The Retail Business Model of the Future

Adapting to the changing global shopper

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Introduction

While retailers and brands struggle to adapt to what many are calling a ‘new normal’, it is important to note that, to the consumer, it’s still just shopping. However, for any business seeking to understand the retail business model of the future, it is vital to understand how the attitudes and behaviours towards shopping are changing.

To determine this, the Oxford Institute of Retail Management at the University of Oxford’s Said Business School collaborated with Planet Retail to leverage its shopper insights - Shopology - to survey 13,500 shoppers across 15 markets between April and July 2015. The research sought to understand the different trade-offs that shoppers are now making in their choice of retailer, as well as probing the level of satisfaction with current retail experiences to reveal shoppers’ future aspirations for technology, stores and service.

The methodology - Shopology

For more information, visit the Shopology website.

1. Executive Summary

Defying conventional wisdom

It’s now conventional wisdom to think that digital is causing a systemic shift in consumer behaviour that is shaking up retail, creating what has been called the “new normal”. If the headlines are to be believed, this is ushering in a new era of shopping: where retailers are required to deliver personalised, contextualised and seamless experiences by embracing mobile, technology, and “Big Data”.

If only it was this easy. While extraordinarily exciting, we believe this is both too simplistic a view and carries with it worrying implications for the retail business model. Simplistic, because there are inevitable nuances affecting what the future equilibrium will look like and how fast it will be reached. It is also worrying, because the implication of this future is that shoppers will be even more demanding; that is to say, they will want low prices, great service and seamless technology.

The battle to provide any “new normal” must both enhance the basic principles of retail, not come at their expense, and must be affordable to the retailer. Furthermore, we conventionally look at shopper behaviours across geographical markets. But making assumptions about behaviours in ‘mature’ versus ‘emerging’ markets may be increasingly unrealistic. In many instances, it is often emerging market shoppers who are grasping technological innovation and driving change more readily.

Key Takeaways

1. The basic principles of retail are as important as ever. Despite the rapid changes taking place, core retail competencies such as a broad range of products, superior service and brand strength remain essential. However, differences across markets are more pronounced than ever, making the need to move away from a one-size-fits-all approach even more apparent.

2. Convenience is being redefined, especially in emerging markets where location on its own is less of a priority for shoppers. More important (across all markets) is the seamless connection between stores and online, with retailers having to deliver speedy service, flexibility and choice across all channels, with “cracking the final mile” a crucial element of success for the future.

3. Emerging markets are at the forefront of technology. Some of the most impressive innovators can be found in markets like Brazil, India and Turkey where there is significant demand from shoppers for innovative solutions (such as mobile payment and social media). As such, many emerging markets are well positioned to leapfrog developed markets and rapidly break down the barriers to online shopping, especially through the use of mobile.

4. Retailers cannot assume that technology alone will be the answer, and it should only be used if it successfully relieves a pressure point or meets a customer need. In developed markets, some technology solutions are ineffectively deployed and, while shoppers are more empowered than ever, they will not tolerate retailers who fail to continuously improve the overall shopper experience.

5. Established retailers will need to adapt their business models to achieve sustainable growth. They’ll need to be more agile and prioritise investment in innovative solutions that exceed customer expectations without affecting profit margins. Management structures will likely be leaner, flatter and more heavily outsourced. Future success will be dependent on radical new innovation, a tighter focus on technology and cost, while creating greater agility in meeting customers’ changing needs.
Retail reality check

Based on the findings of our research, we’ve identified three realities that retailers will need to accommodate to live with ever-present disruption.

1. **There is no such thing as “normal”**: What you have to get right in each market, not just to qualify for shoppers’ consideration, but also to win their custom and continued loyalty, is currently different.

2. **Emerging markets are driving change**: While much is made of the levels of retail innovation in mature markets, it is emerging market shoppers who appear more eager to grasp change.

3. **Tackling the trouble with technology**: Understanding that significant proportions of shoppers are dissatisfied with and disappointed by the quality and reliability of existing technology.

These realities need to be recognised when developing sustainable business models of the future. They will affect retailer cost structures and returns, and will require established retailers to change their processes, routines, talent mix and organisational structure.

2. **There is no such thing as “normal”**

Properly understanding differences in shopper preferences in terms of both geography and demography will be essential. And, in some cases, these differences are significant.

The following table shows the top 10 factors when choosing a retailer, across all 15 markets as well as the developed and emerging market average:

<table>
<thead>
<tr>
<th>Top 10 ranked factors when choosing a retailer (%)</th>
<th>All Markets</th>
<th>Developed (average)</th>
<th>Emerging (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Conveniendly located</td>
<td>Conveniently located</td>
<td>Trusted retailer</td>
<td></td>
</tr>
<tr>
<td>2 Broad assortment</td>
<td>Broad assortment</td>
<td>Broad assortment</td>
<td></td>
</tr>
<tr>
<td>3 Brands I like</td>
<td>Brands I like</td>
<td>Brands I like</td>
<td></td>
</tr>
<tr>
<td>4 Trusted retailer</td>
<td>Trusted retailer</td>
<td>Loyalty rewarded</td>
<td></td>
</tr>
<tr>
<td>5 Returns to nearest store</td>
<td>Returns to nearest store</td>
<td>Returns to nearest store</td>
<td></td>
</tr>
<tr>
<td>6 Appealing promotions</td>
<td>Loyalty rewarded</td>
<td>Conveniently located</td>
<td></td>
</tr>
<tr>
<td>7 Loyalty rewarded</td>
<td>Appealing promotions</td>
<td>Appealing promotions</td>
<td></td>
</tr>
<tr>
<td>8 Loyalty scheme</td>
<td>Loyalty scheme</td>
<td>Loyalty scheme</td>
<td></td>
</tr>
<tr>
<td>9 Flexible delivery online</td>
<td>Flexible delivery online</td>
<td>Flexible delivery online</td>
<td></td>
</tr>
<tr>
<td>10 Convenient collection points</td>
<td>Convenient collection points</td>
<td>Convenient collection points</td>
<td></td>
</tr>
</tbody>
</table>

Efforts to create seamless shopping experiences are important, but retailers should take solace in the fact that **global shoppers are, on average, driven in their choice of retailer by convenience, a broad product range, reputation, enticing promotions and being rewarded for their loyalty**. Basics such as convenience, choice, big brands, and trust appear to be resilient. However, even these are becoming harder to achieve as expectations are raised. Consumers want the shortest, easiest and most enjoyable route to their purchase. **Retailers are endeavouring to satisfy an “instant gratification generation”**.

Even within these broad categories of market, there are important differences by country. The chart overleaf drills down into the differential ranking of shopper preferences by geography. We’ve ranked the factors that shoppers see as important by the global average and chosen four countries to illustrate the variation in shoppers’ priorities. Compare, for example, the relative importance of cash payments in India and China with that in the US and France.
Having confidence in a retailer is a substantial influencer of spend regardless of market maturity or e-commerce readiness. To continue to earn that trust, we already know that retailers need to interact with consumers across multiple channels and platforms. However, while trust in shopping online is likely to build quickly, tolerance levels towards poor service and experience is likely to fall just as fast, as expectations rise.

For those looking to crack emerging markets, having a reputable and trusted brand is a pre-requisite for building customer loyalty. Partnering with a local player or demonstrating a genuine understanding of local needs and tastes is vital.

Redefining convenience

For consumers in developed markets, finding their favourite brands in convenient locations is still a given, especially when we factor in the high levels of store saturation.

In emerging markets, however, convenient location is less of a priority, reflecting perhaps the lower densities of modern retailing and the shopper’s willingness to travel to true destination locations for their shopping needs and experiences. In some cases, the preferred brand(s) may only be available online. As cross-border shopping grows, the requirement to meet the speed element of convenience is changing.

Even at the global level, factors related to omni-channel already appear in the top 10 of retailer choice – the ability to return goods to the nearest store (#5), flexible delivery online (#9) and the provision of convenient collection points (#10).

Interestingly, these are similarly ranked between mature and emerging markets. While this could simply reflect shoppers’ aspirations in emerging markets, we believe it also highlights the huge opportunity in these markets. As a driver of store choice, offering convenient collection points for online purchases also now ranks in the top 10. We believe that “cracking the final mile” will be critical in the future; speed and reliability is no longer enough and providing choice and flexibility will be hugely influential in consumers’ choice of retailer.

Furthermore, a critical driver of retailer choice across developed and emerging markets is the ability to “return unwanted items purchased online to my nearest store” - highlighting the importance of a simple, straightforward and painless returns process.

Example of Fulfilment Method:

Russian hypermarket, O’Key, branches out and launches a grocery e-commerce operation that will include click & collect services. Consumers who opt for click & collect will have 24 hours to collect their products. The service is to put in place a proposition for when the Russian e-commerce market begins to grow and O’Key want to be at the forefront of it.

Redefining customer engagement

Offering a broad product offer will remain important. However, demand for tailored communications and personalised assortment is on the rise, and the next five years will see consumers gain greater control of their shopping experiences. Already:

42% of shoppers claim their retailer of choice is influenced by receiving a more personalised experience that is tailored and relevant to their needs.

In established markets this is not as big a factor in the choice of retailer as you might think, with only 28% in the UK and 26% in Germany claiming this encourages them to choose a retailer. This is compared to 65% in Brazil and 50% in South Korea. Given this evidence, personalising the experience in emerging markets is sure to help boost conversions.
Our research suggests that winning over shoppers is now more challenging, resulting in the need for greater innovation when it comes to promotional activity. Thanks to mobile and Beacon technology, consumers are starting to anticipate relevant promotional activity when in shopping mode. We found that:

Interestingly, in Japan this is not the case, with just 21% encouraged in their choice of retailer by appealing promotions. By contrast, 70% of shoppers in Italy are inspired to make purchases using promotions. Similarly, 51% of shoppers in Turkey are receptive to receiving real-time promotions.

Example of Contextualisation:
In the UK, Tesco and Unilever partnered to trial beacon technology as part of a campaign to promote Magnum’s new ice-cream flavour. Consumers who downloaded Magnum’s Mpulse app received exclusive promotions for the new flavours when they passed any of the 270 Tesco Express branches across London that were equipped with beacon technology. The app also allowed Londoners to seek out friends closest to the Magnum retailer and invite them for an ice cream treat. The app enabled proximity marketing and highlights how contextualisation has the potential to drive sales.

Being rewarded for loyalty remains important, but generic schemes are no longer enough to appease shrewd shoppers. Moving forward, rewards-based loyalty will have far greater impact on building advocates, while facilitating higher levels of personalisation. Our findings show that:

This is a highly influential factor for shoppers in the USA, with 62% claiming it encourages them to choose a retailer. However, rewarding loyalty is not so effective in the Netherlands and Germany, with 47% and 38% respectively claiming it encourages them to choose a retailer. In these markets low prices and appealing promotions are greater influencers of spend.

Example of Loyalty Card:
Starbucks and Spotify partner up to drive loyalty with Starbucks awarding limited music streaming for free across 7,000 US stores to 10 million members of its My Starbucks Rewards Programme. In an effort to redefine the instore experience, loyalty scheme members are able to stream playlists created by Starbucks’ employees when instore. The joint venture allows Spotify users to earn Starbucks’ loyalty points.

Example of Personalisation:
Shop Direct – the UK-based multi-brand online retailer, continues to raise the bar by delivering a fully personalised homepage at its flagship brand Very.co.uk. The digital retailer has developed an algorithm that predicts customer behaviour based on previously captured consumer data and optimises the homepage with targeted products and offers.

WANT to receive real-time promotions & discounts for which they might be eligible when instore

57% of shoppers suggest their choice of retailer is influenced by appealing promotions in-store and online

38% of shoppers’ retailer of choice is influenced by being rewarded for their spend and loyalty

Personalisation:
Shop Direct

Contextualisation:
Magnum, Tesco

Loyalty:
Starbucks/Spotify

57% of shoppers’ retailer of choice is influenced by being rewarded for their spend and loyalty

WANT to receive real-time promotions & discounts for which they might be eligible when instore

57%
Social media platforms are becoming influencers of what to buy and which retailers to buy from. This means retailers are no longer the gatekeepers of their brand and neither own the conversation nor its distribution. We discovered that:

39% of shoppers feel that social media is important in helping them decide what brands to buy.

39% of shoppers feel that social media is important in helping them decide from which retailers/brands to buy.

However, in Europe it appears to have minimal impact, with just 27% saying social media is important in deciding what to buy. This is a similar story in the USA (with 24% of shoppers) and Australia (at 23%) agreeing it helps them decide what to buy. It is in emerging markets that social media is impacting purchasing decisions, most notably in India at 67% and in China at 57%.

Example of Social Media:
Social media continues to influence the way consumers shop. For example, e-commerce service Soldsie makes it easier for businesses to sell directly to their Facebook fans and Instagram followers through writing SOLD in the comment section. Soldsie facilitates managing the invoicing process and provides tools for tracking sales, invoices, and inventory. Firms just have to e-mail invoices to the customers who commented SOLD, who then pay using PayPal or a credit card.

Example of emerging markets driving change:
Walmart in China has partnered with Alibaba to roll out Alipay mobile solutions across 25 selected stores, in a similar fashion to competitors such as Carrefour, 7-Eleven, and Vanguard Co. These efforts allow Walmart to compete on a level playing field by increasing its reach in China since consumers prefer to pay via Alipay 80% of the time. The implementation of mobile payments also helps simplify the checkout process and reduces the chance that a shopper will abandon a purchase.

In India, Flipkart intends follow in the path of its online fashion store, Myntra, and go mobile app-only. As consumers are constantly connected, the online giant is looking to adapt to a mobile-only country. The online retailer expects more people to begin purchasing via their smartphones and mobile internet. The aim is to create a more personalised shopping experience by collecting data on user locations, purchasing behaviours and patterns. This approach strengthens the belief of how mobile is changing the retail landscape and demonstrates how retailers are disrupting the current norm.
The provision of alternative payment options—such as cash on delivery—is hugely influential when choosing a retailer, especially in emerging markets (56% versus 31% in developed markets). Solutions that facilitate this will provide a fillip to e-commerce growth and rapidly become part of retailing as we know it.

**Mobile is the common denominator**

Consumers are using their mobiles during the path-to-purchase, and are demanding constant connectivity with retailers.

According to a recent study by Planet Retail, 51% of shoppers access the internet via their mobile to use it for shopping activities. This indicates a trend towards mobile optimization and adaptations by retailers to accommodate the mobile and constantly-connected shopper. By implementing solutions around how consumers use the technology they already have, retailers will be able to create brand advocates and drive sales across all channels.

**Implications**

- Some of the most impressive innovation can be found in emerging markets like Brazil, India, and Turkey. We are not only seeing some of the fastest innovation in areas such as mobile payment and adoption of social media, but our research clearly shows the latent demand by shoppers for these solutions and new ways of interacting with retailers and brands.
- With on-demand everywhere, shoppers are expecting immediacy. Retailers will need to reinvent their model to be where their customers are, not where they want them to be.
- Winning retailers are finding ways to accommodate the mobile and constantly-connected shopper. By implementing solutions around how consumers use the technology they already have, retailers will be able to create brand advocates and drive sales across all channels.
4. Tackling the trouble with technology

Although the ability to leverage technology to enhance shopping experiences varies by market, it seems the appetite among global shoppers is constant.

**Shoppers want technology combined with service**

A majority of shoppers understand both the potential of technology to improve their shopping experience and value its role in creating a stimulating store environment...

- **8%** of shoppers have had a good experience using a stationary instore kiosk/terminal/iPad when in a retailer’s store to view their website/receive additional information.
- **11%** of shoppers have had a good experience engaging with “an employee equipped with a tablet computer to view the retailer’s website/receive information”.

...yet their experience with that technology leaves considerable room for improvement.

- **15%** of shoppers have had a good experience using their cell phone/mobile phone or tablet to access a retailer’s free Wi-Fi when instore.
- **12%** of shoppers have had a good experience using an interactive display/wall e.g. to search for product ideas, get product recommendations/suggestions.

Our research tells us that consumers want to interact with retailers in whatever way is most convenient and comfortable, dependent on time, location and urgency; switching between interaction methods as appropriate. But retailers may still have to serve customers across all channels if they are to drive sales and nurture advocates.

To achieve this, retailers should look to implement solutions more effectively around how consumers use the technology they already have, since the research suggests that there are already frustrations among a significant minority of shoppers in relation to their experience of technology.

**Implications**

- In developed markets, many technology solutions often lead to disappointment and frustration. Retailers cannot assume that technology alone will be the answer and technology should only be used if it successfully relieves a pressure point or meets a customer need.
- For consumers in Western markets, technology is primarily being used to enhance the shopping experience. This can make it more difficult for retailers to delight these shoppers compared to those in emerging markets.
- In emerging markets, technology is primarily being used as an enabler to leapfrog development and break down the barriers to online shopping (for example, through mobile payment).
- Retailers should only arm employees with digital tools when customers enter a store if they can serve them effectively. Increasing the “shopability” of the store and online, while catering for the constantly-connected, empowered consumer is a global requirement.

**38%** of shoppers’ choice of retailer is influenced by a compelling instore environment (e.g. inspirational displays, technology linking to retailer’s website).

**43%** of shoppers agreed that “sales people instore are useful in helping me decide what to buy”.

**56%** of shoppers feel that technology makes their shopping experience better.

**40%** of shoppers said that, if they could, they would do all their shopping online.

**43%** of shoppers said if they could, they’d do all their shopping in stores.

**35%** of shoppers’ retailer of choice is influenced by staff interacting with them instore.

**38%** of shoppers have had a good experience using a stationary instore kiosk/terminal/iPad when in a retailer’s store to view their website/receive additional information.

...but also want to engage with staff instore as well as with technology....

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5. Retail business models for the future

As retailers adapt to the “new normal”, many are in the same position as the Red Queen from Lewis Carroll’s book Alice in Wonderland: “It takes all the running you can do, to keep in the same place,” she says, “if you want to get somewhere else, you must run at least twice as fast as that!” Many retailers must feel like this, running twice as fast to stay in the same place.

In efforts to win the race, firms may be making investments that lead to unsustainable business models, or ones that risk resulting in increasingly profitless growth.

Business model designs that are seeking to engage with the shopper across a variety of platforms not only risk creating cost and complexity for the enterprise, but, in addition, serve to raise shoppers’ expectations still further. This is what we call the Pandora’s Box effect.

The chart below, drawn from forthcoming Oxford research, shows some of the implications of differential pressures on costs for many established firms as they seek to move towards a seamless omni-channel operation.

The transformation of established retailing from a relatively inflexible network of conforming stores to a highly diverse network of points of engagement (some of which would not conventionally be called stores at all), presents many interesting possibilities for both established businesses and “new to retail” enterprises.

<table>
<thead>
<tr>
<th>Change</th>
<th>Cost factor</th>
<th>Explanation of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing</td>
<td>IT</td>
<td>(a) Replacement &amp; integration of legacy systems;</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td>(b) additional customer-centric capability requirements,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>offset by (c) growth in more automated decision-making.</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>Dominant model migrates from “last mile” distribution costs</td>
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<tr>
<td></td>
<td></td>
<td>being incurred by the shopper (visiting stores) to the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>retailer (delivering to multiple individual points).</td>
</tr>
<tr>
<td>No change</td>
<td>Labour</td>
<td>Decreases associated with exiting substantial store level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>personnel, offset for many by growth in high cost, specialist</td>
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<tr>
<td></td>
<td></td>
<td>roles elsewhere, such as data analytics and IT</td>
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<tr>
<td>Decreasing</td>
<td>Store property</td>
<td>Ongoing costs will decrease for many as retailers optimise</td>
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<tr>
<td></td>
<td></td>
<td>their store portfolios. However, many will also incur one-off,</td>
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<td></td>
<td>Marketing</td>
<td>substantial, exit and transitional costs.</td>
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<tr>
<td></td>
<td></td>
<td>Material savings feasible for many moving advertising spend</td>
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<tr>
<td></td>
<td></td>
<td>from high cost, broad reach conventional media to lower cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&amp; more personally targeted &amp; effective digital media.</td>
</tr>
</tbody>
</table>


A growing group of enterprises, including logistics businesses, vendors, payment providers and technology companies are aggressively exploiting the opportunity to bring their very different competences and business models into the retail sector. These are wholly-new kinds of business which are increasingly willing to characterise themselves as working with shoppers.

This is good news for the consumer: from a shopper’s point of view, the starting point from which an enterprise entered the business of retailing is largely irrelevant. Nor is existing strong brand equity an automatic defence, as our research shows.

The case of Chilli Beans, founded in 1997 by Caito Maia who began by selling sunglasses to friends, then became a wholesaler before moving into retail. Sunglasses are still at the heart of what is now a wider merchandise category, notably watches. Stores are franchised and there are now over 600 throughout Brazil and, since 2005, an international store presence in, first, Portugal and now Colombia, Peru, Kuwait and the US. There are several features that characterise the “new normal”:

- **Fast fashion; immediate buying.** Chilli Beans introduces 10 new styles of sunglasses every week.
- **Collaborative design.** Chilli Beans has created many designs in collaboration with well-known celebrities and designers.
- **Instore technology to enhance the shopper experience.** Including digital mirrors superimposing frame styles.
- **Not just stores – points of engagement.** Chilli Beans presents the brand through a flagship store, vending machines, kiosks, pop-up and mobile stores, as well as online.
- **Creating a brand community through an active programme of events such as parties, shows, sports and social actions.**

Maia’s goal is for Chilli Beans to be similarly universal and “part of the portfolio of global brands in five years”. Given what the business has achieved in its first 15 years and the creativity and innovation with which it has embraced the opportunities in the new landscape of retail, you wouldn’t bet against it.

**Case Study:**

There’s a lot going on in Brazil – a stellar football World Cup in 2014 closely followed by the Olympic Games in 2016. And there’s Chilli Beans, one of the most innovative and certainly one of the most fun of the ‘fast fashion’ retailers to have proliferated globally in recent times. On one level, Chilli Beans is a classically familiar story of a product-led entrepreneurial start-up. The business was founded in 1997 by Caíto Maia who began by selling sunglasses to friends, then became a wholesaler before moving into retail. Sunglasses are still at the heart of what is now a wider merchandise category, notably watches. Stores are franchised and there are now over 600 throughout Brazil and, since 2005, an international store presence in, first, Portugal and now Colombia, Peru, Kuwait and the US. There are several features that characterise the “new normal”:

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