Customers are calling the shots

It's time for retailers to get fit for the digital age

January 2017

SAP Hybris ⟨Y⟩

SAP®

pwc

Contents

Executive summary

Retailing used to be so simple – open a store, source products, buy one, sell one… and repeat.

However, things look rather different in the digital world, which has driven a revolution in the way we engage, interact and transact with customers. As the technology continues to change with uncanny speed, it's time to jump on the train or be left behind. Back in the nineties and the noughties the land-grab for retail space dominated in terms of increasing the number of stores and developing an online presence. The race to offer multi-channel retailing was on, as market leaders rushed to grab online market share, tripping over each other to innovate and increase their offering to consumers. This led to the proliferation of home delivery, click and collect and third party omni-channel service providers, but they were delivered at the cost of retail margin erosion and a proliferation of IT and operational complexity.

However, the bar is now set even higher. Consumer expectations are sky high and consequently retailers require technologies that are more intuitive, drive additional value and are easy to use online, off line and across all devices. This expectation for a seamless experience across channels is driving the next revolution in business capabilities and it is putting increasing strain on retailers in their *search for profitable omni-channel growth*. Retailers are struggling to mature from multi-channel business models towards fully integrated omni-channel operations, where the role of the store and online channels are complementary and are managed in an integrated and seamless manner. In addition, the 'consumer genie' is now out of the bottle – in a 24/7 'always on' world, consumers are embracing omni-channel offers with incredible speed. With this come uncompromising expectations on quality, service, price, incentives and experience, regardless of channel. Consumers' expectations have never been higher, nor has their willingness to publicly damn poor retail experiences via social media.

A perfect storm is now driving the next revolution in retail, with consumer demands driving the need for a truly integrated operational and technology model, and new business capabilities that are fit for purpose in a digital world. And time is running out for the industry as winners and losers are beginning to emerge. Today's most successful brands are moving away from the traditional, score-based survey philosophy to viewing customer experience as an integrated process and driver of retail, cultural and operational change. It's a complex process that starts by creating a culture of accountability and ends with driving business results through a customer-centric operating model that delivers personalised insights.

PwC and SAP jointly commissioned a research study, surveying over 300 retailers and 2,100 consumers across six countries in Europe (the United Kingdom, the Netherlands, Germany, Italy, France and Spain) to explore consumer and retailer perspectives on the integrated shopping experience. The survey was conducted by 'PwC's Research to Insight (r2i) during August and September 2016. Retailer respondents were primarily senior business leaders, with 51% at C-Suite level (including 25% CEOs) and another 39% heads of department or business unit. Our aim was to assess the current state of omni-channel retailing, from both the customer and retailer perspectives, across a wide range of retail categories:

- Clothing and footwear
- Consumer electronics
- Grocery
- Furniture and homeware
- Household appliances ('white goods')
- Books, music, movies and gaming
- DIY/home improvement
- Toys
- Health and beauty
- Sports equipment/outdoors
- Jewellery/watches

Introduction
Retail realities of doing business today

We live in the age of the customer, and digital channels have an increasingly important role to play in defining brand image, positioning and customer experience. Our survey has confirmed the following realities of doing business in the digital age:

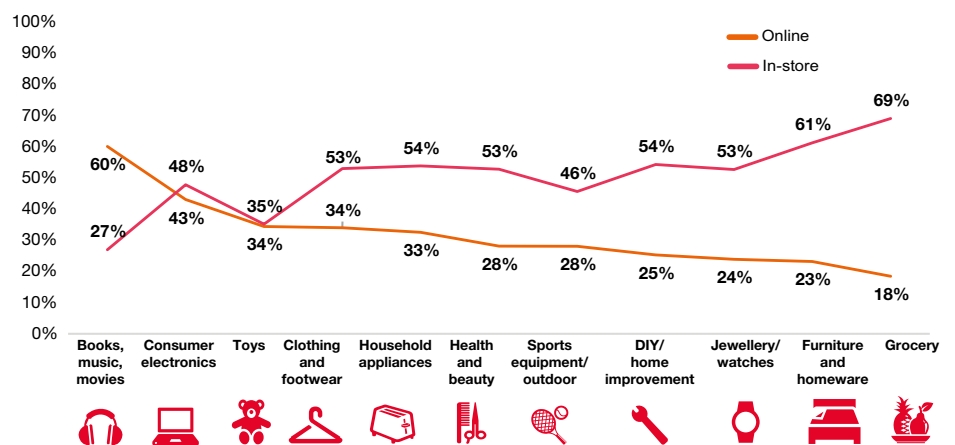### *The Customer is calling the shots*

Customers are firmly in the driving seat and will continue to embrace omni-channel retailing (that is, researching and buying across multiple channels, including mobile platforms). The tipping point between in-store and online is rapidly being reached. However, the store is not dead and it will always have an important role in satisfying the consumer shopping experience, but it's clearly omni channel first, store second. Or, in other words, while the store has an important role to play, with over a high percentage of purchases are still made in-store, *it's the omni-channel experience that retailers are really being judged on*. Customers expect the same brand experience, quality, price and service regardless of channel, and it is that connectivity and *seamless experience across channels that is the real differentiator*. In particular, as was also found by PwC's Total Retail Survey 2016, *the use of mobile, including for payment, is accelerating at a stunning pace.*

The graph below shows the percentages of consumers shopping across store and online channels. The survey results highlight *that for many (if not all) retail categories, in the next five years the lines will switch and we'll see the online channel dominate stores*. Alongside the growing strength in the voice and influence of the customer is the viral disruption that can occur when more than one primary need is met with technology. Clearly the market for online books, movies and even music will not shift back to in-store shopping; however, this shift only happened in the last five or so years. Examining the product categories below, some of them – such as DIY, sport and health – could see the same type of massive shift.

The consumer is king
More choice is more power.
- 24 x 7 buying options
- Mobile channel
- Online channel
- In store

Fig 1: Summary of online vs. in-store buying across categories

Category	Online	In-store
Books, music, movies	60%	27%
Consumer electronics	43%	48%
Toys	34%	35%
Clothing and footwear	34%	53%
Household appliances	33%	54%
Health and beauty	28%	53%
Sports equipment/outdoor	28%	46%
DIY/home improvement	25%	54%
Jewellery/watches	24%	53%
Furniture and homeware	23%	61%
Grocery	18%	69%

*online – Online refers to shopping via PC/tablet/mobile or wearable devices

Retailers achieve real differentiation through the experience they provide; it's not just about price

Providing an exceptional customer experience across channels is paramount for brands to drive brand loyalty and ensure that consumers are sharing positive stories.

Whilst for many categories online retailing was built on price, this is rapidly evolving into higher and higher expectations of convenience and buying experience, with consumers now demanding the 'holy grail' of **great price, great convenience and great experience** every time. The key here is to focus on the top three, as the combination of these areas will bring about the most disruption. Offering price, convenience and experience in a joined-up manner for a consumer on a small mobile device could see the biggest uptake. Uber™ totally disrupted an established service by simply adding the ability to see where a taxi is; this disruption is what it's all about. Retailers must pay attention to *what is important to individual consumers* and find an innovative and differentiated way to deliver it. Based on the results of the survey, we can conclude that convenience and experience will soon usurp price as the consumer's primary driver for shopping online – as it has already in the UK, France and the Netherlands (see figure 2).

Customers want it all – and they want it now

In terms of a personalised omni-channel experience, consumer feedback is pretty stark, with *only 50% of respondents feeling they get a consistent and superior multi-channel experience* from their favourite retailers. Clearly there is much that retailers have to do to improve their business capabilities to address consumer expectations as well as to redress the remorseless rise in 'cost to serve'. Suboptimal business models are unable to deliver on customer expectations and are resulting in additional costs across the value chain.

"A brand is no longer what we tell the consumer it is, it is what consumers tell each other it is."
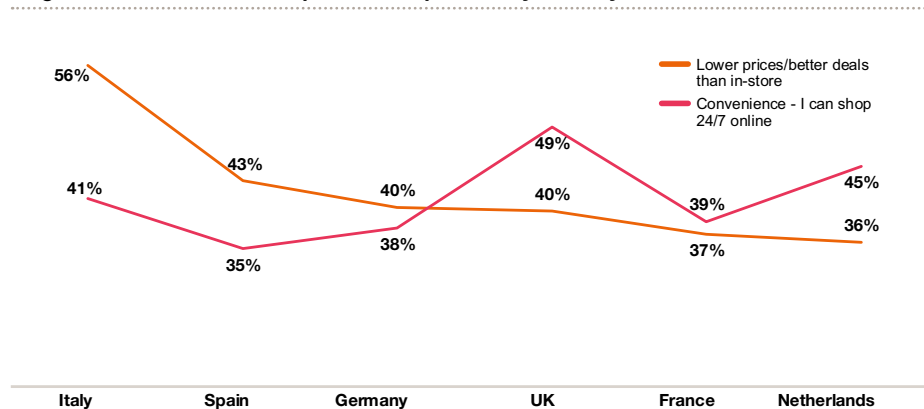
Scott Cook, co-founder of Intuitv

These need to be addressed in an integrated manner, not piecemeal, across the retail operating model. Those who offer holistic channel innovations in a personalised manner are those who are forging ahead. Since new channels are starting all the time, a radical review of the operating model is required to create a step-change in capabilities, but there is every opportunity for retailers to cash in on acquiring more wallet share and market share.

The good news is that the **technology is now available** to provide that enabling platform for growth, differentiation and innovation by integrating the front office seamlessly with the back office, and to power personalisation and decision making with sophisticated analytics.

In this report, we present and discuss the findings of our joint survey, assessing the readiness of the retail industry to respond to customer demands and adapt both their operating model and technology enablement to meet the ever-changing needs of customers.

Fig 2: Convenience versus price – comparison by country

Legend:
- Lower prices/better deals than in-store
- Convenience - I can shop 24/7 online

Country	Lower prices/better deals	Convenience
Italy	56%	41%
Spain	43%	35%
Germany	40%	38%
UK	40%	49%
France	39%	37%
Netherlands	36%	45%

*Q. What do you enjoy most about shopping **online**?*
Base: France (345), Germany (354), Italy (362), Netherlands (351), Spain (341), UK (350)

7

Our findings have highlighted seven key facts that amount to a 'call to action'

Evolve or be left behind

1. Retailers aren't as yet offering a seamless experience to customers across channels

2. Retailers aren't deciphering data fast enough into actionable insights

3. Connecting the dots across the various customer touchpoints is now a core skill

4. Retail loyalty programmes are not dead – but require a serious re-think

5. Be VERY aware of the social media savvy consumer

6. CEOs are concerned that they aren't using technology to the best effect

7. While technology is the enabler, few have managed to define and execute an effective roadmap fit for the digital age

Addressing the gap
Where retailers are failing to meet customer expectations and how they can get digitally fit to drive growth

Fact 1: *Retailers aren't yet offering a seamless experience to customers across channels*

Retailers' omni-channel business models are far from mature, continuing to reflect the operational and channel 'silos' which increase the cost to serve and diminish the consumer experience. Only 17% of retailer respondents reported that they were confident their omni-channel business model delivers a seamless and connected experience across channels and functions. If we accept the results below, the story is that of opportunity. Looking to the past, this same element played out in operational excellence for the physical store and now these lessons must be applied to the omni-channel world. While retailers are struggling to integrate existing channels, they also then miss out on the opportunities provided by new channels. Faced with this problem retailers can either continue to expand piecemeal, adding further layers of operational and technological cost and complexity, or take a step back and address the need to adapt the whole operating model. To do this requires them to successfully integrate channels and operations by leveraging technology to deliver a single view of the customer, identify purchase and consumption patterns and drive insights that can *deliver a personalised and tailored customer journey based on the needs of individuals*. It's only recently that consolidation of all data in a real-time flexible manner has really come to the forefront in retail, enabled by technologies such as SAPs S4/HANA and dynamic analytics capabilities to provide relevant and personalised experiences. It's now more important than ever to have a single view of the customer, enabled by an integrated retail '**Digital Front Office**'.

Omni-channel fulfilment strategy; over 60% of retailers agree that business silos are having an impact

48% — *We provide an integrated customer experience but still operate in business silos and this increases our costs and erodes margins*

18% — *We do not provide a seamless customer experience, as we have distinct channels often (or always) operating as silos*

17% — *We provide a seamless customer experience and have integrated omni-channel operation. We are clear on our sales, margin and profit across our channels and drive our customer offering on this basis*

Q. Which of the following statements best describes your organisation in relation to how mature its current omni-channel fulfilment strategy is?
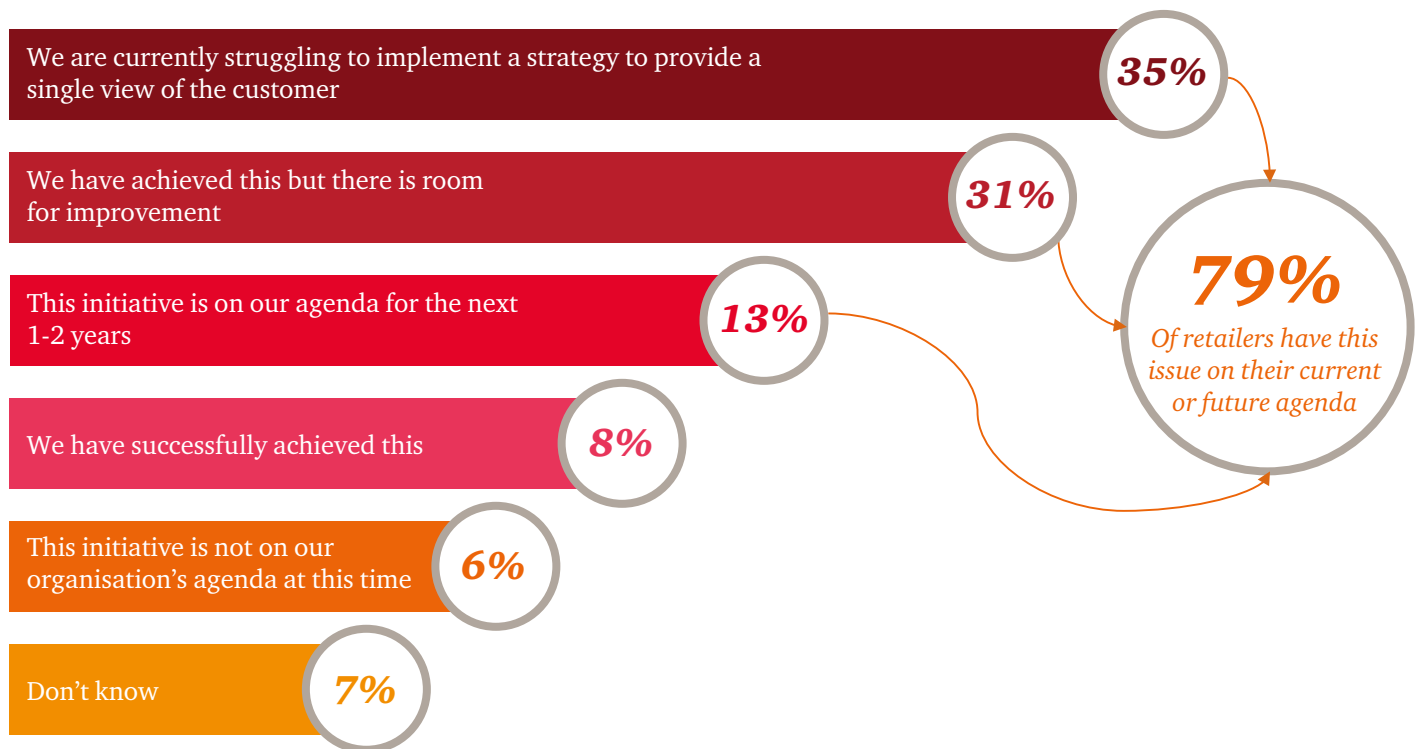Base: 312, Don't know/Unsure: 17%

Fact 2: *Retailers aren't deciphering customer data fast enough into actionable insights*

Whilst the concept has long been talked about, very few retailers are confident they have successfully achieved a 'single view of the consumer'. *Startlingly, only 8% of retailers report having done so, with the remainder either struggling or yet to start*. Moreover, retailers report that they are struggling to translate customer data into actionable and monetised insights. The most alarming fact about this is that other industries are now cashing in on the lack of movement from retailers.

Consumer brands are fast adopting customer insights and are beginning to use data to demand better commercial arrangements with retailers. Red Bull is a great example of a consumer brand using data insights to drive footfall to retailers, and they are demanding their fair share of margin for these efforts. Red Bull has used customer data to better understand how, where and why customers buy Red Bull® and with this knowledge they have influenced retailers in terms of product positioning and margin to their advantage Lost in the mix of all this is control for retailers who refuse to address consumer centricity seriously, and to finally accept that consumer data – and the

management of it – is the most valuable and 'monetisable' asset they have. **Data is the new value asset, and when interpreted properly it can deliver the right experience as well as bring new consumers through retailers' doors.** A good example of this is Kindle™; they don't just sell books, they also collect the behaviours, 'likes' and movements of their consumers and monetise these insights. Sportswear brand Under Armour® have expanded the brand to a *lifestyle management hub* and experience, not just selling a product but really addressing the broader needs of customers.

Over a third of retailers are struggling to implement a strategy to provide a single view of the customer, with a further third seeking to improve in this regard

We are currently struggling to implement a strategy to provide a single view of the customer — **35%**

We have achieved this but there is room for improvement — **31%**

This initiative is on our agenda for the next 1-2 years — **13%**

We have successfully achieved this — **8%**

This initiative is not on our organisation's agenda at this time — **6%**

Don't know — **7%**

79% *Of retailers have this issue on their current or future agenda*

Q. Please indicate the maturity of your organisation in ascertaining a single view of consumers across all channels
Base: 312

Fact 3: *Connecting the dots across the various customer touchpoints is now a core skill*

The C-Suite is now more aware than ever before about technology, cybersecurity and the importance of data in driving business outcomes (no longer the lonely domain of the CIO). But while they understand the importance of having the right data and technology capability to enable them to compete effectively in an omni-channel world, protect the brand and build trust, they are struggling with execution. A failure in this domain could fatally damage both brand and reputation.

More consumer touch points mean more data access points which need to be secure. From the CIO and Chief Compliance Officer perspective, the more data storage points there are, the higher the risk of data breaches occurring. With impending new EU regulations on data security (the 'right to forget me' legislation) this topic is getting more attention and the debate over how to handle it is paramount. **The survey results show that a third of retailers are unaware of the implications of the new EU General Data Protection Regulation (GDPR)**, which *makes companies responsible for all consumer data they have, whether processed or managed by themselves or by third party vendors, and has maximum*
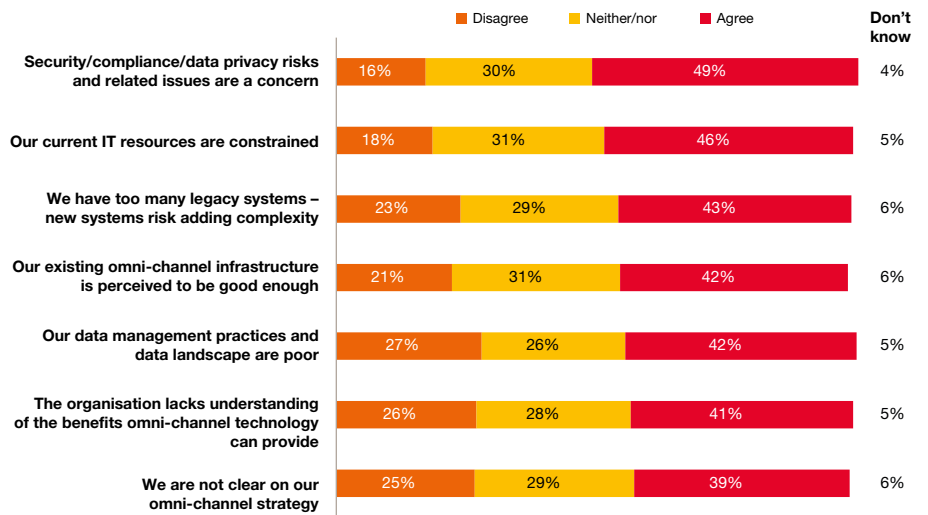
fines set at 4% of an organisation's worldwide turnover, or €20 million (whichever is higher). Compliance is mandatory by 2018. Of those that are aware, just over half have taken action to address the requirements. Some will spend more time and effort trying to lock things down, rather than seizing the opportunity to make an investment in consumer data foundations similar to their prior investments in core transaction systems and ERP. Since the consequences for data breaches are so immense, this may be the area that finally helps many retailers get on with the mission to modernise and simplify process and allow them to spend more time analysing data instead of just gathering it.

Almost half of retailers agree that challenges related to data security/privacy issues are a concern

The evolution of customer touch points

Before   *Now*

What is holding retailers back...?

	Disagree	Neither/nor	Agree	Don't know
Security/compliance/data privacy risks and related issues are a concern	16%	30%	49%	4%
Our current IT resources are constrained	18%	31%	46%	5%
We have too many legacy systems – new systems risk adding complexity	23%	29%	43%	6%
Our existing omni-channel infrastructure is perceived to be good enough	21%	31%	42%	6%
Our data management practices and data landscape are poor	27%	26%	42%	5%
The organisation lacks understanding of the benefits omni-channel technology can provide	26%	28%	41%	5%
We are not clear on our omni-channel strategy	25%	29%	39%	6%

Q. We want to understand what challenges you face in getting new omni-channel business technology solutions to the top of the agenda for your business area or organisation. To what extent do you agree/disagree with the following statements.
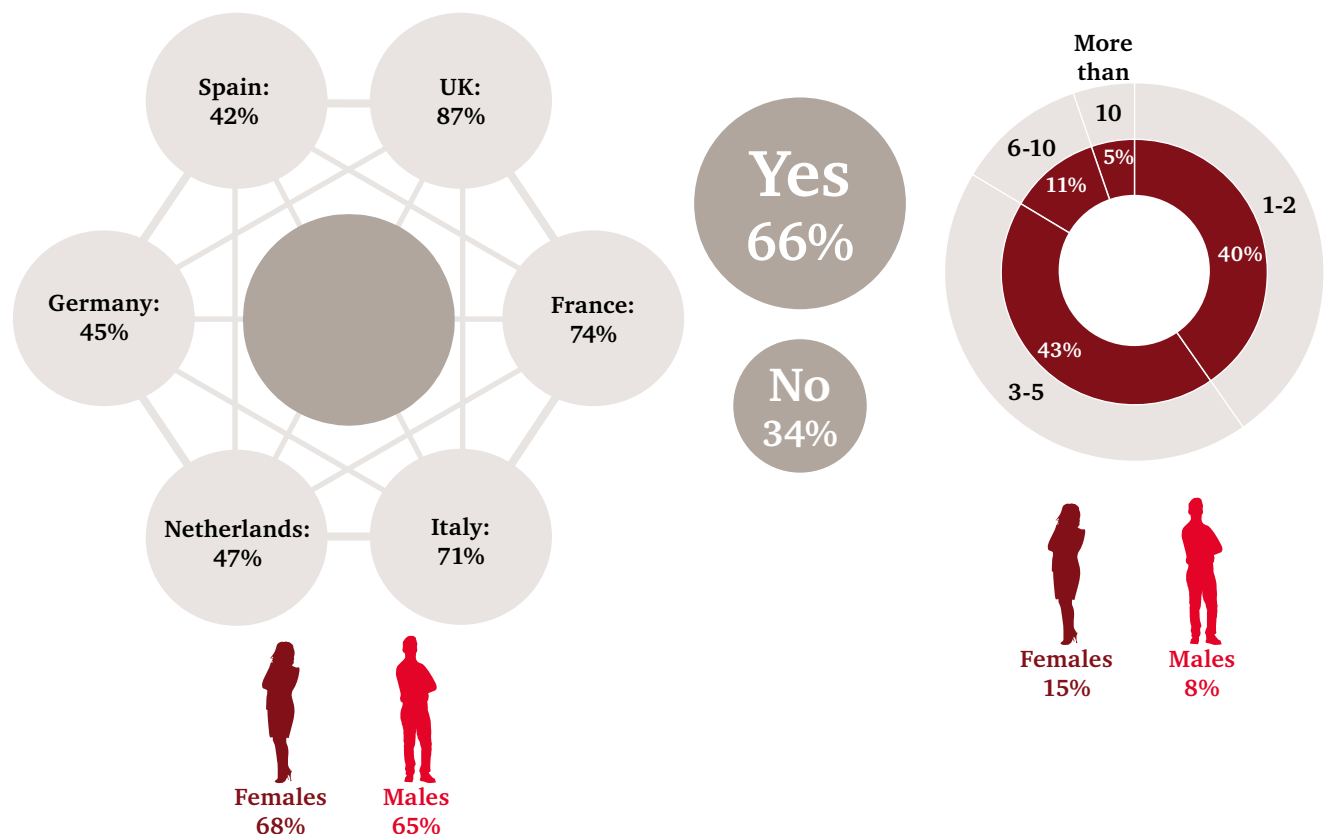Base: 312

Fact 4: *Retail loyalty programmes are not dead… but require a serious rethink*

In a world where marketers are talking about the move from 'macro' consumer segmentation to 'micro', and questioning the role of loyalty programmes, consumers are saying loud and clear that they still see value in such programmes and actively engage in them. Our survey findings show that *66% of consumers surveyed are part of one or more loyalty programmes, with many members actively engaged in up to 10 programmes at any one time.* In addition our survey shows *that 57% of consumers revealed they prefer loyalty programmes that they can access digitally* (online or via an app). In the digital world this represents both a threat and an opportunity: while the tools for a personalised customer interaction are in place, a competitor programme can adapt a digital offer in real time and steal away market share. In today's retail environment getting loyalty schemes right is not just about the traditional reasons of retaining customer loyalty, it should be a key enabler for a better customer experience. This is why Amazon® is winning in the online space, as its loyalty offer is based upon a whole host of non-price-related facets, from insights and reviews, breadth of range and categories, to innovation in engagement and convenience, as well as superior customer service (Amazon Prime™). In addition, Amazon are using customers as advocates, providing reviews that are open for all to see. Amazon's more recent investments and innovations in the digital TV arena only add to their reputation to excite and surprise their consumer base, adding intrigue to what they will do next.

Looking ahead, retailers have to evolve loyalty programmes, essentially addressing individual preferences and needs, so that they offer exclusive and personalised care that creates an instant, relevant and rewarding experience rather than just a basic points-gathering exercise. Fortunately this can be addressed fairly easily with the right technology underpinning the offering.

Two thirds of consumers are members of loyalty programmes, with the majority members of between 1 and 5 loyalty programmes

Spain: 42%
UK: 87%
Germany: 45%
France: 74%
Netherlands: 47%
Italy: 71%

Females 68%
Males 65%

Yes 66%
No 34%

More than 10 5%
6-10 11%
1-2 40%
3-5 43%

Females 15%
Males 8%

Q. Are you a member of a loyalty/reward programme?
Base: 2103

Q. How many loyalty/reward programmes are you a member of?
Base: 1397

Fact 5: *Be VERY aware of the social media-savvy consumer...*

Providing an exceptional customer experience across channels is paramount for brands to drive brand loyalty and ensure that consumers are sharing positive stories.

The sheer pervasiveness of social media comes through strongly in our survey findings, in fact **more than 50% of all consumers surveyed confirmed that they frequently engage on social media to write reviews and direct complaints**.
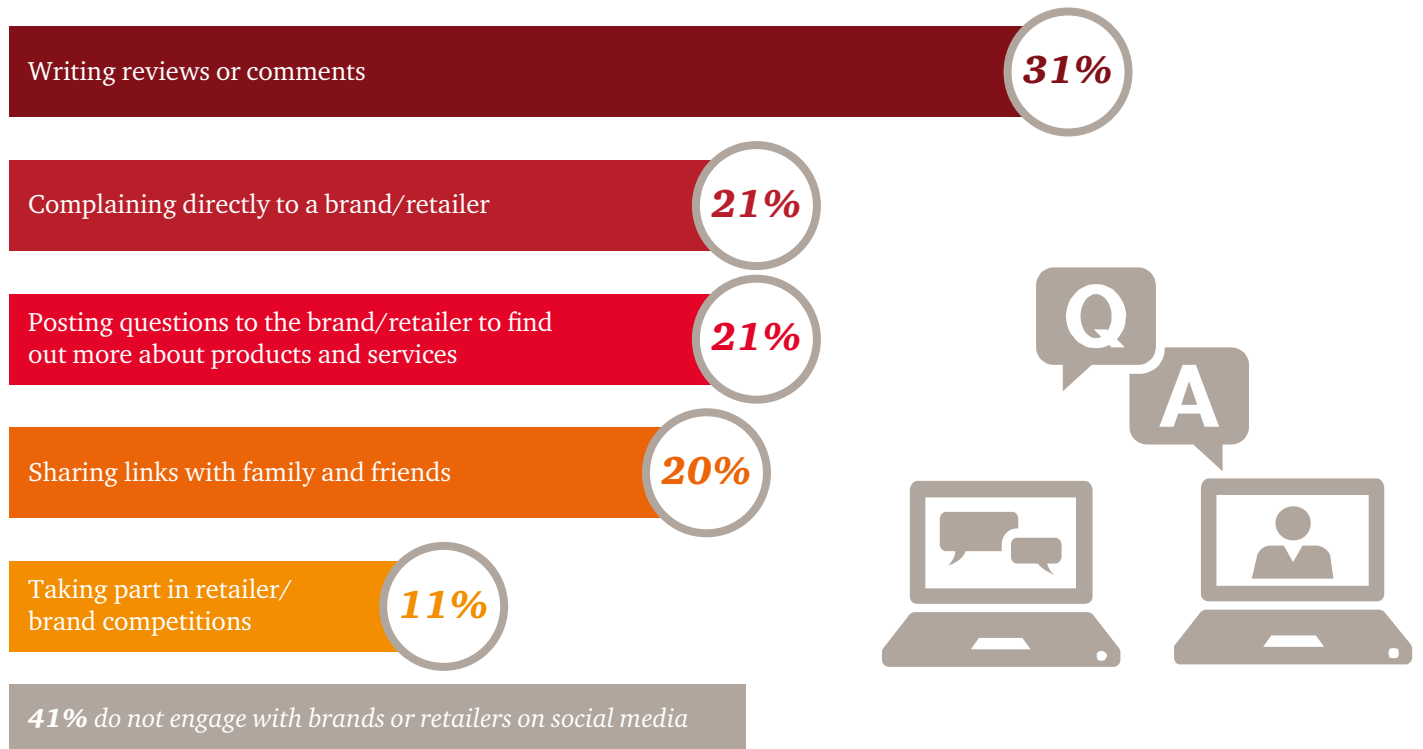
When things go wrong, and omni-channel expectations are not fulfilled, consumers are very quick to tell the world about it. The damage one consumer can do has never been so significant: the disgruntled consumer's voice is now amplified to much more than just simply word of mouth. The issue here is not finding a better way to manage the loud voices but sorting out the reasons why they 'yelp'. Friction in dealing with retailers is the number one reason for consumers to write reviews and complain. A faulty product usually does not create a detractor, but a poor returns process or a disjointed response from a retailer can infuriate the consumer. Many retailers are heavily invested in social media, but primarily in order to listen to and pacify enraged consumers. The logic in this starts to fail when that investment does not really drive sales, whereas an investment towards less friction and a unified consumer experience has multiple revenue opportunities associated with it. How often have we all had a deeply frustrating retail experience, which was then merely 'adequately' dealt with by the retailer, only for it to happen again (with clearly no knowledge on their behalf of the previous experience)? Once we can all allow, but twice (or thrice!) makes us turn to the nuclear button: social media.

But once again let's not miss the opportunity: *the social media channel can also provide several powerful advocates* – Amazon has proven this model several times over. So both listening and acting on information to provide a superior customer experience can be a key differentiator.

Social media presents the opportunity for consumers to provide feedback to brands and retailers directly with over 50% of consumers writing reviews or directing complaints

Writing reviews or comments	**31%**
Complaining directly to a brand/retailer	**21%**
Posting questions to the brand/retailer to find out more about products and services	**21%**
Sharing links with family and friends	**20%**
Taking part in retailer/ brand competitions	**11%**

41% do not engage with brands or retailers on social media

Q. How do you most frequently engage with brands/retailers using social media?
Base: 2103
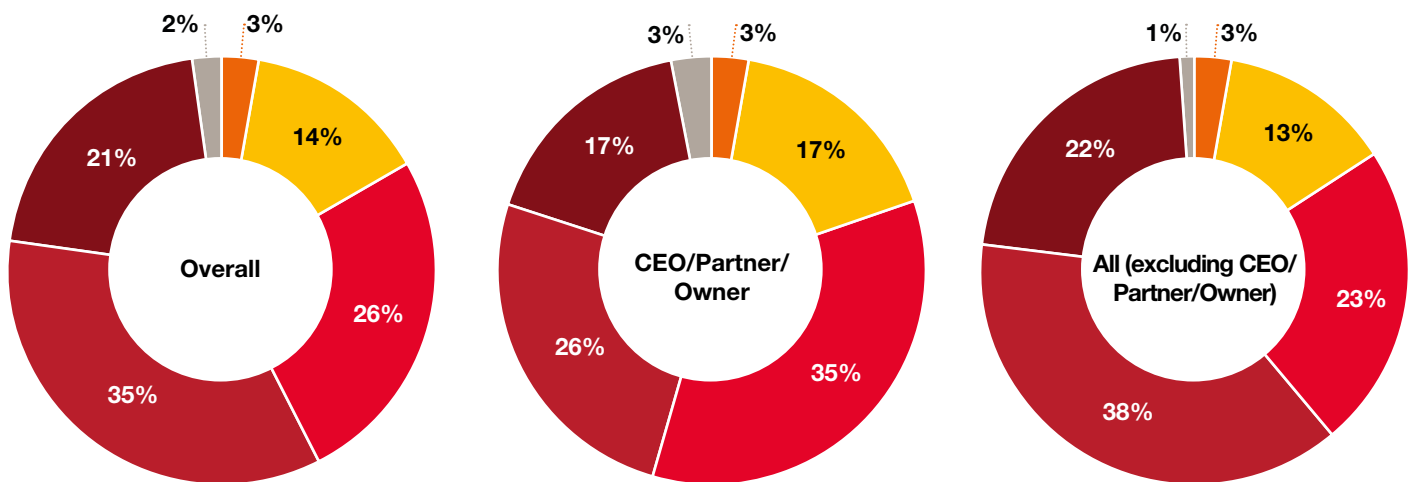Note: Respondents asked to select all that apply

Fact 6: *CEOs are concerned that they aren't using technology to the best effect*

Interestingly, CEOs take a more critical or perhaps more realistic view of their organisation's ability to use technology to the best effect. Their views of current performance and experience are more aligned to consumers' views rather than their own C-Suite and senior management colleagues. The inherent issue with this finding is the reality that business 'silos' are working hard and delivering against their own KPIs, but their outputs are not necessarily aligned to what the consumer is demanding or experiencing. There is a need to realign the whole organisation around customer KPIs, creating a *customer-centric operating model that aligns all departments and functions towards a common goal: creating and delivering a great customer experience*. And technology is the great enabler of these capabilities.

Omni-channel integration; there is some way to go in order for retailers to fully integrate data, technology and processes across all areas of the business

■ Disagree strongly   ■ Disagree   ■ Neither/nor   ■ Agree   ■ Strongly agree   ■ **Don't know**

Overall
- 3% (Disagree strongly)
- 14% (Disagree)
- 26% (Neither/nor)
- 35% (Agree)
- 21% (Strongly agree)
- 2% (Don't know)

CEO/Partner/Owner
- 3% (Disagree strongly)
- 17% (Disagree)
- 35% (Neither/nor)
- 26% (Agree)
- 17% (Strongly agree)
- 3% (Don't know)

All (excluding CEO/Partner/Owner)
- 3% (Disagree strongly)
- 13% (Disagree)
- 23% (Neither/nor)
- 38% (Agree)
- 22% (Strongly agree)
- 1% (Don't know)

Q. In your department/organisation, to what extent do you agree you are using technology to the best effect?
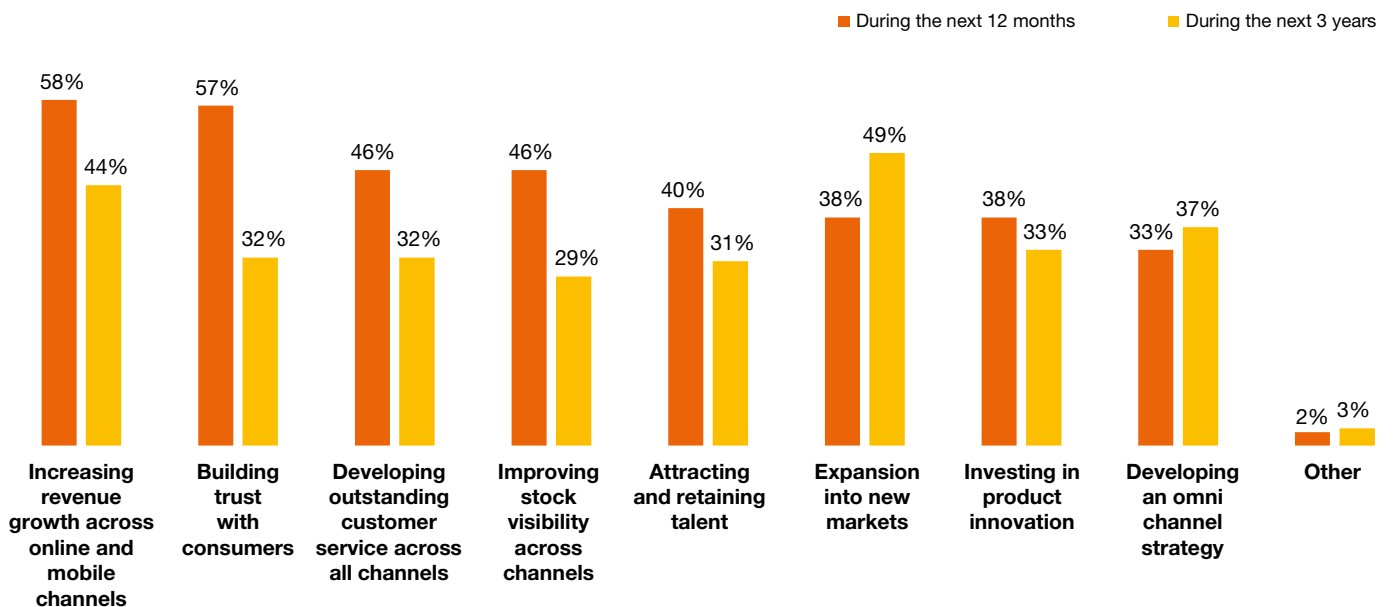Base: Overall (312), CEO/Partner/Owner (77), All (excluding CEO/Partner/Owner) (235)

Fact 7: *While technology is the enabler, few have managed to define and execute an effective roadmap fit for the digital age*

Prioritising technology to achieve a totally connected experience for consumers is the single biggest element for future success. While retailers are aware of the capabilities required to compete, few are clear on the execution roadmap or how to prioritise inter-connected issues to address customer expectations. And whilst growth across channels, building consumer trust and developing outstanding customer service are a focus over the next 12 months, **how these will be delivered (profitably) and executed across the end-to-end value chain is not defined**. Moreover they seem to dramatically drop in importance and priority over the next three years. To really retain consumers and build a loyal consumer base, these areas need to remain a priority, at least until technologies that deliver the best integrated customer experience become the norm.

- *58%* – increasing revenue growth across channels is key in the next twelve months; this falls to 44% over the next three years

- *57%* – retailers state that building trust with consumers was a priority; however, this drastically falls to 32% three years out as retailers forecast their attention is diverted to other priorities

- *46%* – retailers reporting developing outstanding consumer service across all channels is a priority… but again this falls away three years out as other priorities take centre stage

---

Prioritising technology to achieve a totally connected experience for consumers

During the next 12 months ■ *During the next 3 years* ■

	During the next 12 months	During the next 3 years
Increasing revenue growth across online and mobile channels	58%	44%
Building trust with consumers	57%	32%
Developing outstanding customer service across all channels	46%	32%
Improving stock visibility across channels	46%	29%
Attracting and retaining talent	40%	31%
Expansion into new markets	38%	49%
Investing in product innovation	38%	33%
Developing an omni channel strategy	33%	37%
Other	2%	3%

Q. What are the strategic priorities for your retail organisation during the next 12 months and during the next 3 years?
Base: 312

Call to Action – The four imperatives of doing business in the digital age

In conclusion, there are four retail imperatives to remain relevant in the digital world…

While retailers recognise that *a revolution in their technology capabilities is required*, few have plans in place to enable them to respond to consumer demands coherently. If retailers are to achieve the nirvana of 'Total Retail', that is, a fully integrated customer experience regardless of channel, they need to drive business transformation across multiple organisational dimensions. The critical issue is that they are looking at incremental steps in enhancing capabilities, while what is really required is a more radical shift to a *truly consumer-centric operating model*. The new organisation needs to have digital enablement at its core, and incremental steps cannot achieve that.

Transforming operating models and business capabilities require fundamental changes to the end-to-end value chain, enabled by integrated technologies that bring together the core capabilities of a truly customer-centric organisation. Real-time insights, powered by advanced technologies, being made available across the organisation using powerful visualisation tools, ensuring a seamless experience across channels, is now the norm in terms of customer expectations.

The gap between customer expectations and retail realities is growing. We believe that retailers must respond in four ways in order to take back control of their destiny in the face of these challenges. *The retail imperatives to remain relevant in an increasingly competitive, digital world include:*

1. *Create a truly customer-centric organisation:* this is the age of customer centricity. And by this we don't mean tactical investments in online and digital presence, but foundational investment in a customer-centric operating model, and KPIs enabled by an integrated technology platform that re-configures the retail business model and places the consumer at the heart of retail planning and execution.

2. *Integrate the end-to-end value chain:* there is a need to integrate all customer touch points across stores, online, mobile, and so on, underpinned by an integrated data model and integrated processes and systems across POS, order management, consumer service and data to ensure that all customer interactions are personalised and relevant across channels.

3. *Deliver personalised customer offerings, engagement and interaction:* this is the age of the individual and it is imperative to deliver personalised engagement and interaction based on deep insights, making your offering relevant to an individual consumer by synthesising their interests, needs and transactions across channels.

Transforming the interactions into a two-way valued relationship, supported by innovative loyalty programmes that address the needs of the individual, is key. This is not just online but also in store, using digital technology to enable staff to offer the same experience regardless of channel.

4. *Integrate and optimise the retail technology footprint:* it is impossible to serve the needs of connected consumers without the right enabling technology. In the digital age, the need for retail systems optimisation and investment in differentiating capabilities such as data integration and analytics is paramount. But to ensure this growth is profitable, it needs to ripple all the way down the digital value chain, from demand forecasting and planning, to product development, merchandising, and supply chain optimisation, which underpins loyalty and digital engagement.

Few have in place the key components required to compete in the digital age. While the technology capabilities are available, an integrated vision and execution roadmap to address these imperatives is lacking. *It's time to get fit for the digital age.*

Find out more

Take the first step towards digital fitness today, speak to us about developing a digital roadmap:

For more information on the contents of this report please contact

Carmine Michele Bruni
Associate Partner, Technology, PwC
carmine.michele.bruni@it.pwc.com

Shane Finlay
Director, Retail, SAP
shane.finlay@sap.com

Useful websites

- *www.pwc.co.uk/industries/retail-consumer.html*

- *Total Retail:* www.pwc.com/gx/en/industries/retail-consumer/global-total-retail.html

- *If stores had a voice:* www.digital.pwc.com/if-stores-had-a-voice

- *World in beta:* www.worldinbeta.com

- *http://www.hybris.com/en/industry-solutions/retail*

- *http://www.sap.com/uk/retail*