

Pick 'n' Mix

Meeting the demands of the new multi-channel shopper

Our fifth report on new and emerging developments for retailers and consumer goods companies.

12 April 2011



Remember Pick ‘n’ Mix? For many of us the phrase evokes fond memories of childhood shopping expeditions, but even if the sweet counters have changed out of all recognition the idea of ‘having it your way’ has never been more current than it is now. What’s driving this is, of course, the internet, which is making it possible for people to shop for exactly what they want, when they want, and how they want.

PwC¹ has been doing surveys of online shopping since 2007 examining new and emerging retail developments in the digital space. Since then, the value of online retail has increased rapidly to reach almost 8% of the total retail market, with growth expectations of around 10% per year. We interviewed over 1,000 consumers in the last quarter of 2010, and it’s clear that we are now seeing a significant new pattern in consumer behaviour. While it’s certainly true that there continues to be an increase in the amount of goods being bought online, the overall trend is now becoming more mature and more nuanced, and new themes are emerging that will have profound consequences for retailers and consumer goods companies alike.



¹ ‘PwC’ refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Confident, informed, sophisticated: The new sassy shopper

It's significant – and instructive – that this is the first year that we've been able to conduct our entire consumer survey online. When we began this series back in 2007 only 63% of the people we spoke to were actually using the internet regularly to shop, and our interviews had to be done by phone. This year nearly 20% of our respondents are spending more than half of their disposable income online. 14% are buying on the web every week, and another 14% are doing it even more often than that – a figure that was as low as 4% only two years ago. And with 60% of consumers expecting to spend more online in the coming 2-3 years, internet shopping has gone from rare to routine, which is having a profound impact on the way retailing works, both on the web and on the High Street.

So what's produced this change? There are several distinct factors that we can discern from a rapidly shifting market context.

The first is much wider broadband penetration. After relatively slow early progress, a critical mass now has a fast internet connection. In the early days most of those with reliable high-speed internet access were the young and more affluent; now for the first time it really is available to all ages, all income brackets, and all regions. Another factor is the enormous increase in the number of devices that can access the net, from TVs to Smartphones, Wi-Fi laptops and tablet PCs, which make it possible – and enjoyable – to shop wherever you happen to be. The big retailers are also reacting to the same trend by installing in-store kiosks and web-enabled tills, as well as developing special phone apps that make shopping on the go even more convenient – Tesco, for example, has just launched a TV campaign to promote its new iPhone app, that turns the handset into a mobile barcode scanner.

How often do you shop online?



Canny retailers like Asos, John Lewis, and Debenhams are now actively using email and social media to build closer relationships with consumers and drive sales. Far more people are now using the internet to do their big weekly grocery shop, but at the other end of the scale we've also seen a big increase in 'fun' impulse shopping which doesn't have to wait for the weekend, much of it in response to promotions and special offers posted on Twitter and Facebook, and targeted email promotions, which are particularly effective. Shopping – at least for non-essentials – is getting more prompted, and less planned.

Choice is another dominant theme this year – not just the sheer number of products available, but the new ways people can now buy them, which includes internationally. More subtly, we are also seeing the enduring impact of the sort of spending habits consumers acquired in the depths of the recession. Shopping around for a bargain has proved to be a 'sticky' behaviour, and is likely

to persist, not only through the 'new austerity' but beyond. One reason for this is that it's now so much easier to do research – there's been an explosion in the number of websites offering consumer reviews of everything from toys to travel to tumble-driers, and because these opinions come from other consumers people are far more likely to trust them, and act on them. This, more than anything else, is triggering one of the most dramatic shifts we've ever seen in the balance of power between the retailers and their customers.

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the fact that the reasons why people shop online are also in transition. Back in 2007 our respondents cited a cluster of different incentives here – price, speed, convenience, variety, home delivery, and 24-hour availability – all of them of roughly equal importance. Now that picture has changed quite radically, and shoppers are much clearer and more assertive about what they want. There are three key factors now, which are easily more important than any of the others: ‘lower prices’ has risen from 70% to 72%, ‘easier to compare’ has gone from a quite lowly 42% to as much as 65%, and shopping ‘whenever I want’ from 62% to 80%, because people want to be able to shop from the sofa, in their lunch hour, watching TV, or even on the train. But there’s another important element in the mix, and a crucial one: however much time and money people are spending on the web, they haven’t abandoned physical stores, they’re just using them for different things. For the retail sector now it’s all about multi-channel – understanding it, adapting to it, and making money out of it.

Everybody’s doing it: Multi-channel shopping goes mainstream

As this suggests, one of the main reasons multi-channel has gone mainstream is because shoppers now feel far more confident about buying online – and therefore more confident about exploiting the full range of channels and retailers available to them to find a good deal. Nearly 60% of the people we surveyed say they have been shopping online for more than five years now, and around the same number consider themselves to be adept or even expert at using the internet to get exactly what they want. And this is not just about knowing how to find that good deal, it’s about understanding exactly what constitutes a ‘good deal’, and then having the self-assurance to demand it. In other words, price is a big factor, but it’s not the only one: many shoppers are prepared to pay a bit more for a big item like a plasma TV if it means the retailer will also install it, remove the packaging, and take the old one away. The internet makes it easier to establish the real correlation between price and value, and what ‘value for money’ really means for a particular product, and a particular person.

This new definition of ‘consumer confidence’ is already making for a much more competitive online environment; it’s also a symptom of

What factors attract you to online shopping?





The way we shop now: The rise and rise of multi-channel

Over 90% of the people surveyed this year said they had shopped across more than one channel with at least one retailer. In fact, over 60% have developed what is in effect, a ‘portfolio’ of between two and five favoured retailers, and supermarkets like Tesco, Asda, and Sainsbury’s are among the most likely to be cited in lists like this. The clear leader, however, was Argos, with 65% of our respondents saying they have shopped multi-channel with them, and 22% declaring it to be their favourite multi-channel retailer. Tesco, by contrast, scored 18%, and Marks & Spencer and John Lewis each 8%.

For retailers, achieving ‘most favoured’ status becomes absolutely key. So how exactly do you do that?

there’s no magic formula for multi-channel success, but there are some specific challenges that need to be tackled head-on

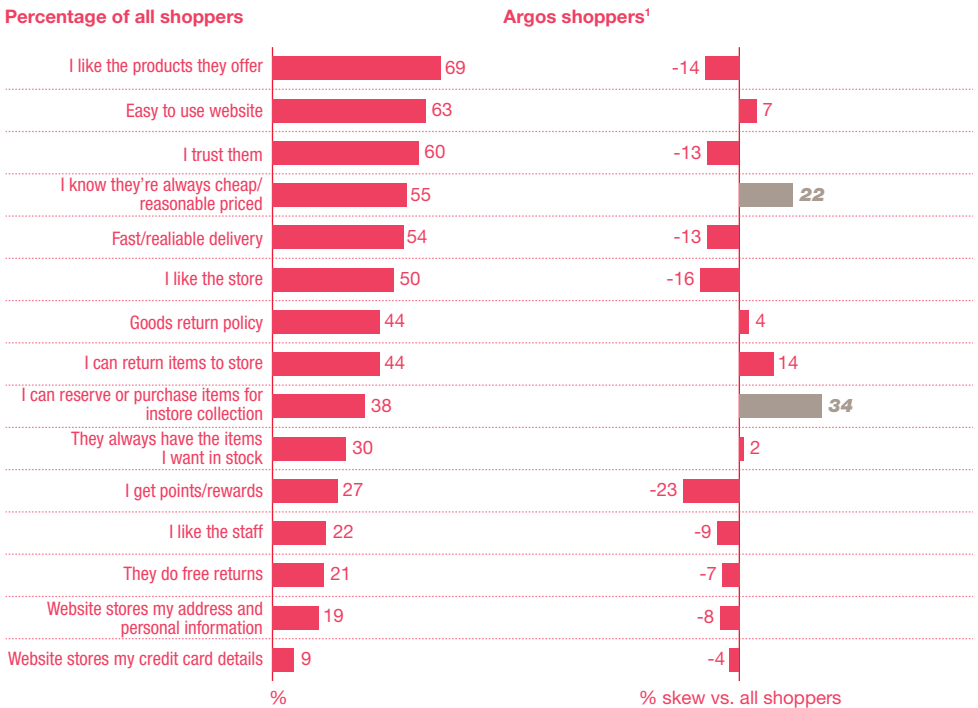
Hot favourites: What it takes to make the grade in multi-channel

We looked in depth at three particular retailers in our survey, with the aim of getting behind the headline data and discovering exactly what it is that gives them ‘most favoured status’. Looking across the whole sector, the top five factors are product offer, easy to use website, trust, reasonable pricing, and fast reliable delivery. But the picture is very different when you look at specific stores.

For **Argos**, for example, the ‘killer app’ is definitely same-day ‘check and reserve.’

The average number of respondents citing this as a factor was 38%, but for Argos shoppers it was 72% - far and away the single most important feature drawing customers to shop multi-channel with them. Quite frankly, they love it. Argos’ competitors would give their eye-teeth to be able to offer a comparable service, but Argos’s business model gives it a unique competitive advantage here. Because all their stock is ‘behind the counter’ rather than out in the store, it can be accurately tracked on a real-time basis, making it possible to guarantee that goods reserved online will indeed be waiting in-store for collection when the customer arrives later that day.

Why is that your favourite multi-channel retailer?



Argos shoppers love ‘check and reserve’ but are less attracted by the product range, stores and lack of incentives

¹ Those who stated Argos is their favourite multi-channel retailer. Argos shopper sample size = 219.

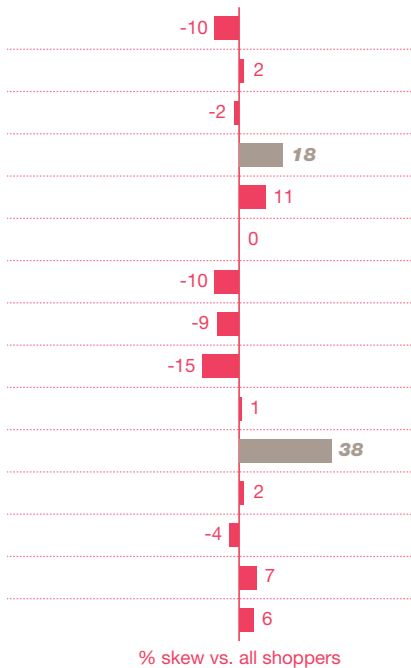
The big grocers, by contrast, score much better on reward points, which are by far the most significant attraction for **Tesco** customers, with 77% citing this compared to 65% for customers who preferred a grocer, and only 27% for all shoppers. Reasonable pricing is the next most important factor for **grocers'** customers, but it's much less important reason, scoring only 18% above the average for all shoppers.

Our research showed that **John Lewis** is a particular favourite with multi-channel shoppers, with 37% of customers who shop with them claiming them as their favourite

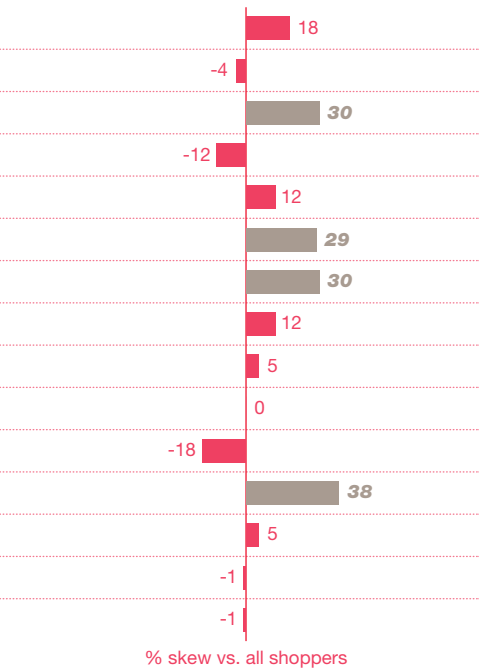
multi-channel retailer – the highest proportion in our survey. John Lewis scores below average on the things that people love about grocers (points and price), but scores very strongly on the quality of its staff and its stores, its returns policy, and its trustworthiness. All of these factors are between 29% and 38% higher for John Lewis than they are for the sector as a whole – and are key to delivering a seamless, high-quality experience for shoppers.

So – what does it take to make the grade in multi-channel? Our respondents are very clear: retailers need to be differentiated in areas that are really important to their customers.

All grocery shoppers²



John Lewis shoppers³



Shoppers who prefer Grocers are attracted by points/rewards and low prices

² Those who stated a grocer is their favourite multi-channel retailer. Grocers' shoppers sample sizes = 265.

John Lewis over-index on more factors than other retailers, particularly: good staff, trust, a good returns policy and great stores

³ Those who stated John Lewis is their favourite multichannel retailer. John Lewis shopper sample size = 77.

As these case studies prove, you need to play to your own strengths to get onto a customer's 'most favoured' list, but you also need to get the basics right across the whole piece. That means having a trusted brand, and a broad product range which is competitively priced. It means having a loyal customer base, and then translating that loyalty into higher sales – Tesco, for example, is particularly skilled at using its core grocery business as the base from which to sell a much wider range of (higher-margin) non-grocery goods and services, such as bikes, sheds, electronics and current accounts.

And once you've done all that you need to make your online and in-store capabilities part of one integrated and seamless operation (which includes your telephone, mobile, TV and catalogue sales if you have them) so that customers can choose where they research, where they purchase, where they receive and return their goods, and where they get their after-sales support.

Brand, product, price, delivery. If this is sounding like the basics of good retail execution then the good news is that this is exactly what it is: there's no magic formula for multi-channel success, but there are some specific challenges that need to be tackled head-on.

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experience. They're managing their business in a genuinely 'joined-up' way, and gaining customer loyalty as a result. The idea itself is nothing new, but executing it well across multiple channels is both difficult and expensive. But those who fail to do this run a very real risk of losing market share to competitors who have a sharper understanding of how consumer behaviours are changing: over half of our sample said they have spent more with their favourite retailer since they started shopping across multiple channels, which means the process of consolidation could accelerate quickly.

Winning in a zero sum game: Can multi-channel really make you money?

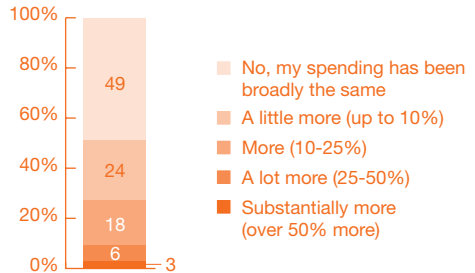
The reason this is so vital is that there is evidence that the move to multi-channel may well be a zero sum game as far as the retailers are concerned. It's just like what we saw with Sunday trading: our research shows that the mere fact that there are now more channels available for shopping is not proving sufficient in itself to prompt people to spend more than they did before – they're just doing it differently. Nor, it seems, are they simply transferring their spend from in-store to online with the same spread of retailers. It's much more complex than that.

What's actually happening is a *consolidation* of spend with a smaller number of preferred retailers – those who can offer a great customer experience across a wide range of products, and the full range of shopping channels. These are the players who can anticipate and match their customers' increasingly exacting demands, while still delivering a seamless and enjoyable shopping

Multi-channel clearly presents both risk and opportunity for the retail sector as a whole, and there will undoubtedly be both winners and losers as a result. The question – and the challenge – is how to make multi-channel a winning proposition, and not a money pit.

Do you think you have spent more with your favourite retailer since you started shopping across multiple channels?

% of online shoppers



Going direct: An opportunity for brands?

One interesting fact that emerged from our survey is the steady increase in the number of shoppers who've bought direct from a consumer brand. 28% of those we spoke to have done this now, citing price and access to the full product range as the key factors. There are some interesting challenges here for the brand owners – on the one hand there are clear advantages to having a direct relationship with consumers (not least much higher margins), but on the other hand, servicing them with store operations is expensive and resource-intensive. However, a website, with its global catchment can be a viable route to market. Smart brands, such as Abercromie and Fitch, have taken advantage of this fact by opening the odd flagship store to show off their wares, while the majority of their direct sales are captured through their website.

Some of the most forward-looking brands are using their online presence not just to grow their sales, but to engage more actively with consumers, and even drive innovation. They're hosting their own customer forums, and using them to gather consumer feedback, and showcase their products. For example, the online-only fashion retailer Asos has a 'Saturday Night Style' page where customers can upload pictures of themselves dressed to go out in Asos clothes. It taps in perfectly to their target youth market, and provides a powerful reason to revisit the site, as well as inspiration for repeat purchases. The NikeID

site, by contrast, allows consumers to customise their own trainers, and share their designs and opinions other fans. Which in turn helps them understand their customers and innovate, which shows how invaluable this kind of real-life input can be.

One interesting side observation to be made here is how effective the consumer brands are getting at using social media. Fashion brands like Burberry and Louis Vuitton use their Facebook pages to turn casual buyers into devotees, offering special promotions and previews of their collections, while Asos supplements this with a steady stream of gossip about celebrities - the idea of 'as seen on screen' being at the heart of their brand proposition. In all three cases, the social media strategy is designed to give people a reason to log on, sign up, and become loyal – it's part of the answer to 'what's in it for me?'

What made you choose to buy directly from the brand?



the new retail environment is throwing out so many new ideas and new propositions that it can be hard for even the most experienced and professional retailers

Your mission should you choose to accept it: The challenges of multi-channel

We've identified four areas where even the best multi-channel retailers need to hone their game if they're to make real money out of the cash they're investing. One of the most obvious is the need to learn new skills and develop new tools – and fast. A lot of this is about getting better and more responsive in marketing and merchandising, so that the landing pages of the web store can respond instantaneously to external events that might prompt a specific impulse purchase, like media coverage of a celebrity wearing a particular item of clothing. Being on-trend like this can and should be a competitive advantage. Likewise many of the more traditional retailers still have a lot to learn about CRM and direct marketing, and could gain some useful insights from studying how the catalogue operators exploit their customer data. The big grocers have been the most active in this area, but even they have opportunities to make more extensive and creative use of the data they gather from their loyalty cards and websites.

There's also the challenge of knowing where and what to invest in. Money and resources are always going to be limited, but the new retail environment is throwing out so many new product and service propositions that it can be hard for even the most experienced and professional retailers to know what customers will really want, and what will genuinely create long-term value. For example, free returns are definitely valued by customers, but is this worth the extra cost? Is 'check and reserve' right for your business? It's definitely become a source of real competitive advantage for some businesses (see example of Argos on page 6), but same-day store collection requires data on real-time stock availability, which can be very expensive to achieve for most retailers.

This is directly related to the next point, which is what we've been calling 'the dark channels'. We call them that because most retailers don't understand what's really going on there – but they need to, if they're to stay ahead of the curve in a multi-channel world. Ironically enough the darkest channel of them all can often be the conventional High Street store. An enormous wealth of data can be harvested about how your customers behave online – how often they visit, what

they look at, how long they're there, and what they buy, or don't buy. By comparison, the data available about store behaviour is still landlocked in the 1980s, and most of the technology used is barely more sophisticated than till data and customer counting. Loyalty cards are an exception, but as we've already said, many retailers still have opportunities to turn customer data into useful knowledge that can make them money.

Last and most importantly, to develop a truly multi-channel business, online operations need to start being treated like any other part of the company, and not as some sort of incubator venture, or an offshoot of Marketing or IT. Business development has to

become business as usual, which demands new business practices, new roles and responsibilities, and new approaches to incentives and remuneration. E-commerce has to move into the main organisational structure and be treated as an integral part of the brand proposition, rather than an independent business governed by its own rules. After all, having online shopping run by IT is rather like putting facilities management in charge of running the stores. IT still has a key part to play, especially in terms of keeping up with new trends like social media, but it should be managing the platform, not the proposition.

Which leads us naturally to the next question.



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There's also another interesting overlay that needs to be borne in mind. Our analysis suggests that the reasons why people go to stores is becoming increasingly polarised between the two extremes of entertainment and convenience. 'Going out shopping' now either means a leisurely day out to a department store or high-end mall complete with restaurants and cinemas, or a quick dash, perhaps on the way home from work, or to buy something needed there and then, like a birthday present or that night's dinner. A number of retailers are already grasping the implications of this trend, and adapting their store formats accordingly. For example, the big department stores like John Lewis and Debenhams are including far more coffee shops, seeing the space dedicated to this as just as important as the traditional shop floor; while Apple has made its physical stores into exciting destinations in their own right.

Showcase, warehouse, collection-point: What's the store now for?

The winners in the new multi-channel world will be those retailers who know exactly what role their different channels are now playing, and then site, stock and range them accordingly.

Our survey suggests that the biggest single determinant here is category: it's the type of goods they're buying that influences shoppers' choice of channel most, rather than their age, gender or demographic. So, for example, people ideally prefer to research electricals online, buy them in-store, and receive them at home; with fashion they want to research in-store, purchase in-store, and receive at home; while with health and beauty, they may not research at all, but buy in-store and take the products home. The implications for retailers in these segments are obvious.

One of the factors that surprised us most was that 45% of store shoppers say they'd like home delivery when purchasing in store – a theme we found played out consistently across all categories, with 65% of in-store furniture shoppers and 33% of in-store fashion shoppers stating a preference. Home delivery from store is rarely available in UK retail – and there is still a question as to whether consumers would be prepared to pay for it – but our analysis shows this could be an opportunity to 'change the game' for a brave retailer who is prepared to test whether increased convenience could go hand-in-hand with reduced store space, reduced stockholding – and increased profits.

This polarisation between convenience and entertainment has huge implications for the composition of individual retailers' estates, and the size and location of the properties

within them – should they be small convenience outlets in railway stations or local shopping parades with Click & Collect offers? Or big flagship stores in major prestige retail developments, designed to showcase the range? Are they best positioned as destination outlets in their own right, or clustered next to other stores that have been proved to drive extra footfall?

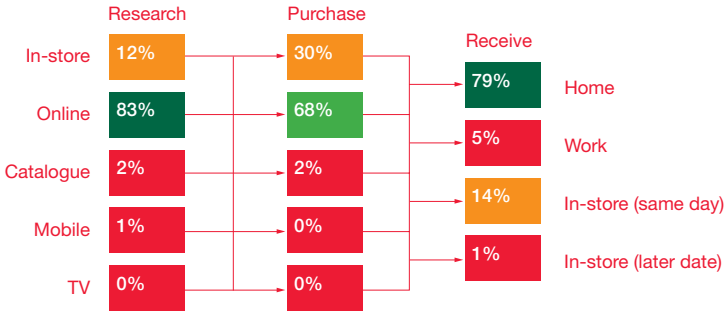


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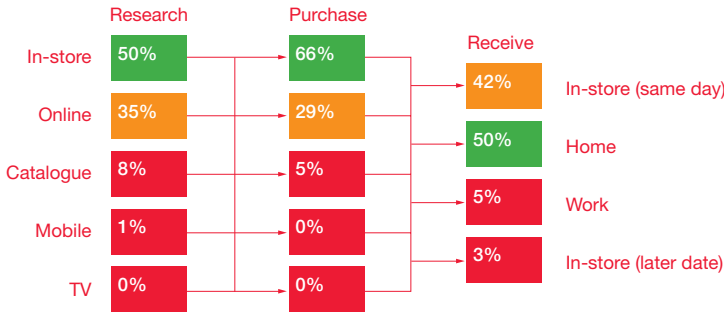
Looking ahead: how would multi-channel consumers like to shop?

What channels would you prefer when buying?

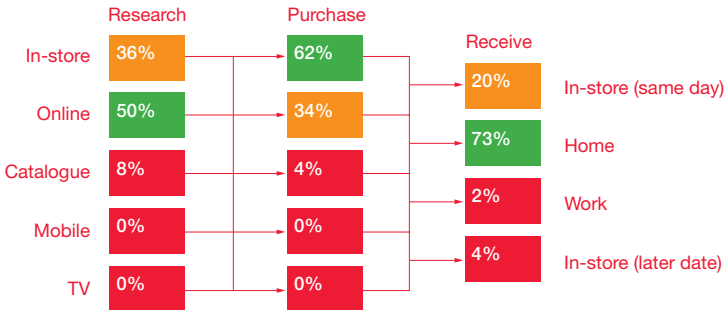
Electricals including consoles and games



Fashion



Furniture and homewares



The most exciting part of our research was when we asked online shoppers about *which channels they would prefer to use* when researching, purchasing and receiving goods. We know consumers shop across multiple channels when making shopping decisions – but we wanted to unpick what their channel preferences would be in an unconstrained, ideal world.

The first important finding is that product category is by far the most important determinant of channel choice. And it makes perfect sense – its important to touch and feel a piece of furniture before making an important investment – but it's heavy, so our shoppers say they don't really want to carry it home. Equally, how useful is it to 'click & collect' a CD that could easily fit through the letter box?

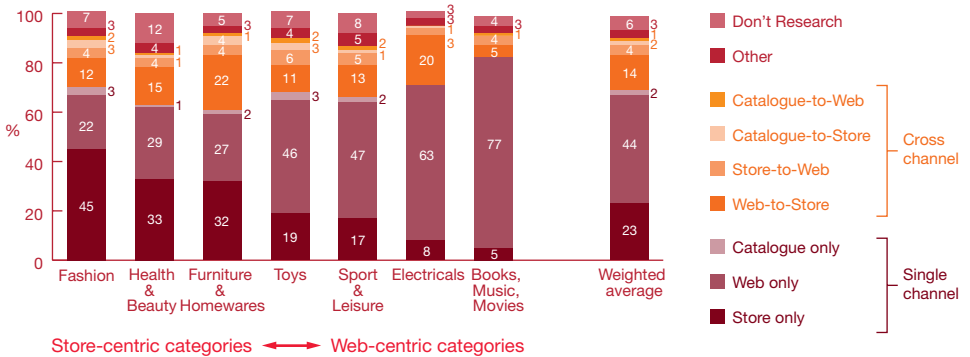
But our survey threw out some really surprising findings:

- Most shoppers have a single channel journey when researching and purchasing goods. Furniture & Homewares is the most multi-channel category – with over 31% of shoppers saying they'd prefer to use multiple channels when choosing and transacting.

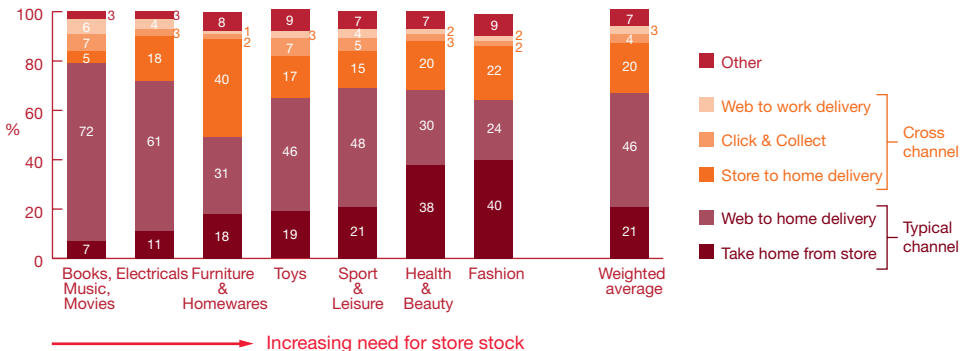
- Web-to-store, ie, research online and purchase in-store, is the most common cross-channel purchase journey, attracting 14% of online shoppers – a valuable piece of insight for e-commerce and store managers alike.
- But the real surprises were in consumers' delivery preferences – 20% of shoppers said they'd prefer a home delivery when purchasing in store, compared to only 4% who prefer 'click and collect'. So, why then is 'click and collect' attracting so much retail investment? Could retailers be spending their funds more wisely?

Consumer behaviour in this space is just emerging, and will continue to evolve as retailers develop new propositions and new technologies come into play – so it's hard to tell what the winning formula will be. However, the views of these consumers are key – the UK consumers are leading the world in multi-channel, meaning their emerging behaviours are the best indicator of things to come – not just in the UK, but across the world.

Cross channel shopping behaviour: Research to Purchase



Cross channel shopping behaviour: Purchase to Receive



which customers are making the most money, where, and how. But in addition to a ‘single view of the customer’, winning retailers will be those who rapidly develop a ‘single view of product’ – enabling them to instantly locate available stock across all channels and locations, and so serve more customers, more often, and with a wider variety of products.

- A core theme of our research is that multi-channel success relies on driving share of wallet, and this means **building deeper relationships with loyal shoppers**. The digital space provides a raft of new opportunities to engage consumers, and to learn from their comments and behaviours – from Twitter and Facebook, to online campaigns and consumer reviews, the opportunities to have conversations with customers are growing every day. The winners will be those who listen carefully to their customers, becoming tuned to their needs; and those who find creative opportunities to encourage consumer contribution, making shoppers feel like an integral part of the brand.
- **New performance measures** that reflect the realities of this new multi-channel world are the next essential building block to making profitable decisions and choices. Developing the KPIs to evaluate a store’s effectiveness as a showroom, compared to its effectiveness as a transaction space, and capturing the value of websites as a research tool and in driving footfall to stores, are examples of areas that leading retailers are beginning to focus on today.

Where next?

The state of play on multi-channel is still evolving, but we believe there are five key factors that retailers should be addressing now, if they’re to stay ahead of the game.

- With shoppers consolidating their spending on fewer retailers, the winners will be those who ensure they **make it onto the ‘most favoured’ list** for their target customers. This relies on developing a proposition that is tuned to compel – and that means looking at product, price, promotions, channels, service, rewards, delivery. It’s all important to multi-channel shoppers.
- Operating in a multi-channel world makes it even more important to **understand your most valuable customers**, and to be able to **serve them when they want, and how they want**. For most retailers, capturing customer data in-store equates to shining a light on the ‘dark channels’, and is the first step to really understanding their multi-channel shoppers – that is, to knowing

the winners will be those who ensure they make it onto the ‘most favoured’ list for their target customers

- But beneath the multi-channel opportunity lies a profitability challenge – serving customers in new ways may lead to increased share, but rarely delivers a better margin. The real winners will be those who can deliver a sustainable advantage by developing **new operating models**, designed to handle the realities of multi-channel retailing. The current supply chain was built to get stuff to stores – it’s not ideal for a system that’s 10% online and growing – and as direct channels continue to gain scale, there will be opportunities to flex operations to improve margins. But it’s not just about the supply chain – rethinking organisation structures, roles, incentives and governance are key to delivering a seamless customer experience across channels – and to **achieving ‘most favoured’ status with your most valuable customers.**



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Brand & design 20607 (04/11)

