

Reimagining Retail: Is 'Just Walk Out' the future of payments, and if not, what is?

Audio



On today's podcast episode, we discuss if 'Just Walk Out' technology will ever catch on at scale, how different generations respond to self-checkout, and what the next iteration of in-

store payments will look like. Listen to the conversation with our analyst Sara Lebow as she hosts analysts Sky Canaves and David Morris.

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Episode Transcript:

Sarah Lebow (00:00):

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(00:18):

Hello, listeners. Today is Wednesday, August 14th. Welcome to Behind the Numbers, Reimagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's episode topic is what's next for in store checkout.

(00:42):

Let's meet today's guests. Joining me for today's episode. We have principal analyst Sky Canaves. Hi Skye.

Sky Canaves (00:48):

Hi Sarah, nice to see you.

Sarah Lebow (00:50):

Good to see you. Also on the podcast we have principal analyst, David Morris. Welcome back, David. You haven't been on a while.

David Morris (00:56):

I haven't. I've missed you. Glad to be here.

Sarah Lebow (00:59):

Glad to have you. Okay, let's get started with what spurred this conversation for me. I feel like every month I see a headline about retailers removing self-checkout. Most recently I saw Five Below and Dollar General, Walmart and Target have also cut back on self-checkout. My question for you is, first of all, why is this happening? But second of all, is this happening? How big of a trend is this? Sky, why don't you start us off?

Sky Canaves (01:25):

So I'll preface by saying I don't think self-checkout is going away really anytime soon since there were so many investments in it during the pandemic. But it is changing and I think retailers are really grappling with the shortcomings and friction points that have been created by self-checkout. The big one that is always cited is theft, and that's often cited as a reason for pulling them or cutting back on them, and especially in store locations that might see more shoplifting activity. But another one is a self-checkout still requires a level of customer service, so you need a store associate there, and maybe more than one for busy self-checkouts. For these store associates, rather than exchanging pleasantries with their customers, they're often dealing with frustrated customers, people who can't get the self-checkout to work, the scanning isn't working. Their kid is on the scale, as I've experienced, or they require age verification if they're purchasing alcohol. Something's not going right, so it's also a stressful environment for store associates.

(02:30):

So we're seeing a broad range of retailers taking measures to limit or control self-checkout, limiting the number of items, reducing the amount of self-checkouts. There were some widely touted initiatives around making some stores fully cashier-less or only having self-checkout, and I think some of those have been rolled back, so we're seeing it evolve. Retailers are still trying to grapple with the fact that there's a lot of consumer demand for self-checkout, but it doesn't always work as they want it to.

Sarah Lebow **(03:01):**

Yeah, I feel like there are people at the grocery store whose entire job is to make sure I have a 19 in front of the year I was born on my ID.

David Morris **(03:11):**

It's funny, because I was at a Whole Foods yesterday and I joked with the woman who was in the self-checkout area who was there to make sure nobody was stealing, and I said, "I may steal something, so you might want to keep an eye out on me." But I think Sky, you said so much there. I think the way I would maybe add to that is that, during the pandemic retailers got ahead of their skins and there's a lot to have to learn here. You do have an uptick in theft that has occurred. From my understanding, in addition to the various ways that Sky has already ticked off that retailers are looking to rein that in, you also have a regulatory

environment shifting and that some of those retailers are already telegraphing that things are getting better and this is definitely an evolutionary step.

Sarah Lebow (04:00):

Well, let's get into that. So self-checkout maybe is rolling back or is at least changing. The tech is changing too. I want to talk about what some of the most promising innovations in checkout are. I mean, tap and pay is an obvious one, but there's also just Walk Out from Amazon. UNIQLO has long had those RFID tags. What are the most promising innovations in checkout?

David Morris (04:23):

I love the Sam's Club, what they're doing.

Sky Canaves (04:27):

So I'm a big fan of the scan and go technologies that have been rolled out by... Sam's Club is a big one and Walmart also offers it where shoppers can use their mobile phones, through the app, through the retailer app, and they can scan bar codes and add products to their cart as they shop in the store and then pay through the app. So it's very seamless. There's an element of self-service to it, so it's not as entirely seamless or invisible as a Just Walk Out type of technology, but it does reduce some of the friction points of the self-checkout, where nowadays I go to stores and I see there's a line for self-checkout, a long line. Sometimes at Costco, the self-checkout line is insanely much longer than the regular checkout line, and they both have customer service employees there to help you check out, so I don't really understand the difference there.

Sarah Lebow (05:26):

I talked to Sam's Club about this tech pretty recently. Something like one in three Sam's Club members use their scan and go, which is wild. And something that struck me with it is the tech is your phone, so there's several advantages of that. One, people already know how to use their phones. There's no learning curve on using your phone. Two, if the tech fails, it's often your phone's fault, or at least it feels like it's your phone's fault, which is still frustrating for consumers, but it puts that blame, for better or for worse, on the self, on the phone you own and not on the tech that's owned by the store. Then the third thing is that they just put ads in

there, which is a great example of using the phone as a site for retail media ads in store, which I think we're going to see a lot of moving forward.

David Morris (06:12):

Yeah, the app-based component there I think is a home run because people are already habituated to using their apps to pay. The mobile is increasingly the center of the store. So I think that, and this is something that Sky and I were talking about the other day, there's still, I think, room to be able to create a more seamless experience within the app. The number of steps that you have to take in order to utilize that. Sky, I know you were in the store recently. Was there a shift in that to your understanding?

Sky Canaves (06:45):

I did notice that it seemed faster to add products to the cart versus the last time I used Scan and Go at a Sam's club, which I think was back in January when we were preparing for a bit of a deep freeze here in Texas and people were panic buying.

Sarah Lebow (06:58):

I was there for that.

Sky Canaves (07:00):

Yeah, so I insisted that we go to Sam's Club instead of Costco, specifically because of Scan and Go, we could get in and out quickly when the lines and everyone was going crazy. But I did find that I needed to take a few additional steps to add products to cart, and the last time I was at Sam's Club a few weeks ago, it seemed like products just went into my cart very quickly after I scanned them and there was no additional confirmation type of step.

David Morris (07:28):

Yeah, definitely something they can continue.

Sky Canaves (07:30):

That seemed to remove a friction point. One key issue that retailers have to ensure that they address for this type of technology to work is make sure that they have great connectivity in stores. Because yes, there could be a problem with your phone, but if there's a problem with

the Wi-Fi in the store or the connection, these stores are so big and vast, they tend not to get good data signals inside the store or very good mobile reception so that's critical.

(07:57):

Another thing I would note is that both Sam's Club and Walmart only make this feature available to members. So Walmart, you have to be a Walmart Plus member to use their Scan and Go feature and Sam's Club being a wholesale club, you have to be a member just to shop there. So it's not free to use. It's not generally available to the public. You have to take that extra step of participating in a paid membership program to get access to that feature. But it is a feature I think consumers will be willing to pay for, especially younger consumers. I think Sam's Club has noted that a lot of the uptick in use of Scan and Go is coming from their Gen Z members.

David Morris (08:37):

Yes, I was going to circle back on that because you've got one third penetration within Sam's Club, and I would imagine that Gen Z would be a driver there, but Sam's Club skews a little bit older, so I would think that you are also seeing at least relatively strong adoption among older consumers, which if that's true, I mean it really shows how promising and valuable the technology is to users.

Sarah Lebow (09:04):

So obviously this is a strong technology. In theory, it's even more seamless if you eliminate the smartphone altogether and your cart is just tracking those items, whether that be through RFID tags or through a smart cart of some sort, computer vision cart. How promising are those sorts of technology?

David Morris (09:24):

I think so far, my way of putting it would be that it depends on the store. I think when you're looking at some of the challenges with RFID, and I don't think it's been widely adopted yet. You have some first movers like Sarah and UNIQLO adopting it. I think the experience itself would be something that is a game changer, but I think there's issues with respect to ultimately the type of products that you can utilize RFID for, things like that that may inhibit its adoption for now and the cost associated with the implementation.

Sarah Lebow (10:00):

Yeah, you can't exactly put it on an Apple.

Sky Canaves (10:03):

I think it's been best utilized in apparel or clothing type of store scenarios. So UNIQLO has really gained a lot of traction with its boxes that you just put your clothing in and get it scanned and pay for it without having to scan each individual item. And Amazon has integrated RFID as part of its, Just Walk Out offering. Has nothing to do with the computer vision, super high-tech side of Just Walk Out, but it's promoted it as a way for apparel, retailers or brands or for example, merch sellers at concert or stadium venues to sell their products.

Sarah Lebow (10:47):

Well, let's get into it, Just Walk Out. We haven't really mentioned Amazon at all, and I feel like they're the biggest tech movers when it comes to payment, with their palm scans and Just Walk Out. Just Walk Out was a really big deal two years ago, then Amazon rolled it back. Now they're rolling it forward again, but more in these specific venues. My question for each of you is Just Walk Out going to happen and if so, when will it catch on? When can I expect to Just Walk Out?

Sky Canaves (11:18):

So I think it is happening, but it's just the format and environment it's best suited for at present is not really what Amazon had imagined. When they rolled it out they had it in fresh stores and it was supposed to be the future of supermarket shopping, and then it turned out Just Walk Out just didn't work that well in those settings because there were still limitations to the tech and how well it worked. Even if it was 90, 95% accurate, in a grocery scenario where you have so many products in your cart, if you get mischarged for one item or double charged or charged too much, that's a customer service issue and that's going to add a lot of friction because it's a hassle for your customer. It's going to make them less willing to shop that way in the future.

(12:07):

They have had a lot more success in those small format store and retail environments with fewer skews and places where time is of the essence, so think about the airport convenience stores. I've used Just Walk Out in them, it works. Stadium concessions, hospital and university

cafeterias, and they recently made announcement touting some of their multimodal AI advancements that now the Just Walk Out technology is supposedly going to get a lot better for those environments that are more complex like supermarkets. It was an admission that what they had before wasn't working quite as well because it was processing data sequentially and now it'll be able to process data simultaneously and become more accurate.

(12:55):

But one of the interesting data points from its release was they noted that they have rolled out Just Walk Out technology in 170 third party locations, and that's not just in the US. That includes the UK and Australia and Canada as well, but they also mentioned that there would be more Just Walk Out stores launching this year than previously, and they're looking at doubling the number this year. So I think it's something that we'll see more frequently as we travel, as we're in airports and stadiums, it'll become a little bit more normalized in those types of environments.

Sarah Lebow (13:31):

Yeah, I mean it's interesting you bring up the airports and the stadiums because I feel like that's what it will take to get that adopted then in grocery stores, assuming that Amazon can get the tech to work and also that grocery stores are willing to work with Amazon to adopt the tech.

David Morris (13:48):

One thing I think that I would go back to use cases in that regard though, when you're looking at grocery stores, and if you look at this as a continuum, that Just Walk Out was the holy grail, the consumer does nothing. So I think you have to look at this from the standpoint of, and I think Amazon has, is that this is an experiment. It's a work in progress and that it's not surprising that there's been hiccups in something like this. You have a scan and go technology that we just talked about that Sam's Club is using. It comes a little closer to that holy grail, and then you have RFID that comes even a little bit closer. So I think you're also looking at these technologies. What is the best technology that works, given where we're at in this innovative process? I think you're not going to have Just Walk Out at large grocery stores anytime soon. It's just not feasible, but five years from now? Sure.

Sarah Lebow (14:46):

Yeah. I've said before that Apple Pay being adopted for the New York City subway was what got to adopt Apple Pay. It's that one thing that makes it easier that then becomes second nature everywhere. One thing that might stop Just Walk Out from being adopted everywhere is that the Scan and Go at Sam's Club has the ads opportunity, which is another revenue source, which Just Walk Out does not have. And it also can with those ads, push people to increase their basket sizes just a little bit with those impulse purchases that a seamless checkout wouldn't have. So you don't want people standing in line forever, but you also kind of want them standing next to the Reese's Peanut Butter Cups for 10 seconds so that you can get them to take those Reese's Peanut Butter Cups. And that's where I wonder if stores will be inclined to drag their feet a little.

David Morris (15:38):

I mean, you mentioned that it offers... I mean, if they're integrating RFID, there is the potential to be able to use RFID for those purposes when everybody has their phone in their pocket. It's just not on the radar now.

Sky Canaves (15:50):

Well, that brings me also to what Amazon has been touting as kind of the replacement to Just Walk Out for the supermarkets at least, which is their smart carts. They call them dash carts, which I find a little confusing because then I think of Door Dash and then Instacart has their caper carts, which are gaining a little more traction. I've been hearing about them in the news a little more with more smaller or regional retailers in the grocery sector starting to adopt them. I just heard that Aldi is going to trial them in a store in Austria, maybe bring them to the U.S as well. I wonder if you would have to put a quarter in there to get one, but that's an opportunity that can leverage smart technology as well as the seamlessness of the checkout and payment process and create an opportunity to serve ads through the big screen that appears on these carts.

Sarah Lebow (16:50):

You're certainly right about all of that. I agree with you. It is expensive for stores to adopt and it's a major piece of hardware. I mean, how often do you get a cart where the wheel doesn't work? Think about if that cart is also a computer

Sky Canaves (17:06):

And gets left in the parking lot and rained on.

Sarah Lebow (17:09):

Yeah, it has to handle the elements. That's a great point. I was just thinking of bashing around the store.

(17:14):

Okay. Before we finish this episode, I am going to ask you guys again, I asked you when Just Walk Out would catch on. I want a year from both of you. What's your prediction on when we're going to see Just Walk Out more widely adopted or let's say adopted in grocery stores?

David Morris (17:28):

I'd go back, if it's grocery stores, large supermarkets, several years. I mean, there's a huge runway for just walkout and in other store formats, and I think it's going to be a matter of years until that's perfected at scale for a supermarket.

Sky Canaves (17:44):

I think it'll take off more in those smaller format environments. I don't see it making huge inroads into grocery just because of the expensive retrofitting stores, especially now at a time when retailers are so conscious of their investments in store technology and how to get the most bang for their buck. I don't know that Just Walk Out is going to do it, but I do think the Scan and Go is the more compelling opportunity because it just gives the consumer the ease and convenience that they're looking for in a lot of cases.

Sarah Lebow (18:19):

And it gives the retailers the ad revenue and it gives the brands the real estate to advertise on. Okay. That is all we have time for today. Thank you so much for being here, David.

David Morris (18:30):

Thank you for having me.

Sarah Lebow (18:31):

And thank you, Skye.

Sky Canaves (18:32):

Thanks again, Sarah.

Sarah Lebow (18:33):

Thank you to our listeners and to Victoria who edits the podcast and keeps everything seamless for us. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast, and tomorrow join Marcus for another episode of the Behind the Numbers Daily.