Understanding how US online shoppers are reshaping the retail experience

pwc

Foreword

Rarely does a day pass that one doesn't hear something about the multiple ways individuals are shopping and how easily they are getting the products they need though a number of different retail channels. It's very exciting to be part of the major technology-driven retail shopping transformation that is radically changing how all of us will purchase products and services in the future.

The bottom line is that the consumer has spoken and through their actions, they've communicated that multichannel shopping is here to stay. With the ability to shop *anywhere* at *any time* with *any device*, consumers are demanding excellence and consistency at every turn and are challenging retailers and brands to keep up. The key question retailers must now answer is *How will multichannel shopping behavior continue to evolve?* and *What investments must be made to meet consumer expectations?*

To help understand this evolving retail marketplace, PwC undertook a global study among a projectable sample of consumers which was focused on addressing the habits and preferences of online shoppers. Shoppers from eight different territories (US, China, Hong Kong, Germany, France, UK, Switzerland, and The Netherlands) were included in our study. Key findings from our study revealed:

- Twenty percent of survey consumers made their first online purchase within the last year, suggesting great upside opportunity for retailers with an online presence
- Many more global online shoppers are following brands using social media, but only 3% have used the network to shop
- Researching products online is a critical element of multichannel shopping
- Consumers are leading the way in multichannel shopping, with many retailers lagging behind when it comes to meeting consumer needs

To increase the value of this study for our clients, we've leveraged the insights from our data to make several observations about how retailers can better support their online customers – and attract new ones. We've organized our survey findings into three main themes: "Multichannel shopping as a major force", "Multichannel shopping consolidation" and "Global retailing in 2020". We'd also like to highlight several actionable items that can help retailers keep up with and adapt to the changing multichannel retail landscape:

- Become far more innovative with their online websites and other digital offerings
- Improve bricks and mortar formats to emphasize quality and customer satisfaction as opposed to price and selection
- Align themselves with the growing middle class in emerging markets who are shopping more online and using multichannels to a greater degree than shoppers in developed markets
- Focus on satisfying customers across all channels, instead of viewing digital channels as a competing channel

Today, global retailers have a huge opportunity to enhance the experiences necessary to stay ahead of shoppers who are demanding more customization in terms of product choice, delivery, return policies and the number of retail channels for shopping.

As a follow-up to the previously released global multichannel survey, *Customers take control*, the attached report takes a deeper dive into US online shopping and multichannel trends to comprehend how US shoppers compare to those around the world. Our US report can be found at www.pwc.com/us/retailandconsumer. The overall global survey can be found at www.pwc.com/multichannelsurvey.

We hope that you find this study insightful and useful and, if needed, you will reach out to us for more information and discussion.

Sue McPartlin
US Retail & Consumer Sector Leader

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Introduction

Fig. 1: Sample size in each market

Our starting point

PwC has been conducting surveys of online shopping since 2007, and it's clear that the online channel has now become an integral part of most consumers' day-to-day behavior. The question we posed to ourselves in conducting this research was twofold:

1) What is the overall multichannel picture globally and in the US? and

2) *How should global and US retailers respond?*

In this report, we outline key trends from our study and ways in which retailers can address these issues strategically.

Our findings are based on the most comprehensive research of global multichannel retailing that PwC has ever conducted. Some of the results have surprised us and some have confirmed much of the anecdotal evidence our teams are seeing across the eight territories covered by the study. The reported findings and conclusions are based on both the data we have collected through the survey responses and our deep multichannel commerce experience from working with clients in the marketplace.

In conducting our global study of online shoppers, we sought to discover how certain territories around the world were experiencing the migration from single to multichannel retailing. Current research and forecasts on the subject suggest that this dynamic has been in place for some time and will continue. According to Forrester Research, Inc., more than 40% percent of the population in Western Europe purchase goods online, with Germany, Switzerland and France all reporting more than 50% of consumers doing so. Moreover, this trend is set to continue with the European average set to rise almost 10 percentage points to 49% by 2015.[1] Territories such as the UK and The Netherlands are projected to see figures approaching 70% by 2015. In the US, 67% of consumers currently shop online and online sales are projected to achieve a 10% compound annual growth rate, generating $279 billion by 2015.[2]

Methodology

PwC conducted 7,005 online consumer interviews across three continents covering eight territories (US, China, Hong Kong, Germany, France, UK, Switzerland, and The Netherlands, Fig. 1) in August and September 2011. Respondents in each market were chosen to reflect the national profile in terms of age, gender, employment status, and region. US data is based on 1,000 online consumer interviews.

1. Forrester Research, Inc.
2. *US Online Retail Forecast, 2010 To 2015*, Forrester Research, Inc., February 2011

Defining multichannel shopping

What exactly do we mean by multichannel shopping? There are, in fact, three different types of activities in which multichannel shoppers typically engage:

- *Shopping across a number of different channels* (bricks and mortar, online, catalogue, TV shopping networks, mobile applications, etc.), i.e., choosing the channel that works best for a particular occasion or type of purchase. Eighty-six percent of our global respondents and 65% of US-based respondents currently shop across at least two channels, while 25% of global respondents and 21% of US respondents are using four or five channels to shop.

- *Buying goods from the same retailer but doing it across more than one channel.* Seventy-four percent of US respondents shop more than one channel, and even in the territory where the fewest amount of shoppers "least shop" this way – Hong Kong – the percentage is still relatively high at 45%.

- *Using a number of different channels to make a single purchase.* An example of this kind of transaction is researching a product online and then buying it in store. In fact, more than 80% of all respondents conduct online research before they buy electronics, computers, books, music, and movies. Eighty-eight percent of US respondents said that they research a product online via their PC before buying (vs. 80% globally) — and 73% of US respondents report that they research online when buying clothing, footwear, toys, and health and beauty products (vs. 60% globally). In other words, online research doesn't just lead to online purchases, it's also critical in leading to purchases through other channels and in driving traffic to physical brick and mortar outlets.

Multichannel Shopping is a Major Force

Our key findings

It's clear that multichannel shopping is a major force that is reshaping the way consumers purchase goods and services from retailers. In turn, multichannel shopping is also reshaping how retailers need to operate in order to compete successfully in today's market and to satisfy and retain consumers. In fact, the single biggest conclusion from our study is that *consumers are leading and shaping the multichannel trend, with retailers lagging behind. To* underscore this point, while a remarkable consistency exists in consumer purchase behavior across all territories and demographics, and no matter where the consumer lives (either in a developed market like the US or in developing markets), all consumers are becoming increasingly sophisticated at multichannel shopping. It is clear from our results that retailers need to better align their business operating models with consumer sophistication and expectations.

Closing this gap will require a significant increase in agility and flexibility by retailers, driven by a deeper understanding of their customers. This will require changes in the way retailers track and measure consumer behavior, market their products, operate their stores, and manage their supply chains. The successful retail business model of the future will be different from that of the past. The winners will be those who have recognized these trends and who are building agile organizations capable of delivering experiences that are consistent across channels with recognizable and comforting similarities, and are also consistently impressive and up-to-date.

A key to growing business in this multichannel world is, unarguably, the use of digital technology. The billions of smartphones, tablets and other digital devices in circulation are fuelling multichannel growth and innovation.[3] By 2015, US retail e-commerce sales are expected to reach $279billion.[4] It is evident for retailers and brands that digital channel excellence is no longer an option, but an imperative for success.

The increasingly sophisticated online shopper

One of the findings that stands out – and one heavy with implications for retailers – was the self-described sophistication of the online shoppers we surveyed. Many of our respondents considered themselves to be highly capable in terms of researching and purchasing online. In fact, 72% of US respondents consider themselves to be either *confident* or *experts* in this regard (Fig. 2), slightly besting the 69% of our global respondents that consider themselves to be at this same level. Why is this so relevant for retailers? As we'll see, this online savvy comes with increased demands for faster service, more selection, and more transparent information in the shipping and tracking of goods. While retailers' online operations are evolving, consumers are being forced to find ways to make the system work for them. Regardless, online sales are growing at the expense of traditional retail outlet sales. According to Forrester Research, Inc., 70% of the overall growth in online sales in 2010 came from existing shoppers simply buying more online.[5]

Fig. 2: 72% of the US sample consider themselves accomplished online shoppers.
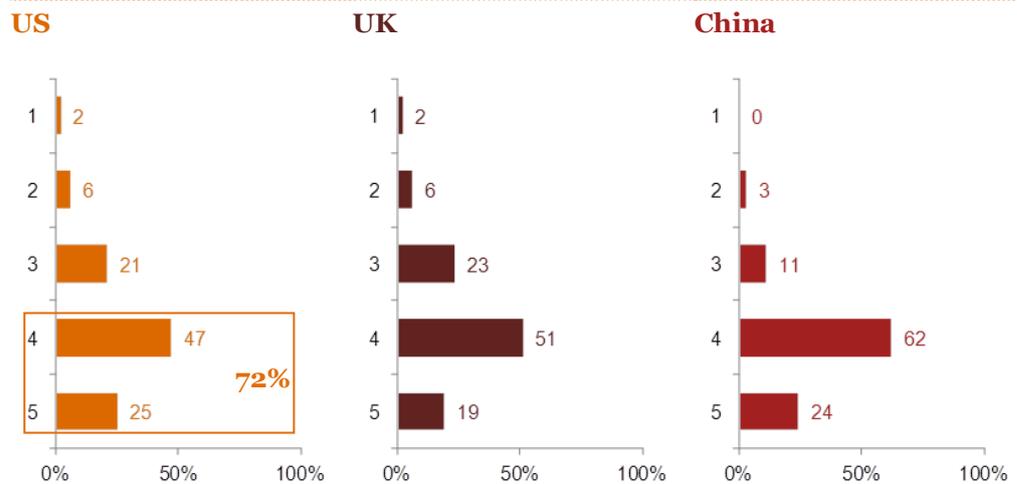
Experience level: 1(Beginner) -5 (Expert)

Q3. How sophisticated an online shopper do you thing you are? Base: 7,005

Source: All charts are from PwC primary consumer research 2011 unless otherwise indicated.

Staying with this theme of online customer expertise, one area where there was a striking consistency was the great breadth of consumers' online shopping with regard to product segments. Globally, 48% said they shopped online in at least 10 of the categories we studied, and 46% of US online shoppers reported the same (see Fig. 3 Categories). Shoppers in China were the most committed online shoppers, with 70% of respondents stating they shop across at least 10 categories.

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[3] *2011 Financial Performance Report: Thriving in a Connected World*, PwC and the GMA, June 2011; including excerpts from *US Retail eCommerce Sales, 2009-2015*, US Department of Commerce, March 2010

[4] *US Online Retail Forecast, 2010 To 2015*, Forrester Research, Inc., February 2011

[5] Ibid

Fig. 3: Average number of categories shopped

Average number of categories shopped

| | 1-3 | 4-6 | 7-9 | 10+ categories |
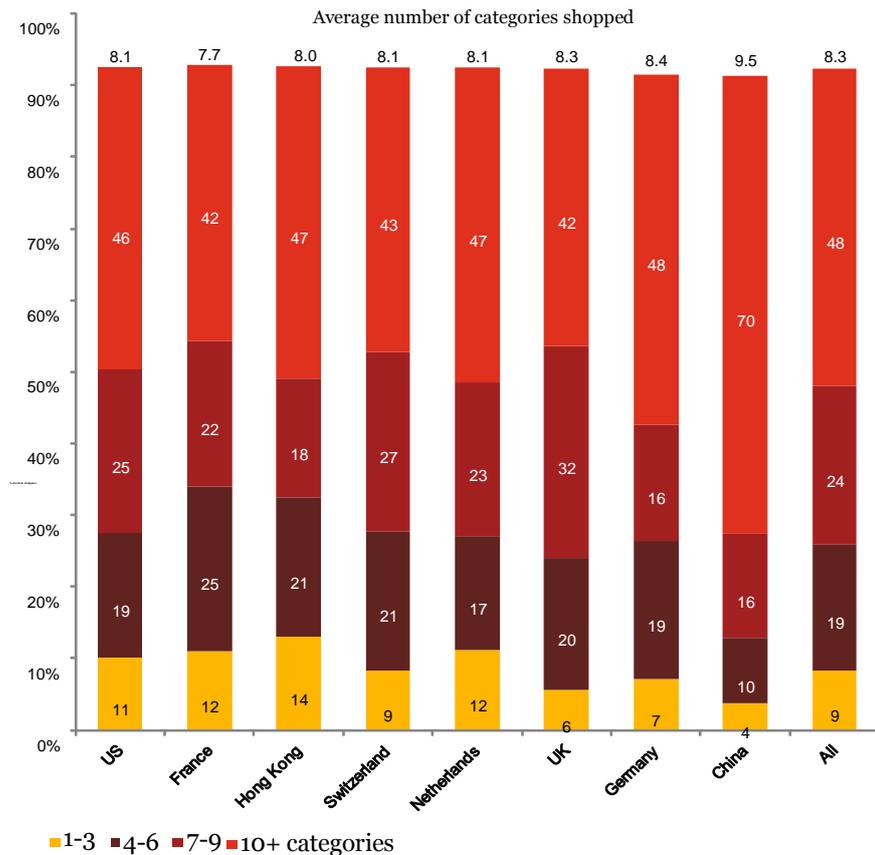
Categories: Grocery, DIY, Jewelry/watches, Furniture and homeware, Sports equipment/outdoor, Toys, Health and beauty, Clothing and footwear, Computer, Electricals and electronics, books/music/movies

Not only do global online shoppers consider themselves *experts*, but they are also buying across all product categories, as seen in the exhibit above. Staggeringly, more than 90% of global online shoppers buy books, music and films, clothing and footwear online. Even the categories at the bottom end of the online purchase scale, such as jewelry, watches, sports equipment and outdoor goods, attract over 60% of online shoppers.

While online shopping may have gone mainstream, plenty of online shoppers are relative newcomers. Across the territories, 22% of online shoppers made their first online purchase within the past year, with 20% of US respondents stating the same. By 2015, it is projected that 11% of overall sales will be transacted through the web channel[6], up from the current 8%, demonstrating that consumers will spend significantly more online in the future. This indicates plenty of room for online retailing growth as more and more consumers around the world get connected and comfortable with the online shopping experience.

The popularity of online shopping is rooted in many factors

What is it that is so attractive about online shopping, regardless of nationality or geography? There's a great deal of global consistency in the top five factors cited. The conventional wisdom is that the issue of *price* is the driving force for the growth of
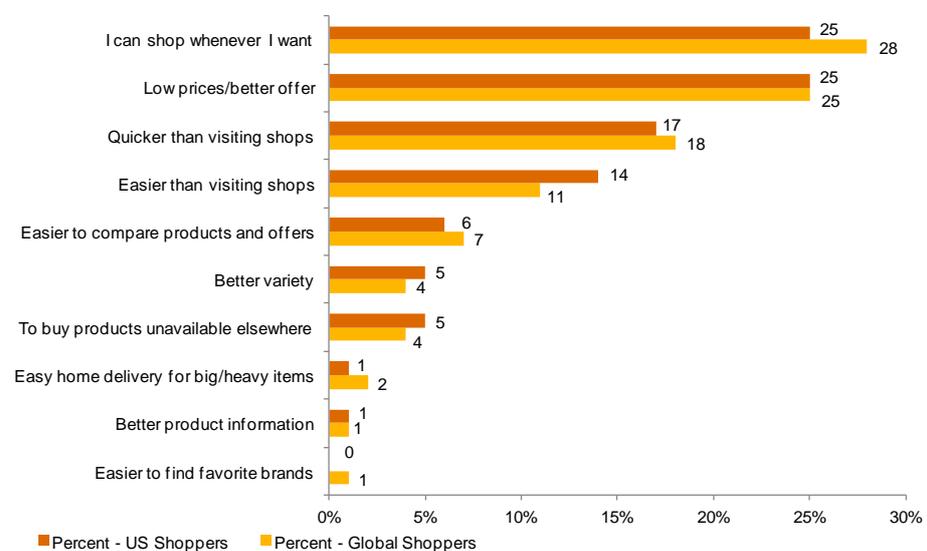
When asked by Forrester Research Inc., about their proclivity to shop at specific types of retail shopping outlets in the future, more consumers say they will shop more online than at any other retail outlet.[7]

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6 Ibid
7 Ibid

online shopping, and indeed, it does feature among the top three reasons cited by our survey respondents (Fig. 4). Interestingly, however, the top factor given is *24/7 access to shopping*, or the *convenience* factor cited by 28% of the online shoppers we surveyed. Multichannel shopping is all about freedom and being able to shop wherever and whenever you want. As for selecting a specific online outlet— after embracing the convenience factor of the online shopping model—the key factors include *reasonable pricing, free and fast delivery*, and a *wide range of products* from which to choose. Retailers really need to integrate these key consideration factors into their business models. According to PwC's *Experience Radar 2011: Insights for the US Retail Industry*, retailers can gain an additional margin opportunity of 8% to 12% by offering free shipping, yet 59% of retailers charge for shipping products. Perhaps even more impactful is the fact that 2 out of 3 US consumers say they are likely to cancel a purchase without free shipping.[8]

Fig. 4: When it comes to online shopping, the convenience factor rules

I can shop whenever I want	25	28
Low prices/better offer	25	25
Quicker than visiting shops	17	18
Easier than visiting shops	14	11
Easier to compare products and offers	6	7
Better variety	5	4
To buy products unavailable elsewhere	5	4
Easy home delivery for big/heavy items	1	2
Better product information	1	1
Easier to find favorite brands	0	1

■ Percent - US Shoppers ■ Percent - Global Shoppers

The desired multichannel purchase journey

Online shopping has opened up huge new choices for consumers, not just in terms of *what* they buy, but *how* they buy it. The Internet has empowered the consumer in three ways: during the decision-making process leading to the purchase; at the actual moment of purchase; and throughout the product ownership period, including product delivery, maintenance, and return.

Understanding multichannel is about breaking shopping down into a journey that starts with research and comparison, crystallizes at the moment of purchase, and is followed by delivery and after-sales. At each stage, consumers can now choose from a range of different channels, from conventional bricks and mortar stores, to online websites with in-store pick-up, to online websites with home delivery. Moreover, online shopping offers its own suite of sub-channels, from the tablet to the mobile phone to the PC.

Multichannel shopping behavior may be consistent across age, demographic and nationality, but when it comes to product category, distinctive patterns emerge. In some product categories, consumers still prefer to shop via a single channel, either wholly online, or wholly in-store. For example, 49% of multichannel shoppers prefer to shop for groceries in-store, due to a desire to see select products first-hand (e.g.,

E-Commerce sales have been growing each year at the expense of physical brick-and-mortar retailers as consumers increasingly look to the Web for its selection, prices, and convenience. In 2010, online sales penetration of total retail sales was at 8%, but that number hides an essential fact — it is weighed down by the low penetration of grocery online. Excluding grocery sales, the penetration is 11%, and some categories such as PCs and software have an online penetration level that is higher than 50%.[9]

8. *Experience Radar 2011: Insights for the US Retail Industry*, PwC, 2011
9. *US Online Retail Forecast, 2010 To 2015*, Forrester Research, Inc., February 2011

produce, meats, bakery). At the other end of the scale, 59% research and buy their books, music and films online where it's judged unnecessary to observe the product first-hand due to product familiarity. Category data also illustrates that for some categories, consumers tend to leverage multiple channels along the path to purchase; the most notable being electronics and furniture/home goods. This is most likely due to the fact that in these categories, cash outlay is high and consumers conduct research prior to purchasing these items.

Certain territories had disparate retail online presence in select categories. For example, with respect to purchasing clothing and footwear online, 71% of respondents in the US, 60% in China, and only 23% in The Netherlands claim to make purchases online. This data gives retailers insight that can be used in making decisions about where to consider investing and what kinds of returns they can reasonably expect. *Is a physical store valued by my customers and why? Do those attitudes differ country-to-country? What categories are best served online?*

The challenge – at least for some retailers – is that consumers are starting to behave in far more sophisticated ways, whether they're buying expensive items or weekly groceries. Because most retailers haven't yet created efficient multichannel models, consumers are working it out for themselves, using different channels in ways that best suit them. Consumers may choose to research a product in the store — a shoe perhaps — then use their mobile phone to find a better price online, and then call into the retailer's customer service line to order and have the shoe shipped to their home. In essence, consumers are creating their own multichannel experiences by leveraging multiple retailers across a single category or product.

Keeping up with multichannel shoppers is getting more complex

Take the clothing category. Almost one-third of our respondents said they prefer to *research and purchase* clothing online, and this puts an onus on the retailer to manage the returns process. If items don't fit they get sent back, and the retailer needs a model that can handle this kind of transaction in a seamless manner. Consumers want simplicity, but that's translating into far greater complexity for retailers. Although most consumers are not wedded to any one channel (the "I don't care how I get it as long as I get it" mentality), most retailers certainly are. Simply by virtue of their investment in a predominant channel, such as bricks and mortar or catalogue sales, retailers are more committed to one particular comfortable channel and are often organized by channel and *not* in a truly multichannel way. This supports our insight that retailers need to evolve toward a multichannel model, while many consumers already have.

Achieving Multichannel Excellence

Multichannel consumers are consolidating their shopping destinations

Customer service is emerging as a key differentiator among successful online retailers and is having a growing influence on web success. Companies such as Amazon, Land's End, Virgin America and Zappo's have established enviable customer service reputations by providing and delivering superior customer service. The foundation of agile consumer service is that it is embedded across the organization as a core to achieving key business objectives including sales, brand and customer satisfaction.

Monetizing multichannel: Getting the basics right

It's clear from our study that there is no magic formula for a successful multichannel operation. Those retailers getting it right are doing so in a variety of different ways — but one factor unites them —a deep understanding of their customers. The leading multichannel players in the different territories are those that truly understand their consumer appeal, and can then replicate that consumer experience across all their channels, backing it up by seamless behind-the-scenes execution. "Retailers that are able to lower their cost of ownership with an agile commerce platform (instead of a one-off system-to-system model) will be able to leverage their investment in an integrated model across as many channels as they choose."[10]

This seamless experience is vital, because our study indicates that for many consumers, multichannel shopping is leading to the development of personal portfolios of favorite stores, which attract a higher proportion of that individual's spend. The achievement of this most-favored retailer status will be a key success factor in the future. This is because consumers are clearly consolidating spending amongst preferred retailers who tend to be the ones that are managing their business in a genuinely integrated way.

As to why certain stores become customer favorites, reasons given by our respondents are conventional. The top reasons cited by our global sample are *product* (63%) and *trust* (59%); factors which are core to any retail operation, online or in-store (Fig. 5). Specific multichannel drivers really come into play in only two areas: a *user-friendly website* (cited by 53% of global respondents); and *fast/reliable delivery (*48%). Additionally, the influence of social media on these trends can be found in a recent study conducted by Nielsen in which 70% of active adult online social network users shop online, while 53% of these individuals follow a brand via social networking.[11]

Fig 5: Traditional retail factors for success are also critical for multichannel retailing success
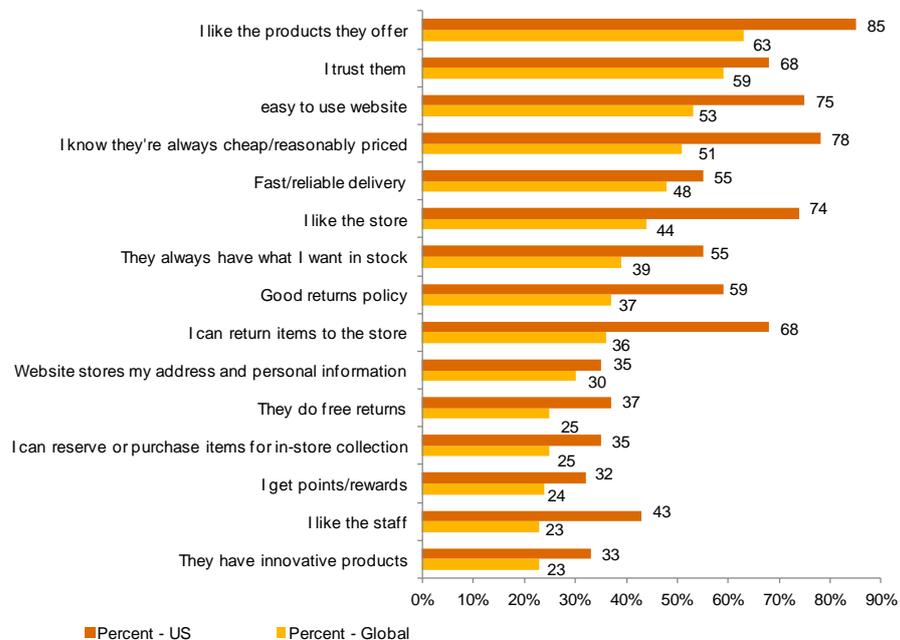
Q15. What attracts you to your favorite multichannel retailer?
Base: All who selected at least one top retailer (US base: 711, Global base: 3,906)

10 The Agile Commerce Platform, Forrester Research, Inc., October 2011
11. *The Social Media Report Q3*, Nielsen 2011

Delivering a seamless experience requires discipline and investment on the part of retailers, and those who do not make the necessary changes to their business models run a very real risk of losing market share, as this process of consolidation spend at these favored retailers could accelerate very quickly. In 2009, the top 100 retailers accounted for 81% of total web sales by internet retailers, or $108.9B in internet sales. In 2010, the top 100 retailers accounted for a lower percentage of total internet sales, 78.2%, but achieved greater web sales, $129.4 billion in total.[12] This demonstrates that the amount of total internet retail sales has grown— but that the Top 100 retailers are receiving a smaller share of total sales as a result of more retailers competing in the internet sales channel and taking market share.

Looking at customers in different markets

"Just a few years ago, digital information meant one thing to senior executives – risk. However, companies are no longer just thinking 'defense,' they are using the digital data to advance their competitive position, help improve all aspects of operations and get smarter about international expansion plans."

- *Sue McPartlin, PwC's Retail and Consumer Sector Leader*

So what are we to deduce from these results? It's evident that the online shoppers in almost every territory we surveyed go through a similar purchase journey and utilize the same multiple channels across product categories. It should be noted, however, that the reasons for using the channels differ between territories. The implication for retailers wanting to expand to new markets is that they need to thoroughly understand the intricacies of each market and develop a unique value proposition for each market in order to attract consumers.

Achieving most-favored retailer status, regardless of the country in which a retailer is located, is all about knowing what customers value and delivering that experience effectively and seamlessly across all channels. This proposition becomes about making the conversation a two-way street: not only do retailers need to get the basics of brand, product, price and delivery right, but they also need to figure out how to collect insight back from consumers to use this to customize products based upon these consumer preferences. The same factors that make retailers successful in stores — including listening and responding to consumer preferences — make them successful across multiple channels, regardless of the territory.
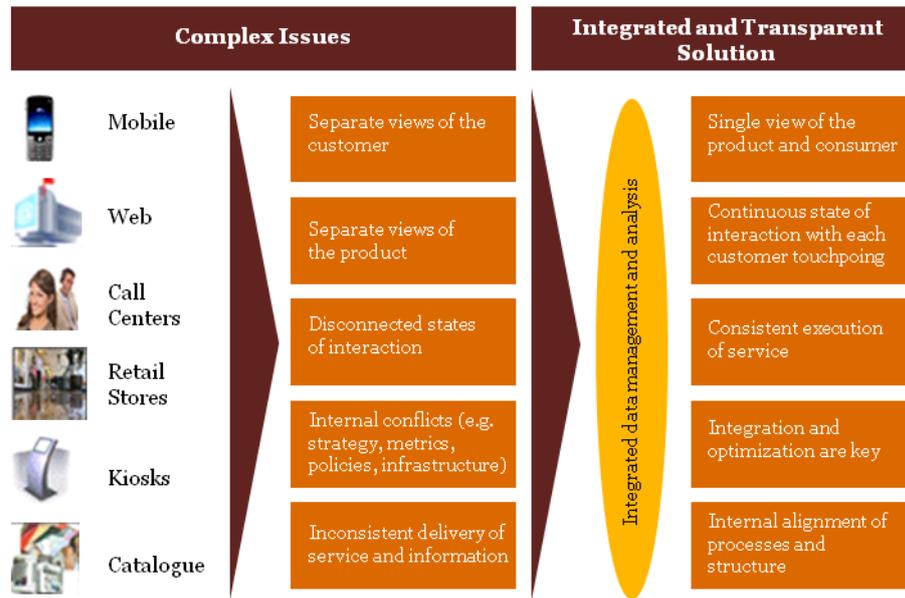
Although becoming a favored retailer is a key route to multichannel success, it is only part of the picture. The players who will win in a multichannel world will be those who inspire their existing customers to spend more with them, and know how to use their website/app/TV channel not only as a sales channel and to drive traffic to the physical stores, but to create a seamless value proposition and positive customer experience for their brand (Fig. 6).

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12. *Stick with a Niche*, Internet Retailer, July 2011

Fig. 6: Retailers need to integrate channels and touchpoints to deliver a seamless shopping experience

Multichannel management

Managing the online side of a multichannel business is still a real challenge for many traditional retailers. Unlike a bricks and mortar retailer, you can't just open an online site – however appealing – and expect traffic. There is no Fifth Avenue, Magnificent Mile, High Street, Champs-Elysees, or Nanjing Road to attract shoppers. Online customers arrive at a website from numerous different routes, and managing these possible paths to an online retail site is a Herculean challenge requiring an integrated strategy linking brand advertising, search engine optimization, pay-per click electronic and email promotions, and good old-fashioned word of mouth.

The fact remains, however, that many traditional retailers are not organized to link these activities, and lack the vision and digital talent required to do this effectively. In fact, in a recent PwC Digital IQ study, only 56% of respondents say that their CEO is an active champion in the use of information technology to achieve the corporate strategy.[13] This visionary gap means that a change in attitude needs to take place. *Instead of viewing digital channels as a competing channel, as many might, retailers instead need to understand that it is one business overall and focus on satisfying customers across all channels.*

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Multichannel marketing

Multichannel marketing refers to the communication channels by which marketing messages are provided to customers. In today's evolving world, this is much broader than "top of the page" ads or customer email blasts. Retailers need to take a hard look at existing channels and costs, in order to analyze all relevant information when making decisions that could end up being very costly. For example, pay-per-click advertising may look good in theory, but it can be very expensive for certain popular key words, and can even end up generating a loss. The key point here is that e-commerce is driven by focused or targeted marketing, and there's often a dearth of these skills and expertise in traditional store-focused marketing teams.

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[13] *Raising your digital IQ: the 4th annual digital IQ survey*, PwC, 2012

Social Media is here to stay

The results of our survey are particularly interesting when it comes to how consumers are using social media. Overall, more than one in three of our respondents were using some form of social media every day, be that Twitter, Facebook, or some similar site. While only a small minority have used these networks to shop (3%), the story is a bit different when it comes to following brands and individual retailers via social media. In the US, 32% of the survey sample follow specific brands or retailers through social media vehicles (Fig. 7). Even though these results tell us that online shoppers may not quite be ready to purchase items through a social media site, they are clearly using the medium to research and follow brands in which they are interested. In PwC's *Experience Radar 2011: Insights for the US Retail Industry*, we found that consumers prefer social media when learning about products: 23% of respondents ages 18-32 prefer social media and 17% of respondents ages 33-49 do so.[14] Retailers should keep their eye on social media as an influencer to purchase decisions as well: some global retailers are utilizing virtual fitting rooms whereby customers can "try on" images of their products and share them instantly with social networks for instant feedback. As consumers increasingly place value on recommendations from these trusted networks, this new form of word of mouth advertising and marketing is not only here to stay but will continue to gain prominence.

"Many products and services have finite points in time during which there is a customer engagement. Social media allows you to create more regular interaction across the lifespan of a product or service," says PwC Advisory Partner Chris Curran. Despite this, most companies have yet to embrace the benefits these tools can provide: Among the total pool of those surveyed, only 37% have invested in social media tools to reach customers.[15]

Fig 7: Percentage of online shoppers following brands through social media
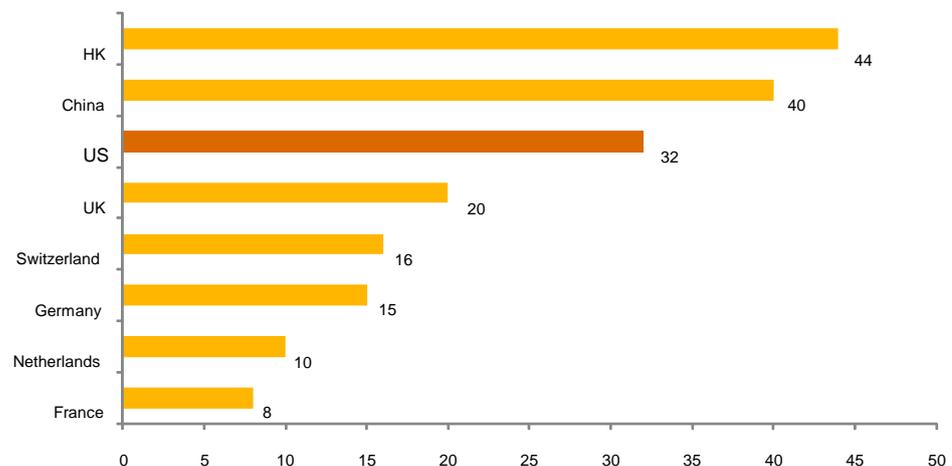
Q24. Do you interact with brands online through social media? Base: 7005

Focus on the consumer

Some retailers, particularly those that started life with bricks and mortar, have legacy business models and cultures focusing mainly on running an efficient in-store operation and may not be as flexible when the need arises to accommodate new channels. For example, many retailers lack a central database for managing customer

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[14] *Experience Radar 2011: Insights for the US Retail Industry*, PwC, 2011
[15] *Raising your digital IQ: the 4th annual digital IQ survey,* PwC, 2012

The importance of positive customer experiences

PwC's *Insights for the US Retail Industry* found that a whopping 90% of respondents are willing to recommend a retailer after a good experience. But consumers often won't tell you when they are not happy with their experience. Our report found that 49% don't tell a retailer about their bad experiences. However, 69% of consumers will share these bad experiences with others in a month, and these bad experiences linger 1.2 times longer than good ones.[17]

information across channels. Change is hard, not just in operational and commercial terms, but because it requires new organizational structures, new governance systems, new incentives and especially an expanded investment commitment. Retailers can no longer afford to define customers as people that walk in their physical stores — they need to begin to focus ruthlessly on the consumer, no matter which route they take — just as long as they arrive.

In the US, according to a study by Empirix and the Customer Experience Foundation in September 2011, only 54% of US companies had an overall mobile strategy in place and only 41% of US companies had invested in 2G technology[16], clearly revealing that companies are not overtly comfortable with using mobile technologies and applications to meet consumer demand. Even some retailers with an extensive online presence face some of the same challenges, because they're still running their online and in-store operations as separate silos. In extreme cases this can lead to inconsistent product offerings or prices throughout a retailer's different channels, undermining the web's role in allowing customers a seamless shopping experience. Even reasonably competent multichannel retailers are still managing their web operations solely as sales outlets, and failing to capture or measure their role in driving traffic to the physical stores.

When retailers manage their operations holistically across all channels, and treat their website not just as a sales outlet but as a way to get laser focused on a consumer, they can begin to catch up with consumers instead of lagging behind. By providing detailed information on what is available on a unit by unit basis, retailers can push people to the local store, helping guide them to the bricks and mortar location with the products that they are looking for. Retailers are beginning to learn from this by designing websites that actively encourage quick and efficient online research, and making it easy to translate that research into either an online or local store purchase. Features like wish lists or the ability to book an appointment to view an item in-store can help build the same bridge. Other best practices for retailers include personalized recommendations, augmented product information and product reviews, and rapid checkout.

This consumer-facing activity needs to be supported by an organizational structure that integrates the two different operations and forces them to work together collaboratively. Retailers face significant challenges in integrating their online, catalog and in-store operations. They have to synchronize multiple databases (e.g., customer, sales, inventory, financial, etc.), deal with disaggregated merchandising and inventory management issues, disparate customer operations, and varying IT systems throughout the operation, just to mention a few. The process should start with a consumer-centric focus as well as an organizational commitment and structure that are receptive to change, starting from the tone at the top. Multichannel embraces the whole business – it *is* the business – so if anyone is responsible for managing or overseeing it, it should be the CEO. Some businesses have further honed in on the importance of multichannel by creating new positions, appointing multichannel directors to manage on-line sales. Some of the savvier operators have even devised roles with titles like digital director, with responsibility not just for e-commerce, but for marketing and social media. Still others are using the multichannel trend to push towards an "edge"-based organization where executives are empowered at the "edge" where the company interacts with the market, enabling the company to quickly adapt to market changes, which unarguably happen the fastest in the ecommerce and social media realms.[18]

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16 *The mobile and shopping*, Empirix and the Customer Experience Foundation, September 2011
17 *Experience Radar 2011: Insights for the US Retail Industry*, PwC, 2011
18 *The new digital economy: How it will transform business*, Oxford Economics and PwC, 2011

The role of the physical store is changing

A key issue for all retailers with large numbers of physical stores is the role those stores should be playing in a multichannel world and how that differs by country. Chinese online shoppers, for example, are embracing the online medium more quickly than shoppers from other countries, replacing the need for physical retail outlets. But no matter the country, retailers should consider the roles of their stores now and in the future. *Are they flagships for the brand? Are they a combination of flagship and technology emporiums, such as the Apple stores? Are they showrooms for product display, as is increasingly the case with white goods? What is the role of the retail store in the future?*

The most likely scenario is that stores will serve two distinct purposes. The first is as a showroom where customers come for inspiration, to browse and to physically interact with, and to road test the products. The second is as a convenient transaction point and as a customer service center where customers come to complete a journey started on the web or to seek service for products bought regardless of the purchase channel. In this second case, whether or not the customers' online research included "click and collect", the point is that they enter the store knowing what they want and what price they expect to pay. They are using the store simply as a vehicle for completing the transaction and getting personal assistance that they can't find, or isn't available, on the web. The critical importance of this customer experience served by retail stores shouldn't be underestimated. In a recent study, PwC found that 8% of premium shoppers are willing to pay to interact with the product/sales staff in-store.[19]

Recognition of these two distinct store roles will cause many retailers to segment their estates. There will be some flagship stores focused on the showroom function and, most likely, a larger number of strategically-placed smaller outlets, as is the case for the ultra-convenience end of the grocery category. Of course, the degree to which this dynamic plays out will also depend on geographic market and other factors. As we've seen, Chinese online shoppers already have less of a connection to physical stores than their Western counterparts — but it can be expected that as the multichannel model grows, and the technology-fluent generation comes into its real earning and key purchase power years, that consumer connections to physical stores will decrease in the US as well.

The degree to which physical stores become more tangential to retailers has ramifications for systems, warehousing and distribution. Depending on the category, retailers may need to stock less inventory in-store and maintain larger depots with smarter allocation systems. Whatever a retailer's product range, there's a need for greater transparency and more accurate real-time data, which has major IT and systems implications. There's no question that the costs and complexities of delivering a state-of-the-art multichannel operation are significant, but the stakes are high. Achieving such a state not only means survival, but the taking of market share from weaker competitors. Failing in this effort means losing market share to more savvy competitors.

The world is getting smaller: Local players beware

Our survey results show that within individual territories there exists a strong bias towards the most well-known, in-country, or home-based retailers. For example, the survey shows that the top ten retailers shopped across channels in the last 12 months include Walmart in the US (41% of local online shoppers) Argos (39%) and Tesco (30%) in the UK, and Taobao in China (34%).

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[19] *Experience Radar 2011: Insights for the US Retail Industry*, PwC, 2011

As it gets easier to buy across borders, and as some of the top multichannel and online-only players expand their offerings to more customers internationally, these local retailers could find themselves facing stiff competition. If these companies face increased risk, others have a significant new opportunity. There are whole markets that are ripe for expansion, including Australia, Russia and China, and we're already seeing international revenues growing significantly for some of the leading US and UK players, such as Amazon, Asos, JDSports, New Look, Next and Marks & Spencer. Furthermore, once a retailer has worked out how to do multichannel well in their home market, it's relatively easy to replicate in other territories, which could make these companies a significant competitive threat in their overseas markets.

Multichannel clearly offers significant risks and new opportunities for the retail sector as a whole, both for the pure online players like Amazon, and the more traditional retailers that also have a substantial online presence. The former may prove to be the winners in categories which can use an existing distribution network (like books delivered by mail), while the latter have real, if under-utilized, advantages in their store estate, if they can only work out the right way to use them.

Global retailing in 2020

The complete embrace of digital technology

As our global world, and in turn, our increasingly multichannel shopping world evolves, there are several trends that will permeate US shopping behaviors in the future:

- **Complete embrace of digital technology**: By 2020 retailers will have fully embraced the use of digital technology, including mining consumer data to better understand purchase behavior, fully employing social media, and leveraging two-way communication channels with the workforce, whether in-field, in-store, or during travel.

- **Heightened influence of social media:** Social media will influence a larger proportion of sales, driven both by consumers and emerging technologies like augmented reality, which enables consumers to "try on" products and share it with social networks for feedback.

- **Transformed supply chains:** Supply chains will undergo a complete transformation at the back end, leading to more home delivery, lower retail stock and less working capital, leading to greater efficiency and higher profitability.

- **New retail formats for the multichannel grocer**: The grocery retail business model will emphasize convenience, range, and efficiency and will be based on a combination of small ultra-convenient outlets throughout each market and larger mega-stores in large population hubs.

- **The inspirational brand**: Flagship store (like the Apple model) will be more prevalent in retail, emphasizing loyalty, excitement and innovation through highly knowledgeable staff, a high level of service, and state-of-the-art interactive experiences that allow the consumers to see, touch and feel the products.

- **The next-generation department store**: In 2020, the conventional department store will have evolved into an operation fronted by a small number of strategically-placed destination showrooms, which will showcase only the best-in-class items, but will also be able to arrange extremely swift and efficient delivery through online channels at the customer's preference.

- **Emerging markets will lead the way**: The burgeoning middle class in emerging markets will support the multichannel retail operators, especially online, and will drive innovations and new products that will flow back to the developed market. The leading-edge behavior of Chinese consumers observed in our study might well be a leading indicator of how other markets could develop, allowing them to leapfrog the traditional Western model.

In summary, our study shows the need for retailers to be adaptive and agile with today's digital technology and for them to embrace organizational structures that support multichannel sales, to offer a seamless — not siloed — multichannel shopping experience. They'll need to attract all potential consumers and to be consumer-centric by offering a differentiated value proposition and unique customer experience to build and maintain customer loyalty. We are facing an exciting retail environment with great rewards for those who can accurately read and align themselves with consumer expectations.

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