

Customers take control

*How the multi-channel
shopper is changing the
global retail landscape*

December 2011



Understanding how online shoppers are reshaping the retail experience

Rarely a day passes by that one of us doesn't have a conversation with a colleague or client about multi-channel retailing. The specific discussions run the gamut from the prosaic, such as the tax ramifications of selling online across borders, to the hypothetical, such as what the retail store of the future will look like.

But we always end up focused on global consumers' online behaviour. Consumers have amazing options at their fingertips: information, services, and – not least – the ability to shop from anywhere via any number of personal technology devices.

The question for retailers over the next three-to-five years is how online shopping behaviour will continue to evolve. Retailers can glean some valuable information from their own customer data, but that doesn't shed light on how millions of other shoppers are behaving.

That's why we undertook this effort to study the habits and preferences of online shoppers from eight different markets, including the U.S, China, Hong Kong, Germany, France, the UK., Switzerland, and the Netherlands. If we can help our consumer and retail clients spot burgeoning trends in the data, they will have a better chance of identifying patterns and planning

their response. Our findings have both surprised us – for example, many more global online shoppers are following brands using social media that we would have thought – and confirmed much of the anecdotal evidence our teams have been seeing across the eight markets covered by the survey.

One of the biggest overall conclusions is that consumers are leading the way in multi-channel shopping, with many retailers lagging behind in terms of meeting their needs. Today's global retailers have a huge opportunity to enhance the mechanisms necessary to keep up with shoppers who are demanding more customisation in terms of delivery and returns, product choice, and number of channels from which to choose.

To increase the value of this paper for our clients, we've taken the liberty of leveraging the insights from our data to make several observations about how retailers can better support their online customers – and attract new ones. For instance, we note that retailers need to become far more innovative with their online presences; reboot their physical formats to emphasize quality and customer enjoyment, not price and selection (which is typically researched online); and align themselves with how the growing middle classes in emerging markets research and shop for products.

There's much more inside this report and please also visit our website, www.pwc.com/multichannelsurvey.

Thanks for reading, and we hope you find the report highlights insightful.

Best regards,



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Introduction



Our findings are based on the most comprehensive research of global multi-channel retailing that PwC has carried out. Some of the results have surprised us and some have confirmed much of the anecdotal evidence our teams are seeing across the eight markets covered by the study. This report is based on both the data we have collected through our survey, and our deep experience supporting clients in the market.

It's clear that multi-channel shopping is not just here, but here to stay. The single biggest conclusion from our study is that consumers are leading and shaping this trend, with retailers lagging behind. There is a remarkable consistency in consumer behaviour across regions and demographics, as well as between developed and developing markets. The global consumer is becoming increasingly sophisticated and retailers cannot adapt their operating models at the same pace.

Closing the gap requires a significant increase in agility and flexibility by retailers, driven by deeper understanding of their customers. This requires changes to the ways they track and measure consumer behaviour, market

their products, run their stores, and manage their supply chains. The successful business model of the future will be different from that of the past. The winners will be those who have recognised these trends and are building agile organisations capable of delivering a consistent profitable proposition in a multi-channel, multinational way. It's no place for the faint-hearted.

Defining multi-channel shopping

What exactly do we mean by multi-channel shopping? There are, in fact, three different types of activities that multi-channel shoppers typically engage in. The first and most common type is spreading shopping across a number of different channels, choosing the one that works best for a particular occasion or type of purchase. A huge 86% of our respondents are already shopping across at least two channels, and 25% are using four or five.

Another variant of multi-channel shopping is buying goods from the same retailer but doing it across more than one channel. Seventy-six percent of our respondents have done this in the UK, over 70% in Germany and the Netherlands, and even in the market

where shoppers least shop this way – Hong Kong – the percentage registered at 45%.

The third kind of multi-channel shopping is using a range 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 research online before they buy electronics, computers and books, music, and movies. Fully 60% research online when buying clothing and footwear, toys, and health and beauty products. In other words, online research doesn't just lead to online purchases, it's also critical in driving traffic to physical stores.

Our starting point

In conducting our first global study of online shoppers, we wanted to discover how certain markets around the world were experiencing the migration from single to multi-channel retailing. Current research and forward-looking forecasts on the subject suggest that this dynamic has been in place for some time and is set to continue. According to Forrester Research, more than 40% percent of the population in Western Europe

1. Online research was chosen to enable PwC to carry out a wider study than would have been achievable by a telephone methodology, with more robust numbers to provide a solid foundation for analysis of consumer multi-channel shopping behaviour in different territories. The online panels used are localised and in local language to ensure broad reach to those that are more inaccessible. The panels are used for research only and checks and balances are put in place to ensure that respondents are who they say they are, that they are demographically representative (by age, gender, region, etc), and that respondents are appropriate for the purposes of the study. The research was carried out under the MRS code of conduct, as well as equivalents in each other territory internationally. The caveat of conducting the research using this methodology is that those respondents who respond are more likely to be digitally-savvy, in their shopping and other behaviours. However this is a constant across all the territories in which research was conducted. Results are likely to have inflated the figures for familiarity and expertise with online shopping.

2. For the purposes of this report, we have considered Hong Kong as a separate market within China. We have identified some points specifically for Hong Kong where the results have particularly stood out.

3. Forrester Research Inc.

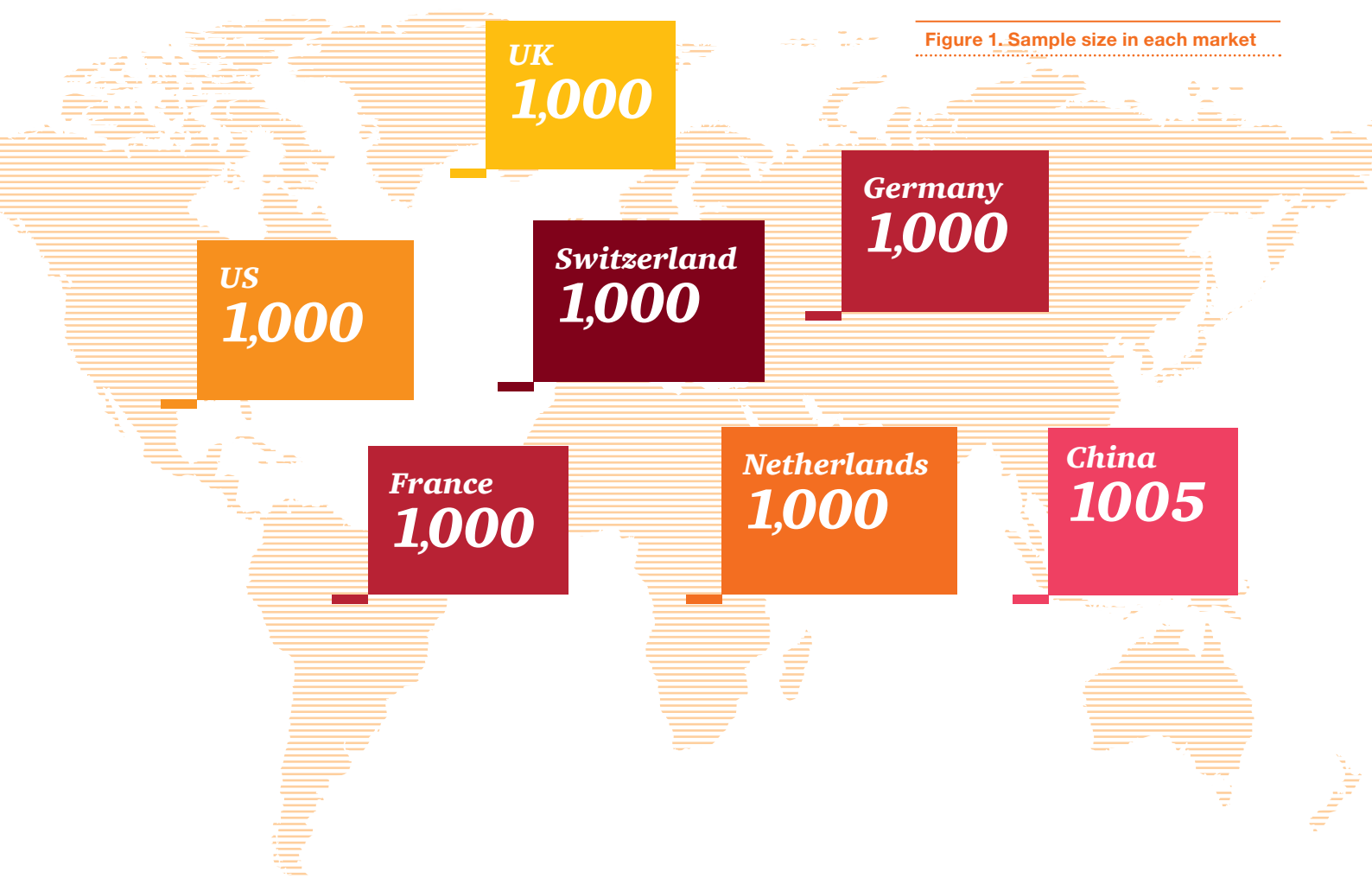


Figure 1. Sample size in each market

purchase goods online. Germany, Switzerland and France all report figures showing more than 50% of consumers do so. Moreover, this trend is set to continue, with the European average set to rise to 49% by 2015.³ Markets such as the UK and the Netherlands are likely to see figures approaching 70%.

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

was twofold: what's the picture in other key geographic regions, and how should both global and domestic retailers in those countries respond?

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

Methodology

PwC commissioned 7,005 online surveys¹ across three continents covering eight markets² in August and September 2011. Respondents in each market were chosen to reflect the national profiles in terms of age, gender, employment status, and region.

Product categories

- Grocery
- DIY
- Jewellery/watches
- Furniture and homeware
- Sports equipment/ outdoor
- Toys
- Health and beauty
- Clothing and footwear
- Computer
- Electricals and electronics
- Books/music/movies

What we discovered

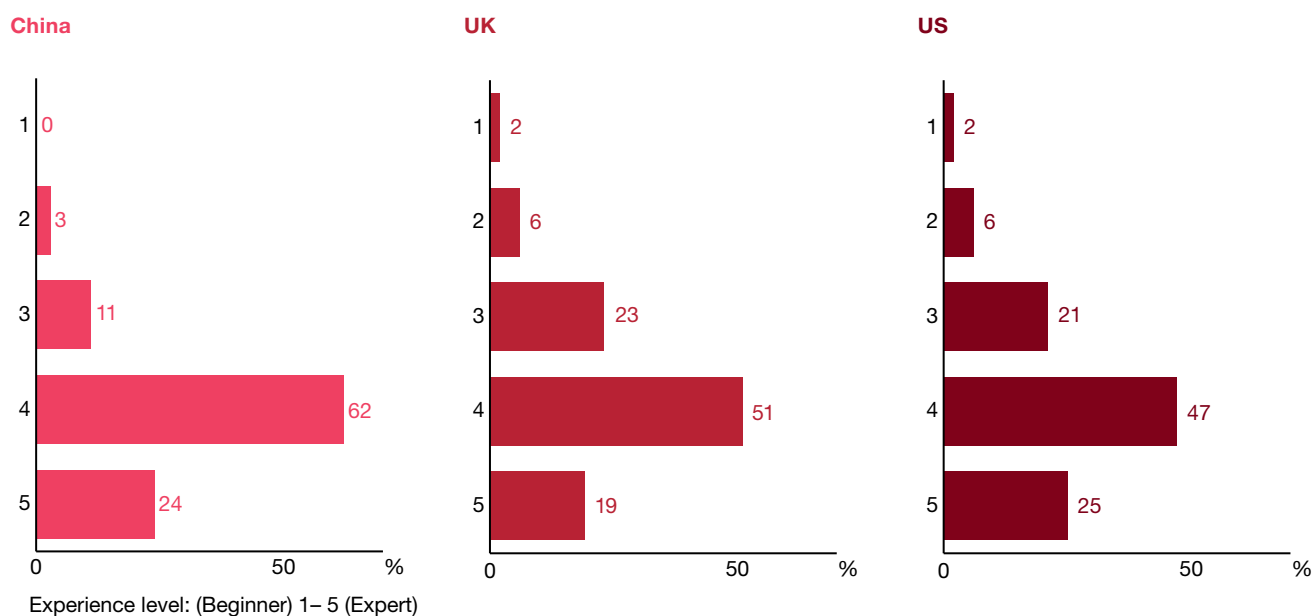
A world rife with online experts who purchase across all product categories

One of the findings that stand 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 via the Internet. In fact, 69% of our respondents consider themselves to be either ‘confident’ or ‘experts’ in this regard. In China, for example, the proportion of these ‘expert’ shoppers was highest, at 86% 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.

Staying with this theme of online customer expertise, one area where there was a striking consistency was the great breadth of consumers’ online shopping: 40% said they shopped online in all 11 categories we studied (see page 5). This figure was broadly the same across all the developed markets, but once again consumers in China were the most committed online shoppers, with 62% of those questioned shopping across the whole range.

Fig 2. 86% of the Chinese sample consider themselves accomplished online shoppers



Q3. How sophisticated an online shopper do you think you are?

Base: 7,005

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

90%

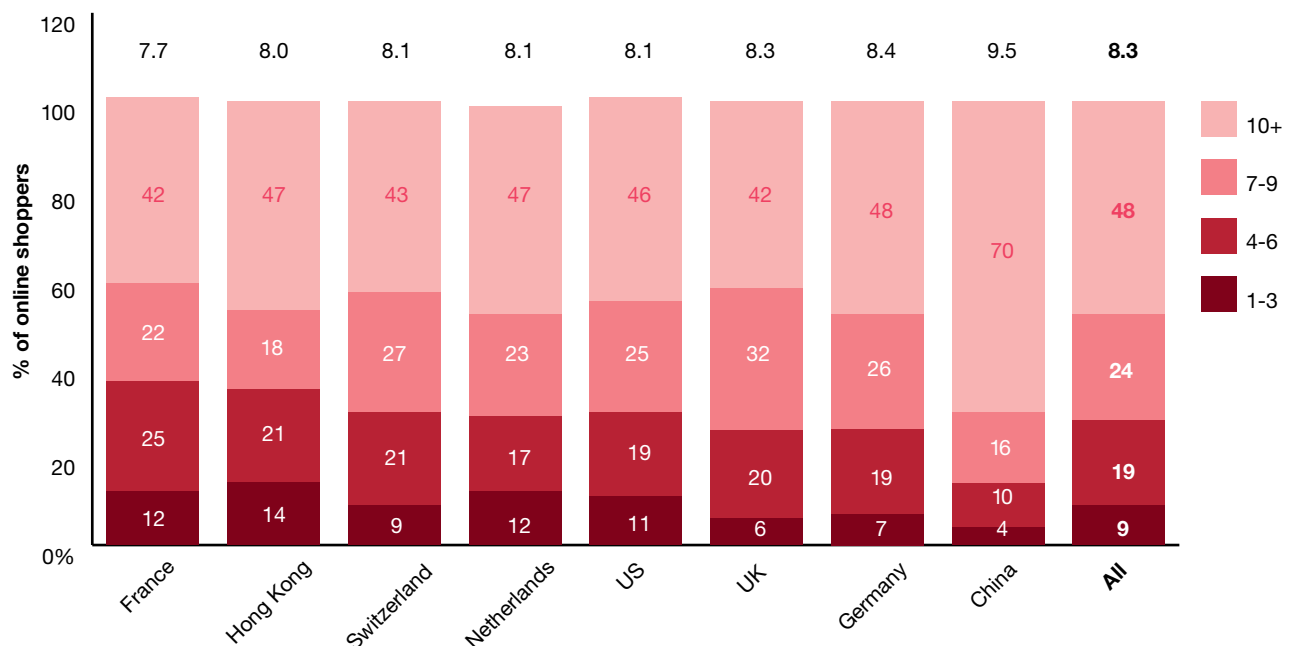
of online shoppers buy books, music and films, and clothing and footwear online.

Taken overall, more than 90% of online shoppers buy books, music and films, and clothing and footwear online. Even the categories at the bottom end of the scale, such as jewellery, watches, sports equipment and outdoor goods, attract over 60% of online shoppers.

While generally our findings show that there is a great deal of consistency in online shopping behaviour around the world, online shoppers in China are unique in several ways, most noticeably in that they shop online

more often than their peer groups in other countries. In China, around 70% of our survey respondents shop online at least once a week, compared with around 40% in the US and UK, and around 20% for the Netherlands, France and Switzerland. Figure 4 shows how online shoppers in China, in particular, dwarf those in other countries in terms of how often they shop online on average per month.

Fig 3. Number of categories shopped online in last 12 months



Categories: Grocery, DIY, Jewellery/watches, Furniture and homeware, Sports equipment/outdoor, Toys, Health and beauty, Clothing and footwear, Computer, Electricals and electronics, books/music/movies

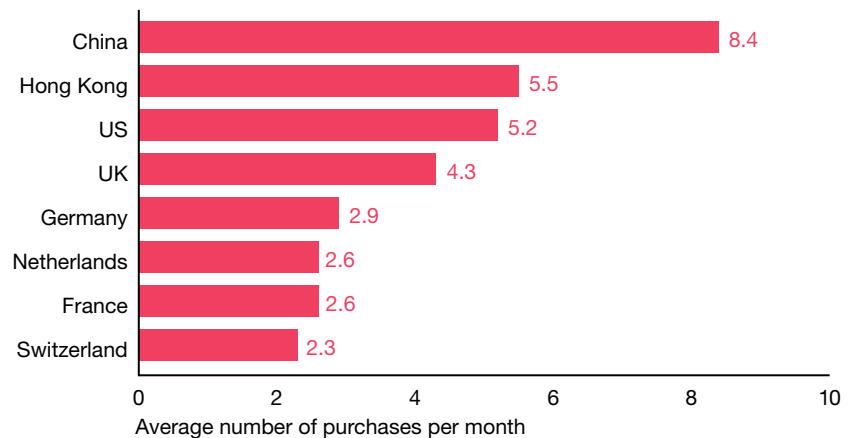


22%

*of online shoppers
made their first online
purchases within the
past year.*

While Internet shopping may have gone mainstream, plenty of online shoppers are relative newcomers. Across the world, 22% of our sample of online shoppers made their first online purchase within the past year. In the UK, this category of online shopper almost doubled from 2010, to 14%. The still fast-growing rate of online shoppers around the world is one of our more surprising findings, and indicates plenty of room for online retailing growth as more and more consumers around the world get connected.

Fig 4. Chinese consumers are shopping online nearly 4 times as often as their European counterparts



Q1. How often do you shop online?

Base: 7,005

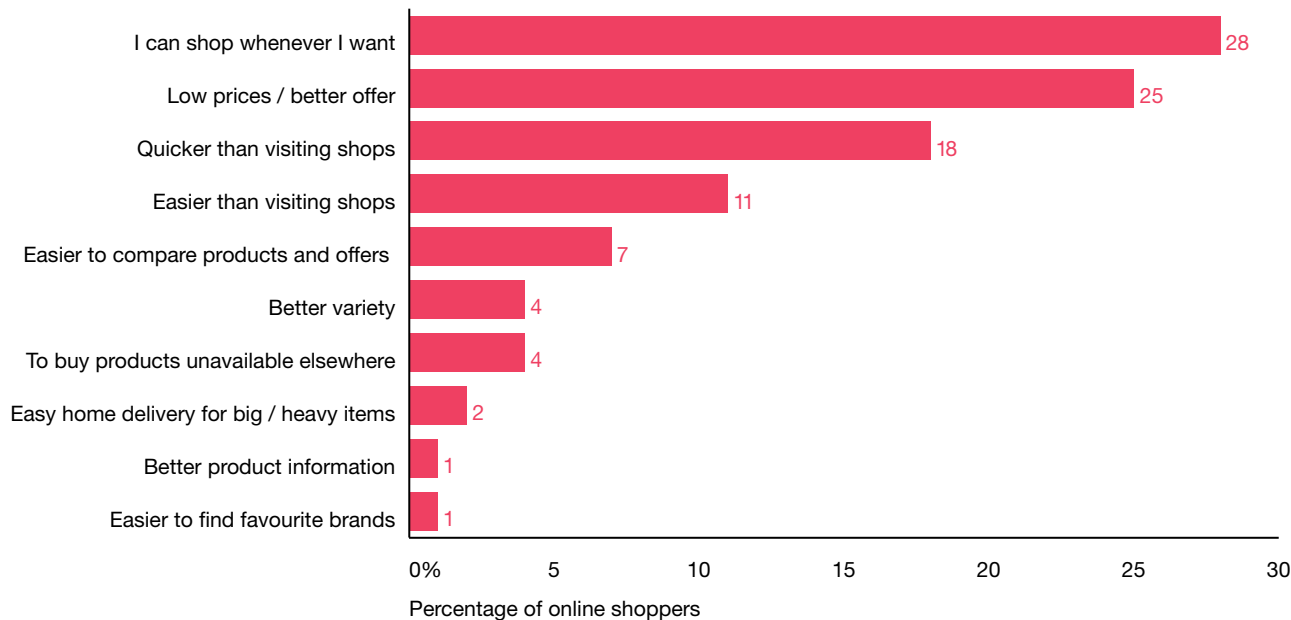
The popularity of online shopping is rooted in many factors

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 has settled on price as the driving force for the growth of online shopping, and, indeed, it does feature among the top three reasons cited by

our survey respondents. Interestingly, however, the top factor given is 24/7 access to shopping, cited by 28% of the online shoppers we surveyed. Online shopping, it seems, is all about freedom, being able to shop wherever and whenever you want. As for selecting a specific online outlet, the key factors are reasonable pricing, free and fast delivery, and a wide range of products from which to choose.

24/7
access is the most important factor that attracts online shoppers

Fig 5. When it comes to online shopping the convenience factor rules



Q4. What is the most important factor that attracts you to shopping online? Top mention
Base: 7,005

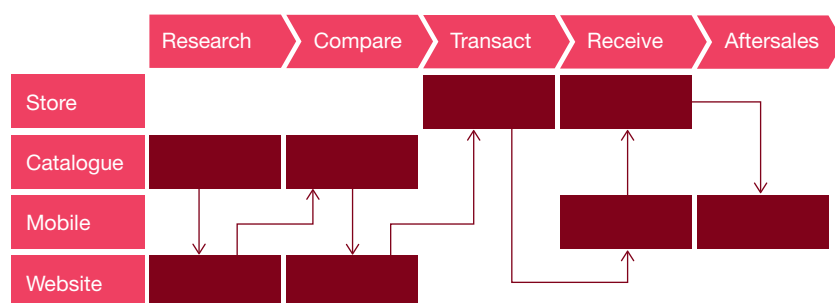
The desired multi-channel purchase “journey” is consistent from market to market

Online shopping has opened up huge new choice 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, which might include product delivery, maintenance, and return.

As figure 6 shows, understanding multi-channel is about breaking shopping down into a journey that starts with research and comparison, crystallises 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 stores to online with home delivery to online with store-pick-up. Moreover, online shopping offers its own suite of sub-channels, from the iPad to the mobile phone to the PC.

Multi-channel shopping behaviour may be very consistent across age, demographic and nationality, but when it comes to product category, distinctive patterns emerge. In some categories, consumers still prefer to shop via a single channel, either wholly online, or wholly in-store. For example, 49% of multi-channel shoppers prefer to shop for groceries in-store, while at the other end of the scale, 59% research and buy their books, music and films online. Category data also illustrates that for some categories, consumers shop across multiple channels, the most notable being electronics and furniture/homeware.

Fig 6. The customer purchase journey – online shopping has increased the options



Certain geographic markets have widely disparate online retail presences in certain categories. For example, more than 60% of the online shoppers we surveyed in China say they research and purchase clothing and footwear online, compared to just 23% of our Dutch respondents.

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 from country-to-country?

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 been quick enough to create efficient multi-channel models, consumers are working it out for themselves, using different channels in ways that best suit them. In essence, consumers are creating their own multi-channel experiences by leveraging multiple retailers across a single category or product.

Keeping up with multi-channel shoppers is getting more complex

Take the clothing category. Almost a third of our respondents said they prefer to research and purchase clothing online, but this puts an onus on the retailer to manage the returns process. If items don’t fit they get sent back, so the retailer needs a model that can handle this kind of transaction in a seamless manner, particularly if it involves returning goods to another country. In short, consumers want simplicity, but that’s translating into far greater complexity for retailers. Most consumers are not wedded to any one channel, but most retailers certainly are.

More than
60%
of Chinese consumers
research and
purchase clothing
and footwear online
compared to just 23%
of the Dutch.

The Holy Grail for retailers – most-favoured status

Multi-channel consumers are consolidating their shopping destinations

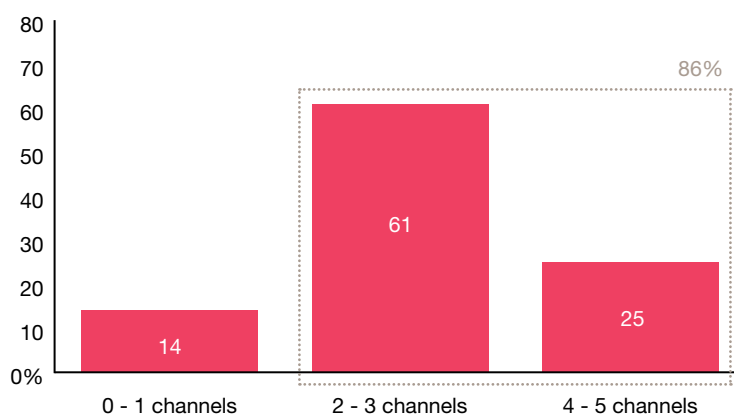
It's clear from our study that there is no magic formula for a successful multi-channel operation. Those retailers getting it right are doing so in a variety of different ways, but one factor unites them: a deep understanding of their customers. The leading multi-channel players in the different geographic markets 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.

This seamless experience is vital, because our study indicates that for many consumers, multi-channel shopping is leading to the development of personal portfolios of favourite stores, which attract a higher proportion of that individual's spend.

It's achieving this 'most-favoured retailer' status that will be a key success factor in the future. This is because consumers are clearly consolidating spending amongst these preferred retailers, who tend to be the ones that are managing their business in a genuinely integrated way.

For example, according to our data, 86% of our global sample shopped across multiple channels with five retailers or fewer. By country, online shoppers in China and the UK have the largest retail portfolios, shopping with 3.2 multi-channel retailers, compared to 2.5 for all respondents. While delivering a seamless experience requires discipline and investment on the part of retailers, 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 could accelerate very quickly.

Fig 7. Multi-channel shoppers develop trusted favourites



Q11a. For each of the following categories, what methods do you use for BUYING your selected items? Please tick all that apply.

Base: 7,005

It's achieving this most-favoured retailer status that will be a key success factor in the future.

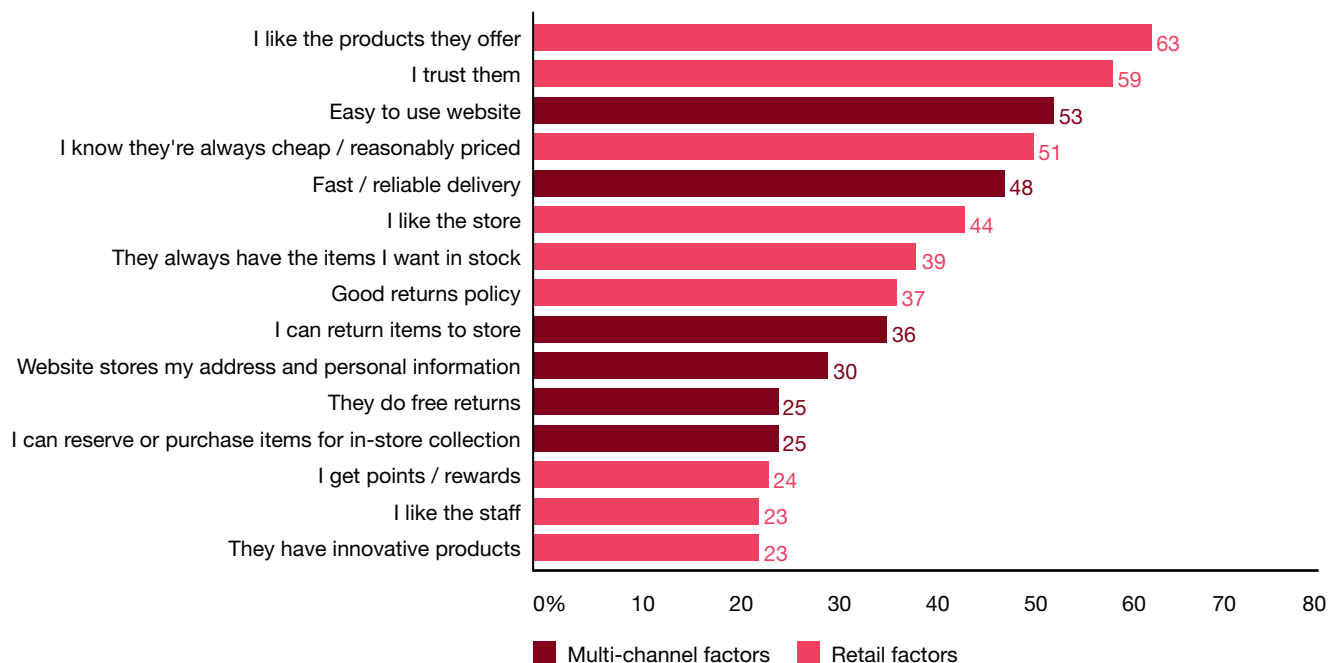
How retailers try to set themselves apart

Looking at the data as to why certain stores become customer favourites, the reasons given are strikingly conventional. The top reasons cited by our sample are product (63%) and trust (59%), factors which are core to any retail operation, online or in-store. It's only at reasons three and five that specific multi-channel factors come into play: a user-friendly website at 53%, and efficient delivery at 48%. Intriguingly enough, there are no factors on the list relating to social

media, even though this trend has absorbed a lot of the big retailers' time and mind-space over the last few years.

For individual retailers, though, a much more varied pattern emerges from our survey, one that gives significant clues as to how the successful players are making multi-channel work for them. For example, Apple has built its success on innovative products and marketing, and our survey shows that its loyal shoppers are much less influenced by price.

Fig 8. Traditional retail factors for success are also critical for multi-channel retailing success



Q15. What attracts you to your favourite multi-channel retailer?
Base: 3,906 – all who selected at least one top retailer

Apple has built its success on innovative products and marketing.



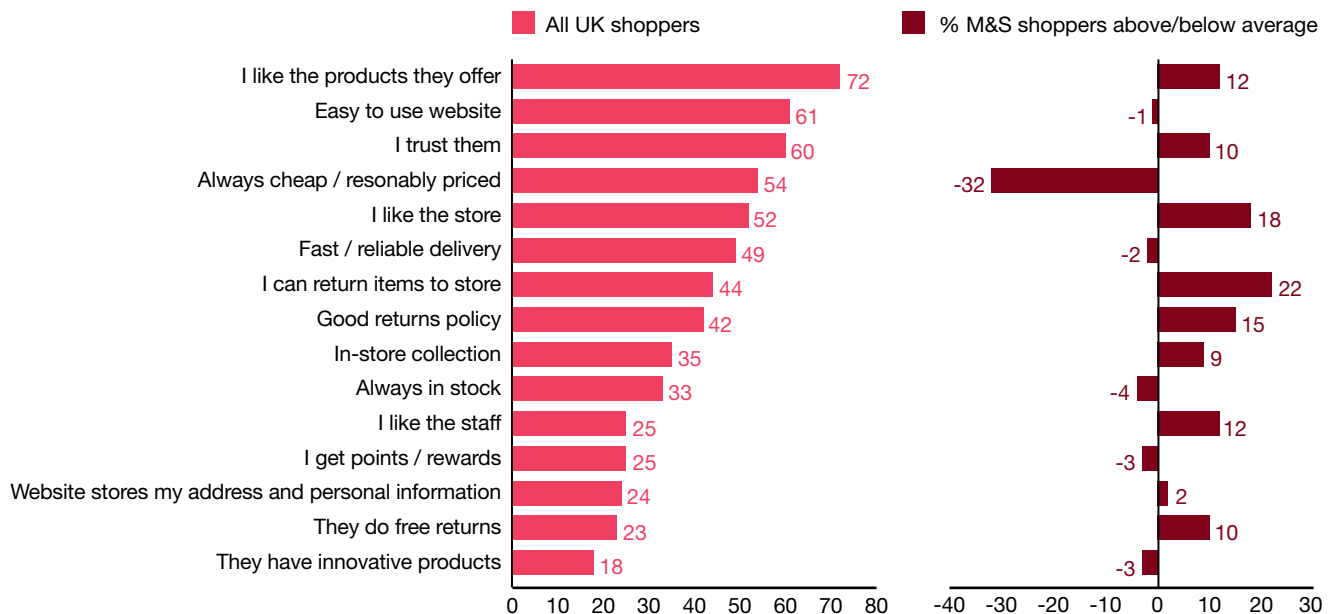
In the UK, Argos still has a genuine competitive advantage in its reserve and collect operation, and shoppers like its prices. But it is clear that its product range, quality of physical stores and delivery are not as attractive to shoppers. Tesco attracts loyal customers with its prices and its reward points programme, but again is not attracting customers with its product range. The company has huge numbers of loyal customers who want to consolidate their spending with Tesco, and would probably buy more with a more compelling product offerings.

Figure 9 below shows how Marks & Spencer scores highly on intangible qualities like trust, as well as operational factors like ease of returns and quality of both stores and staff. The key point here, though, is how little Marks & Spencer shoppers focus on price. It is the brand that consumers identify with and trust.

In France, Fnac gets high marks on trust, product range and the quality of its stores from our respondents, despite a reputation for high prices. Interestingly, two of the other four top multi-channel operators in France are former catalogue operators that have successfully made the transition to

online shopping. Both 3 Suisses and La Redoute benefit from an appealing website, and efficient delivery and returns. The number four retailer, Yves Rocher, a health & beauty retailer, has built its success on a broad range of positive factors including price, delivery and availability, all supported by its unique product. Returns policies are much less important to its customers, as the consumer need for returns is far lower in cosmetics than in other categories such as clothing & footwear. But in the cosmetics sector this is far less significant than in a category such as clothing and footwear.

Fig 9. Marks & Spencer scores above average on many factors



Q17: what attracts you to your favourite multi-channel retailer?

Base: Those who stated M&S is one of their favourite multichannel retailers. M&S shopper sample size = 102

Fig 10. Tchibo scores above average in specific characteristics important to customers, resulting in its position as favourite in Germany



Q17.What attracts you to your favourite multi-channel retailer?

Base: Those who stated Tchibo is one of their favourite multichannel retailers. Tchibo shopper sample size = 92

It is interesting to note that in the results for Germany, as compared to other countries, department stores don't feature in the top ten multi-channel retailers. This might be because neither Kaufhof nor Karstadt – two of the leading department stores – have offered a truly integrated multi-channel online service.

Tchibo, one of Germany's largest retailers, and top-rated by Germany's online shoppers we surveyed, wins over its customers with a good selection of affordable products, fast delivery and an easy-to-use website.

Customers in different markets

So what are we to deduce from these results? It's evident that the online shoppers in almost every country we surveyed go through a similar purchase journey, using the same multiple channels across product categories. But it is notable that the reasons for using the channels differ between countries. The implication for retailers wanting to expand to new markets is that they need a value proposition that is broad and deep enough to meet the customer needs in those different markets.

Achieving 'most-favoured' retailer status, regardless of which country a retailer is located in, is all about knowing what customers value and delivering that experience effectively and seamlessly across all channels. But that's not enough on its own. Retailers also need to get the basics right across the whole value chain: Brand, product, price, and delivery. The same factors that make retailers successful in stores make them successful across multiple channels.

Becoming a favoured retailer is one route to multi-channel success, but it's only part of the picture. The players who will win in a multi-channel 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, but to drive traffic to the physical stores.

Multi-channel management

Managing the online side of a multi-channel business is still a real challenge for many traditional retailers. Unlike a bricks and mortar shop, you can't just open an online site – however appealing – and expect traffic. There is no Fifth Avenue, High Street, Champs-Elysees, or Nanjing Road to attract shoppers. Online customers arrive at a web site 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 optimisation, pay-per-click electronic and email promotions, and good old-fashioned word of mouth. The fact remains, however, that many traditional retailers are not organised to link these activities, and lack the vision and digital talent required to do this effectively.

Multi-channel marketing demands a reconsideration of existing channels and costs, so retailers

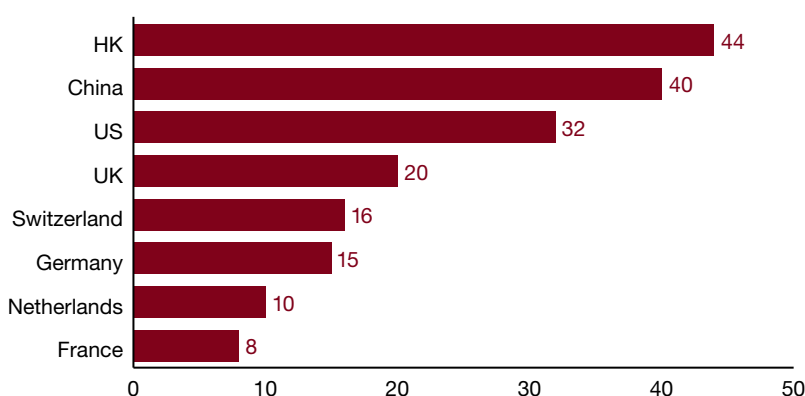
can have all the information when they make what could be very expensive decisions. For example, pay-per-click advertising may look good in theory, but it can be very expensive for certain popular key words, and can even end up generating a loss. The key point here is that e-commerce is driven by direct marketing, and there's often a dearth of the right skills and experience in traditional store-focused marketing teams.

Multi-channel marketing demands a deep reconsideration of existing channels and costs

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 very 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, particularly in the US and China, including Hong Kong. In Hong Kong, 44% of our survey sample followed specific brands or retailers. In China that figure was 40%, and in the US 32%. So while online shoppers aren't quite yet ready to purchase items through a social media site, they are clearly using the medium to research and follow brands they love.

Fig 11. Percentage of online shoppers following brands through social media



Q24. Do you interact with brands online through social media?
Base: 7005

The implications for retailers



Even reasonably competent multi-channel retailers are still managing their web operations solely as sales outlets.

Focus on the consumer

It's clear from our study that retailers are lagging, not leading, the multi-channel trend. Some are more advanced than others, certainly, but there are still some businesses that define 'customers' as people who are in their physical stores. A consumer brand like Apple, by contrast, is focused ruthlessly on the consumer. They don't mind which route consumers take, as long as they arrive.

Some retailers, particularly those that started life with bricks and mortar, have inherited business models and cultures focusing entirely on running an efficient shop operation, and may not be as flexible when the need arises to accommodate new consumer demands. For example, many retailers lack a central database for managing customer information across channels. Change is hard, not just in operational and commercial terms, but because it requires new organisational structures, new governance systems, and new incentives.

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 ranges or prices throughout a retailer's different channels, undermining the web's role in allowing customers to research prior to visiting the store. Even reasonably competent multi-channel 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.

Ikea is one retailer that understands this. The company's website is perfectly geared to push people to their local store, providing detailed information on what's available, on a unit by unit basis. Other retailers could 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 website best practices for retailers include personalised recommendations, augmented product information and product reviews, and rapid checkout.

This consumer-facing activity needs to be supported by an organisational structure that integrates the two different operations and forces them to work collaboratively together. Likewise, budget and incentives need to be allocated to the online outlet based not only on sales, but on the traffic it drives to the physical store. Some retailers appoint 'multi-channel directors' in response to these challenges, but in our view that misses the point. Multi-channel embraces the whole business – it is the business – so if anyone's running it, it should be the CEO. By contrast, some of the savvier operators are now devising roles with titles like digital director, with responsibility not just for e-commerce, but for marketing and social media.



Multi-channel embraces the whole business – it is the business.

In many cases this is not just a major commercial shift, but a significant cultural change, and that degree of transformation cannot be achieved either cheaply or overnight. Getting multi-channel right has the potential to be both a significant differentiator and a major competitive advantage for those retailers who can achieve it. But that means having the business model, the data, and the consumer insight to target the right consumers, in the right way, through the right channel.

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 multi-channel world, and how that differs by country. Chinese online shoppers, for example, embrace the online medium more quickly than shoppers from other countries. Even though online shoppers in China are relative newcomers in terms of average number of years since their first online purchase, they have the highest level of perceived expertise and shop more frequently than our other surveyed markets.

So for China and other markets, retailers should consider the roles of their stores now and in the future. Are they flagships for the brand, as Apple stores are? Are they showrooms for product range, as is increasingly the case with white goods?

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 the products. The second is as a convenient transaction and collection point, where customers come to complete a journey started on the web. In this second case, whether the customers' online research included click and collect or not, 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 way of completing the transaction.

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 already seen, Chinese online shoppers already have less of a connection to physical stores than their Western counterparts.

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 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 multi-channel 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 the effort means losing market share to more savvy competitors.

The world is getting smaller: Local players beware

Our survey results show that within individual markets there exists a strong bias towards the most well-known retailers based in those respective countries (see figure 12). 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%).

But as it gets easier to buy across borders, and as some of the top multi-channel 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.

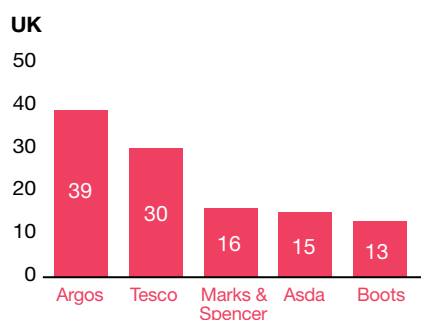
There are whole markets that are ripe for expansion, including Australia, Russia and China, and we're already seeing international revenues growing significantly for some of the leading US and UK players, such as Amazon, Asos, JD Sports, New Look, Next and Marks & Spencer.

Likewise, once a retailer has worked out how to do multi-channel well in their home market, it's relatively easy

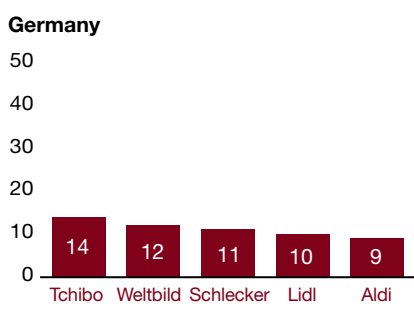
to replicate this success elsewhere, which could make these companies a significant competitive threat in their overseas markets.

Multi-channel 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 post), while the latter have real, if under-utilised, advantages in their store estate, if they can only work out the right way to use them.

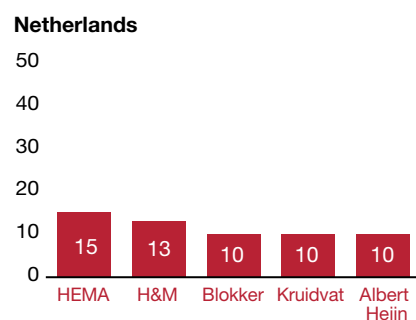
Fig 12. The online shoppers we surveyed overwhelmingly favour well-known domestic brands



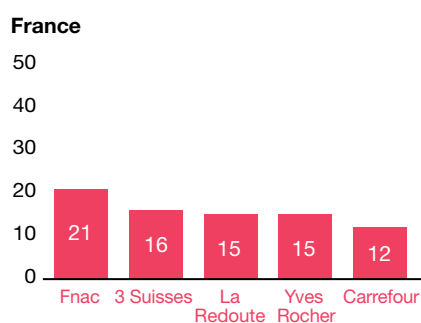
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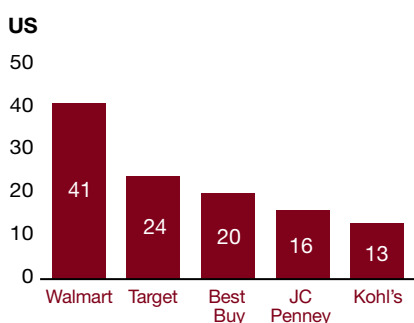
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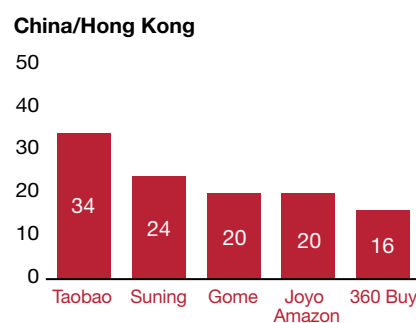
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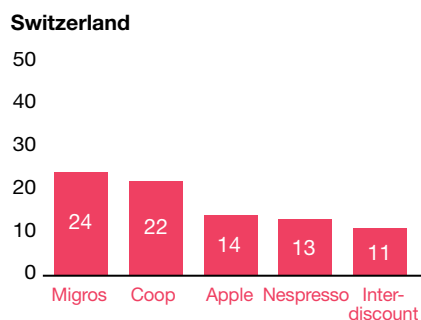
Base: 584



Base: 525



Base: 607



Base: 649

Q14. Of those you have chosen [purchased with through multiple channels], what are your favourite multi-channel retailers/brands?
Base: All consumers who selected at least one favourite retailer

Global retail in 2020

Customisation, innovation and efficiency

The global nature of this year's study allows us to make some broader forecasts for the future. Let's start with the implications for the way retail works.

Customised retail

By 2020 retailers will use all the resources of graphics, video, interactivity, and personalisation to enhance the consumer experience. They may well be more collaborative too, working with compatible associate brands – or even competitor brands – to create virtual shopping malls.

As online evolves, so too will mobile, with new tools designed to support the consumer's purchase journey, from research, to store navigation, to in-store ordering, and a richer, fuller integration with social networks.

Online retailers will become much more sophisticated in how they help customers navigate increasingly large assortments. Allowing the customer to move easily from viewing a category assortment of perhaps 200 products, to identifying the three most suitable for them, will become a key differentiator for the successful multi-channel retailer.

Social media will influence a larger proportion of sales, driven both by consumers, who will become much more active in sharing their buying preferences among their friends, and by retailers that will have become much cleverer at exploiting and targeting their followers and fans and using that interaction to drive sales. As the different forms of media converge, it will be possible to target marketing and advertising far more precisely.

Transformed supply chains

At the back end, supply chains will have undergone a complete transformation. More products will likely be delivered to homes, and online ordering and in-store pickup will also gain in popularity, enabling streamlined and free returns.

In addition, the hard work of consolidating stock will happen far more often at warehouses, rather than stores. For retailers this will mean less stock and less working capital, leading to greater efficiency and higher profitability.

And what about the different retail formats? Let's look at a few possibilities.

The multi-channel grocer: convenience, range, efficiency

In 2020, big grocery chains like Tesco, Carrefour, Auchan, and Walmart will have established a commanding position, not only in food but in many other categories such as electronics and toys, where the specialist competitors are all but extinct.

The business model will be based on a combination of small ultra-convenient outlets throughout each market, as well as larger mega-stores in large population hubs. Home delivery in one-hour slots will be a key aspect of the operation, with an even wider range of both food and non-food online than in-store, and click and collect available for both at the local convenience stores on a 24/7 basis. The customer-facing website will be slick, efficient and highly trusted, selling not just products but services too like insurance, travel and photo processing, that consumers will be compelled to buy in order to gain reward points. Companies will be effectively mining and analysing – in real-time – the flow of customer data.



***The inspirational brand:
loyalty, excitement, innovation***

Brands like Apple and Abercrombie & Fitch will still be flourishing in 2020, building enormous followings of loyal customers. Their model is grounded in a small number of flagship stores designed to allow people to touch, see and feel the brand with great staff, a high level of service, an outstanding designed space, and state-of-the-art interactive experiences. These stores will be able to take orders, but most purchases will take place online via dedicated mobile phone and tablets apps.

***The next-generation department
store: service, quality, enjoyment***

In 2020 the conventional department store will have evolved into an operation fronted by a small number of strategically-placed showrooms. Around half of all sales will be conducted in these showrooms, which showcase only selected highlights of the range available online. The showrooms likewise will hold little stock, but will be able to arrange extremely swift and efficient delivery. The defining characteristic of the whole product range is selection, because the retailer has tapered down the breadth of choices to just the best-in-class items.

The showroom itself will be deliberately designed as a destination in its own right, with live demonstrations, expert advisors, and personal shoppers available. The website will support customers in between store visits in a variety of ways, whether for making a purchase, requesting after-sales service, or researching products. There will be parallel mobile and tablet apps designed to drive traffic to the stores by highlighting upcoming events and showing video and other promotional material.

We've seen the multi-channel future, and it's China

We were surprised there was such uniformity in the study results across the world. But Chinese online shoppers, including those in Hong Kong, had markedly different survey responses than online shoppers in other countries.

First, Chinese multi-channel shoppers in our survey purchase a far higher proportion of their purchases online than do our respondents from other countries, and do so across all categories. For example, according to our survey, they purchase about 60-65% of their clothing, footwear, books, music and films online. The comparable figures for the rest of the markets are around 35-45%. They also lead the way in going direct to brands, with around 60% online shoppers in China having bypassed retailers to shop online directly from the brand.

This compares with 36% in the UK and 31% in Germany.

Moreover, mobile shopping is significantly more popular in China, as mobile phone usage and network access have outpaced broadband roll-out. It looks very much as if China is skipping the 'online by PC' phase and moving straight to handheld devices.

Social media certainly is one of the big stories in China. According to our survey, Chinese online shoppers use social media (90%) far more than those in other countries, so it follows that social media has a relatively bigger impact on their purchasing decisions. Simply put, retailers targeting the Chinese shopper – whether based in China or abroad – should do so through social media, not traditional channels.

The new catalogue category: helpful, handy, at-home

Gone will be the cumbersome paper catalogues so expensive to distribute. Instead, customers will receive a dedicated tablet computer designed for sofa-based browsing and one-click buying. Catalogue retailers will update their product range on a real-time basis, and there are a number of support features such as live web-chats, advice on accessorising, and a parallel TV channel designed to build the brand and generate excitement.

There will be local stores in some key locations and a larger number of local collection and return points – some operated by third parties – to manage deliveries and accept returns.

If these could be some of the winners, what about the losers? Certainly those facing the highest degree of risk are bricks and mortar specialists in categories already in the process of moving wholly online. Books, music, electronics and toys will be the obvious sectors. There will still be physical store estates offering clothing, furniture and jewellery, but the department stores and grocers will provide ever-fiercer competition.

Emerging markets will lead the way

This could indeed be a vision of the future in mature markets like the US and UK, but it could start much quicker in emerging markets, especially those that don't already have a hefty retail infrastructure.

Not needing a significant physical presence would make the cost of entry into those markets much lower, and could have significant implications both for domestic operators and those international companies looking to build a presence there.

The behaviour of Chinese consumers observed in our study might well be a leading indicator of how markets like Brazil, India, Indonesia, and South Korea could develop, allowing them to leapfrog the traditional Western model. In 2020, in these markets, it won't only be about developing shopping centre, or distribution networks; it will be a brand new retailing world, and a very mobile one at that.

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