PROPTECH: THE RETAIL ENVIRONMENT

INTRODUCTION

PropTech has the potential to create the theatre and experience to re-invigorate our stores and retail destinations. The IoT will be the pivotal architecture to achieve this; data the new energy to charge a transformation that is customer centric and personalised. Revitalised strategies and clever application of technology have the potential to deliver better returns, lower risk and reduce vacancies.

We hope you will find some fresh insights about the impact of technology in this material. Our sector and technology law experts can help you shape the new strategies required to gain the greatest benefit from new innovations.

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WHAT CLIENTS WANT: EXPERIENCE CENTRES

Only 4% of UK PropTech companies currently focus on the retail sector, far less than commercial and residential[1]. This figure is likely to rise though, both because of the still immense potential in physical retail, and as new retail formats merge the best of the online and physical worlds.

The World Economic Forum states that fluid consumer demands will '…cause the retail landscape to change more in the next ten years than it has in the past forty[2].' While online is a clear change factor, engagement technologies such as virtual reality and augmented reality will give rise to immersive in-store retail that creates new and increasingly personalised consumer experiences.

As more activities shift to online and third spaces, spatial economics will shift[3] as more activities become geographically disconnected; the boundaries between physical and digital becoming less and less distinct. Daily consumer activities comprising healthcare, leisure and commerce are shifting to third spaces enabled by ambient technologies. Consumers will not just be doing things differently, but doing them in different places. This holds as true for pure-play online retailers as it does for traditional ones.

1 Source: Unissu, 2019 https://www.unissu.com/proptech-resources/proptech-in-the-uk

2 Source: World Economic Forum, 2016 http://www3.weforum.org/docs/IP/2016/CO/WEF_AM17_FutureofRetailInsightReport.pdf

3 Source: Forbes, 2017 https://www.forbes.com/sites/baininsights/2017/05/10/how-spatial-economics-will-change-the-way-we-live-and-work-infographic/#2e0f88313441

THE PHYSICAL STORE AS THE NEW OMNICHANNEL

Nearly 80% of retailers say it's 'business critical' that they integrate omnichannel experiences into their stores[4], In Europe, only 25% feel that they are on the right track[5]. Due to the expanding omnichannel and networked nature of technologies '…we're no longer in a place where we can pick even the Top three or Top five technologies…you've got to look at everything simultaneously[6].' This represents a different way of thinking from even five years ago and will severely test the strategies and competencies of physical retailers. It also has implications for online retail since not all tech experiences can be realised online. This will likely prompt further boundary erosion between the two mediums, physical formats becoming more like e-commerce and vice-versa. This will be literal in many cases; witness Amazon's plans for more than 3,000 Go stores by the close of 2021[7].

IoT AS PIVOTAL ARCHITECTURE

The gap between 'what's possible' and business as usual is in many cases widening. Technology is evolving at a rate far greater than many retailers and wider businesses can adapt to, and apply in a strategically coherent manner. Those with the vision to align goals, technology and buildings are likely to become market leaders.
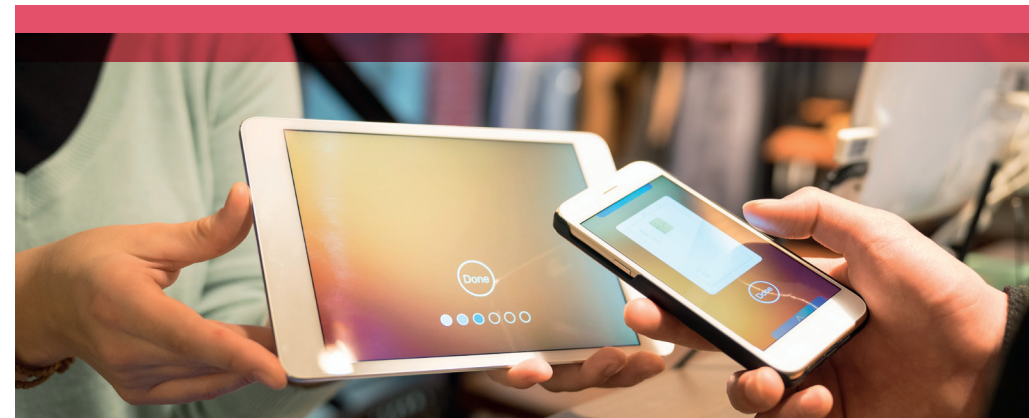
It is therefore perhaps unsurprising that the retail and consumer goods sector, more than any other, sees the Internet of Things (IoT) as being central to its digital transformation strategies. 56% of the sector express this view, compared to 54% in IT and tech and 52% in financial services[8]. The value of the global connected retail market was $16.3 billion in 2016 and $19.4 billion at the end of 2017, and further growth is expected, with the market expected to touch $82.3 billion by 2025[9]. Given that, by 2030 more than two-thirds of purchases are forecast to still occur in physical stores[10] (and an even greater percentage influenced by in-store experiences), the IoT is emerging as a pivotal retail architecture.

The United States will likely prove an interesting test ground for new retail formats since it is historically over-endowed with retail space, with an estimated 23.5 square feet of retail for every American, compared to 4.6 in the UK and comparable figures for France and Canada[11]. With each 1% increase in online penetration, forecasts suggest some 8,000 to 8,500 stores in the US will need to close[12]. Since some 30% of the US retail sector's entire profit pool are currently deemed at risk of takeover or failure[13], we are likely to see innovation based around in-store data-led consumer understanding[14].

RETAIL'S INTELLIGENT TRANSFORMATION

In the UK, the internet is expected to account for 53% of retail sales by 2029, up from around 20% in 2019[15]. Whether this internet use is via pure-play online retail or via increasingly digitised physical space is undetermined. Few retailers – less than 10% according to McKinsey – deploy personalisation beyond their digital channels. This represents a huge opportunity for PropTech and the revolution of in-store experiences and engagement.

Privacy issues aside, there is ample room for PropTech to shape a better future physical retail environment. Advance analytics can inform personalisation, AI enabled tools can improve service. Facial recognition, location recognition and biometric sensors will become more widely used.

4 Source: Forbes, 2018 https://www.forbes.com/sites/danielnewman/2018/02/20/the-iots-impact-on-the-future-of-retail/#79753a7a7b1a

5 Source: Entrepreneur, retrieved 2019 https://www.entrepreneur.com/article/313970

6 Source: Think Advisor, 2018 https://www.thinkadvisor.com/2018/09/17/from-robo-advisors-to-brain-chips-the-future-of-ai/?slreturn=20190207093801

7 Source: Bloomberg, 2018 https://www.bloomberg.com/news/articles/2018-09-19/amazon-is-said-to-plan-up-to-3-000-cashierless-stores-by-2021

8 Source: Economist, 2017 https://www.eiuperspectives.economist.com/technology-innovation/iot-business-index-2017-transformation-motion/article/transformation-store

9 Source: Retail dive, 2017 https://www.retaildive.com/news/iot-to-drive-the-connected-retail-market-to-823b-in-2025/517267/

10 Source: AT Kearney, 2017 https://www.atkearney.com/retail/article?/a/the-future-of-shopping-centers-article

11 Source: Forbes, 2019 https://www.forbes.com/sites/pamdanziger/2019/04/10/retail-downsizing-will-accelerate-as-75000-stores-will-be-forced-to-close-by-2026/#11f9e5c5339e

12 Source: Forbes, 2019 https://www.forbes.com/sites/pamdanziger/2019/04/10/retail-downsizing-will-accelerate-as-75000-stores-will-be-forced-to-close-by-2026/#3eb05b37339e

13 Source: Chain Storage, 2019 https://www.chainstoreage.com/finance-0/bain-co-threat-of-retail-takeovers-failures-very-real/

14 Source: Chain Storage, 2019 https://www.chainstoreage.com/finance-0/bain-co-threat-of-retail-takeovers-failures-very-real/

15 Source: Guardian, 2019 https://www.theguardian.com/business/2019/jul/09/half-of-uk-retail-sales-will-be-online-within-10-years-report-predicts

EXAMPLES FROM ASIA

Solutions should ideally also cover the macro-environment. In Asia, malls operated by Link Asset Management have allowed Asiabots – a start-up specialising in AI Chatbots – to put it's AI concierge app into use in a scoping project. While initially prosaic – the bot allows users visiting a Link owned mall to ask questions, find locations and directions and other forms of information, the AI concierge also '…collects and analyses shopper interactions to turn the data into useful analytics for Link and its tenants[16].' As technologies evolve, such concierges could become recommendation engines based on personalised inputs, helping find the best deals, sales and perhaps providing coupons for use throughout the mall.

Shopping malls and retailers in Asia are increasingly using facial recognition technology to track customers and collect basic demographic data like gender, age and ethnicity[17]. Appropriately handled and with consent, such data could form the basis of new services offered to tenants, boost traffic and help imbue physical retail environments with not only 'me too' features to compete with Amazon et al but perhaps a superior local segmentation category.

Either way, an intelligent real estate strategy, replete with smart buildings and some sort of shared data architecture across multiple stores could help both deliver high returns, reduce vacancies and present a lower risk for investors. Such data could ultimately improve real estate valuation and the platforms needed for this could increase real estate liquidity[18].

Our thanks to David Smith, CEO of Global Futures and Foresight, for his contribution and his support of this material.

16 Source: South China Morning Post, 2018 https://www.scmp.com/business/companies/article/2145546/how-proptech-changing-hong-kongs-property-industry

17 Source: South China Morning Post, 2018 https://www.scmp.com/business/companies/article/2145546/how-proptech-changing-hong-kongs-property-industry

18 Source: ING, 2018 https://think.ing.com/uploads/reports/ING_EBZ_PropTech-Technlogy_in_the_real_estate_sector-June_2018_tcm162-148619.pdf

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