The future of retail – Consumer adaptive retailing
The future of retailing

Online retail is now embedded in consumer’s behaviour and will force changes to the traditional retail operating mode; those retailers that do not move to the new model will not survive.

According to the PwC and Frost & Sullivan Digital Media Research 2012 report, the Australian and New Zealand retail landscape is growing at a steady rate.

The research identified a number of factors stimulating growth of online retail, including:

• greater variety/choice of goods
• widespread usage of mobile devices
• continued strength of the Australian and New Zealand dollars
• increasing level of sophistication and comfort amongst consumers across all age groups
• use of social media by both consumers and retailers to drive brand awareness
• proliferation of group buying sites.
Key statistics

$3.19b
Expected online shopping expenditure in 2012

5.9%
Online expenditure as a percentage of retail sales

14.3%
Expected Compound Annual Growth Rate by 2016

51%
Online shoppers indicated lower prices as the reason they shop online (up from 46% in 2011)

$5.37b
Predicted online shopping expenditure by 2016

81%
Online shoppers in New Zealand expected to increase or at least maintain their online spending
The evolving consumer

With the evolution of digital mediums, consumers are becoming increasingly sophisticated, connected and have high expectations of the retail experience.

Affected by a variety of environmental and social economic factors, research has revealed that the key factors driving consumers to online channels are price, convenience and range.

Mobile devices are also expected to significantly change the way in which consumers are interacting with retailers.

Through the proliferation of the internet – retail is now borderless. Research highlights that 35% of New Zealand consumers make purchases from offshore sites and this is even higher in Australia at 45%.

Once separated from the rest of the world due to geography, New Zealand consumers can and do purchase from international retailers that offer lower prices, a wider variety of goods and free shipping.

In addition to the threat of international retailers targeting New Zealand consumers, local businesses also face challenges from manufacturers and brand companies that they have not traditionally considered as competitors. Locally and internationally these businesses are recognising the opportunities offered via digital channels and increasingly selling direct to consumers. Big brands such as Sony and Apple offer competitively priced deals, exclusive products and customisation options via this strategy.

Although local retailers clearly recognise the importance and value offered through digital channels and e-commerce, few are really leveraging it to their advantage. Not a set and forget strategy in order to keep up with increasingly sophisticated consumers; retailers need to adopt a Consumer Adaptive Retailing approach.

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1 PwC and Frost and Sullivan, Digital Media Research, July 2012
2 PwC and Frost and Sullivan, Digital Media Research, July 2012
3 PwC and Frost and Sullivan, Digital Media Research, July 2012
4 Of all New Zealanders aged between 15 and 65 that currently use the Internet, own a smartphone
5 Of New Zealanders have shopped online via mobile devices during the past 12 months
6 Of New Zealand online shoppers have used a tablet to buy online, double 2011.
The new world of retail
Consumer adaptive retailing

In the traditional retail model, the online channel sat as ancillary to the bricks and mortar business. Retailers were not geared towards integrating digital offerings into their broader businesses. From the back-end, fulfilment, stock management, merchandising, etc. – all too often each channel sat in competition with the other, perceived as cannibalising sales.

Yesterday: Online retailing
Retail and digital capability
With the advancement and penetration of digital mediums, retailers looking to future proof their businesses not only need to provide customers with a seamless experience across multiple touch points, but must integrate all processes and business systems. In addition, organisational structures need to be consolidated to maintain financial sustainability in the rapidly changing retail environment.

Businesses with an inability to recognise, enable and efficiently manage new channels put themselves at risk of being targeted and outplayed by disruptors and channel specific intermediaries that focus on uncovering these weaknesses and providing solutions for gaps in the market.

**Today: Multi-channel retailing**

Digital enterprise

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- **Store reset**
- **Engaged customer**
- **Adaptive marketing**
- **Agile technology**
Moving to the future

The Consumer Adaptive Retailing model encourages leveraging existing service based offerings and systems in consideration with the ever-evolving consumer ecosystem, to deliver a service that is intuitive and responsive.

We’ve identified the following key areas that businesses need to consider when planning for commercial sustainability:

• Store reset
• Engaged consumer
• Adaptive marketing
• Agile technology.

Tomorrow: Consumer adaptive retailing
Networked marketplace

- Big data
- Social networks
- Analytics and channel optimisation
- Context adaptive marketing
- Channel specific marketing
- Networked supply chain
- Support functions
- Products and services
- People and productivity
Store reset

Once upon time a retailer’s real estate was congruent with its slice of market share – in today’s landscape bricks and mortar has been deemed by many as dying a slow death. In order to adapt to the new world, multi-channel retailers need to re-evaluate and ‘pivot’ the role of the store within their offering.

With pure players, such as Amazon and eBay competing offline – turning stores into showrooms via mobile technology – it is clear that the role of the physical store no longer holds an onus on customers to complete their purchase right then and there.

In response to this, larger retailers need to evaluate the needs of both their customers and performance of individual stores. Retailers need to take an multi-channel approach to their overall offering – letting go of the traditional mindset and enabling a seamless customer experience whether online, offline, mobile or social.

Some of the larger US retailers, have implemented various strategies in order to ‘reset’ their business while maintaining a strong cross-channel offering, including:

- converting under-performing stores into fulfilment centres for online channels
- reducing store networks
- cutting the size of their in-store displays and subletting to other businesses
- the use of pop-up stores.

This approach yields a two-fold benefit for these retailers, allowing them to tighten their supply chain and stock management, as well as producing an additional income stream through a diversified offline offering.

Other retailers are leveraging digital experiences in-store to engage with and offer value to consumers. UK-based retailer, Tesco implemented an augmented reality virtual 3D viewer in order to allow customers to view a wide range of products within a richer context, while saving valuable floor space.³

South African retailer 8ta implemented a ‘whispering window technology’, allowing customers to browse through a store catalogue after hours and enabled them to request a call back when the store reopened.⁴

These examples of the evolution of bricks and mortar stores support the digital offering and in the long run will give these retailers a competitive edge within the Consumer Adaptive Retailing model.

Engaged consumer

While the retail industry is moving further and further away from its traditional roots – an old fashioned notion that rings more true today than ever before – ‘the customer is always right!’

Especially in the current climate where the majority of retailers are bridging the gap between traditional and multi-channel retailing – consumers are increasingly sophisticated, informed and will not wait for local service providers to catch up.

Understanding purchasing intent

In an increasingly diverse consumer landscape, it is of the utmost importance that retailers invest budget, resource and time to understand the purchasing intent of their target audience/s.

The Digital Media Research 2012 highlighted that price is a key factor in the push for online purchases. In order to capture these customers, retailers need to understand the appeal of offers online and develop a pricing strategy that will not only entice, but ensure they are competitive both locally and internationally.

Retailers need to consider that a strategy based only on price will not work if the product quality and availability cannot be readily determined. Conversely a strategy based on rarity or exclusivity will not work if advocates are not involved in order to give the product notability.

Forecasting the future shopper experience

In the world of Consumer Adaptive Retailing key to the customer experience is automation, innovation, personalisation and convenience. We explore some potential futuristic retail scenarios:

• Automated Everyday Shopping – Purchase of everyday household items will happen automatically, through prompting and/or direct purchasing via intuitive household appliances and machines (eg fridges, washing machines, coffee machines). For example, a washing machine will hold washing powder and automatically adds these items to a customer’s shopping list when applicable.

• Centralised Profiles and Preferences – Customers will be able to store all purchasing preferences in a central location and share information with retailers seamlessly. The customer expectation will be that the returned product, for example a shirt, will suit their specific needs in terms of the perfect fit, while matching pricing and quality requirements.

• Free and Convenient Supply Chain – Delivery of products will be free and made at a time, date and location that is convenient to the customer.

• Anywhere, Anytime, Any Device Shopping – Offers are presented contextually depending on the customer’s device and environment at the time of offer. For example, a customer listening to a song on the radio in their car will be able to purchase the track by simply pressing buy on the steering wheel and an MP3 will be loaded onto their storage device of choice.

• Bidding for Conversions – Customers will be able to register intent for items they want to purchase and receive offers from relevant retailers with these products, only sharing details with the merchant they have decided to purchase from.
Service please!

Something that sets local retailers apart from looming international competitors is the ability to offer localised services and deliver exemplary customer service in order to gain loyalty.

- US shoe pure player Zappos sets the bar in terms of customer service, referring customers to competitors if they offer better value.
- Best Buy offers customer service support via Twelpforce (run through Twitter), a similar service is also offered by Telstra locally.
- Appliances Online not only employs a team of appliance and whitegoods industry professionals to offer its customers ‘unbiased professional advise’ prior to purchasing, but enables customers to select an convenient delivery window, provides connection of new and removal of old appliances, plus allows cash on delivery.

With the myriad of channels and tactics available to retailers, customer service is often overlooked – but represents a crucial element of the retail offering. The old adage that ‘your products are only as good as the people who sell them’, is implicit in the new world.

Retailers also need to take customer feedback seriously, managing complaints and ‘closing the loop’ on poor reviews. Where customer connections can run into the hundreds, if not thousands (via social networks), retailers can ill afford the risk of a bad review.

On a positive note good experiences can be rewarded with not only positive reviews, but organic brand advocates. Moving towards a model of Consumer Adaptive Retailing, businesses should engage brand advocates through rewards systems when promoting products and services, allowing them to organically cultivate brand communities.

Personalisation

Digital channels have allowed consumers to differentiate themselves from the pack by allowing them access to products not necessarily available to the wider public. Retailers such as Shoes of Prey, Bosco Bear and Joe Button engage consumers with the offer of unique products, allowing these businesses to build their own brand equity and status.

Another emerging trend in the US is for websites to display a select number of items on their websites according to personal preferences identified via a software algorithm. For example, ShoeDazzle handpicks a selection of products based on a personality style quiz and charges shoppers a monthly subscription fee for this service.

In another form of personalisation and engagement, other retailers, such as ModCloth, involve customers in the merchandise selection – fostering both community and direct curation of content from its target market.

However the expectation of personalisation is not only limited to products, whereby consumers are increasingly bombarded with information and are increasingly partial to being presented with content curated especially for them.

Within a Consumer Adaptive Retailing model, based on specific customer data and highly intuitive software tools, savvy retailers will be able to offer services and products to clients based on their specific behaviours, social and transactional data.
Adaptive marketing

No longer is the store front the physical door that customers enter and exit from, whether it is through an e-commerce site, a mobile app, an interactive billboard, through their friend’s Facebook profile, while viewing a video in YouTube – there are multiple doors through which a customer can interact with a business.

With a multitude of platforms and tools emerging on a daily basis, it seems that retailers need to be everywhere all at once to be seen. Running multiple channels in silos will be detrimental to the business – the key to marketing is an integrated approach.

Search

Where once links and keywords ruled supreme for businesses ‘to be seen’ online, search engines are continually tweaking their algorithms to ensure the delivery of intuitive and valuable results. It is becoming increasingly important for retailers to differentiate their content in order to invoke a tangible response from the consumer (like, review, purchase). For this reason, Search Engine Optimisation (SEO) and distribution strategies are very important. It is no longer a matter of ‘Build it and they will come…’

In the online environment shop brands are becoming increasingly less important than product brands. Consumers tend to search for brand names and/or generic products (eg Nike or Running Shoes) via search engines. Therefore those retailer’s sites that rank highest in search engines either for product brands or generic products will most likely be the beneficiaries of conversions.

Retailers, who take a differentiated and intelligent approach to content, will be rewarded by engaging their consumers with descriptive and appealing copy, which will in turn lead to higher traffic and rankings.

Distribution

SEO should work in tandem with other above the line and digital marketing tactics including Search Engine Marketing (SEM), social media, email, mobile, user generated content – in order to actively acquire customers.

The increasing sophistication of marketing technologies, such as retargeting, will also assist retailers with both distribution and acquisition.

Retargeting allows retailers to actively ‘follow’ visitors through their online journey using cookies and strategic display ads. This represents an enormous opportunity for retailers to actively market to and target specific segments of their audience.

Retailers also need to recognise that the distribution of content is no longer limited to traditional channels of communications – there is increasing movement towards consumer driven marketing channels.

UK company Tesco is trialling a virtual 3D fitting room through its Facebook page. The application suggests clothing sizes and customers can then try clothes on digital bodies and share their selections with friends – facilitating instant marketing for the retailer.\(^1\)

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At the very least retailers should be adopting an integrated approach to the development of a cohesive marketing distribution strategy spanning across each of the channels where their customers want to reach them.

Retailers may also need to redefine their ‘brand values’. From the consumer perspective it is not about the value of the brand – it is about their personality, need and expectations. Therefore retailers need to ensure that their distribution channels offer a perceived tangible utilitarian experience.

Social media channels above all need to have a clear and concise strategy – so that outcomes are explicitly measurable. Retailers should not take for granted that, for example, a Facebook presence will ensure automatic brand recognition and conversion. There is a great deal of noise on Facebook and users are unlikely to follow an umbrella brand with which they have not previously transacted from.

If maintained and actively managed these channels (eg Facebook, Twitter, Pinterest and Instagram) represent a brilliant opportunity for retailers to:

• spread the ‘word’, educate and develop a brand identity for singular products
• uncover and recruit brand advocates
• allow engagement directly with a concentrated segment of their target audience
• create a brand personality.

Table 1. Examining the benefits of existing adaptive marketing tactics and technology

<table>
<thead>
<tr>
<th>Adaptive marketing tactics</th>
<th>Benefits</th>
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<tbody>
<tr>
<td>QR codes</td>
<td>Can be leveraged for localised offline offers and customer acquisition. Provides useful insights about location distribution of consumers and purchasing behaviours.</td>
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<tr>
<td>Facial recognition</td>
<td>Recognising individuals and tracking their use and behaviour and personalising the offer no matter where they are.</td>
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<tr>
<td>Near field communication (NFC)</td>
<td>Enables consumers to transact either in the physical market or virtually. Also can allow for information to be provided in context. For example, providing full specifications of a product in-store or as a tool for customer service staff.</td>
</tr>
<tr>
<td>Augmented reality</td>
<td>A way of visualising products in the context within which it would be used (eg presenting a bride-to-be in her wedding dress, within a scene from her fantasy wedding)</td>
</tr>
<tr>
<td>Gamification</td>
<td>Adding the element of competition and/or rewards to the shopping experience to make it fun, engaging and surprising, to encourage conversion and loyalty.</td>
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Acquisition

As the global retail industry converges and consumers worldwide become accessible, there is an untapped opportunity for local retailers to extend their offering to international markets. This is particularly relevant to retailers that offer products and services which are unique and/or differentiated – a path that local retailers such as Shoes of Prey, SurfStitch and Pumpkin Patch are already heading down.

Important considerations when forging into these new economies include 6:

- **Strategy** – business objectives, risks and gains, economic stability, existing partners.
- **Fulfilment and Supply Chain** – product range, inventory maintenance, delivery methods.
- **Audience and Cultural** – consumer differences, online consumption differences, delivery expectations.
- **Marketing** – branding, public relations, maintaining integrity of brand.
- **Resources** – set up and ongoing resource requirements – remote or on the ground support.
- **Technology and Infrastructure** – adaptability and integration with existing technology, reporting tools.
- **Legal and Trading** – trade laws, tax implications, security requirements, promotional laws.

In order to gain a different audience segment, leverage a wider product range and access lower prices, an increasing number of local businesses are setting up international sites to fulfil orders locally. Started as a way in which to 'even the playing field' for local retailers, businesses such as Harvey Norman, are forging ahead with this model.

Taking a Consumer Adaptive Retailing approach, in the future retailers may take this model a step further and partner with similar business and commercial third parties in global markets. In essence forming a retail network and opening up opportunities for a symbiotic relationship to leverage local reach, brand and operations. The benefits of this approach are that it will provide retailers with revenue sources against loss of traditional physical retail revenue, while opening them up to a broader international audience.

When considering this approach retailers should ensure that local consumers view their site as a gateway to this premium offering. In order for this strategy to work, retailers must maintain their own brand and user experience.

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6 Power Retail, Growing Globally Special Report, ‘Getting Your Ducks in a Row’, February 2012
Agile technology

The use of technology is vital to the successful operation of all businesses. Implementing robust, agile systems that are compatible with various business tools will assist in providing a seamless customer experience, while streamlining and simplifying business operations. Consolidation and integration are key to adopting a Consumer Adaptive Retailing model – enabling business to be flexible and fluid in their approach to retailing.

Key to future proofing a business is within the design and development of online offerings and ensuring responsive adaption to various platforms and devices. Design must be undertaken with external integration in mind as well as reducing redundancy.

Retailers also need to be mindful that due to the rapid evolution of technology, they should be re-evaluating their core systems on a frequent basis against the changing market and consumer needs. Investment into business technology should also be based on shorter cycle times.

In the present day, though retailers recognise the importance of leveraging technology for business purposes, all too often they are not necessarily aware of the valuable and insightful customer metrics gathered from these systems. Analytics hold the power to enable retailers to identify niche audiences and effectively deliver a targeted and personalised experience to customers.

This information can be invaluable for not only marketing, but merchandising in assessing trends and for evaluating the business model as a whole to identify gaps and weaknesses. At a granular level, analytics can be used to determine where cost of acquisition is too high and either remedy or wait until channel volume justifies effort.

A major part of the technology offering is supply chain and fulfilment. Although there is unlikely to be a massive shift away from the traditional model of fulfilment, this area requires businesses to think laterally about potential solutions to suit increasingly demanding customer expectations.

Where once retailers were required to keep warehouses full of stock, there are now multiple models of supply chain and fulfilment emerging that alleviates this. Drop shipping, re-parcelling and third party fulfilment services allow retailers to better service customers and be more adaptive in their approach.
Poised for growth
Retailing 2012
and beyond

The retail industry is at a critical juncture. Our research reveals that over the next four years, annual online retail growth will accelerate at a rate of 14.3% CAGR in New Zealand.7

Though local retailers recognise the importance of a multi-channel offering, few are truly realising the implications of this model and implementing strategies to effectively deliver this. It is clear that businesses that continue to operate within traditional retail models will continue to find the market challenging.

Retailers need to adapt their business modes to be agile, flexible and adaptive to business, economic and consumer demands.

Key to this success is pivoting the physical store presence, understanding and responding to consumer behaviour and needs, taking an integrated marketing approach and implementing technology and systems to provide seamless customer experience.

7 PwC and Frost and Sullivan, Digital Media Research, July 2012
### Table 2. Examining the Current Retail Playing Field and how it is Evolving to a Consumer Adaptive Retailing Model

<table>
<thead>
<tr>
<th></th>
<th>Digital channel experts</th>
<th>Online marketplaces</th>
<th>Traditional retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expertise</strong></td>
<td>• These retailers are specialists in channel enablement and channel centric marketing. They also source in volumes that reduces pricing and increase availability for territories that would not have otherwise had the range of choice.</td>
<td>• Marketplace models which both sell and offer aggregate offers from retailers. Marketplaces aggregate eyeballs and merchants, facilitating transactions and taking a fee for the provision of their service. They provide centralised access to everything and ultimately become a retailer and/or retail channel in their own right.</td>
<td>• Established businesses that own a large customer base and have brand recognition within the local market. Specialists in loyalty marketing.</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>• To win on price and availability.</td>
<td>• Enable retailers to transact online taking a fee for transactions and associated services (eg shipping, returns, administration, etc).</td>
<td>• Fight for market share with other incumbents.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Amass a large customer base to gain in order to provide value for retailers and brands.</td>
<td>• Saturate marketplace with brand messaging, historically through above the line advertising.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Lateralise offering to third party offers (eg insurance and finance).</td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td>• Great channel enablers and digital marketing and engagement specialists.</td>
<td>• Branding, range and provision of collective service attracts consumers.</td>
<td>• Significant brand recognition.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Experts in SEO and SEM.</td>
<td>• Offer offline options, local distribution and customer service support.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Experts in channel enablement and channel specific marketing.</td>
<td>• Established trust with consumers.</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>• Purchases must be made online, no local support.</td>
<td>• Sourcing and customer acquisition for start-up businesses is costly.</td>
<td>• Less competitive on price.</td>
</tr>
<tr>
<td></td>
<td>• However, some businesses are now partnering with local retailers for fulfilment and support.</td>
<td>• Usually do not offer local fulfilment or support.</td>
<td>• Slower to enable new channels.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• However, some marketplaces are slowly building local support, delivery and returns services.</td>
<td>• New to search.</td>
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<td></td>
<td></td>
<td></td>
<td>• Not as agile as online competitors.</td>
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<tr>
<td>Digital channel experts</td>
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<tr>
<td><strong>Moving to a Consumer Adaptive Retailing Model</strong></td>
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<tr>
<td><strong>Store reset</strong></td>
<td>• Establish localised offices in growing international markets and work with third parties to provide local product, fulfilment and support.</td>
<td>• Emerging push into physical realm via mobile and affiliate relationships.</td>
<td>• Leveraging digital technologies, such as mobile devices, interactive displays and WiFi to enhance the in-store experience.</td>
</tr>
<tr>
<td><strong>Engaged customer</strong></td>
<td>• Offer price competitiveness, wide product range, availability and excellent post-purchase marketing. Engage consumers through self-built communities and social media channels.</td>
<td>• Offer price competitiveness, product range and availability and excellent post purchase marketing.</td>
<td>• Price competition locally is fierce but compared to OS pricing and availability there are huge gaps.</td>
</tr>
<tr>
<td></td>
<td>• Experts at leveraging and contextualising offers for existing channels. Also actively engage in and quickly develop offerings through new channels.</td>
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<td>• Experimenting in new channels but approach tends to be fragmented.</td>
</tr>
<tr>
<td><strong>Adaptive marketing</strong></td>
<td>• See themselves as technology companies and leverage these solutions innovatively.</td>
<td>• See themselves as technology companies and leverage these solutions innovatively.</td>
<td>• Technology has traditionally not been seen as strategic and as a consequence experimentation is slow and often costly.</td>
</tr>
<tr>
<td><strong>Agile technology</strong></td>
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PwC’s digital offering is comprehensive, coupled with a pragmatic and strategic approach. We assist from strategy development, right through to execution, to make sense of digital change.

For a deeper conversation about making sense of digital change in Retail, contact Julian Prior or Nathan Wylie

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