

10 retailer investments for an uncertain future





John Maxwell
Global Retail & Consumer leader

Introduction: A golden age in consumer choice means challenging times for retailers

An advertisement for Colgate's "Ribbon Dental Cream" from a January 1912 edition of *The Youth's Companion* magazine features the tag line "For all the Family." The ad promises "Good Teeth, Good Health, and Good Spirits." Back then, companies like Colgate and Procter & Gamble (P&G) advertised almost exclusively in the popular periodicals of the day.

Ads like Colgate's harken back to a time with fewer customer demands and less competition. All the players critical to the consumer shopping experience—manufacturers, retailers, and consumers—knew their "roles" and the script rarely changed.

Fast forward to today. Not only is there no set script, there are no assigned roles! Consumers are in the power position, as 2017 is a golden age of choice, convenience and demand for value, powered by the mobile phone and the global bazaar just a click away. Consumer

companies are under pressure from shareholders to cut costs, but at the same time are benefiting from opportunities in this global marketplace. Retailers are in a tough spot, however, often lacking a global brand and facing technological upheavals that have left them in the throes of constant reinvention. That's why our 2017 Total Retail report is focused on the kinds of investments retailers will need in order to thrive in tomorrow's marketplace. This is the 10th consecutive year that PwC has published a study of online shoppers, and our sixth truly global study.

In last year's Total Retail report, "They say they want a revolution," we pointed to consumer behaviors that had finally reached a tipping point, among them: participating in retail communities, using mobile phones as shopping devices, the emergence of social media as the "great influencer," and consumer demands for more service-focused and knowledgeable store employees.

This year we added several new areas of research, including Amazon's impact and customers' willingness to consider retailers as health care providers. We also delved into other research sources and included the insights of a number of PwC partners. The result? Ten areas where we believe retailers need to consider investing in to stay ahead of the competition.



Our survey covered 6 continents and 29 territories, including 24,471 respondents



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 29 territories: Australia, Belgium, Brazil, Canada, Chile, China/Hong Kong, Denmark, France, Germany, Hungary, Indonesia, Ireland, Italy, Japan, Malaysia, Middle East (Egypt, UAE, and Saudi Arabia), Poland, the Philippines, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, the United States, and Vietnam. Totals may not add up to 100% due to rounding.



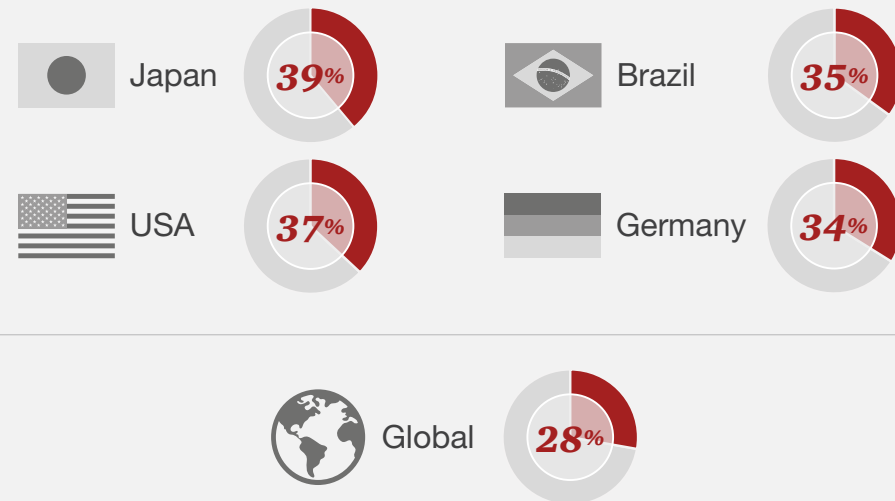
The stakes have never been higher for allocating precious investment dollars

Managing return on investment is critical to a healthy business. Many factors go into investment decisions, ranging from what merchandise to stock for what season to how many stores to open in a given geographic location. Retailers have an opportunity to take a close look at their investments in customer experience, staff, technology, and real estate.

The stakes have never been higher for individual retailers. First, competition has never been fiercer. My PwC colleagues who serve retail clients continually share how new competitors continue to disrupt the status quo. To compete in retail today, new entrants don't require stores or warehouses, and can be based around the corner—or on the other side of the planet. Pure-play online players are popping up in every product category. The Amazon graphic on the right, based on data from this year's Total Retail survey, illustrates how retailers are competing with Amazon for market share. Globally, fully 28% of our respondents said that they shop less often at retail stores because of Amazon; in the U.S. that figure was 37%. When it comes to China's Amazon equivalent, Tmall.com, a subsidiary of Alibaba, 24% of respondents from China said that they now shop less often at retail stores because of Tmall.com.

And don't forget that branded product manufacturers are attempting to build their own distribution networks to traverse “the last mile” to directly engage with consumers—sometimes fulfilling product by customer subscription or even buying a new entrant that has forged its own direct connection with consumers, such as Unilever purchasing Dollar Shave Club.

The top four countries where consumers “shop less often” at retail stores due to Amazon.com



Source: PwC, Total Retail 2017
How has shopping with Amazon influenced your shopping behavior?



The second factor forcing retailers to make smarter investments is what's been referred to as the global "New Normal." With lackluster GDP growth around the world, sluggish consumer demand will continue to put significant pressure on retailers to differentiate their offerings.

Third, retail in general is still struggling around the world, particularly grocery, household items, and clothing and footwear segments. Take the U.S., for example, the world's biggest consumer market in terms of purchasing power. While U.S. retail sales are expected to grow 3%-4% in 2017 after 3.8% growth in 2016, most of this growth is coming from online sales, as store sales revenue growth is only about 1%.¹ In fact, gains in retail revenue in the past few years have been driven almost entirely by online channels, which enjoy growth rates as much as seven percent higher than the retail sector as a whole. In short, traditional retailers in the U.S. are faced with flat or declining sales outside of online revenue growth.

The best-performing retailers are responding in numerous ways. Nordstrom invested to become a model of omnichannel customer service and innovation, becoming a platform for vertically integrated brands such as Bonobos, Madewell, and J. Crew; Saks Fifth

Avenue launched stores in downtown Manhattan that mimic its website layout; Best Buy built a new business of bespoke retail technology assistance; and, in the UK, Marks & Spencer has set a new standard for integrating store and web offerings. In China, Alibaba is redefining traditional retail and entertainment by providing services that go way beyond just shopping to become shoppers' "go-to" Web destination and, in Europe, online platform Zalando has established itself as a staple for fashion and accessories shopping. These retailers are leading the way in offering consumers a seamless experience whether they are purchasing in a store, with a computer, on their mobile phone, or with a tablet.

David Silverman, senior director of U.S. Corporates at Fitch Ratings, wrote in late 2016 that retailers that find themselves left behind by technology and an inability to provide a world-class customer experience will become market share "donors" to those retailers that have been able to adapt. "The dividing line between best-in-class retailers and market share donors is increasingly going to be determined by which retailers can cater to the evolving landscape," wrote Silverman. "Those that find success have invested in the omnichannel model and have differentiated their products and customer service to draw customers in."²

1 Fitch Ratings Services, December 12, 2016, "Battle for Customers Persists in 2017 for U.S. Retail, Restaurants.

2 Fitch Ratings Services, December 12, 2016, "Battle for Customers Persists in 2017 for U.S. Retail, Restaurants.



Of course, we're under no illusion that these investments will be easy for retailers to make. Since most retailers are not as global or don't have as big a balance sheet as their manufacturing partners, it will be challenging for retailers to find the resources to invest back in the business. The graphic to the right, from a PwC/SAP survey of retailers, shows the debilitating impact of limited investment capacity.

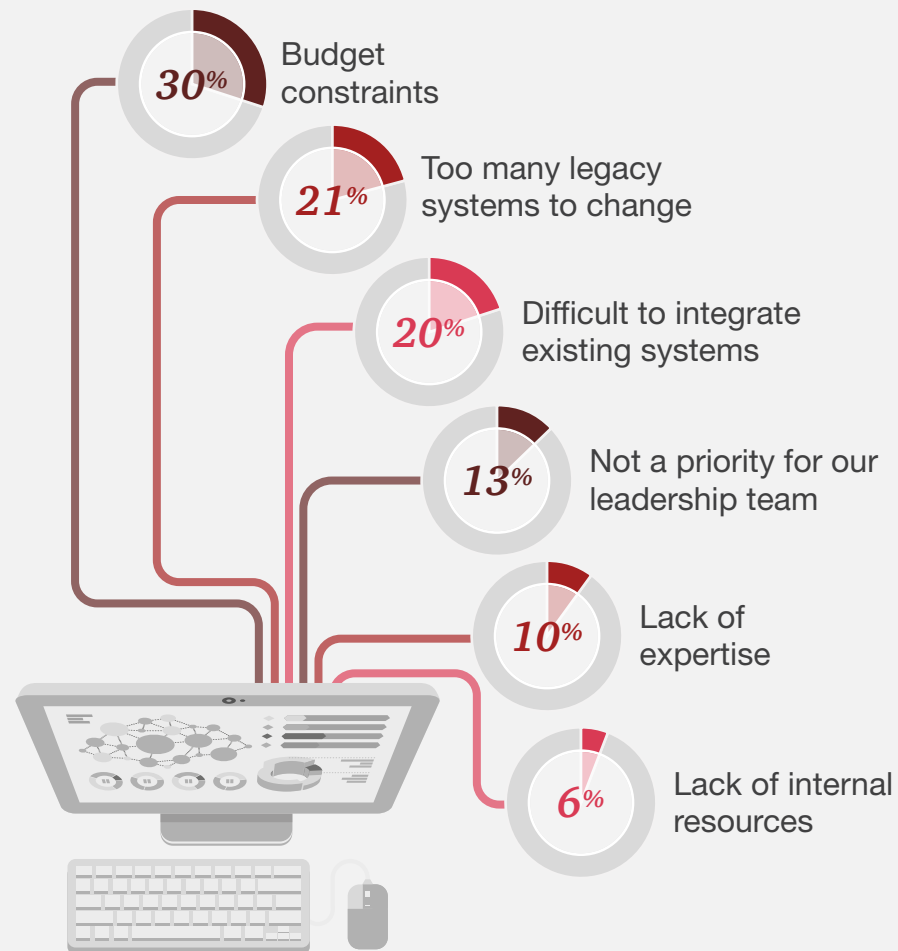
As consumers, we all enjoy the choice and cost-affordability that come with a global marketplace. Unlike 100 years ago when those Colgate ads were published, the power has shifted from those who make and sell products to the customers who purchase those products. But offering continued value and convenience for consumers makes for a higher and higher bar for retailers to clear. This report provides some insights into where retailers can invest to stay relevant in this demanding global marketplace.

My partners and I look forward to supporting you in dealing with this disruption risk and making the right choices as you execute on your strategic priorities.

Best regards,

John Maxwell, PwC U.S.
Global Retail & Consumer leader

What is the greatest challenge you face in providing an omnichannel experience for your customer?



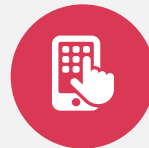
Source: PwC & SAP Retailer Survey; Base: 312



In 2017, retailers face one of the most competitive environments in decades. With the continuing shift in customer preferences towards online shopping, a lingering low-growth environment in many parts of the world, and an unforgiving global marketplace that demands unprecedented technological sophistication, some retailers are being confronted with threats to their very existence. In some of the most developed economies in the world, including the United States, the weak end-of-year holiday results have only heightened anxiety over the future of traditional retail.

In PwC's 2017 Total Retail survey, our most comprehensive to date, we asked nearly 25,000 online shoppers in 29 territories about their shopping behavior and expectations. Their answers can help retailers solve the puzzle of where they should invest not only to survive, but thrive in the years ahead. In the following pages we set out 10 different types of investments retailers can make to invest in their futures.

Building for the future: 10 investment areas for retailers



Mobile site



Secure platforms



Talent



Loyal customers



Big data insights



Showrooms



Amazon strategy



Authenticity



Telling the
brand story



Health and wellness



Invest in the mobile site, not the mobile app

Back in the 2014 version of Total Retail, we asked consumers a series of questions on whether they preferred to shop via a retailer's mobile website or a retailers' mobile app. The result was fairly evenly split, with shoppers favoring mobile apps for augmented rewards and loyalty points from retailers, but viewing mobile sites as far more convenient. Since then, there is a good deal of evidence for the superiority of the mobile website, as well as severe app overload.





Leaving aside for a moment the question of mobile website versus mobile app, the mobile phone as a both a shopping and purchasing device is continuing its surge in popularity. According to this year's survey, while in-store shopping is still most popular with weekly and daily shoppers, the frequency of mobile shopping has now overtaken tablet shopping by some measurements and is within striking distance of shopping via the PC. The graphic "Shopping by mobile/smartphone—it's here and now" shows how, among daily and weekly shoppers, a higher percentage of our global respondents say they are shopping more frequently with their smartphone than with a tablet. For daily shoppers, in fact, the same percentage is shopping by smartphone as by PC.

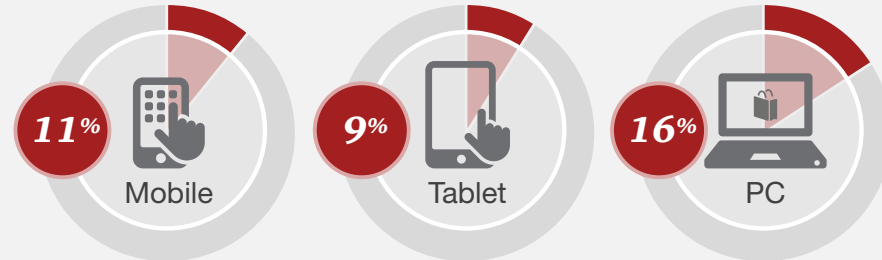
Moreover, the audience for mobile shopping has plenty of room for growth as experience-based constraints will likely soon be corrected. For example, our survey respondents around the globe chose screen size as the greatest obstacle (40%) to shopping with the mobile, with 26% saying that another obstacle was that mobile sites are simply not easy to use.

Shopping by mobile/smartphone—it's here and now

Daily



Weekly



Source: PwC, Total Retail 2017; Base: 24,471
How often do you buy products using the following shopping channels?

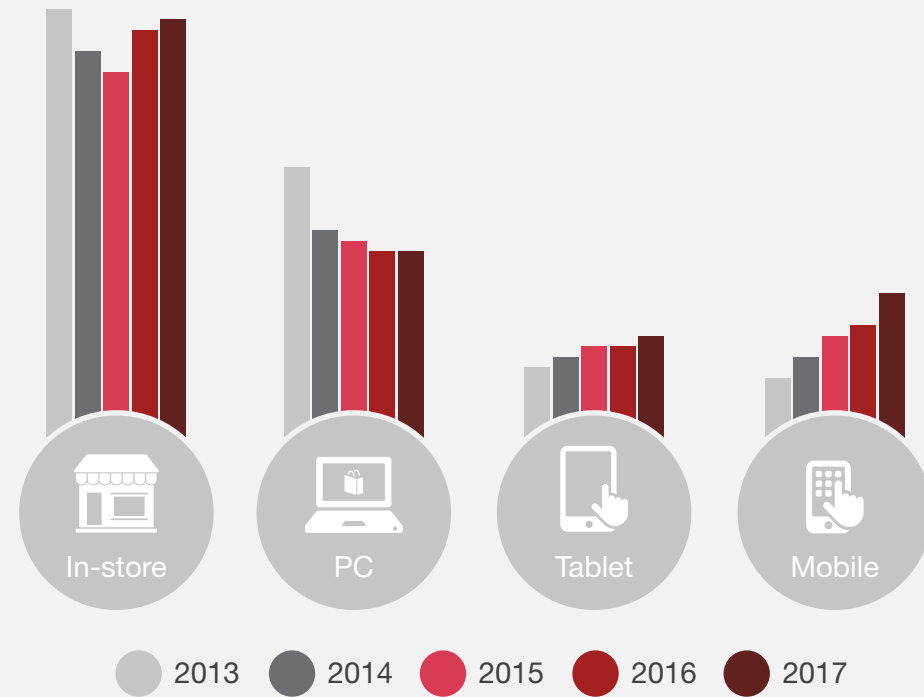


As the user-friendliness of mobile interfaces inevitably improves, so too, will mobile shopping gain even more popularity. The graphic to the right, charting how our survey respondents' shopping preferences have changed over time, illustrates how mobile shopping is continuing its steady gain on other digital channels. In this chart, which combines daily and weekly usage for the past five years of our survey, we see that as shopping via PC has gotten less popular and shopping by tablet has been relatively flat, shopping via mobile has been climbing steadily.

Then there is purchasing. When we asked our sample, "Which of the following have you done when shopping online using your mobile/smartphone?" 37% globally say they had paid for purchases, just behind "researched products" at 44% and "compared prices with competitors" at 38%. Today, then, the purchase journey for many consumers now includes the mobile phone as a triple threat: research tool, shopping device, and payment method.

"We're at a tipping point with mobile," says Steve Barr, PwC's U.S. retail and consumer leader. "Consumers are becoming extremely comfortable using their mobile device not only for searching for prices and product availability, but for actually completing the transaction. In fact, over one-third of our U.S. respondents said that they use their mobile devices for purchasing, up from previous surveys."³

Usage of shopping channels over time



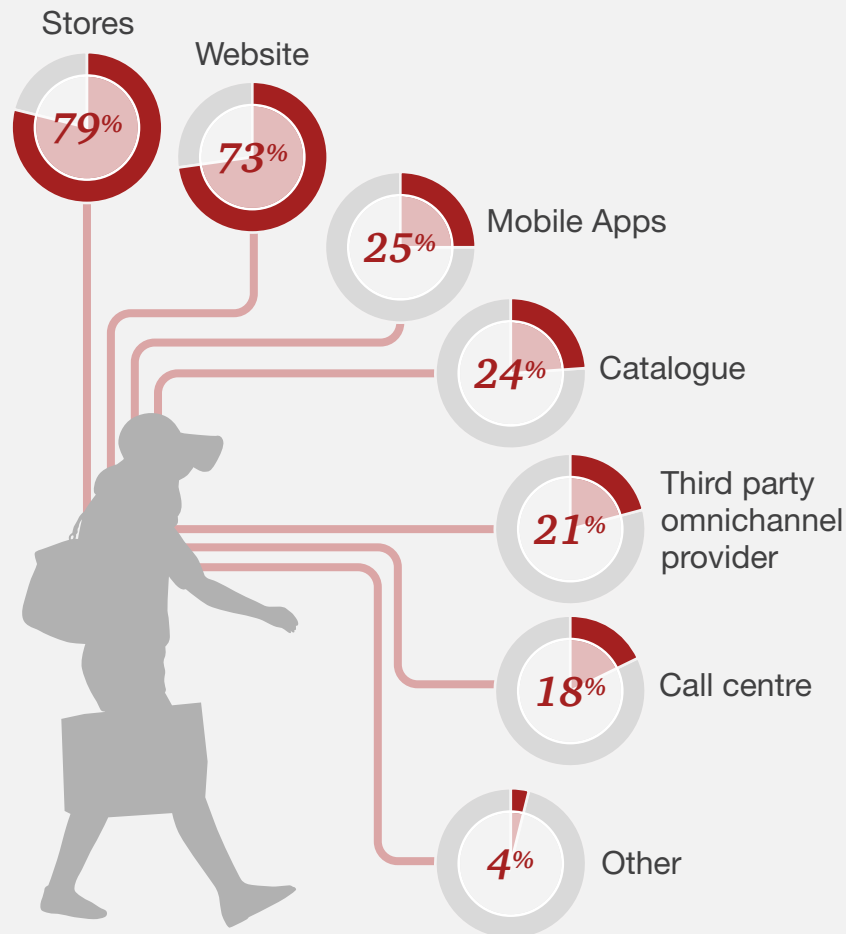
Source: PwC, Total Retail 2013-2017
Note: Chart represents daily and weekly usage combined



This means that retailers must optimize the mobile experience. When it comes to mobile sites versus apps, it's not really a fair fight anymore. App usage is cratering as mobile users tire of loading up multiple apps they just use a few times. In May 2016, for example, the U.S. top 15 app publishers saw a 20% year-over-year decrease in app downloads.⁴ The illustration to the right, based on a PwC/SAP survey of primarily multichannel retailers⁵, shows how a vast majority of retailers said that their two main channels for generating sales were "Stores" at 79% and "Website" at 73%. Only 25% chose "Mobile Apps," which barely beat "Catalogue," at 24%.

This is particularly true in China, where consumers' mobile experience is dominated by WeChat, which has more than 750 million monthly active users. Instead of building mobile apps, most brands and retailers choose to integrate within WeChat's mobile-wallet environment. For example, JD.com, one of China's largest e-commerce companies, has a strategic partnership with Tencent (parent company of WeChat) that enables them to become the exclusive shopping channel within the WeChat mobile wallet. The portal has now become the primary channel through which JD.com gets new users. During the November 11 online shopping festival in 2015, 52% of JD.com's first-time users came from the WeChat app.

Channels used to generate sales



Source: PwC & SAP Retailer Survey; Base: 312

Which of the following channels does your organisation use to generate sales?

Note: Respondents asked to select ALL that apply.

⁴ SensorTower, Nomura Research.

⁵ The PwC/SAP survey is made up of 71% multichannel retailers.



When retail executives are asked directly where they plan on making investments, their answers show just how important they perceive mobile to be. In a Shop.org survey of retail executives, when asked where most of their 2017 tech investments would be, 39% chose mobile, while just 6% said “in-store.” Anecdotally, PwC is seeing evidence of this dynamic in the marketplace. For example, Nicolas Franchet, Facebook’s global director of vertical strategy, whose portfolio includes Facebook’s business with retailers, told PwC in November that having a holistic strategy that provides people with a seamless experience in a fragmented environment is one of the best ways for retailers to drive growth. This includes retailers allowing shoppers to link directly to their mobile sites from Facebook, where more than one billion people connect on mobile each month.⁶

6 Global R&C Academy interview, November 1, 2016.



Invest in talent

The physical store isn't in danger of disappearing any time soon. At the same time, the digital experience is all-important to consumers. Retailers need to consider both dynamics in their search for talent.





The graphic to the right illustrates that the store is not disappearing, and the need to improve in-store talent is only going to get more acute.

Given the foundational role of the store, each year we ask our global sample of respondents about enhancing their in-store customer experience. In last year's report, we noted that heightened expectations around customer service meant that quality store associates versed in technology and relevant product knowledge had become a real differentiator for the store experience.

This year the importance of sales associates is even clearer. When we asked our global sample to rate how important certain attributes are in relation to in-store shopping experience, 78% respond that "sales associates with a deep knowledge of the product range" is the most important factor for consumers. Another important factor for the in-store shopping experience, according to our respondents, is the "Ability to check other store or online stock quickly," which 68% of our global sample cite. This is also in large part a measure of an associate's familiarity with the store's products, systems, technology and store network. So this finding, too, is partly a commentary on the importance of staff and an indication that training store associates is well worth the investment.

In-store shopping—For five consecutive years, our survey has shown that a significant percentage of global consumers shop in-store at least once a week



Source: PwC; Total Retail 2013-2017
Note: Chart represents daily and weekly usage combined



But store associates are just part of the talent story for retail investment. Indeed, since some retailers today don't even have a significant physical store footprint, the idea of investing in training store associates is, for them, irrelevant. Investing in marketing and social media expertise, on the other hand, is a must, whether a retailer has a global store footprint or just a website from which it sells one product line.

This year, when we asked which online media sources inspire purchases, social networks turned out to overwhelmingly influence our respondents, with 47% choosing either "social networks" or "visual social networks" as their main sources for inspiration. We also learned this year that social media interactions with favorite brands led 44% of our global sample to spend more with a brand, and encouraged 46% of our global sample to endorse a brand more than they usually would. We believe that investing in social media talent as part of a retailer's marketing arm could generate a healthy ROI. These employees could create social media marketing campaigns, track social trends, monitor what is being said online about the retailer, and craft appropriate social media responses to consumers.

Perhaps the most important talent question for retailers relates to the C-suite. For decades, retailers basically needed two executive skillsets: real estate, to manage a network of stores, and merchandising, to get product

onto the shelves. Today those skillsets need to be complemented with digital, omnichannel, supply chain and operations. "For retailers it has traditionally been a 'push' model, and executive focus was on opening stores and pushing out product," says Tom Johnson, a principal at PwC. "Today it's not as much about building a store network, so the competency requirements have changed. And what retailers really have to consider is this: Are their management teams really lined up to the new priorities?"⁷ According to Johnson, retailers need to strengthen the digital and operations talent in the retailer C-suite to manage shrinking store networks, more complicated supply chains, digital innovation, and launching new services to keep currently loyal customers.

***What retailers really have to consider is this:
Are their management teams really lined up
to the new priorities?***

—Tom Johnson, PwC principal

Today, relevance is based on digital and technology savvy. Store associates, corporate staff and the C-suite need to mirror the consumer—if a retailer is not versed in social and digital, it is not relevant or attractive to young, savvy customers or prospective employees.



Invest in big data insights, not just data collection

One of the top issues for retailers today is parlaying the enormous amount of customer data they generate into actionable insights.



In a recent PwC/SAP retailer study, retailers say that creating value out of reams of consumer data is their biggest challenge.

In fact, huge gaps exist today in the data retailers possess and their ability to glean insights from it. From customer store visits, to store and warehouse inventory, to how long shoppers spend on retailer websites, retailers are held back by the chasm separating the data collected and what is done with that data.

39%

of retailers ranked ‘Ability to turn customer data into intelligent and actionable insight’ one of their greatest challenges

Source: PwC & SAP Retailer Survey; Base: 312
What do you believe to be the greatest challenges your organisation faces in the race to meet customer expectations?

The gap analysis shown in the graphic to the right, based on our survey questions, shows what is important to consumers in-store, versus their satisfaction levels. Data is the missing link for many of these areas. The gap between importance and satisfaction in “Ability to check other store or online stock quickly,” for instance, comes

down to the fact that customers are frustrated that stores cannot be more transparent about their inventory. Surely the information exists about where, in a series of stores in suburban Connecticut, to find a pair of the most popular basketball sneakers. But can a store outlet where the product is sold out quickly find out where a customer should go to get it?

The truth is that most retailers’ systems are not robust enough to reflect minute-by-minute inventory, much less communicate it accurately, real-time, to shoppers. As a guest speaker at a recent PwC-sponsored conference told us, retailers need one integrated data platform so they don’t have “20 versions of the truth.”

Summary: In-store attributes—importance vs satisfaction

Importance		Satisfaction
78%	Sales associates with a deep knowledge of the product range	63%
68%	Ability to check other store or online stock quickly	58%
59%	Real-time, personalized offers designed especially for me	50%
59%	Ability to see/order extended range of products on screen in-store	53%

Source: PwC, Total Retail 2017
Summary chart showing aggregate importance vs aggregate satisfaction—attributes with largest gaps shown
Please rate how important the following attributes are in relation to your in-store shopping experience.



Another big data gap is that between the desire for real-time offers, which 59% of our sample think is important, and the degree to which retailers are meeting these expectations. Just 50% of our sample is satisfied with how well retailers are responding. The data on which customers tend to make what purchases in-store is certainly available, but rarely gets turned into an appropriate, personalized in-store offer sent as an email or a text. Better using data to gain a complete picture of the consumer is a “to-do” in which retailers understand the need to invest. The illustration to the right, from a PwC/SAP survey of retailers, very clearly shows this self-awareness. In fact, 79% of retailers have this on their current or future agenda, according to the data.

It’s also important to have appropriate analytical capabilities. “The issue isn’t having enough data, especially given the vast amount of online data and offline behavior increasingly tracked digitally. The challenge is to devise meaningful analyses that can benefit both customers and businesses, for example by generating personalized offers based on data,” says Denise Dahlhoff, research director of the Wharton School’s Baker Retailing Center at the University of Pennsylvania. “Analytical expertise is a key asset for today’s retailers, and the smart use of data can be a competitive advantage.” Predictive analyses require sophistication in all phases of the process—from sampling to modeling to drawing conclusions from the results.

More than 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



Source: PwC & SAP Retailer Survey; Base: 312
Please indicate the maturity of your organisation in ascertaining a single view of consumers across all channels



Invest in an Amazon.com strategy

There are few truly global retailers that sell a wide assortment of general merchandise, and the leading global ones are long-established companies. On the most recent edition of the National Retail Federation's list of the world's top 250 retailers (published in Jan 2017)⁸, Amazon.com, relatively young compared to its more senior competitors, takes 10th place, up from 12th place the year before—after only a little more than two decades since its launch.



Amazon has set many new standards in retail through its creativity and seemingly never-ending streak of disruptive innovations to make shopping—and life—easier, more convenient, and more fun. Think of Amazon Echo for voice-based ordering and other interactions; the Amazon Dash button to facilitate reordering supplies for household staples such as coffee and laundry detergent; Amazon drones to make deliveries faster and more efficient; the soon-to-be-launched Amazon Go stores featuring checkout-free shopping; and Amazon Studios for movie distribution.

Our survey shows that, of our global sample, more than half are Amazon customers. The share varies widely by country, however. While Japan, Italy, U.K., U.S., and Germany have shares above 90%, the share is lower in Brazil (47%) and Australia (37%). In China, consumers exhibit similar behavior with their version of Amazon—known as Tmall—of which 97% of our Chinese survey respondents described themselves as customers.

Do you shop with Amazon?



Source: PwC, Total Retail 2017; Base: 24,471
Do you shop with Amazon?



Our survey provides quantified data—by country—on the impact of Amazon on shopping behavior. Overall, Amazon has two kinds of impact: The first is that shoppers use Amazon as a research site for prices and products (47% and 39%, respectively, based on the global average of our sample). The second impact is its cannibalization of other retailers, both pure online pure players and traditional retailers. As the graphic to the right illustrates, 28% of our global sample say they shop less at retail stores because of Amazon, and 18% of shoppers say they shop at other retailers' websites less often. In Canada, for example, 24% of our survey respondents say they are shopping less at retail stores because of their devotion to Amazon. According to Lino Casalino, a PwC Canada partner, that phenomenon has gotten the attention of CPG companies. "CPG companies are really trying to find a way to build a direct relationship with consumers," Casalino says. "As they see brick and mortar stores become less relevant, they are very focused on building their own links with consumers."

Given the tremendous impact Amazon is having, how can other retailers cope? In general terms, of course, it helps to enjoy a sterling reputation in one's niche, be able to hold costs down, and be agile enough to offer a variety of innovative products. It's also important to invest in a real-time supply chain. The Amazon effect has raised everyone's expectations about how fast products should arrive at our doorstep. To keep up and provide that excellent purchasing/shipping/delivery experience that all customers expect, retailers need information that is current to ensure their online, logistics and supply chain operations are operating at peak efficiency. With this investment retailers can better manage product demand, track inbound and outbound inventory, promote efficiency, and improve customer service.

Around the world, China provides some excellent examples of successful e-commerce collaboration. In China, Tmall and JD represent more than 75% of all B2C e-commerce. To be relevant for Chinese online shoppers, retailers and CPG companies must collaborate with these platforms to build brand awareness, engage consumers and generate sales. For example, during Singles Day each November—China's biggest shopping festival—Macy's collaborated with Tmall Global (a cross-border shopping platform) to enable Chinese consumers to experience the Macy's iconic New York store in a virtual reality environment.

How has shopping with Amazon influenced your shopping behaviour?



Source: PwC, Total Retail 2017; Base: 13,675



There are several specific ways that retailers can leverage their assets and play to their strengths:

- Utilize the benefits of an offline presence. Shoppers still like to touch and feel and try on things before buying. To make store visits most attractive, retailers should invest in an inviting, appealing in-store environment and suitable store locations, and make sure to connect the offline store with the online channel, i.e., by providing online orders for items that aren't in store. In addition, they might consider what kinds of special events may resonate with their target customers. Examples are VIP customer events such as exclusive collection previews with a fashion show, refreshments, and advice by personal shoppers; workshops and classes around themes that fit the retailer's brand (e.g., painting and crafts workshops, yoga and nutrition classes, music performances, book readings, or other presentations). Moreover, retailers with a network of stores have the opportunity to build local communities around their stores that interact through in-person activities. Athletic apparel stores have done that by organizing regular group runs and group bike rides, in-store yoga and strength classes, and fast-casual restaurants and cafes have organized community events such as group runs and clean-up days.
- Leverage in-store staff. Personal interaction, advice, and relationships are important to many customers, if only as a supplement to everything that digital channels have to offer. Therefore, investing in store staff by hiring the right talent and training employees can give

retailers an edge. Staff can put the customer data that the retailer has to good use, for example by making customized recommendations, including proactively inviting customers to the store. They can also offer unique in-store services that customers value such as a style consultation, mini-facial, or chair massage.

- Feature unique, exclusive merchandise. Appealing private label brands can make a retailer a destination and prevent being copied and outpriced by competitors. Another option might be to launch exclusive collaborations with designer brands like the ones that Target has with Missoni, Phillip Lim, and Alexander McQueen.
- Reward loyalty. Loyalty programs can be a draw, if they offer benefits that appeal to customers. Apart from traditional rewards such as credit vouchers for a certain amount of money spent, retailers could offer unique rewards that customers would experience in person (e.g., invite to an exclusive meet-the-designer or meet-the-chef event).

In addition to leveraging their unique offline capabilities, competing retailers also need to think about matching Amazon on features that are important to customers, including an easy check-out. For example, in the physical store, the in-store payment platform can pose a challenge to frictionless checkout, especially for retailers still transitioning to chip technology intended to reduce fraud. To circumvent the more arduous chip-technology process, offering a mobile payment system instead—a process that parallels Amazon's one-click technology online for ease of use—could be effective.



Invest in the “story”—not traditional advertising

More and more of the global population isn't attracted to traditional advertising—they want authentic information they can find at their fingertips: what are their friends doing, which brands are hot on social media, what is trending with their favorite influencers.



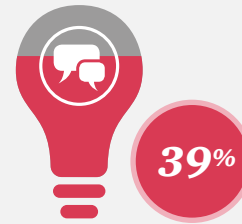


When we asked about the online media that shoppers use regularly to find inspiration for their purchases, “traditional” social networks such as Facebook and Twitter came out on top (visual social networks such as Instagram, Snapchat, Pinterest, and YouTube placed 5th), followed by individual retailer websites and price comparison and multi-brand websites, as shown in the graphic “Inspiration for purchases.”

Retailers and CPG companies must find new and innovative ways of telling their story and connecting with customers. For example, many Western retailers are using Facebook to digitize their catalogues with carousel ads, while Chinese retailers similarly use Tencent’s QQ/ WeChat. In a nod to customers who want to know if items are in stock, Facebook can now supply real-time links to inventory for some retailers, showing whether an item is in stock, which encourages the social media user to go ahead and order the product. Other retailers are developing narrative story lines—like short stories with product placements—and publishing them on Facebook and other social platforms.

Social media is about connecting with customers. Emotional engagement can be powerful, and telling stories, for example through a series of connected narratives that feature to-be-promoted products and services, can be an effective tool.

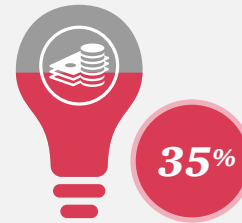
Inspiration for purchases



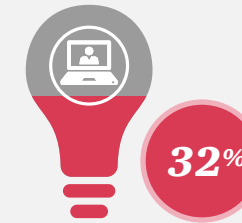
Social networks
(Facebook, Twitter)



Individual retailer
websites



Price comparison
websites



Multi-brand
websites

Source: PwC, Total Retail 2017; Base: 24,471
What online media do you regularly use to find inspiration for your purchases?



Take Alibaba in China, for example. A few years ago Alibaba's Tmall marketplace was very much focused on a transactional e-commerce platform. In 2016, however, there was a clear shift in Alibaba's strategy, becoming much more content driven and focused on interactive social engagement, such as livestreaming and virtual reality. In a hyper-competitive e-commerce market, these moves have strengthened overall user acquisition and customer stickiness.

Given all the advances by social media sites to become shoppable by enabling purchases of displayed and talked-about items with a click on the social media post, investments into a social media strategy could be very profitable. A key ingredient of a successful social media strategy is the content and the media strategy—what platform, frequency of posting, and the like. Hiring and training expert staff that are thoroughly familiar with the retail brand, the items and topics they post about, and the target audience should be a priority. Another critical area is social media listening tools. On occasion the “noise in the system” about a certain retailer or

product is unfavorable. Catching the clues on social media that a negative narrative is building can help preserve the brand story. Solutions in this area include outsourcing social media monitoring to specialized boutique firms.



A retailer's website serves as both marketing vehicle and online store

A retailer's website—according to this year's survey the number two online source for inspiring purchases—should be consistent with and connected to the company's social media to complement the brand story, provide a coherent brand experience, and make conversion of social media leads easy. After all, a retailer's website serves as both marketing vehicle and online store, and deserves at least equal attention as the overall social media strategy.



Invest in more secure platforms

On the one hand, technology provides a lot of new, exciting opportunities for shoppers but, on the other, it also increases the risk for all kinds of cyber breaches, including data hacking.





Our survey confirms that about two-thirds of shoppers are concerned with having their personal information hacked while using their mobile phone. In some countries, this concern is greater than in other countries. For example, in South Africa, the Philippines, Singapore, Malaysia and Thailand around 80% of respondents are concerned, while in Belgium, France and Japan only over half are wary of cell phone hacking.

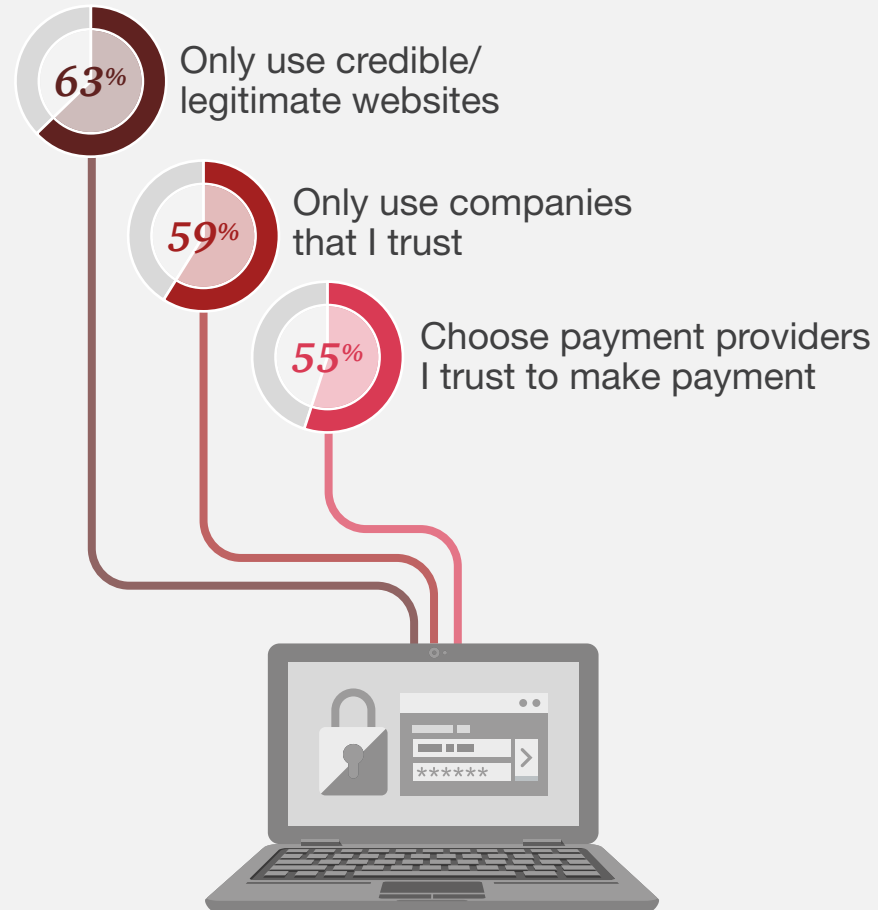
65%

of shoppers are wary of having their personal information hacked using their mobile/smartphone

Source: PwC, Total Retail 2017; Base: 23,426

In addition, more than half of those surveyed only use companies/websites and payment providers that they believe are legitimate and trustworthy, as shown in the data security illustration on this page.

Trust, trust and trust — data security



Source: PwC, Total Retail 2017; Base: 24,471
How do you personally reduce the risk of online security issues/fraud?

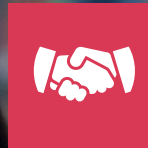


The take-away for retailers is that providing secure platforms for any touch point with customers is a must. Given the scale of the potential risk, secure technology and data systems need to be a C-level concern, and there should be a budget allocated to enhanced security systems, maintenance and updates. In addition, retailers need to keep themselves updated on the latest insights regarding cyber security, as well as incidences and learnings from them. They might also consider collaborating with outside IT security experts that stay on top of the developments and can advise on how to protect retailers' systems and customers. Mobile is a particular challenge. "If people are going to continue to shop efficiently and quickly on mobile, then there has to be more thorough systems around how we secure the data and make the mobile environment more resilient," says Madeleine Thomson, leader of PwC's retail and consumer practice in the U.K. "Companies are putting more and more information into the cloud and handing that job over to professionals, rather than looking after their own data."

If people are going to continue to shop efficiently and quickly on mobile, then there has to be more thorough systems around how we secure the data and make the mobile environment more resilient.

—Madeleine Thomson
PwC's retail and consumer leader, UK

Training and continuing education are other items that retailers should invest in: IT employees need to be kept current on cyber security knowledge and skills. From a legal and regulatory perspective, retail companies need to keep up-to-date on upcoming legislation such as the GDPR (General Data Protection Legislation), regulations, and directives to evaluate the impact and plan ahead.



Invest in keeping already loyal customers

We know from previous Total Retail surveys that nearly all online shoppers belong to retailer loyalty programs. But what else can retailers do to retain customers?



This year, we explicitly asked our survey respondents what kind of shopper they are: do they generally know what they like and tend to stick with it, or do they generally like to buy whatever seems new and different? As the graphic to the right shows, more than 60% of those surveyed say they like to shop based on brand loyalty rather than trying something new, with the top three countries being Japan at 83%, the U.S. at 71%, and France at 71%.

Since customers seem apt to be brand loyal, reinforcing this loyalty by investing in uniquely appealing brand features—such as customized offers and special access to deals—could pay big dividends.

Best Buy, the Minneapolis, MN-based computer electronics retailer, has made keeping loyal customers a major priority. The company is offering premier customer-only shopping days, advanced ordering on limited allocation products, an exclusive concierge service for repair above and beyond the more general customer service department, and discounts through its private label and loyalty cards. Recently, it added a new “consulting” in-home service that select loyal customers can use as a perk. Best Buy will send trained technicians to a customer’s house to give advice on home technology projects such as the best way to set up a multi-zone home theater with surround sound, or the smartest way to wire a house for sound. While the service is open to new customers for a price, loyal customers have the inside track on the service.

Which of the following statements most accurately describes how you like to shop?



Source: PwC, Total Retail 2017; Base: 24,471



In order to help retailers examine the nature of brand loyalty more closely, we dug a little deeper. By taking the 61% of our survey respondents who say that they tend to be more brand loyal shoppers, and then seeing how this cohort answered our question on which online media most inspires them, we can report that more loyal shoppers gain inspiration directly from the retailer through a retailer's website. They are less inclined to look elsewhere—multi-brand websites or social networks—for inspiration. Other tools such as direct email communications and blogs are also used for inspiration, but not as much. The upshot? Harkening back to our first recommendation, investing in an excellent website, optimized for any device, is critical.

Another idea to bolster loyalty is building up private label products. Private label is healthier than ever, and offering customers high-quality private label goods is one of the best ways to lock them in; after



Almost one in five retail dollars spent around the world is on a private label brand.

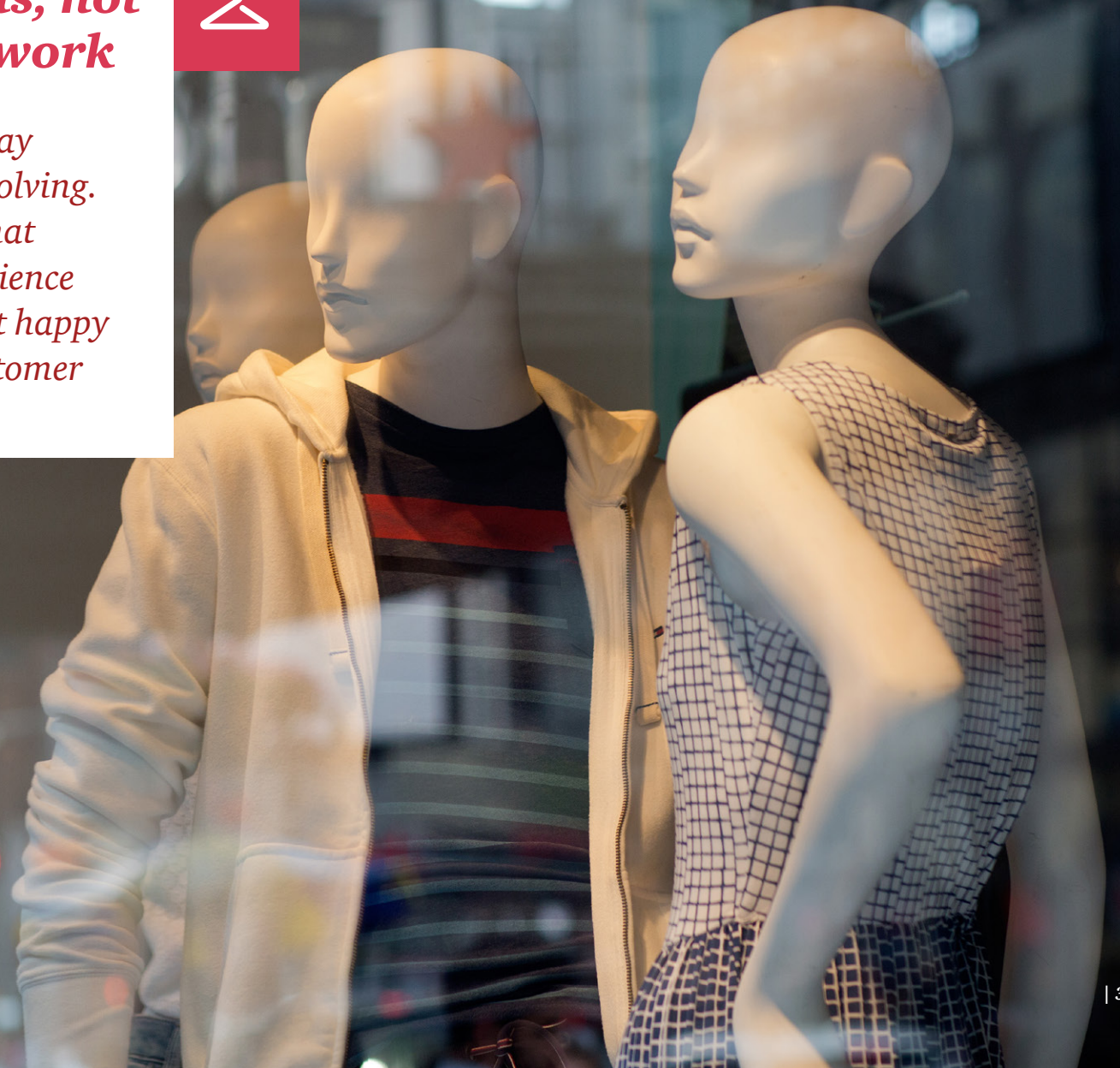
all, they can't get those products at other retailers. Globally, the dollar share value of global retail sales on private label products as of November 2014, the latest results available from Nielsen, was 16.5%.⁹ Almost one in five retail dollars spent around the world is on a private label, or store, brand. Investing in private labels, particularly in low-growth areas where price sensitivity is an issue for consumers, can be an excellent investment. Results with private label vary greatly among countries, with Switzerland at 45% of sales being private label and China being 1%.

⁹ Nielsen Insights, The State of Private Label Around the World, November 2014.



Invest in showrooms, not the entire store network

While the store is not going away anytime soon, its purpose is evolving. There is compelling evidence that people want the physical experience of trying things, but aren't that happy with aspects of the in-store customer experience.



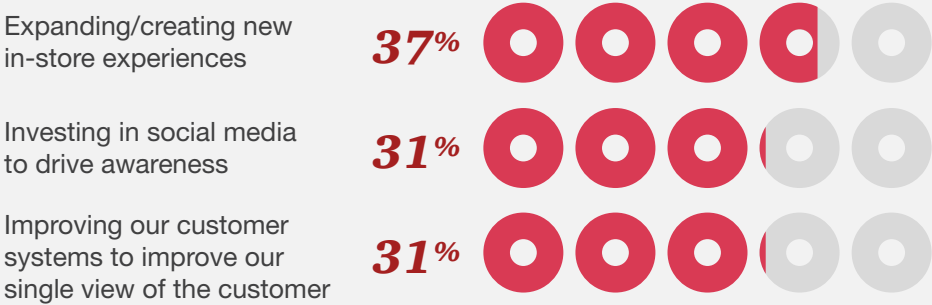


This year's Total Retail research tells us that consumers want in-store features: 68% want the ability to check other store or online stock quickly, 59% want an inviting ambience, and 59% want the ability to see/order an extended range of products. Yet, as our gap analysis shown earlier illustrates, satisfaction with these offerings is much lower.

One solution could be for retailers to invest in showrooms: physical locations that are designed not to push product, but instead to entice consumers with all of those amenities they want from the store.

A showroom offers a comfortable, inviting—sometimes even luxurious—environment to peruse products, get advice on sizes and styles, and place an order. The shopper's products are then shipped to the consumer's home from an offsite warehouse or store. Since a showroom has no need to maintain the expense structure associated with selling goods and shipping, showrooms can be very economically viable for retailers. And retailers seem ready to put money into the store. As this illustration from a PwC/SAP retailer survey shows, 37% of retailers say they are planning on increasing their investment in the store experience—the top-rated choice to the question about what kinds of omnichannel investments they would make.

It's all about the customer: retailers are focusing investment on in-store experiences and social media campaigns while improving their ability to get a single view of the customer



Source: PwC & SAP Retailer Survey; Base: 312
Are you planning to increase investment in any of the following omnichannel areas?

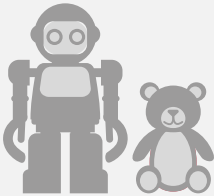


The graphic on the right shows how various product categories fare in terms of whether people prefer to purchase them online or in-store. For some product categories, such as furniture and homeware and household appliances, consumers want to go to a store and look at and try the products. But retailers should consider whether they would have even more success with these products in-store if they employed a pure showroom model.

The showroom model is also favorable for products that are referred to as “differentiated goods,” products like branded fashion apparel, the newest electronic gadgets, or expensive jewelery. Differentiated products are difficult to sell online, because consumers prefer to browse for these items, examine them, and even seek out advice about what to buy. By displaying these products in a showroom, skilled and attentive sales staff can drive conversion of browsers into actual customers—a challenge for retailers both online and offline—resulting in more sales. The illustration to the right shows why jewelery and watches, a good example of differentiated products, are good candidates for showrooming.

Preference to buy online versus in-store

Online		In-store
60%	Books, music, movies & video games	28%
39%	Toys	37%
43%	Consumer electronics & computers	51%
36%	Sports equipment/outdoor	44%
37%	Health & beauty (cosmetics)	47%
40%	Clothing & footwear	51%
32%	Jewelery/watches	49%
33%	Household appliances	56%
30%	DIY/home improvements	52%
30%	Furniture & homeware	59%
23%	Grocery	70%



Toys are closing the gap, with preference to purchase almost equal across both channels

Source: PwC, Total Retail 2017
 Summary chart showing in-store vs online purchasing preferences
 Which method do you most prefer for buying your purchases in the following product categories?



Men's clothing retailer Bonobos represents the gold standard in showrooming. Since 2012, the company—one of the hipper retailers catering to 18–40 year-old men—has been experimenting with Guideshop showrooms, now in 30 locations. Consumers can walk in or book an appointment, enjoy a beer or other cold drink, and chat with knowledgeable salespeople. Guideshops lower costs by requiring fewer sales people and having small footprints. Furthermore, since repeat customers' details (such as sizing and favorite styles) are recorded in Bonobos' data system, customers are more likely to make online purchases unassisted in the future, driving loyalty and lower returns, even for e-commerce transactions. Outside of the physical store, customers have three channels—live chat, email, or customer service telephone line—to interact with so-called “Ninjas,” representatives whose job it is to go beyond any one sale and, instead, promote the brand through their interaction with customers.

When British retailer Topshop first launched in China, it did so with an online-only strategy in collaboration with Chinese fashion e-tailer ShangPin. Their launch campaign, “The Mobile Adventure,” was introduced in a pop-up environment in a Beijing shopping mall, and allowed customers to try on clothes and then purchase them through a QR code. The apparel was delivered the next day.



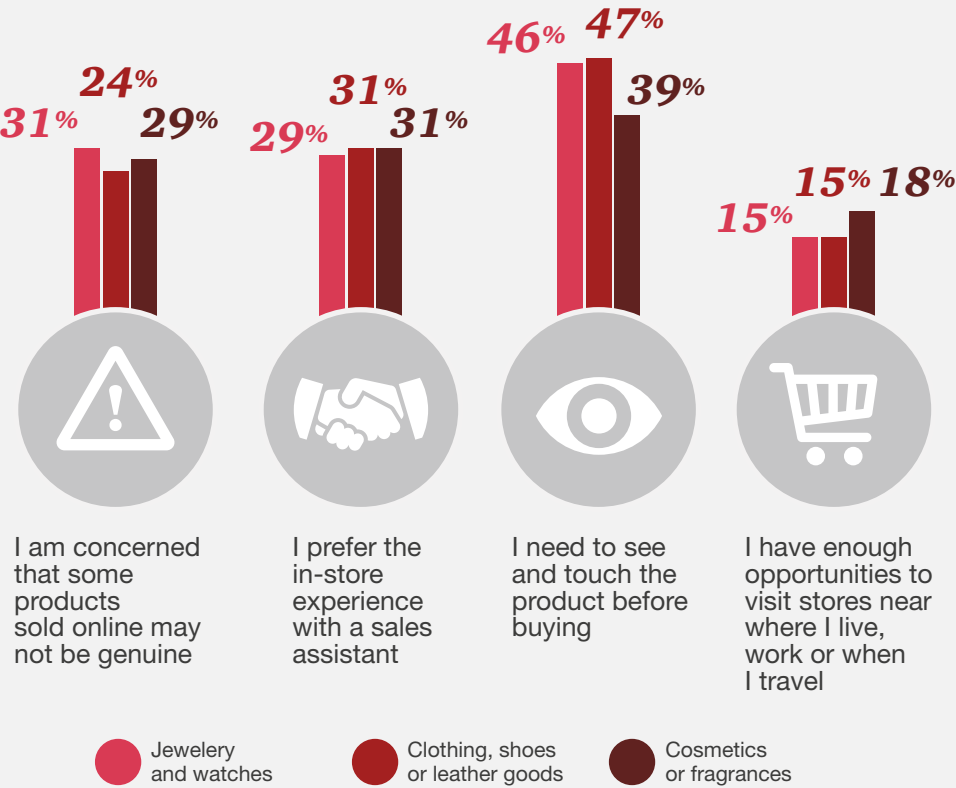
Invest in the authenticity of branded goods

Authenticity of branded goods is a huge issue for retailers, particularly for products made and sold in developing markets or whose supply chains wind through developing markets.



In this year’s research, we decided to delve into this topic by asking questions about an area in which authenticity is always a factor—luxury goods. The graphic to the right shows how a surprisingly large percentage of our global sample is concerned that products such as jewelery, apparel, and cosmetics sold online are not genuine—and therefore they don’t purchase these items online.

Why have you not made your luxury product purchases online?



Source: PwC, Total Retail 2017; Base: (4515), (4147), (4782)



The fear over fake items also informs how to shop for luxury items. The graphic to the right illustrates how the vast majority of our global sample prefers to buy luxury products from sites that sell multiple brands, presumably because these websites are broader, more well-known, and thus likely to be subject to more rigorous standards.

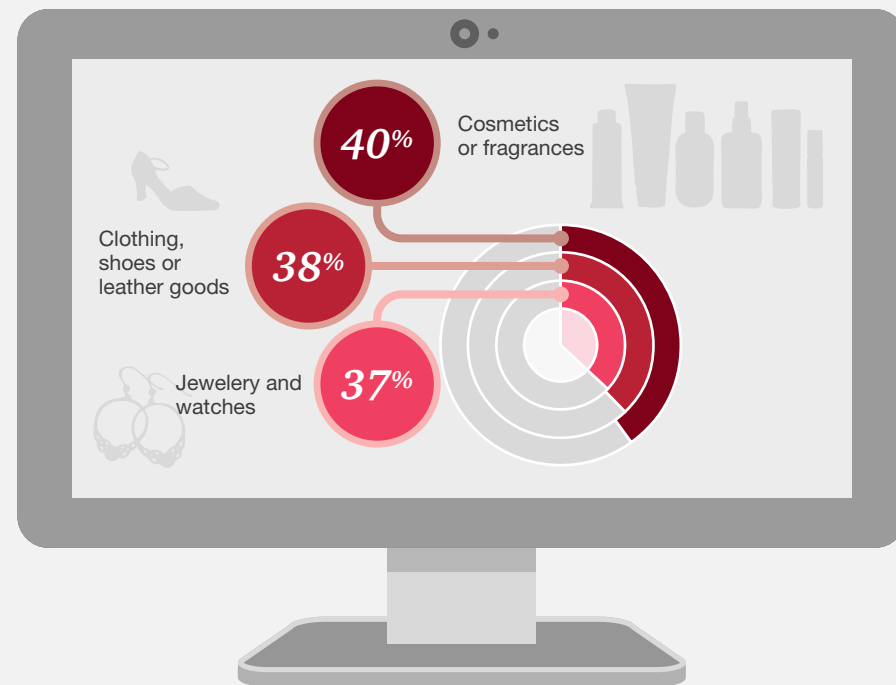
Authenticity and quality isn't just about luxury items, of course. In China, ongoing concerns about domestic product quality and safety has seen demand soar for imported products from overseas brands, particularly in such categories as food, cosmetics, and infant care products.

In response, the Chinese government has introduced new cross-border B2C e-commerce policies to address challenges associated with the legitimacy of importing overseas products to China, competing with domestic retailers, and loss of tax revenue for imports via unofficial channels. Meanwhile, pilot programs have been established in various Chinese cities to ease cross-border e-commerce.

Leading international retailers have used this online-only, B2C cross-border business model to sell into China, as it is an attractive strategy for reaching Chinese customers without facing the complications of setting up an entity in China or launching physical stores. This “stepping stone” strategy allows companies to build brand, test their value proposition, and gain operational experience before considering expanding into the larger domestic China market.

Consumers prefer to use multi-brand websites for their online luxury purchases

From a website that sells multiple luxury brands



Source: PwC, Total Retail 2017; Base: ((11,961) (15,216) (10,314)
Please indicate what type of website you used to buy your luxury products online



Invest in health care offerings

While consumers love the convenience of online shopping versus trips to the physical store, any kind of retail seems convenient and customer-centric when compared to the often Byzantine health care purchasing system, both in the U.S. and other countries. For that and reasons related to cost, retailers have emerged in the past decade as new entrants into the ranks of non-traditional health care providers.





For consumers plagued by long wait times and high costs, retailers have emerged as a much needed salve to fill some of the gaps between consumer expectations and the current medical infrastructure. In the U.S., retail clinics run by Walgreens and CVS have become a very real choice for Americans seeking health care, as customers consistently rank their satisfaction with these clinics ahead of doctors' visits. CVS Health, the largest network of retail clinics in the U.S., has more than 1,000 clinics in 33 states.¹⁰

"The retail store is becoming a destination for health care services," says Steve Barr, PwC's U.S. retail and consumer leader. "Today's consumers are willing to go to a retailer or pharmacy for certain types of medical services in a way that previous generations wouldn't. It's health and wellness, and the in-store experience, coming together as one."¹¹

But this is far from just a U.S. phenomenon. FEMSA Comercio, the top bottler of Coca-Cola in Mexico, acquired and operates a nationwide string of pharmacies. In Germany, 43% of consumers in one survey were willing to accept services and products from non-traditional health care providers as long as the quality and results were the same.¹²

¹⁰ Hospital & Health Networks, "5 Implications for Hospitals Now that Retail is Health Care's New Front Door," March 17, 2016.

¹¹ PwC interview.

¹² PwC Germany, Health care and Pharma New Entrants, (September 2014).



To better understand the future investment opportunity in this area for retailers, we asked several questions in this year's survey gauging respondents' trust in receiving health care from various types of retailers. The results were illuminating in terms of just how ready the global consumer is to receive health care at a retail location, reflecting the customers' trust in retail health providers, as well as their convenience orientation. The graphic on this page even shows that one-quarter of our global sample would be comfortable receiving an MRI or ultrasound at a retail store pharmacy.

New health services and products are increasingly being offered by companies not traditionally associated with the healthcare sector, such as retailers or specialty websites. Would you trust such a non-traditional health care provider to:



Source: PwC, Total Retail 2017; Base: 24,471



Another area that is of definite interest to retailers is the appetite consumers have for health and wellness products. The first illustration on this page shows how 47% of our global sample either own, or intend to own, a wearable device, indicating their huge potential for tracking exercise routines, monitoring eating and sleeping habits, monitoring vital statistics, and improving fitness.

The second graphic on this page shows all the different benefits that consumers believe they would get from a wearable device.

Do you currently own a wearable device that tracks or monitors your health?



Source: PwC, Total Retail 2017; Base: 24,471

What benefits do you think there are, or would be, from using a wearable device?



Source: PwC, Total Retail 2017; Base: 11,583

The ten areas of investment described in this report cover a range of areas, including digital infrastructure, offline retail network, communication strategies, analytics capabilities, customer loyalty, and talent. The variety reflects the increased business complexity that retailers are facing. Since business models differ and budgets aren't unlimited, the priority and urgency of the proposed investments will vary by company. How would you prioritize these 10 areas of investment for your company?





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