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Retail | the way we see it

Future Channel Shopping

A Vision of the Future and the Multi-Channel Approach It Demands

Step forward 10 years and meet three consumers of the future. 15-year-old Maria and her friends are sending each other videos over their phone wallets of themselves modelling clothes they're interested in buying. They are all simultaneously commenting and adding accessories online to collectively choose outfits for each other.

James, 35, has all his food basics automatically replenished weekly by his grocery retailer based on the family's "store cupboard" availability, consumption patterns and preferences. He browses the recipe suggestions sent to his mobile and selects a couple each week; the ingredients are automatically added to his delivery. If he is out, the order is placed in his refrigerated "reception box" located at the back of his house.

And 52-year-old Anna shops online as she has for 10 years for gifts and household purchases. In contrast, her time spent in the malls is all about her shopping experience – touching, feeling, trying and getting sales advice about new products and technologies. She usually takes in a cooking or beauty demo and fashion show during her shopping mall visits.

The Future Shopping Experience – Closer Than It May Seem

Over the past 10 years we have seen substantial changes in the retail environment, one of the most predominant for Western retailers being the rise of online retailing with year-on-year growth as high as 50%.[1] This has sparked a new series of Internet-only retailers and challenged traditional retailers to change their way of doing business. Consumers have become more demanding regarding their shopping experience and are embracing retail innovation wherever they can find it. Many retailers have struggled with the considerable challenge of simultaneously competing on price, differentiating their proposition and integrating the new online shopping channel.

Now the pace of change is about to accelerate further and tomorrow's world will be here sooner than we think. Looking ahead to the next decade the retail experience across all channels will be very different and retailers need to gear up for the magnitude of change that is to come. In this paper Capgemini explores the major factors that will drive change, their impact on channel shopping and what retailers should be doing about them.

The Challenges Will Come Across Channels

Each of the future major shopping channels will evolve, driven by the following challenges, which span across channels:

Consumers will have an increased appetite for new technology. The pace of technological change will continue across all channels driven by the consumer. The mobile phone will continue to be the portable device of choice and will replace credit cards and PDAs. The phone will be used for all this functionality, as well as features such as webcam and scanning technology. Store visits will be enhanced by dynamic digital displays and personalisation through a hand-held device or the customer's own phone.

Online usage will continue to grow rapidly. Consider that there are almost 1 million new consumers per week getting Internet access in China alone.[2] And as online penetration approaches saturation in some countries and many consumers spend more time online than watching television,[3] retailer websites of today will look old-fashioned. In addition, features such as personalised 3D avatars for "trying on" clothes online and interactive videos will become the norm.

Challenges Driving Channel Evolution

- Consumers will have an increased appetite for new technology.
- Customers will expect greater channel mobility.
- More shopping time will be spent on awareness and choosing.
- Consumers will demand more personalisation.
- Generation Z will become a significant consumer.
- More delivery models will exist.
- Services will become more important.
- Sustainability will continue to be a focus.

1 Capgemini-IMRG Online Sales Index, 2007-2008
2 International Telecommunications Union
3 Capgemini, Telecom, Media & Entertainment Lab analysis

Customers will quickly become frustrated if they are unable to easily plot their chosen journey through the retail channels.

Customers will expect greater channel mobility. The proportion of customers who use multiple channels to complete a purchase will increase. Proposition consistency across channels will be the norm, and retailers will need to ensure that the dialogue in one channel is taken through into any others in which the customer chooses to interact. Customers will quickly become frustrated if they are unable to easily plot their chosen journey through the retail channels.

More shopping time will be spent on awareness and choosing. In a typical shopping journey the awareness and choosing phases come before the actual transaction, and these phases will become an increasingly important part of the retail experience. Consumers will have more product transparency than ever before, driven by their increased use of the mobile and online channels. Their research will not be limited to a single retailer and will also include aggregators and communities.

Consumers will demand more personalisation. This will be true for each channel, each customer and each transaction. Already 79% of consumers are willing to share personal information for personalised offers.[4] And this personalisation will extend to assortments, products and cross-channel interactions. Customers will always get a personalised series of pages online and their mobile interactions will be tailored to them. And they will want the personalisation to extend seamlessly between channels at any point in the sales journey.

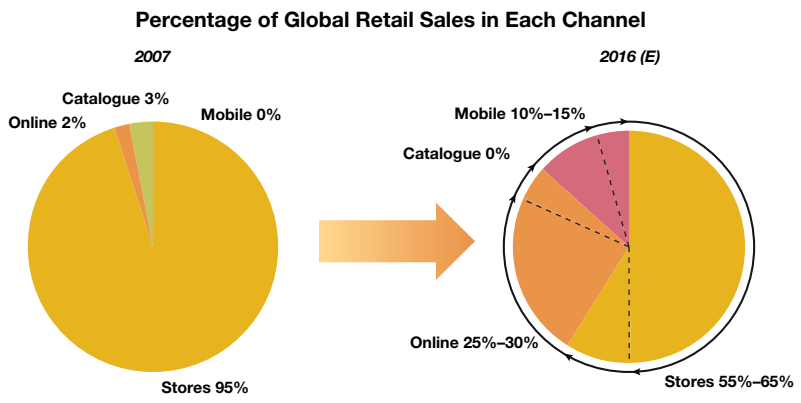
Generation Z will become a significant consumer. Today's children will be 18 to 25 years old in a decade's time. They will constitute much of the driving force of the move to a more innovative retail experience. They will also be the early adopters of the mobile shopping channel, causing the channel to grow exponentially and set the trends for the other generations to follow.

More delivery models will exist. There will be a demand for faster delivery lead times and more flexible delivery options. In the future retailers will have to facilitate delivery to home, office, retail outlet or neighbourhood collection points. There will be a rise in the use of "reception boxes" located on customer premises to take safe delivery when customers are away from home.

Services will become more important. These will include physical and virtual additions for core products and services that increase or enhance the user experience – for example, user guides for games and instruction in advanced use of new consumer electronics goods. Some of these services will be included in the product purchase price and for others customers will pay a small premium. Retailers that are not able to offer additional services will not only lose out on potential additional income but will also find their product share eroded as consumers turn to retailers that provide a full-service offering. It is essential that these services be implemented in a multi-channel way just like the products that they complement.

4 "Future Consumer: How Shopper Needs and Behaviour Will Impact Tomorrow's Value Chain," Capgemini, 2007

Future Change in Channel Mix



Sources: Internet World Stats; Miniwatts Marketing Group; Nielsen/NetRatings; http://www.planetretail.net/Home/PressReleases/PressRelease.aspx?PressReleaseID=54980; Global Internet and Catalog Retail industry report, Datamonitor; Capgemini analysis

Sustainability will continue to be a focus. The current economic environment may reduce the percentage of consumers willing to pay more for environmentally friendly products and services from the 59% of global consumers reported at the start of the downturn (of which 52% would pay 5% extra and 33% a 10% premium).[5] But sustainability will continue to be a significant buying factor and will further extend from the current trend of choosing green products to influencing the choice of channel itself. In fact, 87% of global consumers indicate that sustainability factors influence their buying behaviour.[6]

Retailers will need to reduce the carbon-footprint impact of all their stores and set up environmentally friendly ways of getting there to avoid an exodus of green consumers to competitors or other channels. Online and particularly mobile will be seen as greener options. But even these channels cannot rest on their laurels, and retailers will need to implement logistics sharing with third parties, supply chain consolidation, city hubs and green delivery options to ensure their share of the green consumer.

Future Channel Changes

These consumer expectations and drivers will fundamentally change the roles and objectives of the main future shopping channels: stores, mobile and online. Online will continue its substantial growth to reach 25% to 30% of total retail sales, higher in certain categories and geographies. The mobile channel will become a significant force across all developed markets and will reach 10% to 15% of retail sales. The remainder of sales will come through stores, although the role of the stores themselves will be much broader than simply facilitating customer transactions.

5 "Our Green World," TNS Global, December 2008 (web-based study covering 17 countries and 13,000 interviews)
6 Ibid

Channel Evolution

Stores Will Become More Experiential and Less Transactional

As the online and mobile channels grow, customers will seek something different from their store visit causing a shift in the retail format landscape. The average shopping trip will be more focused on enjoyment, hands-on experiences and consultation and service. The four major formats will be showrooms, superstores, local market stores and discounters. Each will look different from their counterparts today.

Showrooms will play a less transactional role in the shopping experience and primarily focus on creating an exciting store visit. The format will supplement consumer research in other channels by providing rich, experiential support to influence purchase decisions. These showrooms will use innovative techniques, displays and customer interactions such as cooking demos, fashion shows or equipment lessons to ensure an engaging customer experience. Customers will be able to obtain advice from product experts to assist in their product selection and experience a wide variety of post-sale services. Hands-on product trials will be encouraged.

This format will drive sales in other channels as products will be ordered for delivery within 24 hours to the destination of the buyer's choice. The electronics and apparel sectors, in particular, will use this format. For example, apparel retailers will use showrooms to showcase their frequent fashion refreshes.

Kiosks will complement the showroom experience by automating the transaction process, and enabling customers to go online, browse and request delivery and post-sale service options. They will also act as a knowledge repository for store staff and customers alike.

To succeed with the showroom format, retailers will need to ensure that they have staff trained and incentivised to create an exciting store visit over and above the transaction and store stocking requirements of today. Retailers will also require the right supply chain operation and multi-channel information sources to support and deliver at a level that meets the customer's expectations.

Superstores will continue to offer a comprehensive food and non-food assortment particularly in growth categories such as health, local and socially conscious (products and companies that donate to charitable causes). They will harness technology to personalise the store visit for each customer and improve customer service. Customers will be guided to their favourites throughout the store from a mobile device. Digital displays will dynamically change to a promotion appropriate for the passing customer. Loyalty points will be automatically calculated as the customer pays by mobile phone and credited to the user's central account.

Compact hypermarkets, a subset of this format, will be driven by lack of space for new superstores, planning regulations and restrictions, and market saturation of larger superstores. Retailers will have to merchandise smartly to get the right profitable product mix.

To further enhance the experience and increase sales, segments of the store will be given over to category killers that dominate a particular product category and will run the section like a shop within a shop. These sections may have a very different look and feel from the main store to suit the needs of the category and will have dedicated staff to provide advice and guidance.

Superstore operators will only be able to deliver the desired customer experience if they have the supporting technology, not only in stores but also a multi-channel customer data base.

Local market stores will be characterised by innovative food ideas, extending the current trend towards fresh and healthier foods. Leaving the basic staples to be replenished via an online channel, these stores will offer constant newness of food products, complete cook-at-home meal solutions and products that make home food preparation easier. They will stock a high proportion of impulse and fresh products to meet the resurgence of more frequent local shopping. In the UK, for example, the percentage of shoppers doing a single, larger weekly shop has dropped from 70% to 59% in the last seven years, the difference being replaced by smaller, more frequent shopping trips.[7]

In addition, products will be sized for the growth in one-person households. A proportion of locally sourced products will be expected and nationwide retailers will need to determine how they can source and merchandise these items across their organisation. The multi-format retailers operating in this space will need to ensure that their local market stores have sufficient innovation to keep up with the niche players that will emerge in this format.

Discounters, selling products at prices lower than traditional retail outlets, will continue to be a viable format in a decade's time, but the range of customers will be greater as the acceptability of shopping at discounters grows. Discount retailers will tend to only operate in this format, which will continue to be characterised by a limited range of products, bulk quantities, a high percentage of private-label products and a no-frills store layout and design. Retailers operating in this arena will continue to need to be extremely cost focused and monitor the product quality that their customers seek. Discounters will also benefit from increasing individual polarisation, where individual customers combine low- and high-end products in their shopping portfolio.

Rapid Online Advances Will Result From Changing Customer Behaviour

The look and feel of online shopping will change substantially as customer behaviour and expectations evolve. The customer will expect a far more feature-rich online experience, and new sophisticated online merchandising technologies will mean that previous store-only activities will be able to be carried out online. For example, do-it-yourself (DIY) retailers will allow customers to "try out" different home decor products in an online 3D replica of their own home.

Online visits will always be personalised and this personalisation will go beyond some tailored offers or personalised landing page to the assortments, pages and services each customer is offered. Retailers will need to use multiple customer dimensions to move far beyond simple customer segmentation to individual customer marketing. Consider, for instance, that 77% of consumers make additional purchases when recommendations appropriate to them are made.[8]

Online technologies will also bring about more automation for the customer. For example, automated merchandising on an individual level will be possible, so that customers will have home replenishment for regular staples based on their own shopping history and preferences.

The online channel will also be a key driver in selling and delivering additional services, which will become increasingly important to complement

7 Final Report Into the UK Grocery Market, Competition Commission, February 2008
8 "What Online Consumers Want: A Personalized Experience," Media Buyer Planner, June 24, 2008, http://www.mediabuyerplanner.com/2008/06/24/what-online-consumers-want-a-personalized-experience

and enhance the products sold. Installation, support and product use services will typically be offered through each channel with the option of at-home service.

The online changes will also come from outside the retailers' own websites. Web 2.0+ and beyond technologies will continue to cause a rise in use of the Internet as consumers increasingly interact with such features as social networking sites, customer blogs and online communities. Better personalisation will be offered by those retailers that use customer insights strategically collected from the multitude of online data sources. Savvy retailers will incorporate these web social technologies into their online channel. The customer insights gathered will be used beyond the online channel to drive retailer activities and strategies across channels.

To meet the challenges that the online channel will bring retailers need to ensure they have a new breed of merchandisers who understand the different requirements of displaying, ranging, allocating and interacting with the customer online. The use of supply chain consolidation, retail city hubs and multiple customer delivery options will also be required to economically and sustainably meet the growth in online sales and customer delivery expectations. Most customers will want their online orders to be delivered to their home, while close to 20% will prefer a neighbourhood pick-up model, particularly for perishable food and do-it-yourself products.[9]

The Mobile Channel Will Become a Major Force

Mobile communications is forecast to be the fastest-growing channel over the next 10 years. Driven by near saturation for mobile subscribers and the convergence of functionality on the phone, the consumer is increasingly accepting the phone as a communication device, organiser, browser, camera and payment tool. By 2012, 700 million people worldwide are expected to own wallet phones, a mobile that allows payment directly from the user's bank or credit account, replacing the use of a credit card.[10]

The use of the mobile phone will be threefold: for transactional purposes, as an information tool and as a distinct shopping channel. In fact, mobile payments using contactless technology have already increased tenfold in the last five years and this growth is expected to accelerate.[11]

As a transactional tool, mobile phones will make it possible to create a fast checkout lane and decrease queues in store, and reduce the risk and cost of handling cash payments. Mobile phones will allow retailers to track customer behaviour across all shopping channels, better tailor and target their offerings, and make it easier to connect a transaction to a loyalty programme.

Customers will also use their phones to gather product information, and the phone will provide a connection with other channels. For example, the customer will be able to scan product codes of items they are interested in and check availability in local stores. The growth in the mobile channel will enable targeted information to be sent from the retailer based on the location of the customer or a particular event

9 "Future Consumer: How Shopper Needs and Behaviour Will Impact Tomorrow's Value Chain," Capgemini, 2007
10 "Cell phone shopping makes wallets redundant in Japan," Izumi, Reuters News, November 2008
11 "Mobile Payments," Capgemini, Telecom & Media Insights, February 2008

they are attending. This information channel also lends itself to more focused marketing based on personalised products and location, and for targeting specific customer groups. Retailers will have to use this approach intelligently to keep the customer from becoming disenfranchised with too much retailer spam.

Mainstream use of the mobile phone as a distinct shopping channel will follow its adoption as an informational and transactional tool. The mobile shopping channel will make it possible for customers to complete the whole shopping journey on their phone – from the awareness stage through decision to transaction. And in the case of some services or e-products, delivery could happen on the phone itself. Post-sale services such as return requests and warranty activation could also be handled via the mobile phone.

However, the mobile channel will pose customer, mobile market and internal challenges for the retailer. The traditional assortment depth and layout will not work well on the smaller screen of the mobile, so retailers will need to ensure that they have a separate sales platform that is delivered to mobile phones rather than simply trying to force their online offer into the mobile channel. Products and assortments will be merchandised differently in this channel and will be tailored and targeted specifically to the customer's personal requirements. For example, fashion retailers will feature their fast-fashion items and will launch new products using the mobile channel.

In addition, retailers will need to focus on getting the timing right between investing too heavily in the mobile channel up front and being left behind the trend. Additional challenges will include the use of industry standard encryption and secure payment techniques. To realise the potential of this new channel, retailers will need to open up the dialogue with phone operators and device manufacturers to bring about viable mobile shopping standards and determine how the gains from this up-and-coming technology can be seen more quickly.

The Decline of Catalogue and TV Channels

As the online and mobile channels grow, other channels will fade away. Catalogues will cease to exist as a separate channel and their transactions will move online. They will instead be used as a marketing tool to drive sales in other channels.

Additionally, as the television and computer converge, the TV channel will merge with the online channel and never become a significant channel in itself.

The Way Forward

The roles and objectives of the individual channels are changing, presenting their own opportunities and challenges, which are significant to deal with. However, the more fundamental challenge is how to make the individual channels work together to provide the customer with the seamless experience they desire.

When the Internet started out as a retail channel, the emphasis was on getting a proposition online and making it work. This channel was often set up as a bolt-on to the existing retail organisation. In many retailers today this is still the case,

Threefold Use of Mobile Phones

Mobile communications is forecast to be the fastest-growing channel over the next 10 years. The use of the mobile phone will be threefold: for transactional purposes, as an information tool and as a distinct shopping channel.

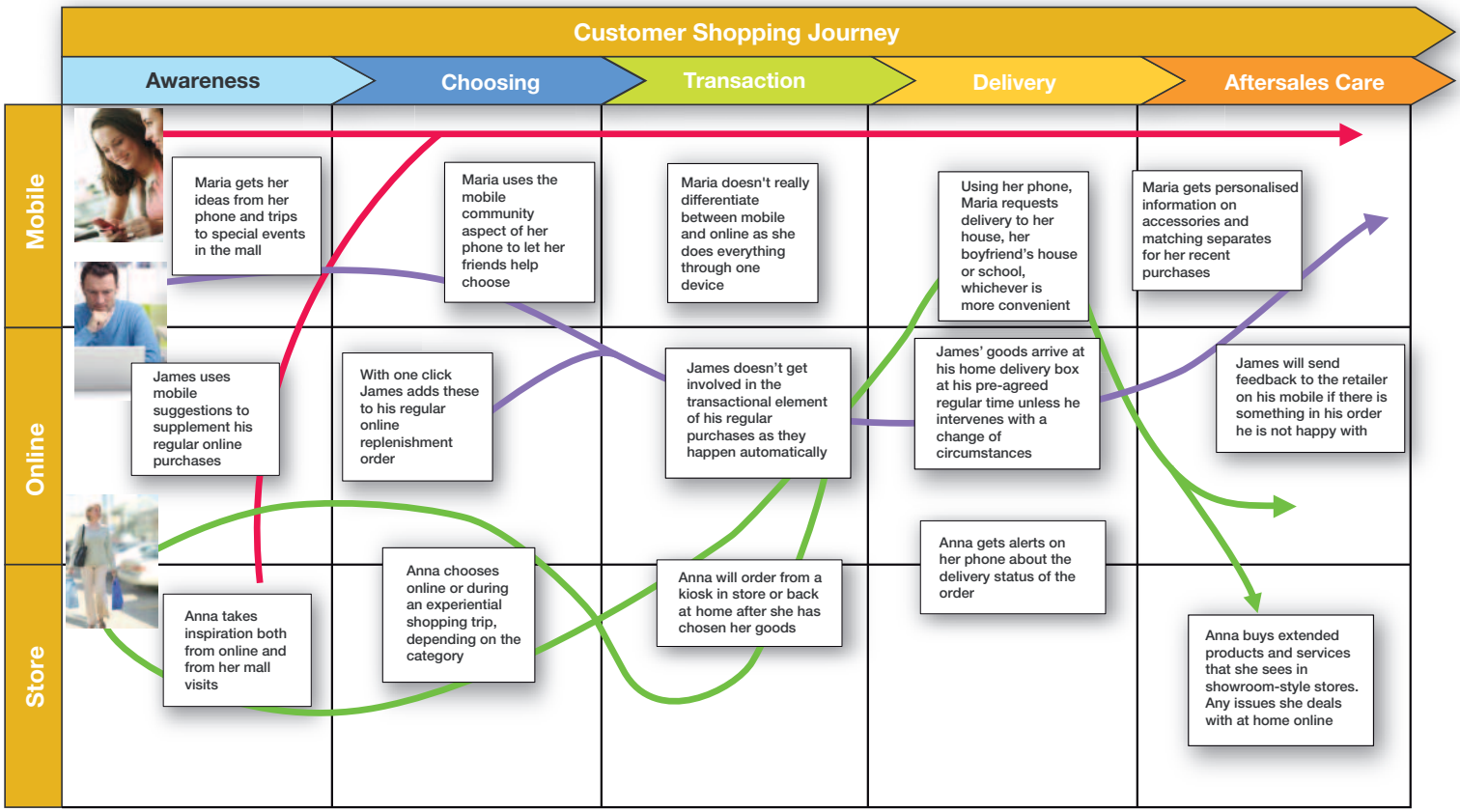
Wherever sales are taken, each channel has a role in driving overall sales for the retailer.

with the traditional store seeing the online channel as a sales competitor. Not only does this issue need to be overcome to better deliver to the customer but as the mobile retail channel grows, a coordinated multi-channel strategy will become more essential than ever. Without such a strategy, retailers will not be able to overcome the challenges of the future shopping environment and meet the expectations of the customer.

As customers shop, they go through a typical sales journey of awareness, choosing, transaction, delivery and aftersales care. In the future they will expect to be able to move seamlessly across channels at any part of the journey. All of our three future shoppers from different generations – Maria, James and Anna – will use the channels differently, but they will all move between channels and expect to easily do so (see accompanying diagram). They will also expect the retailer to remember their interactions and channel preferences and adjust the service accordingly.

Determining the right channel mix for the retailer's business will clearly depend on the subsector. In grocery, for example, superstores, local market stores and the online channel will be a common combination for large retailers. In the apparel segment, showroom stores will be used in conjunction with an online delivery model, while the mobile channel will become important for the sale of new

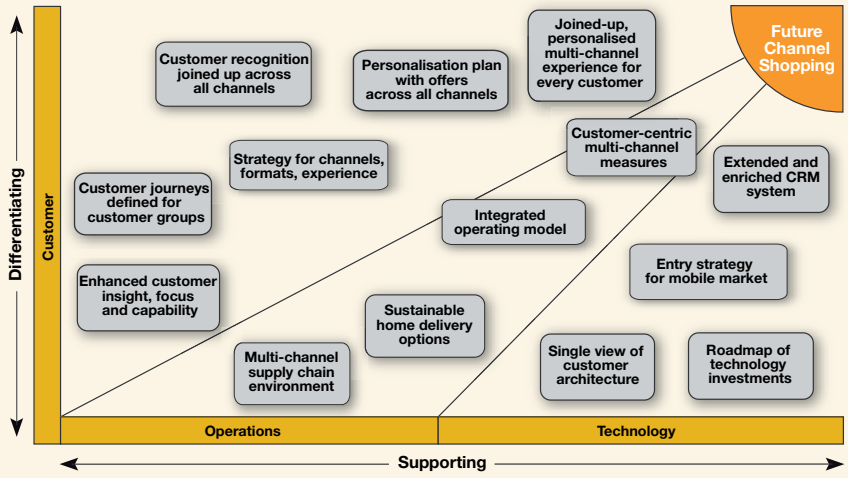
Customer Shopping Journey



Note: Red arrow represents Maria's typical shopping journey; blue arrow represents James' journey; and green arrow represents Anna's.

Source: Capgemini

Mapping the Future Channel Shopping Journey



Source: Capgemini

Retailers will need to map out their journey from today to be ready to deliver the future channel experience that their customers will expect by focusing on three streams: the customer, which is the differentiating stream; and technology and operations, which are supporting streams.

Customer: A common theme throughout all the channels will be personalisation. The following key activities should be addressed:

- Determine your strategy for the channels, formats and experience that you want for your customer within the next decade.
- Put in place processes to collect and use the customer data required for the level of personalisation you want to give across all channels, remembering to use sources external to the organisation such as those from web 2.0+ technologies.
- Begin your personalisation plan starting with offers, through online and mobile personalisation to complete individual personalisation for each customer.

Operations: How the operations support the strategy and customer and service aspirations will make or break the success of the future multi-channel delivery. The following key activities should be addressed:

- Define an integrated operating model.
- Ensure your supply chain is set up to manage the multi-channel environment and can provide sustainable home delivery options.
- Put in place customer-centric metrics and incentives to drive multi-channel behaviours and break down silos.

Technology: The demands on technology will be huge and retailers will need an agile, forward-thinking technology strategy. A holistic approach to the retailer's complete IT landscape is the only way that a retailer will be able to deliver the joined-up service that the customer will expect. The following key activities should be addressed:

- Define the architecture that will give you a single view of the customer.
- Extend and enrich your CRM system so that it copes with all new customer insight sources and customer interactions in all channels and feeds into the customer personalisation systems.
- Develop a technology roadmap across all channels that maps out your technology investments, linking them to the desired customer proposition.
- Learn the lessons from the online demand explosion and apply them to a coherent entry strategy for the mobile market.

fast-fashion items. These mix decisions need to be made in conjunction with an integrated channel strategy. Wherever sales are taken, each channel has a role in driving overall sales for the retailer.

Planning and driving each channel separately will not deliver a compelling enough shopping experience. Only the right multi-channel proposition will drive the innovative future shopping experience required and personalisation is a key element of this customer proposition. This customer element needs to be supported by integrated multi-channel delivery in both operations and technology. The demands on technology will be great and retailers will need to understand the rapidly changing technology landscape and have a single corporate-wide view of the roadmap. This holistic view and strategic plan will also need to apply to the operations of the organisation.

Conclusion: A Faster-Changing Multi-Channel Approach

Each of the channels will look very different in a decade, but addressing the individual channel changes alone will not deliver what the customer wants. To deliver the future channel shopping experience, retailers must develop a strategy and roadmap that takes a multi-channel approach to planning the next decade.

Retailers need to develop a multi-channel proposition to meet their customers' needs across the whole sales journey considering the separate channels as a single unit. They need to plan and implement operations and technology that support this proposition. This approach will enable retailers to successfully deliver the future shopping experience that the customer expects.

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About Capgemini's Consumer Products and Retail Insights Group

The consumer products and retail insights group carries out research and produces thought leadership and guidance on global issues affecting the industry.

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