



Klarna.

**The
future of
retail report.**

Introduction.

This report delves into the future of retail, examining the key trends and disruptive forces that will shape the industry in the coming years. From in-store to online, and the rise of AI and robots, the retail landscape is shifting and keeping up with consumer preferences is the key for any retailer looking to dominate. Navigating the shifting retail landscape and understanding the emergence of trends is essential for retailers to remain competitive and future-proof their businesses. Join us as we explore the exciting possibilities and challenges that lie ahead in the world of retail.

Before our future gaze, we wanted to take a trip down memory lane. This year, Klarna turns 18 years old, and we have consequently witnessed firsthand the dramatic shifts in consumer preferences and the profound transformation of the retail landscape over almost two decades.

What did the world of retail look like 18 years ago?

In the early 2000's, online shopping was in its infancy and very different to what we know today. Rife with fraud and scams, it was widely regarded as unsafe and consumers were hesitant to share their credit card information and bank details online. In-store was king and it was the era of high street dominance, big retail parks and shopping centers.

As the new 'digital' kid on the block, Klarna created **"Buy Now, Pay Later"** a way to bring the in-store and online shopping experience closer together. The premise was simple, only pay for the item once it has arrived, you know the quality and you know you want to keep it. This innovation brought a whole new level of trust and security to the online experience. By guaranteeing buyers' protection and enabling shoppers to try before they buy, our safe and easy payments solution became a catalyst for e-commerce growth.

Over the next 18 years, Klarna grew at pace, expanding from our Nordic homeland to over 45 countries around the world, we partnered with over 500k retailers and brought our vision of a better, safer shopping experience to over 150m consumers. Along the way, we had a relentless focus on innovation, and elevating the retail experience for consumers around the world. We spoke to consumers about their retail pain points, introducing new products such as the ability to spread your payments and an app where you can search and compare to find the best price of a product.

So what does the future hold?

In 2023, 18 years into our journey we are excited about exploring what the future could hold, leveraging AI to develop the next generation of technology that both elevates the shopping experience for consumers and accelerates commerce. We've redeveloped our App to have a personalized feed powered by Klarna's in-house developed AI product recommendation engine, giving consumers a feed of highly personalized product recommendations to help them find and shop for items that are most relevant to them. The feed updates in real time with a range of products and deals and becomes increasingly tailored, as it learns more about the user's preferences.

We also became the first European company to partner with OpenAI to bring curated product recommendations to users who ask ChatGPT for shopping advice and inspiration, via its plugin.

Naturally, with our own focus on innovation and AI, we wanted to hear what consumers think will happen in the future, and where they think the next 18 years will take us, so as part of our research into the future of shopping, we surveyed more than **5,000** consumers from the US, UK, France, Germany and Sweden* to **gain insights** into how **shopping preferences vary around the world**.

Trying to predict how consumer preference will evolve within shopping and payments in **18 years** time is not an easy fit on the premises that technological innovation will be driving and shaping new preferences. Just to put this into perspective, if we go back 18 years ago, some of the leading mobile phone manufacturers launched models that not only had buttons instead of touchscreens - they even had antennas.

The smartphone generation.

The youngest generation included in this future gazing study, the Gen Z'ers (aged 18-26), are commonly referred to as the **'smartphone generation'**. They grew up with these revolutionary devices and have always known instant connectivity - naturally forming a more integral relationship to technology compared to older generations.

In 18 years time, the average Gen Z'er will celebrate their 40th birthday. And this is how they expect technological advancements to have influenced their shopping experience by then.

76%

of Gen Z'ers believe that augmented reality (AR) will enhance their in-store shopping experience in the future, and 27% think it will be standard across retail stores.

56%

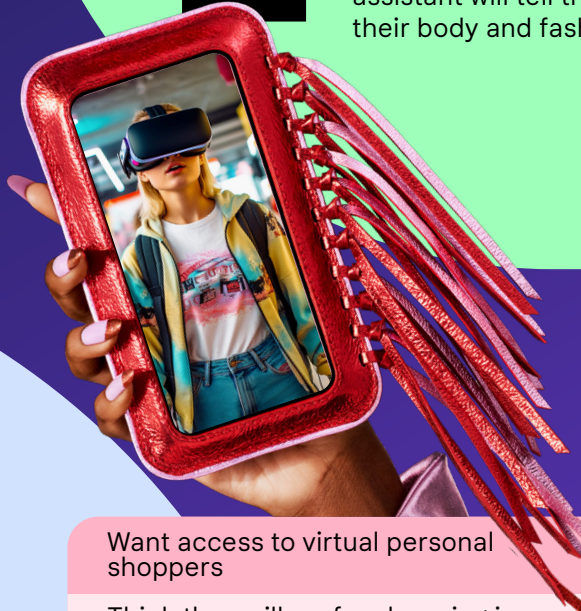
want the shopping experience to become more personalized in the future, and 42% is sure it will be - both in-store and online.

66%

believe that the majority of online shopping deliveries will be fully automated with self-driving vehicles such as robots and drones.

23%

believe they won't need to physically try clothes on as their personal robot or AI assistant will tell them which clothes fit their body and fashion style.



The generational divide.

The Millennials (aged 27-42) that came before the 'smartphone generation' have seen home computers and the internet becoming increasingly more widespread and standardised across households. They are young enough to have grown up during the online shopping era, while being old enough to remember the time without it.

The same can be said about Gen X'ers (aged 43-57) and Baby Boomers (aged 58-77), who have gradually been introduced to these technologies after growing up wondering how the previous generation persevered without color TV's and polaroid cameras.

By understanding these differences, we hope to shed light on what the future of payments may hold and how retailers can adapt to meet the changing needs of their customers.

Gen Z & Millennials (18-42) Gen X & Baby Boomers (43-77)

	Gen Z & Millennials (18-42)	Gen X & Baby Boomers (43-77)
Want access to virtual personal shoppers	34%	17%
Think they will prefer shopping in virtual reality more than real-world physical stores	50%	33%
Believe augmented reality/VR will enhance the in-store shopping experience	74%	52%
Believe there will only be robots and AI working in physical stores	20%	8%
Personal shopping assistants (AI/robots) will do most of the shopping for consumers	26%	14%
Want a more personalized shopping experience	57%	41%
Would be comfortable with a robot approaching them to gather information and measurements to personalize their in-store shopping experience	45%	26%
Think that the majority of stores will be cash free in 5 years time	30%	11%
Want a personal finances assistant	49%	31%
Want a personal shopping assistant	43%	35%

The expert's opinion, Kate Hardcastle helps us digest consumers preferences and her vision for the future of shopping, payments, and eCommerce.

We had the pleasure of sitting down with Kate Hardcastle MBE, the renowned retail expert and Broadcaster, who helped us digest consumer preferences and explore the future of shopping. With the rapid evolution of technology and changing consumer preferences, the retail industry has been experiencing a significant shift in recent years. We'll discuss what the future of shopping might hold, how consumers will want to shop and pay, and whether we still crave those in-store experiences.

The resilience of brick-and-mortar stores: the in-store experience is not dead.

Retail is changing, as the world works out how to adapt to a new generation of shoppers and a post-covid world. Whilst the world of eCommerce exploded over the past few years, the Klarna consumer survey highlights that in-store is very much still alive and well, although now more than ever, the shopping journey between in-store and online are clearly intertwined. Consumers are frequently shopping online due to convenience, but enjoy the social aspects of in-store that online will never be able to recreate. The research highlights that the store format of shopping in real life is not going to dwindle with consumers continuing to crave the in-store experience albeit an elevated one.

Much like the younger Gen Z group surveyed, I have hope in the development of smarter technology will be seamlessly integrated into the in-store and online shopping experience by the year 2041 - but I would hope we've had some more advances than that!

Consumers of all ages (**57%**) agree with the prediction that the majority of physical stores will be completely cash-free in 18 years time, and 33% of Gen Z'ers believe that shift will take place already in 5 years time.

The future of shopping: Navigating the changing retail landscape.

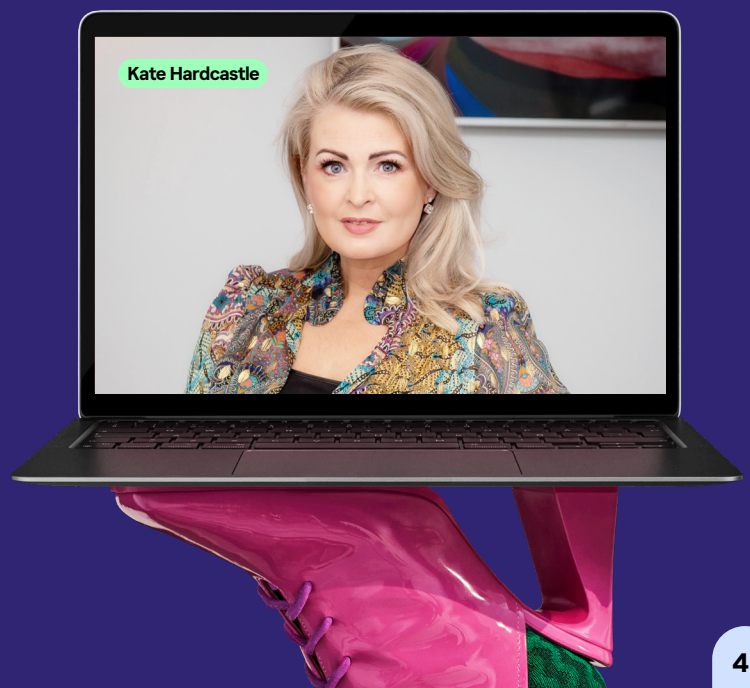
The jury is out on a lot of retail technology it seems with **31%** of consumers not wanting to use smart mirrors in the future and **32%** not wanting to browse via an online persona or avatar. That being said, refreshingly consumers' main focus was to see more sustainable fashion which is achievable and delivers an important benefit for both ourselves and the planet.

Reassuringly for the high street, **69%** of consumers would choose a real life physical store over virtual reality today, and predict that even in 2041, **58%** still think they'd choose the same. Shopping in the future will be about consumers wanting personalisation. Whilst Augmented Reality and Virtual Reality will certainly be present in stores of the future, according to this consumer research, the overriding factor is consumers will not tolerate bland generic shopping experiences.

The future is green and fits like a glove.

Consumers' expectations for an elevated experience are to keep things simple, and elevate the existing pain points that are experienced when shopping. The two most prominent desires from shopping in the future are accurate clothing fit, using personalised measurement systems and a connectivity between online and in-store measurements.

By 2041, more consumers also expect to engage in the circular economy, with many hoping that more stores in the future will offer a buyback programme (33%), closely followed by rental options (32%).



The rise of robots.

Whilst consumers would like clothing to fit better and be more consistent, not everyone is ready for robots to take over and help them in this endeavor. When offered the option of a robot to help with measurement, **31%** said they'd leave the store, **33%** were still on the fence and unsure, whilst **37%** were ready and looking forward to it! Whilst unsure of robots, **63%** of consumers believe that AR will be used to enhance physical store retail so I think what consumers are saying is that shopping that we know and love will be enhanced by advancements in technology.

Whilst unsure about getting too close to robots, convenience is still key, and the rise in robotic deliveries like we are seeing trialed at the moment is predicted to rise. By 2041, **57%** of consumers polled think that more than half of deliveries will be shipped by autonomous vehicles.

In conclusion, consumers still want basic improvements, like better fit, more sustainable options, more personalised service but they see technology as being the conduit to these improvements. Preloved and recommence are definitely here to stay which is great news for the planet and a realistic view point from the majority of the consumers. Many consumers are not seeing virtual technology as a significant part of the future as early iterations were often clunky and not fully intuitive for the user. But as someone seeing the next generation in future labs, I'm still excited about what the potential is. Consumers are telling us that they want convenience and personalised shopping experience and seamless technology must be at the heart of this which includes ease of payment in store and online with tailored finance options.



The future of retail from the retailers themselves.

Bhupendar Singh, Head of DTC & Corporate Marketing at Samsung.

SAMSUNG

"We live in times of great transformation and digital acceleration in all sectors of society. The focus, as we all know, is on Artificial Intelligence and the advantages and disadvantages that this technology will bring, not only to companies and organisations, but also to the end consumer. The future of e-commerce also goes through this, and we believe that it will be strongly influenced by emerging technologies, not only by AI, but also by virtual and augmented reality, and especially by IoT. These technologies are already being integrated into the online shopping experience, allowing the consumer to enjoy a more personalised, informed and immersive experience when purchasing. Through the use of AI and Machine Learning, it will be possible to bring the company closer to the customer, both in the sale and purchase of our products, as well as through our support services. This will bring added value to the direct relationship between the company and the customer, greater optimisation of processes and undoubtedly enable sustained growth of our online store. In parallel, at Samsung we also believe that no matter how much technology exists, it is essential to offer our users and potential customers solutions that allow for more conscious decision-making. Greater efficiency and organisation of information based on the user profile, as well as optimised solutions for each of these profiles. Following this purpose, it becomes essential for us to continue to develop and make available various financing/credit programs, as well as rental solutions, that allow us to reach all audiences and democratize access to technology."

AI predictions.

Future gazing wouldn't be the same without consulting the innovation that many anticipate will have the most influence in the near distant future of shopping: Artificial Intelligence.

We asked ChatGPT, the AI chatbot developed by OpenAI, to take the consumer survey - and this is what it thought.

- ✓ Majority of stores will be cash free in 10 years time.
- ✓ Augmented reality (AR) will enhance the real-world physical store shopping experience in the future.
- ✓ Virtual reality (VR) shopping will be preferred to real-world in-store in the year 2041.
- ✓ Online shopping deliveries will be fully automated, using drones and robots, by the year 2041.
- ✗ There will only be robots and AI working in physical stores by the year 2041.

Midjourney imagines,

"A futuristic personal shopping assistant powered by AI"

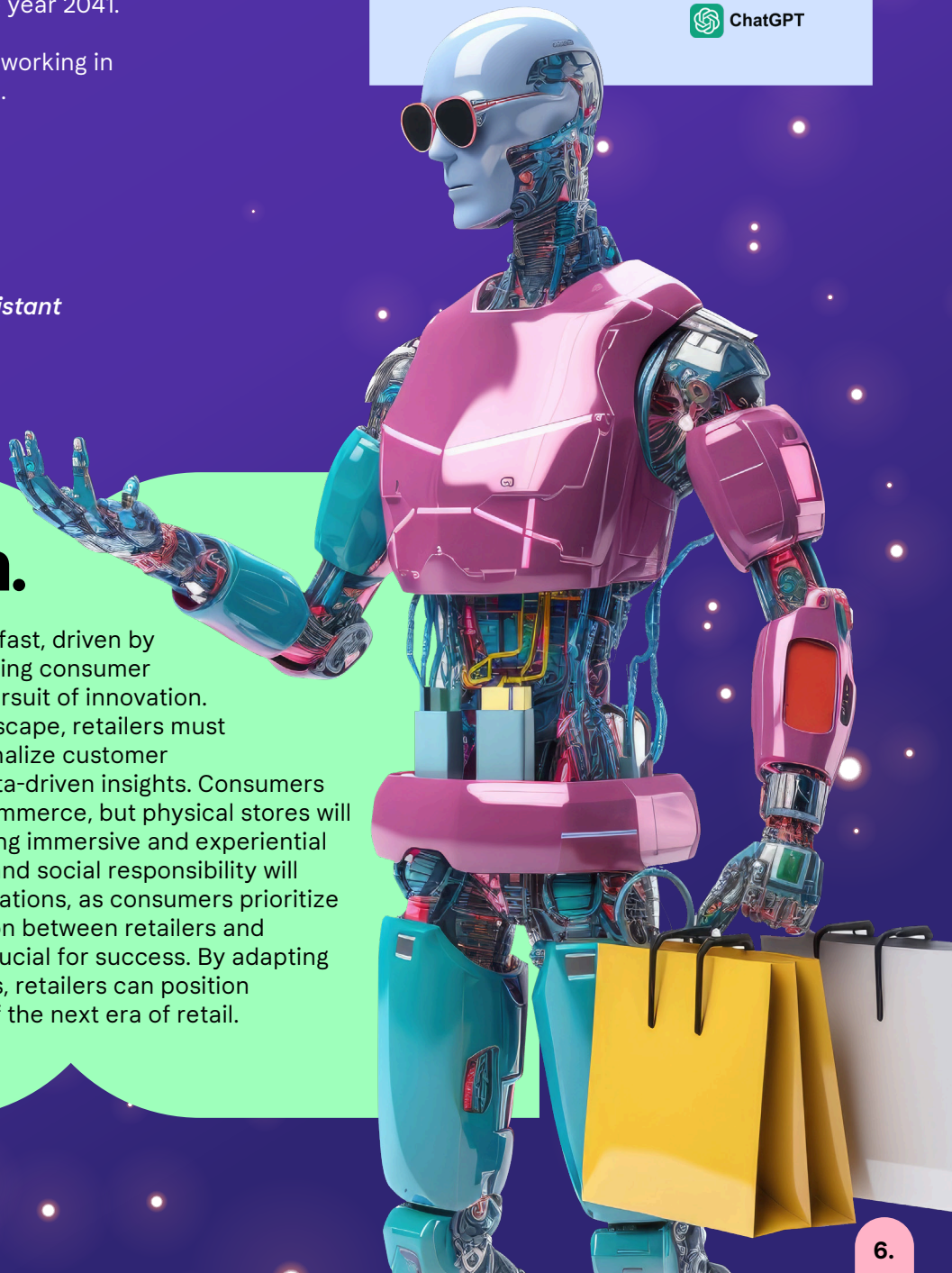
Conclusion.

The retail industry is evolving fast, driven by emerging technologies, changing consumer behaviors, and a relentless pursuit of innovation. To thrive in this dynamic landscape, retailers must embrace digitalization, personalize customer experiences, and leverage data-driven insights. Consumers will still continue to enjoy ecommerce, but physical stores will also remain relevant by offering immersive and experiential environments. Sustainability and social responsibility will become integral to retail operations, as consumers prioritize ethical practices. Collaboration between retailers and technology partners will be crucial for success. By adapting and embracing these changes, retailers can position themselves at the forefront of the next era of retail.

"The biggest change for consumers when they shop in 2041 will likely be the widespread use of augmented reality (AR) and virtual reality (VR) technologies, allowing them to virtually try on products and experience them before making a purchase. Additionally, personalized recommendations based on their past behavior and preferences will become even more accurate and prevalent, making shopping experiences more efficient and tailored to individual needs."

"What do you believe will be the biggest change for consumers when they shop in 2041?"

 ChatGPT





About Kate Hardcastle.

Kate Hardcastle MBE, a.k.a. The Customer Whisperer is the UK's leading 'go-to' business expert on consumer insight for National TV & Media and businesses.

Kate has added her unique brand of knowledgeable commentary to thousands of interviews & documentaries for BBC, ITV, Channel 4, Sky News and international networks including CNBC and NFK.

She is a go-to advisor to some of the worlds most beloved brands, working with business leaders to engage and evolve customer focus and supports sectors including retail, logistics, technology and entertainment. She is host of the Rock n Roll Business platform.

Methodology.

Insights from Klarna's consumer research, conducted in cooperation with research agency Dynata across 5 countries (the US, UK, Germany, France and Sweden) in April 2023, including a minimum of 1,000 respondents in each country. The sample sizes are nationally representative, naturally including both Klarna users and non-Klarna users, and have been selected by Dynata. In total, 5,055 consumers participated in the study.

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For more information please contact: press@Klarna.com

About Klarna.

Since 2005 Klarna has been on a mission to revolutionize the retail banking industry. With over 150 million global active users and 2 million transactions per day, Klarna is meeting the changing demands of consumers by saving them time and money while helping them be informed and in control. Over 500,000 global retail partners, including H&M, Saks, Sephora, Macys, IKEA, Expedia Group, and Nike have integrated Klarna's innovative technology to deliver a seamless shopping experience online and in-store. Klarna has over 5,000 employees and is active in 45 markets. For more information, visit Klarna.com.