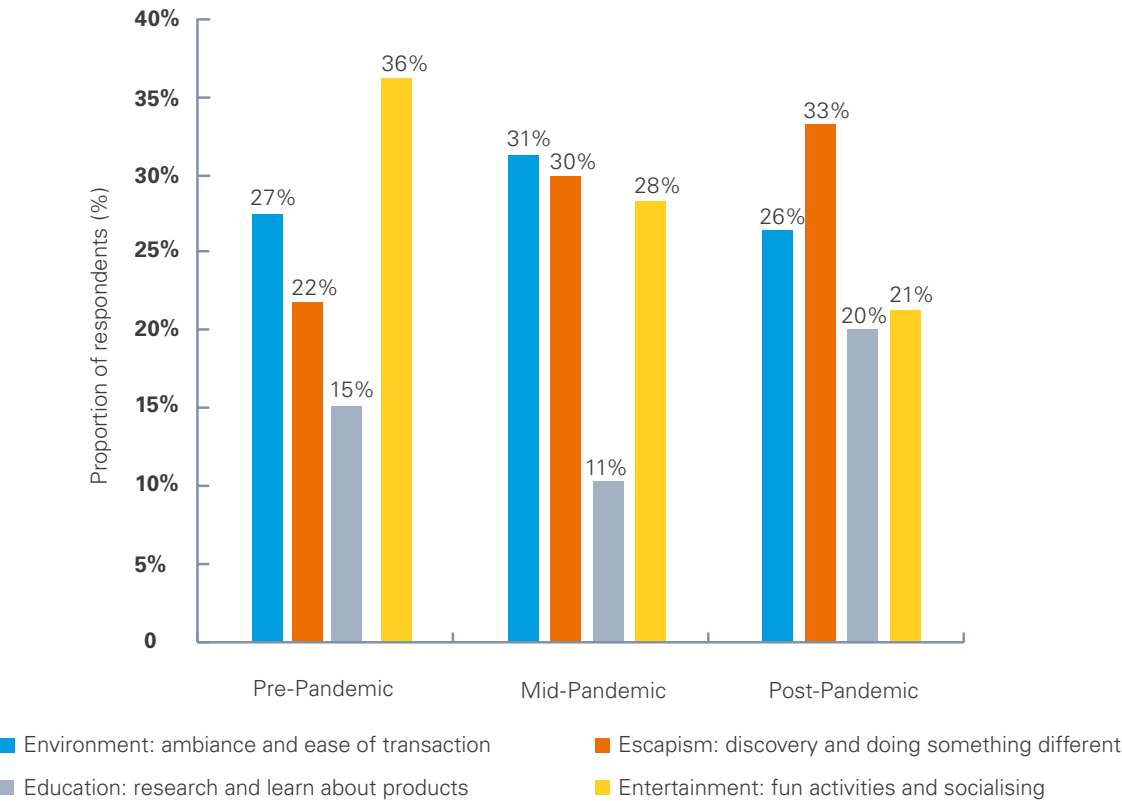
Shifting Retail Expectations: Pre-, Mid- and Post-Pandemic

COVID-19 profoundly impacted consumer behaviour – with some behaviours now permanent. During the pandemic, many shoppers bought more consciously and locally and embraced online channels; and with more time spent at home, digital realm played a pivotal role for people working, learning and socialising.

Our research shows a net balance² of 33% of consumers agree that the pandemic has permanently changed their expectations when shopping, with experiences and creating memories being more valued than before.

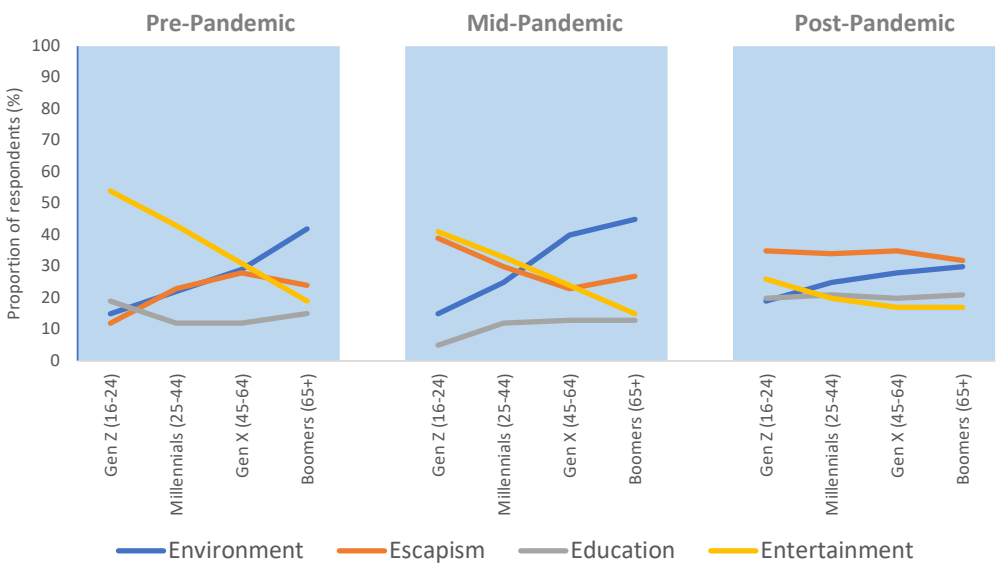
As with any crisis, COVID-19 highlighted the importance of creating uplifting experiences and pleasant memories, especially aligned with personal interests, irrespective of household finances and external pressures.

Fig 1a: Thinking About When Shopping for a Non-essential Item, What Is the Most Important Aspect of the Retail Experience to You?



Source: Retail Economics, Squire Patton Boggs

Fig 1b: Generational Comparison



Source: Retail Economics, Squire Patton Boggs

² Net balance = respondents that agree minus respondents that disagree.

Pre-Pandemic (2018/19): Fun and Entertaining Experiences the Priority

Before the pandemic, Entertainment was viewed as the most important aspect of a meaningful retail experience for consumers on a non-essential shopping trip, chosen by over a third of respondents (36%). This was followed by Environment (27%), then Escapism (22%), with Education (15%) appearing to be the least valued aspect of the shopping experience.

As expected, differences emerge when comparing across age groups (Fig 1b). Here, Entertainment was ranked by far the highest for Gen Z consumers, selected by more than half of consumers aged 16-24 years, compared to less than a quarter for Boomers (65+ years). Whereas older consumers (42%) deemed Environment (convenience and ease of transaction) to be the most important factor for shopping experiences pre-pandemic.

Mid-Pandemic (2020/2021): Consumers Seek Safe and Convenient Environments

During the pandemic, there was a notable shift away from experiences towards more functional aspects of shopping. The shock to societal norms and faltering consumer confidence from COVID-19 forced many consumers to reassess previous behaviours and readjust their priorities. With anxieties running high, the overriding priority for many shoppers visiting stores was safety as they looked to adhere to social distancing and hygiene guidelines.

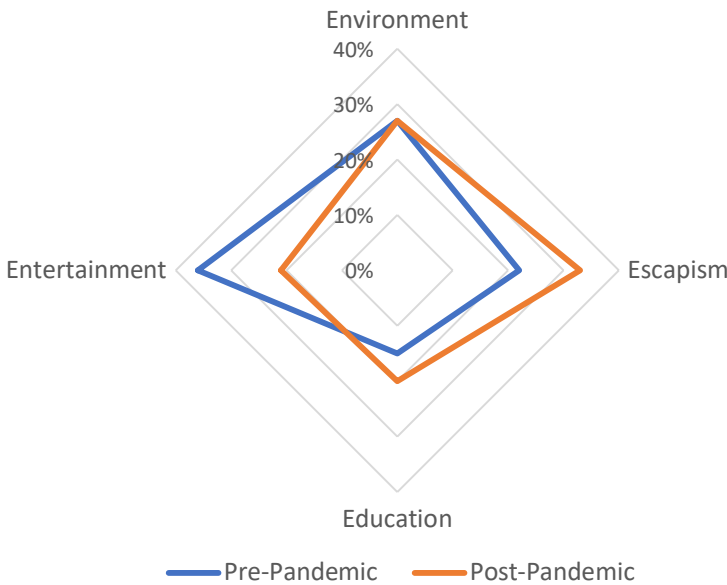
Consequently, the Environment (location and ease of the shopping journey) became the most important aspect of the retail experience for consumers during the pandemic (Fig 1a). This was seen, for example, in the shift to online channels, but also the preference for retail parks over more crowded city centre destinations.

Post-Pandemic (2022-): Desire for Escapism, but Shoppers Becoming Cautious

Since COVID-19 restrictions were lifted, there has been a surge in demand for uplifting and emotionally driven shopping experiences. Consumers' desire for Escapism has moved to the fore, whether that is a leisurely day out shopping with friends or family, or a spot of retail therapy that offers reprieve from everyday life. Our research found that a third (33%) of consumers were looking for some form of Escapism from their retail experience in 2022, compared to just one in five (22%) before the pandemic (Fig 2).

However, as cost-of-living pressures intensify, consumers face a balancing act between making the most of post-pandemic freedoms and managing their finances. The customer journey is set to become more considered as consumers seek value for money with their retail experiences. As a sign of cautious behaviour, 20% of consumers now rank Education (research and learning about products) as their primary shopping motivation – almost double the proportion compared to during the pandemic and a real increase from before the pandemic.

Fig 2: Greater Value Now Attached to Retail Experiences That Offer Escapism and Education



Source: Retail Economics, Squire Patton Boggs

Cut Back Economy and Experience Trade-Off

UK households are entering a new age of financial anxiety as economic uncertainty, rising inflation and rocketing energy prices drive the biggest cost-of-living crisis in 50 years.

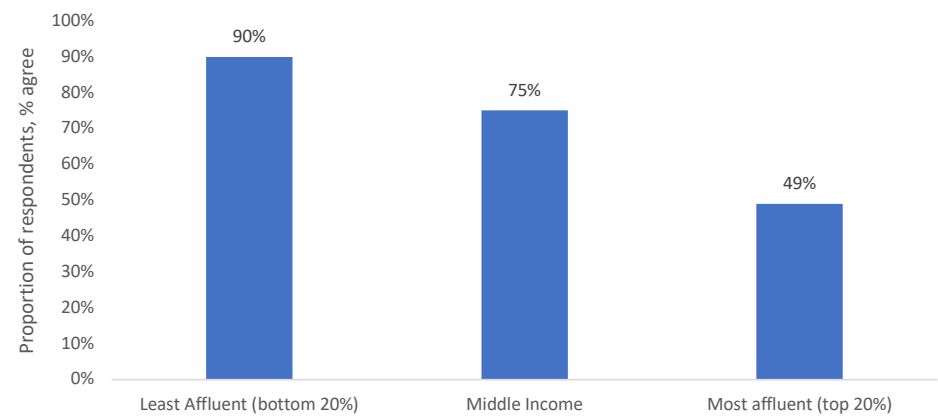
While inflation was initially expected to be a transitory “reopening effect,” prices are rising at a faster and longer pace than anticipated, with ongoing geopolitical tensions raising the likelihood of higher and more persistent inflation.

The Bank of England expects inflation to reach as high as 10% later this year and remain above target over 2023. Most consumers would not have experienced this level of inflation during their working lives.

With disposable incomes squeezed, consumers are actively cutting back. More than two-thirds (68%) of consumers say they will spend less on non-essential products this year in response to the rising cost of living. Concerning for many retailers, over a quarter (29%) say they plan to stop buying non-essentials altogether.

Naturally, the severity of the cut back varied by household, with the least affluent households almost twice as likely to sacrifice non-essentials than the most affluent (Fig 3).

Fig 3: Overall, Two Thirds of Consumers Are Cutting Back on Non-essentials, but This Rises to 90% for the Least Affluent. Proportion of respondents that intend to cut back on non-essentials in 2022



Source: Retail Economics, Squire Patton Boggs

What are people planning to spend less on? In general, our research shows the under 45s are prioritising cutting back on material possessions, reflecting the preference for younger generations to prioritise spending on socialising and experiences. In contrast, over 45s expect to cut back more on leisure-based activities (Fig 4).

Fig 4: Generational Divide in Cut-back Economy – Under 45s Prioritise Experiences, More Likely to Cut Back on Possessions

Q. “If you were to cut back on your non-essential spending this year, which of the following areas are you likely to spend less on?”



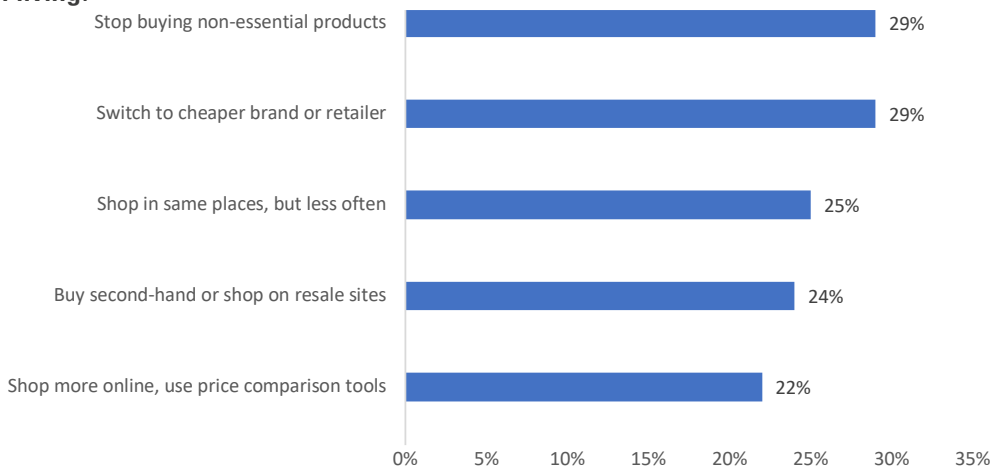
■ material goods ■ experience

Source: Retail Economics, Squire Patton Boggs

Value will emerge as a key battleground across the Retail Experience Economy as consumers adopt a savvier approach to their spending habits. For example, our research shows that nearly one in three (29%) shoppers are consciously looking to switch to cheaper brands or retailers, while around one in four (24%) will shop more on resale sites or use price comparison tools to find a deal (22%) (Fig 5).

Against a more cautious consumer backdrop, retailers will have to work harder to win over the hearts, minds, and wallets of shoppers.

Fig 5: Thinking about your non-essential shopping this year, do you plan to do any of the following in response to the rising cost of living?



Source: Retail Economics, Squire Patton Boggs

Experiences Still a Key Part of the Value Equation

Consumers are more empowered than ever to jump between channels, switch brands and experiment with new technologies along the way – these being traits that served them well during the pandemic. In this environment of high customer expectations and reducing loyalty, experience can be a key differentiator for retailers.

Consumer expectations of value for money extend beyond price. Our research shows that when shopping for non-essential items, 88% of shoppers would not be prepared to pay less if it meant receiving inferior customer service.

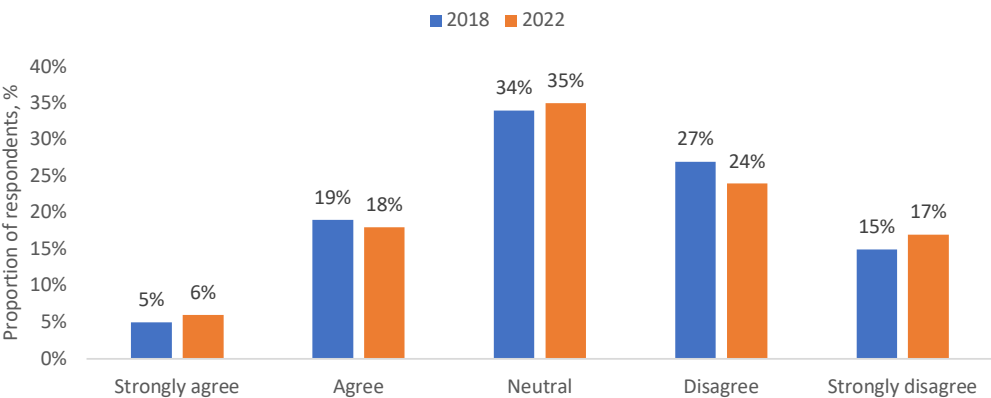
Brand reputation is another area that shoppers appear unwilling to compromise on. Three quarters (78%) of consumers would not switch to a cheaper brand if the values of the company are not aligned with their own.

In addition, nearly a quarter (24%) of all consumers would happily pay more for a better or memorable shopping experience. This rises to a third for the most affluent households, who are more likely to have accumulated a savings buffer during the pandemic.

Despite squeezed budgets and growing economic concerns, the proportion of consumers willing to pay for a memorable shopping experience is holding firm, remaining largely unchanged from when the same question was asked in the last report pre-pandemic (Fig 6).

Fig 6: A Quarter of Consumers Still Willing to Pay for Positive Experiences Despite Cost of Living Pressures

Q: “I am willing to pay more for the same product elsewhere if I receive a better or more memorable experience when purchasing it” – proportion of respondents that agree



Source: Retail Economics, Squire Patton Boggs

For many consumers, enjoyment will increasingly influence how they shop, what they buy and even where they go. As such, businesses that can deliver enjoyable and differentiated experiences will not only retain existing consumers but will likely win new ones too.

However, delivering enjoyable experiences means retailers and brands must deeply understand their customer cohorts. For some consumers, enjoyment will take the form of multisensory experiences across an online and offline customer journey. For others, it might centre on human contact made in-store, or an informative experience based on outstanding service.

The Four “E”s of the Retail Experience Economy

This section examines each of the four realms of experience (Escapism, Environment, Education and Entertainment) and their relative importance to consumers as they adapt to the emerging cost-of-living crisis in a post-pandemic era. It also explores what this means for retailers as they emerge from a health crisis and prepare for tougher economic conditions.

Even with budgets under pressure, consumer desires to “escape” home-life monotony and discover ways to distract from economic uncertainty will remain high on the agenda. Tapping into this heightened demand for escapism provides an easy win for retailers looking to generate meaningful experiences for shoppers.

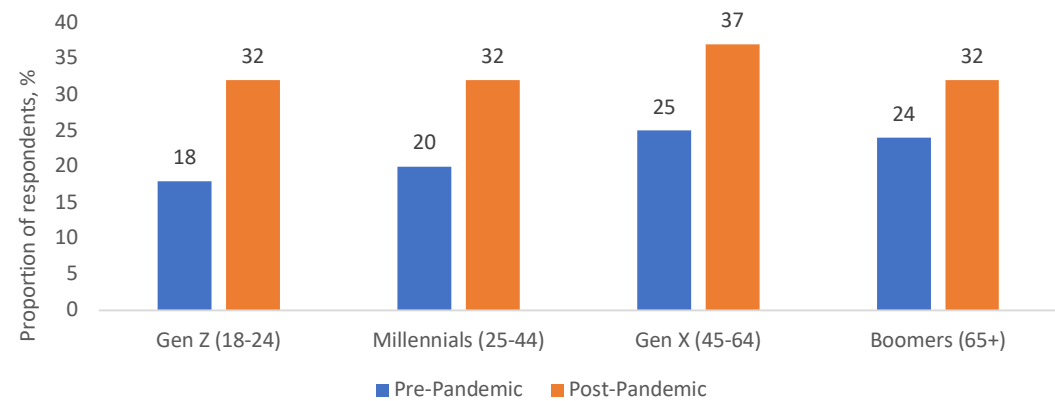
Escapism

Our research shows that across all consumer age groups, desire for escapism is significantly higher than pre-pandemic times (Fig 7). The lifting of COVID-19 restrictions is fuelling a renaissance of the experience economy, as significant pent-up demand for socialising, travel and other leisure activities is unleashed.

In addition, soaring inflation and geopolitical conflict has sent consumer confidence plummeting to all-time lows. This has resulted in consumers increasingly looking towards retail experiences to act as “down time” from such worries. In this context, shopping activities often serve a dual purpose with both psychological and material needs being met.

Fig 7: Greater Desire for Escapism Among All Age Groups Since Pandemic Restrictions Were Lifted

Q: “What is your main motivation for going on a non-essential shopping trip? A: Escapism: Reason to leave the house and do something different”



Source: Retail Economics, Squire Patton Boggs

Retail Therapy

Aspirational storytelling, imaginative settings and creative inspiration form the basis of powerful escapist experiences. As such, physical stores have an advantage over pure online shopping when it comes to retail therapy. Over a quarter of consumers (26%) said the experience of physical shopping helps “detach themselves,” providing a break from their daily routine, but only 10% of shoppers said the same for online.

Retailers are incorporating new concepts in-store or even migrating away from traditional retail formats to more avant-garde, trendsetting locations that offer greater scope for delivering escapism experiences. Flagship stores are a prime example, offering products and services unavailable at other stores such as restaurants or spa treatments. Notably, offering escapism experiences should be considered as part of a wider marketing strategy with return on investment (ROI) being achieved more successfully in the future.

Constant reinvention is another strategy that retailers can use to offer escapism. Using pop-up store formats is one way of achieving this, bringing the brand to new locations for limited times. Other retailers may look to create treasure hunt-style experiences or rotate inventory around a particular theme. This creates a “when it’s gone, it’s gone” urgency (e.g. used by Lidl and TK Maxx).

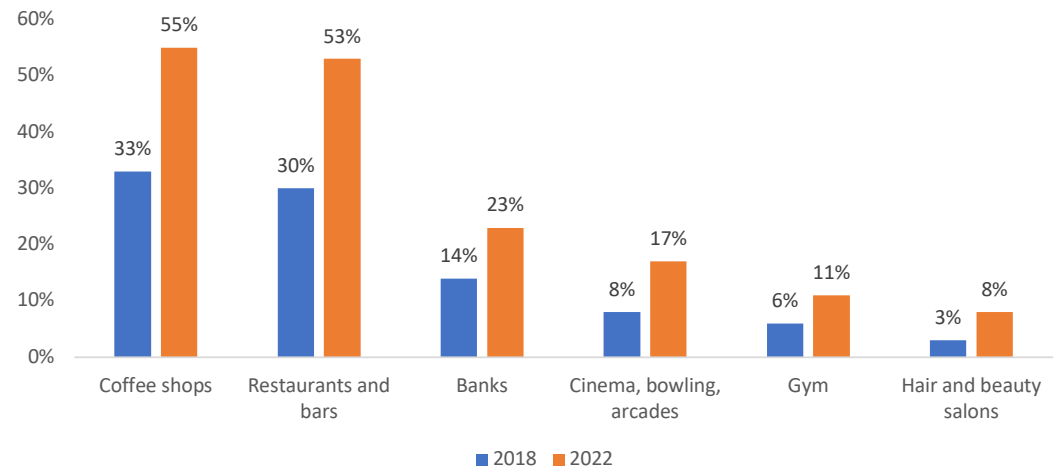
Shoppers Are Social Creatures

Our research shows that over half of consumers are more willing to shop at destinations that house cafes, restaurants and bars. With the social element a key priority for consumers, retailers should look to provide spaces and opportunities for shoppers to meet with friends as a secondary purpose to their shopping trip (e.g. Ingka Centres [Ikea parent] opened its Livat Hammersmith shopping centre market as a space to “meet, eat, spend time and experience new things”).

That said, shoppers are becoming more selective about where they shop and socialise. Consumers are shying away from cloned high streets in search of more authentic or novel experiences, including a greater focus on businesses that add genuine value to local people and communities.

Fig 8: Consumers Value the Social Element and Diversity of Mixed-use Destinations More Than Before the Pandemic

Q: “I am more likely to go out shopping if I know that in the same location there will be...”



Source: Retail Economics, Squire Patton Boggs

What Does This Mean for Retailers?

After two years of lockdowns and social restrictions, consumer desire for escapism has never been stronger. A masterful infusion of digital technology (interactive content, storytelling), diverse offerings (services/activities that offer something different) and excellent customer services in a new or inspiring environment can form a powerful escapist experience.



Environment

There has been a marked acceleration to online channels during the pandemic, raising consumer expectations of retailers' propositions to new heights around digital – yet the resurgence of in-person shopping since restrictions were eased shows physical stores also offer tangible experiences that cannot be replicated online.

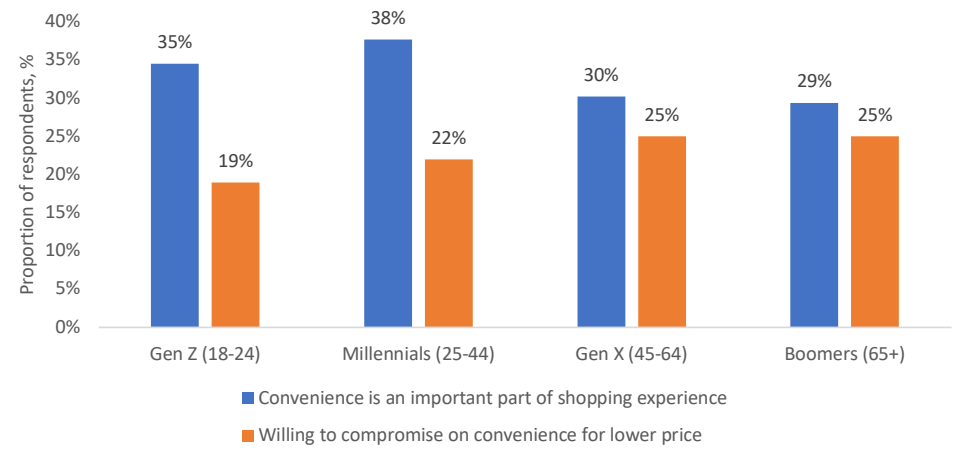
Increased Expectations

The rapid rise in online shopping since the pandemic has seen the influence of digital touchpoints throughout the customer journey become much more important, accelerating the merging of physical and digital channels.

While online sales are falling from lockdown highs as physical shopping bounces back, the formula for the retail environment has fundamentally evolved. Consumers now expect convenience, whether they are shopping online, offline or in a combination of the two, with their demands for rapid delivery, cheap prices and easy returns fast becoming the norm.

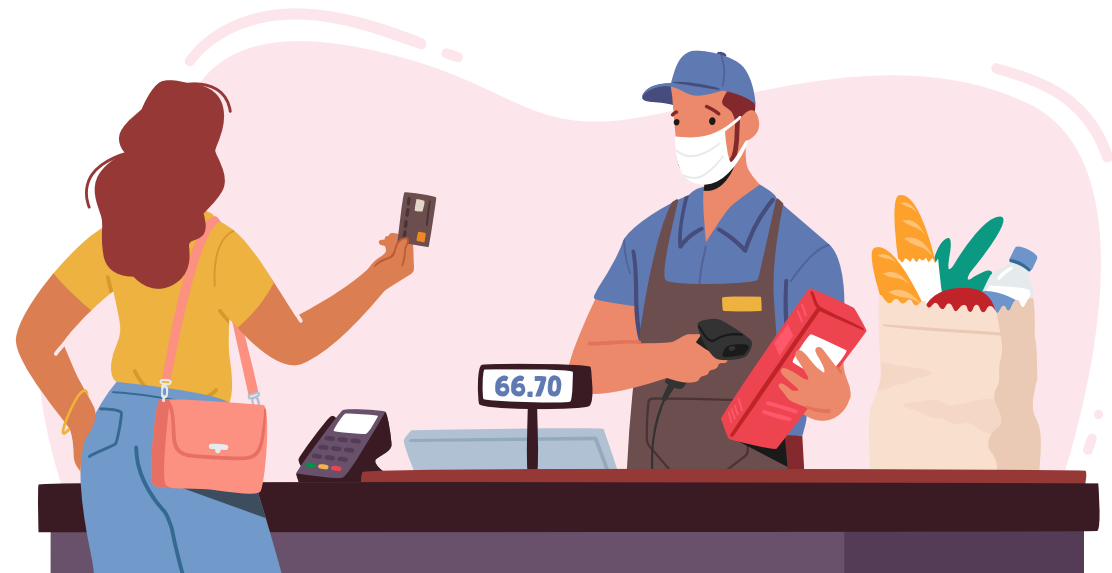
This is particularly the case for Gen Z and Millennials who are well accustomed to instant gratification and are less willing to trade off convenience (e.g. longer delivery times, hassle-free returns) in return for a lower price (Fig 9).

Fig 9: Younger Generations Expect Convenience and Are Less Willing to Compromise on This



Source: Retail Economics, Squire Patton Boggs

Consumers demand the flexibility and ease of navigation that comes with online shopping, but with the ability to “touch and feel” products and staff interaction in-store. This reinforces the importance of seamlessly linking online and offline experiences.



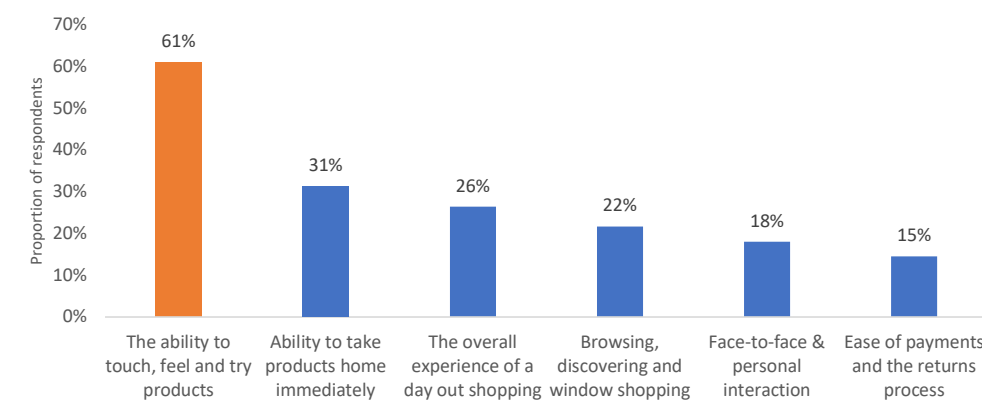
Shoppers Missed Physical Stores

When shopping online, 61 % of consumers miss the ability to touch, feel and try on products, while one in two (49%) shoppers said they browse products in-store to experience the brand and gain inspiration, before purchasing online.

This suggests that for many consumers, online shopping is more a functional and convenience-led activity. For more emotive purchases, where shoppers want to get hands-on with products before they buy, the in-store experience remains essential.

Fig 10: Consumers Value the “Touch and Feel” of Physical Retail Environments

Q: “When shopping online, what do you miss the most about shopping in-store?”



Source: Retail Economics, Squire Patton Boggs

Omnichannel More Important Than Ever

Omnichannel innovations have redefined customer expectations to encompass not only convenience but also a range of purchasing and fulfilment options as part of a seamless, digitally enabled experience.

Many retailers successfully pivoted their operations during the pandemic, investing heavily in capabilities designed to make the shopping environment safe and efficient (e.g. “dark stores” – stores becoming mini-warehouses).

Our research found that roughly a quarter (24%) of consumers use click-and-collect services more than they did before the pandemic. This rises to 38% for Gen Z shoppers, who are particularly attracted by this option.

However, as digital and physical retail environments merge, brands are under pressure to continually find new ways to stand out from the competition. E-commerce services that were previously considered niche or sophisticated (e.g. browsing a brand’s website to see which products are available in which stores) are now taken for granted by consumers.

Retailers will need to implement new solutions and utilise big data and innovative technologies to differentiate themselves. This could include digital screens that offer in-store shoppers access to certain features of online shopping (e.g. reviews, product comparison, fulfilment options), mobile/self-checkout systems, or augmented reality (AR) for trying on clothing or testing products.

What Does This Mean for Retailers?

A well-executed omnichannel strategy is a must-have for retailers. It must reduce friction between online and offline channels with impeccable customer service to deliver the “best of both worlds.” Continual improvement in combining in-store, online and mobile platforms will need to be an ongoing focus.



Education

Digital tools have increased transparency on product pricing, allowing customers to easily find the lowest prices in real time. This presents opportunities for retailers as they look to engage new audiences and educate them about their products or brand, particularly where price is not the only differentiator.

In a hyper-competitive retail landscape with more cost-conscious consumers, Education will emerge as a critical component of the retail experience economy.

Retailers must educate their consumers in-store, online and through social media to maximise conversion of sales – giving them the information they need, when they need it. Doing so can ensure their customers independently glide through the customer journey to the point of purchase, while creating trust and building loyalty.

The educational experience can assume many forms across the customer journey with applicability for high value or technical products that require a more involved process. In many cases, educational experiences will be supported by in-store personnel or increasingly using digital content (e.g. operational guides, explainer videos, help lines, chatbots, online FAQs, etc.).

Impeccable Customer Service as a Differentiator

Our research found that one in five consumers value being able to ask staff for help or information when shopping in-store, while 39% of shoppers value the educational experience of online shopping (e.g. availability of product reviews).

Retailers that have well-trained advisors and true brand advocates will be ready to meet heightened customer expectations and offer concierge-level service.

Retailers also need to adopt the most appropriate mix of technology to ensure the customer experience is informative, yet easy to consume. This could mean providing sales personnel with digital devices to enable them to help customers find what they need, offering product recommendations, or making mobile apps and social media a more prominent part of the shopping experience.

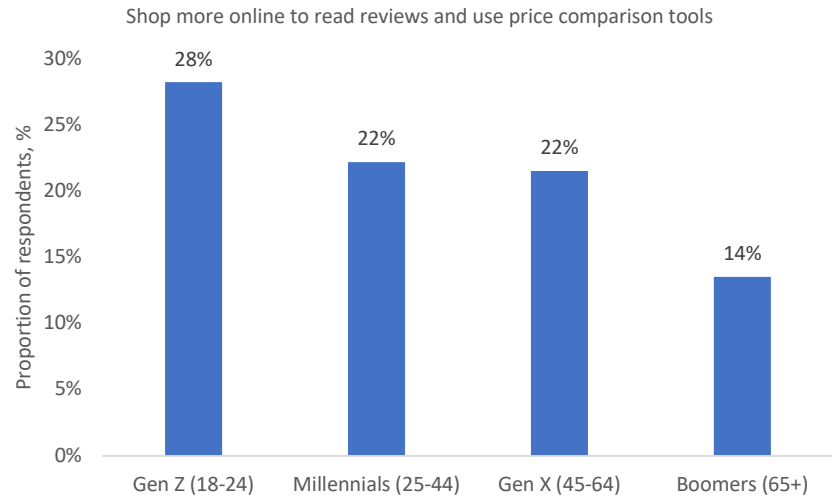
Consumers Shopping Around

Digital acceleration has handed additional power and greater choice to the consumer, increasing the complexity of the customer journey. Our research shows that consumers are increasingly turning to social media and price comparison websites to inform decisions, find bargains and overcome the “tyranny of choice.”

Nearly a quarter (22%) of consumers plan to do more research online and use price comparison tools before making a non-essential purchase.

Fig 11: Consumers Plan to Do More Research Online Before Committing to a Purchase Amid Cost-of-Living Crisis

Q. Thinking about your non-essential shopping this year, do you plan to do any of the following in response to the rising cost of living?



Source: Retail Economics, Squire Patton Boggs

Additionally, the cost-of-living crisis will see consumers consciously (and unconsciously) do more research, compare prices and shop around for deals before committing to purchase.

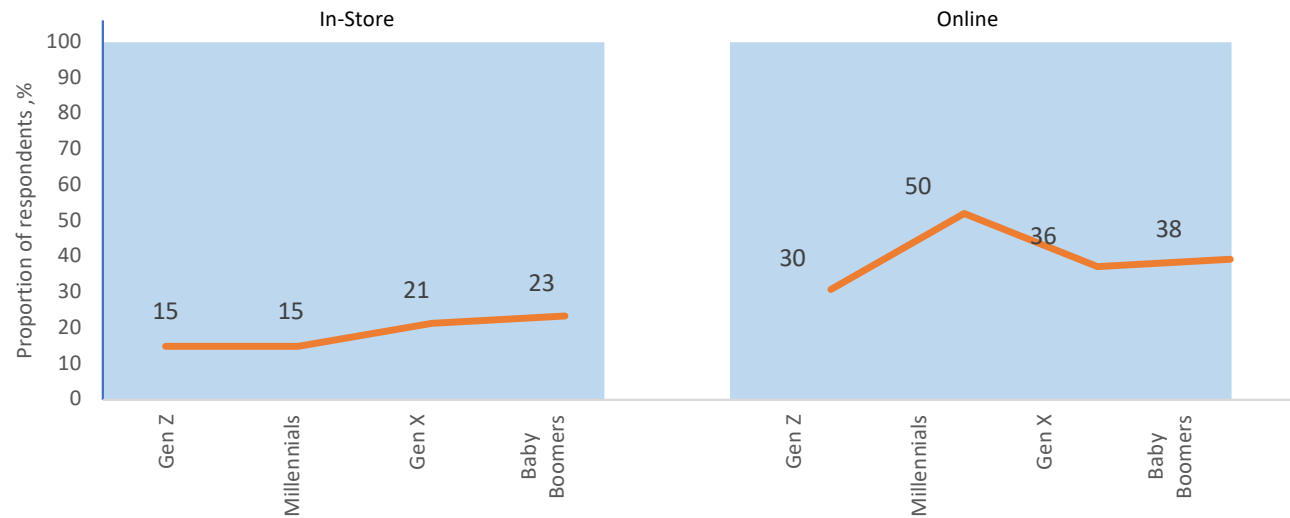
Now is the time for retailers to focus efforts on reaching “drifting” consumers as they explore new brands, trade down, and shop around for deals in response to rising living costs.

However, as the battle for consumers’ attentions is increasingly fought online, the cost per acquisition of online customers is being driven higher. Retailers not only have to pay the costs of their physical stores, but also pay a form of digital “rent” to display their goods high up on online search engines or social media platforms. In essence, Google, Facebook, Twitter, Instagram, Pinterest and TikTok are becoming the landlords of the digital environment, aided by the growing popularity of influencers.

With many retailers already facing dwindling margins, winning new customers cannot come at any cost. As such, a detailed understanding of the cost-attribution and revenue allocation model will be essential. This includes accurately calculating return on investment of digital ad spend to maximise budget efficacy.

Fig 12: Consumers Value Online Channels for Educational Experiences, With Digital Conducive for Product Reviews and Inspiration

Q. “Education is an important part of the shopping experience,” percentage of respondents that agree.



Source: Retail Economics, Squire Patton Boggs

What Does This Mean for Retailers?

Retailers should consider new or more effective touchpoints for educating and engaging with customers, such as social media and virtual demos. Such technology not only provides next generation customer experience, but it also gives retailers access to valuable data that can feed into personalisation algorithms or be used for price optimisation and promotions.



Entertainment

Even in a period of economic uncertainty, consumers are rediscovering the joys of physical shopping and the entertainment it can provide. Physical stores can act as “playgrounds” for consumers and they create a “halo effect” for sales by generating interest, excitement and brand buzz.

As retailers’ cost pressures mount and consumers become more price-focused, entertainment could be seen more as a “nice-to-have”, rather than a key part of the shopping experience. However, as retailers compete for a shrinking share of consumers’ wallets, offering fun and interesting activities (in-store or online) may prove an underestimated, yet effective, way for brands to stand out from the crowd.

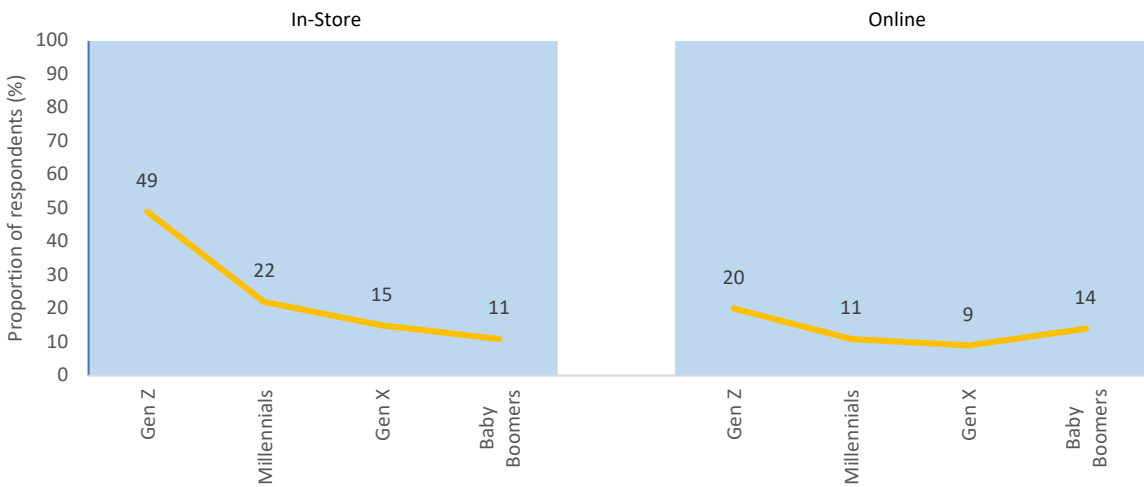
After all, COVID-19 reinforced the importance of offering unique in-store experiences and services that customers simply cannot receive online. This can be achieved by providing tactile and sensory experiences with attention-grabbing and captivating content. In doing so, this introduces absorbing impressions that imprint on the memory. Types of content can include in-store workshops, demonstrations, glitzy fashion shows, celebrity book signings or even live streaming, to name but a few.

Emotively created memories encourage customers to shop with a retailer and to share these experiences with friends and family via social media, helping to nurture the retailer’s brand and associated communities.

Our research shows that the value consumers place on the importance of entertainment differs considerably by age and channel (Fig 13). Unsurprisingly, younger consumers rank entertainment as their most important attribute of the shopping experience when shopping for discretionary goods.

Fig 13: Physical Shopping a Source of Fun and Entertainment Especially for Younger Consumers

Q. “Entertainment is an important part of the shopping experience”, percentage of respondents that agree.



Source: Retail Economics, Squire Patton Boggs

Retailers should be mindful that most Millennials and Gen Zs engage with retailers with an entirely different level of expectation. The entertainment component must cater for shorter attention spans, social media integration and increased expectations around trialling or sampling products. These generations represent the future path of retail, and as they become more commercially significant, retailers must continually adapt their provision of experiences to an audience that is more mobile, social, collaborative and tech-savvy.

Entertainment is also a key differentiator between stores and online. Around a quarter (23%) of consumers see the ability to browse and shop in-store as a fun activity, compared to just 12% for online.

“Retailtainment”

The fusion of entertainment and retail is nothing new, but it is likely to take on new heights in a post-pandemic world as physical stores reposition themselves as destinations of discovery.

Nevertheless, retailers need to be careful and deliver authentic and relevant on-brand experiences; anything “gimmicky” may fall flat in the eyes of a savvy, more cost-conscious consumer. It will also take time for some shoppers to feel comfortable again in crowded environments, or to take part in activities involving risk of viral transmission.

The Future of the Retail Experience Economy

Many consumers will be looking to discover new experiences as they reassess their values in response to the cost-of-living crisis and (hopefully) with pandemic memories fading. Retailers and brands that keenly understand emerging opportunities, and how to harness them, will be best placed to benefit from turbulent times ahead. Here, we explore five key themes that will be paramount to the Retail Experience Economy in 2022 and beyond.



Omnichannel and The Changing Role of Stores

As industry restructuring continues, the purpose of stores will evolve. As such, there will be a renewed focus on reimagining and repurposing physical stores to improve customer experiences.

The future role of the store will go beyond mere distribution; they will function as “brand-bonding centres” where customers can discover, interact and enjoy novel services (e.g. lifestyle advice). Stores will also aid in the personalisation of products and may not even hold stock for customers to take away, thus becoming more like showrooms with same/next day delivery.

Sharing experiences on social media will become “hyper-trendy” with store membership services that extend beyond a brand’s core product range. Some stores may be geared towards click-and-collect, more akin to a walk-in fulfilment hub for collection and returns. Nevertheless, the continued fusion of physical and digital realms will be key.

If stores go beyond selling products by also offering valuable experiences, then their success cannot be judged on a “four-wall profit test”, or in other words, revenues via the till. Their measure of success will demand new performance metrics that recognise its role as a “media” asset and powerful customer acquisition tool.

Successful retailers and leisure brands will use more sophisticated techniques to assess the quality and value of experiences within their physical locations. This will include more widespread use of in-store analytics and AI-powered insights. Retailers can use the data available to personalise the customer journey in real-time and at scale, making sure shoppers feel valued and understood, whether they are in browse or buy mode.

“The demise of the high street store has been predicted for over 10 years now, but there is little doubt that physical stores can be of comparable value to digital channels – provided they co-exist in a seamless, symbiotic relationship. Cue the rise of more omnichannel business models, where physical stores provide a space for experience, entertainment and education, and digital channels deliver convenience.

With our freedoms restored, post-pandemic consumers are now seeking escapism. The physical store has regained its allure, attracting customers to browse products, learn more about their purchase, and enjoy a leisurely day out. It also allows retailers to drive footfall into the store with click and collect and then sell more products to the customers during that collection process.

The slow transition to turnover rents has been greatly accelerated by the pandemic, as Landlords have realised that Tenants expect them to be prepared to share in the changing fortunes (both for good and bad) of the stores that they own. This should, in turn, improve the shopping experience as it means the Landlords have a vested interest in ensuring that the shops are as successful as possible.”



Prew Lumley
Partner
Squire Patton Boggs

ESG and Sustainability

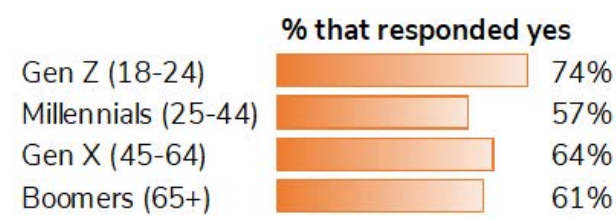
ESG will remain a priority for retailers who will need to navigate consumer spending pressure, legislation and reporting requirements, alongside growing investor activism.

Shoppers’ purchasing habits are increasingly shaped by responsible consumption and the desire to “do good”. Consumers are more mindful of what they buy, how products are manufactured, and where materials and ingredients are sourced.

Our research shows that 63% of consumers believe their experience of shopping with a retailer will be enhanced if they were able to clearly demonstrate strong ethical and environmental credentials.

Younger shoppers are particularly attuned to sustainable retail experiences, with nearly three quarters (74%) of Gen Zs considering ethical and environmental credentials as an important factor, more than any other age group. However, across all age groups, it remains a serious consideration (Fig 14).

Fig 14: My Experience of Shopping With a Retailer Would Be Enhanced if They Were Able to Clearly Demonstrate Strong Sustainability, Ethical and Environmental Credentials:



Source: Retail Economics, Squire Patton Boggs

Resale is expected to be a major trend in the retail landscape for 2022 and beyond. As spending power is reduced and retailers’ overheads increase, the booming resale and second-hand market not only offers an affordable shopping option to cash strapped shoppers, but also meets the strong desire from conscious consumers to minimise their impact on the environment.

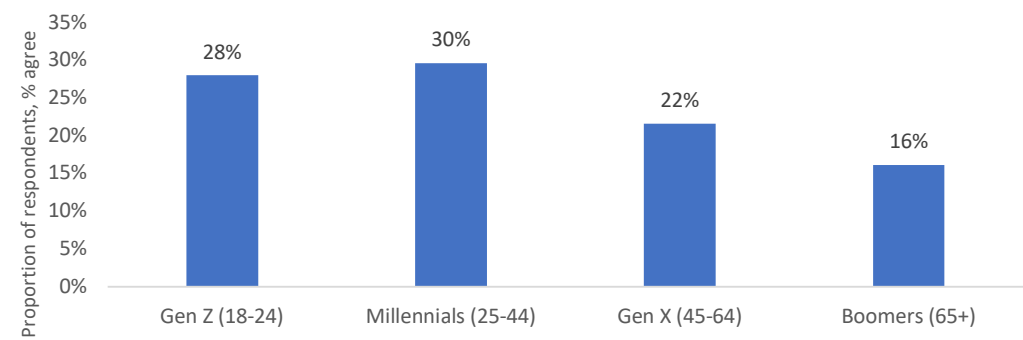
Our research shows around one in four (24%) consumers plan to buy second-hand or use resale sites in response to the rising cost of living.

For retailers, allowing customers to resell items they previously purchased from a brand or business on their e-commerce site offers a circular, brand-loyal experience for customers, while helping with ESG commitments by extending the product lifecycle.

Retailers are already making moves to offer “pre-loved” selling to their customers. For example, Asda has been piloting second-hand clothing across its supermarkets, Ikea sells reused furniture through its “buy back” initiative, and Urban Outfitters recently launched its own peer-to-peer resale marketplace.

Fig 15: Consumers Turning to Second-hand and Pre-loved in Response to Rising Cost of Living

Q. “Thinking about your non-essential shopping in 2022, do you plan to do any of the following in response to the rising cost of living? A. Buy second-hand or shop on resale sites”



Focussing on the social element of ESG (not just net-zero emissions) will be integral for brand reputation. For example, the speed at which retailers and brands had to react to the Russia-Ukraine conflict illustrates the importance of understanding changing consumer values and adapting their customer experience and marketing to reflect this. It is important to be seen to do the right thing.

ESG policies have a key role to play in building trust and loyalty among socially minded consumers, while ensuring the Retail Experience Economy makes a positive and lasting impression at both a local and global level.

“A high-profile issue for retailers is ‘greenwashing’, the practice of making misleading or vague claims about the environmental credentials of products or services. Heightened consumer awareness of environmental and sustainability issues and the speed at which news can spread on social media means that a greenwashing gaffe can damage brand loyalty and profit overnight. This is also attracting the attention of regulators. The Advertising Standards Authority has already taken action against a number of high-profile retailers making green claims about their products, and in January 2022, the Competition and Markets Authority announced it had commenced an investigation into greenwashing in the fashion retail sector. The investigation will in particular consider claims about the use of recycled materials, as well as claimed “sustainable” branded clothing ranges. Action is expected against infringing businesses. While the fashion industry is the first under the spotlight, the CMA has said that any sector where it found ‘significant concerns’ could be prioritised.”



Anita Lloyd
Director
Squire Patton Boggs

Partnerships

As market pressures continue to mount, and brands struggle to maintain relevance, companies will increasingly look to join forces via strategic partnerships that cut costs, create growth opportunities and deliver competitive advantages.

Retailers like Next and M&S are pivoting their business models towards multibrand, multichannel ecosystems that can compete more effectively with pure online players such as Amazon or ASOS.

Taking inspiration from networks that technology and financial services giants have built, emerging retail ecosystems are coming about, which go beyond traditional supplier relationships. These are spurring on innovation and generating elevated levels of value for customers.

One inherent benefit of these ecosystems is that no single company owns or operates all components of the proposition, thus distributing the risk more equally – a reassurance to many retailers. The value gained from this type of collaboration is much larger than the combined value each of the players could contribute individually.

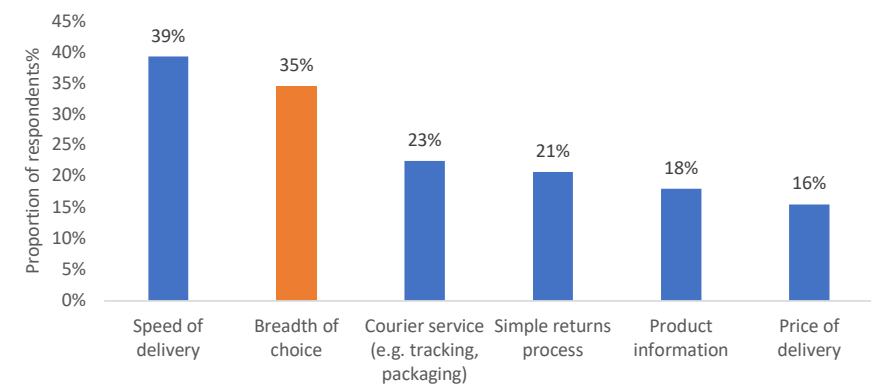
For instance, in Next’s tie-up with Reiss, Next will leverage its e-commerce expertise to run Reiss’s online operations and supply chain, generating cost efficiencies across both businesses, while bringing a more compelling retail experience for their customers.

For smaller brands, partnerships mitigate against risks associated with innovation, enabling them to achieve scale online faster and more cheaply than trying to build the required infrastructure themselves.

For consumers, the ability to browse and shop with a curated mix of brands on the same platform enhances the online shopping experience. Our research shows that 35% of consumers value most the expansive choice that online offers. However, multibrand retailers must maintain price transparency and product differentiation across their portfolio, otherwise they risk undermining customer trust and loyalty.

Fig 16: Brand Partnerships Are a Useful Way for Retailers to Enhance Offering

Q: “What part of the online shopping and delivery experience do you value the most?”



Source: Retail Economics, Squire Patton Boggs

Handing over greater control of the customer journey to third parties (e.g. social media influencers, logistics providers or partnering retailers) involves increased reputational risk. Clearly, retailers must ensure that any partnership supports the experiences they wish to create for their customers and dovetails with their brand values.

“The competition in the market is heating up, with new strategic partnerships between brands and the retail experience economy being increasingly delivered through digital transformation programmes, which are revolutionising the way retailers interact with their customers and suppliers. Retailers need to ensure that they project manage and deliver their e-commerce platforms lawfully. They also need to securely and effectively manage the negotiation of procurement, supply and logistics contracts; the supply and acquisition of business critical systems; and outsourcing of core business functions, with the consumer experience driving all decisions underpinned by stringent data protection, e-privacy and cybersecurity technologies compliance.

The retailer, brand and consumer experience have never been so aligned. Protecting the brand is paramount to reputation and, therefore, consumer experience and, in turn, revenue. Whether a media crisis is brewing or they are proactively seeking to manage, protect or exploit their reputation, retailers need to be poised to respond quickly and effectively. In terms of brand protection, it is critical that retailers have effective trademark, copyright, registered and unregistered design protection and portfolio counselling. Having robust controls of endorsement and sponsorship deals (such as with influencers) may also be key to the consumer experience.”



Carlton Daniel
Partner
Squire Patton Boggs



Empathetic Communication and Loyalty

While some businesses may be tempted to target post-lockdown “revenge spending” and conspicuous consumption, this is unlikely to be the right tone now, given that most households will be affected to some extent by financial pressures.

Retailers must understand their consumers and the economic circumstances they face and adapt accordingly. Successful businesses will not only acknowledge that people are feeling the pinch but offer ways to help them mitigate the challenges. Consumers are more likely to remember and reward those businesses that helped them through the biggest squeeze in disposable income in more than a generation.

While wallets are being squeezed, consumers’ preference is not to switch to a cheaper retailer or go without if they can help it. They will first look for special offers or discounts with their preferred retailer or brand. For example, nearly a fifth of consumers (18%) plan to shop in the same places, but less often.

Businesses can help their customers to cope with the crisis by offering them the ability to save money and trade down. For example, expanding loyalty schemes that offer better, personalised rewards for customers.

The overriding aim of a loyalty scheme is to incentivise extra purchases and return visits through discounts and promotions. Rewarding loyalty in this way will be key as the cost-of-living squeeze tightens.

That said, although consumers will be shopping around for deals, they are also smart enough to understand that value-for-money does not always equate to the cheapest price, among other factors such as quality and convenience. As budgets become increasingly squeezed, leveraging authentic and empathetic communication can be used for achieving competitive advantage.

“As household budgets become squeezed, empathetic and meaningful communication can be a highly effective tool for brands to build loyalty and achieve a competitive advantage. However, striking the right tone with shoppers reverberates far beyond the cost-of-living crisis. This research shows consumers are paying closer attention to how companies treat their employees and the environment, as well as their customers – and in some cases, are willing to pay extra to reward companies that ‘do the right thing’. The ability to tell a compelling ESG story has become increasingly important to consumers and can be a differentiator of choice for many. This has significant implications for how brands connect with consumers, on what platforms, while tailoring a personalised narrative that strongly resonates with them.”



Richard Lim
Chief Executive at Retail Economics

Recruiting and Retaining Talent

With labour vacancy rates hovering at record highs, retailers face a challenge in securing the relevant skills and resources needed to offer the experience.

The rapid migration online highlights the need for retailers to intelligently leverage big data and use analytics to better target, understand and entice customers. The success of future retail experiences will hinge on personalisation and customisation, enabling shoppers to curate their own journey within a brand’s ecosystem.

However, this often requires specialist skillsets, which many retailers lack. Here, looking for tech-partnerships or securing specialist data scientists requires significant investment with long-term strategies.

Competition for IT professionals was already high before the pandemic, but the increased urgency to embrace digital has further elevated wage costs as retailers scramble to hire analysts, developers, data scientists, UX designers and digital marketing specialists. In the UK, average salaries for e-commerce roles grew by double-digits in 2021.

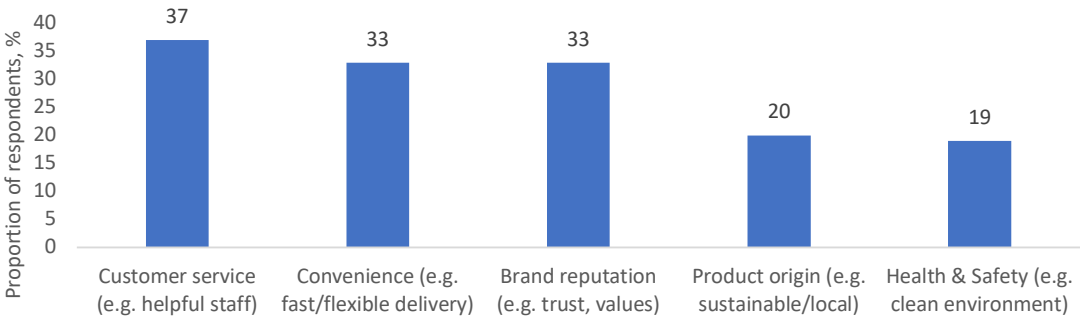
Retailers face the challenge of investing in new talent – from digital roles to delivery drivers – at a time where labour costs are increasing, driven by rising minimum wages, pension and social security contributions, and expectations around employee welfare.

For consumers, good customer service (i.e. helpful, knowledgeable staff) is considered to be one of the most valued aspects of the shopping experience.

Aside from product quality, our research shows consumers are least receptive to compromising on customer service in return for a lower price. This is exemplified by a recent petition urging Tesco to “stop replacing people with machines”, which has been signed by over 100,000 people due to frustrations with self-service checkouts. This reinforces the need for retailers to recruit and retain top talent in their business.

Fig 17: Good Customer Service Essential to a Successful Shopping Experience

Q. “When shopping for a non-essential item (e.g. clothes, electricals, furniture), what do you consider to be an important part of the experience?”

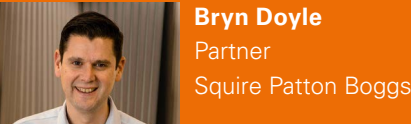


Source: Retail Economics, Squire Patton Boggs

“Today, more than 90% of retailers are facing a labour shortage. At a time where talent is scarce and labour costs are increasing, recruitment and retention is a critical challenge for retailers.

The rise of the experience economy and omnichannel business models has created a shift in the skill set required by the industry. Store assistants are required to show exceptional enthusiasm, brand advocacy and expert knowledge about their product range in order to educate consumers and create the enticing in-store experience that consumers are seeking. Meanwhile, digital channels have created new vacancies for order packers, couriers and data analytics roles to name just a few. Moreover, the more technologically advanced or creative the role, the higher the salary in command.

For retailers whose margins are already stretched tight, there is more to offer than just an attractive salary. Today, employees want to work for brands that are making a meaningful difference in society. They want an employer who cares for their workforce and offers career progression. They want an employer who thinks about their environmental impact and acts sustainably. Hence, businesses need to think creatively about how they can utilise their ESG achievements to attract talent as well as the consumer.”



Bryn Doyle
Partner
Squire Patton Boggs



Conclusion

As the COVID-19 crisis subsides, to be replaced by a cost-of-living crisis, the retail industry continues to transition towards a new retail landscape where the experience economy will take on even greater significance for many consumers and retailers.

After two years of restrictions, the value of positive experiences has been elevated, generating a strong desire within consumers to discover new brands and channels while seeking out opportunities to “escape” the high levels of uncertainty and disruption at present. Driven by the desire to save money, shoppers are also being increasingly drawn to educational retail experiences that are convenient, transparent and digitally enabled.

Although seemingly counterintuitive, companies that can reduce costs while finding capital to invest in experiences in a downturn can differentiate themselves and be well-positioned when consumer confidence increases and discretionary spending bounces back.

Many retailers and brands will also need to adapt their business models to stay ahead of the curve. This might involve forming strategic partnerships and investing in tech-driven platforms to open up opportunities to reach new audiences.

Although the value attached to the experience economy is variable, leverage can be achieved by retailers and brands that successfully execute strategies that apply elements of the Retail Experience Economy (Education, Environment, Escapism, Entertainment) valued by consumers. Particularly, in such challenging times, staging meaningful, positive experiences that deeply resonate with consumers on a psychological level can forge deep bonds. This will hugely help businesses that are working stridently to survive and thrive as the industry faces more challenging times ahead.

“In the wake of national lockdowns and the spiralling cost of living, when looking at non-essential purchases, the evidence indicates that consumers are leaning more towards seeking experiences that will help them escape from everyday pressures. At the same time, we are seeing more of a focus on sustainability and environmental and governance factors, and this will increasingly become a serious consideration despite the cost of living, which is forcing consumers to prioritise essential purchases over luxuries. This means that retailers are being asked to grapple with the competing demands of a consumer desire for escapism, for entertainment and for something different in a world where there are real pressures on spend.

With consumers feeling a pinch in the purse, delivering value for money is key for retailers, while at the same time making sure they differentiate using the four ‘E’s of the Experience Economy to encourage and inspire discretionary spend. Delivering value goes beyond price point to include, customer service, brand values and convenience. The four E’s of Education, Environment, Escapism, Entertainment, as discussed in this report, should help retailers understand how to deliver value in line with rapidly changing consumer desires and demands, and the macro forces that retailers are currently facing.”



Matthew Lewis
Partner
Squire Patton Boggs



About Retail Economics

Retail Economics is an independent economics research consultancy focused on the consumer and retail industry. We provide thought leadership and cutting-edge insights on major economic and retail trends to explore their impact on the industry.

Retail Economics also offers proprietary data on sector growth, channel performance, behavioural trends, and industry forecasts.



About Squire Patton Boggs

One of the world’s strongest integrated law firms, we are committed to providing insight at the point where law, business and government meet.

We give our clients a voice, support their ambitions and are committed to working alongside them to achieve successful outcomes.

A multidisciplinary team of more than 1,500 lawyers and over 40 offices across 4 continents, provides unrivalled access to expertise, guidance and invaluable connections on the ground. It is a seamlessly connected service that operates on any scale – locally or globally – and encompasses virtually every matter, jurisdiction and market.

We advise a diverse mix of clients, from long-established leading corporations to emerging businesses, start-up visionaries and sovereign nations.

And we place our clients at the core of everything we do.

Our Retail Group

Our Retail team works hard to bring the right people together to provide a coordinated and commercially relevant service. The principle of “best player plays” means you get the best adviser for the job, wherever you are in the world. Retail has no borders.

We have a proven track record of advising supermarkets, department stores, fashion houses, manufacturers, distributors, logistics operators, property developers, landlords and online businesses. You will benefit from:

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- **Thought Leadership** – Our commitment to the sector is evident in our investment in thought leadership. We are proud to be involved in producing;
 - **Multichannel Reports** – Working in partnership with Retail Economics, Retail Trust, and Kantar Retail, we researched and published various reports on the key issues facing retailers
 - **Sector focused events** – including our iconic Retail Debates in partnership with Retail Economics. Held in London and across our regional offices, our retail debates bring together leading retailers to talk through some of the challenges they have faced.

