Where should Swiss players focus on?

Swiss findings

www.pwc.ch/r&c

Contents

Where should Swiss players focus on?

2016 Total Retail: maturity and misconceptions

For years, digital retailing or 'etailing' has been an area of frantic growth and innovation. Every other day, it seems, some sort of novelty was emerging from sellers, from buyers or from technology providers. Change, change and more change was the sign of the times.

In today's Switzerland, however, that merry-go-round has slowed. Yes, growth and innovation continue, but PwC's 2016 Total Retail survey finds that both retailers and consumers have entered a stage of maturity. Instead of 'change, change, change', digital retail is becoming more routine. Nearly everyone is doing it now. The current situation harks back to the 1950s and 60s, when there was widespread adoption of television. At first, it was a big deal to have a TV. Eventually, it was a big deal not to have one. Swiss etailing is at this point somewhere between these two extremes.

As people mature, they often gain wisdom, and so it is too with digital retailing. This year's Total Retail survey presents some unconventional wisdom, i.e. contradicting widely held misconceptions. Just as our renaissance ancestors realised that the world was not flat, digitally literate retailers and consumers are realising (much more quickly) that certain assumptions do not hold. It's time for these four shibboleths to be torn down, so that sellers and buyers can continue to move onto new ground.

All told, this 2016 Total Retail report presents the following findings:

- Numbers of first-time online buyers are declining
- The overvalued franc and digitally enabled pricing transparency is driving shoppers to cross borders online
- Digital retail has three main misconceptions:
  - Social media has limited influence on shopping
  - Old and young shoppers are fundamentally different
  - Retailers can forget about paper and do everything online

The Swiss Total Retail report is based on a PwC global survey administered between June and August 2015 to understand and compare consumer shopping behaviors and the use of different retail channels across 25 territories (Americas, Africa, Asia, Europe and Australia). This report contains the results of our Total Retail research in Switzerland (1,028 online interviews).

Digital retailers and consumers are maturing

It had to happen. At some point, etailing had to go mainstream, had to become the 'new normal'. And in Switzerland it did just that sometime during 2015. The market moved from frantic growth to more settled, established growth.

First-time online buyers are declining in numbers

A clear sign of this was the decrease of buyers making their first-ever online purchase. Last year these made up 13 % of all consumers; this year they had slipped slightly to 12 %. This, we think, signals a 'tipping point' of maturity. From now on, 'newbies' will be a declining portion of the public. Most people have accepted etailing as reality, and they have climbed on board as users.

Indeed, digital consumerism has gone mainstream. Nearly two-thirds of Swiss consumers purchase something online at least once a month. One-fifth of them do so at least once a week. And the remaining one-third buys online at least a few times per year.

This maturity is less obvious than it might seem. In most of the 25 countries surveyed for 2016 Total Retail, first-timers are still growing in numbers. In countries such as Mexico, Turkey, Malaysia and Spain, their expansion is downright explosive. But here in Switzerland (also in China, Belgium and Brazil), signs of middle-age are starting to appear.

The franc's overvaluation is driving more shoppers to cross borders online

Another sign of maturity is pragmatism. Faced with huge price differentials between domestic and foreign retailers, Swiss consumers are increasingly making a pragmatic choice: they are buying foreign.

Online retail makes this easier and more accessible than ever. Especially for commoditised products such as clothes, books, music and electronics, Swiss shoppers are crossing borders online in order to save money. And why not? Often the foreign products are, literally, exactly the same as the domestic ones, just at vastly reduced prices.

Buying them online is demonstrably easier than travelling to a neighbouring country. Easier yet is to buy them online and have them delivered to an address in Germany, Austria or France. A number of 'foreign address' companies have popped up along Switzerland's borders. These firms accept packages which can either be forwarded on or picked up by their Swiss customers, allowing them to access lower prices and to avoid value-added taxes.

Major misconceptions still prevail

Part of maturity is accepting that you sometimes had it wrong. No, people today don't work fewer hours than they used to. We don't travel around in flying cars. Online shopping is not the predominant way people buy groceries. So it is with some myths of etailing – three have surfaced in the 2016 Total Retail survey.

Social media has limited influence on shopping

What happens on Facebook stays on Facebook, right?

Wrong, especially in Switzerland. A solid two-thirds of consumers say that their buying decisions are influenced by social media (which also includes LinkedIn, Twitter, Instagram and the like). Particularly reviews by peers or influencers and promotions catch their eyes and open their wallets.

Old and young shoppers are fundamentally different

Call it several shades of grey. Yes, older shoppers are not identical to younger ones, but they are not a completely different species, either. Across all age groups, nearly every shopper wants four things at a retailer:

- *Knowledgeable salespeople:* nothing is more gratifying than help from a real person who truly understands the products on offer, who can walk consumers through a series of choice. Conversely, nothing is more irritating than ignorant clerks who don't know their merchandise.
- *An overview of a product range, shown on screen:* if you're looking for a chair, it is oh-so-nice to be able to see the entire selection of chairs, quickly and compactly, all in one place.
- *An overview of product availability:* once she/he has chosen her/his chair, today's consumer wants to know if it is in stock, and if not, when it will be or whether it might be in stock at another of the retailer's shops.
- *Self-service check-out:* Nobody likes standing in a queue, and many prefer to keep their purchases as private as possible.

Retailers can forget about paper and do everything online

Old habits die hard, and some never die at all. In Switzerland, there is a tradition (started by stalwart retailers) of consumers using hard-copy coupons received in the post, as opposed to coupons from emails or websites.

This is part of a larger proclivity toward retailers with a 'human face'. Most Swiss consumers want more out of a retailer than just a set of products. They want a personality, a 'Weltanschauung' that they can identify with, a feeling that they are shopping amongst a group of like-minded people. Coop and Migros offer this already: retailers in other areas might be wise to follow suit. It's the least they can do to justify their high prices relative to foreign competitors.

Three simple steps for Swiss brands and retailers

More than ever, building the capability to connect with tomorrow's customer should be part of your strategic journey.

1. Turn on social listening *(Insights 6, 4 and 2)*

Customers – yours and your competitors' – talk. They talk about you and to you. They are doing this on social media, via digital channels, apps and websites and via your call center.

Combining insights from these channels is the single most powerful way to place the voice of the customer front and centre in your business. Customer advocacy programmes in particular can benefit, as the scale and frequency of customer contact from these channels often heavily outweighs survey driven programmes. There are many tools available to broaden a business's listening capability, so this need not be expensive or complex. PwC's customer mind is one tool, and offers the ability to measure real-time customer advocacy by analysing the sentiment expressed.

2. Understand today's customer journeys – building personas *(Insights 3, 4, 5, 6, 7 and 8)*

Do you truly understand the journey that your customers go through today and the occasions that trigger them? Do you truly understand the impact of cross-border shopping?

Focus on priority occasions and persons to begin with, and research the full end to end experience across physical and digital channels, not just where they interact with your brand.

For example, a supermarket trying to understand the end to end journey for a city-based family doing their weekly grocery shop would need to start at meal planning and end at meal consumption, not just the part when the family is in their store. Use this research to think more widely about the problems you can solve rather than the products you can push.

3. Develop your customer engagement strategy – reshape your business capabilities *(Insights 5, 6, 4 and 1)*

In tomorrow's world, loyalty is less about managing reward and recognition programmes and more about building a relationship that each customer values. What engagement do you need through your priority customer journeys to drive advocacy? These might be interactions that make their life easier, reinforce the emotional attributes of your brand, or require them to invest time or energy in your brand. What listening, interpretation, response and targeting capabilities do you need to deliver that engagement vision? What changes are required in your business model to enable the strategy? What data and technology options are there for realising those capabilities? What is the roadmap to get you there?

Our insights on the next Swiss operating model

The scale of change required to reshape an organisation so that it is competitive and profitable in the Swiss retail & consumer market will take time. It is most challenging for the largest, longest established businesses, while some of the more nimble or recently established businesses are nearly there.

Fast-forward a few years and the most successful names will:

- have 'digital' capability embedded in all parts of the business – it will no longer be owned by one team;
- use greatly enhanced customer insights to guide each department, whether it's the design of the product, what inventory is fast-tracked through the supply chain, or how store employees are incentivized;
- have a single owner for all retail channels (store, online) with consistent metrics that drive the organisation to interact with customers in the channel of their choice;
- be staffed by employees who are empowered by mobile devices to help customers and be highly productive;
- operate direct relationships with consumers through multiple channels.

A new scorecard

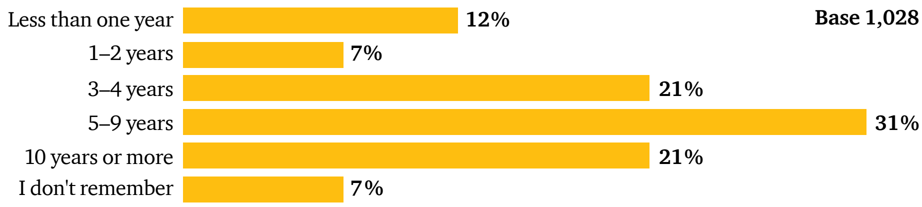
While a number of traditional metrics are still relevant (such as sales, margin, EBIT, ROC, CODB, etc.), we anticipate and are already working on models shifting toward metrics focusing on customer advocacy and profitability.

This means that you need to:

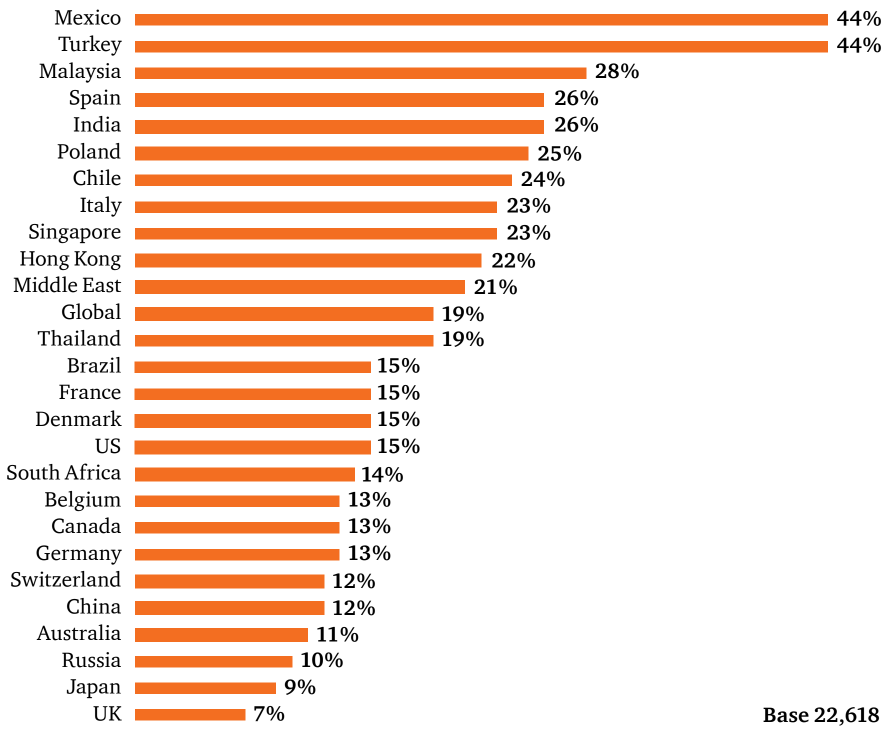
- ensure purchases are successfully delivered to the customer (supply chain is part of the product);
- measure the health of your customer relationships (both the immediate customer/retailer and the end consumer);
- understand how the engagement channels work together to attract customers and convert to successful sales.

Insight 1 – Dynamic recruitment of new online buyers … except in Switzerland

How long since you made your first ever online purchase?



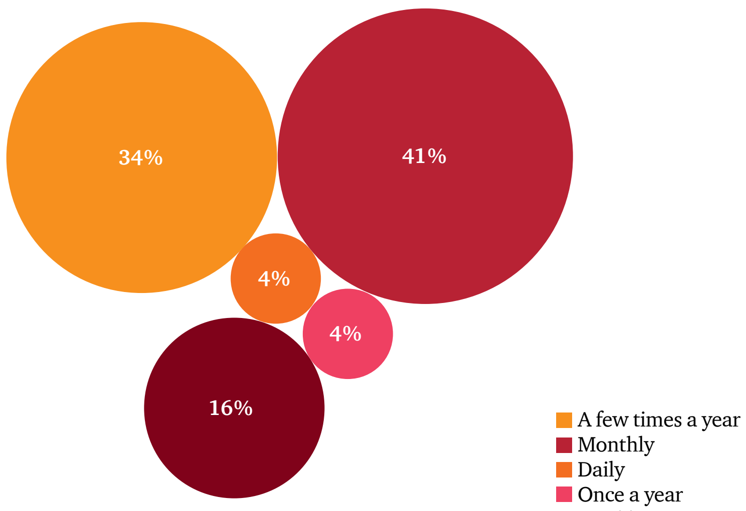
% respondents with first ever online purchase made last year



- Slight diminution of first-timers between 2015 and 2016 (-1%) in Switzerland.
- Only six countries see a decrease in the number of respondents who made their first online purchase last year: Switzerland, China, Belgium, Brazil, India and Middle East.

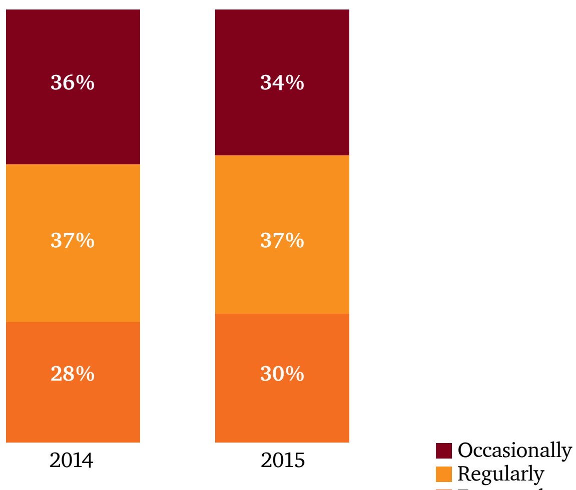
Insight 2 – Online purchases are regular but not frequent – overall online shopping frequency is increasing

On average, how often do you buy products online?



Base 1,028

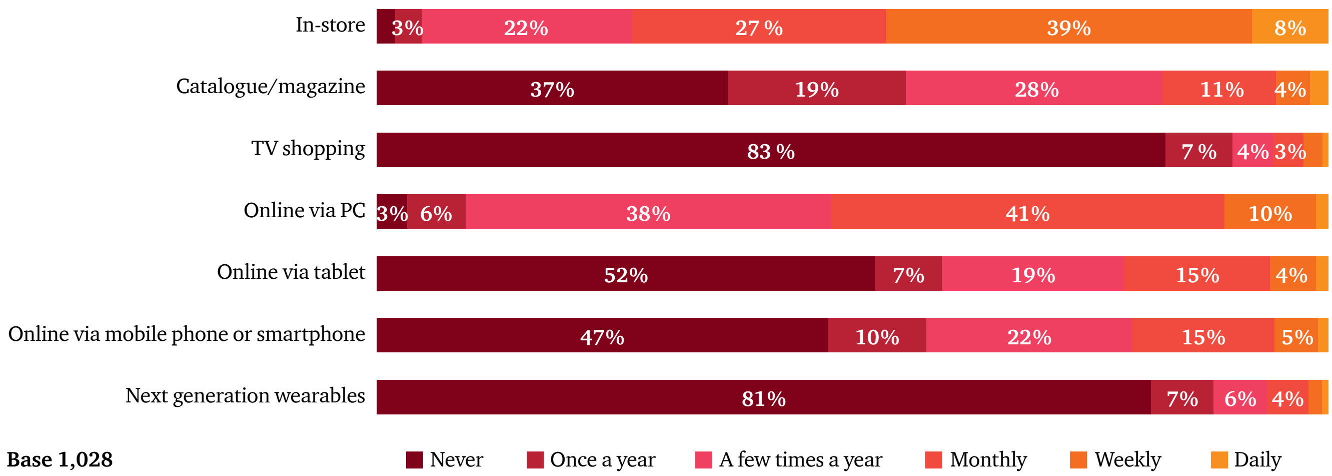
Global average



Base 22,618

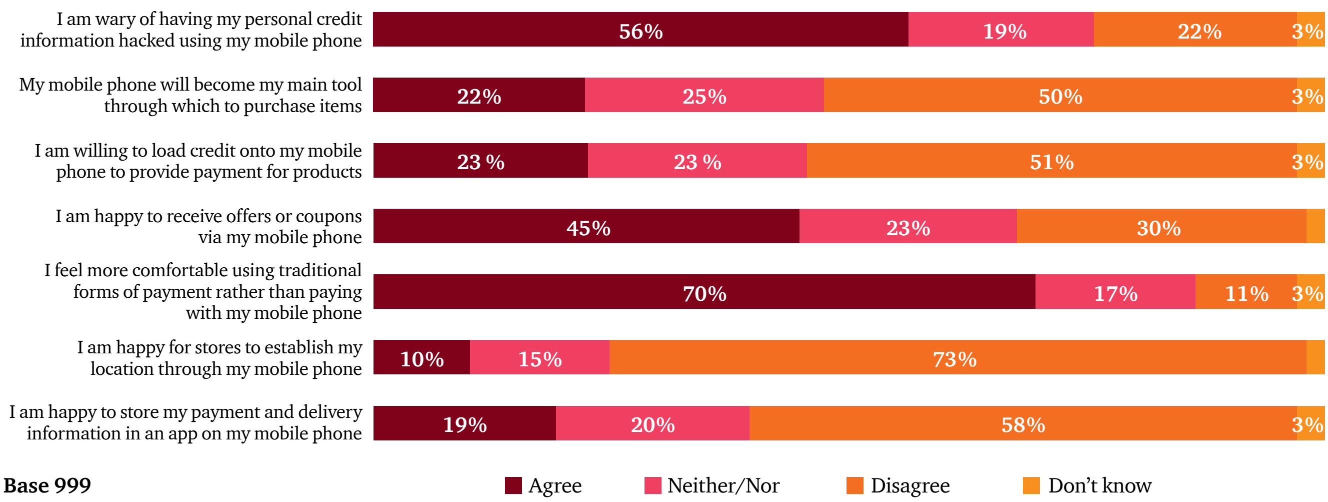
- The use of mobile and tablets for shopping online is increasing significantly – in line with other matured countries.
- Shopping online via PC:
  2014: 97%
  2015: 97%
- Shopping online via mobile:
  2014: 44%
  2015: 53%
- Shopping online via tablet:
  2014: 42%
  2015: 48%
- We believe it could be further improved if consumers were confident that their data can not be hacked or were even clearer on the use of their personal information by retailers (localisation, purchase frequency, financial information).

How often do you buy products using the following channels?



Base 1,028

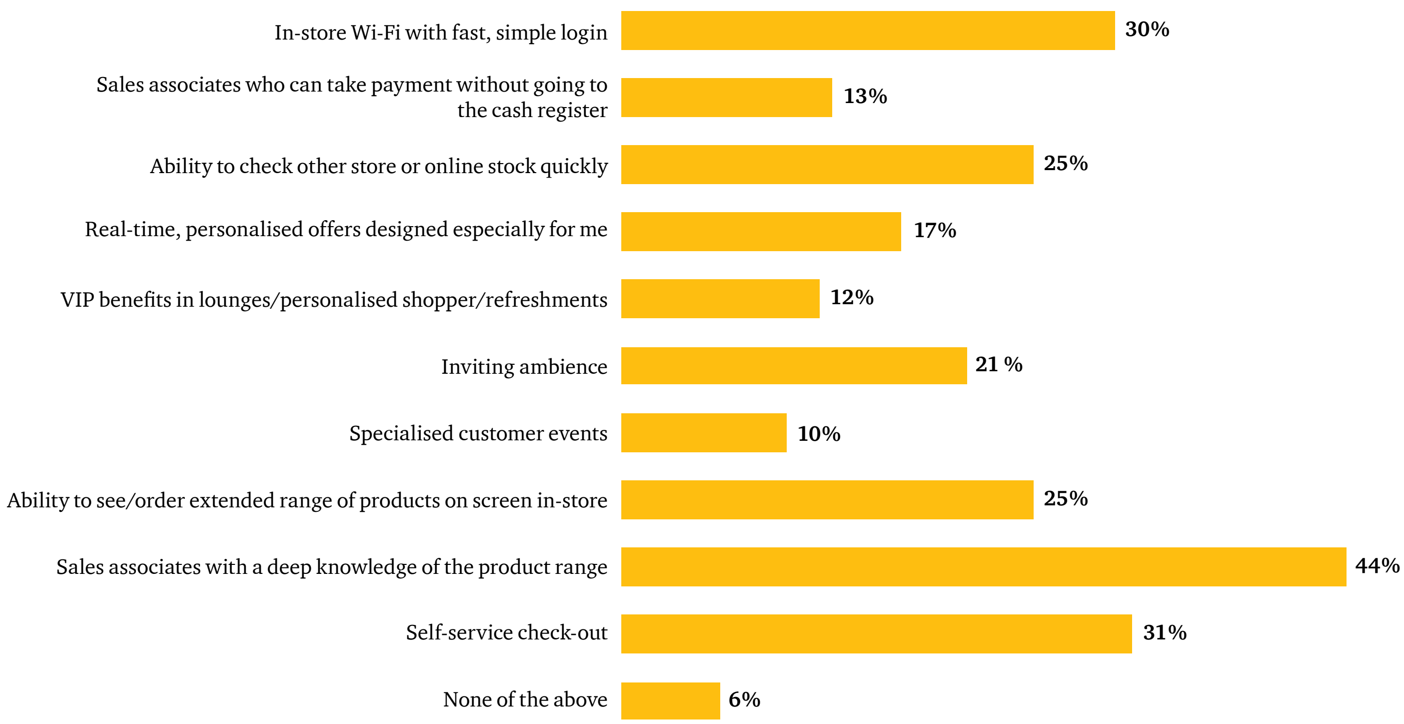
Please indicate how strong you agree or disagree with the following statements?



Base 999

Insight 3 – Expectations on store experience are consistent between age groups

Which of the following would make your experience better ?

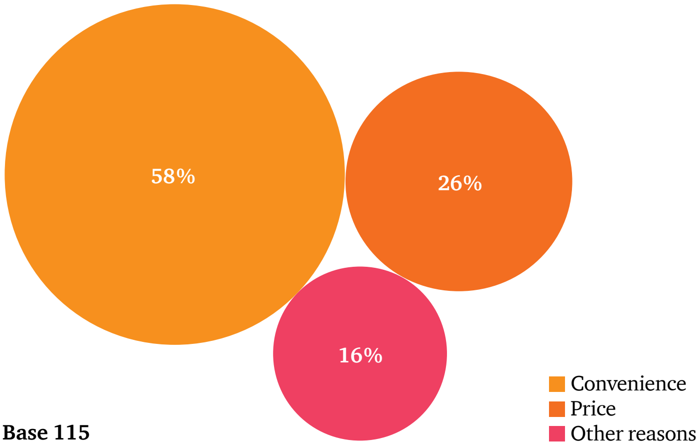


Base 1,028

- Sales associates are the most important element of shoppers' store experience across all age groups.
- The top four components of store experience are consistent between age groups: sales associates, ability to see extended product range on screen, self-service check-out, ability to check other store stock online quickly.

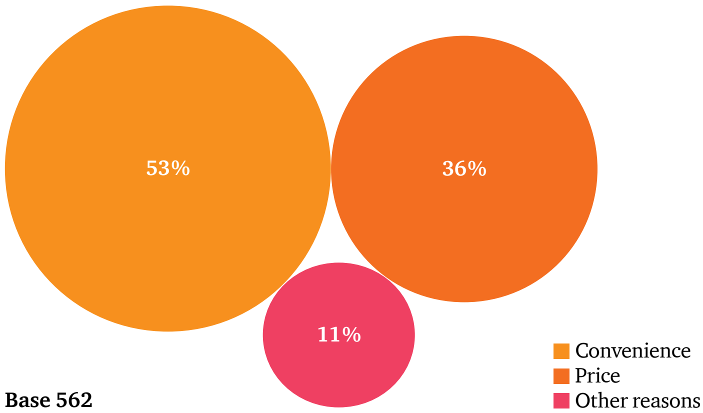
Insight 4 – Main influencers for buying online: commodity is more important for older age categories

What has been your main influencer for buying online in the last 12 months? (Age > 55)



Base 115

What has been your main influencer for bying online in the last 12 months? (Age 18–34)

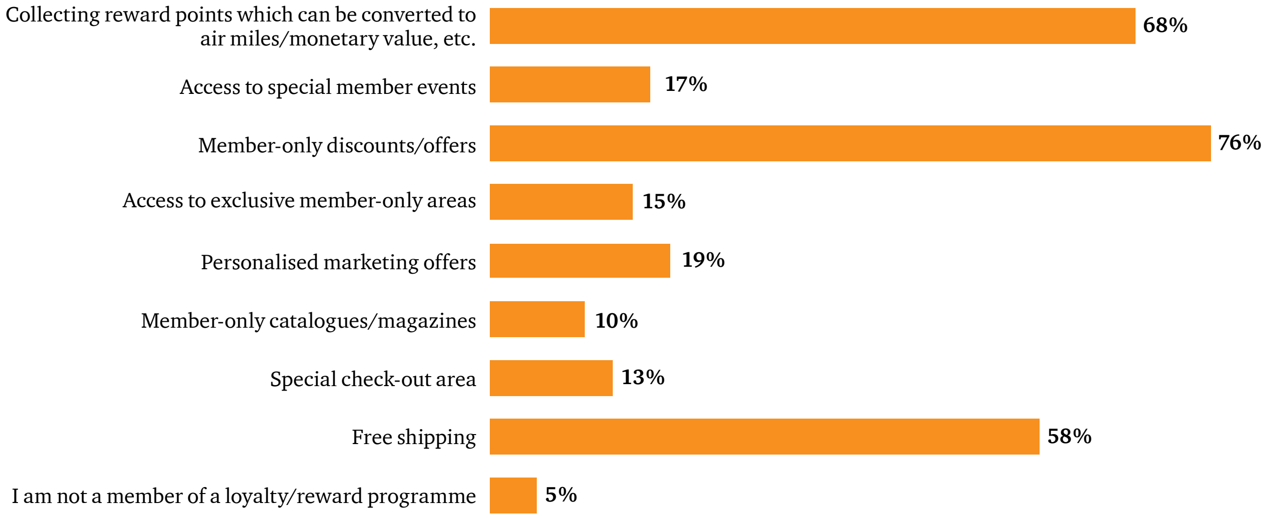


Base 562

Our global research shows that customers who value commodity are likely to buy more online: 35 % of clients who value commodity purchase at least once a week whereas 25 % of customers who value price purchase at least once a week.

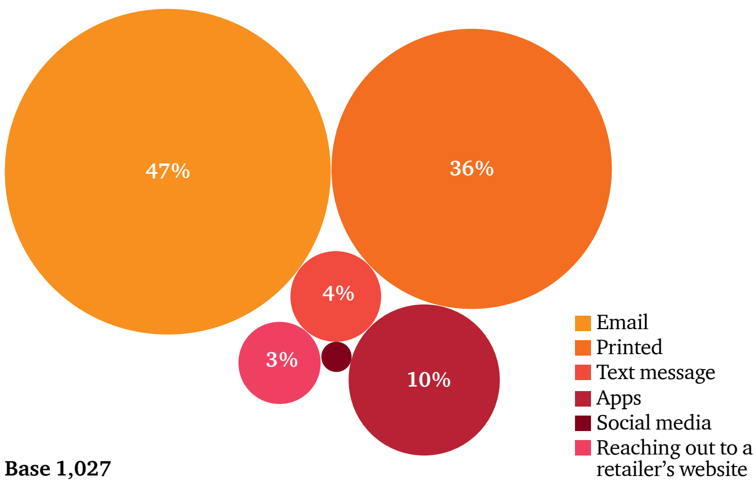
Insight 5 – Not surprisingly, value is the preferred component of reward programmes

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



Base 1,028

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

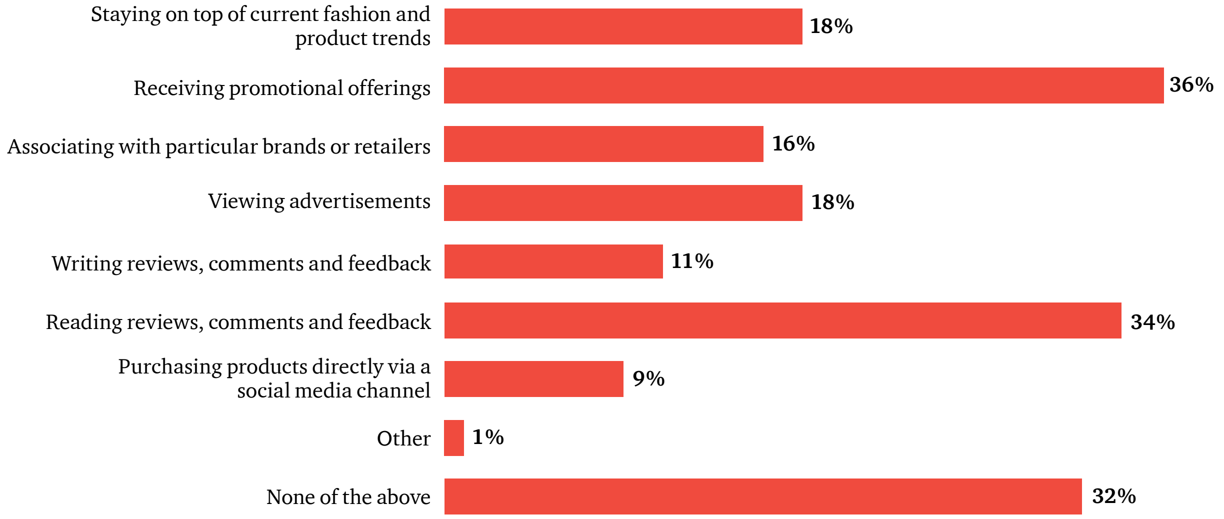


Base 1,027

When compared to our global sample, physical coupons are more important for Swiss consumers than French (28%), German (30%) or Italian consumers (25%).

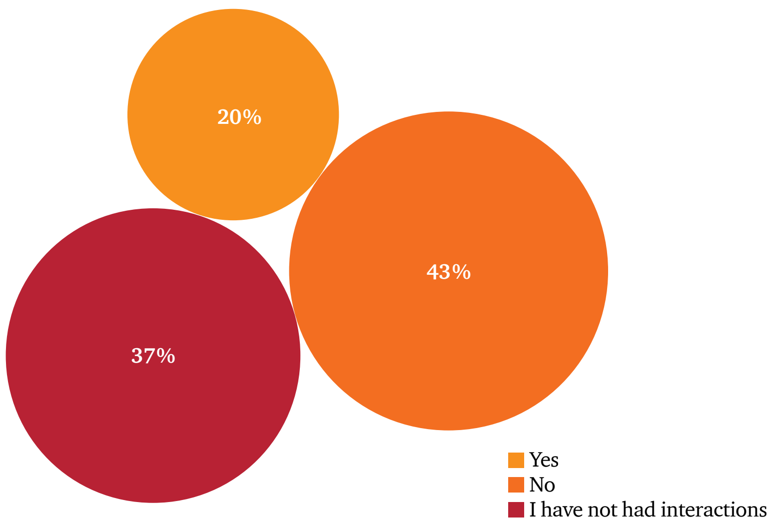
Insight 6 – Impact of social media on purchasing behaviours

Which of the following apsects of social media influence your online shopping behaviour?



Base 1,028

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

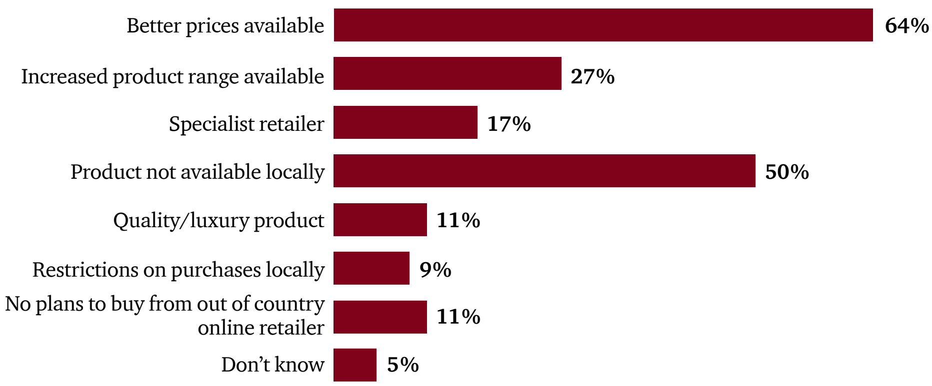


Base 1,028

68% of Swiss respondents say that they are influenced one way or another by social medial in their online shopping behavior. This is more than French (59%) and German consumers (53%) and above the average of matured economies (68%).

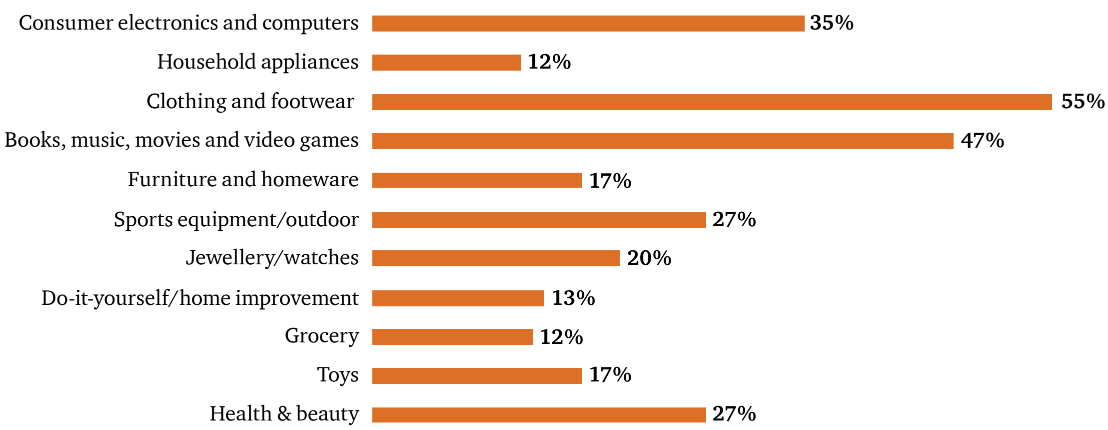
Insight 7 – Cross-border shopping is a reality – price and product availability are driving the trend

Thinking of your purchase descision, for what reason are you likely to make a purchase from an out-of-country online retailer in the next 12 months?



Base 1,028

When shopping online from an out-of-country retailer, what kind of products would you be likely to buy?



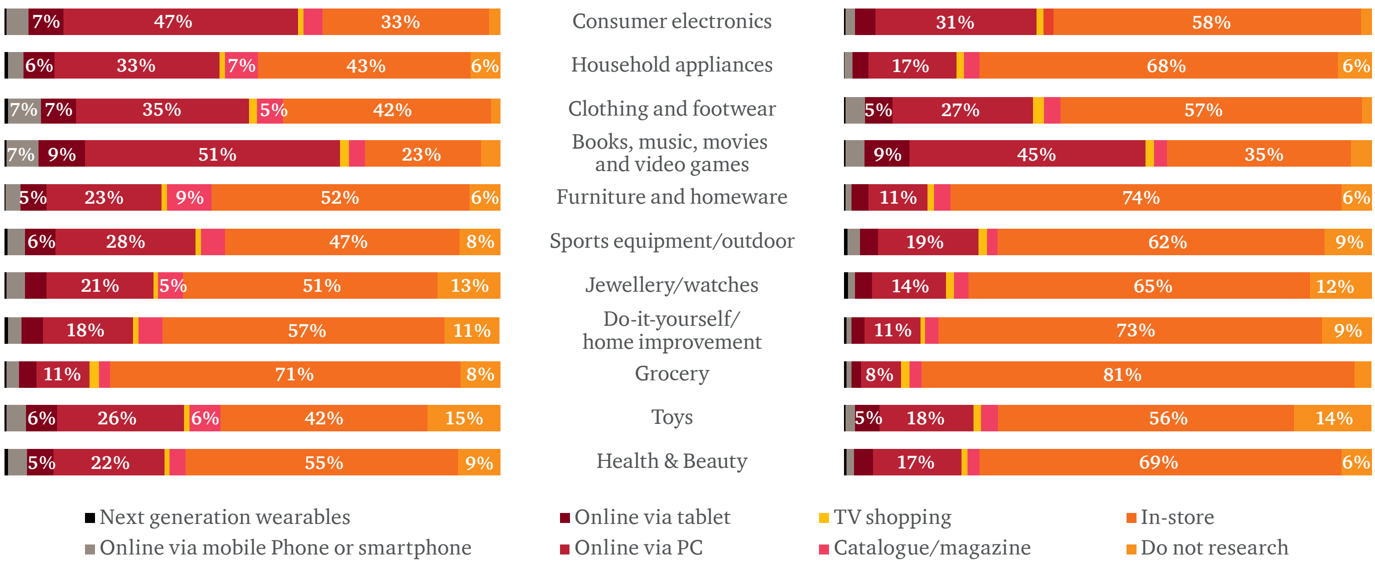
Base 862

84 % of our Swiss sample is considering cross-border purchases – 79 % globally, 70 % in France, 60 % in Germany, 75 % in Belgium and 90 % in Italy.

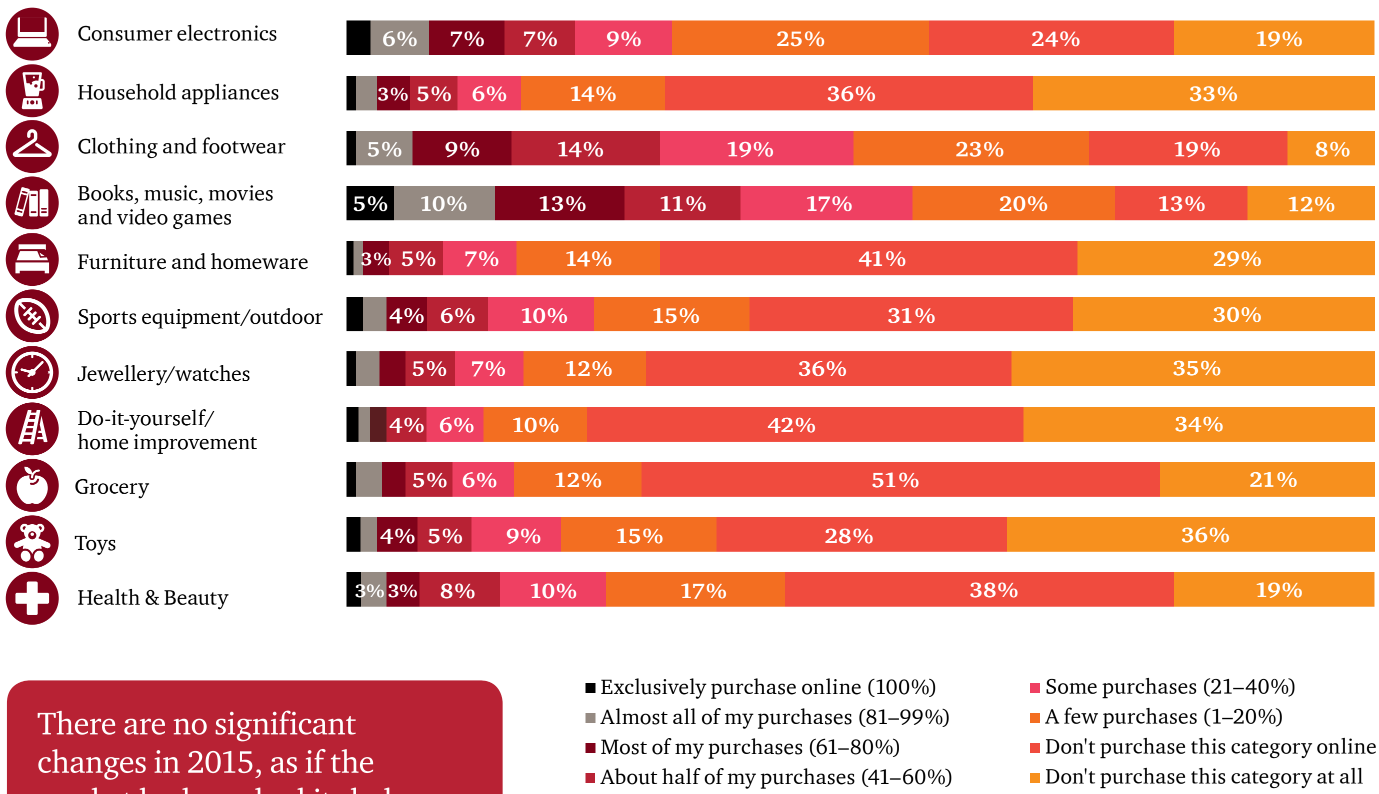
Insight 8 – Purchase journey

Which method do you prefer for researching your purchases?

Which method do you prefer for buying your purchases?



For each of the following product categories, how many of your purchases have you made online over the last 12 months?



There are no significant changes in 2015, as if the market had reached its balance point (at least for now).

Contacts

This fourth annual Swiss Total Retail report was produced by our team of retail experts from across all PwC Assurance and Advisory service lines and located in various offices throughout Switzerland.

Your key contacts for Total Retail Switzerland 2016:

Mike Foley

Partner – Territory Leader:
Retail & Consumer

Office: +41 58 792 82 44
Mobile: +41 79 449 04 64
mike.foley@ch.pwc.com

Alexandre Cherix

Senior Manager – Retail & Consumer
Advisory Consulting,
Industry Leader Switzerland

Office: +41 58 792 91 02
Mobile: +41 79 777 79 96
alexandre.cherix@ch.pwc.com

Olivier Colomb

Senior Manager – Strategy & Operations

Office: +41 58 792 91 00
Mobile: +41 79 580 4945
olivier.colomb@ch.pwc.com

www.pwc.ch/r&c