

**Reinventing
Retail:** What
Businesses
Need to Know
for 2015



Walker Sands' 2015 Future of Retail Study examines changing trends and consumer behaviors in retail. Based on a survey of more than 1,400 U.S. consumers, Walker Sands' second annual report uncovers what consumers want in an omni-channel shopping experience and how retailers can use technology to increase sales in 2015 and beyond.



TABLE OF CONTENTS

In This Report

- » *Table of Contents* 2
- » *Executive Summary* 3
- » *Key Findings* 4
- » *Online Shopping Habits* 5
- » *Payment Methods* 8
- » *Emerging Technology* 12
- » *Recommendations* 14
- » *Walker Sands' 2015 Future of Retail Study* 15
- » *Methodology* 15
- » *Contact Us* 15



EXECUTIVE SUMMARY

In the year since Walker Sands conducted its first Future of Retail Study, the industry has continued to experience a transformation driven by trends such as the rapid rise of mobile commerce, introduction of Apple Pay, and same-day shipping experiments with drones and couriers. It has also been shaken up by point-of-sale hacking scandals, marketplace Alibaba's massive initial public offering, and the evolution of Black Friday from one day of deals into its own promotional season.

There is no doubt that 2014 ushered in a wave of major changes that will continue to shape commerce in the years ahead. Yet, many of the big stories and trends all come back to one core takeaway – technology continues to shape the future of retail.

The second annual Future of Retail Study analyzes how technology has forever changed consumer shopping habits and looks at the technology trends that retailers should be getting on their short- and long-term radars. This report surveyed more than 1,400 U.S. consumers on their online shopping habits to help retail technology companies anticipate consumer behavior in 2015 and beyond. These findings address some of the biggest challenges faced by retailers today:

- » *Consumers are shopping online more frequently and purchasing a broader selection of products, but Amazon is still the go-to website for most categories.*
- » *Free shipping is more important than fast shipping and could incentivize consumers to shop online for products they do not traditionally buy online, such as groceries and luxury goods.*
- » *Most consumers still carry some cash, but they're using it less frequently and only for select purchases such as street vendors and cabs.*
- » *The introduction of Apple Pay has accelerated the shift to mobile payments, but consumers still have security and privacy concerns about using their phones at the cash register.*
- » *As commerce and technology continue to increasingly intersect, consumers will embrace emerging technology such as drones and virtual reality shopping.*

By looking at today, tomorrow and the not-too-distant future, this study acts as a measuring stick for retailers trying to keep up with the rapid pace of change.



KEY FINDINGS

While online shopping has become commonplace, consumers are making web purchases more frequently and spending more in a broader range of product categories.

- » *68 percent of U.S. consumers shop online at least once per month, up from 62 percent a year ago, and 28 percent make web purchases at least once a week.*
- » *Four out of 10 consumers are open to purchasing any type of product online from either retailers or third-party websites like Amazon, but they trust Amazon more than retailers in 10 out of 11 product categories.*
- » *Consumers are buying more expensive items online, with 76 percent saying they would spend more than \$100 on a product without seeing it first, up from 70 percent a year ago.*
- » *While free shipping continues to be the top reason consumers say they would shop online more (83 percent), free returns (65 percent) have surpassed one-day shipping (62 percent) for the No.2 spot.*
- » *Free returns could also help drive higher e-commerce sales for big-ticket items – nearly three times as many consumers (27 percent vs. 10 percent) would purchase a product online costing more than \$1,000 without seeing it if returns were free.*

The shift to mobile payments has accelerated over the past year, with Apple Pay raising awareness and increasing consumer willingness to use smartphones at the point of sale.

- » *Forty percent of consumers have used a mobile payment application in the past year, up from 8 percent in 2013.*
- » *Only 4 percent of consumers have used Apple Pay in the past year, but 18 percent say its introduction makes them more likely to make a purchase with their smartphone in the near future.*

- » *Eight out of 10 consumers have some hesitancy about using mobile payment services, with the biggest concerns being security (57 percent) and privacy (48 percent).*
- » *Although 56 percent of consumers rank cash as the most secure form of payment, only 11 percent have paid for something in cash in the past day, compared to 27 percent last year. The majority of consumers (59 percent) have \$20 or less in their wallets.*
- » *Nearly one in five shoppers (19 percent) have been the victim of fraudulent purchases as a result of a security breach at a major retailer, but consumers still rank credit cards (22 percent) and debit cards (16 percent) as the second and third most secure forms of payment behind cash.*

Emerging technology, such as drones and virtual reality, will bring new opportunities – and challenges – for retailers.

- » *Two-thirds of consumers (66 percent) say they expect to receive their first drone-delivered package in the next five years, and four out of five shoppers say drone delivery within the hour would make them more likely to order online from a retailer.*
- » *Almost 80 percent of consumers are willing to pay for drone delivery, with 48 percent saying they would pay at least \$5.*
- » *More than a third of consumers (35 percent) say they would shop more online if they were able to try on a product virtually using a product like Oculus Rift, and 63 percent said they expect it to impact their shopping experience in the future.*

ONLINE SHOPPING HABITS

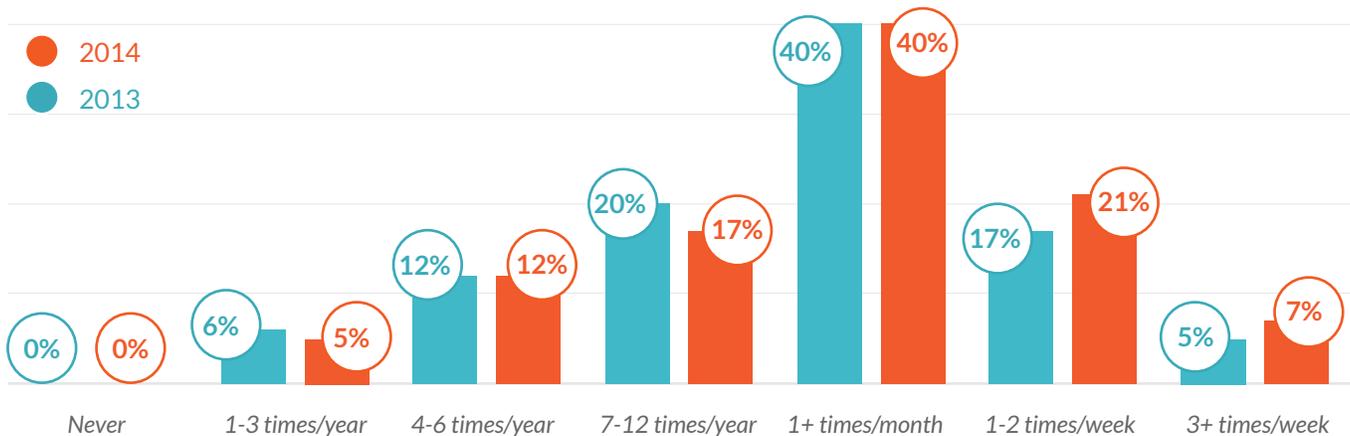
The Walker Sands' 2015 Future of Retail Study undoubtedly shows that online shopping has become commonplace. Nearly every respondent (99.8 percent) indicated they had made at least one web purchase in the past year. For the second subsequent year, the study shows consumers are shopping online with increasing frequency, becoming more comfortable buying more types of products through the web, and purchasing more expensive items on the web.

CONSUMERS PICK UP THE PACE OF ONLINE SHOPPING

This year's survey found that 28 percent of consumers shop online at least once per week, a 27 percent increase from a year ago. More consumers also now shop online at least once per month – 68 percent, compared to 62 percent in 2013. The findings indicate that consumers have become more comfortable ordering online and incorporating web purchases more frequently into their online shopping routines.

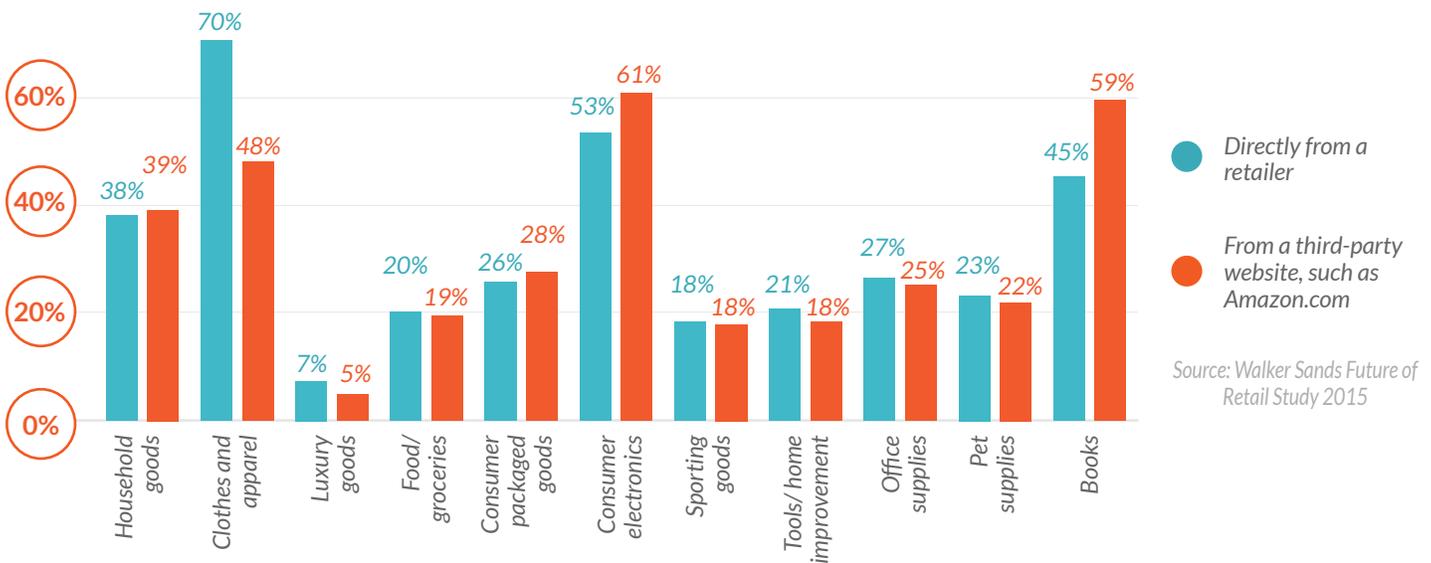
Amazon remains the go-to online shopping destination with 96 percent of consumers saying they have made a purchase on the e-commerce giant's website in the past year. The preference for the Amazon experience is also clear when looking at some of the most popular product categories, including electronics, books, household goods and consumer packaged goods. Retailers, meanwhile, hold a clear advantage in clothing and specialty categories such as luxury items, sporting goods and office supplies.

HOW OFTEN DO YOU SHOP ONLINE?



Source: Walker Sands Future of Retail Study 2015

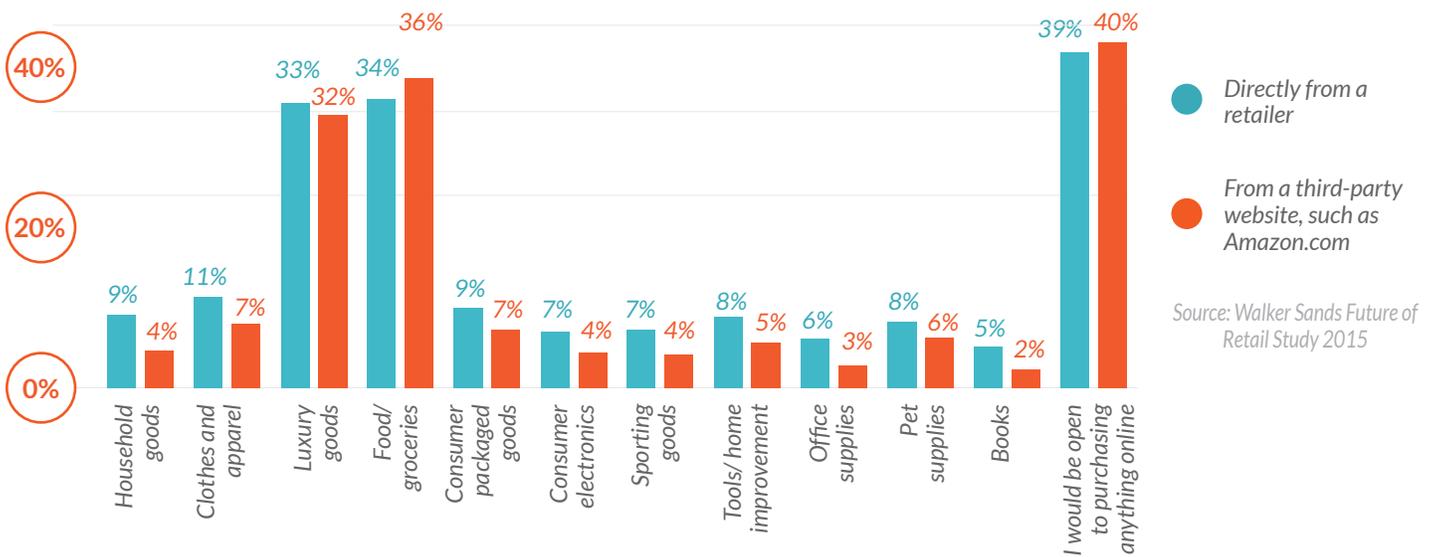
WHICH ONE OF THE FOLLOWING PRODUCTS HAVE YOU PURCHASED IN THE PAST YEAR?



The advantage Amazon possesses is more apparent when looking at which products consumers said they will never buy online. In 10 out of 11 categories, survey respondents indicated they are more comfortable purchasing from third-party websites such as Amazon compared to traditional retailers such as Gap, Home Depot and Best Buy.

Surprisingly, given the launch of the AmazonFresh grocery delivery service, 36 percent of consumers said they will never buy groceries or food from a third-party such as Amazon, compared to 34 percent who said the same thing for brands or retailers. As the popularity of other online-based grocery services continues to rise, it will be interesting to see if this shifts in the coming year.

WHICH OF THE FOLLOWING PRODUCTS WOULD YOU NEVER BUY ONLINE?



Although there is still room for growth where consumers are more opposed to making online purchases, there is not

a single category where the majority of consumers said they would never be open to purchasing the item online.

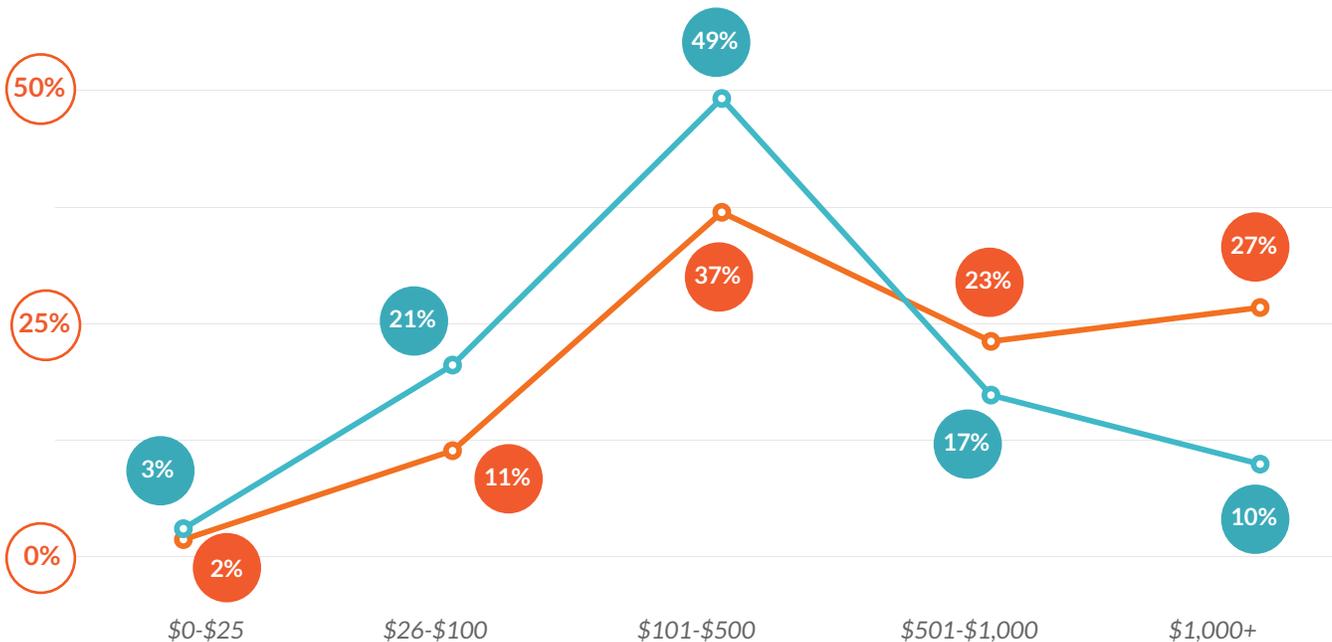
BIG-TICKET ITEMS BECOME MORE COMMON ONLINE ORDER

In addition to shopping online more frequently and across more product categories, consumers have also become more willing to buy expensive items on the web without seeing them first. More than three-quarters (76 percent) of consumers now say they would spend more than \$100 online on a product without seeing it first, up from 70 percent in 2013.

Nearly three times as many consumers (27 percent compared to 10 percent) would purchase a product costing more than \$1,000 without seeing it first if free returns were offered.

While it might be tough for retailers to absorb that cost, free returns rank as the No. 2 incentive for getting consumers to shop more online, up from No. 3 a year ago. Free returns and exchanges surpassed one-day shipping this year as the No. 2 incentive – 65 percent compared to 62 percent. Easier online returns (48 percent), confidence in payment security (51 percent) and same-day shipping (42 percent) are also all up in importance from 2013.

Free shipping (83 percent) continues to be the top reason consumers say they would shop more online.

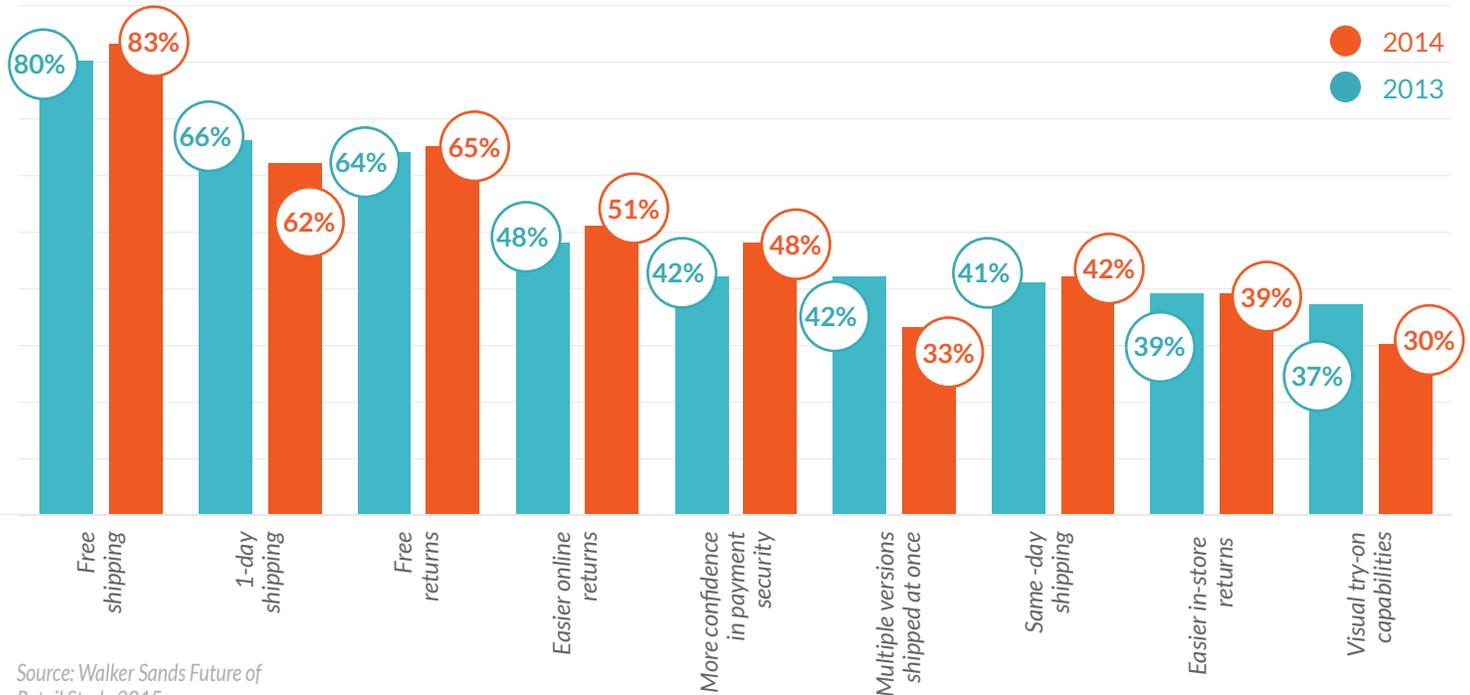


● What is the most you have spent on a product online without physically seeing it first?

● How much would you be willing to spend on a product online without physically seeing it first, if returns were free?

Source: Walker Sands Future of Retail Study 2015

WHICH OF THE FOLLOWING WOULD MAKE YOU MORE LIKELY TO SHOP ONLINE?



Source: Walker Sands Future of Retail Study 2015

By making the e-commerce experience more convenient, consumers appear to be willing to shop online more often

across more product categories for items with higher price tags.

PAYMENT METHODS

While online shopping has become ubiquitous, consumers are just starting to adopt new ways of paying for their purchases in store. The 2015 Future of Retail Study finds that the shift to mobile payments accelerated dramatically over the past year, with Apple Pay opening up even more consumers to the possibility of using their smartphones at the point of sale.

USE OF MOBILE PAYMENTS JUMPS DRAMATICALLY

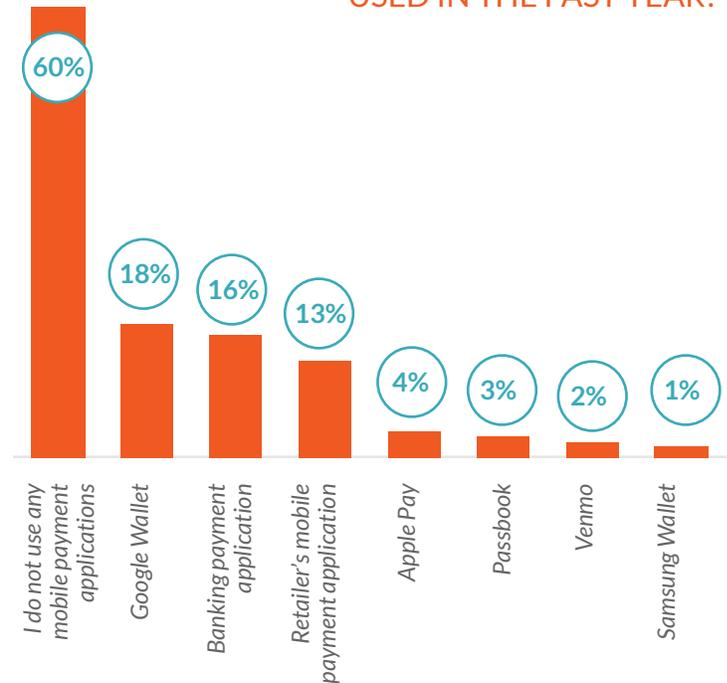
Mobile payments are on the rise – 40 percent of consumers say they have used a mobile payment application in the past year, up from just 8 percent in 2013. Among those who have used mobile payments in the past year, nearly half (45 percent) have used Google Wallet, 41 percent have used a banking payment app such as Chase QuickPay and one-third have used a retailer payment app such as Starbucks.



While only 4 percent of survey respondents have tried Apple Pay in the past year, 18 percent of consumers say the introduction of Apple Pay makes them more likely to make a purchase on their phone in the near future. The number jumps to 36 percent when looking only at Apple smartphone owners, but even Windows phone owners (16 percent) and Android owners (8 percent) say the introduction of Apple Pay makes them more likely to pay with their phones, indicating Apple has the potential to help mobile payments go mainstream in 2015 by raising awareness and setting industry standards.

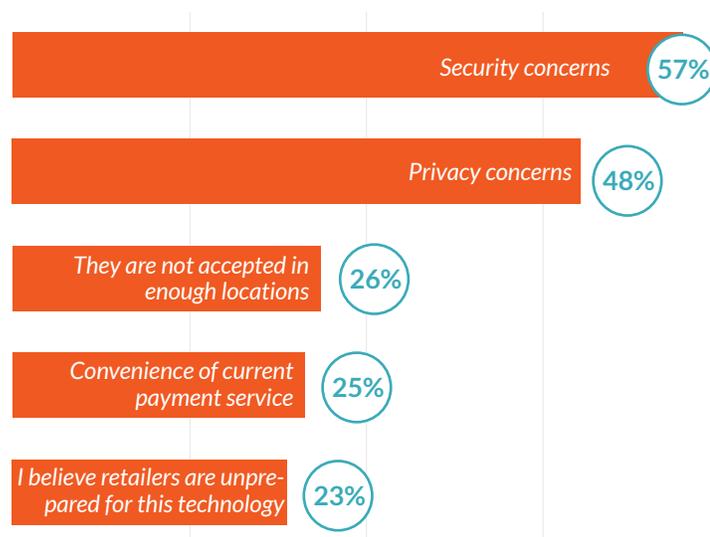
The transition to mobile payments might not be smooth. Apple and other leaders in the mobile payment space will need to overcome several consumer concerns before smartphone payments compete with the convenience of credit cards. Currently, only 20 percent of consumers have no hesitation about using mobile payment services.

WHICH OF THE FOLLOWING MOBILE PAYMENT APPLICATIONS HAVE YOU USED IN THE PAST YEAR?



Source: Walker Sands Future of Retail Study 2015

WHICH OF THE FOLLOWING FACTORS MAKE YOU HESITANT TO USE APPLE PAY OR OTHER MOBILE PAYMENT SERVICES?



Consumers consider mobile wallets and apps the least secure form of payment, even ranking behind cryptocurrencies such as Bitcoin. Only 1 percent of consumers think smartphones are the most secure form of payment, compared to 56 percent who say cash ranks No. 1. While mobile payments are on the rise, mainstream adoption will most likely be delayed until a critical mass of people are using it with minimal security and theft problems.

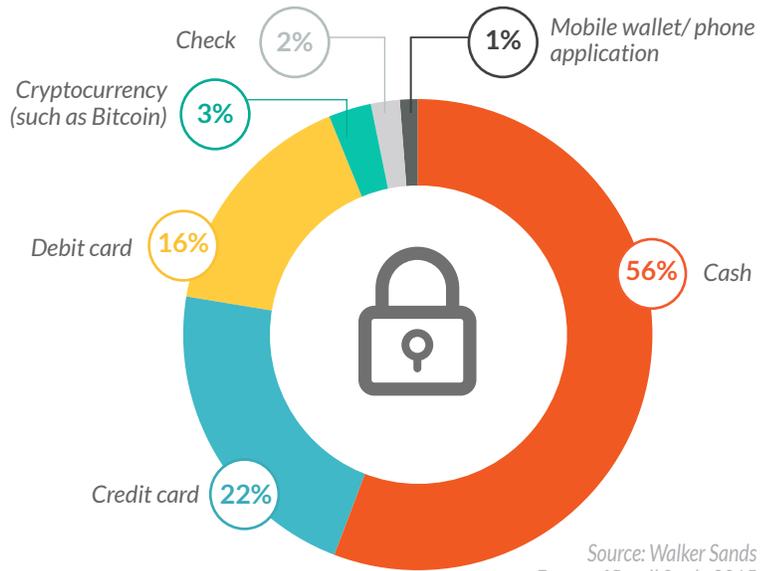
Source: Walker Sands Future of Retail Study 2015

MOVE TO A CASHLESS SOCIETY ACCELERATES

While consumers still think cash is king when it comes to security, the 2015 Future of Retail Study reveals that it continues to be on the decline. This year's report finds that 59 percent of consumers have \$20 or less in their wallet, and nearly one in five consumers (18 percent) says they have no cash in their wallet at all.

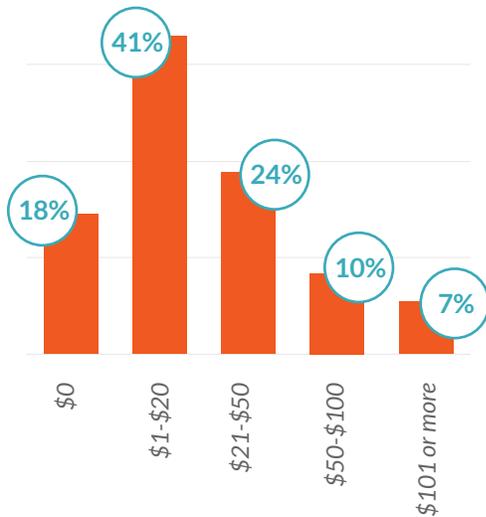
While those numbers are almost identical to a year ago, this year's study shows that consumers aren't using cash as frequently, even if they're carrying it just as often. Only 11 percent of consumers have used cash in the past day, compared to 27 percent a year ago, and more than a fourth of consumers (29 percent) haven't used cash in a week or more.

WHICH OF THE FOLLOWING FORMS OF PAYMENT DO YOU FEEL IS MOST SECURE?



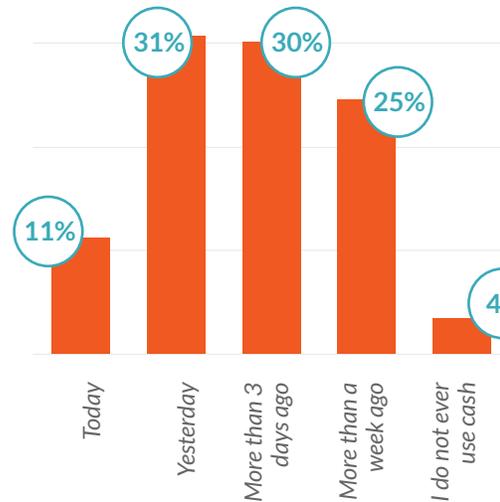
HOW MUCH CASH DO YOU CURRENTLY HAVE IN YOUR WALLET?

Source: Walker Sands Future of Retail Study 2015



HOW RECENTLY HAVE YOU PAID FOR SOMETHING WITH CASH?

Source: Walker Sands Future of Retail Study 2015



The top reason more consumers are not using cash is the convenience of credit and debit cards (57 percent), but the recent retail hacking scandals at Target, Home Depot and other merchants may be eroding trust in these standard

forms of payment. About one in five consumers surveyed have been a victim of fraudulent purchases as a result of a security breach at a major retailer (19 percent).

The majority of consumers (77 percent) say they would change their spending habits with a retailer if their personal data was compromised, with almost half of respondents saying they would either stop shopping with that retailer (24 percent) or would shop there less frequently (24 percent).

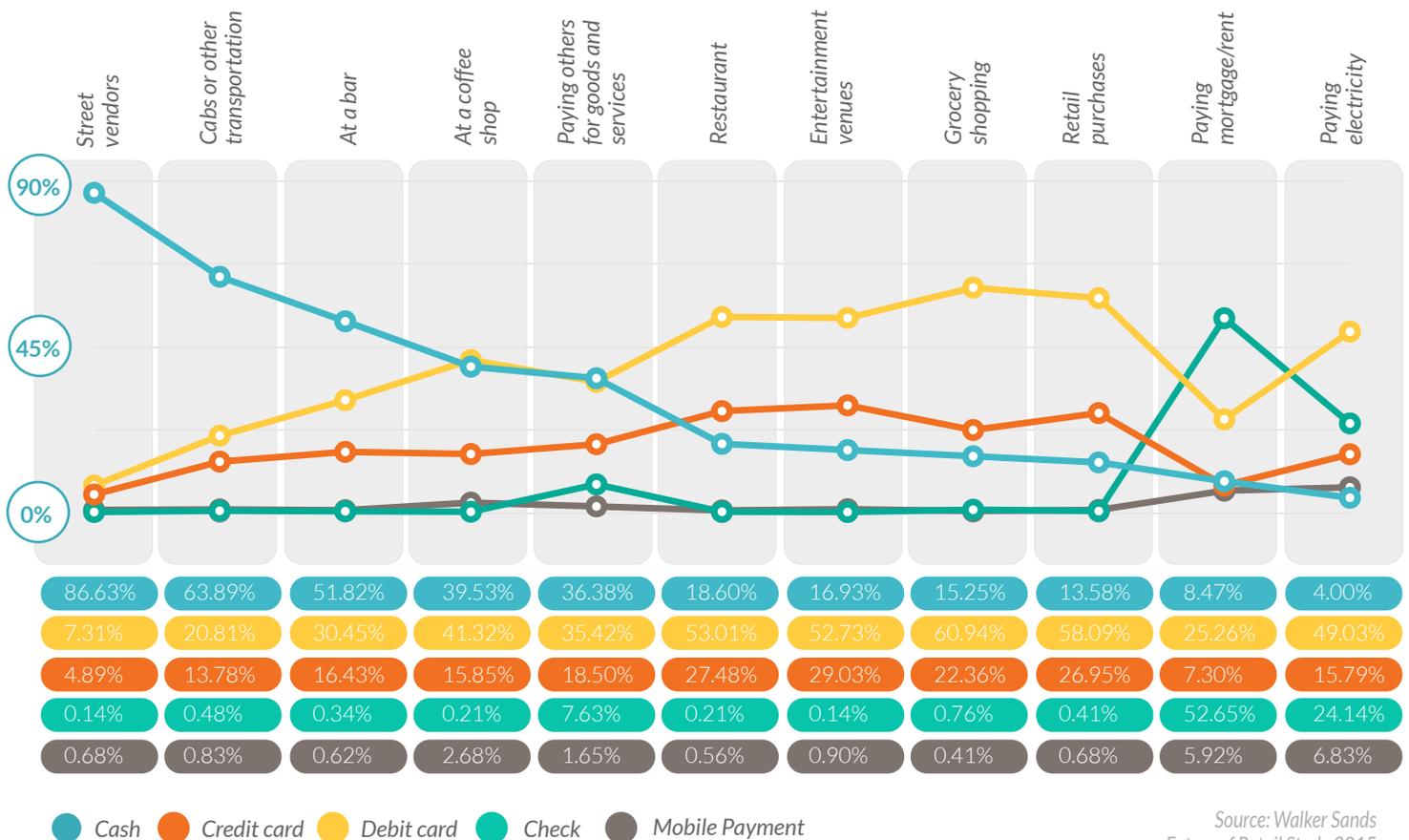
Another 29 percent said they would change their form of payment, potentially opening the door for mobile payments. These findings suggest that mobile payments could eventually replace credit cards at the point of sale if security concerns are adequately addressed.

CONSUMERS STILL MOST LIKELY TO USE CASH WHEN ON THE GO

Even though cash is on the decline among consumers, it is still the preferred form of payment for street vendors (87 percent), cabs and transportation (64 percent) and bars (52 percent). And more than half of consumers still use checks to pay their rent or mortgage, while almost a quarter get their checkbooks out when paying bills.

Consumers currently use mobile wallets or applications when paying bills (7 percent) or their rent/mortgage (6 percent), as well as at coffee shops (3 percent). Less than 1 percent of survey respondents said their smartphone is the preferred form of payment at retail locations, demonstrating how far the industry still has to go when it comes to mobile payments.

PLEASE SELECT YOUR PREFERRED TYPE OF PAYMENT METHOD FOR THE FOLLOWING TRANSACTIONS



Source: Walker Sands
Future of Retail Study 2015

EMERGING TECHNOLOGY

While online shopping has become routine and mobile payments are the next frontier of mainstream adoption, Walker Sands' 2015 Future of Retail Study also identifies two technology trends that will shape the future of retail further down the road: drones and virtual reality. Although these two futuristic advancements are still only a far-off vision for retailers, our survey shows that consumers are eagerly awaiting both of them.

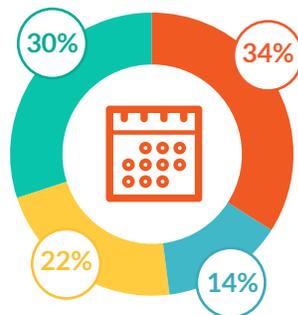
CONSUMERS EMBRACE DRONES FOR RAPID DELIVERY

The reality of drones may be farther off, but two-thirds of consumers (66 percent) think they will receive their first drone-delivered package in the next five years. Consumers want more than fast delivery – they now want it within the hour.

Drone-delivered packages may be an even bigger push toward a future where the majority of purchases are made online across multiple product categories. Four in five consumers say drone delivery to their doorsteps within an hour would make them more likely to purchase from a retailer.

WHEN DO YOU THINK YOU WILL ORDER YOUR FIRST DRONE-DELIVERED PACKAGE?

- In more than 5 years
- In the next 5 years
- In the next 2 years
- In the next year

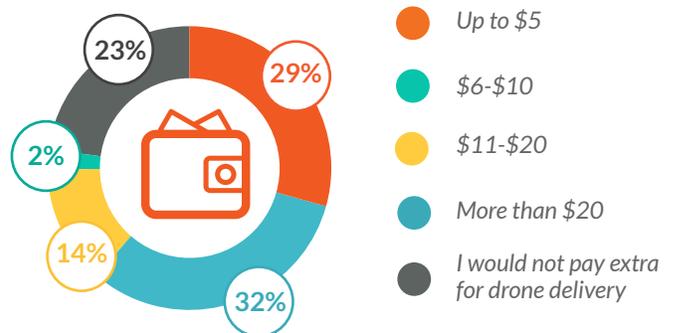


Source: Walker Sands
Future of Retail Study 2015

Consumers don't just expect to receive online orders by drone – they are also willing to pay for it. Almost 80 percent of consumers are willing to pay for drone delivery

if their order arrived within an hour, with nearly half (48 percent) saying they would pay at least \$5. Only 23 percent of consumers say they aren't willing to pay for drone delivery, suggesting rapid delivery by air is fertile ground for retailers like Amazon that plan to push the limits of fast delivery.

HOW MUCH WOULD YOU BE WILLING TO PAY FOR DRONE DELIVERY IF YOUR ORDER ARRIVED WITHIN THE HOUR?

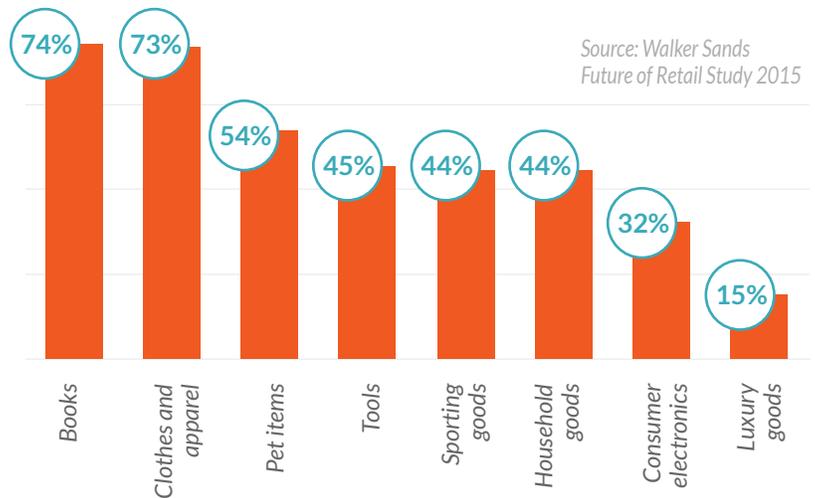


Source: Walker Sands
Future of Retail Study 2015

Almost all consumers (88 percent) say they would trust drones with delivery with at least one type of product, with the majority being open to books, clothing and pet items. But as items get more expensive, fewer consumers are willing to trust drones; for example, only 15 percent of consumers would use drone delivery for luxury items.

Not all consumers are embracing drones. Among the 12 percent who said they wouldn't trust drone delivery for any items, almost three-quarters (74 percent) cited safety concerns, followed by cost (69 percent), privacy concerns (64 percent), theft concerns (58 percent) and technology concerns (57 percent). But the fact remains that since such a small percentage of consumers distrust drones, it bodes well for the technology playing a major role in the future of retail.

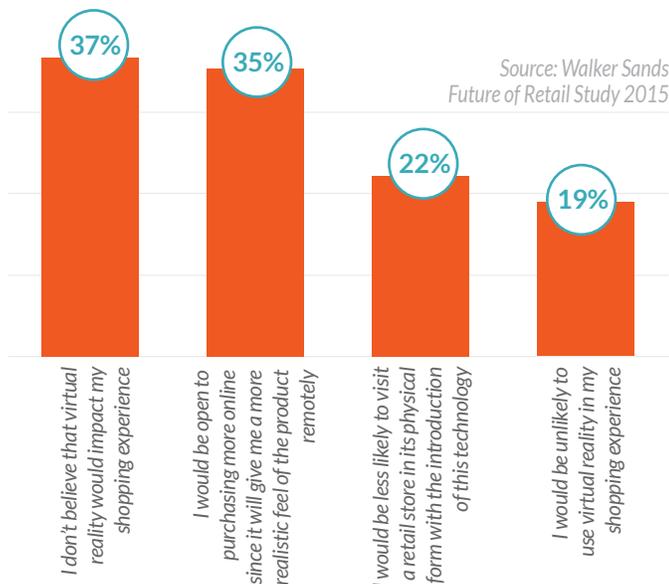
FOR WHICH OF THE FOLLOWING PRODUCTS WOULD YOU BE OPEN TO TRUSTING DRONE DELIVERY?



VIRTUAL REALITY WILL CHANGE THE SHOPPING EXPERIENCE

The mid-year launch of Oculus Rift and the introduction of other virtual-reality capabilities may do more than just change the gaming experience. More than one-third of consumers (35 percent) say they would shop more online if they were able to try products on virtually.

HOW DO YOU ANTICIPATE THE INTRODUCTION OF VIRTUAL REALITY TO RETAIL WOULD IMPACT YOUR BUYING DECISION?



In fact, half (49 percent) of survey participants said they are interested in trying the product once it comes out in April 2015 and one-third said they would even be interested in purchasing such a product (32 percent). Two in three consumers (66 percent) say they would be interested in virtual shopping, and 63 percent said they expect such capabilities to change the way they shop. Another 35 percent say it would make them more open to purchasing more online.

Virtual reality has the potential to increase e-commerce revenue, but it may further hurt brick-and-mortar sales. Twenty-two percent of consumers say they will be less likely to visit a physical store with the introduction of this technology.

Similar to drone delivery, virtual reality has the potential to shape the future of retail. While they both might seem like part of a distant future, the 2015 Future of Retail Study shows that consumers will embrace them sooner than retailers might think.

RECOMMENDATIONS

As we move into 2015, the future of retail will continue to come into sharper focus. While there's no telling what surprises this year will bring, the findings of this year's Walker Sands' Future of Retail Study provide insights into consumer shopping behavior that retailers can use to shape their strategy and investments for years to come.

IMPROVE THE E-COMMERCE EXPERIENCE



Online shopping has become so commonplace that retailers have to make the experience as easy and convenient as possible if they want to continue growing their e-commerce revenue. With consumers shopping online more frequently and spending more across an increasing number of product categories, retailers that remove as much friction from the online shopping experience as possible will capture the most additional sales.

OFFER FLEXIBILITY AND SECURITY IN PAYMENTS



It's clear that consumers are experimenting with mobile wallets and apps and are intrigued by the possibility of Apple Pay pushing smartphone payments into the mainstream. At the same time, consumers are hesitant to fully embrace mobile payments entirely because of security and privacy concerns. But with cash on the decline and hacking scandals eroding trust in traditional POS systems, retailers who embrace mobile payments and convince consumers it's a safe way to make a purchase might be able to offer the best of both worlds.

EXPLORE EMERGING TECHNOLOGY BUT UNDERSTAND THE RISKS



While technology like drones and virtual reality might seem far off, consumers expect them to shape their e-commerce experience in the not-too-distant future. Retailers should think about how emerging technology might fit into their overall strategies, while also realizing that untested tech may turn out to be nothing more like hype in the end.



WALKER SANDS' 2015 FUTURE OF RETAIL STUDY METHODOLOGY

The Walker Sands' 2015 Future of Retail Study surveyed more than 1,400 online consumers across the U.S. on their spending behaviors in the past year, and preferences for future spending. The survey analyzed consumer behavior and preferences for making purchases online and in store. Responses were further broken down by demographics, including age and gender, among others.

Walker Sands works with large retail technology companies, and similar research is often assembled for clients through the Walker Sands analytics team.

**RETAIL TECHNOLOGY IS EVOLVING AT AN INCREDIBLY FAST PACE.
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STAND OUT IN CROWDED MARKET PLACE.**

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Mike Santoro is President at Walker Sands. As President, Mike has applied his expertise to assist a wide variety of Chicago-area, national and international companies. With an unyielding passion for results, he leads Walker Sands team members in ensuring that we always go above and beyond client expectations.

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