Future of Shopping

US Market Report

2021

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Foreword

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We believe that technology will play a vital role in the recovery of brick-and-mortar retail and boost the shopping experience both online and in-store.

This might sound counterintuitive – new technologies are often seen as negatively disruptive after all. But, done right – and built around human behaviour, rather than the other way round – the impact can be very positive and lead to a step-change in innovation.

The growth of online shopping has undoubtedly disrupted brick-and-mortar retail over the past several years, which only further accelerated during the pandemic. But technology has also helped to inspire retailers to play in, and contribute to, the increasing overlap between online and physical environments which is so fundamental now to many of our lived experiences. So technology, rather than sounding the death-knell for brick-and-mortar retail, has led to a shift that benefits both shoppers and retailers.

For this study Snap commissioned Foresight Factory to build a factual view of what the future of shopping looks like for retailers and consumers. From this a new picture of shopping has emerged which clearly shows that rather than existing separately, physical stores and e-commerce increasingly cross over and there is a huge opportunity for everyone where they intersect.

Here at Snap, we believe that technology can be a powerful enabler – giving us the opportunity to do things that we haven't been able to do before, or to do things better. Snapchat describes itself as a camera company. From our beginnings almost a decade ago, we recognised that the camera was evolving from a tool to preserve memories, to a way in which people could express themselves and share how they were feeling with their friends by talking in pictures. We realised that augmented reality – putting dog ears on your head or vomiting a rainbow – could enhance that self-expression and allow people to feel more comfortable expressing themselves. Over time we came to realise that it could also be so much more, and that the camera has become a dynamic link between the physical and online worlds, bringing them closer together.

More than five billion Snaps are now created on Snapchat every day and they are not only using the camera to express themselves and have fun together – they are also using the technology to connect with brands they care about, learning about their products in new and unique ways.

There is perhaps no better evidence for this than in the shopping sector, where retailers have been using our augmented reality (AR) mobile camera technology for several years to blend the physical and digital, to create immersive shopping experiences with use cases transitioning from entertainment to utility. Examples abound from Lego launching a UK virtual AR pop-up fashion store in 2019, to FARFETCH using voice enabled controls to browse and try on clothes in AR and Estee Lauder's MAC Cosmetics, who earlier this year created AR Lenses that allowed users to experience a range of make-up products – from eyeshadow to lipstick – virtually.

Through this study, we have learnt that consumers worldwide feel their shopping experience has been greatly enhanced by the camera and the digital innovations around it. There is no doubt shoppers are keen to get back into stores post lockdown, but they want to also keep all the advantages that technology has to offer when they return to shopping in-store.

By recognising and understanding these trends in this study, we hope to inspire retailers of all types and sizes to consider how they can capitalise on the positive disruption taking place in the shopping space. Ultimately, we see the camera as the future of retail. We see a future where the physical shopping experience will become increasingly "connected" and interactive, and we believe the internet – once viewed as the great enemy of brick-and-mortar retail – will be more accurately understood as an important lever in driving people back to stores.

Introduction

The retail industry has been on the front line of technological change since the start of the 21st century. As the digital revolution has accelerated around the world, the rise of e-commerce, mobile and virtual shopping has transformed how consumers shop and interact with retail brands. While the pace of innovation is set to continue in the 2020s, the COVID-19 pandemic has further accelerated the rate at which retail innovation needs to be adopted by global retailers.

While the extent to which consumers have endured lockdowns and store closures varies across global markets, the majority of shoppers have faced significant levels of disruption, and it is evident that this has fundamentally impacted shopping behaviours and attitudes worldwide.

As the world gradually looks to emerge from the pandemic, global brands and retailers now face the challenge of identifying and addressing the future needs and demands of customers that will shape the shopping experience and journey in the next decade.

To provide an in-depth picture of the shopping landscape at this critical time, this consumer-focused research across 12 global markets (see full methodology below) investigates how shopper expectations and needs are evolving in the post-pandemic world across online, in-store and on phones. In this report we examine the specific needs of American consumers, and the retail solutions and technologies that will enable American retailers to meet these shopper needs.

We would like to thank our panel of voices from the retail industry across the world who were interviewed as part of this study, and who shared their views on the challenges they have faced as well as insights into the technological solutions set to transform the industry.

Methodology

To construct this study, we combined Foresight Factory's proprietary data methodologies and existing trends intelligence, with newly commissioned quantitative and qualitative research across 12 global markets:

Trends Analysis: Review of Foresight Factory's database of 80+ global consumer trends, in order to understand the macro consumer landscape and identify key areas to explore in relation to the future of shopping.

Quantitative Research: Survey of 20,000 consumers across 12 global markets, including 2,506 US respondents, in May 2021, with interlocking quotas set for age and gender.

Expert Panel: In-depth interviews with experts from global retailers, retail specialists and technological start-ups on the front line of shopping solutions/innovations.

Proprietary Data Analytics: Use of proprietary Foresight Factory methodology to construct a bespoke prediction for the future use of augmented reality in the shopping process by 2025 (at a global aggregate level and across each of the 12 markets).

Key Takeaways

A post-COVID return to physical retail

Shoppers returning to store post-covid will be looking for the social and tactile experiences they have missed out on in the last year, combined with the convenience and safety of shopping online. Half of US consumers have found it frustrating not being able to try items on in-store before buying them.

Technology will drive shoppers into stores

35% of US consumers would go out of their way to visit a store if it had interactive virtual services such as a smart mirror that allowed them to try on clothes or makeup, demonstrating the role that advanced retail technologies can play in enhancing in-store experiences and enticing customer footfall.

Mobile will connect brands and consumers across the shopper journey

1 in 3 US consumers select mobile devices as their preferred channel when shopping for products, and more than 6 in 10 millennial consumers say they never go shopping without using their cell phone. As the findings of this report prove, mobile devices are empowering connected shoppers across entire shopping journeys, connecting online and offline channels, and bridging shopping and social interactions.

Virtual try-on could accelerate e-commerce further

4 in 10 US consumers state that not being able to see, touch and try out products are the most significant factors that put them off online shopping, highlighting the extent to which new avenues for product previewing and testing via online channels will be critical for an optimized e-commerce experience.

Shoppers will demand widespread AR

The research presented here predicts that in less than five years we will see a 37% increase (from 30% in 2021 to 41% in 2025) in the proportion of US Gen Z shoppers who use AR before buying a product. Significantly, 62% of US consumers who have used AR when shopping claim that it encouraged them to make a purchase. Such findings demonstrates that AR continues to prove its commercial clout, moving consumers closer to the checkout.

Retailers must get ready for the virtual economy

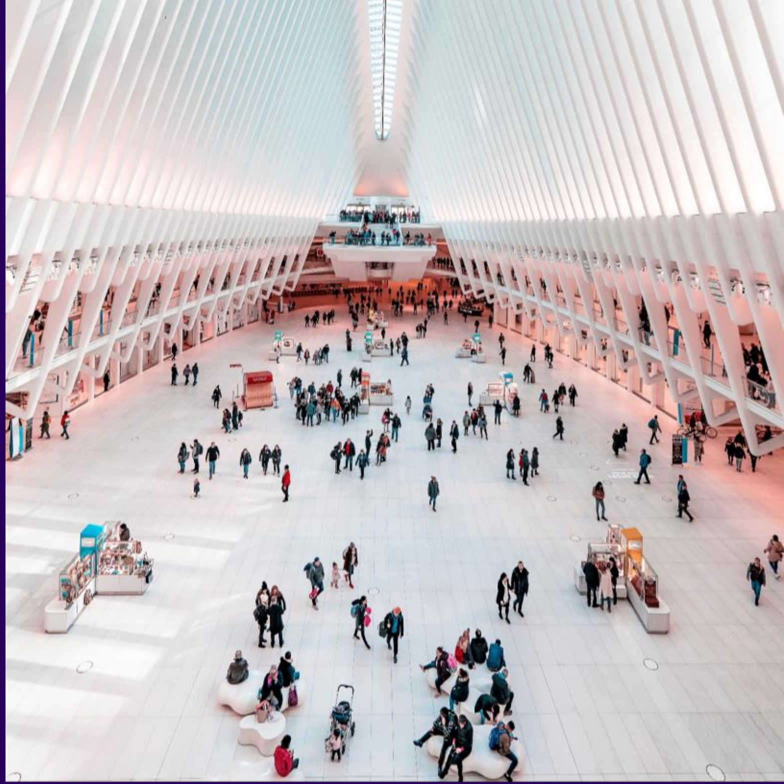
Just under half of US consumers would consider buying a virtual product, signaling a significant expansion of the virtual economy over the coming decade. Increasingly, the exclusivity offered by NFTs will be a key USP for virtual products, offering consumers the chance to own one of a kind pieces, regardless of their physical existence.

Resale platforms cement their position as a credible alternative

While US consumers can be reluctant to buy secondhand, US millennials are embracing resale platforms, which are attracting shoppers searching for cheaper prices and unique products and providing a more sustainable alternative to the current marketplace dominated e-commerce landscape.

1
The Return to Stores

Physical retail must combine the convenience of online with the social experiences shoppers have missed



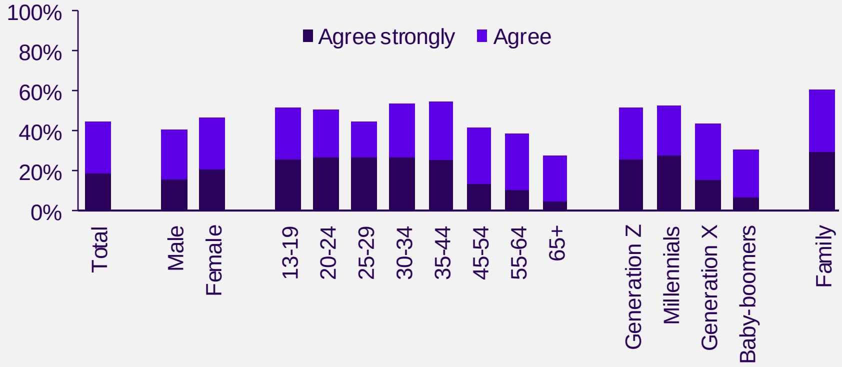
Following a year of curtailed access to physical retail, it is clear that consumers have missed key elements of in-store shopping – 49% of US shoppers claim that they have found it frustrating not being able to try items on in-store before they buy them. At the same time, with the accelerated use of e-commerce channels during the pandemic, consumers also demonstrate a clear demand for in-store services that can match the convenience of online shopping, and data indicates that this growth in e-commerce will be sustained, and even continue in the year ahead. 24% of US shoppers indicate that they will shop online even more in the year ahead compared to the last 12 months, vs. just 12% who say they will shop online less. But this new landscape is not evenly distributed across sectors – in fashion, we see that 34% plan to do the majority of their shopping online in the next year, compared to 28% for toiletries and 19% for food.

Taken together, such findings pinpoint the need for retailers to enhance in-store services to optimize the seamlessness of the shopping journey, while also amplifying social interactions to establish a clear USP for physical retail. Responding to such consumer demand will be critical for retailers who wish to capitalize on the heightened support for local businesses as a result of the COVID-19 lockdown, to drive footfall to their stores.

Retailers must **dial up social interactions**

Over 2 in 5 US consumers have missed the social aspect of shopping in-store since the start of the pandemic, while 1 in 5 would visit a store specifically if experts were on hand to offer advice. Enabling closer connections between store staff and customers, as well as curating social interaction among shoppers, will be vital to drive footfall post-pandemic.

How strongly do you agree or disagree with the following statements about shopping since the COVID-19 pandemic?
I have missed the social aspect of shopping in-store



Demand for **social shopping** influenced by mobile sharing

The rise in sharing product images with peers is an example of the type of social shopping retailers can seek to replicate – both between people in-store and between the shopper and their wider networks.

49%

of US Gen Z and 53% of US millennials have been sharing **more** photos/screenshots of products they are interested in with family or friends since the start of the pandemic.

Enhanced **convenience and try-on services** will entice footfall

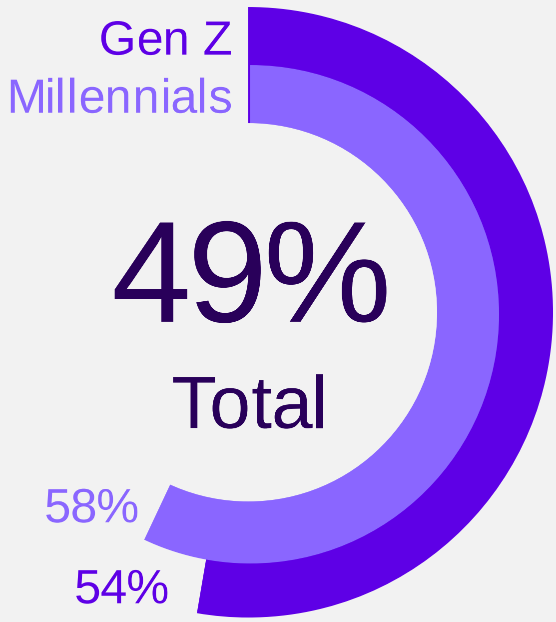
A key frustration for just under half of US consumers during COVID-19 has been the inability to try on products in-store before purchasing them. Combined with increased demand for touchless retail as a result of the pandemic (over 1 in 4 US consumers remain nervous about catching COVID-19 in store), this indicates the importance of technological retail solutions that can support virtual product personalization and testing at the point-of-sale. Such findings also point to a gap in the current e-commerce experience in providing sophisticated product testing that can match the in-store experience.

At the same time, the increased use of online shopping channels during the pandemic has driven new demand for convenient shopping solutions in-store. From pre-booking store visits and home delivery services to mobile-led product recommendations, consumers indicate significant levels of interest in service and technological innovation that can provide a seamless shopping experience in-store. As retailers continue to invest in enhanced convenience solutions across online channels, brick-and-mortar stores will need to act fast to ensure they do not fall behind fast-evolving shopper expectations.

Product testing **frustrations during COVID-19** pandemic

The inability to trial and try-on products prior to purchase has been a clear hindrance to the shopping experience of US shoppers during the COVID-19 pandemic.

Almost half of consumers in the US claim that they have found this frustrating – and this figure rises to 51% among Generation Z and 67% among Snapchatters.

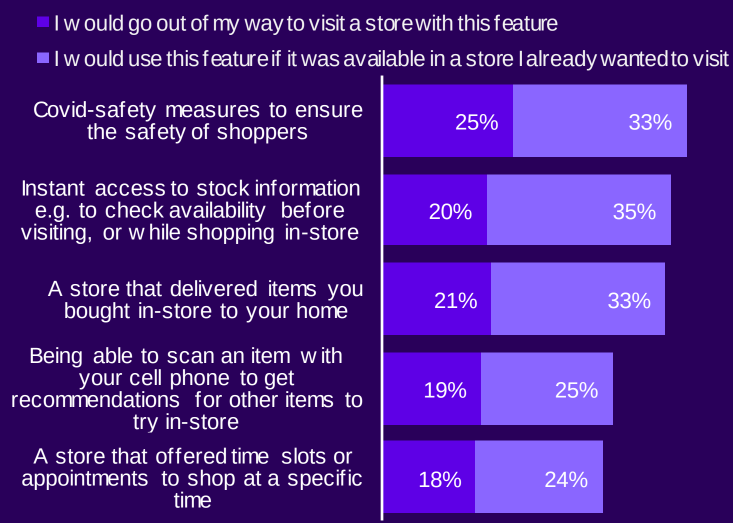


"How strongly do you agree or disagree with the following statements about shopping since the COVID-19 pandemic?"
I have found it frustrating not being able to try clothes/accessories/makeup on in-store before I buy them

Physical retail must **match the convenience (and safety)** of online

A key strategy for retailers to promote increased footfall will be providing in-store service that can match the level of convenience and personalization available online. For example, 20% of US consumers state that they would go out of their way to visit a store that provided a service which offered instant access to stock information – rising to 31% of millennials. A further 35% of consumers, and 34% of millennials, would use such a service if it was available in a store they already planned to visit. And 25% say they would go out of their way to visit a store with covid safety measures, highlighting the need for touchless solutions.

"How likely would you be to choose to shop in a store because they offered the following features?"



Localism energized

Support for local communities and businesses has been a key feature of the COVID-19 crisis and will power retail footfall post-pandemic. Millennials have shown the greatest change, with 60% saying they have supported local business more since the start of the pandemic, compared to 45% of Generation X. Among Snapchatters, this increases even further to 68%.

54% of shoppers say they like it when stores support independent brands, indicating how US retailers could capitalize on this support for SMBs.

1 in 2

US consumers have **supported local businesses more** since the start of the COVID-19 pandemic.

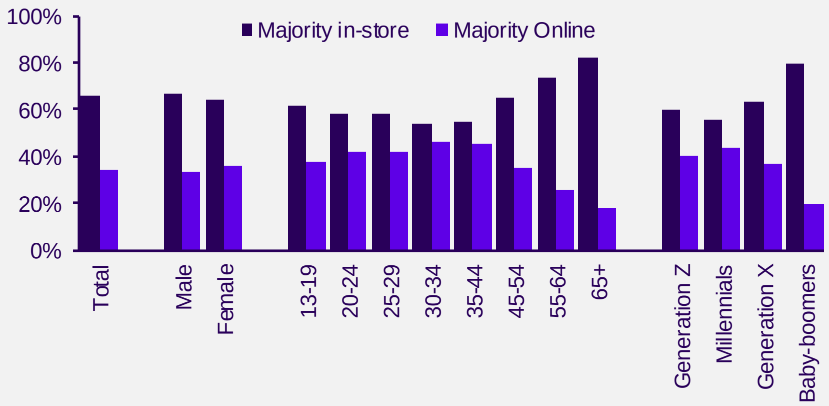
But **intent to** shop in-store post COVID-19 **varies** across product categories

Evidence points to the fashion sector being at risk of not drawing all shoppers back to brick-and-mortar stores post pandemic, but this pattern varies across demographics. Those over 45 show the greatest enthusiasm to carry out most of their shopping in-store in the next 12 months, consumers 44 and under are most likely to shop online. 44% of US millennials say they plan to do the majority of their clothes shopping online in the next 12 months, while 49% of US Snapchatters say the same.

"Thinking about the NEXT 12 months, are you planning to do the majority of your shopping online or in-store for the following categories?" **% selecting online**

19%	28%	34%
Food	Toiletries	Fashion

Planning to do the majority of clothes shopping in-store in the next 12 months



Promote **seamless and social** shopping

To capitalize on increased consumer engagement with local businesses, retailers must look to offer greater support for independent brands. Longer term, building sustained engagement with physical retail will require brick-and-mortar stores to elevate their convenience propositions and foster enhanced social interaction in-store. To facilitate this, investment and adoption of new in-store technologies will be critical, especially for sectors such as fashion where there is lower stated intention to shop in-store post-pandemic. The specific technologies that can best service these needs are explored in the next chapter.

2
Retail Reloaded

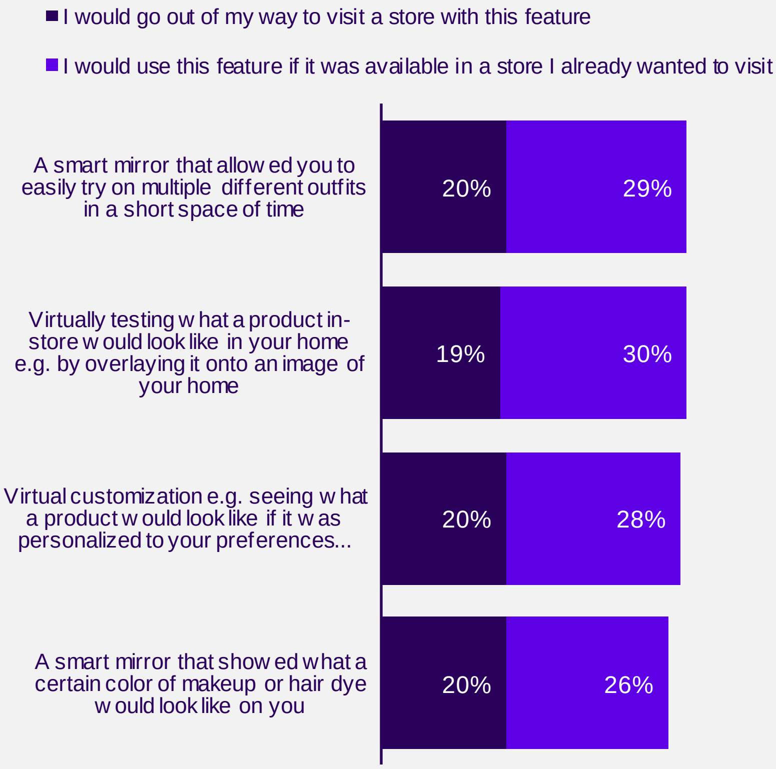
Technological innovation will drive sustained engagement with IRL retail

Advanced retail technologies provide significant opportunity to enhance in-store experiences and entice customers to visit, and spend, at physical retail locations. In the US more than 1 in 3 consumers would go out of their way to visit a store if it had interactive and virtual services such as smart mirrors that allowed them to try on clothes, smart screens that allowed shoppers to customize products, and technology that enabled customers to review how items would look in their own home. Such technologies not only provide a sophisticated level of personalization to meet the expectations set by online shopping services, but also provide novel experiences that can transform stores into must-visit destinations in their own right.

Virtual technology will drive customers to stores

35% of US consumers would go out of their way to visit a store that had at least one advanced technology feature such as smart mirrors and interactive screens. Being able to try on clothes and makeup virtually, or creating unique, personalized products on screens in-store are examples of differentiating technology-led features likely to entice shoppers to brick-and-mortar retailers.

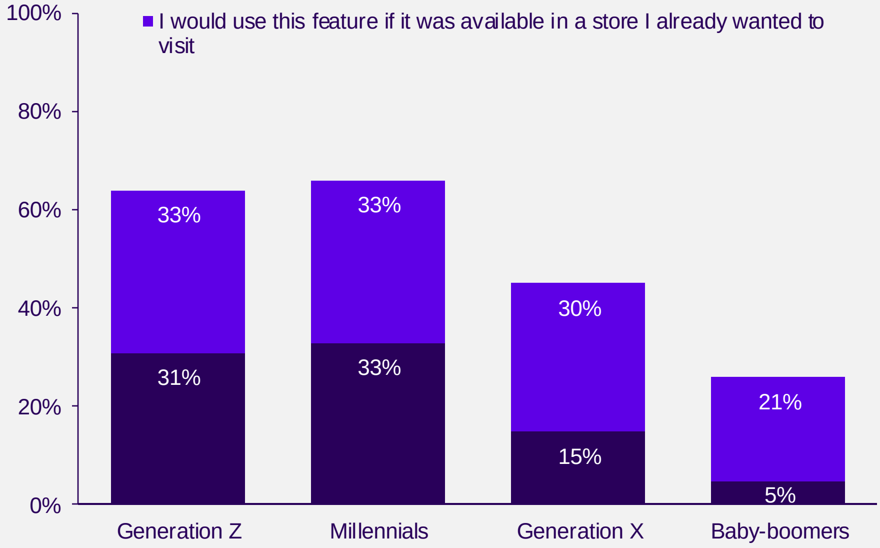
“”How likely would you be to choose to shop in a store because they offered the following features?”



Gen Z and millennials drive **demand for in-store technology**

Over 3 in 10 Gen Z and Millennial shoppers say they would go out of their way to visit stores with smart technology, compared to half that number among Gen X. Over 30% of Gen Z, millennials and Gen X would use this feature if available, as well.

“”How likely would you be to choose to shop in a store because they offered the following features? **A smart mirror that allowed you to easily try on multiple different outfits in a short space of time**



Retailers must **invest in new technologies** to drive store visits

Augmented and virtual shopping solutions that provide hyper-personalization in-store, as well as new and novel experiences, demonstrate significant appeal to consumers, providing compelling reasons in their own right to encourage store visits. To capitalize on the post-pandemic opportunities for in-store shopping, retailers should prioritize investment in such solutions – deciphering the right mix and application of available technologies that is optimized to their customers’ needs, shopping journeys and product ranges.

3
The Connected Shopper

Mobile will connect brands and consumers across the shopper journey

Mobile devices will increasingly become the core tool that connects and empowers consumers throughout all aspects of their shopping journeys – helping to optimize choice, aiding discovery and facilitate social interaction. Mobile is in fact the *preferred* channel for 33% of US consumers when shopping for products, second to shopping in-store at 45%, and stretching ahead of shopping on PCs at 22%. But phones are also a companion tool to stay connected when shopping in-store – used to compare prices, call friends, share photos, and find out more about what shoppers are looking at on physical shelves in real time. The opportunity for retailers is in harnessing the power of phones in-store, to keep connected shoppers informed and entertained within their brand ecosystem. 5G connectivity will only bolster expectations of how shoppers can use their devices out of home and on the go, enabling seamless movement from real life to mobile channels.

Phones are essential for both shopping online and in-store

38% of US consumers say they have shopped on their cell phone more since the start of the pandemic. 22% now shop online on mobile devices weekly, and 44% of shoppers say they would never go shopping without using their cell phone, rising to 63% among millennials.

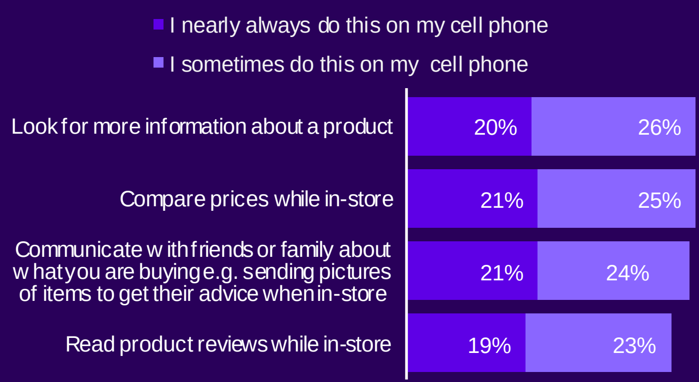
63%

of millennials agree **"I never go shopping without using my cell phone"**

Phones are an **extension of the physical retail store**

Over 40% of US shoppers say they use their cell phone in-store to compare prices, as well as looking for product reviews and other information. Nearly 1 in 5 say they always do this on their cell phone when in store, rising to over 1 in 3 among Gen Z and millennials. With this level of mobile traffic in physical retail environments, it is clear there are opportunities for retailers to capitalize on this behavior and keep shoppers within their brand ecosystem when using their phones in store.

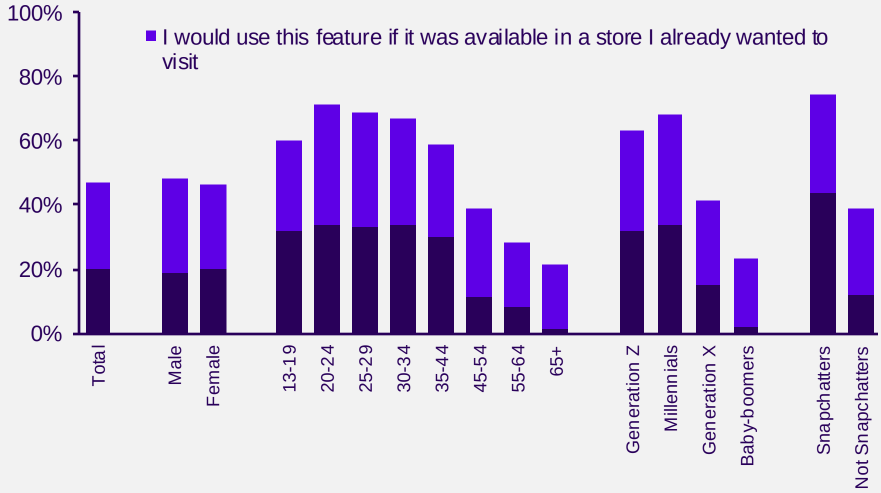
How often would you normally use your cell phone when shopping in-store to do each of the following?



Harnessing the **power of phones** in-store

A majority of shoppers would like to use their cell phones to interact with products on the shelves in physical retail stores. 1 in 5 even say they would go out of their way to visit a store that offered a service which enabled them to scan products with their cell phone to find out more about it. Demand for easy access to digestible, informative, entertaining and transparent information will continue to grow.

How likely would you be to **scan a product with your cell phone** when in-store to find out information about it e.g. its supply chain

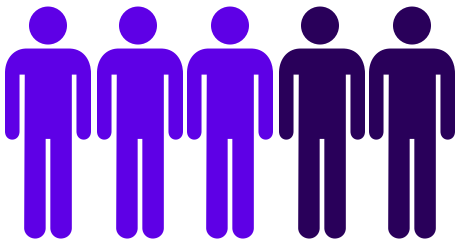


Cell phones and social shopping

Many aspects of shopping are inherently a social experience. But with curbs on socializing, and restrictions on physical retail in the last year, consumers have built new habits around interacting with friends while shopping.

More than 2 in 5 shoppers share screenshots with their friends of products they're interested in, and the same amount say they have been doing it more since the start of the pandemic.

While much of this behavior takes place in private social channels and direct messaging, branded social experiences can create easily sharable content for consumers beyond the simple screenshot.



3 in 5

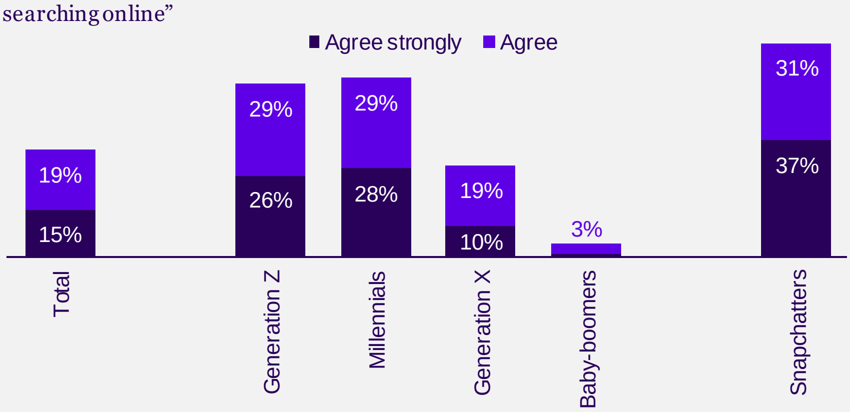
millennials agree "I often share screenshots or links of products I am interested in with friends"

Social platforms facilitate **discovery**

Already 35% of shoppers think that social platforms are a better place to find out about new products vs. searching online, rising to 68% of Snapchat users.

Social platforms have an advantage in facilitating discovery over online marketplaces, as they provide more visual and serendipitous inspiration.

"I think **social platforms are a better place to find out about new products** than searching online"



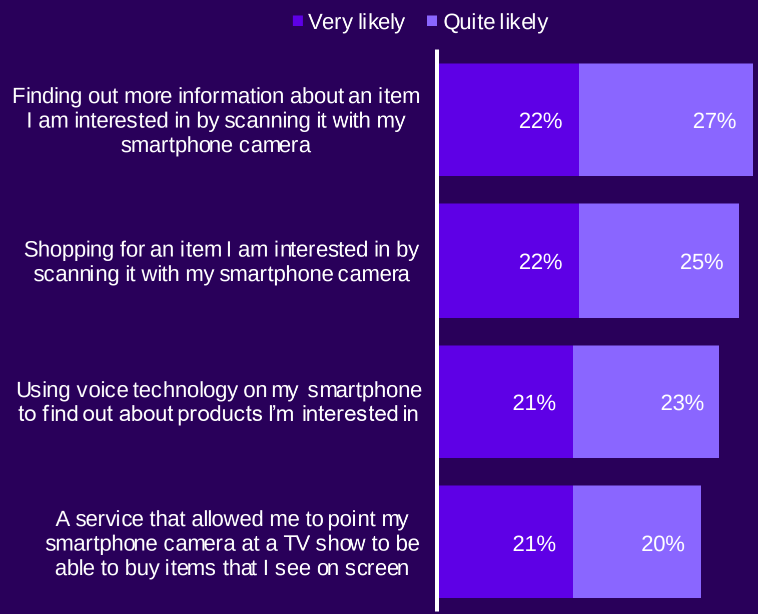
The **future of search** is on smartphones

Shoppers are looking for simple ways to find and buy new products, and it is clear that the future of search and discovery is tied to smartphones.

Visual search is key: just under half of US consumers would like to point their smartphone at something in order to buy similar products, more than the number of consumers who would use voice technology to do the same.

The question is whether branded tools, online marketplaces or social channels will be the first to gain serious traction in the visual search space.

How likely would you be to use each of the following to **search for products online?**



Mobile is key to bridging the gap between physical and digital channels

For retailers phones hold the key to omnichannel. By encouraging shoppers to use in-store mobile experiences, there is an opportunity to connect the dots between their physical and digital worlds, and to keep consumers within a branded ecosystem.

Shoppers have become accustomed to the benefits of shopping online, and as they return to stores, staying connected via smartphones to maintain the practical benefits of e-commerce – price comparison, research and reviews – alongside the experience only a physical store can deliver, can combine to create a winning formula.

In the following chapters we will also explore how phones will connect shoppers to physical stores even when at home, through virtual product testing and try-on the smartphone can bring retailers closer to shoppers wherever they are.

Mobile commerce has been in the ascendancy for some years, but the opportunity for retailers to capitalize on the power of phones both in-store and online has never been greater.

4
Try Before You Buy

Virtual try-on set to be online retail's next big opportunity

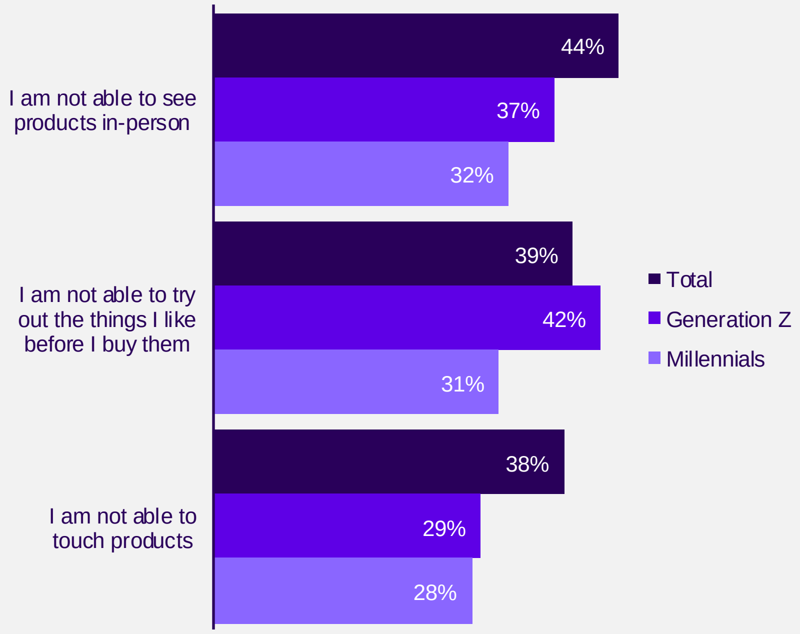
Life under lockdown during the COVID-19 pandemic has resulted in a significant increase in the use of online and e-commerce shopping channels. As more consumers around the world have been using online channels more frequently, the perks and pain points of digital shopping have become more apparent. The findings presented here indicate that not being able to see, touch and try out products are the most significant factors that put consumers off online shopping today: in the US, roughly 4 in 10 state that these are factors they dislike about their current e-commerce experiences. Providing new avenues to product previewing and testing via digital channels will support the removal of such pain points and accelerate use of and engagement with e-commerce even further.

A second core facet of the emerging e-commerce landscape is the need for maximising and values-led online shopping. With a backdrop of economic uncertainty post-COVID, as well as growing consumer concern over personal and brand ethics, maximizing plus values-led shopping will be the central paradigm for the future of e-commerce shopping behavior.

Customers want to be able to **see, touch and try-out** products when shopping

While these sentiments weaken slightly among younger shoppers, they are still universally the top cited pain points when shopping online, highlighting the need for virtual try before you buy services.

The top 3 reasons why US consumers do not like shopping online
What do you dislike about shopping online? % who selected the following reasons/options



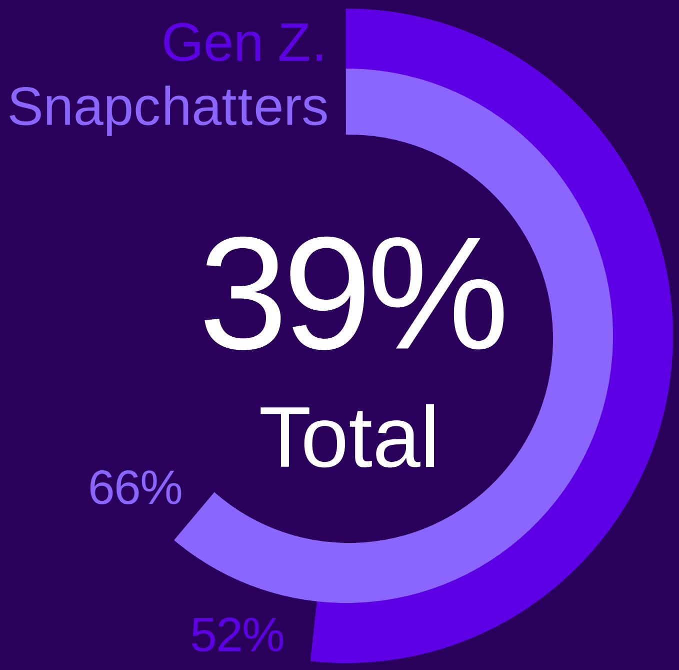
Maximising + Values: New paradigm for online shopping

In the early 2010s, as the world was recovering from the 2008 financial crisis, the key feature of online shopping was maximizing behavior – where consumers would seek to use all available tools and services to optimize their spending and get the best deal possible. With just under half of US consumers saying they almost always buy from brands that are on sale, this maximizing mindset remains well established.

However, when looking ahead to the coming decade, a second layer of consumer thinking is set to shape online shopping behavior – shopping by personal values that matter most to each individual customer. More than half of Gen Z say they would like to filter products by their personal values when shopping online. This new maximizing + values equation will be the model for online shopping in the 2020s.

Value Led Shopping

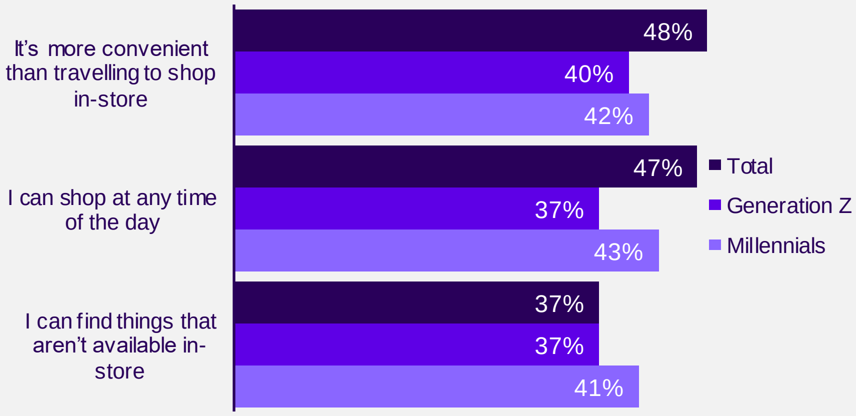
"How likely would you be to use each of the following to search for products online"
% selecting likely or very likely for filtering products by personal values when shopping online



…but **convenience will remain the foundation** of online shopping needs

Across all generations, convenience factors underpin online shopping, in particular the 24/7 nature of e-commerce. Retailers must not lose sight of this in their quest for an ever more engaging online experience.

Top 3 reasons why consumers choose to shop online
"Why do you choose to shop online?" % who agreed with the following reasons/options



Retailers need to **invest in try-before-you-buy technology** to increase customer interaction with products online

While embedding convenience propositions will be fundamental for all online retailers, and building values-led shopping solutions a quickly emerging area to address, the most significant commercial opportunity will be provided by investing in services and technologies that promote product interaction via e-commerce channels, such as augmented reality. Such solutions will overcome the most significant barriers to e-commerce today and provide the clearest route to gaining shopping journey differentiation, competitive edge and increased revenue.

5 The AR Opportunity

Shopping with AR will surge by 2025, directly bolstering sales

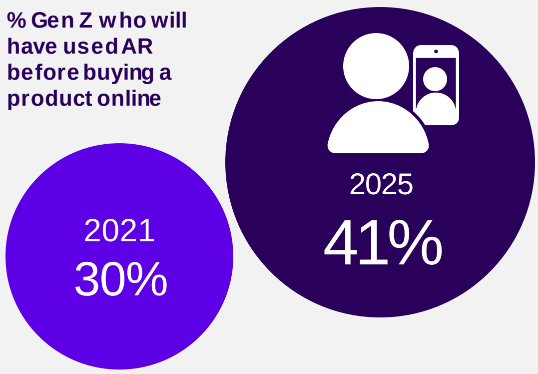
Attitudes towards Augmented Reality (AR) as a shopping tool are shifting. Previously seen primarily as an engaging novelty experience, AR is now demonstrating its commercial clout, and proving that it can move consumers closer to the checkout. Already 1 in 5 US shoppers have used AR in the shopping process. Moreover, while necessity might have fueled AR try-on for many in the last year, more consumers are now actively seeking out AR as a viable alternative to real-life retail, with over 2 in 5 shoppers expecting AR to be available when shopping in the next year, and 1 in 4 preferring to try items using AR rather than having to go in-store. The findings presented here showcase the vital role that AR can provide in supporting product interaction across the shopping journey and the direct impact on retail sales, with 62% of US consumers who have used AR saying that it encouraged them to make a purchase.

More than 2 in 5 Gen Z will be **shopping with AR** by 2025

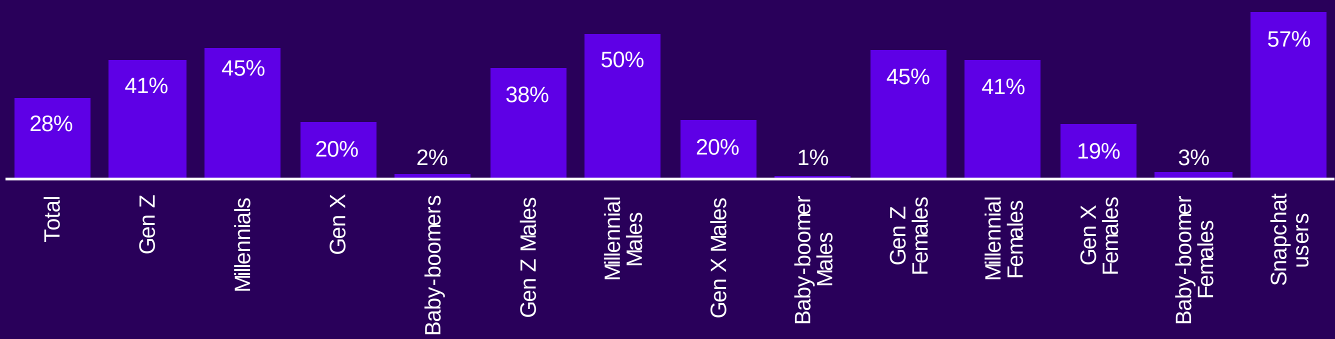
From analysis of 2021 data, we predict that in less than 5 years we will see a 33% increase in the proportion of Gen Z shoppers using AR before buying a product. 45% of millennials are anticipated to do this by 2025, as well.

Increased investment from retailers in AR shopping alongside the concomitant expansion in consumer awareness of such technology could see uptake accelerate ever more rapidly.

% Gen Z who will have used AR before buying a product online



% who will have used AR before buying a product online by 2025



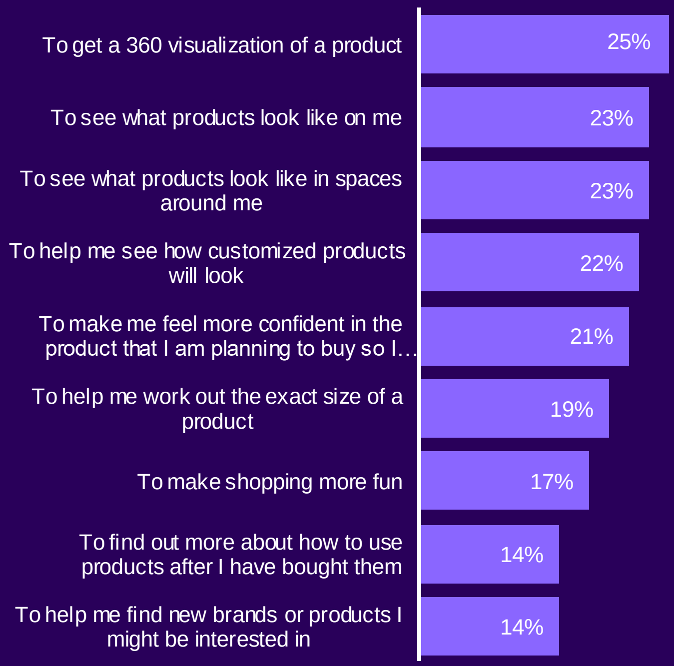
AR is a utility when shopping

Already 1 in 5 shoppers have used AR when shopping, and a further 28% are interested in doing this in the future.

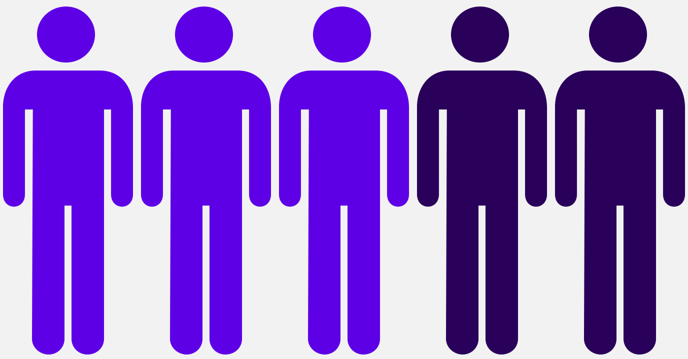
The most common reasons cited for wanting to use AR are to see what items look like on the consumer, and to get a 360 degree visualization view of a product, demonstrating how much AR is seen as a utility, even more so than a tool to make the online shopping experience fun.

Being able to virtually test products is serving real commercial purpose, and directing shoppers towards the virtual checkout.

For which of the following reasons would you be interested in using AR (Augmented Reality) while shopping online?



Of those who have used it when shopping, **62% say AR has encouraged them to buy something**



In the future, shared AR experiences have the potential to elevate both engagement and utility, and drive conversion rates even higher.

"

At the moment you maybe share a product link and you ask a friend "What do you think" and then you get some feedback "yeah it would it would look great on you" but you don't really know exactly how it would look like, but with augmented reality, you will be able to create a completely new experience, where you can say to your friend hey let's meet in one minute, we will create this world and you will see me walking around in a certain dress, and then you can tell me what you think about it.

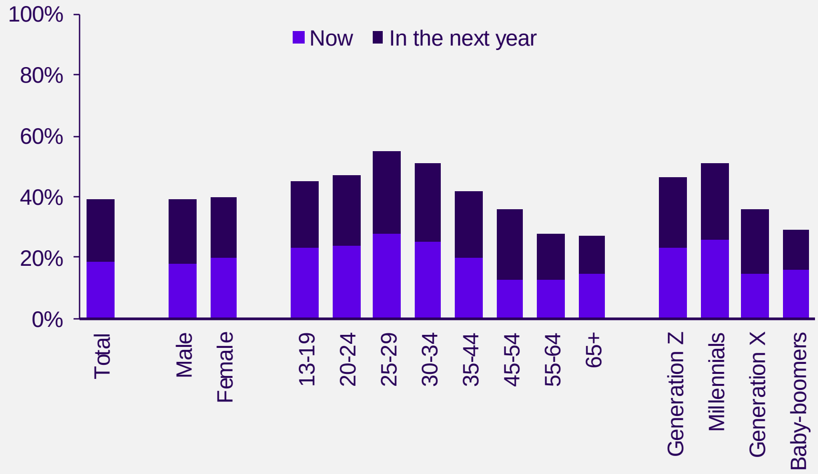
Sebastian Schulze,
CEO & Co-Founder at Fit Analytics

Shoppers expect AR to be commonly available in the next year

2 in 5 US shoppers already expect AR to be available **now** when they're shopping for at least one of the following categories - clothes, beauty, furniture, luxury and cars.

Retailers not utilizing AR technology run the risk of not meeting consumer expectations, and missing an opportunity to nudge shoppers closer to the checkout with an enhanced shopping experience offering the benefits of in-store retail at home.

When do you expect AR (Augmented Reality) to be commonly available in each of the following situations?
When buying fashion products e.g. to try on items of clothing virtually



Consumers show a preference for using AR try-on over in-store

Highlighting just how important AR is to the future of retail, just under 30% of shoppers say they would actually **prefer** to use AR to try on clothes virtually, rather than visit a store to do so in real life, and just under 1 in 4 shoppers would prefer to buy luxury with AR, rather than visit a luxury store. Among Snapchatters, nearly half would prefer to use AR to try-on clothes.

While stated interest does not always translate to action (see predicted levels of AR use when shopping on page 16), these numbers are significant, and represent a step change in how consumers perceive AR, particularly when being able to see and touch a product IRL are cited as the top two reasons people choose to shop in stores.

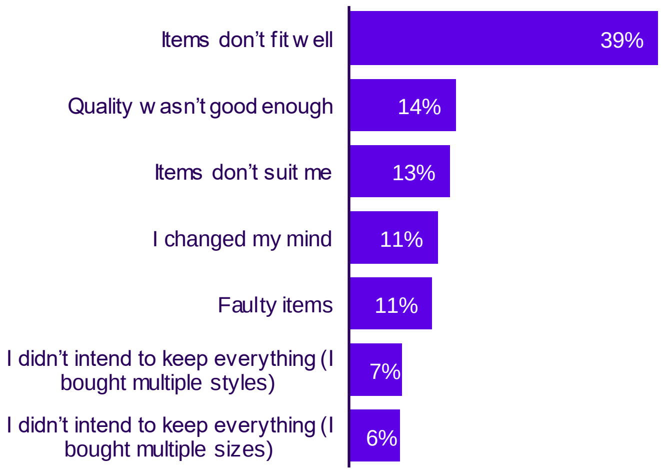
Would you prefer to test products virtually using AR (Augmented Reality) or visit a store to see them in real life?
% selecting I would prefer to shop online using AR

Why consumers return the clothes they buy online

US consumers return 35% of the clothes they buy online, causing significant logistical costs for retailers, not to mention an inconvenience for shoppers.

On average, 39% of returns are due to items not fitting well, something AR technology aspires to help shoppers overcome in the future. Other return reasons such as items not suiting, and buying multiple items with the intention of returning some could also potentially be avoided if AR was used in the shopping journey, and consumers could virtually try-on items before buying.

For which of the following reasons do you return the clothing you buy online?



We really try to find people that have similar information, similar body dimensions, and then which size they were happy with, and which size they kept, and this is basically what we recommend. Return rates are still extremely high specifically in the fashion space because the expectation that you have when you buy the product based on product image and based on product text differs so much from reality, but with augmented reality and what we do here at fit analytics, we really hope that there's a gap between the online shopping experience and reality that will be bridged, and this will drive conversion and this will also improve return rates because people are less disappointed about the item they ordered.

Sebastian Schulze
CEO & Co-Founder at Fit Analytics

The value of returns

42% of online clothing returns in the US potentially could be avoided by using AR in the shopping process. This equates to consumers in the US spending $3.5bn on clothes online in the last year they have returned which could potentially be avoided by using AR.

$3.5bn

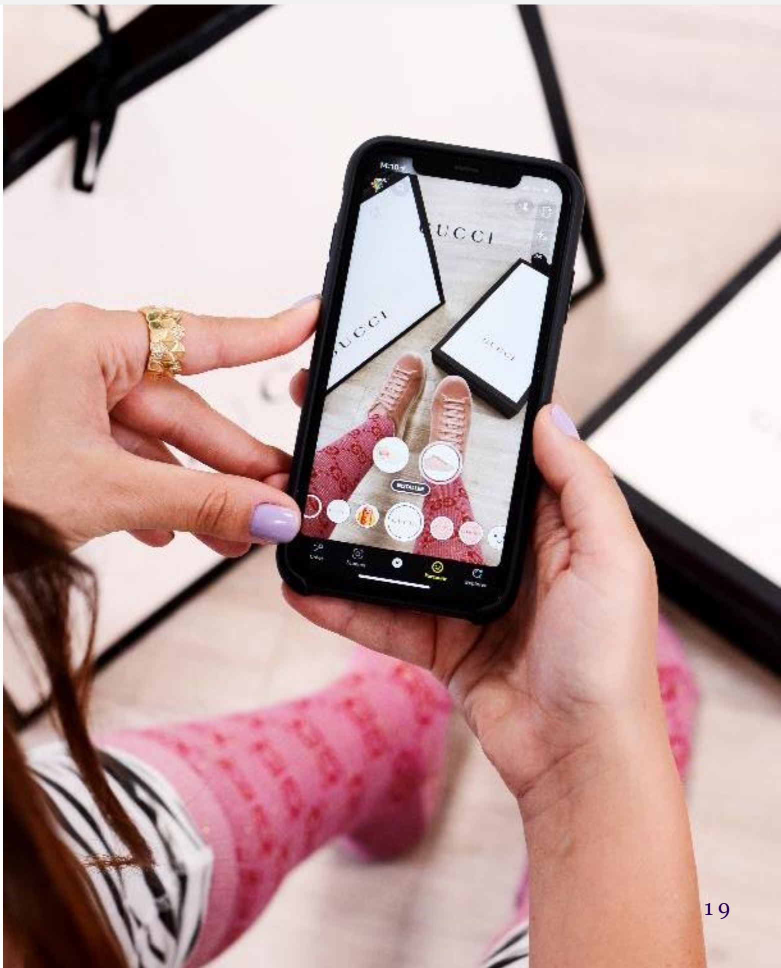
The value of clothes bought online and returned in the US in the last year which could potentially be avoided by using AR try-on

Retailers must embrace AR as a vital shopper service and sales tool, not a novelty

Use of AR is already widespread and is increasingly becoming commonplace for shoppers, with almost 1 in 4 planning to use AR more in the year ahead when shopping, and expectations high that it should be available across sectors in the next year.

With clear evidence that AR pushes users towards the checkout, brands are at risk of falling behind consumer expectations and losing sales revenue if they do not proactively and effectively engage with this technology.

What's more, the features that shoppers most want to use AR for are centered around product visualization, the same factors that consumers state are the main barriers to online shopping. Introducing such AR services should be a priority for retailers who are seeking to optimize e-commerce customer satisfaction and reduce pain points across the online shopping journey.



6 Virtual economy

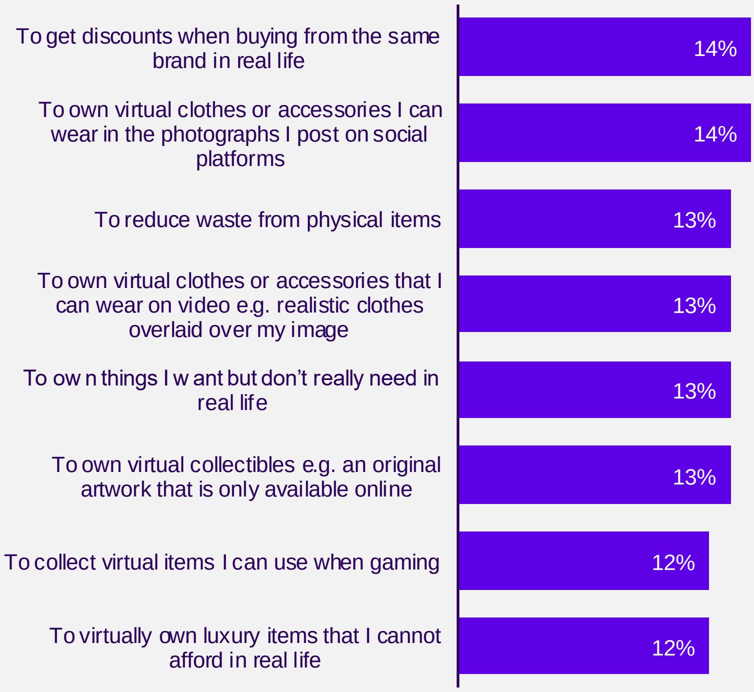
Retailers must prepare for a virtual economy boom in the 2020s

The virtual economy is growing. Consumers are being enticed by virtual products as a way to access things they cannot or do not want to own in real life. The findings presented here showcase that the current market for the virtual economy encompasses over half the population across the key markets covered in this research, with 46% of consumers in the US stating they would consider buying a virtual product. In fact, 26% of US consumers have already bought a virtual item within a computer game – 47% among Gen Z. Interestingly, the primary reason why a consumer would consider buying a virtual product is to be able to get discounts on real-life products from the same brand. This points to the significant role that virtual products could have in the future shopping journey – showcasing products and priming customers for more substantial purchases at a later stage. Finally, in 2021, NFTs – non-fungible tokens – have taken media by storm. NFTs are digital collector items that have a certificate of ownership which can be bought and sold. For example, recording artist Grimes reportedly sold $6m worth of digital art as NFTs in 2021, while an NFT artwork sold for $69 million at a Christie's auction. Despite the clear revenue opportunities, at present just 22% of consumers in the US state they have a good understanding of what an NFT is.

Why would consumers want to own virtual goods?

In this nascent economy, we already see a variety of reasons why consumers might want to own virtual goods, ranging from owning items to wear on video calls and in photos, to virtual products being perceived as better for the environment.

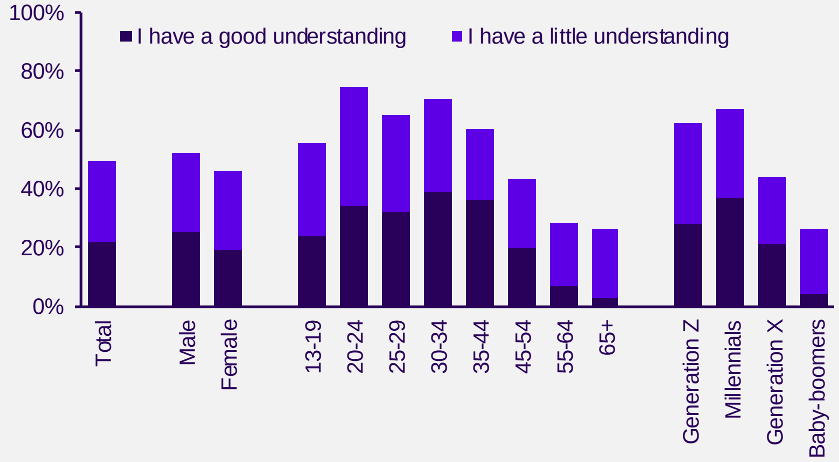
Would you buy a virtual product for any of the following reasons?



Half of consumers have **no idea what an NFT is**

Despite media prominence, awareness of NFTs are still relatively low. Around 20% of consumers say they have a good understanding of what an NFT is, with a further 27% having a little understanding of the digital assets. But NFTs are potentially lucrative investments, able to be freely traded with many rapidly multiplying in value after auction.

How well do you understand what an NFT (Non- Fungible Token) is?

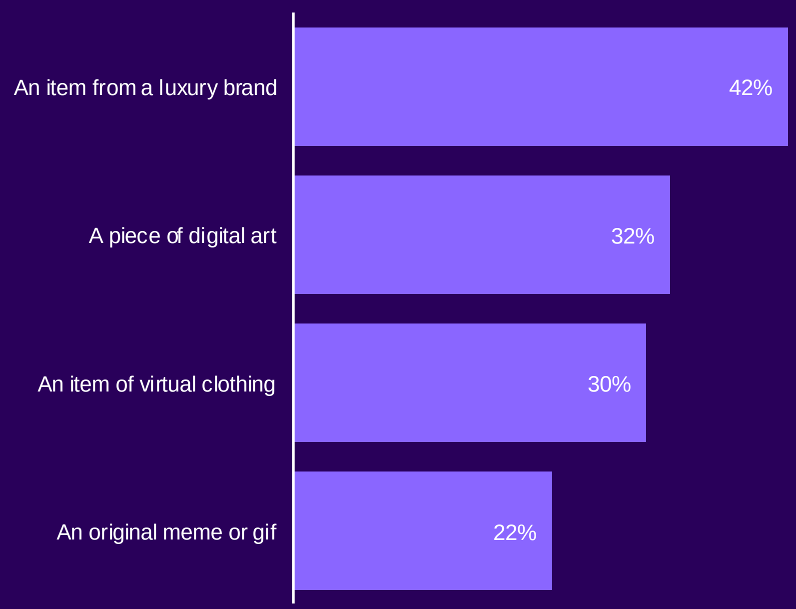


1 in 4 would spend more than $200 on a luxury brand NFT

Among those who have some understanding of NFTs, 43% are interested in owning one.

From these four types of NFTs, shoppers are most willing to spend on an item from a luxury brand, with 42% of those interested in owning one willing to spend more than $100, and 27% willing to spend more than $200!

% of those interested in owning an NFT willing to spend more than $100 on it



Virtual products offer a digital gateway to brand exclusivity

To be first to market with virtual selling opportunities, retailers will need to evaluate the possibilities of developing digital product propositions. Increasingly, the exclusivity offered by NFTs will be a key USP for virtual products, offering consumers the chance to own one-of-a-kind pieces, regardless of their physical existence.

The shift to home working and increased virtual communication during and post COVID-19, will create new opportunities for the sale of virtual fashion items, cosmetics and accessories that can be worn on video calls and conferencing.

What's more, virtual products will form an increasingly important part of the shopping journey, allowing customers to personally own items digitally before deciding whether to upgrade and purchase the real thing.

Virtual products also offer clear opportunities for brand engagement and loyalty. For example, luxury brands and retailers selling high-cost items will be able to offer virtual products to consumers who cannot currently afford specific items in real life – building brand awareness and affection to be converted to physical sales at a later point in time.

7 Circular Retail

Environmental and entrepreneurial mindsets are fueling the rise of resale platforms

While there is continued appeal of fast fashion and on-demand convenience in retail, the findings presented here also highlight the level of concern over the social and environmental impact of today's retail industry, and demands for a more sustainable, circular retail economy are growing. Indeed, over half of US Gen Z and Millennial consumers are worried about the environmental impact of shopping online. Entering stage left are resale platforms. Established platforms like eBay have been joined by fashion focused apps such as Depop and Vinted to enable sellers can create their own virtual stores, showcase unique collections, while also encouraging a more social-led shopping experience with direct messaging and bartering between buyer and seller. Over 1 in 3 US consumers have already purchased items through a resale platform. What's more, 30% have also sold a product via such a platform, with a further 23% interested in doing this in the future. The growing use of such platforms provides opportunities to established retailer to drive new revenues through branded recommended platforms, as well as for SMBs and individual consumers to generate additional and supplemental income.

Selling things that **don't spark joy**

While US consumers in general have not engaged with resale platforms to the same extent as other global markets – 27% say they are uncomfortable buying secondhand products – millennials in the US have embraced the resale trend, with 43% having sold an item through a resale platform, vs. 35% of Gen Z and 31% of Gen X.

Widespread consumer behaviors such as decluttering, as well as motivations towards waste reduction have motivated consumers to sell unwanted items. For others, resale has become an almost professionalized pursuit, with sellers creating their own individual stores within resale platforms, showcasing the unique items they have to offer in one place.

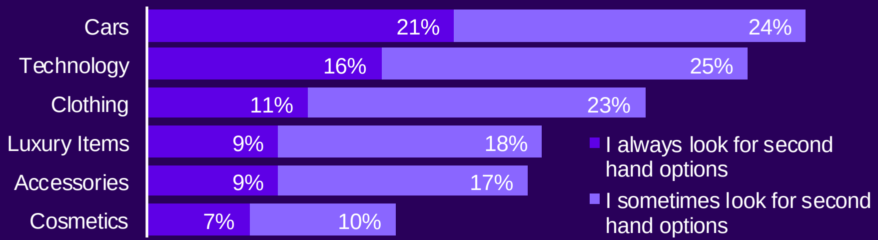
43%

of millennials have **sold** something through a resale platform

Which sectors need to pay attention?

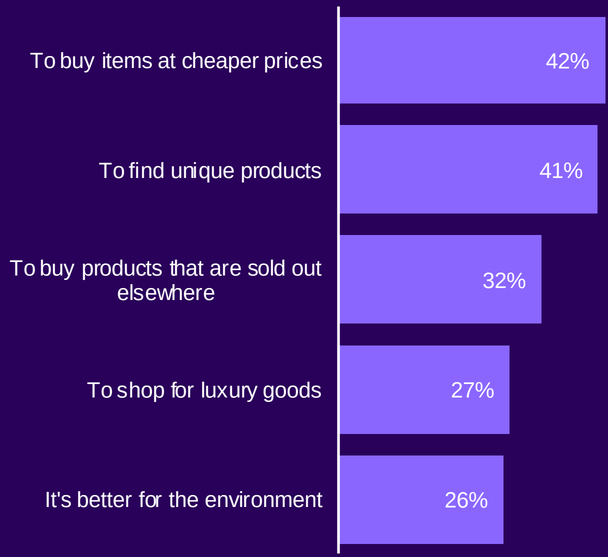
The sector most consumers regularly look for secondhand options when shopping in is technology, closely followed by clothing and the luxury sector.

For which of the following types of products have you looked for secondhand options?



Why secondhand goods are **the first choice**

When asked what motivates millennials to buy from resale platforms, over 40% cite cheaper prices as a motivating factor, but almost the same number are also looking for unique products. In a year where consumers have been travelling less, going to markets less, even visiting their favorite stores less, unique products have been harder to find, and many shoppers have turned to resale platforms to find inspiration.



Resale to **reduce waste**

While the social and environmental impact of fast fashion, e-waste and other consumer goods grow in awareness, resale platforms offer the added benefit of reducing waste and contributing to a circular economy. 37% of US consumers are worried about the environmental impact of shopping online, rising significantly among younger consumers, and 1 in 4 millennials say environmental reasons are a motivation for shopping with resale platforms.

54%

of Millennial consumers are worried about the environmental impact of shopping online – **51% among Gen Z.**

One of the main things that we have seen is more conscious shopping and purposeful shopping, so where people are wanting to spend their money. The insight that we are seeing is that customers think about the communities that they're supporting when they shop. It's clear that people are motivated by knowing that they will support small businesses, which is definitely one of the key things that we're supporting at the moment. We've got 300,000 small businesses on site and are actually reminding people that they can still shop small businesses and local businesses when they shop through eBay and the platform.

Eve Williams, Chief Marketing Office at eBay UK

Supporting **small and local** business a key USP

As the quote above highlights, a key proposition of resale platforms is their ability to support and empower SMBs and individual sellers. As we enter more uncertain economic times in the immediate post COVID-19 landscape, combined with the growing interest in supporting local business shown by US consumers (as outlined in chapter 1), such propositions will be key to driving the popularity of resale platforms and provide a further USP compared to online marketplaces.

Resale platforms offer **significant opportunities**, with propositions **supporting local and small businesses** providing a strong USP

While already supported by a range of consumer needs – decluttering, the war on waste – resale platforms have found particular purpose in a year with limited stimulation, inspiration or social interaction, and offer an alternative, peer-to- peer shopping channel to explore.

Retailers are also moving directly into the resale space with their own branded resale offerings. Levi’s and Nordstrom are some of the major retailers that have built resale platforms, created as a way to contribute to sustainability goals, rather than directly for profit. These initiatives see brands taking responsibility for the full lifecycle of a product, rather than just how it gets into shoppers homes in the first place.

For those looking to compete with resale platforms on uniqueness, supporting smaller, local, independent brands could be a viable route to success. Indeed, 54% of US consumers like when retailers support independent brands, and 49% say they have been supporting local businesses more since the start of the pandemic.

Conclusion

The post COVID-19 retail landscape will be defined by the blurring of consumer needs and expectations across physical and digital shopping channels. Meeting the primary needs and demands of shoppers identified in this report – convenience, social interaction, and product testing – will be the benchmark for retailers regardless of channel.

At the heart of this, a more connected shopper has emerged, empowered by their phone to define their own shopping experience whether at home or in-store. Phones are vital shopping companions in-store for 6 in 10 Gen Z and millennials, as well as creating opportunities for retailers to bridge the gap between customers' real life and online brand interactions through mobile-enabled in-store experiences.

Outside of the store environment, phones are bringing retailers and brands closer to consumers wherever they are, with powerful product previewing tools such as augmented reality facilitating virtual try-on and product testing from the comfort of the shopper's home.

Retail technology such as smart mirrors and virtual product customization also provides opportunities to meet shopper needs, and as evidenced in this report the connected shopper is seeking better, more personalized, product testing options combined with features that make shopping a more social experience.

As consumers seek to build renewed connections with the physical world, but also retain the convenience of online, US retailers will need to test and evaluate the technological solutions – from virtual try-on to smart mirrors - which will achieve this and further accelerate connected shopping today.