strategy&

November 2018

Bricks and clicks

How European malls evolve in a connected world

pwc

KLEPIERRE

Agenda

Introduction

Omnichannel: a key success factor for in-store sales?

Shopping centers are best placed to meet customers' new expectations

What do retailers expect from shopping centers of the future?

Shopping centers by 2025 in a nutshell

Retail trends dictated by customers and retailers are reshaping the shopping centers of tomorrow

Key trends and expectations from customers and retailers

Customers are seeking convenience and a differentiated experience

- Convenience, simplicity and fluidity
- Compelling shopping experience
- Sense of belonging to a community
- New brand demand
- Retailtainment
- Social and environmental responsibility

Retailers are expecting to share with a more integrated business model shopping centers

- Channel integration & Logistics
- Marketing & traffic generation
- New store format
- Data analytics
- HR, CSR
- Security & safety

Source: Strategy& Analysis

The study is supported by 3 methodological pillars covering 14 retail market countries across Europe

Methodological pillars

Customer survey

1,890 respondents across Europe[1]

Interviews with retailers

In-depth interviews with 33 representative retailers, covering all market segments: personal supplies, household equipment, food, gifts/culture/leisure, health & beauty

Market research

Sector sales, GLA[2] and sales by segment in 14 countries across Europe

Geographical scope

Notes: [1] Countries included in the customer survey: France, Italy, Spain, Portugal, Norway, Sweden, Denmark
[2] Gross leasable area
Source: Strategy& Analysis

The present study stands out through 4 main elements

Clients at the heart of the study	• **1,890 end customers** surveyed across Europe, with customer profiles well distributed within the countries and age categories • Focus on **the consumption behavior and expectations of millennials** • **In-depth interviews with 33 representative retailers**, covering all market segments
A high level of granularity	• A precise analysis of retail sales **by retail sector and sub-sector** • A comparison between **shopping centers and other bricks & mortar locations** • An analysis of **new services expected by customers and retailers** • Focus on their expectations related to **social and environmental concerns**
A large scope	• **All market segments**: personal supplies, household equipment, food, gifts/culture/leisure, health & beauty • **14 major retail market countries** in Europe
An omnichannel maturity analysis	• **Detailed benchmark** of the level of omnichannel maturity[1] compared to sales performance per country

*Note: [1] Omnichannel maturity: **in-store/digital integration** in terms of distribution and marketing*

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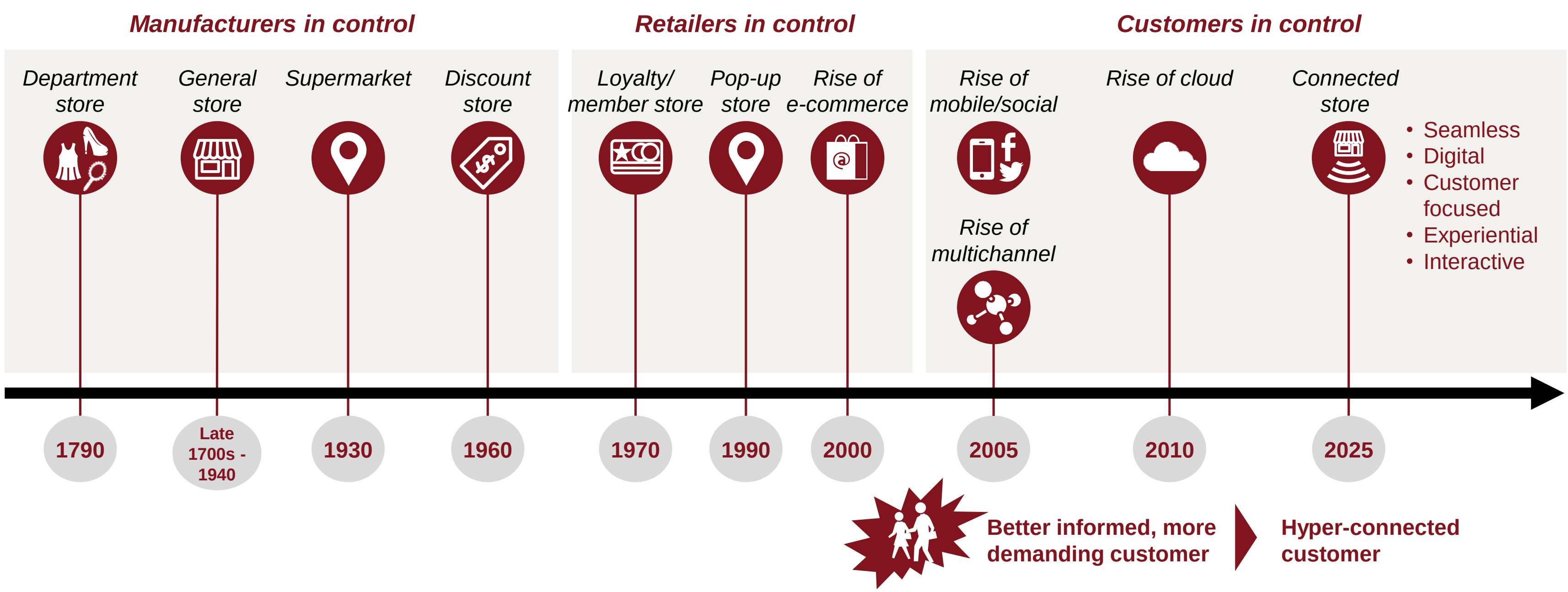
Over the last 100 years, the rise of technology has led to better informed, more demanding, hyper-connected customers…



Mass production technologies

- Mechanization
- Electronics and information technology
- Automation

E-commerce technologies

- Internet
- Mobile
- Targeted advertising

Personalization technologies

- IoT
- AI
- Machine learning
- VR
- Beacons, etc.

Source: Strategy& Analysis

… changing the standards of shopping

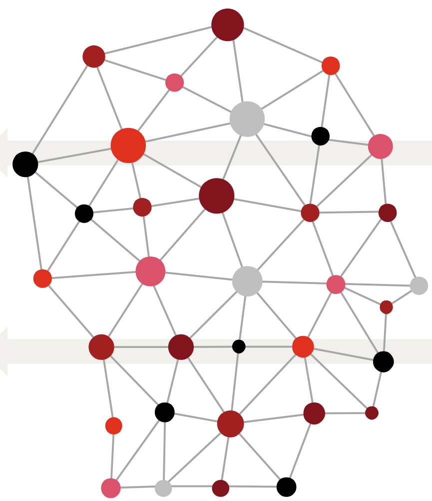
New characteristics

Unique
Unpredictable, emotional and apparently irrational with shifting tastes

Impatient
Impulsive and impatient customers in permanent renewal

Connected
Hyper-connected customers following the digital revolution

Informed
Instant access to more information and choice



New expectations

Experience
Customized and pleasant offer, service and experience by breaking existing silos

Immediacy
Desire of immediate and quick consumption

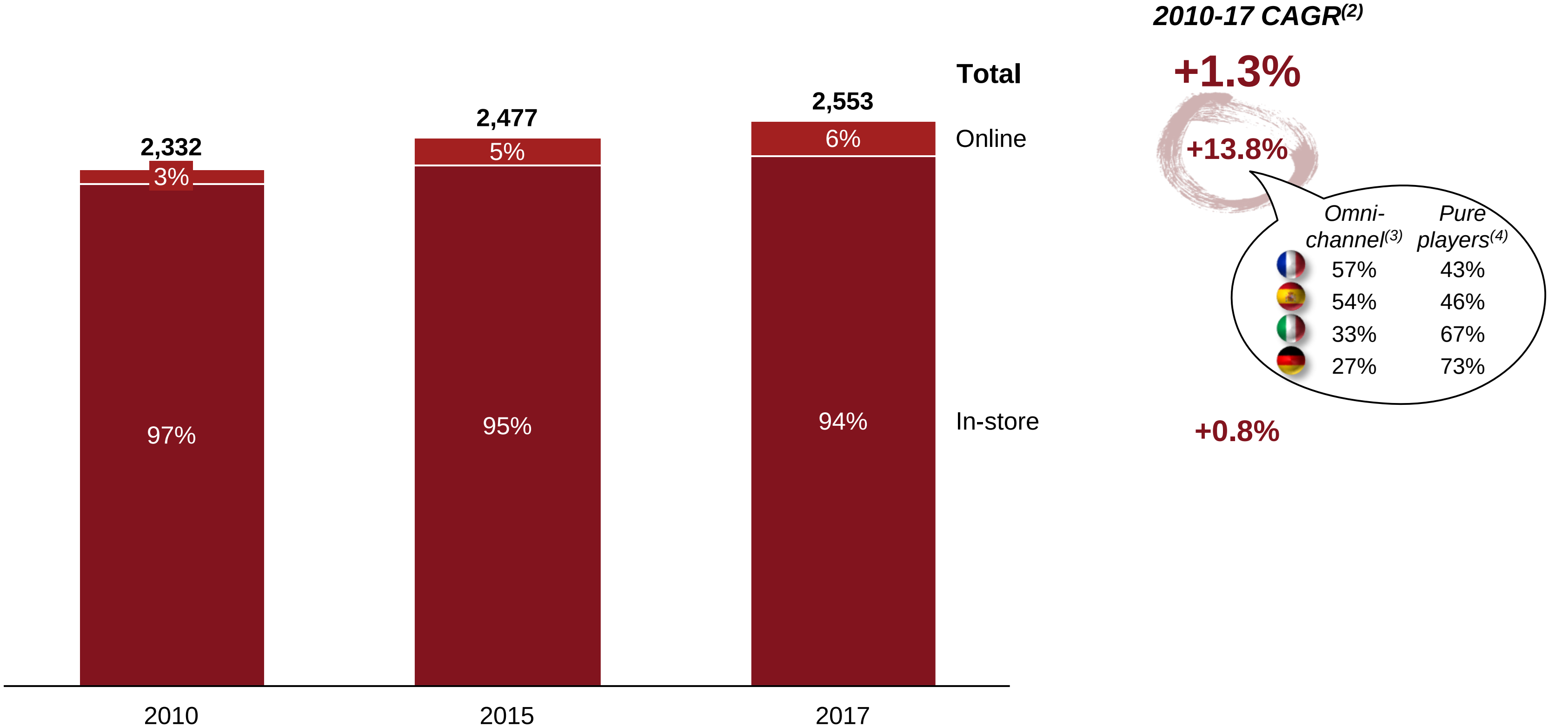
Seamless/Omnichannel
Easy access to services from any channel

Transparency/Trust
Sustainable trust driven by transparency on products and prices

Source: Strategy& Analysis

Despite increasingly connected customers, online sales still account for only 6% of total sales

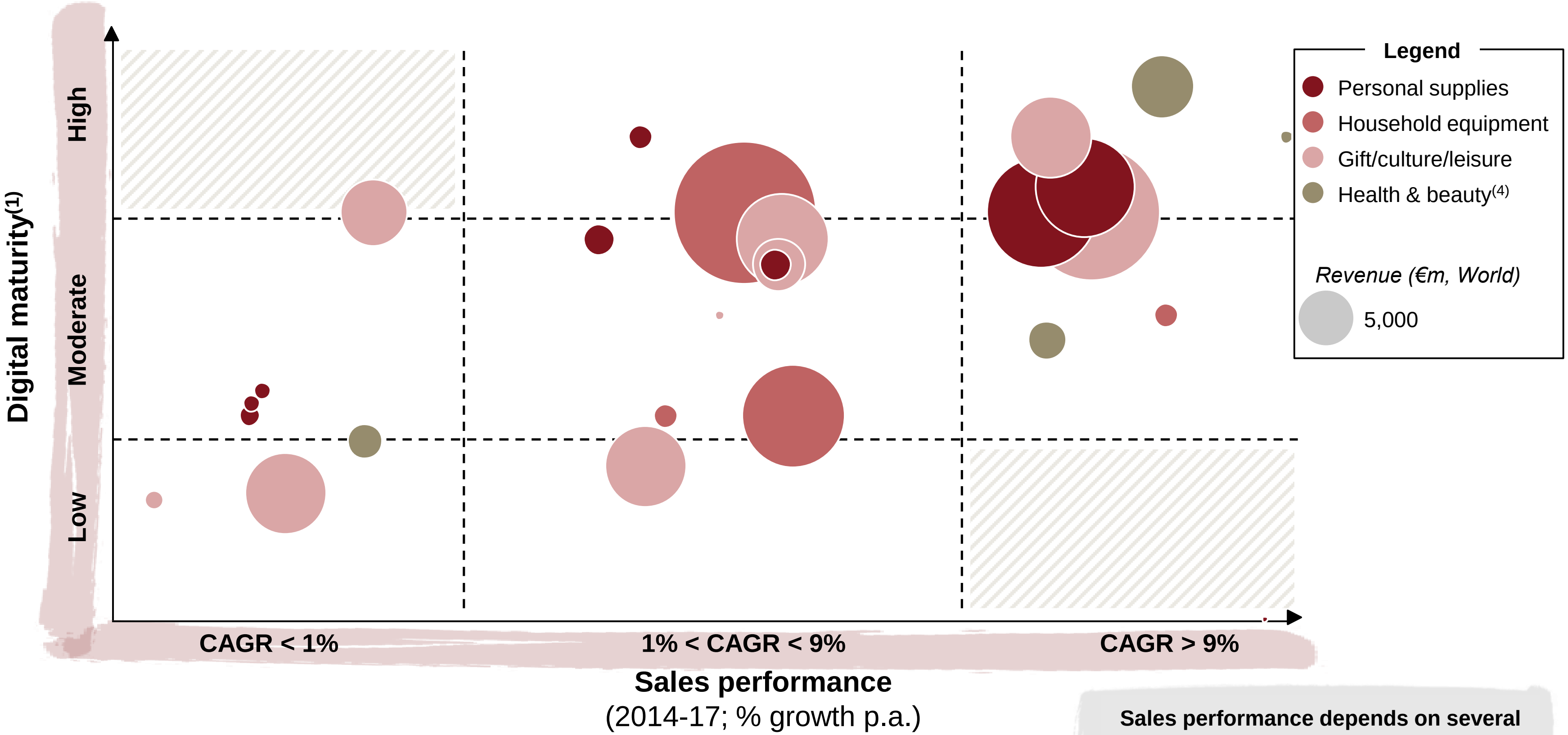
Breakdown of total retail sales(1) between online and in-store sales
(€bn; %; % growth p.a.; 2010-17; geographical scope of the study)



Notes: (1) Excluding the following: Cinemas, Vehicles, Optics for Norway, Germany, Netherlands, Belgium, Poland, Czech Republic, Hungary and Turkey, Restaurants for Turkey Including VAT and inflation
(2) CAGR: Compound Annual Growth Rate
(3) ~45% on average (estimate)
(4) Of which ~25% accounted for by Amazon
Sources: Euromonitor, Global Data, Statista, Strategy& Analysis

Over the past 4 years, investment in omnichannel capabilities has been a key component of success

Comparison of digital maturity with sales performance
(Qualitative assessment of digital maturity[(1)]; % growth p.a.[(2)]; sample of 26 retailers[(3)])

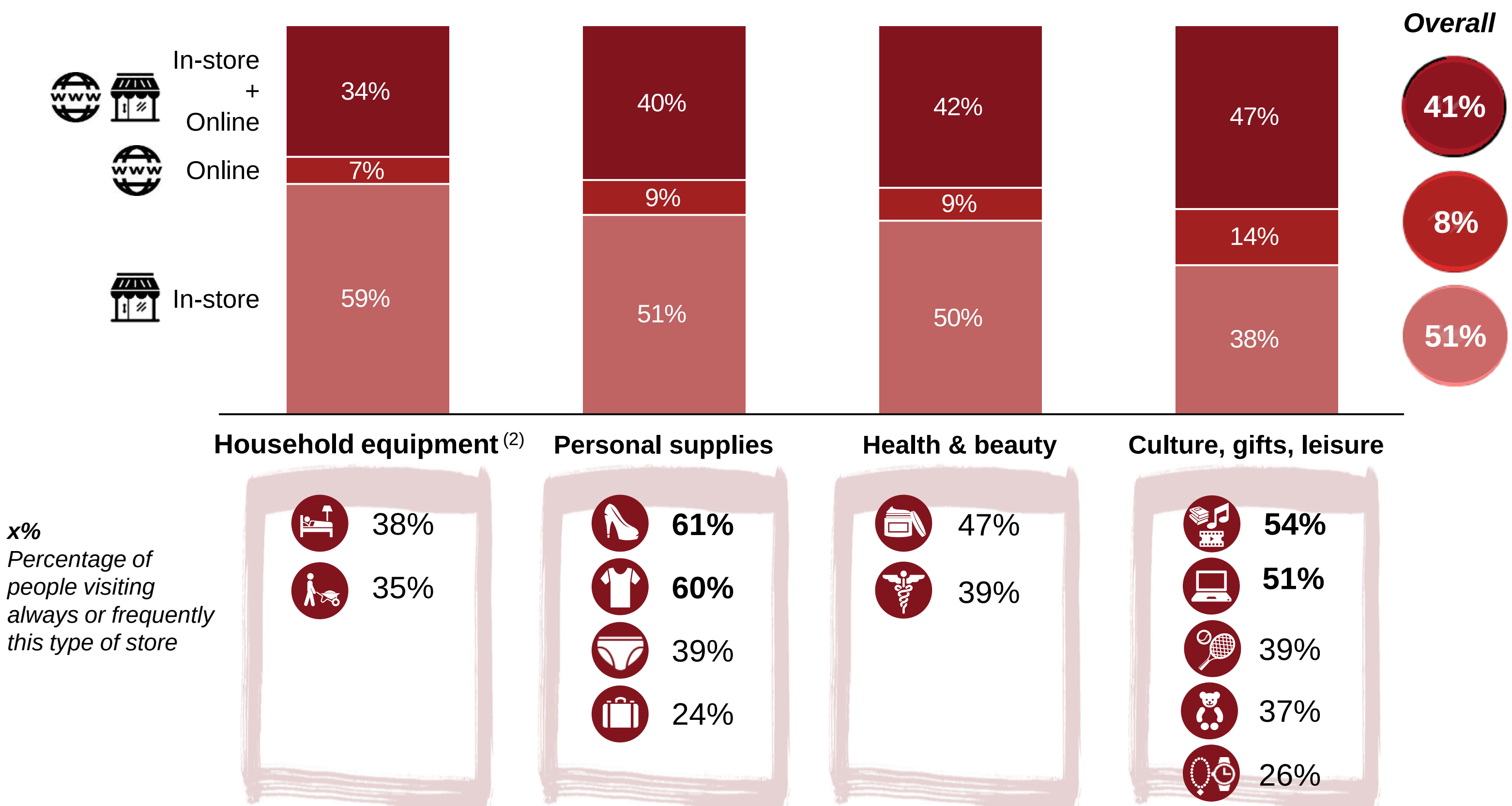


Sales performance depends on several factors (marketing, market trends, geographical location, etc.); hence a wide distribution in terms of digital maturity among mid-growth retailers

Notes: (1) See appendix for the list and definition of the criteria
(2) Where 2014-2017 data were not available, growth was calculated over a 2014-2016 or 2015-2017 period (3 retailers)
(3) Retailers operating at least in Europe
(4) As LVMH does not communicate on Sephora's revenues, data sourced from press estimations
Sources: Annual reports, Press review, Strategy& Analysis

A significant portion of consumers wants the best of both worlds for each retail segment

Preference for their shopping venues, by type of goods
(% of people; sample of 1,890 respondents[(1)])



Questions asked to respondents: "Where do you shop for the following goods?" (MCQ) and "When you go to a shopping center, which type of stores do you visit?"
Notes: (1) Data were weighted by age group. (2) Household equipment excludes automotive equipment.
Source: Strategy& Analysis

The role of stores remains highly valued, especially by millennials …

Top 5 reasons to shop in stores
(Based on the answers of 1,890 respondents)

	All	*Millennials*
"Touch, try on and see the products"	**#1** 64%	**#1** 61%
"Have the product immediately"	**#2** 12%	**#2** 14%
"More practical"	**#3** 8%	**#3** 9%
"More reliable"	**#4** 7%	**#5** 6%
"No delivery cost"	**#5** 6%	**#4** 7%

"No online shop can match the experience of having a potential purchase in your hands, and of examining it"

Man, 52 y-o, Denmark

Millennials are **more sensitive to delivery price** than other generations

Question asked to respondents: "For what reason do you buy in stores rather than buying on the Internet?"
Note: Data were weighted by age group
Source: Strategy& Analysis

... for online shopping still cannot convey the same experience; an opportunity for shopping centers

Main obstacles preventing customers from shopping online

	Ability of online players to overcome the following obstacles	Possible improvements
"I need to see and touch the product before buying"	Low (empty circle)	• **None**
"I prefer the in-store experience with a sales assistant"	Quarter-filled circle	• **Chatbots to provide information or technical advice**
"The lack of security of websites"	Three-quarter-filled circle	• Cultural change/technological improvement to make people trust website security
"I am concerned over delivery options"	Half-filled circle	• Lockers, convenient pick-up locations • Quicker deliveries • No delivery and return costs

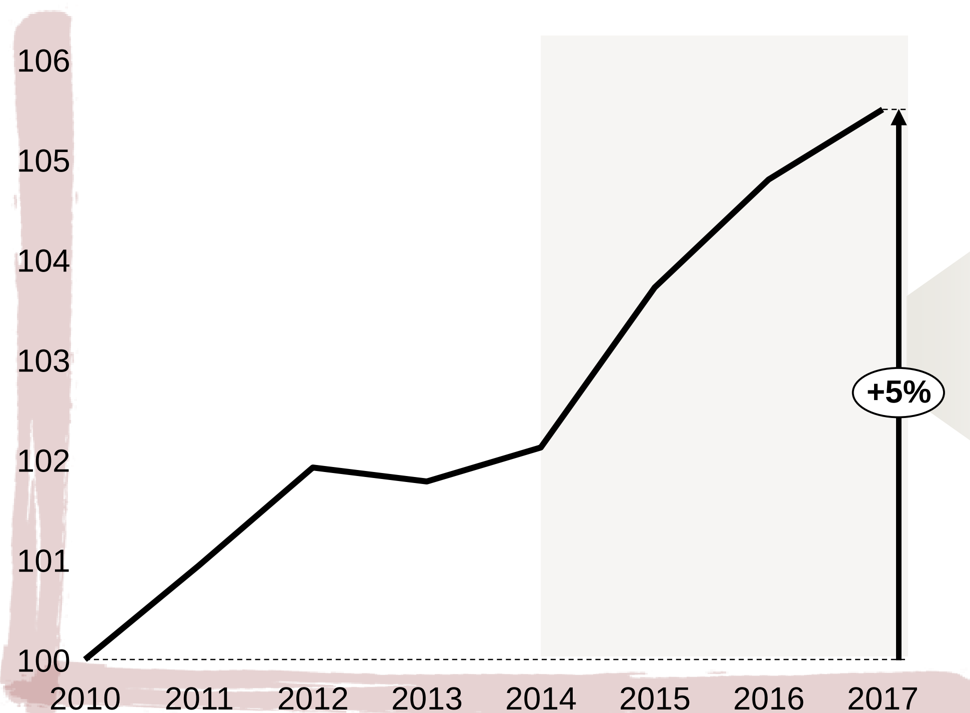
Customer experience, a weak point of online shopping, could be a key opportunity for shopping centers

Low ability — High ability

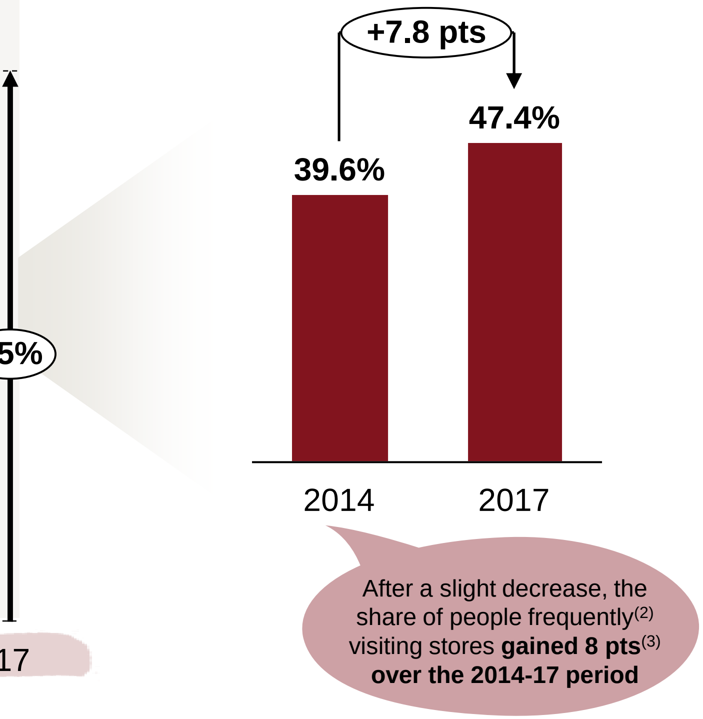
Question asked to respondents: "Why have you not made your product purchases online?"
Sources: PwC study "Total Retail Survey 2017" (7,667 respondents in Belgium, Denmark, France, Germany, Hungary, Italy, Poland, Spain, Sweden)
Strategy& Analysis

From 2010 to 2017, bricks & mortar sales have continuously increased (+5%)

In-store retail sales[1] trend
(Basis 100 = 2010; 2010-17; geographical scope of the study)



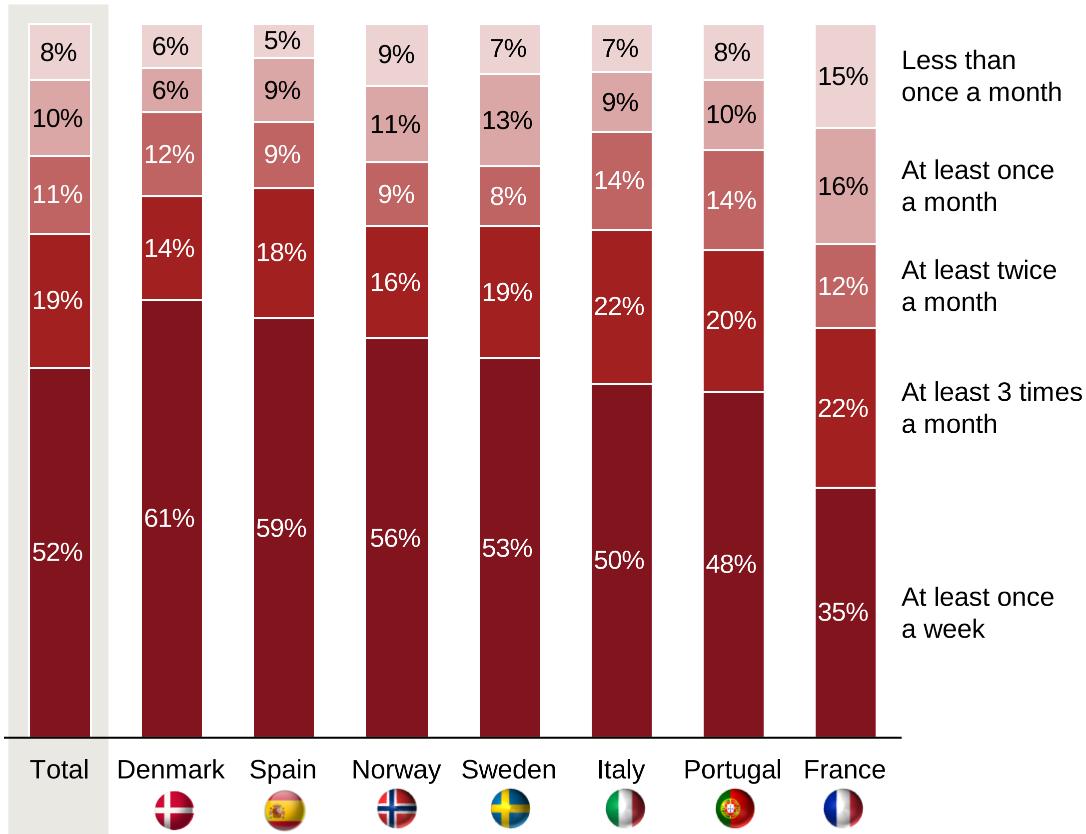
Share of people frequently[2] shopping in stores (%; 2010-17)



Notes: (1) Excluding the following: Cinemas, Vehicles, Optics for Norway, Germany, Netherlands, Belgium, Poland, Czech Republic, Hungary and Turkey, Restaurants for Turkey. Including VAT and inflation
(2) Daily or weekly
(3) "PwC Global Consumer Insights Trends over time" (March 2018) in the following countries: Belgium, France, Germany, Italy, Poland, Spain
Sources: Global Data, Statista, PwC Global Consumer Insights Trends over time (March 2018), Strategy& Analysis

Today, more than half of consumers go shopping at least once a week

Frequency of shopping sessions by country
(% of people; sample of 1,890 respondents)



- On average, **more than half of the population (52%)** go shopping at least once a week
- The Danes are the **most frequent consumers**, with more than **60% of the population** shopping **at least once a week**
- French people are **the least frequent shoppers**, with 35% of the population shopping at least once a week

<u>Question asked to respondents</u>: "How often do you go shopping?"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

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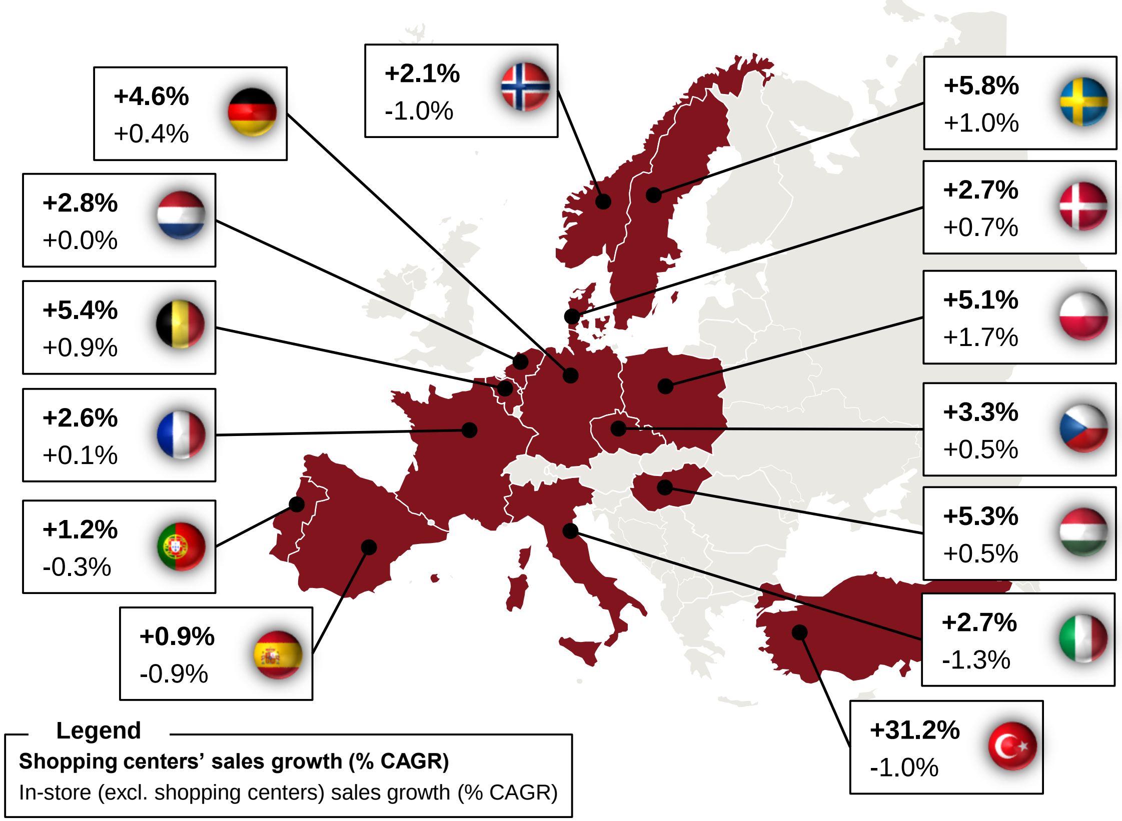
From 2010 to 2016, sales growth in shopping centers has outperformed other retail locations'

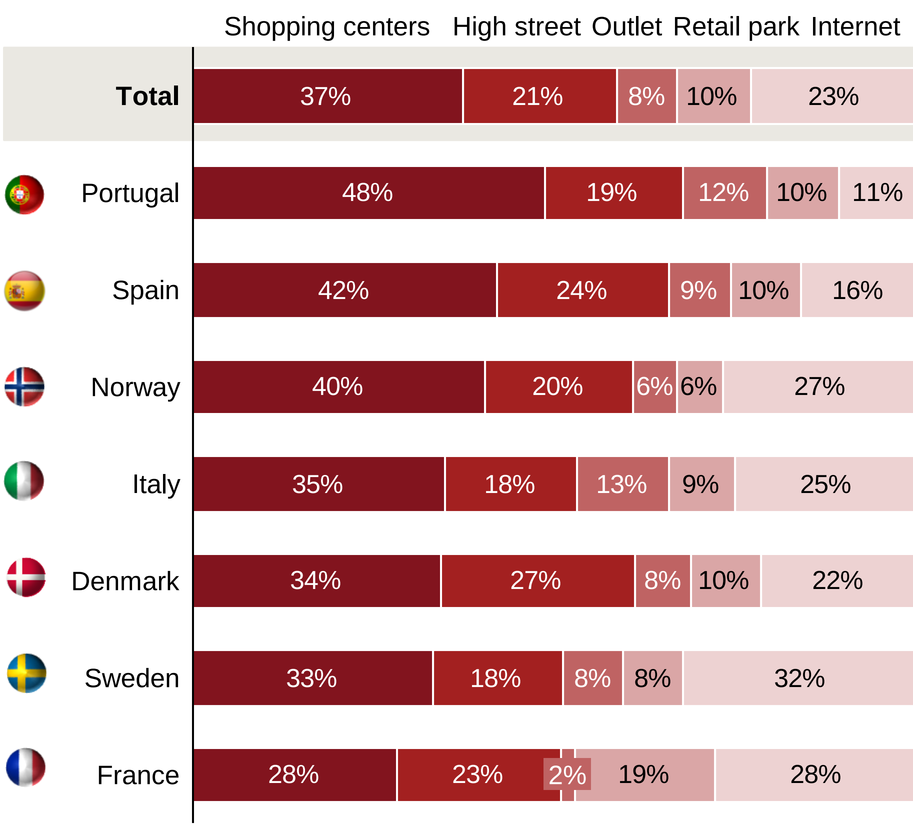
Shopping center sales growth compared to other physical formats of distribution
(€bn; % growth p.a.; 2010-16[1]; geographical scope of the study)



Notes: [1] Shopping center retail sales figures were unavailable for 2017.
[2] Includes high street, retail parks, outlets.
Sources: ICSC, Euromonitor, Global Data, Statista, Strategy& Analysis.

Shopping centers are the #1 shopping option in all countries

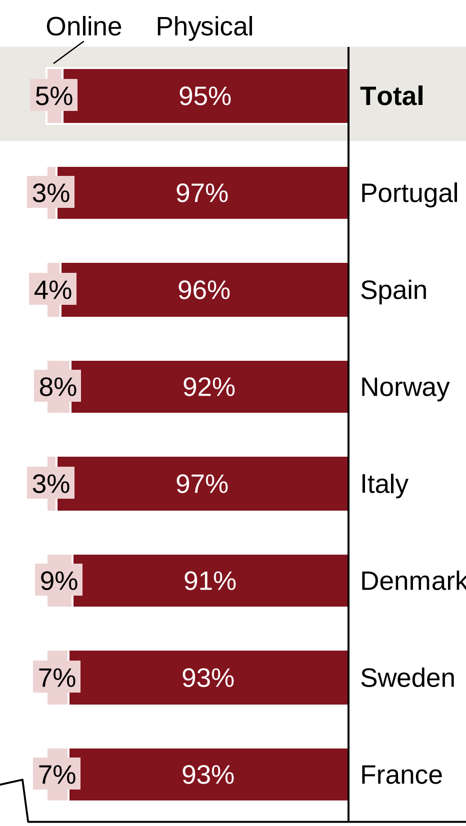
Preferred shopping locations by country
(% of people; sample of 1,890 respondents)



Shopping centers are the preferred shopping place for almost half of the Portuguese population

French and Swedish people are as comfortable with **shopping centers** as Internet shopping

Breakdown of physical and online sales
(%; 2017)



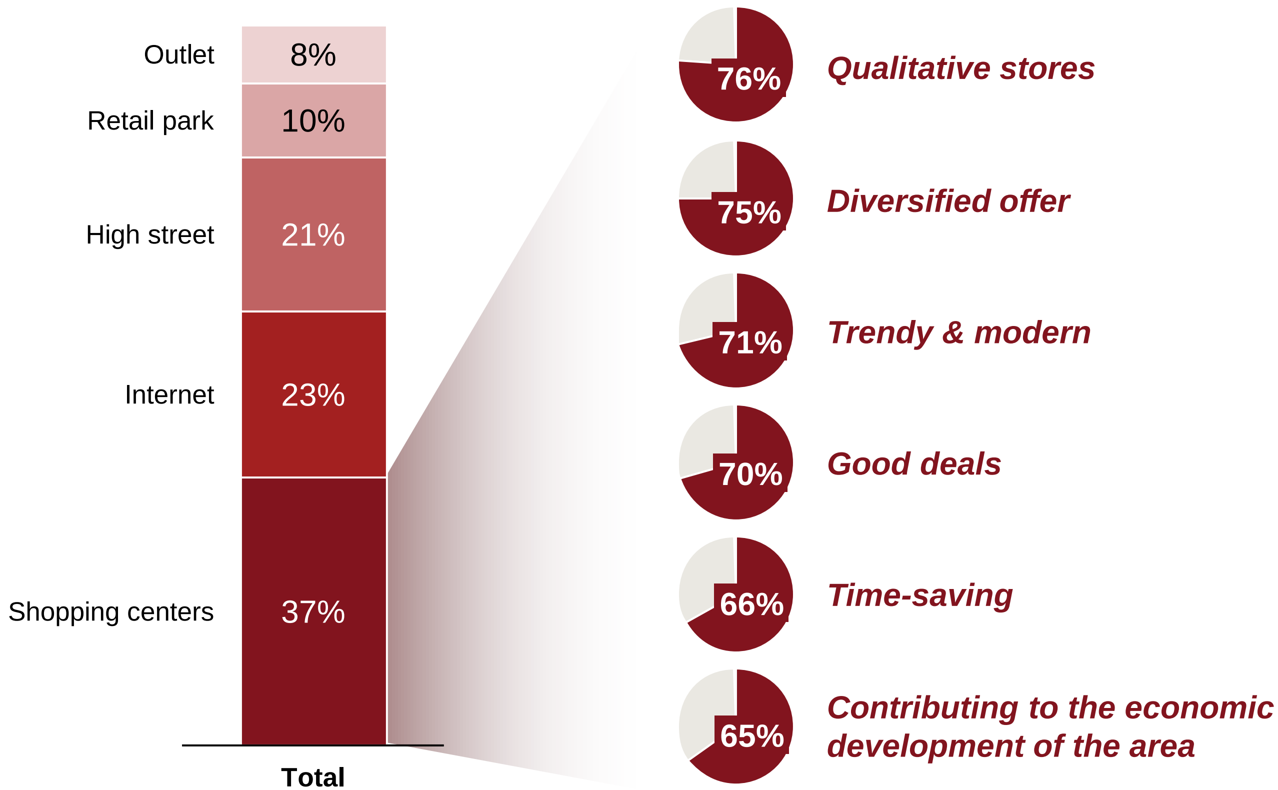
The share of online sales is much lower than the proportion of people placing the Internet as their favorite place of shopping. Indeed, **people make lower value purchases online**.

<u>Question asked to respondents</u>: "Rank these shopping locations in order of preference?"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

Shopping centers are the preferred shopping locations for 37% of consumers, thanks to qualitative and diversified offers

Preferred shopping locations
(% of people; sample of 1,890 respondents)

Perception of shopping centers
(% of people; sample of 1,890 respondents[1])

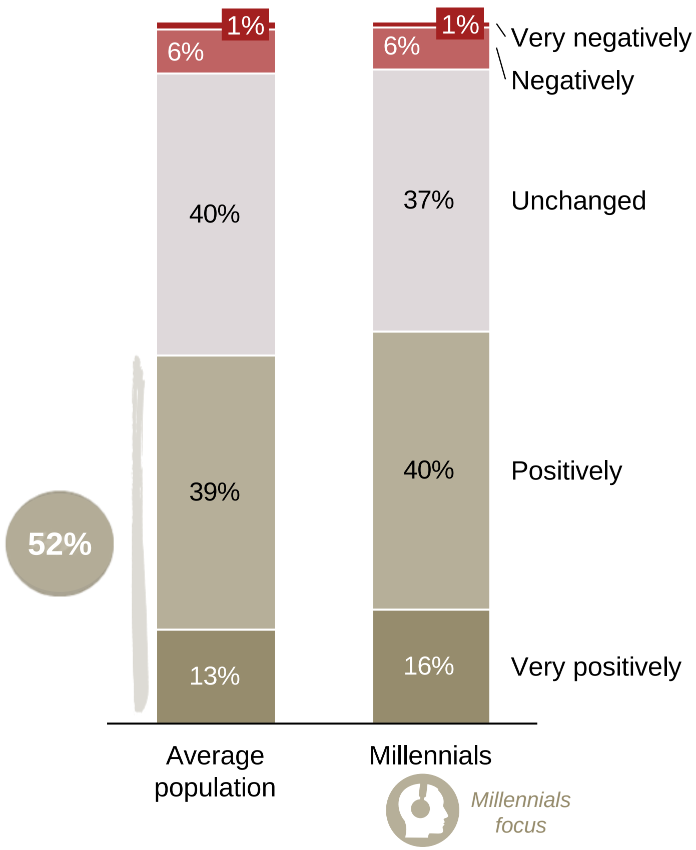


[1] *Excluding undetermined answers*

Questions asked to respondents: "Rank these shopping locations in order of preference" and "Do you see the shopping center as a place…"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

Over the last few years, the perception of shopping centers has even improved, especially among the millennial population

Trend in the perception of shopping centers over the last few years
(% of people; sample of 1,890 respondents)



- **52% of the population perceive shopping centers more positively (56% of millennials)**
- **For only 7% of the population,** the perception has **deteriorated** over the last few years
- **Millennials'** perception of shopping centers **has evolved more positively than the average population**

Question asked to respondents: "Over the last few years, how has your perception of shopping centers has evolved?"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

To keep on outperforming, malls must adapt their offer to customers' expectations, especially for millennials

Offers that shopping centers need to prioritize according to customers
(Based on customer survey; sample of 1,890 respondents)

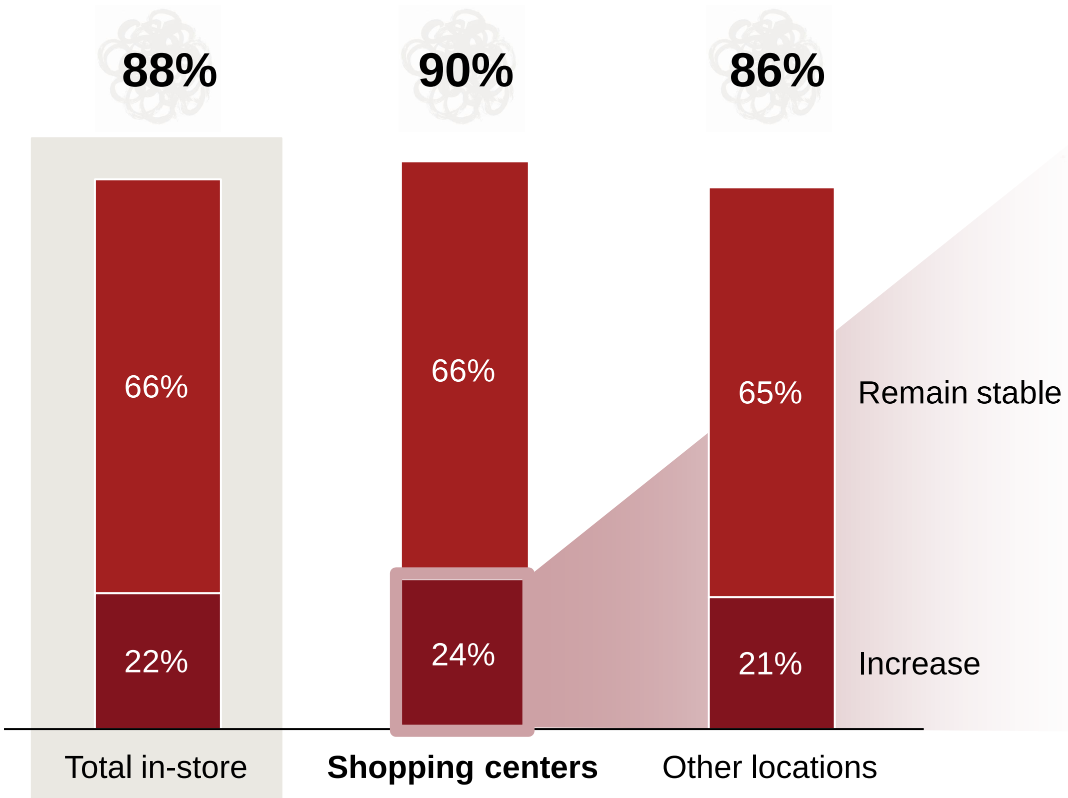
New services	**Places where people can meet**	**Events** (concerts, exhibitions, etc.)	Services that **make life easier** *Zoom next slides*
New products	**Leisure** *Zoom next slides*	**Health/wellness**	**Beauty/cosmetics**
	Food		
New retailers	**Regularly changing offer/pop-up stores**	**New brands** for customers to discover	Brands that offer **responsible products**

Higher expectations from millennials[(1)] (applies to Leisure, Health/wellness, Beauty/cosmetics)

Questions asked to respondents: "Do you expect your shopping center to… ?" and "For you, what should shopping centers do in order to attract more people?"
Note: [(1)] Gap in excess of 5 percentage points between the share of the total population that is attracted by the offer and the share of millennials attracted by the offer.
Source: Strategy& Analysis.

Customers who want to spend more time on leisure activities say they will increase their attendance at shopping centers

Trend in attendance by type of location
(% of people; sample of 1,890 respondents)



Zoom on people who will increase their attendance at shopping centers

Profile

- **48%** of this population are millennials

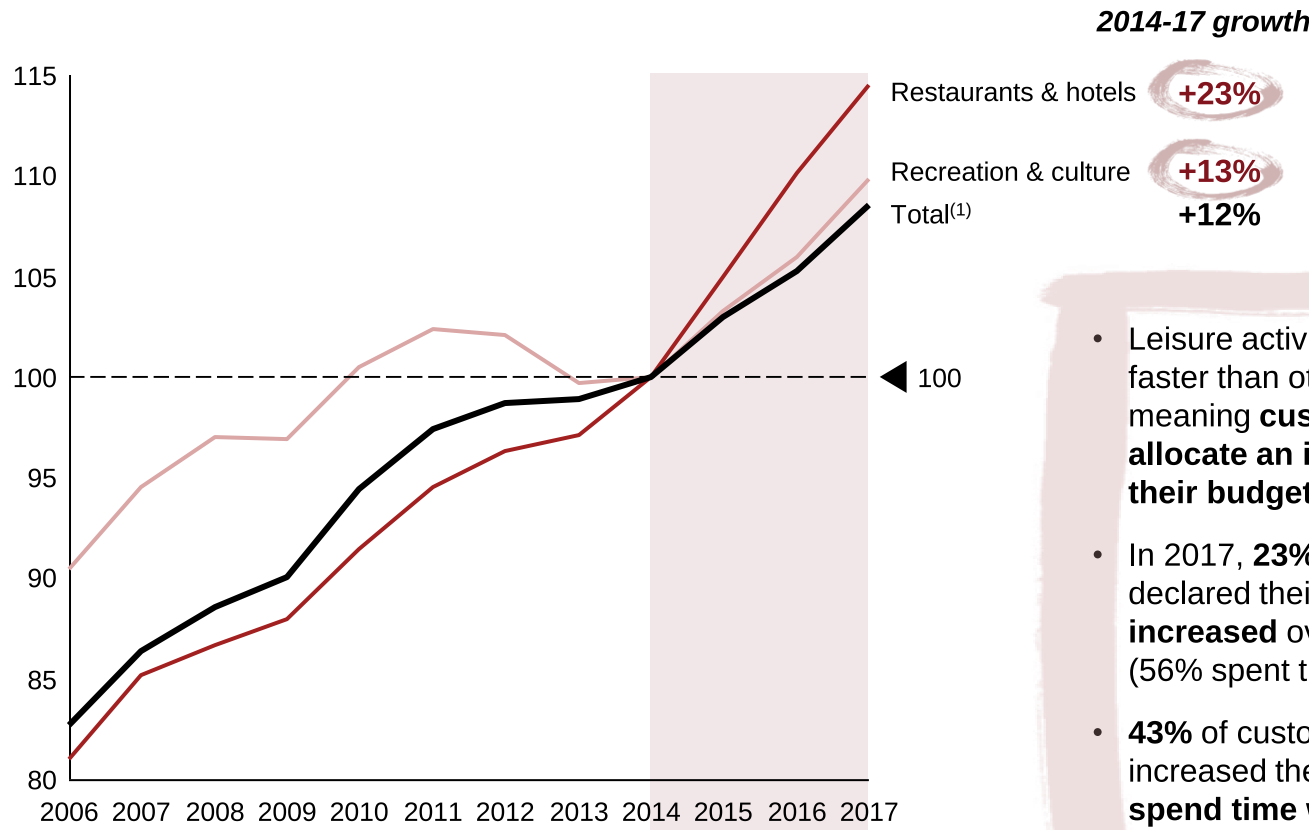
Top 3 offer expectations

- Leisure (cinema, catering, events, exhibitions)
- Areas more pleasant and comfortable to spend time in
- Services that make life easier

Question asked to respondents: "In the next 5 years, do you think your attendance at these shopping venues is going to … ?"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

Since 2014, customers increased the share of leisure in their total budget, mostly to spend time with friends and family

Final consumption expenditure of households by consumption purpose
(2014 = Basis 100; 2000-17; geographical scope of the study excl. Turkey)

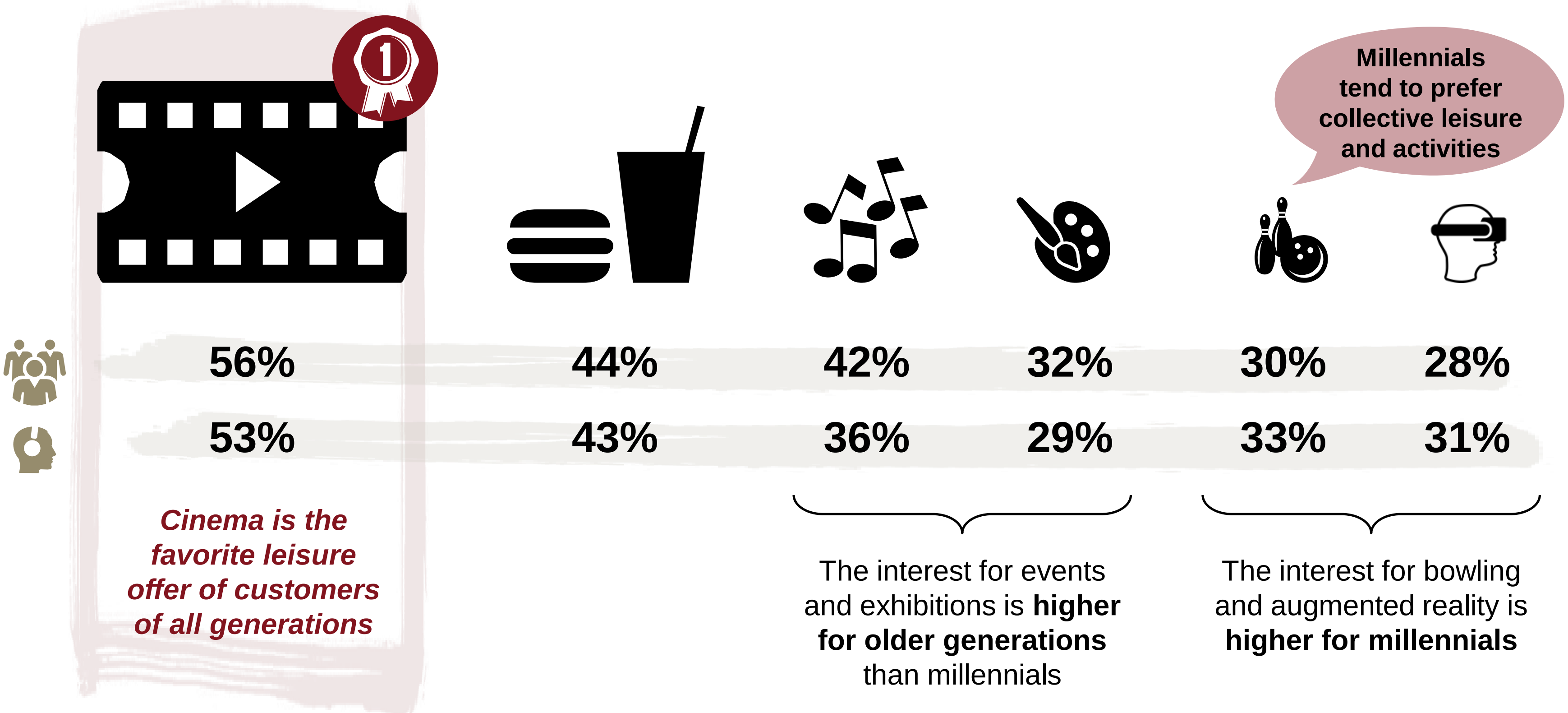


- Leisure activities have increased faster than other expenditures, meaning **customers tend to allocate an increasing share of their budget to leisure activities**
- In 2017, **23%** of customers declared their **retail spending increased** over the last 12 months (56% spent the same)[2]
- **43%** of customers said they increased their retail spending **to spend time with friends and family**

Notes: (1) Total excluding housing, water, electricity, gas and other fuels
(2) 2017 estimate for the following countries: Belgium, Germany, Spain, Italy, Hungary, Poland, Norway.
Sources: Eurostat, PwC study "Total Retail Survey 2017", Strategy& Analysis.

Cinema is the favorite leisure offer for all generations: 56% of customers expect to find cinemas in malls

Leisure offers expected by customers
(% of people; sample of 489 respondents interested in leisure offers)



<u>Question asked to respondents</u>: "Of the following leisure offers that a shopping center could offer, which ones would you be likely to use?"
Note: Data were weighted by age group.
Source: Strategy& Analysis.

Customers expect services that make their lives easier to be mostly accessible on connected devices

Services that a shopping center could offer to make customers' lives easier
(Based on customer survey; sample of 1,890 respondents)

	Facilitated information search	Seamless pick-up	Bonding experience	Reduced frustrations
		• Pay **all the purchases at one time**		• Access to a **counter dedicated to the returns** of online orders • Easily **find my car in the car park**
@	• Access to an **aggregated catalog of all the retailers** • Easily locate (GPS type): - **a store in a shopping center** - **an item in a store**	• **Click & collect**, including using a device in stores • Be **informed in real time of the waiting time** at the cash desk	• Receive **personalized promotions** • Be **informed of the availability** of a product and book it	• Interact with a **customer service before, during, after the visit**

<u>Question asked to respondents</u>: *"Among the services that a shopping center could offer, which ones would you be likely to use?"*
(Rank from 0 to 10, 0 = no interest, 10 = very strong interest)

Source: Strategy& Analysis.

Connected devices complete and support the role of retail sales assistants

Conception of a modern store
(% of people; sample of 1,890 respondents)

55% **of customers see digital devices as a key driver of their visit to a mall**

% of the population think that a modern store should…

67% **propose services on tablets or smartphones**

66% **have screens displaying content**

62% **equip vendors with tablets**

Customers draw a parallel between connected devices and a **better shopping journey** as they solve their main pain points (lack of information, availability of a product, waiting time, etc.)

Examples of stores using connected devices

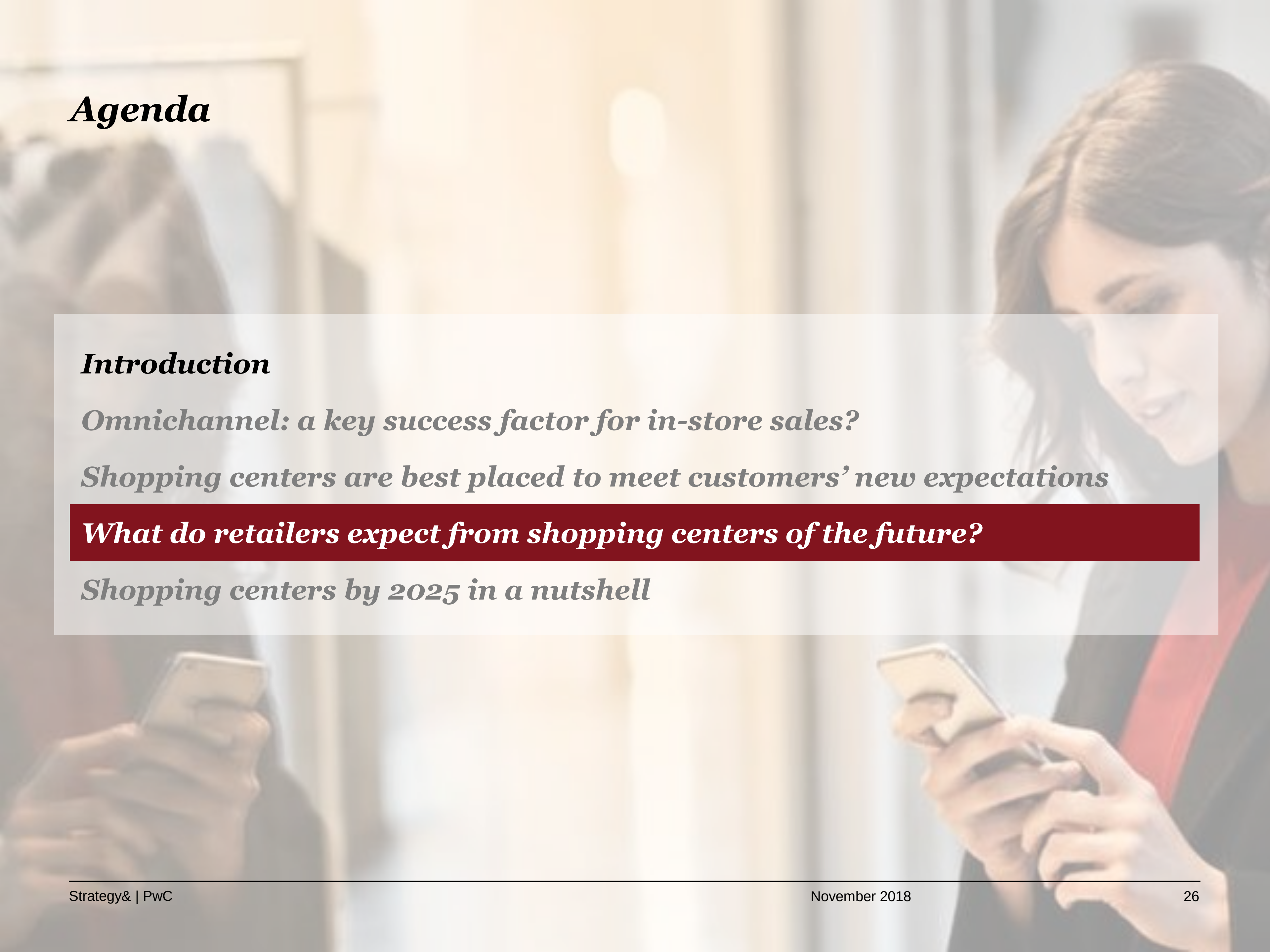
SEPHORA
- Digital terminals to order products
- Connected mirrors enable people to test make-up
- Phone-charging stations

ZARA
- Products equipped with RFID enabling contactless access to product information
- In fitting rooms, a touch screen with a button allowing to request a different size and a self check-out

DECATHLON
- 100% of products equipped with RFID
- VR deployed in 30 stores
- Augmented reality application
- Scan application

In-store connected devices make the **store interactive** and provide **a "phygital" customer experience**
They **increase selling opportunities** for sales assistants

<u>Questions asked to respondents</u>: "A modern store for you is a store that ...?" and "Does it make you want to go?"
Note: Data were weighted by age group/
Sources: Press review, Strategy& Analysis.



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Shopping centers combine many competitive edges according to retailers…

Shopping center strengths against high street locations

❶ Traffic density
- Communication outside the mall
- Accessibility for all customers (incl. disabled or aged people)

❷ Diversified offer
- Well known brands driving traffic
- Complementary brands
- New brands customers want to discover

❸ Pooling of services
- Synergies regarding maintenance, parking, etc.
- Potential to develop a single counter for click & collect and other services for customers
- Potential to develop services for employees

❹ Ability to create marketing events
- Communication when opening a store
- Invitation of influencers

❺ Flexible retail spaces
- Possibility to increase/reduce the size of the location
- Modular partition

❻ Safer spaces
- Security staff
- Security equipment

Sources: Colliers International
Strategy&'s interviews with 33 retailer brands

… and address retailers' expectations for the future

Retailers' expectations

60% of millennials would accept to **share their data in order to receive personalized offers**

*"A database would be appreciated: we could get more information about people, **ability to target them more aggressively**, identify people that come to the shopping center without visiting our store and then contact them with a discovery offer. It would bring high value"*

*"For example over the Christmas period, we would like to have **more storage space**, and the shopping center could make **a pop-up kiosk** available in front of the store"*

Store and sales optimization

- **Financial synergies** to develop new innovative store formats
- Flexible retail space in **high-demand periods**
- **Longer opening hours**

Marketing

- Marketing **events**
- **Communication on store openings**
- Marketing **meetings between the retailer and the lessor**
- Sharing of **customer data**

Operational solutions and cost management

- Support on **logistics issues**
- **Shared service pooling**
- **Reactivity** in case of claims
- **Flexibility in rent payments**

Environmental and social engagement and security

- Integration of **long-term environmental issues**
- **Services for employees**: childcare, concierge service, relaxing areas, green areas, catering offer, convenient parking
- **Availability of local temporary workers** and **centralization of recruitment** (e.g., for summer jobs)
- **Security**

"Shopping centers must adapt to people's new expectations, by transforming the format of stores"

*"In cities we have a high turnover rate, so our employees will expect **more practical aspects** such as childcare, concierge services"*

Sources: Interviews with key market players, Strategy& Analysis.

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Consumers and retailers are increasingly concerned by the environmental and societal impact of shopping centers

Consumer expectations

Preference for responsible products

65% of customers are likely to spend more on responsible products (**69% for millennials**)

Concerns about environmental issues

77% of customers declared they would be more likely to visit a shopping center if it limited its environmental impact

Willingness to support the local economy

74% of customers declared they would be more likely to visit a shopping center if it supported the local economy

Retailer expectations

Concerns about environmental issues

*"We would be interested in working more with shopping centers on the **reduction of carbon footprint, recycling, waste management and energy efficiency**"*

Sport furniture, Beauty & Cosmetics

Aspiration for employee wellness

- Relaxing areas
- Concierge services
- Childcare
- Food areas
- Parking

Questions asked to respondents: "Would the commitment of shopping centers in the following actions make you more likely to visit them?"
"Would you spend more on a 'responsible' product?"

Note: Data were weighted by age group.

Sources: Interviews with key market players, Strategy& Analysis.

According to retailers, shopping centers have to be "life centers", as if they were city centers

Retailer conception of future shopping centers

*"People must find everything that can be found in a city center: a **post office**, a **cinema**, **outdoor and green areas**, **restaurants** and **leisure offers such as an escape game or laser game**"*

Beauty & cosmetics

*"A place where you can do everything you want: **experience, meet friends, work, do shopping, socialize, enjoy entertainment, eat food**… It will be the right place, the meeting point. And we have to be sure that everybody can find what they are looking for"*

Sportswear

*"It should be possible for people to visit the mall **just to take a stroll**, to take their time. **If they feel good, they will stay longer** and therefore consume more in catering"*

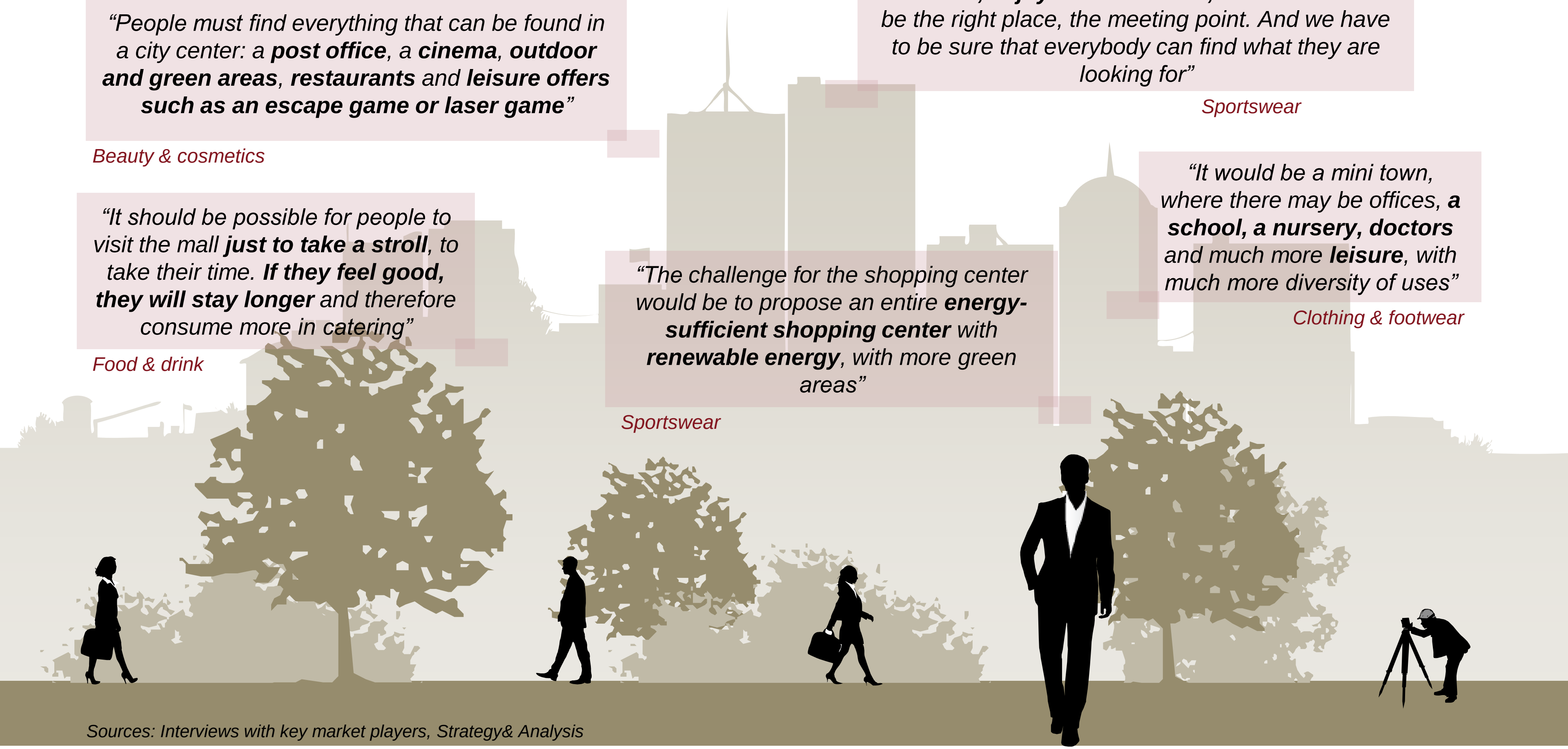
Food & drink

*"The challenge for the shopping center would be to propose an entire **energy-sufficient shopping center** with **renewable energy**, with more green areas"*

Sportswear

*"It would be a mini town, where there may be offices, **a school, a nursery, doctors** and much more **leisure**, with much more diversity of uses"*

Clothing & footwear



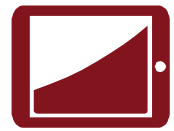
Sources: Interviews with key market players, Strategy& Analysis

Customers' and retailers' expectations are expected to structure shopping centers by 2025 – 3 megatrends

Shopping centers = city centers

- **Restaurants**
- **Entertainment offer**
- **Health/wellness** services
- **Meeting areas** where visitors can meet friends and family and socialize

Evolving offer



Increasingly connected and seamless shopping

- **Personalized marketing** using customer data
- **Digital services** fully part of the customer journey (online booking of articles, location of items or stores, etc.)
- **Omnichannel** supported by the shopping center (counter for returns of online orders, click & collect, etc.)

Evolving sales channels

Rising environmental and societal considerations

- **Energy-sufficient and environment-friendly shopping centers** (use of self-produced green electricity, green vehicles, green areas, waste management, etc.)
- **Responsible products** either from an environmental or a societal point of view
- **Local life** (local recruitment, local products, etc.)

Evolving environmental impact

Source: Strategy& Analysis

Appendix

We included 8 criteria in the digital maturity assessment

The digital maturity of retailers was assessed according to the following qualitative criteria

e-commerce platform	Presence of an **online sales website** where customers can buy or book products
Click & collect	Ability to buy a product online and **collect it in store**
Quick home delivery	**Home delivery** in a few hours
Connected stores	Presence of **digital services** in the store: **mobile payment, digital tablets, IoT,** etc.
RFID	Products equipped with **RFID chips** to enable a **fully connected purchases**: information about products, quick payment, etc.
Voice commerce	**Ability to buy a product** with a **home assistant, via voice recognition technology**
Social commerce	Functionality to drive purchases via **social media**
Augmented/ virtual reality	**Augmented/virtual reality technology** to enrich the customer's experience

Source: Strategy& Analysis

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