

WALKER SANDS FUTURE OF RETAIL 2016

# REINVENTING RETAIL: FOUR PREDICTIONS FOR 2016 AND BEYOND







## EXECUTIVE SUMMARY

For the past few years, the Walker Sands Future of Retail study has analyzed the rise and adoption of emerging retail technology, with a heavy focus on gauging consumer reaction to potential game-changers like drones, virtual reality and mobile commerce. The annual report has also documented the changing habits of today's shoppers as more buying has shifted to e-commerce. It's been a whirlwind couple of years in retail technology, and our findings have reflected that.

In our third annual consumer survey, the shifts aren't quite as dramatic, but that doesn't make them any less important. Instead of consumer fascination with the latest headline-grabbing technology, we discovered much more subtle shifts in consumer opinion and behavior with equally large implications.

On the surface, it might feel like the future of retail has stalled. For example, this year's study shows that e-commerce has reached a saturation point in many ways, and consumer excitement has waned for some of the sexiest emerging tech. And unlike recent years, which brought us plenty of big news like Apple Pay, Amazon Prime Air and Alibaba's IPO, much of the past year has seemed like the same old story.

But digging deeper into the data, we see that the retail technology space is still undergoing a major transformation – it's just happening mostly behind the scenes. The Walker Sands Future of Retail 2016 study, based on a survey of more than 1,400 U.S. consumers, outlines four key areas where retailers should focus their attention this year:



» *Growing importance of the supply chain*

*Over the past three years, our findings have shown that seamless shipping, delivery and returns have become more and more important to consumers, making them primary future drivers of e-commerce growth. So it's no wonder fulfillment has become a top investment area for retailers, with 29 percent of capital expenditures last year going toward solutions like transportation and logistics, delivery options, order management, inventory visibility and returns management.<sup>1</sup>*

» *Integration of in-store and online experiences*

*While e-commerce is now a routine part of consumers' lives, this year's study reveals there's still a clear preference to shop in physical stores for most product categories, but a receptiveness to blending the online and brick-and-mortar experiences. While less than a third of retailers had implemented beacon technology in 2015<sup>2</sup>, we found that seven in 10 consumers would be willing to opt into in-store tracking and mobile push notifications if they were properly incentivized by retailers. Although beacons have been slow to take off, this area seems ripe for adoption as retailers like Macy's, Target and Lord & Taylor roll out their beta beacon programs to the masses. And in a case of bringing the in-store experience online, virtual reality e-commerce – or v-commerce – seems to be entering the early-adoption phase and could represent the next big integration area for the in-store and online shopping experiences.*

» *The rise of luxury e-commerce*

*Luxury goods have been the clear laggard when it comes to consumers' willingness to shop online. But the product category saw a dramatic spike this year, with the number of consumers who have purchased a luxury item like high-end jewelry in the past year more than quadrupling from 2014. This finding lines up with analyst predictions that online sales of luxury goods will triple to around \$80 billion by 2025, making it one of the fastest-growing areas of e-commerce.<sup>3</sup>*

» *Slow mobile payments adoption*

*Privacy and security concerns remain the primary reasons that consumers are hesitant to use mobile payment applications. This could explain why adoption has essentially remained flat year over year, with about a third of consumers having used these applications. Still, U.S. mobile payment transactions are expected triple in 2016 to \$27 billion,<sup>4</sup> a sign that a few eager early adopters and the growth of Apple Pay could eventually force more widespread changes in consumer behavior.*

The future of retail hasn't plateaued; we're simply in an investment and adoption phase during which retailers' practices and consumer behavior hasn't caught up with technology. As a result, this year's study is much more pragmatic than visionary, focusing on practical recommendations over aspirational technology.





## GROWING IMPORTANCE OF THE SUPPLY CHAIN

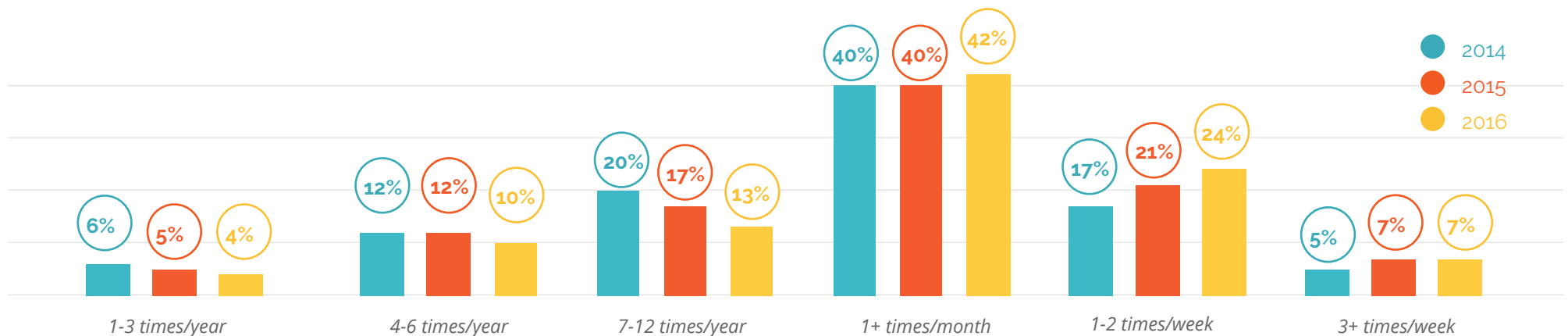
### KEY FINDINGS

- » Nearly a third of consumers (31 percent) now shop online at least once a week, an increase of 41 percent from two years ago.
- » Only 9 percent of consumers have used same-day shipping in the past year, but almost half (49 percent) say same-day shipping would make them shop more online if it were offered more frequently.
- » Forty percent of consumers expect to receive their first drone-delivered package in the next two years or less. Less than a third (31 percent) think it will take more than five years.
- » Among consumers who don't trust drones to deliver packages, theft and damaged packages are the top concerns (72 percent each), but safety (68 percent) and privacy (60 percent) seem less risky than they were a year ago.

While e-commerce seems to have reached a saturation point when it comes to the number of consumers who shop online, the Walker Sands Future of Retail study continues to show a steady increase year-over-year in the frequency of purchases. Almost a third of consumers (31 percent) now shop online at least once a week, compared to 22 percent in 2014, and almost three-quarters do so at least once a month. And the number of consumers who shop less than once a month has dropped from 38 percent to 27 percent over the same time period.

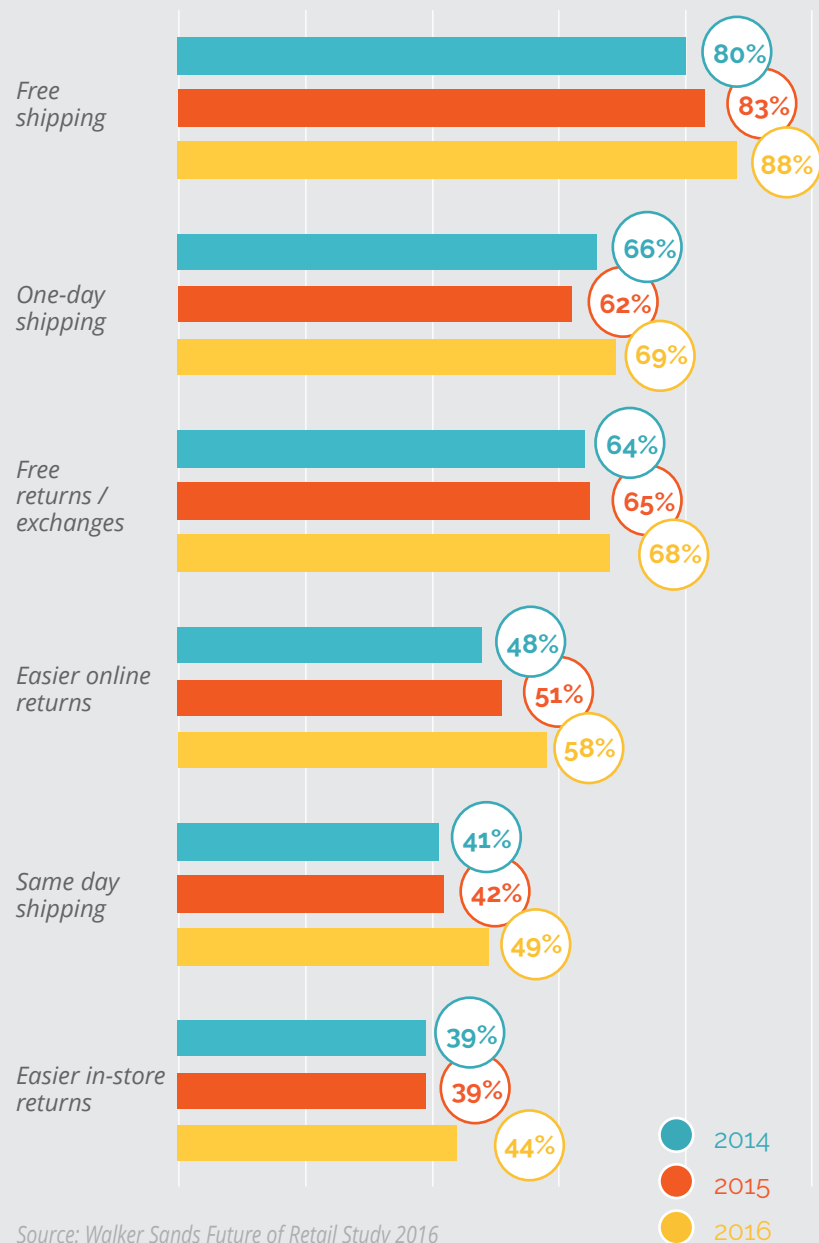
Our research over the past three years has made it clear that consumers want their online shopping experiences to be fast and convenient, indicating supply chain and logistics improvements are fueling growth of online commerce by making it easier for consumers to shop online more often and receive their orders faster. Consumer expectations are higher than ever for free and fast shipping, making flexibility with returns and fulfillment more important than ever.

### HOW OFTEN DO YOU SHOP ONLINE?



Source: Walker Sands Future of Retail Study 2016

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



## SPEED OF SUPPLY CHAIN MATTERS MORE TO FREQUENT ONLINE SHOPPERS

Free shipping continues to be the top incentive, with almost nine in 10 consumers reporting that free shipping would make them shop more online. This number has steadily increased over the past two years and has become significantly more influential than other logistics considerations, even as same-day shipping becomes more prominent. One-day shipping (69 percent) and free returns (68 percent) also continue to be top drivers.

The biggest jump over the past three years has been easier online returns, 58 percent saying a simpler process could make them shop more online.

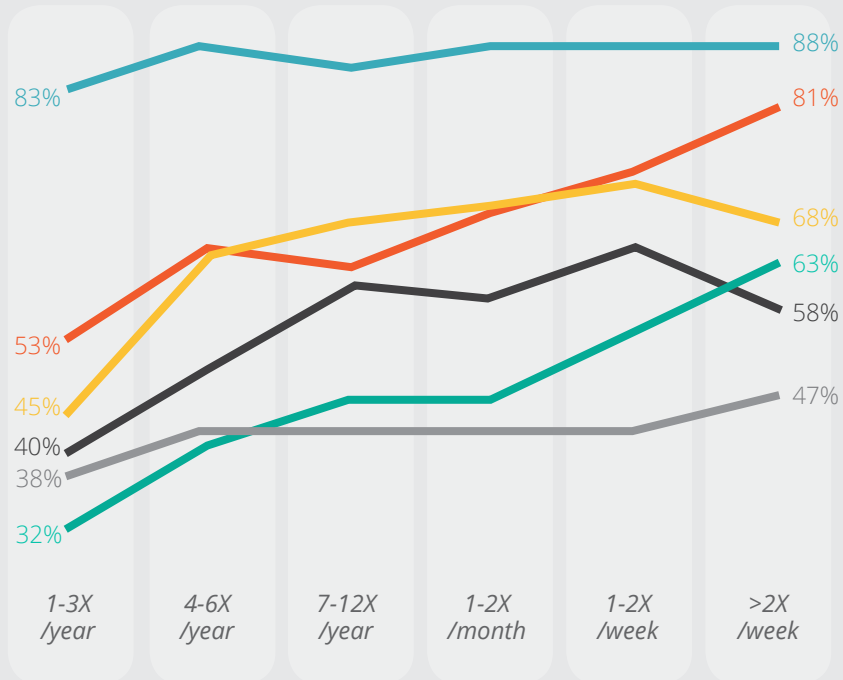
While nearly half of consumers (49 percent) say same-day shipping would make them shop more online, it appears that relatively few are being given the option. Only one in 10 consumers (9 percent) have used same-day shipping in the past year, compared to 29 percent for one-day shipping, 70 percent for two-day shipping and 86 percent for regular shipping. More than half (51 percent) say they have placed an order online and picked it up in store, which speaks to the rising popularity of click and collect.

While free shipping continues to be a top incentive, it's now a given across the board, with no meaningful statistical difference in expectations between consumers who shop online multiple times a year and those who make web purchases only a couple times a year. But as consumers shop online more frequently, they are increasingly persuaded by the speed of the supply chain.

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As Amazon and third-party logistics providers make infrastructure improvements that lead to more efficient inventory management, fulfillment and delivery practices, consumer expectations continue to rise, especially among frequent online shoppers. In fact, consumers who shop online more than twice a week are twice as likely to be persuaded by same-day shipping as consumers who shop online only a few times a year (63 percent vs. 32 percent).

## TOP PURCHASE DRIVERS VS. FREQUENCY OF ONLINE SHOPPING



Source: Walker Sands Future of Retail Study 2016



The same holds true for consumers who have actually used fast shipping options over the past 12 months. Among the most frequent online shoppers, half (50 percent) have used one-day shipping and 85 percent have used two-day shipping; one in 10 have used same-day shipping over in the past year. And two-thirds of those who shop online multiple times a week have used click and collect (66 percent), which is four times higher than the most infrequent shoppers. Together, these findings suggest that in order for retailers to capture their share of future e-commerce growth – which is being driven primarily by increased frequency – they need to offer these habitual online shoppers multiple shipping and delivery options.

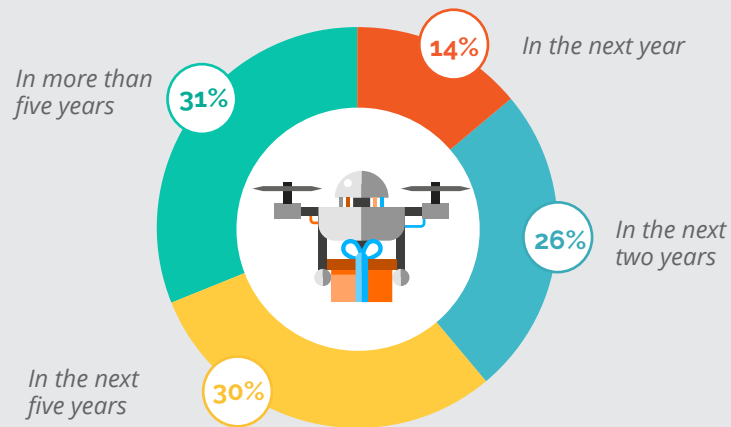
## CONSUMERS LESS WORRIED ABOUT SAFETY OF DRONES, AND MORE CONCERNED ABOUT THEFT

An obsession with speed explains why consumers are so excited about the possibility of drones delivering their packages within the hour. Despite the fact that the FAA likely won't publish its low-altitude airspace regulations for commercial drones until 2019, 40 percent of consumers expect to receive their first drone-delivered package in the next two years or less. Less than a third (31 percent) think it will take more than five years.

Furthermore, more than three quarters of consumers (79 percent) say it's likely they would select drones as a delivery option if it meant they could receive packages within an hour. And among the most frequent online shoppers, 80 percent are more likely to shop with a retailer that offers drone delivery as an option, compared to half (53 percent) of the infrequent shoppers.

Almost three-quarters of consumers (73 percent) would be willing to pay for drone delivery, with the majority saying they would pay up to \$10.

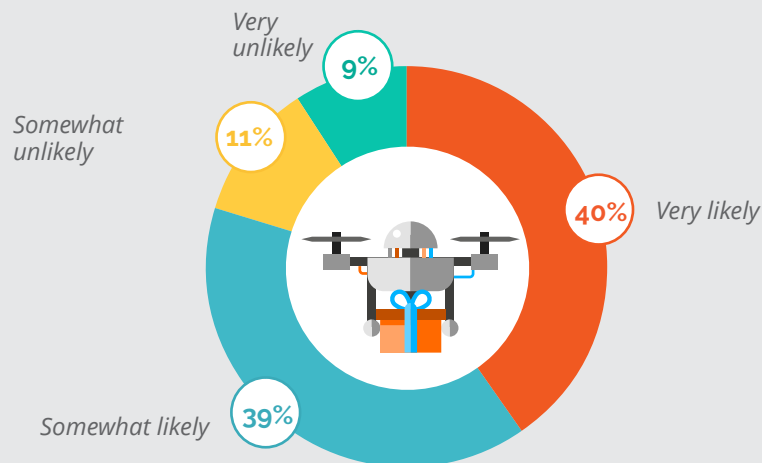
## WHEN DO YOU THINK YOU WILL ORDER YOUR FIRST DRONE-DELIVERED PACKAGE?



The number of consumers saying they don't trust drones for delivery at all held fairly consistent (13 percent in 2016 vs. 12 percent in 2015), but those objectors are less concerned about safety, privacy and cost than they were a year ago. Theft and damaged packages are now the top concerns (72 percent each), which suggest consumers may now be more comfortable with the idea of drone technology but uncertain about the personal risks involved in actual practice.

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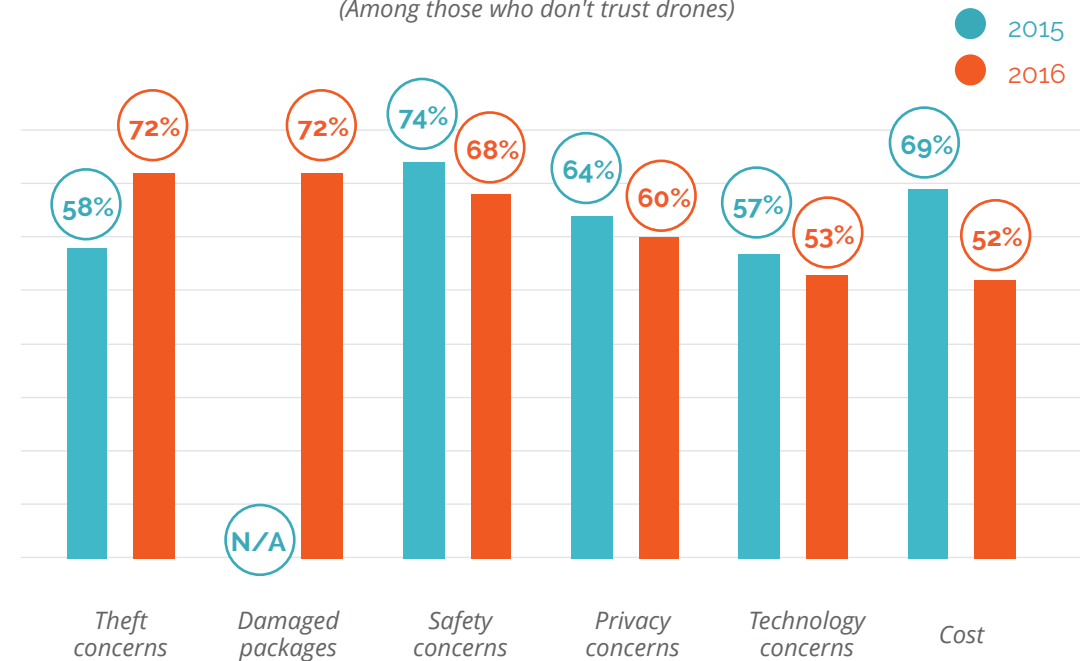
## ASSUMING DRONES COULD DELIVER YOUR PACKAGE WITHIN AN HOUR, HOW LIKELY ARE YOU TO SELECT THIS AS A DELIVERY OPTION?



Source: Walker Sands Future of Retail Study 2016

## WHY WOULD YOU NOT TRUST DRONES TO DELIVER ANY ITEMS?

(Among those who don't trust drones)



Source: Walker Sands Future of Retail Study 2016

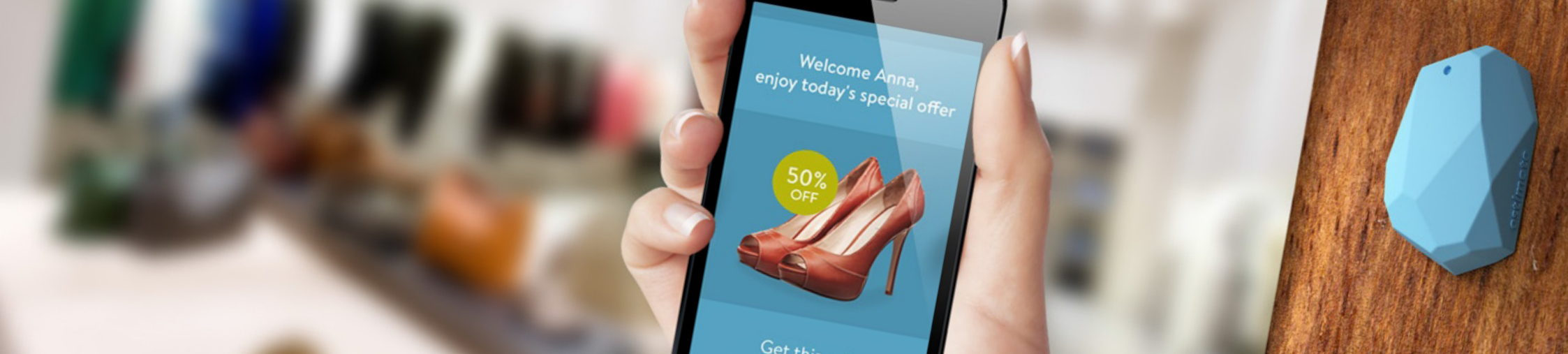


## TAKEAWAY: RETAILERS MUST INVEST IN SUPPLY CHAIN AND LOGISTICS

*According to a survey of retail and consumer goods CEOs conducted by PwC and JDA Software, only 19 percent of the top 250 retailers can fulfill omni-channel demand profitably, with the biggest challenges being transportation and logistics – specifically, shipping, delivery and returns.<sup>5</sup> It makes sense then that 71 percent of the executives in that study cited omni-channel fulfillment as a top or high priority for future investment.*

*The Walker Sands Future of Retail study shows why supply chain and logistics technology is such an important area of focus. It's one of the places that will make or break retailers in the years ahead, especially as emerging tech like drones inflate consumer expectations even more.*





## INTEGRATION OF IN-STORE AND ONLINE EXPERIENCES

### KEY FINDINGS

- » *The majority of shoppers prefer to make purchases in physical stores for all product categories except for books (68 percent prefer online), consumer electronics (67 percent) and office supplies (51 percent).*
- » *Consumers have the strongest in-store preference for food and groceries (92 percent), but more than two-thirds would be willing to buy groceries on Amazon (68 percent) or a grocer's website (70 percent).*
- » *Only 6 percent of consumers have used in-store beacons; however, among shoppers who have never used the technology, 70 percent would be willing to opt into the service if retailers offered the right incentives.*
- » *More than half of consumers (55 percent) think virtual reality e-commerce will impact their buying decisions, and 62 percent are interested in trying VR shopping. Nearly a quarter (22 percent) plan to buy a VR device in the coming year.*

While the pace of online shopping continues to accelerate, consumers still prefer to shop in store for most products, which emphasizes the importance of combining convenience with experience. And yet, our research also shows that shoppers are open to buying almost anything online, highlighting the potential opportunity for retailers that are able to bring together a hybrid strategy that combines the best of both worlds linked through technology.

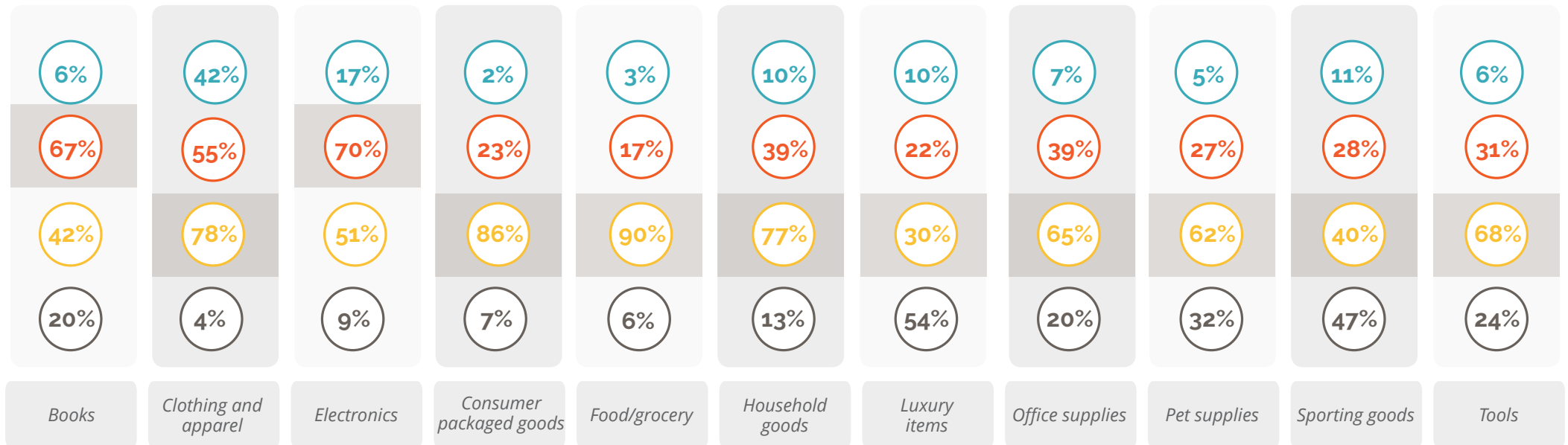
In-store technology like beacons have received a lot of attention over the past few years but have been slow to take off. However, the stage seems set for widespread adoption as consumers warm up to the idea and retailers roll out broader programs. This growing emphasis on the marriage of in-store and online retail environment also extends to technology like virtual reality, another area of excitement for consumers and retailers alike.

## PHYSICAL STORES STILL RULE MOST PRODUCT CATEGORIES

Despite more consumers shopping online on a regular basis, they still shop for most products in physical stores. In fact, in the past year, more consumers have purchased items in store than on Amazon or a brand's website for most product categories – everything except for books and electronics. Clothing and apparel is the only product category where brand websites make a strong showing, demonstrating the uphill online battle most retailers face against Amazon and other third-party retailers.

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### THROUGH WHICH OF THE FOLLOWING CHANNELS HAVE YOU PURCHASED THE FOLLOWING PRODUCTS IN THE PAST YEAR?



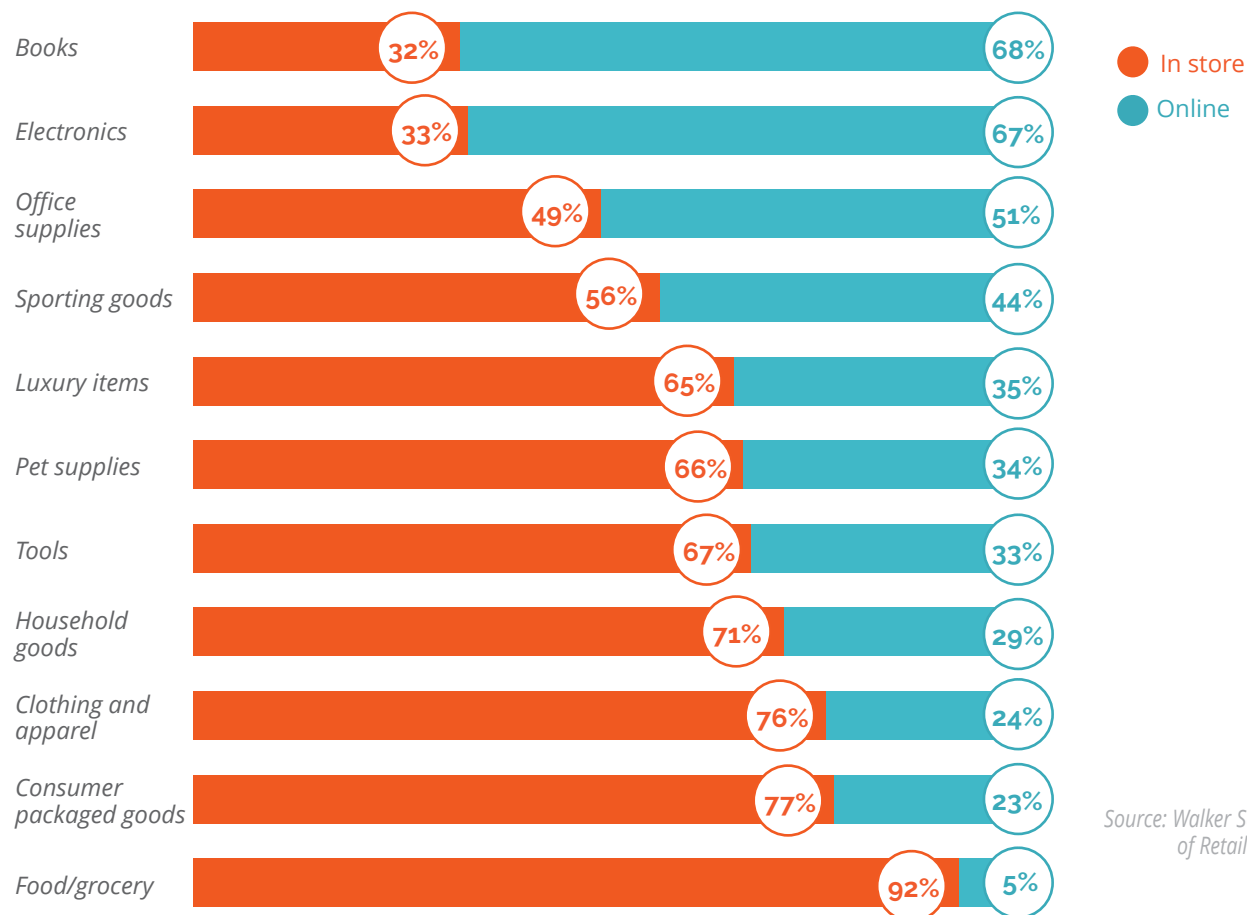
● Brand website ● Amazon or other third-party online retailers ● Physical store ● I have not purchased this product

Source: Walker Sands Future of Retail Study 2016



The same trends hold true when it comes to consumer preferences. The majority of shoppers prefer to make purchases in store for all product categories except for books (68 percent prefer online), consumer electronics (67 percent) and office supplies (51 percent). Consumers have the strongest in-store preference for food and groceries (92 percent) and the closely related consumer packaged goods category (77 percent), a sign that grocers and CPG brands still have a long way to go to establish a viable e-commerce presence.

### DO YOU PREFER TO SHOP IN STORE OR ONLINE FOR THE FOLLOWING PRODUCTS?



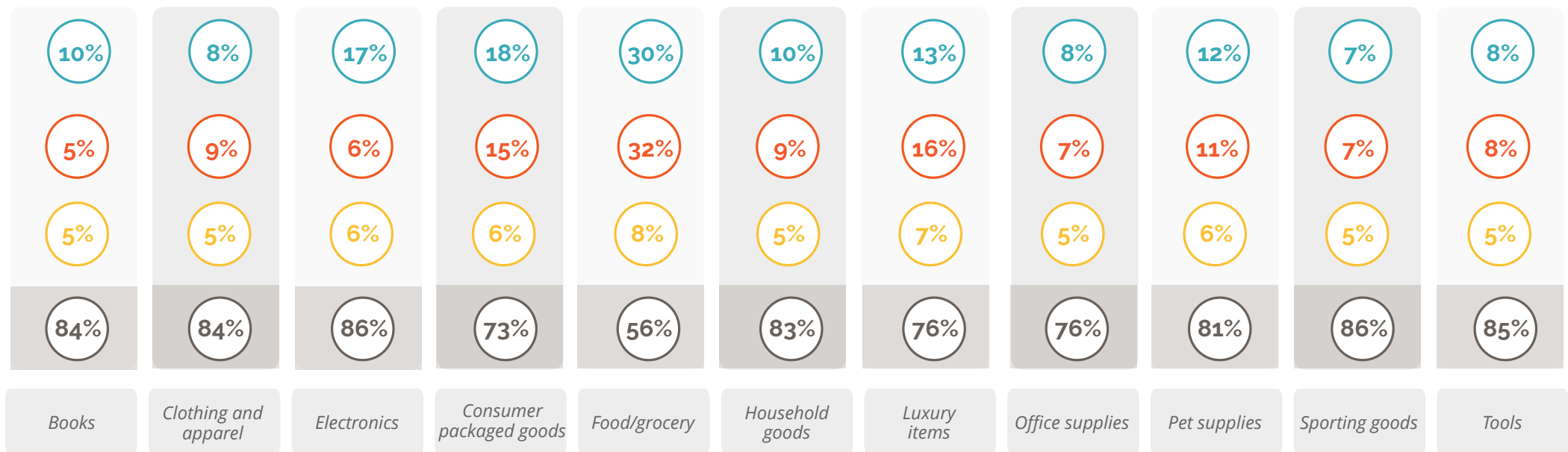
Source: Walker Sands Future of Retail Study 2016



When asked which products they would never buy online, the majority of consumers (66 percent) said they are open to making purchases from any channel, including brand websites and third-party retailer sites. Again, consumers are most resistant to buying food and groceries online, with almost a third saying they would never do their grocery shopping on a brand's website (30 percent) or Amazon (32 percent). But 56 percent of consumers say they would do their grocery shopping on any channel, showing potential even for this laggard category.

*These findings present a major opportunity for retailers able to offer a blend of innovative e-commerce and in-store technology that work in tandem. In particular, beacons and virtual reality seem to hold the most potential for offering consumers a hybrid shopping experience.*

## THROUGH WHICH OF THE FOLLOWING CHANNELS WOULD YOU **NEVER** CONSIDER PURCHASING THE FOLLOWING PRODUCTS?



● Brand website 
 ● Amazon or other third-party online retailers 
 ● Physical store 
 ● I would buy this product from any of these channels

Source: Walker Sands Future of Retail Study 2016

## BEACONS COULD TAKE OFF WITH THE RIGHT INCENTIVES FROM RETAILERS

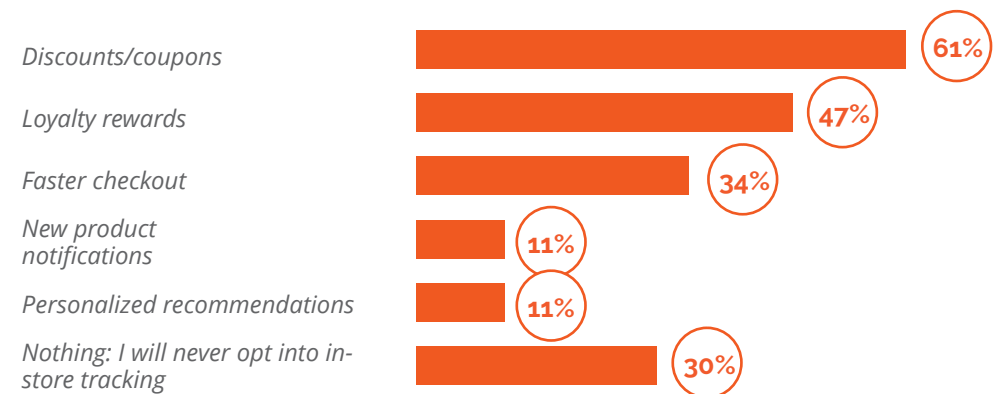
Although location-based technology, such as geo-targeting and beacons, hasn't taken off as soon as some retailers expected, our research shows that the majority of consumers are open to the mobile technology if offered the proper incentives. So while more than 60 percent of shoppers say they are not currently receptive to push notifications from retailers or in-store mobile tracking, two-thirds (67 percent) say it could improve their in-store shopping experience; in most cases, a discount or better in-store experience would persuade them to give the technology a try.

When it comes to location-based smartphone technology that would improve their in-store shopping experience, consumers point to coupons (52 percent); additional information, including product content and reviews (36 percent); and indoor store mapping showing them aisle layouts and product locations (30 percent). Only a third of consumers (33 percent) say they're not open to any location-based store technology.

Currently, only 6 percent of consumers have used in-store tracking technology through beacons; however, among shoppers who have never used beacons before, only 30 percent say they will never opt into the service. When asked what would cause them to opt into in-store mobile tracking and push notifications, those consumers cite discounts (61 percent), loyalty rewards (47 percent) and faster checkout (34 percent).

## WHAT WOULD CAUSE YOU TO OPT INTO IN-STORE MOBILE TRACKING AND PUSH NOTIFICATIONS?

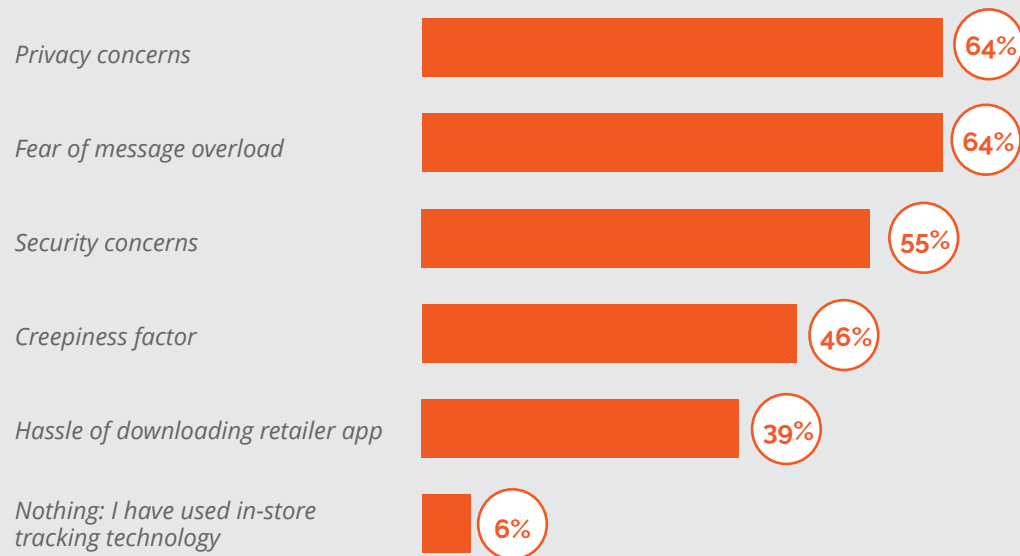
*(Among those who have never used the technology before)*



*Source: Walker Sands Future of Retail Study 2016*

What's holding consumers back from opting in? Most say they are worried about privacy (64 percent), message overload (64 percent) and security (55 percent) – all factors retailers can control. Almost half (46 percent) say they find it creepy, a perception challenge that will be much more difficult for retailers to overcome. More than a third of consumers cite the hassle of downloading the retailer's app, but this appears to be a relatively minor obstacle compared to the other objections.

## WHAT IS PREVENTING YOU FROM RECEIVING IN-STORE PUSH NOTIFICATIONS WHILE SHOPPING IN STORE?



Source: Walker Sands Future of Retail Study 2016

## HOW DO YOU ANTICIPATE THE INTRODUCTION OF VIRTUAL REALITY TO E-COMMERCE WILL IMPACT YOUR BUYING DECISIONS?



Source: Walker Sands Future of Retail Study 2016

With relatively few retailers experimenting with in-store technology like beacons and so few consumers having experienced it so far, this is still a huge area of potential growth for the future of retail. If retailers can figure out the right balance of incentives and discretion, we could see beacons explode in the near future.

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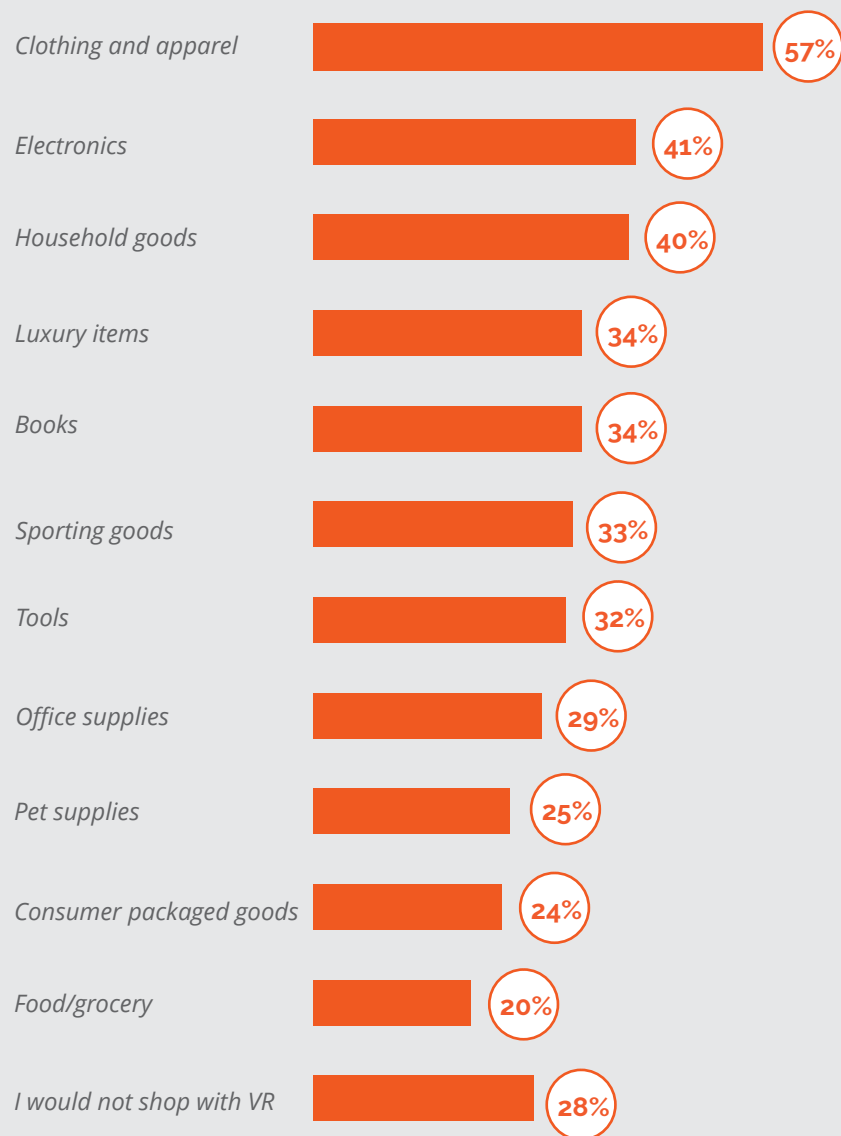
## CLOTHING HOLDS THE MOST POTENTIAL FOR VR COMMERCE

Virtual reality is another area of emerging technology that presents retailers an opportunity to bring together online and in-store experiences. However, while more than half (55 percent) of consumers say they expect VR will impact their buying decisions, consumer interest may be waning, down from 63 percent a year ago. This is likely due to the slow and unimpressive splash VR has made so far in the retail space.

But if done correctly, virtual reality has the opportunity to be an effective e-commerce driver, with a third of consumers saying they would likely shop more with retailers that offer a VR experience and a quarter saying it would cause them to purchase more online. And it could be a good way to bridge the gap between in store and online, with only 17 percent of consumers reporting they think VR would make them less likely to visit a physical store.



## FOR WHICH OF THE FOLLOWING PRODUCTS WOULD YOU CONSIDER SHOPPING VIA VIRTUAL REALITY?



Source: Walker Sands Future of Retail Study 2016

Among those who would consider virtual reality shopping, the product categories generating the most interest include clothing and apparel (57 percent), consumer electronics (41 percent) and household goods (40 percent).

In another indication that consumers want their online and in-store shopping experiences to merge, 63 percent say they would be interested in fitting rooms outfitted with VR technology that would allow them to virtually try on items while in store. As the lines between the two retail worlds get blurrier, VR could bring them together in a seamless and integrated way.

### TAKEAWAY: CONSUMERS EMBRACE THE BEST OF ONLINE AND IN-STORE EXPERIENCES

*More than half of retail executives (56 percent) increased their store operations technology budgets in 2015, including a quarter who implemented beacon technology, according to Retail Touchpoints.<sup>6</sup> And BI Intelligence estimates that beacon-influenced sales at top retailers will grow tenfold in 2016 from approximately \$4 billion last year.<sup>7</sup> Clearly, beacons are poised for prime time.*

*Virtual reality, on the other hand, is still in its infancy, with early applications mostly focusing video and gaming. But VR e-commerce solutions are already hitting the market, with Gear Commerce predicting that v-commerce will grow to more than \$425 million in sales in 2016.<sup>8</sup> And our Future of Retail findings show that consumers are intrigued by the technology, even if they haven't experienced it yet – 22 percent plan to purchase a VR device in the next year, including Oculus Rift (8 percent), Samsung Gear (4 percent) and Sony Playstation VR (4 percent) – making it an area to watch in the next couple of years.*

*In the coming years, we expect to see that consumer preference for buying specific products in a brick-and-mortar store or on a website will decline, and most shoppers will gravitate toward the best brand experience, regardless of physical or virtual location, and embrace the best of both worlds.*

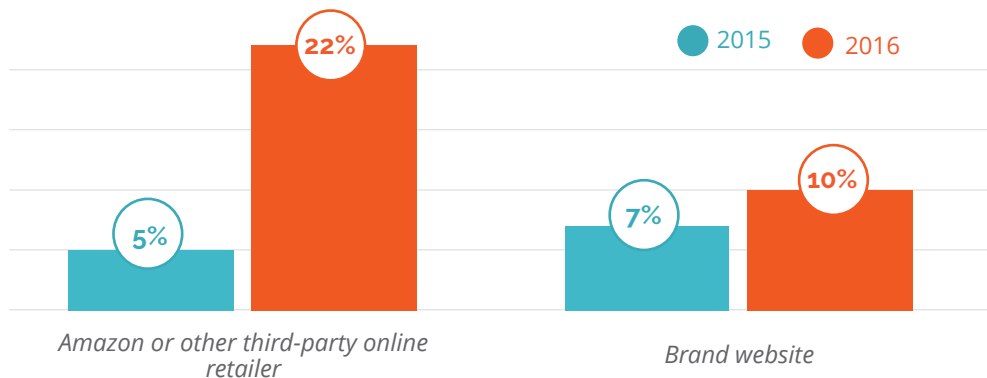


## THE RISE OF LUXURY E-COMMERCE

### KEY FINDINGS

- » A quarter of consumers (27 percent) purchased a luxury item online in the past year, up from 10 percent in 2015 and 6 percent in 2014.
- » A third of consumers ages 18 to 25 have purchased a luxury item online in the past year, compared to only 6 percent of those 61 and older.
- » Among consumers who have purchased luxury goods in the past year, 38 percent say they would consider buying luxury products via virtual reality.

### THROUGH WHICH OF THESE CHANNELS HAVE YOU PURCHASED LUXURY ITEMS IN THE PAST YEAR?



Source: Walker Sands Future of Retail Study 2016

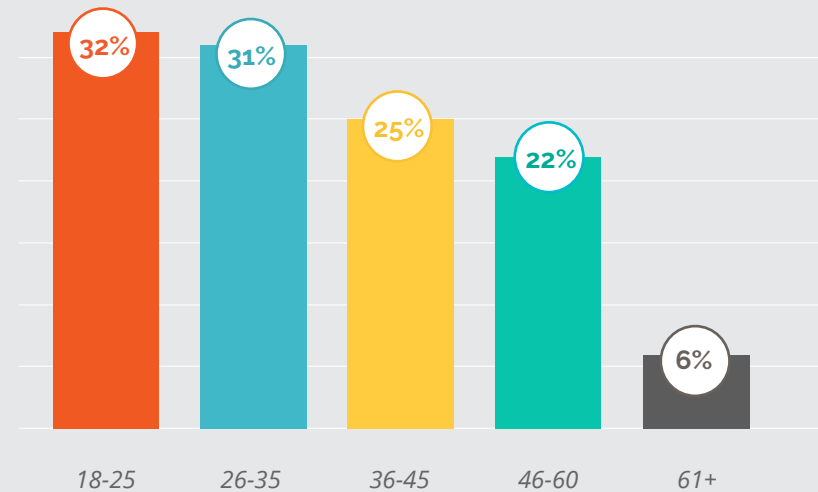
While luxury commerce has had a slow start in the online space, more than four times as many consumers made luxury purchases online in the past year compared to two years ago. With estimates that online sales could make up to 40 percent of luxury sales by 2020,<sup>9</sup> the luxury industry is seeing much larger growth than many other areas of e-commerce.

*Luxury players have reached a tipping point where they can quickly scale their e-commerce operations*

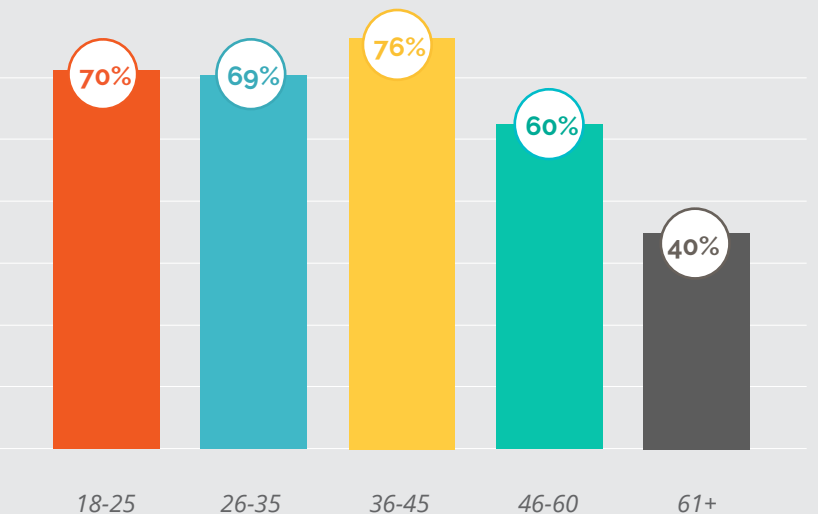
The Future of Retail 2016 findings show that 27 percent of consumers purchased a luxury item online in the past year, up from 10 percent in 2015 and a mere 6 percent in 2014. In particular, Amazon and other third-party retailer sites have come on strong, jumping from 5 percent to 22 percent year over year.

With a report from McKinsey predicting that luxury players have reached a tipping point where they can quickly scale their e-commerce operations – now that online sales have reached 6 to 7 percent of revenue – this area is ripe for growth over the next decade.<sup>10</sup>

## PURCHASED LUXURY ITEMS ONLINE IN THE PAST YEAR, BY AGE GROUP



## WILLINGNESS TO PURCHASE LUXURY ITEMS ON ANY CHANNEL, BY AGE GROUP



Source: Walker Sands Future of Retail Study 2016

## MILLENNIALS DRIVING GROWTH IN LUXURY E-COMMERCE SALES

Not only are consumers ages 35 and under the most likely to say they've purchased luxury goods in the past year in any channel (59 percent, compared to 46 percent of those over the age of 35), they're also most likely to have purchased luxury items online. This indicates the massive growth analysts have predicted in the next few years is likely to come primarily from younger shoppers.

Despite the sharp increase in younger generations shopping for these products online, our research also reveals that older generations are open to online shopping channels for luxury products, indicating major opportunities for retailers able to create a more personalized shopping experience in the luxury space. In all age groups except the 61 and older segment, more than half of consumers say they would purchase luxury items on any channel, including brand websites and third-party retailers.

Compared to the average shopper, luxury buyers (categorized as those who have made at least one luxury purchase in the past year) are more likely to make frequent online purchases at least once or twice per week (39 percent, compared to 31 percent). But they're no more likely to say they are open to purchasing luxury goods online across channels, or say that they would spend any more online without seeing goods first. In other words, as more consumers complete their shopping online, they become more comfortable with the thought of purchasing more expensive items online.

*As more consumers complete their shopping online, they become more comfortable with the thought of purchasing more expensive items online.*



## VIRTUAL REALITY COULD PRESENT OPPORTUNITY FOR LUXURY BRANDS

So how can luxury retailers best take advantage of this online-ready market?

Perhaps the answer to bringing the two together lies in virtual reality. Luxury buyers are more likely than the average consumer to say they're interested in using an online shopping device (71 percent), such as Oculus Rift, compared to the average consumer (63 percent). They're also more likely to think VR will impact their shopping experience (64 percent, compared to 55 percent of average consumers; that number dips to 48 percent for those who have not purchased luxury in the past year). More than a quarter of consumers who have purchased luxury in the past year (28 percent) say they plan to purchase some kind of VR device in the next year, in addition to the 2 percent who say they already own one (compared to 15 percent for consumers who haven't purchased luxury).

But VR could also represent an opportunity for luxury to take advantage of new shoppers. Of those who have purchased luxury goods in the past year, almost two in five (38 percent) say they would consider buying luxury products via virtual reality, and those who haven't purchased luxury in the past year aren't far behind with more than three in 10 reporting they would be interested in shopping luxury via virtual reality (31 percent).

## TAKEAWAY: LUXURY BRANDS TURNING INTO DIGITAL NATIVES

*While it's clear consumers are open to luxury shopping online and that emerging technologies can offer new and personalized ways to bridge the online and in-store gap, Bain Consultants reported in a recent Bloomberg Businessweek article that, "an estimated 40 percent of luxury brands still don't sell online."<sup>11</sup> Many moves within the past few months show a changing attitude from some late adopters. First steps for retailers in this space will be figuring out where they can best add value to their shoppers in the online market.*

*But that's not to say some retailers haven't already gotten started. Super-luxury brand Chanel has announced that it will be opening an e-commerce store later this year, and companies such as Burberry and Estee Lauder are now essentially natives to the digital space.<sup>12</sup>*

*Like many retail sectors, consumers still want access to the in-store experience, so luxury's biggest challenge lies in bringing the two together. New and emerging technologies, such as VR and personalization capabilities offered by online browsing and shopping, could not only help online growth of luxury, but also introduce more online-savvy shoppers to the market. It's no surprise millennials expect the online experience they're used to with the luxury market, so in the years to come brands will need to go online to keep customer loyalty from younger generations.*



## SLOW MOBILE PAYMENTS ADOPTION

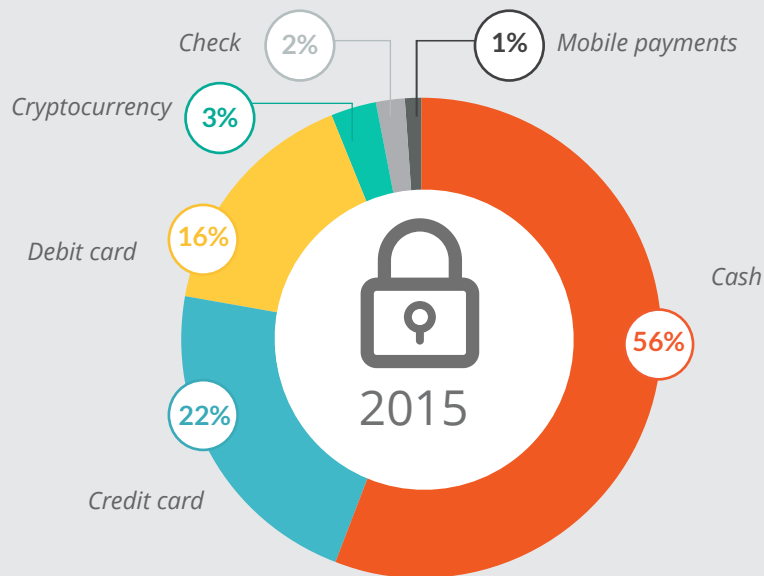
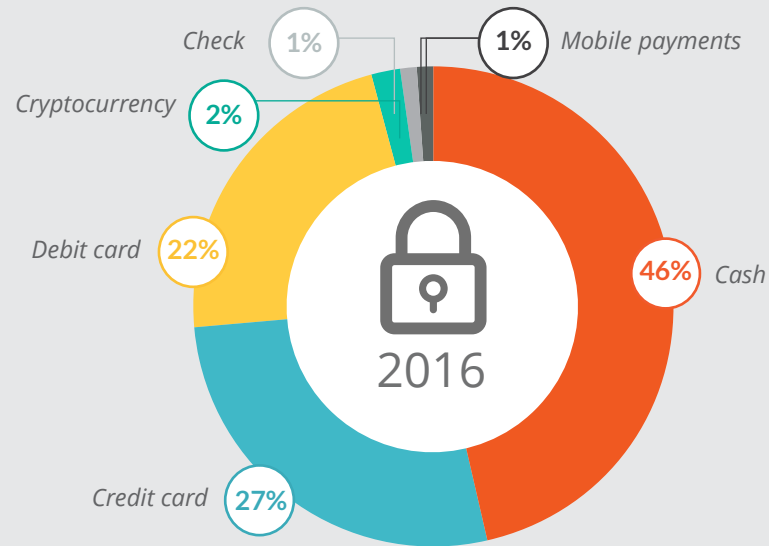
### KEY FINDINGS

- » *More than a third of consumers (36 percent) have used a mobile payment app in store in the past year, and 33 percent have used a peer-to-peer payment app.*
- » *The majority of consumers cite security (61 percent) and privacy (58 percent) as the two primary factors that make them hesitant to use mobile payment applications.*
- » *At 19 percent, Android Pay tops the list of mobile payments consumers are using, followed by a retailer's mobile app (12 percent) and Apple Pay (11 percent).*

Despite the rise of mobile payment apps like Apple Pay and Android Pay over the past couple years, traditional payments still reign supreme. This year's findings show that consumers still largely prefer credit and debit cards for retail purchases, and very few have accepted mobile payments as the norm.

A little more than a third of consumers (36 percent) have used some sort of mobile payment applications in the past year, up slightly from a year ago (34 percent); however, shoppers consider them the least secure form of payment. This distrust could be one of the main reasons that mobile payments have been slow to reach mainstream adoption.

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



Source: Walker Sands Future of Retail Study 2015/2016

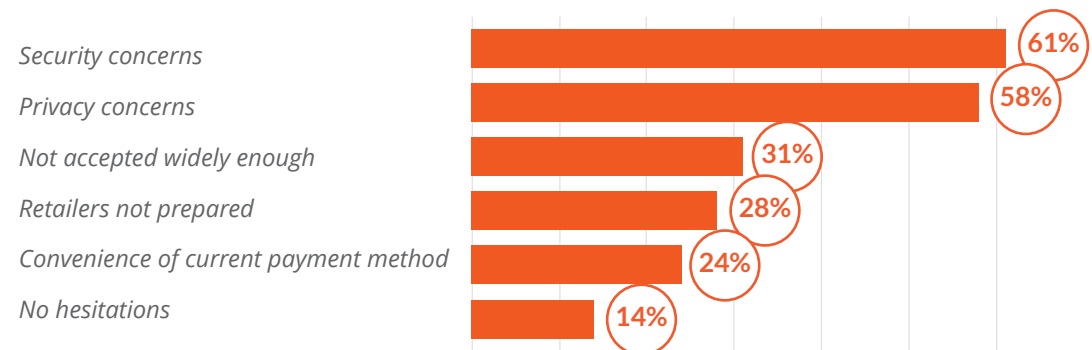
## SECURITY CONCERNS MAKE CONSUMERS HESITANT TO EMBRACE MOBILE PAYMENTS

When asked about which forms of payment they find most secure, cash topped the list at almost half (46 percent), followed by credit cards (27 percent) and debit cards (22 percent). Surprisingly, consumer trust in both credit and debit cards has increased year over year, which might indicate that banks have regained some consumer trust despite recent retail hacking scandals. Mobile payments ranked last each of the past two years at 1 percent.

So what are the barriers to mobile adoption? The majority of consumers cite security (61 percent) and privacy (58 percent) as the two primary factors that make them hesitant to use mobile payment applications. Some consumers also blamed retailers, saying they are not prepared for the technology, or mobile payments aren't accepted in enough locations.

Only 14 percent of consumers say they have no hesitation to use mobile payment services.

## WHICH ONE OF THESE FACTORS MAKE YOU HESITANT TO USE MOBILE PAYMENT SERVICES?

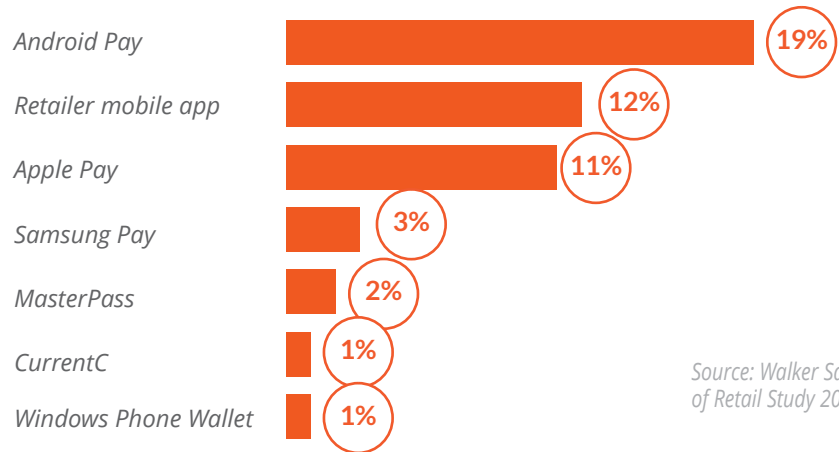


Source: Walker Sands Future of Retail Study 2016





## WHICH OF THE FOLLOWING MOBILE PAYMENT APPLICATIONS HAVE YOU USED TO PURCHASE A PRODUCT IN STORE?



Source: Walker Sands Future of Retail Study 2016

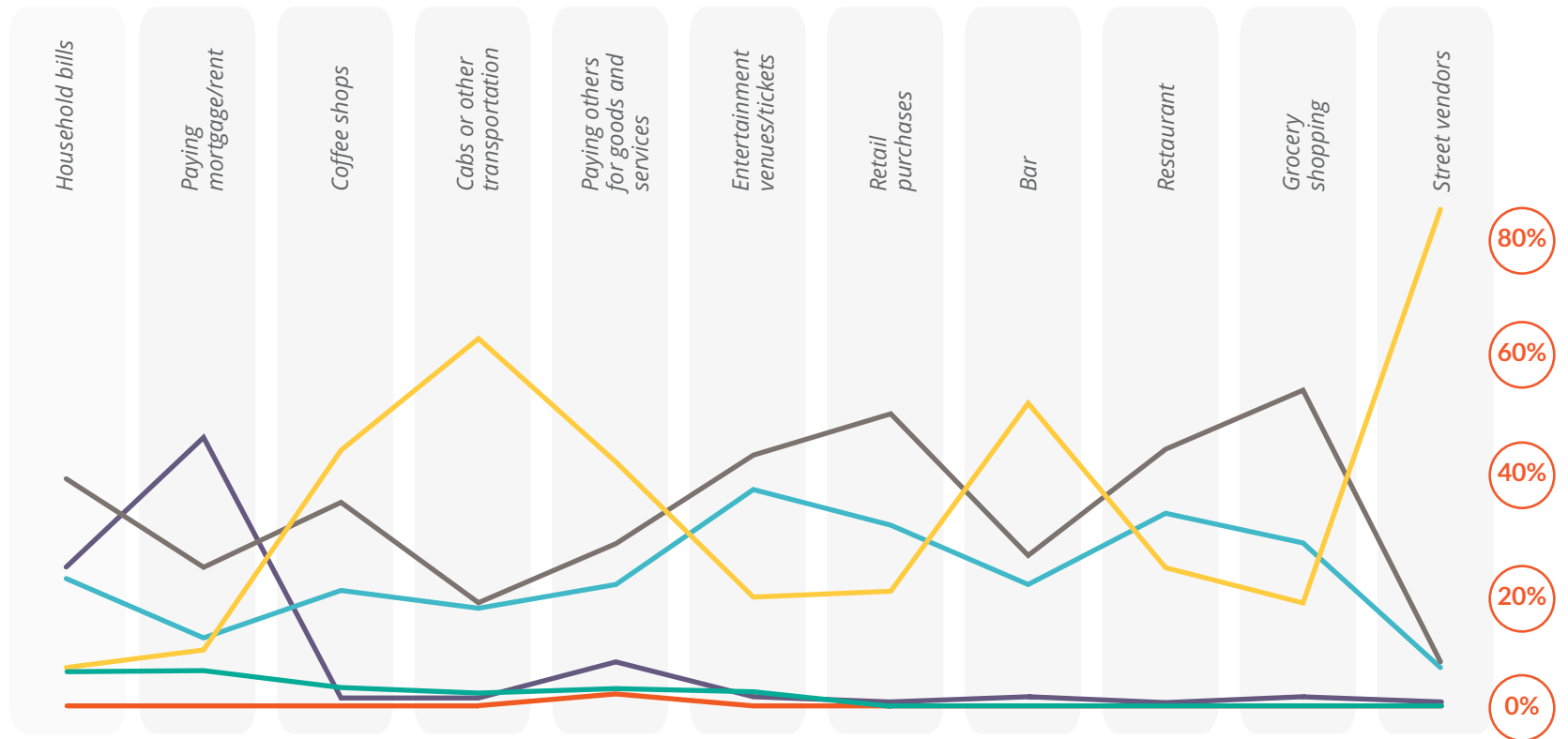
At 19 percent, Android Pay tops the list of mobile payments consumers are using, followed by a retailer's mobile app (12 percent) and Apple Pay (11 percent). While the number of Android mobile payment users held steady from last year, the number of Apple Pay users almost tripled from 4 percent.

When asked about preferred payment methods for different kinds of purchases, mobile payments ranked low across the board. But there are a few categories that stand out where mobile payments are the favorite way to pay, namely household bills (6 percent), rent/mortgage (5 percent), and paying others for goods and services (3 percent). These findings suggest that peer-to-peer payment applications may be taking off faster than point-of-sale mobile transactions.

*These findings suggest that peer-to-peer payment applications may be taking off faster than point-of-sale mobile transactions.*

## PREFERRED PAYMENT METHOD BY PURCHASE TYPE

Source: Walker Sands  
Future of Retail Study 2016



● Mobile payment

● Credit card

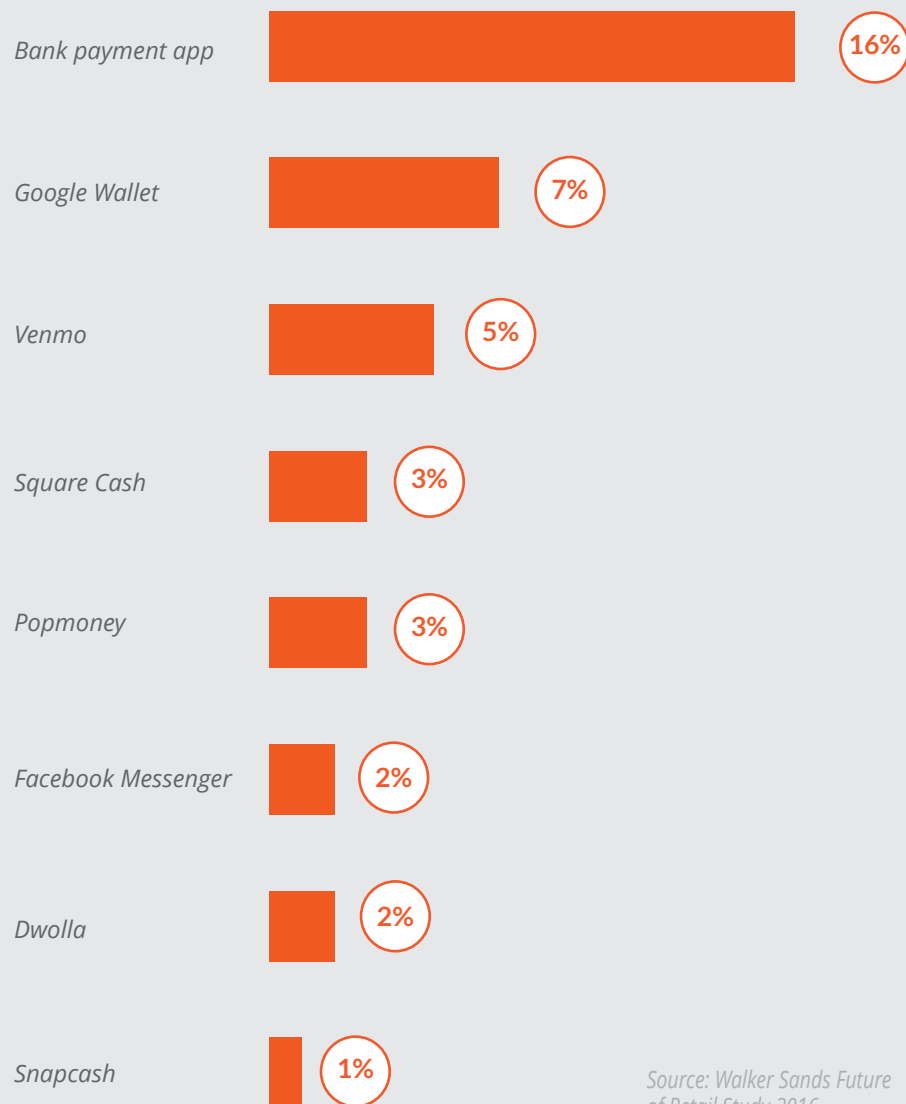
● Cash

● Cryptocurrency

● Debit card

● Check

## WHICH OF THE FOLLOWING PEER-TO-PEER MOBILE PAYMENT APPS HAVE YOU USED IN THE PAST YEAR TO SEND MONEY TO ANOTHER PERSON?



Source: Walker Sands Future of Retail Study 2016

Indeed, peer-to-peer payment (P2P) apps like mobile banking applications, Venmo and even Snapchat continue to be on the rise, led primarily by younger shoppers. While a third of consumers overall have used a P2P app in the past year, 44 percent of those ages 18 to 25 and 38 percent of those 26 to 35 have done so. That compares to only 17 percent of consumers ages 46 to 60.

Millennials are also most likely to have used any mobile payment app, with 64 percent of 18- to 25-year-old consumers making a mobile purchase over the past year, compared to only 25 percent of the 61 and older crowd. While younger consumers also have concerns about privacy and security when it comes to mobile applications, they are much more likely than their older counterparts to report concerns with retailers' preparedness and acceptance of mobile payment technologies. This bodes well for the mobile payment space as the technology becomes more ubiquitous.

### TAKEAWAY: MILLENNIALS WILL PUSH MOBILE PAYMENTS INTO THE MAINSTREAM

*With U.S. mobile payment transactions expected to triple in 2016 to \$27 billion,<sup>13</sup> payment options such as Apple Pay could eventually force more widespread changes in consumer behavior. For now, though, consumers remain hesitant to give up the payments methods they've been using for years to embrace unproven technology.*

*Led by millennials, however, mobile payments are rising in popularity for POS and P2P payments. Because many of these younger consumers are more likely to blame retailers for the slow adoption rate, it's important for companies to accept as many payment forms as possible.*



## RETAIL TECHNOLOGY PREDICTIONS

The growth of e-commerce over the past few years has transformed the way we shop. And it's not just Amazon changing the game anymore. While 98 percent of consumers have made an Amazon purchase in the past year, almost two-thirds (61 percent) have shopped on eBay, and a quarter (26 percent) have bought a handmade item on Etsy. Even Jet.com (6 percent), Alibaba (4 percent) and Rakuten (3 percent) are starting to get consumers' attention.

But the future of retail isn't just about pure e-commerce anymore. With a growing emphasis on in-store technology and omni-channel strategies, the pendulum has swung back in the other direction, and it's important for retailers to focus on finding the sweet spot in the middle.

Based on the Walker Sands Future of Retail 2016 findings, we predict these four trends will shape the future of retail in the years ahead:



### » SAME-DAY SHIPPING WILL LAY THE GROUNDWORK FOR DRONES

Let's face it; despite the hype, drone delivery is still at least a few years away. Same-day shipping, on the other hand, is starting to take off now, with about one in 10 consumers selecting the option at least once in the past year. As it becomes a more commonly offered delivery option, same-day shipping will further heighten consumer expectations for speed of delivery – and drones that drop off packages within the hour won't be too far behind.



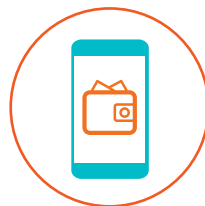
### » THE PHYSICAL AND ONLINE SHOPPING WORLDS WILL COLLIDE

As retailers pursue omni-channel strategies, the digital experience will bleed into brick-and-mortar stores through technology like beacons, and the in-store experience will come to e-commerce through virtual reality. As a result, consumers' channel preferences will disappear, and retailers that offer the most consistent brand experience across the board will rise to the top.



### » LUXURY COMMERCE WILL EXPLODE

While some luxury brands have been hesitant to embrace e-commerce, consumers are more willing than ever to buy big-ticket items online. With millennials leading the way and virtual reality offering the ability to bring a luxury experience to consumers' homes, we expect this will be the next rapid growth area in e-commerce.



### » MILLENNIALS WILL FORCE RETAILERS TO ADOPT MOBILE PAYMENTS

Despite lingering concerns over security and privacy, millennials are embracing mobile and peer-to-peer payment apps, so it's only a matter of time before consumers turn to them as a primary payment method. Mobile payment adoption will continue to grow slowly for the next couple years, but adoption will become more widespread as retailers accept more payment methods.





## STUDY METHODOLOGY

The Walker Sands Future of Retail 2016 study surveyed 1,433 consumers across the United States on their shopping habits, preferences and views on emerging retail technology. The survey was conducted online in February 2016, and has a 2.59 percent margin of error at a 95 percent confidence level.



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## ABOUT WALKERSANDS

Walker Sands is a public relations and digital marketing agency for business-to-business technology companies. With an integrated approach known as the Digital Ecosystem, Walker Sands helps clients build brand awareness, enhance credibility and drive new business. Walker Sands is a three-time Inc. 5000 honoree and regular recipient of some of the industry's most prestigious awards from organizations including PRSA, Holmes Report and PR News. Walker Sands was founded in 2001 and has offices in Chicago and San Francisco.

To learn more, visit <http://www.walkersands.com>.



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