

They say they want a revolution

Total Retail 2016

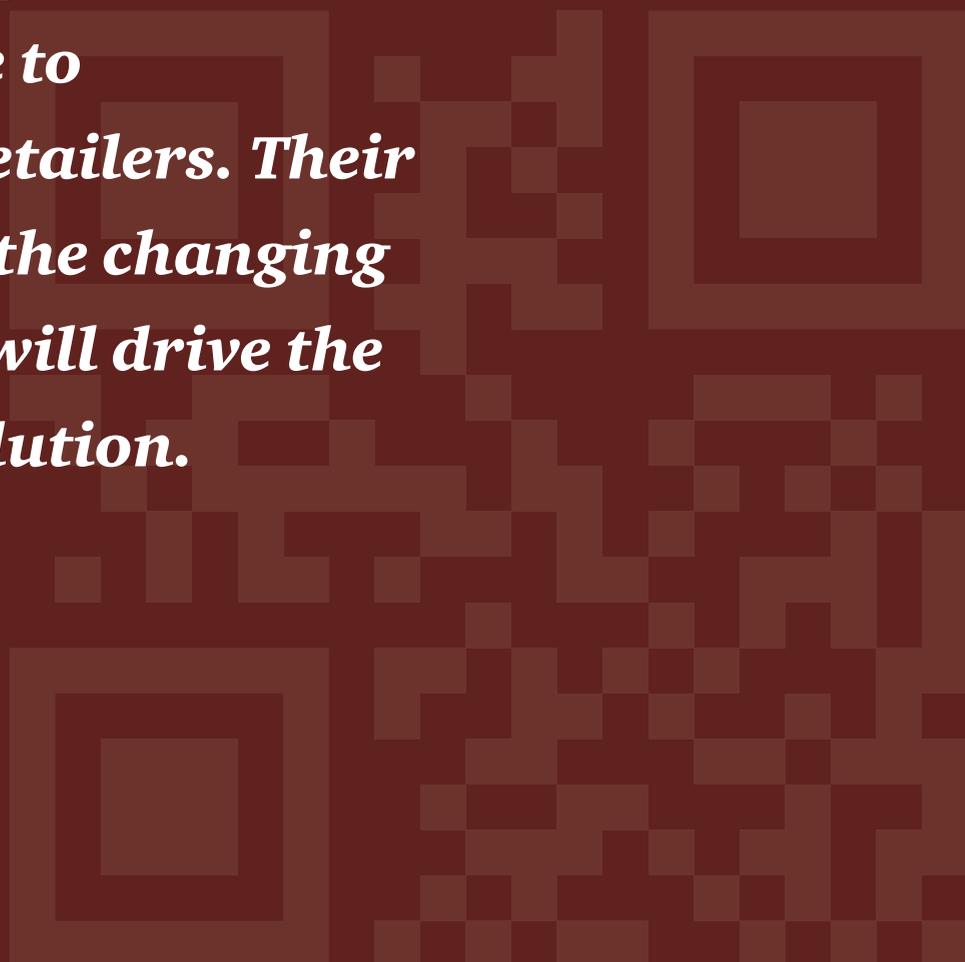


Online shoppers around the world are fundamentally disrupting retail—again. Will your organization be left behind?

February 2016



In PwC's most comprehensive Total Retail survey to date, we asked nearly 23,000 online shoppers around the world about issues ranging from mobile shopping to social media influence to innovation at retailers. Their answers reveal the changing behaviors that will drive the next retail revolution.



It's nothing short of a revolution, and the stakes have never been higher for retailers and consumer goods companies. Our Total Retail survey results, together with 2015 fourth-quarter retail results around the world, point to 2016 as a watershed for many of the trends that have been percolating over the past few years. From the unmistakable desire to be a member of a specialized retail community to buying more on their mobile phones, from becoming more reliant on social media to demanding a more service-focused and knowledgeable store employee, global consumers are pushing the boundaries of what shopping means.

PwC's Global Retail and Consumer practice, in conjunction with PwC's Research to Insight (r2i), administered a global survey to understand and compare consumer shopping behaviors and the use of different retail channels across 25 territories: Australia, Belgium, Brazil, Canada, Chile, China/Hong Kong, Denmark, France, Germany, India, Italy, Japan, Malaysia, Mexico, Middle East, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Thailand, Turkey, the United Kingdom and the United States.¹

5 continents, 25 territories, nearly 23,000 online shoppers surveyed



¹Totals may not add up to 100% due to rounding.

In this report, we present and discuss the findings of our global Total Retail survey—together with additional PwC analysis and third-party research—to uncover these eight insights of the next retail revolution.

1. To understand future global shopping behavior, look to China.

Our historical data shows that what China was doing several years ago, today's consumers across the globe are doing.

2. We may live in the age of value—but price is still king.

Years of slow global economic growth have resulted in a value dynamic, and affordability is important in every income bracket, in virtually every country, across every age group.

3. Store traffic doesn't matter as much as overall customer conversion across channels.

Customers are voting with their feet as they shop more online, and for multi-channel retailers that means the need for an increasingly focused, curated and engaging brick-and-mortar store experience that creates maximum conversion—no matter what channel ultimately records the purchase.

4. Retail talent (finally) matters.

Ever-more sophisticated customers want employees who can enhance the brick-and-mortar store experience: associates with the product knowledge, technology know-how, and people skills.

5. Mobile devices have turned the corner as purchasing tools.

Mobile commerce is now firmly on the march toward becoming the online shopping tool of choice.

6. Today's consumers look to community.

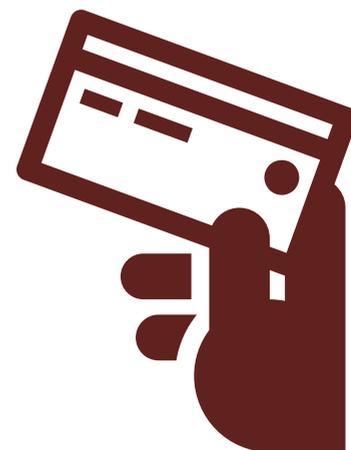
A deeper connection with retailers via customer “communities” is apparent as consumers pick up on the perks of membership.

7. Social media is the “great influencer.”

Customers are relying on social media—in addition to their family's opinions, advertising messages, and media coverage—to make product decisions and gauge brand authenticity.

8. There is room for retailers to grab the “leading innovator” mantle.

While consumers see plenty that is innovative about their favorite retailer, very few retailers qualify as “leading innovators” in shoppers' minds.



1: To understand future global shopping behavior, look to China

The influential science fiction author and technology essayist William Gibson is credited with saying, “The future is already here; it’s just not widely distributed yet.”

Gibson’s credo is certainly accurate when it comes to consumer behavior, the future of which is squarely centered in China. Not only does our Total Retail survey data illustrate a continuing willingness on the part of Chinese consumers to become early adopters of cutting-edge shopping habits such as mobile

Let’s start with some recent sales data. Chinese online sales in 2015 massively shifted to mobile. Single’s Day—the 24-hour shopping festival that now dwarfs Black Friday in terms of sales—is often used as a bellwether for China’s e-commerce market. This year, Alibaba’s Single’s Day online sales came in at \$14.3 billion, a 60% increase over 2014.² Most significant, however, was the shift to mobile. On Single’s Day 2015, 69% of all transactions were made on mobile devices, up from 43% in 2014.³

“The future is here. It’s just not widely distributed yet.”

—William Gibson, science fiction author

buying but, in conjunction with our studies from previous years, it suggests that Chinese shopping behavior is a leading indicator for global shopping behaviors. In other words, what Chinese consumers are doing today, shoppers in the rest of the world will be doing in the not-too-distant future.

Chinese consumers are also leading the way in their willingness to leapfrog legacy technologies in favor of a “social” replacement. For example, the Chinese smart phone manufacturer Xiaomi, now the fourth largest globally, bypasses selling through telecoms carriers and, instead, sells 70% of its products directly to consumers online. This is done through cultivating engagement on social platforms among a core group of users (referred to as “Mi-fans”). Xiaomi uses social engagement tactics like contests, exclusive events and flash sales to turn new product releases into online shopping festivals.

² *theatlantic.com*, Alibaba Brought in \$1 Billion During the First 8 Minutes of China’s Black Friday, November 11, 2015.

³ *Business Insider*, November 14, 2015.

Our Total Retail data echoes what's happening in the Chinese market. In our China sample, 65% say they shop online via their mobile at least monthly, and only 12% have never done so. In our global sample, on the other hand, just 28% say they shop online via their mobile at least once a month, and 46% have never shopped online via their mobile. There are several reasons that explain why mobile is so advanced in China. One is the relative lack of personal computers compared to the penetration of mobile phones; another is that Chinese e-commerce players such as Baidu, Alibaba, or Tencent are leaders in mobile personalization through their huge data analytics platforms. So Chinese online shoppers are presented with personalized information based on their income level, shopping habits and location in a city, even if they are walking or driving at the time.

But how do we know that other shoppers will adopt the behaviors of Chinese online shoppers? Projecting from the relative trends in the past few years, we can expect the world to follow Chinese shopping behavior. As Figure 1 illustrates, in the past four surveys we have asked how often respondents shopped online. The percentage of Chinese shoppers who shop online every day has increased at a much faster rate

than the rest of the world has. But the percentage of our global sample that shops online every day (7.1%) has now overtaken where China was in 2012 (4.3%), and is increasing steadily. When it comes to adopting mobile, our global sample is about three years behind the Chinese.

Figure 1: Almost one in five of our surveyed Chinese consumers shops online daily



Source: PwC, Total Retail Survey, 2016

■ 2012 ■ 2013 ■ 2014 ■ 2015

Compared to our survey one year ago, we've also seen a massive jump in the number of Chinese shoppers who say they have used their mobile/smartphone to pay for a purchase, from 18% to 43%. At the same time, our global sample jumped from 12% to 20%, just slightly higher than China last year. If online shoppers around the world follow Chinese consumers again in the next year, we'll see a major boom in the use of mobile payments globally.

For some shopping behaviors, though, the rest of the world is far enough behind China that it will take years to catch up. Over the past several years, for instance, we have asked our survey respondents to agree or disagree with a number of statements about the use of their mobile device. In Figure 2, we see that when it comes to trust ("I am willing to load credit onto my mobile phone to provide payment for products") and using a mobile phone as a purchasing tool, the China sample and global sample are increasing at the same rate—but it will likely take some time before the rest of the world catches up to where

China was in 2014. In terms of the statement "My mobile phone will become my main tool through which to purchase items", for example, the global results for those respondents agreeing with that statement in this year's survey (34%) is still far behind the percentage of Chinese who agreed with the statement in 2014 (55%).

Figure 2: The mobile phone is getting more popular as a purchasing tool

Q: Please indicate how strongly you agree or disagree with the following statements.



Source: PwC, *Total Retail Survey*, 2016

■ 2014 ■ 2015

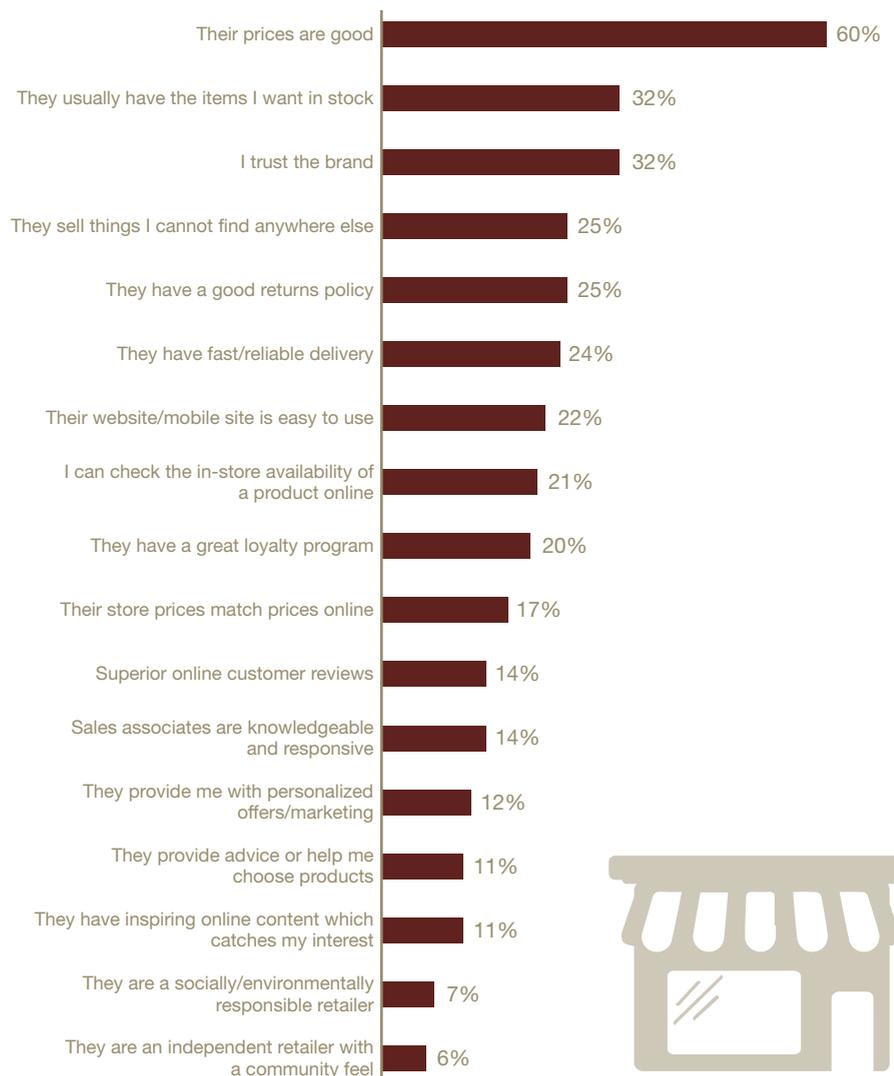
2: We may live in the age of value—but price is still king

Tepid economic growth in the US and Europe over the past few years has resulted in an economic bifurcation of shoppers in these regions. In a recent PwC report we have labelled consumers as “survivalists” and “selectionists.”⁴ For survivalists, affordability is at the core of future purchase decisions. For these shoppers, discounts and deals are critical. Selectionists, on the other hand, maintain an appetite for brand and a distinctive store experience.

In this year’s survey, we asked several questions about price to gauge the extent of this phenomenon. We found that affordability is, indeed, a major driver for shopping behavior around the world, across income bands and across national borders. And yet, it’s just part of the larger *value* story. Just as important as the actual price is the perceived value of a purchase.

Figure 3: Online shoppers choose a favorite retailer because the price is right

Q: Thinking of your favorite retailer, why do you shop here?



Base: 22,618

Source: PwC, *Total Retail Survey*, 2016

⁴ PwC, *2015 Holiday Outlook*.

For example, in many countries, convenience is as much a part of value as price, as shown in Figure 4. Take South Africa. When we asked South African online shoppers what “has been your main influencer for buying online in the last 12 months,” 57% of our sample said that convenience was their main influencer, compared to just 30% for price. And when we looked at the United States—58% of our sample said that convenience was the main influencer for buying online. For our entire global sample in fact, convenience (47%) was a slightly bigger influencer than price (43%) when buying online. Clearly there is more to value than price.

In our simplest and most straightforward question on value, we asked, “Thinking of your favorite retailer, why do you shop here?” Price trumps all other reasons in this context: 60% of our global sample named price; the second-most named option at 32% was “they usually have the items I want in stock.” But even in this question, value had an intangible component. The third most-named option out of the 18 options was “I trust the brand,” at 32%.

Figure 4: Depending on the country, price and convenience rule

Q: What has been your main influencer for buying online in the last 12 months?

	I buy online because it is convenient	I buy online because it is cheaper	I buy online for other reasons
Australia	40%	47%	13%
Belgium	43%	39%	18%
Brazil	42%	54%	5%
Canada	46%	37%	17%
Chile	24%	63%	13%
China	62%	36%	1%
Denmark	38%	50%	12%
France	47%	47%	7%
Germany	56%	35%	9%
Hong Kong*	47%	47%	7%
India	65%	31%	4%
Italy	49%	42%	9%
Japan	49%	44%	7%
Malaysia	50%	42%	9%
Middle East**	42%	42%	15%
Mexico	36%	48%	16%
Poland	51%	43%	6%
Russia	47%	45%	8%
Singapore	40%	55%	5%
South Africa	57%	30%	13%
Spain	48%	43%	9%
Switzerland	54%	32%	14%
Thailand	51%	38%	11%
Turkey	36%	56%	8%
United Kingdom	55%	37%	8%
United States	58%	32%	10%
Global	47%	43%	10%

* For Hong Kong, the base size was 100 survey respondents

**Middle East includes UAE, Egypt & Saudi Arabia

Base: 22,618

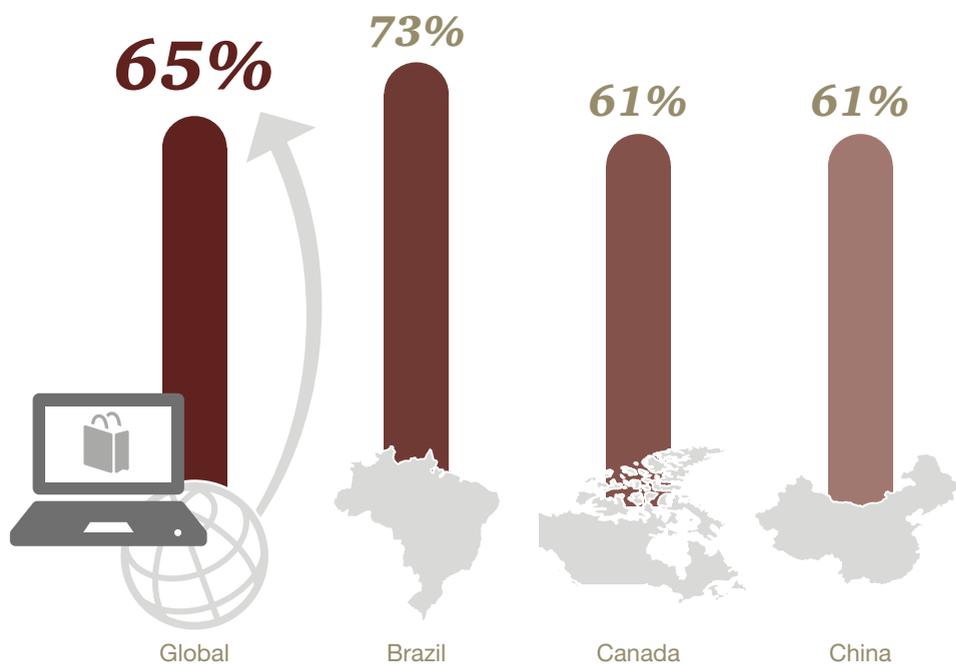
Source: PwC, Total Retail Survey, 2016

Not only are our respondents looking for deals, they'd even purchase outside their country of residence to get them. This year we asked for the first time what would lead our global sample to purchase from an out-of-country online retailer in the next 12 months. Price was king—56% of our global sample said that “better prices available” would convince them.

Even among high earners, finding deals is a priority. If we combine the two highest-earning brackets across three of our countries—Brazil, Canada, and China—the high earners in each country still would shop out-of-country mostly because of price. For Brazil, 73% of high earners say they would; while 61% of high earners in Canada said they would; and in China, 61% said they would look to an out-of-country online retailer for a deal. On what products are these shoppers looking for deals from an out-of-country retailer? Fifty-one percent of our sample named clothing and footwear, 44% said consumer electronics and computers, 40% chose books, music, movies and video games, and 31% chose health and beauty products.

Figure 5: Even high earners will search far and wide for a good deal

The two highest-earnings income brackets in each of our surveyed countries plan to purchase from an **out-of-country online retailer** in the next 12 months for **better prices**



The only real dent in the armor of affordability comes from the Millennials. When we look at Millennials' (ages 18-34) answers to the question “Thinking of your favorite retailer, why do you shop here?” just 56% chose “their prices are good,” compared to 63% for everyone else. Millennials also shop at their favorite retailer for brand affinity (33%), superior online customer reviews (17%), reliable delivery (25%) and an easy-to-use website or mobile site (23%).

Source: PwC, *Total Retail Survey*, 2016

3: Store traffic doesn't matter as much as overall customer conversion across channels

What do the percentage figures 14.6%, 9.8%, 9.1%, and 11% have in common? Those were the year-over-year percentage drops in foot traffic in US retail stores between the months April–July 2014 and the months April–July 2015, according to one major retail analytics firm.⁵

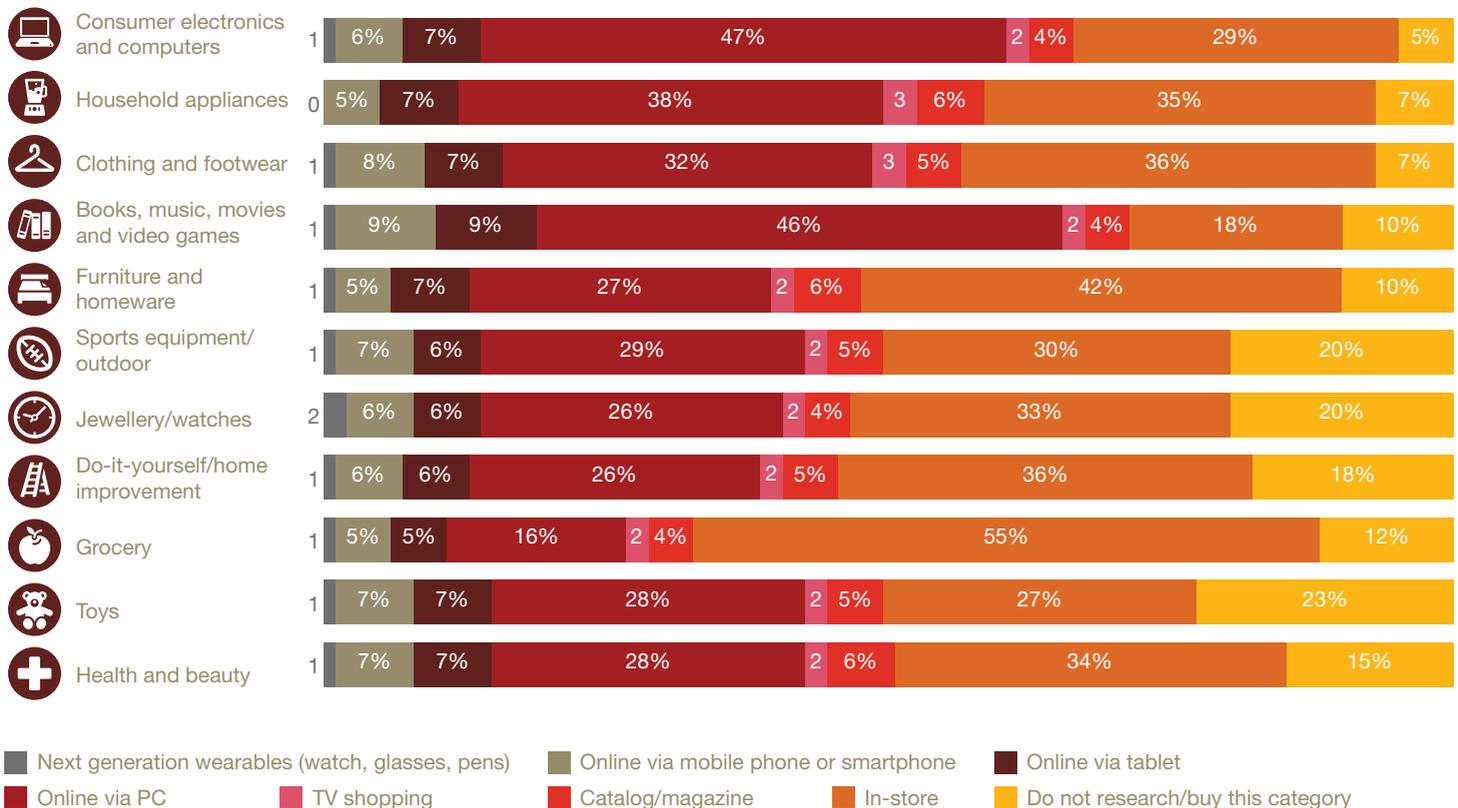
Retailers have long resigned themselves to the ubiquity of online retail and how its growth displaces physical store visits. The question is how to create an in-store experience that can improve conversion on the visits stores *are* getting.

First things first—the physical store is still operating from a position of

strength, even as foot traffic slows. There is strong evidence from our Total Retail data that many consumers still desire a physical interaction with a product. Figures 6a and 6b show, depending on the product category, the preference for a physical store as an element of both researching and purchasing.

Figure 6a: The physical store is still a critical step in the purchase journey

Q: Which method do you most prefer for researching your purchases?



Base range: 22,203–22,527

Source: PwC, *Total Retail Survey*, 2016

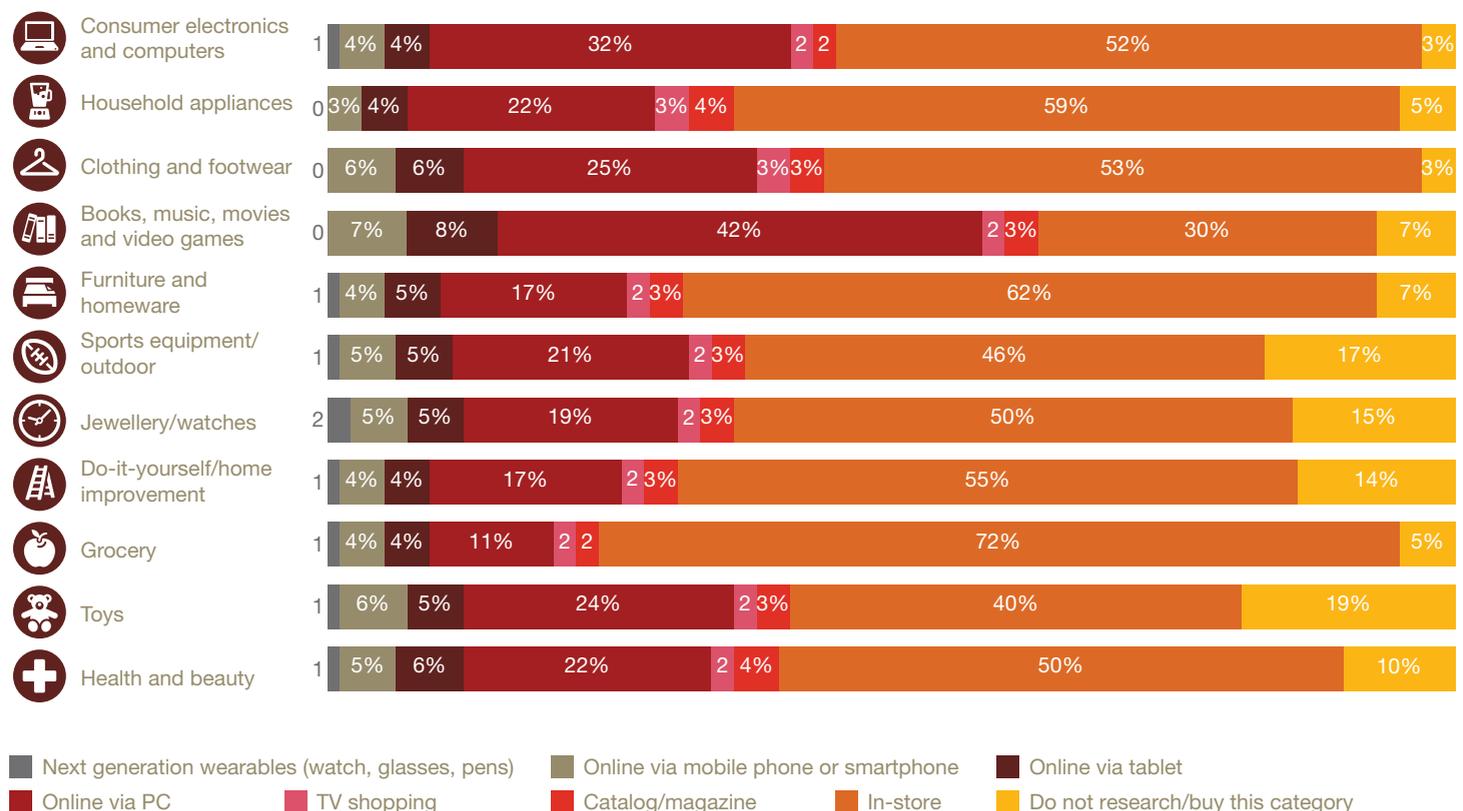
⁵ <http://retailnext.net/blog/retail-performance-pulse-store-results-july-2015/>

In fact, even in those product categories where shoppers clearly prefer to research online, such as in consumer electronics and computers, household appliances, and clothing and footwear, many still like to go to a store to buy the product. Take consumer electronics and computers, for example. Just 29% of our global sample prefers to do their research in a physical store, but 52% prefer to purchase in a physical store. The real question

is creating a store environment in which shoppers who prefer to buy offline are converted to purchasing customers. One school of thought is that clear format differentiation is the best bet for maximum conversion. For example: flagship experience stores, destination shopping centers, specialist stores, and pop-up stores make it very clear to the shopper what their respective purpose is, so customer expectations are more likely to be met.

Figure 6b: The physical store is still a critical step in the purchase journey

Q: Which method do you most prefer for buying your purchases?



Base range: 22,164–22,452

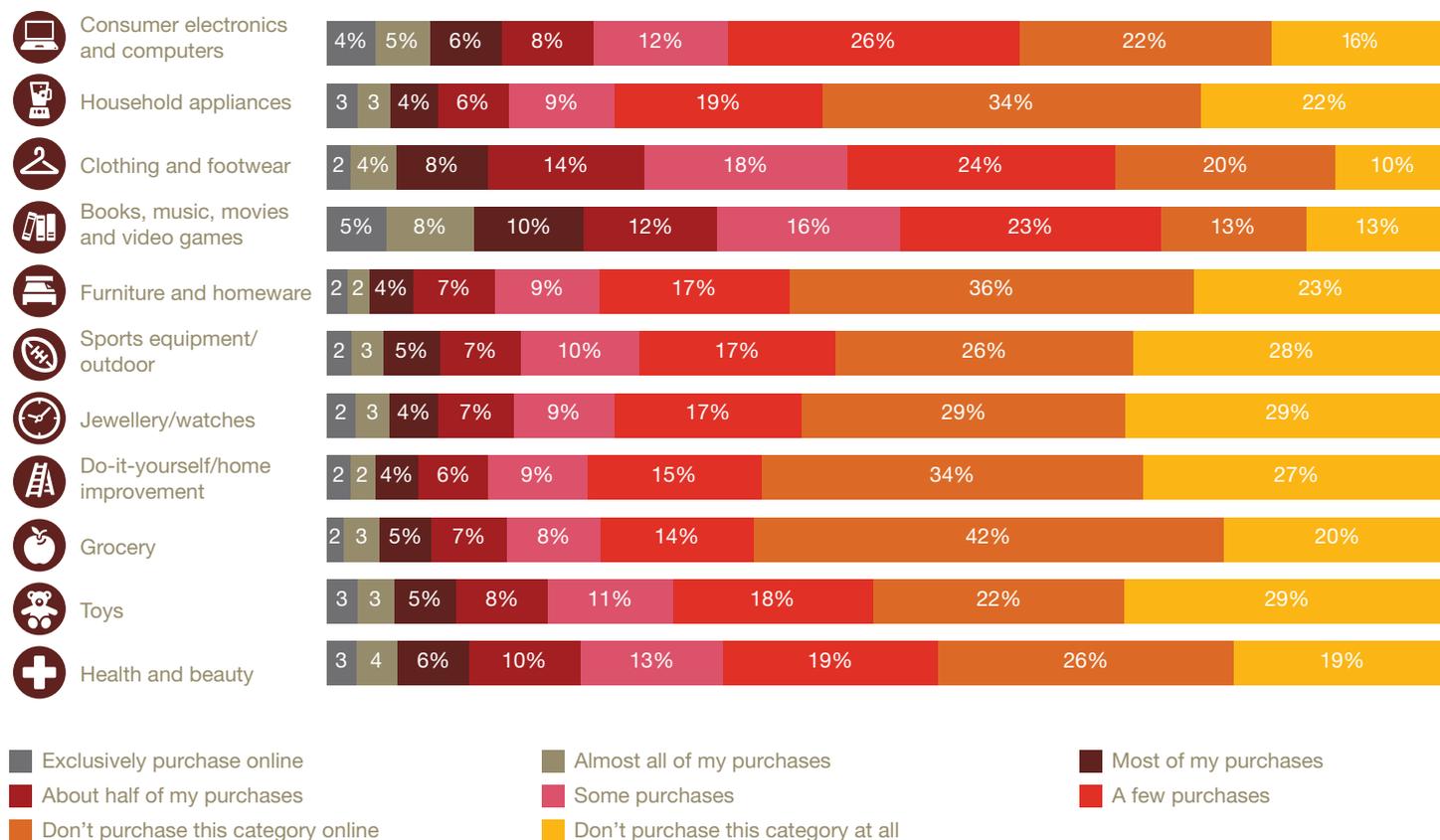
Source: PwC, *Total Retail Survey*, 2016

Indeed, Figure 7 below illustrates the resilience of the physical store. In no product category did our respondents say they purchased the majority of their products online in the past 12 months.

What do shoppers say is the key to an in-store experience that can make the most of a trip to the store? When we asked our global sample what would make the in-store shopping experience better, the most popular answers suggested a host of changes that retailers could make to enhance their physical stores.

Figure 7: A look at online purchasing across product categories

Q: For each of the following product categories, how many of your purchases have you made online over the last 12 months (including purchases made from a computer, tablet or mobile/smartphone or social media platform)?



Base range: 22,098–22,382

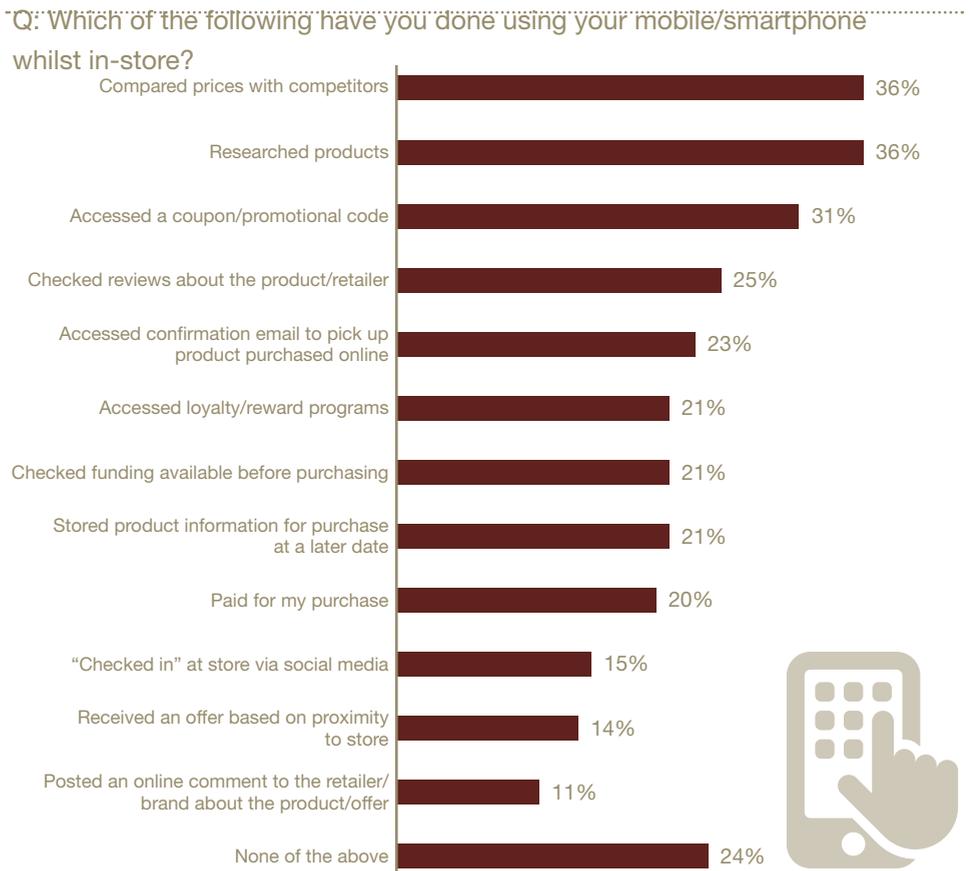
Source: PwC, Total Retail Survey, 2016

Among them were sales associates with a deep knowledge of the product range (40%), ease of checkout (35%)⁶ ability to check online stock quickly (32%), an inviting ambience (23%), and in-store Wi-Fi (22%).

Another angle we explored on the in-store experience centered on the mobile phone and how consumers want to use it while within the four walls of the store. The answers illustrated in Figure 8 suggest that those retailers who can target their customers with promotions and offers while in-store, ensure that loyalty program information is up-to-date on their mobile website, and

facilitate mobile payments will be meeting expectations around mobile use when consumers make those increasingly less frequent—but potentially very valuable—visits to a physical store.

Figure 8: The mobile phone is increasingly being used for purchasing



Base: 22,618
Source: PwC, *Total Retail Survey*, 2016

⁶ Ease of checkout” category was created by combining the “self-service checkout” and “sales associates who can take payment without going to the cash register” options.

4: Retail talent (finally) matters

Talent has long been regarded as a fungible asset in retail. The thinking has been that since store associates often don't stay for the long-term, intensive training has a questionable ROI. Even when it comes to executive management, retail CEOs have historically earned lower compensation than their counterparts at similar size companies in many other industries.

Indeed, our data indicates that compared to other features of a retailer, service by sales associates is not, on its own, a big driver for favoring a retailer, ranking after such factors as price, product, in-stock availability, and return policy. That leads to the question: can retail talent become a differentiator? The answer is yes, and the time is now.

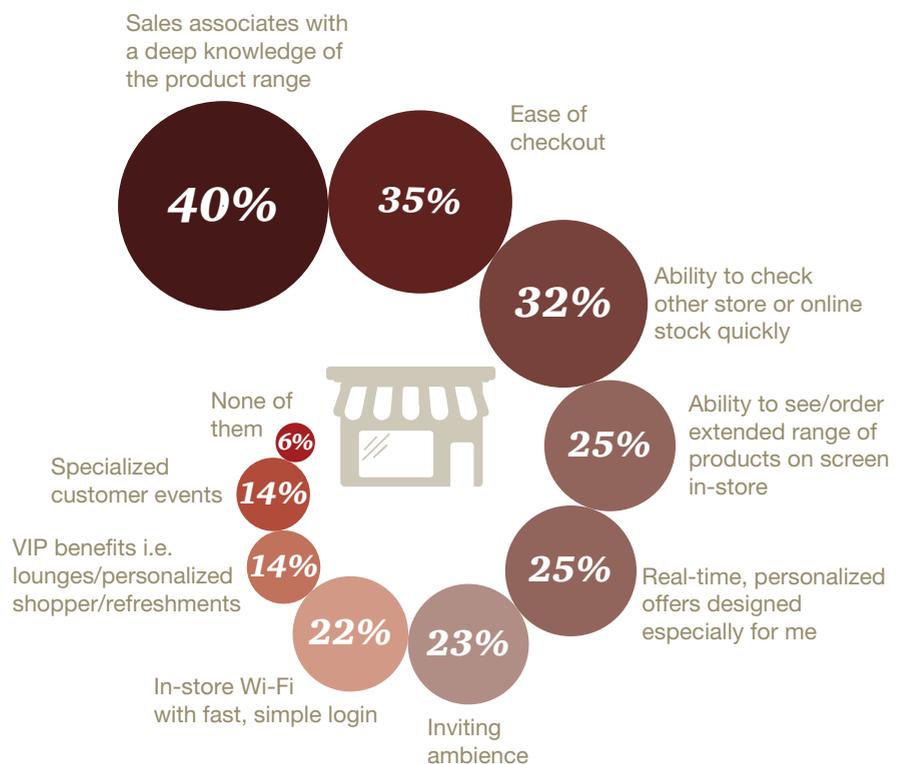
A closer look at our research data indicates that the changing role of the store, soaring customer expectations, and the desire to support local businesses could put a real premium on retail employee talent. In particular, the more sophisticated dimensions of customer service (personalized advice, special after-sales services,

and demonstrated deep product knowledge) could be a point of differentiation for retailers, particularly for retailers with a significant physical store footprint.

Figure 9 shows just how important product knowledge is to consumers today.

Figure 9: Better sales associates make for a better shopping experience

Q: Which of the following would make your in-store shopping experience better?



Base: 22,618
Source: PwC, Total Retail Survey, 2016

By far the factor that would make the in-store experience better is sales associates with a deep knowledge of the product range, at 40%; another important option for consumers was ability to check other store or online stock quickly. The commitment of companies like Apple and Nike to in-store customer service and nurturing experienced, knowledgeable staff has raised the bar for retailers everywhere.

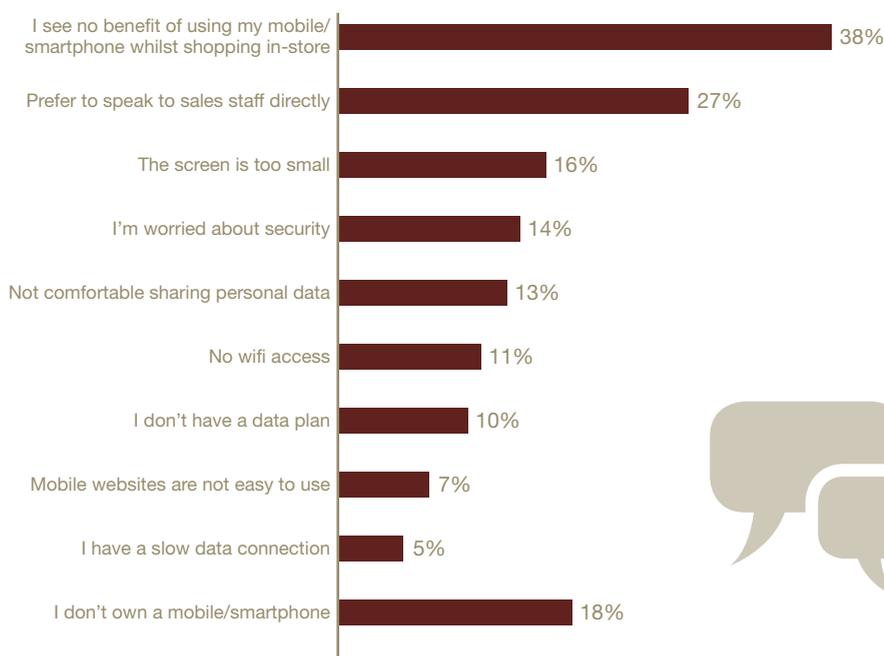
Studies by current and former Wharton academics confirm that customer service and employee training can have a positive impact on both customer satisfaction and sales. One study found that, among other operational variables, store staffing (as measured by payroll) and customers' ratings of employee knowledge impact customer satisfaction and sales.⁷ Another study examined Dillard sales associates' level of training. Experticity, a source of online training models, found that each training module taken increased a sales associate's sales by 1.8 %.⁸

Figure 10 shows consumer desire for helpful, knowledgeable store associates in another way. Of those consumers who stated they do not use a mobile/smartphone while

in store, 27% say this is because they prefer to speak directly with a store employee. And what would increase shoppers' preferences for buying from a neighborhood retailer? No less than four of the top five responses given related to store employees: better aftercare/ aftersales service (31%), helpful store personnel (29%), personalized service (28%), and boosting local employment (29%).

Figure 10: In-store, the desire to speak to sales staff can trump the lure of the mobile phone

Q: Why don't you use your mobile/smartphone whilst shopping in-store?



Base: 5,507
Source: PwC, *Total Retail Survey*, 2016

⁷ Fisher Marshall L., Jayanth Krishnan, and Serguei Netessine (2006), *Retail Store Execution: An Empirical Study*, <http://knowledge.wharton.upenn.edu/wp-content/uploads/2013/09/13361.pdf>

⁸ Fisher, Marshall L., Santiago Gallino, and Serguei Netessine (2015), *Does Online Learning Work in Retail?* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2670618



A deeper dive into our data shows major differences across countries when it comes to the importance of retail talent. For retailers, a thorough understanding of the market is important for effective investments into sales associate training and customer service. In some countries (UK, France, Japan, Italy), customer service ranked lower as a factor in making for a great shopping experience. But in Thailand, China, and the Middle East, for example, customers cite customer service relatively higher as driving their favorite retailer perception.

In other countries (Germany, Spain and Chile), customer service has a huge impact on favorite retailer perception, and enhanced service would improve both the in-store experience and local retailer preference.

5: Mobile devices have turned the corner as purchasing tools



Over Thanksgiving weekend roughly **103 million Americans shopped online** and accounted for almost a **third** (29%) of **total sales**—up 12% over 2014

In last year's report, we described how the mobile phone was still being used primarily as a pre-purchase tool, with online shoppers using it for researching products and stores, checking social media for customer reviews, and getting coupons and offers.

Many retailers are displaying a real flair for innovation in this regard; for example, the Swiss retailer Omega, based in Zurich, displays the majority of its products in windows with prominent QR codes, so shoppers can scan the QR code, look up the product to get more information, and then order on the phone for same day delivery. The Danish retailer T. Hansen, which sells auto equipment and spare parts, has introduced a unique twist on "click & collect." After a customer purchases a product online, the item will be ready for pick-up 30 minutes later in a store of their choice. When they come to the store they scan you mobile phone and then skip the line. If the product is not ready, it will be free.

In 2015, however, as overall online shopping saw another growth spurt, mobile shopping reached a tipping point, being used much more for

placing orders. Take Thanksgiving weekend in the US. Roughly 103 million Americans shopped online over the Thanksgiving-Black Friday weekend and, according to Adobe, mobile purchases drove the majority of those Thanksgiving weekend online shopping visits (51%), accounting for almost a third (29%) of sales—up 12% over 2014.⁹ In fact, investment bank Goldman Sachs predicts at the rate that retailers are integrating mobile into the shopping experience, mobile commerce will account for almost half of all e-commerce by 2018.¹⁰

If our survey is any indication, mobile shopping will increase its share of the online shopping revenue pie, and perhaps enlarge the pie itself. For our global sample, purchasing in the store via mobile phone is up 8% this year over last year, with 20% confirming that they have made purchases this way, compared to 12% last year. Forty-six percent of our global sample buys products on their mobile at least a few times a year, and 28% do so at least monthly.

⁹ Adobe Systems press release, November 30, 2015, "Adobe Data Shows Cyber Monday Largest Online Sales Day in History with \$3 Billion."

¹⁰ http://www.verifi.com/wp-content/uploads/2015/03/Verifi_State-of-Mobile_FINALweb.pdf

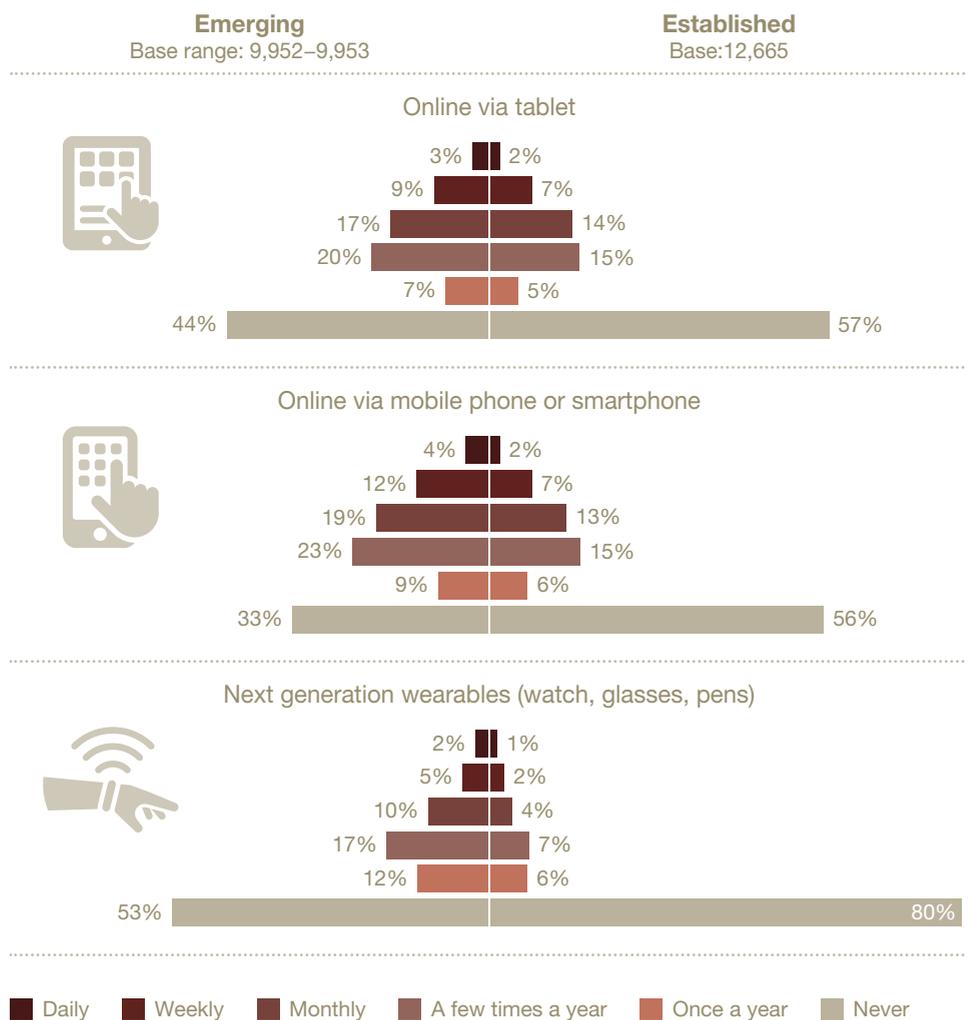
But it's when we look at shopping behaviors in the emerging versus established markets that the bright future of mobile purchasing really becomes clear.¹¹

Without the historical loyalty to the "High Street" and with the rate of personal computer ownership far lower than in established countries, emerging markets consumers have leapfrogged to mobile phones and are settling on them as their shopping channel of choice. Among our emerging market survey respondents, for example, 16% say they buy products at least weekly via their mobile phone, compared to 9% of our established markets respondents. And looking at how often online shoppers buy products on their mobile at least once a month, the gap widens significantly. Thirty-five percent of emerging markets respondents buy products on their mobile at least once a month, compared to 22% of those in established markets. Whether an emerging or established market, cyber-security is always on the mind of consumers, and more than 60% of our respondents from both markets are wary of having their personal credit information hacked while

using a mobile device. Consumers from emerging countries, however, are still more willing to load credit on their mobile phone and store their delivery information in an app.

Figure 11: The shopping experience through the lenses of emerging and established markets

Q: How often do you buy products (e.g., buy clothes, books, electronics) using the following shopping channels? Please do not include grocery shopping.



Source: PwC, Total Retail Survey, 2016

¹¹ To give another perspective on our survey analysis we used the Dow Jones country classification index to classify our overall sample into emerging market countries (Brazil, Chile, China, India, Malaysia, Mexico, Poland, Russia, South Africa, Thailand, Turkey, and the Middle East) and established markets (Australia, Belgium, Canada, Denmark, France, Germany, Hong Kong, Italy, Japan, Singapore, Spain, Switzerland, UK, and the USA).

A reliance by emerging markets shoppers on mobile phones also extends to the in-store experience. Twenty-seven percent of emerging markets shoppers paid for purchases in the store with a mobile, while just 13% of established markets shoppers did.

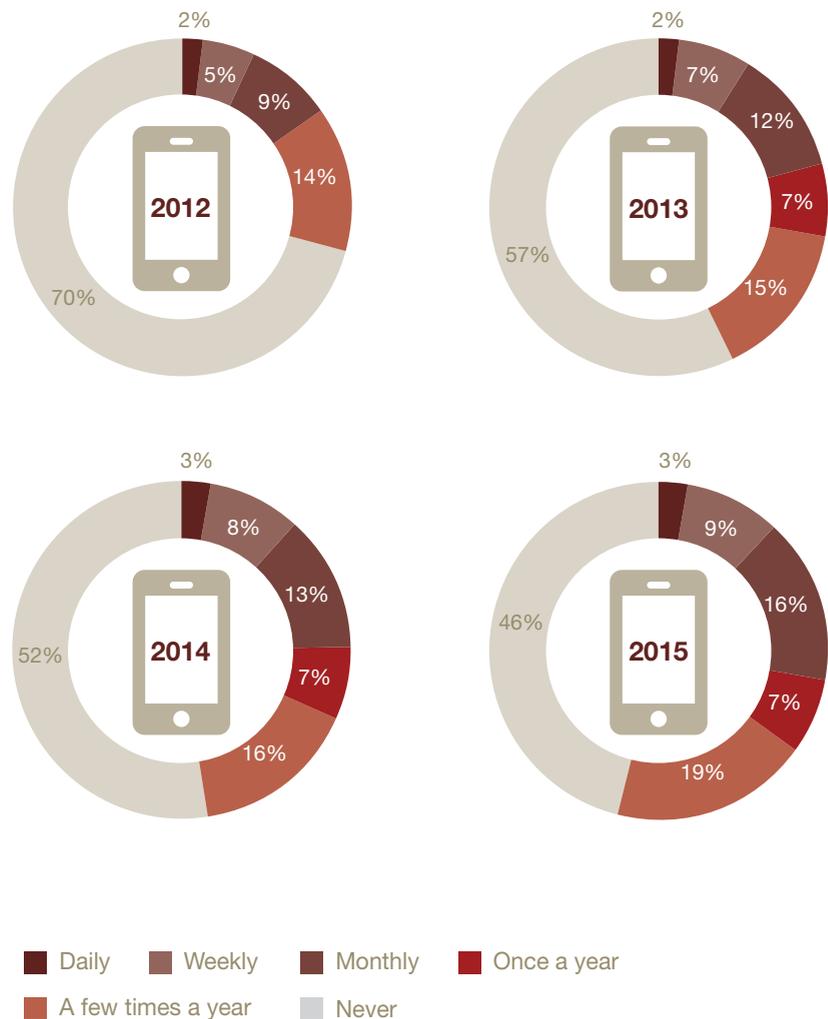
Perhaps the best overall illustration of this march toward mobile comes by looking back several years to see how respondents have answered the question, “How often do you buy products using the following shopping channels?” Figure 12 shows that in the category of mobile/smart phone, the biggest change has been in the “Never” response, which has plummeted from 70% to 46% of our global sample. If we see the same percentage drop over the next three years, by the beginning of 2019 almost 80% would be shopping via a mobile phone for at least some of their purchases.

One example of how retailers are taking advantage of this migration to mobile is Zalando, a Berlin-based footwear and clothing retailer that now experiences nearly 60% of its web site visits through mobile devices. Zalando’s mobile results have come after creating “the

Studio” with the help of a global design and innovation firm. The purpose of the Studio is to quickly create new digital products, services and experiences for Zalando’s online customers. The time frame for apps coming to fruition at Zalando is not years or months, but weeks.

Figure 12: Frequency of purchasing via mobile/smart phone is increasing across each of the following time frames

Q: How often do you buy products using a mobile/smart phone? Please do not include grocery shopping.



Source: PwC, Total Retail Survey, 2016

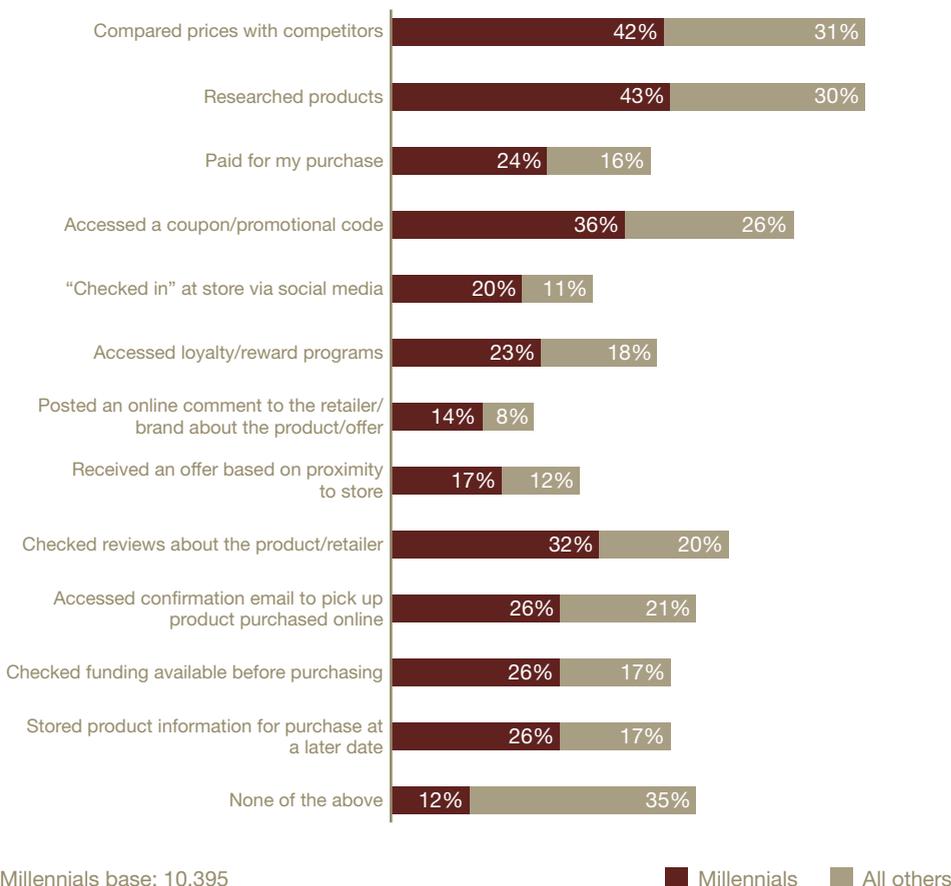
Figure 12 illustrates another interesting fact related to the frequency of mobile shopping. While the number of respondents who shop on their mobile phone just once a year has stayed steady at 7% from 2012–2015, those who shop monthly has grown from 9% to 16%, and weekly from 5% to 9%, and a few times a year from 14% to 19%.

So the vast majority of shoppers are not just trying mobile purchasing—they are trying it and then doing it more and more. Part of the reason for consumers trying mobile purchasing and sticking with it concerns the increasing ease of use. Experiences can vary across mobile sites and apps, and Amazon has popularized the one-click shopping button. Research has shown that simplifying the online checkout process makes consumers much more likely to complete the purchase.

As with many shopping habits, there is a marked difference in mobile purchasing when it comes to younger shoppers, including the Millennials so prized by retailers. Figure 13 shows how frequently shoppers aged 18-34 engage in certain purchasing-related activities. Twenty-four percent of Millennials said they paid for purchases on their mobile compared to 16% for everyone else, 23% accessed their loyalty/reward program compared to 18% for everyone else, and 26% checked their funding available before purchasing, compared to 17% of everyone else.

Figure 13: In-store, Millennials reach for their mobile phone far more often than other age groups

Q: Which of the following have you done using your mobile/smartphone whilst in-store?



Millennials base: 10,395

All others 12,223

Source: PwC, *Total Retail Survey*, 2016

6: Today's consumers look to community

Today, the word “community” often implies a virtual or digital community, particularly when applied to Millennials. But retailers in the past few years have been responding in a host of ways to consumers’ quests for connection, exclusivity, customization, and membership.

customers to like-minded consumers in any significant way. For example, when we asked our sample to name the top three benefits they received from their loyalty/reward programs, the most popular answers were member-only discounts/offers (70%), collecting reward points (61%), and free shipping (58%). All legitimate benefits, certainly, but not exactly the kind of personalization, connection, and engagement that retailers could potentially integrate into their loyalty plans. We believe there are innovative ways for retailers to create community through loyalty programs.

91% of our global survey sample reported that they are a member of a loyalty/reward program.

The traditional method of providing additional benefits to customers has been through membership in a loyalty/reward program. And loyalty programs have been astonishingly successful tools for retailers: 91% of our global survey sample reported that they are a member of a loyalty/reward program. So consumers’ willingness to be part of a retailer community that brings tangible benefits is clear. But, in many ways, loyalty programs have grown stagnant through a failure of imagination, and don’t really build a community. Getting a certain level of award points due to spending a certain amount of money at a retailer doesn’t connect



70%

said member-only discounts/offers was a top benefit



61%

said collecting reward points was a top benefit



58%

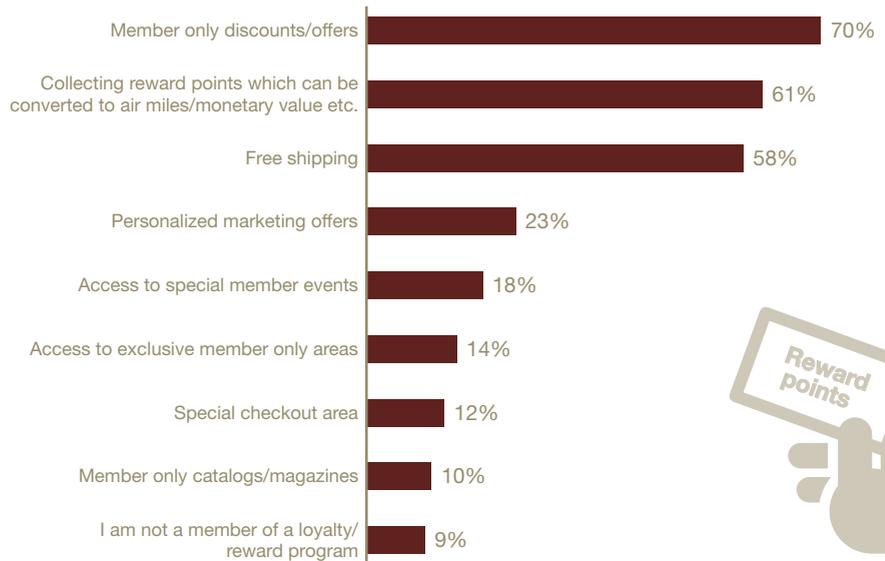
said free shipping was a top benefit

Behind the most popular answers to the question we asked about loyalty programs, in fact, was other data that hints at the desire for a higher degree of customization and unique, exclusive benefits. Respondents also chose personalized marketing offers (23%), access to special member events (18%), and access to exclusive member-only areas (14%) as key benefits of being a member of a loyalty-reward program.

From a geographic point of view, if the China leading indicator effect discussed earlier in this report can be applied to loyalty programs, expect far less emphasis from consumers on reward points and shipping in the future, as Chinese online shoppers value access to special member events (32%) and personalized marketing offers (36%) far more than their global peers.

Figure 14: While reward points and free shipping are attractive, consumers also desire exclusivity

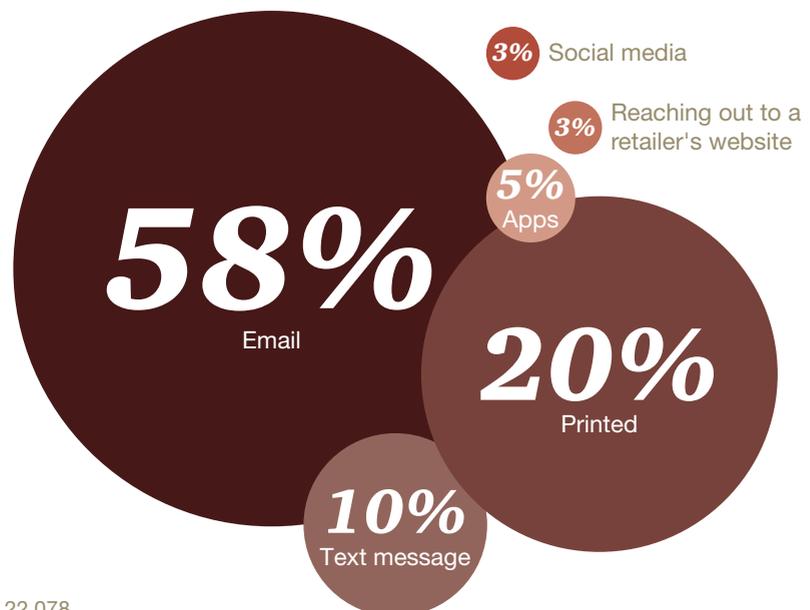
Q: What do you feel are the key benefits of being a member of a loyalty/reward program?



Base: 22,618
Source: PwC, Total Retail Survey, 2016

Figure 15: While text messages are gaining traction, global consumers still prefer to receive discounts through email

Q: What is your preferred method to receive discounts, promotions or coupons?



Base: 22,078
Source: PwC, Total Retail Survey, 2016

Many retailers are betting that the desire for community among shoppers will only get more pronounced. Many of the most innovative of these initiatives bridge the physical and online worlds.

For example, the upscale US department store chain Nordstrom, with a well-deserved reputation for innovation, created strong engagement with customers through the popular social media site Pinterest. Store items that are frequently “pinned” on the site are physically highlighted with a red tag bearing the Pinterest logo and prominently displayed in the store. So with no need for any formal sign-up or customer membership details, Nordstrom used the social activity surrounding its products to create an informal “in the know” community, while building a greater understanding of its customers’ preferences. This page details some other innovative examples of retailers building customer communities.

- **Tesco**—The UK grocery retailer is “recycling” store space into a more welcoming environment in its large stores, with cafés, nail bars, gyms, and community rooms.
- **Rapha**—Rapha is a UK cycling retailer. Its “Rapha Cycle Club,” offers limited edition products, access to off-the-beaten track bike trails, and an international cycling concierge service for questions and local information. The club has also established a global network of meeting places—often cafes with the Rapha collection available for purchase—for like-minded cyclists.
- **Waitrose**—This upscale UK supermarket started its own cooking website known as Waitrose Kitchen, inviting customers to share their ideas and recipes while they browse and purchase products. Due to success of Waitrose Kitchen, Waitrose Florist and Waitrose Cellar were also introduced, creating a one-stop shopping experience for this customer community.
- **IKEA**—The iconic Swedish retailer has empowered “IKEA Fans” who interact through its own blogs and other forums throughout IKEA’s social community, organizing postings by room (e.g. kitchen) or interest (e.g. green living). Customers showcase their new decorating projects or furniture arrangements, receive feedback from fellow customers and discuss common customer challenges, such as furniture assembly.
- **Sport Chek**—This Canadian sports apparel and equipment company shot nine basketball mini-documentaries in nine different Toronto neighborhoods and featured the pieces in its #MyNorth campaign. The campaign generated 8,500 social media mentions and about 38 million social media impressions.



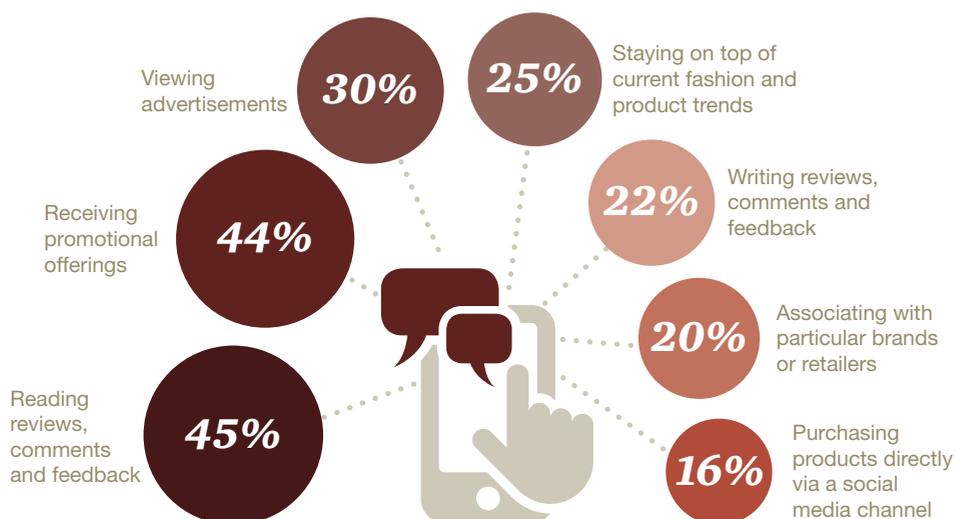
7. Social media is the “great influencer”

If 2015 was the year of mobile, it was also the year of social media. While social media is still in its nascent stages as a driver of online purchasing, its growth in both pure social-driven retail sales and referral traffic is undeniable, outpacing all other online channels. When looking at the top 500 retailers in the US for example, the \$3.3 billion in sales from social shopping in 2014 marked a 26% increase from 2013, according to the Internet Retailer’s Social Media 500. This growth is well ahead of the roughly 16% growth rate for the overall e-commerce market in the US.¹²

For our Total Retail survey research, too, 2015 appears to be a turning point. This year, 78% of our global sample was influenced in some way by social media, up from 68% in our previous study. As shown in Figure 17, 43% of our global sample said that an interaction with a favorite brand on social media resulted in more respect for the brand. Taking into account those survey respondents who did interact with a favorite brand, 64% said that interaction had led them to respect or value the brand more.

Figure 16: Social media means more information for shoppers

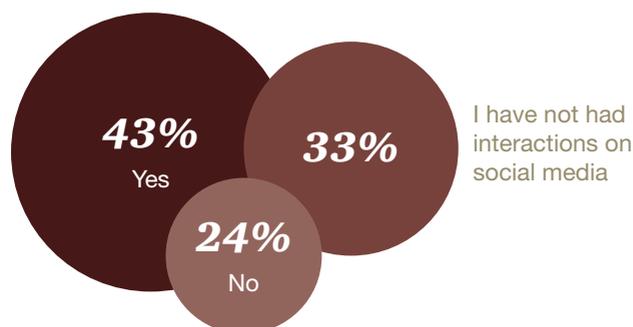
Q: Which of the following aspects of social media influence your online shopping behaviour?



Base: 22,618
Source: PwC, *Total Retail Survey*, 2016

Figure 17: Shoppers generally come away with a positive impression after a social media interaction with a brand

Q: Has any interaction you have had with your favourite brands on social media driven you to respect/value the brand more?



Base: 22,618
Source: PwC, *Total Retail Survey*, 2016

¹² *Business Insider* June 30, 2015, <http://www.businessinsider.com/social-commerce-2015-report-2015-6>

A full 45% said that reading reviews, comments and feedback influences their online shopping behavior. In emerging markets, this share is 56%, while it is 36% in established markets. When we look at the country breakdown, the discrepancy is striking. For example, in Denmark just 22% of survey participants are influenced by reading review, comments, and feedback, while in Malaysia that figure is 69%. India follows at 66%, China follows at 63%, Chile follows at 58%, and Turkey at 56%.

It's not just consumers who are being influenced by customer reviews, comments and feedback. For retailers, this tsunami of volunteered customer information is an additional form of customer research, as there is a huge volume of data readily available—and in real time.

Interestingly, social media's increasing impact does not sound the death knell for advertising. A full 30% of our sample said that “viewing advertisements” influenced their shopping behavior. Online shoppers most influenced by advertisements reside in India (55%), South Africa (49%), Chile (47%), Mexico (46%) and Malaysia (45%).

Figure 18: Social media influences in different ways across the globe

Q: Which of the following aspects of social media influence your online shopping behavior?

	Viewing advertisements Base: 6,775	Writing reviews, comments and feedback Base: 5,030	Reading reviews, comments and feedback Base: 10,154
Australia	22%	13%	37%
Belgium	15%	8%	23%
Brazil	43%	35%	56%
Canada	22%	13%	38%
Chile	47%	25%	58%
China	28%	35%	63%
Denmark	12%	20%	22%
France	16%	11%	25%
Germany	21%	17%	37%
Hong Kong*	32%	27%	59%
India	55%	45%	66%
Italy	17%	23%	47%
Japan	24%	15%	40%
Malaysia	45%	31%	69%
Middle East**	43%	20%	37%
Mexico	46%	23%	55%
Poland	14%	19%	49%
Russia	20%	31%	59%
Singapore	34%	25%	57%
South Africa	49%	23%	52%
Spain	29%	19%	46%
Switzerland	18%	11%	34%
Thailand	44%	37%	53%
Turkey	44%	40%	56%
United Kingdom	17%	14%	33%
United States	26%	18%	40%
Global	30%	22%	45%

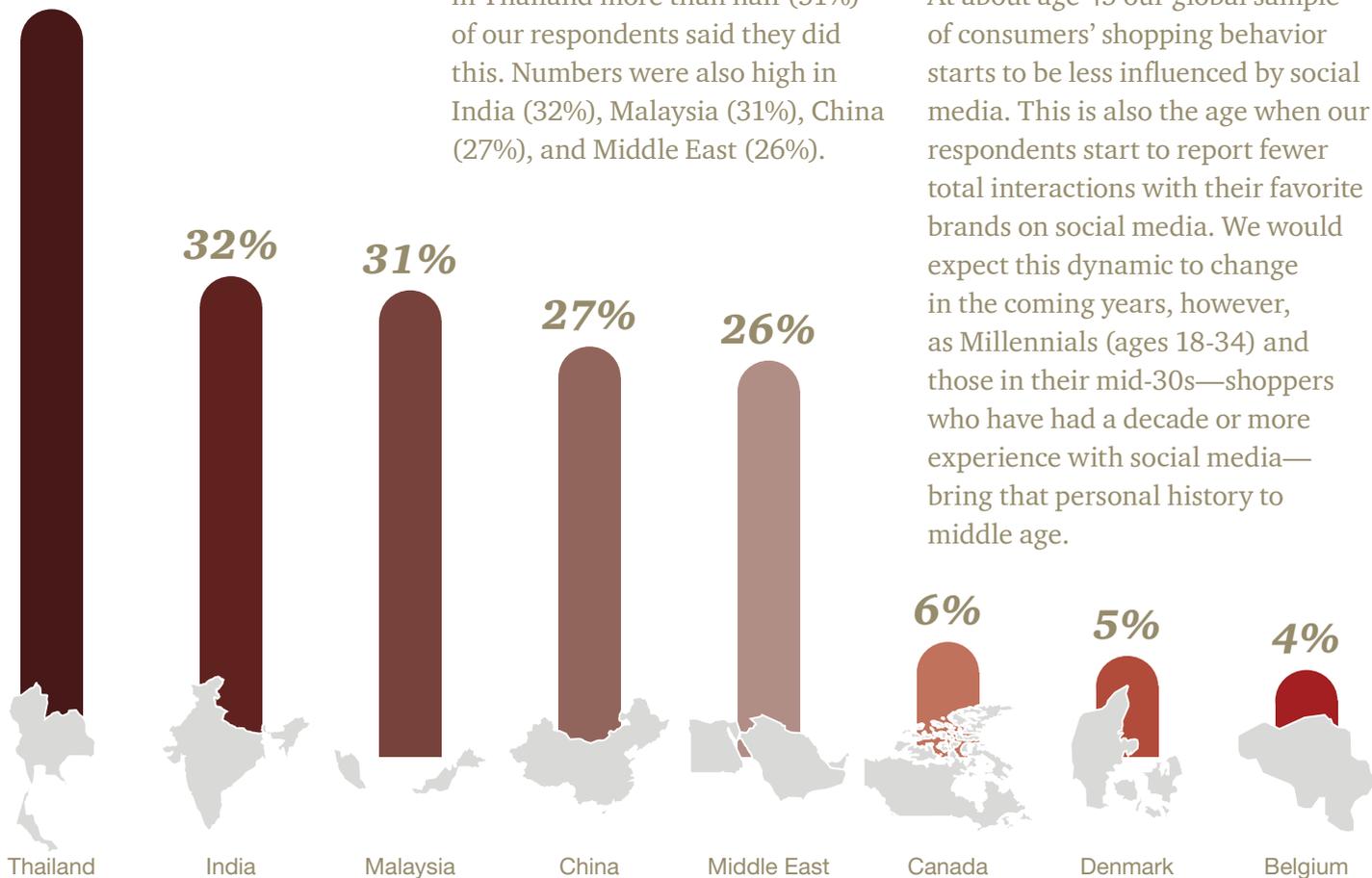
* For Hong Kong, the base size was 100 survey respondents

**Middle East includes UAE, Egypt & Saudi Arabia

Figure 19: Social media as a shopping channel

Online shoppers who said they purchased directly via a **social media** channel

51%



This year also marks the first time in the history of this survey that we've seen a significant increase in the number of online shoppers purchasing directly via a social media channel. Sixteen percent of our survey sample said that they purchase products this way, an increase of 9% since the 2014 survey. Here we see vast gulfs between consumers in different countries. In Belgium, Denmark and Canada just 4%, 5% and 6% of online shoppers, respectively, said that purchasing directly via a social media channel was part of their shopping behavior, while in Thailand more than half (51%) of our respondents said they did this. Numbers were also high in India (32%), Malaysia (31%), China (27%), and Middle East (26%).

Whenever social media is discussed, our data illustrates that geography and age are huge factors. Consumers in emerging markets are far more influenced by social media (92%) than those in established countries (66%). In addition, when it comes to valuing the brand because of interactions with social media, another huge gulf is apparent. Eighty percent of emerging markets online shoppers who have had interactions on social media, valued the brand more, while just 47% of established markets online shoppers did.

At about age 45 our global sample of consumers' shopping behavior starts to be less influenced by social media. This is also the age when our respondents start to report fewer total interactions with their favorite brands on social media. We would expect this dynamic to change in the coming years, however, as Millennials (ages 18-34) and those in their mid-30s—shoppers who have had a decade or more experience with social media—bring that personal history to middle age.

Global base: 3,561
Source: PwC, Total Retail Survey, 2016

8: There is room for retailers to grab the “leading innovator” mantle

It’s a debatable point how much of a premium retailers have put on innovation over the years.

But one thing’s for certain: consumers are now demanding innovation—technological innovation in particular—as they insist on a seamless, integrated omnichannel experience that enables them to shop from

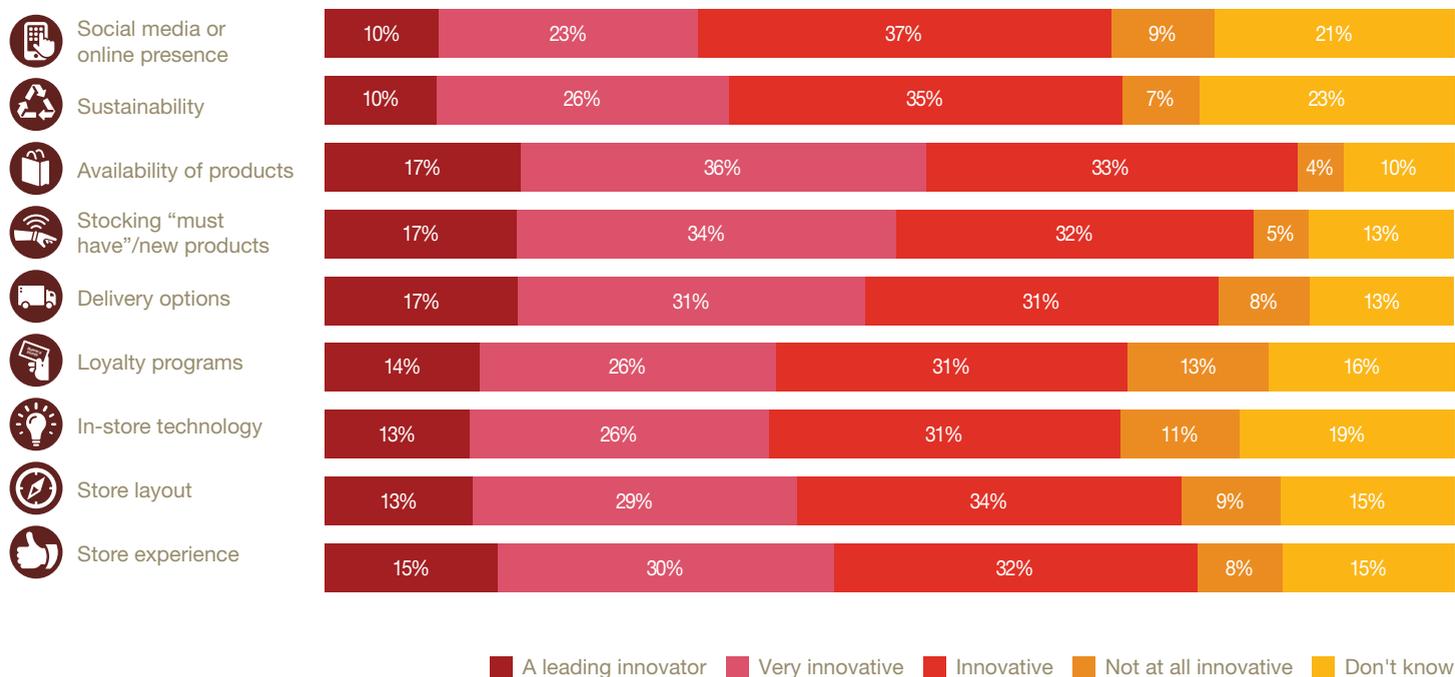
anywhere via their mobile phone, tablet, PC or wearable device, in addition to traditional brick-and-mortar stores.

When we asked respondents directly about how innovative they thought their favorite retailer was, the good news is that they generally view their favorite retailers as being quite innovative.

As Figure 20 shows, when we add together our three degrees of innovative—“innovative,” “very innovative,” and “leading innovator”—well over 60% of our sample are saying that their favorite retailer is at least somewhat innovative. Shoppers regarded their favorite retailers as most innovative in “availability of products” and “stocking must-have/new products.”

Figure 20: Perceptions of retailer innovation are most positive around product availability; less so in sustainability and online presence

Q: Thinking of your favorite retailer, how innovative do you consider them to be with regard to the following areas?



Base range: 22,164–22,403

Source: PwC, *Total Retail Survey*, 2016

The issue for retailers is the small percentage of respondents who believe their favorite retailer is innovative enough to be a “leading innovator.” No category topped 17%, and only 10% of respondents said that social media and sustainability were categories in which their favorite retailer is a leading innovator. Given how active the world’s online shoppers are on social media, retailers will certainly want to improve here. Possibly, consumers are setting the bar extremely high for social media innovation, in which case retailers simply have more room to improve.

But either way, this lack of enthusiasm about favorite retailers represents a huge opportunity. For those retailers with the wherewithal to invest, there’s plenty of room to become known as a leading innovator.

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