

Shop till you drop

How traditional retail can win in the digital era

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As consumers rapidly turn to e-commerce in China, brick-and-mortar retailers face new pressures. Digital solutions can enable these retailers to provide an enhanced customer experience, turning adversity into opportunity.

China will soon eclipse the US as the world's largest e-commerce market.

China boasts of being the world's most internet-literate nation: Chinese consumers are more likely to use their mobiles for online transactions and content consumption than those from any other country. With over 20% of retail moving to online channels, China is set to eclipse the US and become the

world's largest e-commerce market by 2020 (Figure 1).¹ While this provides a great opportunity for e-tailers, it also means traditional retailers must engage much better with customers to protect and enhance their competitiveness.

China to eclipse the US as the world's largest e-commerce market¹

(US vs China B2C e-commerce sales, billion USD)

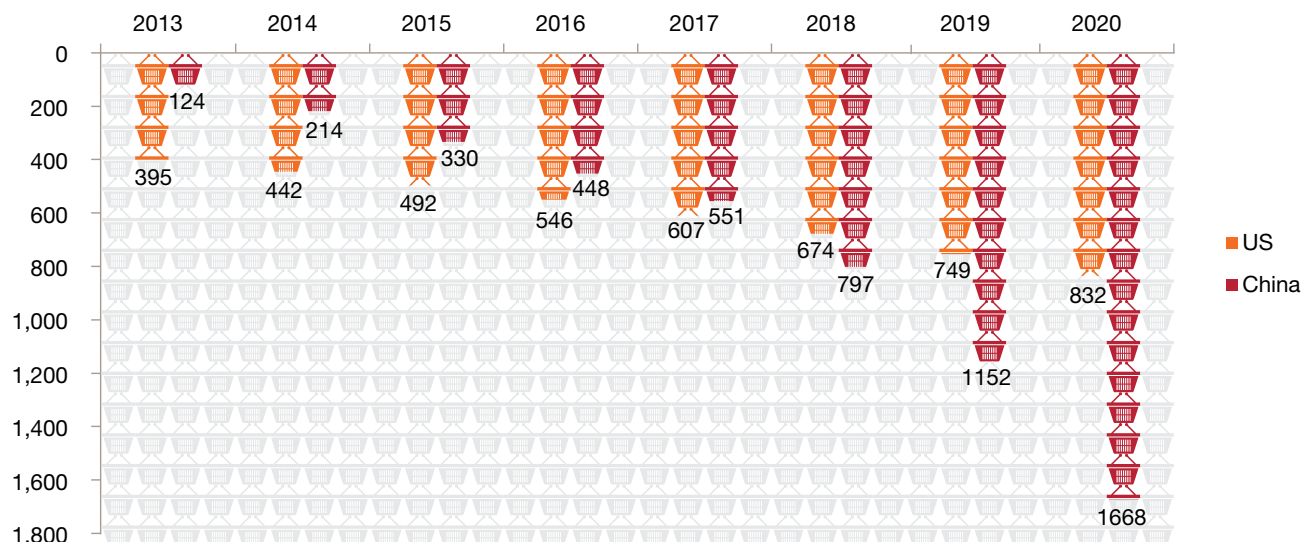


Figure 1

As e-commerce advances, traditional retailers are facing a difficult time in China.

The use of mobile is fast blurring the lines between traditional retail and e-commerce. Consumers are using their handheld devices to engage with the physical environment to view personalised offers, enhance the interactive shopping experience and make mobile payments. Nowhere else is this trend more visible than in China, which has the largest number

of mobile phone subscribers in the world. Chinese consumers are more likely to engage with retailers digitally across a wider variety of use cases such as mobile payments, use of coupons, scanning quick response codes than their global peers (Figure 2). More than 25% of China's 1.2 billion mobile phone subscribers have been found to use their phone to pay for goods or services.²

Chinese consumers are more likely to engage with retailers digitally across a wider variety of use cases than their global peers

Which of the following have you done using your mobile/smartphone/tablet/PC? Source: PwC (2014)



Source: PwC, Total Retail Survey (2014)

Figure 2

As China embraces 4G technology and social media sites such as Weibo and Wechat advertise e-commerce heavily, the trade volume of mobile payment in China is estimated to rise rapidly. According to research, Chinese have more than five times stronger preference to use their mobiles for payment than the global average (Figure 3). Forecasts estimate that mobile payments in China will reach 712.3 billion Yuan (117.3 billion USD) by 2015.²

Chinese consumers cite mobile as being a preferred payment mechanism over cash

Which payment method do you prefer?

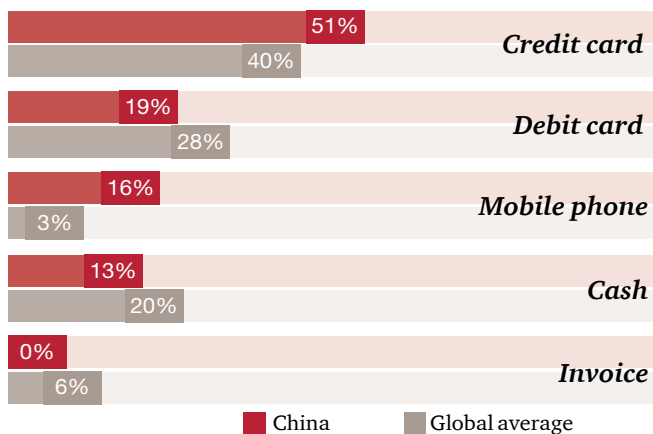


Figure 3

All of this is creating significant growth challenges for traditional retail. According to a PwC report, Chinese annual revenue growth in traditional retail dropped to 2.4% in the second half of 2013 from 12.3% in the first half,³ and according to China's National Bureau of Statistics, online retail sales for consumer goods accounted for as much as 10.6% of the total retail sales in 2014.⁴ Compared to the dynamism of the Chinese e-commerce sector, traditional retail appears to be flagging: it took Suning, China's biggest retail chain all of last year to generate sales of around 17 billion USD, just over half of the amount that passes through Alibaba's Tmall website in a day.⁵ Foreign companies too are facing a difficult time in emerging markets such as China. During 2014, US retail giant Wal-Mart closed down 54 underperforming stores in Brazil and China, experiencing a 0.8% drop year-on-year in China sales during that year.⁶

When looked at from the perspective of traditional retail, these developments in e-commerce may come across as a threat. However, as Chinese consumers increasingly value a better shopping experience and demand higher, more personalised standards of after-sales service, there is actually an opportunity for traditional retailers to claim a share of online sales growth. What is required though are a series of refinements as to how traditional retailers interact with their customers, when they are in the store and when they are offsite but online.

When it comes to engaging the customer, traditional and online retail contrast significantly.

The traditional brick-and-mortar retail store refers to businesses that have a physical (rather than a virtual or online) presence, through establishments that complete sales behind a constructed storefront. These stores embrace the in-person customer experience, offering company associates who attend to the customers' needs personally and accessible inventories for consumers to visit, browse, interact with and purchase from. From the perspective of offering the customer an engaging and relevant experience, traditional retail differs significantly from online retail in the following ways:

- **Choice and range:** An online retailer can expand its product selection to hundreds of thousands of stock keeping units (SKUs), whereas a physical retail store must be selective on what it displays in-store due to the limits of shelf space and the costs of keeping stock.
- **Opening hours:** The online retailer can stay open 24 hours a day, each day of the year, whereas most physical retail stores function according to specific opening times. This means that they have to gravitate the sales opportunity around these opening hours.
- **Store location:** Whereas expansion costs are relatively minor for an established e-commerce business, expansion into new physical stores requires careful assessment of the location costs as well as benefits to attract, engage and target customers.
- **Personal attention:** Online retailers have to focus on the quality of connectivity, the user interface and user experience (UI or UX) and creating a personalised experience, whereas traditional retailers worry about having trained staff who can understand customers' needs and translate the benefits of the product, as well as cross-sell and up-sell on site.

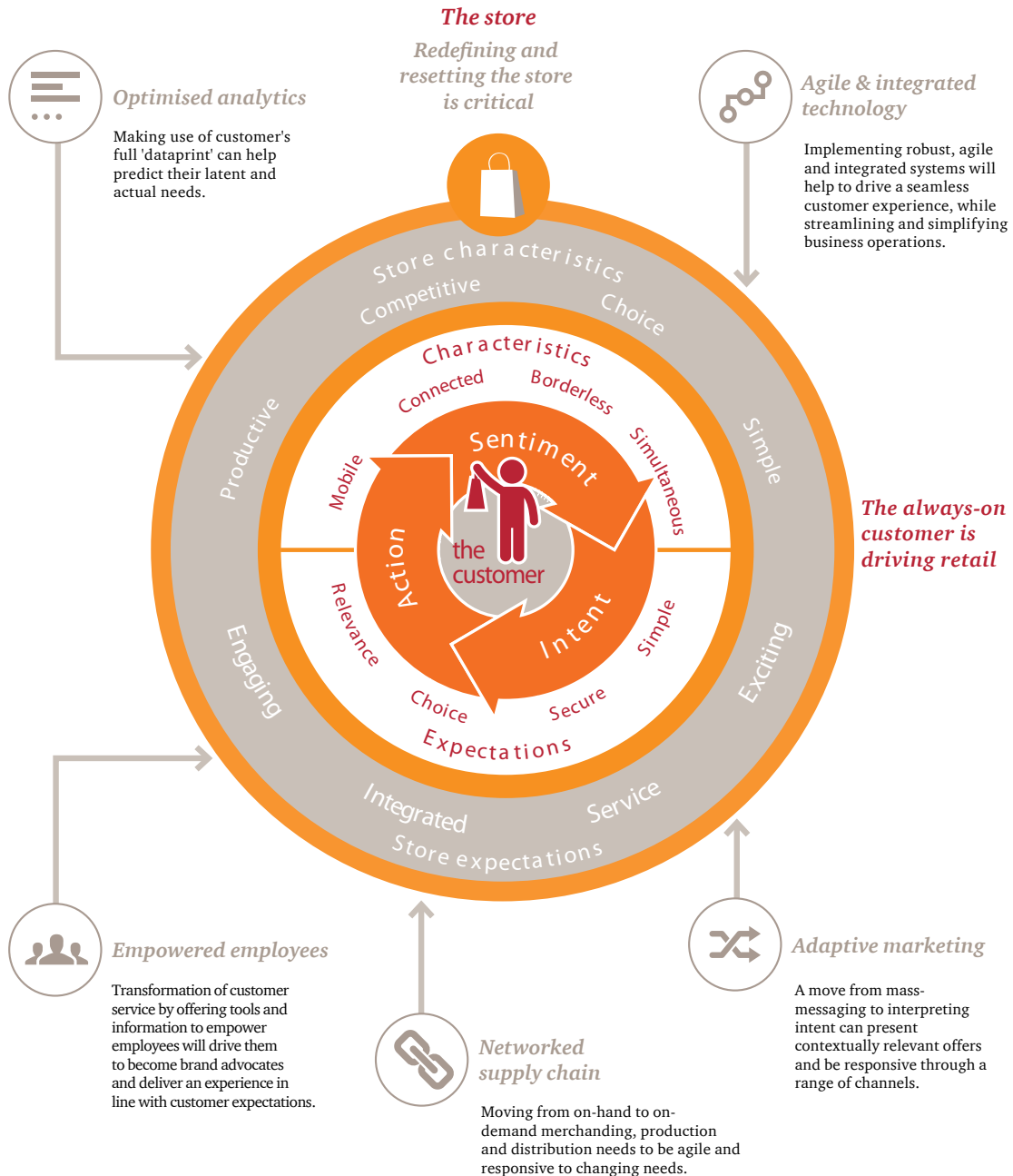


Figure 4

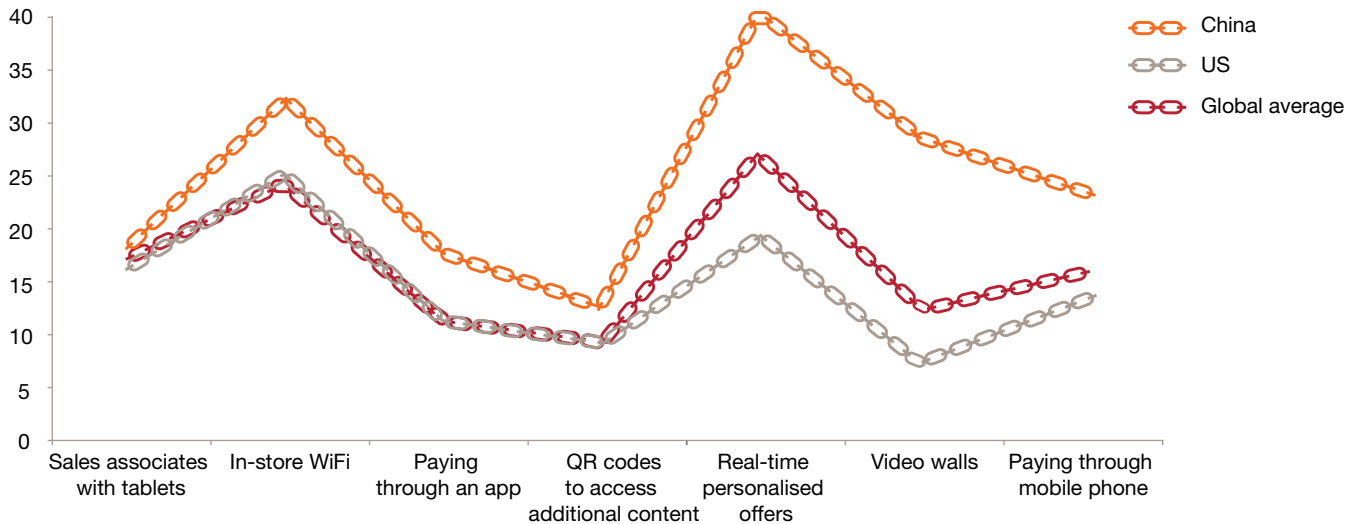
Retailers in China can turn to digital solutions to complement existing in-store strengths.

The growth of e-commerce in China is not a simple story of the emergence of online shopping. In fact, Chinese consumers are fast adopting a hybrid approach to shopping, continuously switching between online and brick-and-mortar to try products, compare prices and finally make a purchase (Figure 5). Consumers research online, poll communities for recommendations, search for product reviews, test products in store, use digital coupons and offers, purchase online, pick up products at a store, provide feedback and use the same store for after-sales service or upgrades. Like customers around the world, Chinese shoppers demonstrate non-linear shopping behaviour, switching between channels seeking greater convenience, consistency, choice and accessibility.

In order to capitalise on the opportunity this creates, a few department stores in China have started offering a more integrated shopping experience through their own online shopping platforms so as to keep these consumers engaged. For instance, in 2012, Wal-Mart acquired a 51% stake in Yihaodian.com, an online supermarket offering a range of packaged food and beverages as well as other products such as baby care.⁷

Retailers across the globe are experimenting with in-store digital engagement, but Chinese consumers show the highest preferences¹

Which of the following in-store technologies would make your shopping experience better?



Source: PwC (2014)

Figure 5

A few others have begun experimenting with customer-focused technology in an attempt to evolve the customer towards a 'Total Retail' experience (Figure 4). For example, interactive shelves are being used to give shoppers access to helpful and valued product features, product content or product reviews. High-impact features such as interactive video content launched by RFID tags on products, and digital price tags that can be switched on instantly during flash sales in order to push content to shoppers' smartphones, are being observed more. Restaurants that have experimented with digital menus, access to additional details about food and wine selections have reportedly led to a 20% increase in wine consumption.

By marrying offline strengths with digital advantages, retailers can improve merchandise presentation, enhance personalisation, and make customers instant champions of the brand.

Digital technologies can improve the presentation of store merchandise, such as by using 3D scanning technologies to create virtual fitting rooms that allow shoppers to see what specific items might look like on them. Digital interaction with physical customers presents the opportunity to make them instant champions of the brand, by facilitating them to instantly share their views and experience with others using social media channels to rate and comment on products or experiences. It also presents the opportunity to understand customers better and provide personalised offers, making it more likely that they will stop by and make a purchase. For instance:

- A Montblanc store in Beijing, China provides visitors the chance to explore the inside working of a genuine Swiss watch through a Virtual Timepiece. The feature invites visitors to interact with the inner movement of the Montblanc Metamorphosis dual-faced timepiece. A projected wheel projects several memories of glamorous Montblanc events on surrounding screens complete with subtle light effects. Customers also get the opportunity to hold the moment forever along with a souvenir photo.
- C & A Brazil displays Facebook 'likes' on small screens embedded in articles' hangers, indicating the increasing tally of 'likes' that different items of clothing receive from web users. The retailer has thus converged the real world

with the online world in order to create a modern shopping experience in the hope that approval from the online community will encourage shoppers to purchase a particular item of clothing.

- Pilot virtual dressing rooms have resulted in a more than 50% increase in conversion rates for first-time buyers, and 30% to 50% reduction in product return rates as compared to online retail. Seattle-based Hointer has launched a fully automated men's clothing store that displays just one size of each item. Shoppers can use their smart phones to scan QR codes, request for their size and purchase the apparel while still in the fitting room, by swiping a credit or debit card on a tablet kiosk. In addition to the streamlined digitised experience, the technology enables the retailer to reduce the need for shelf and floor space, and opens up new modes of attractive product presentation.
- Adidas has introduced interactive storefront windows where passers-by can discover and explore products that are displayed in the window. Using a touch screen, a URL and a personal PIN code, desired items can be saved directly to a customer's phone. This technology has drawn a significant number of shoppers into the store, with 25% of those who try it entering the store afterward, and 90% of passers-by watching while the storefront was used by someone else.
- Shopkick, a mobile shopping app, uses a Bluetooth-enabled geo-locational technology called ShopBeacon, which emits high-frequency signals that trigger actions on the consumers' phone through the installed app as they walk into the store. ShopBeacon welcomes the customer and then shows location-specific deals, discounts, recommendations and rewards through push notifications so the customer does not have to open the app. Shopkick has driven more than 1 billion USD in revenue for its clients such as Macy's, BestBuy, Sony and Unilever.⁸

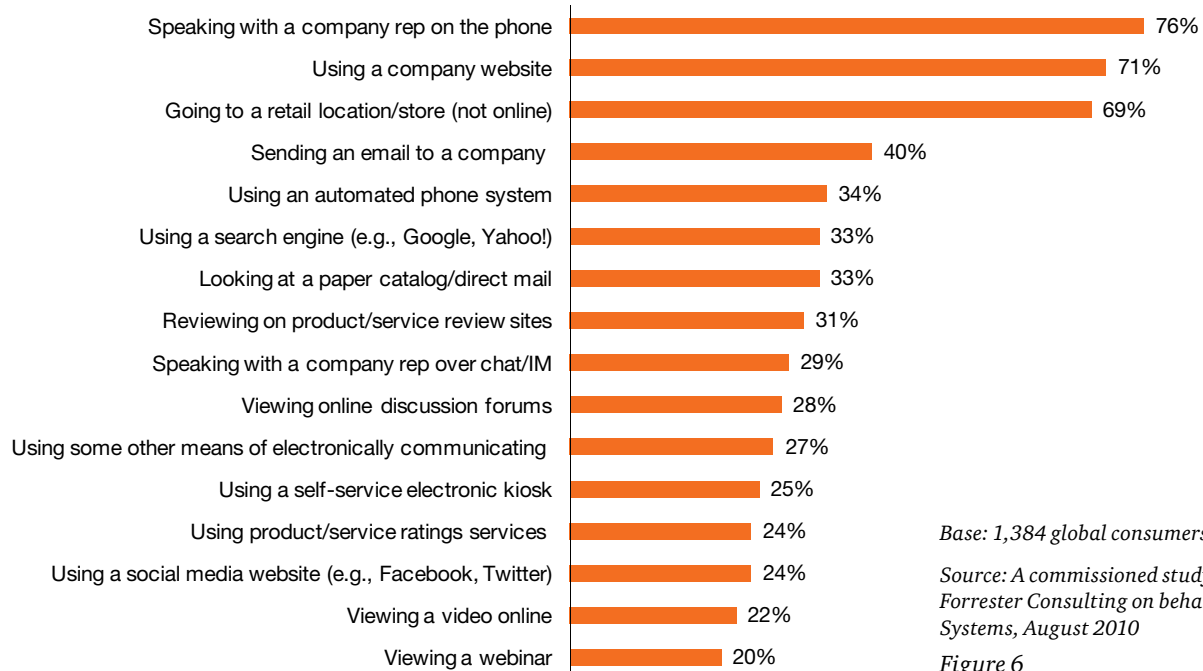
Coming from the opposite direction, online retailers are also experimenting with virtual options in order to capture the benefits normally found in a brick-and-mortar store. Yihaodian for instance has developed augmented reality stores to provide a more interactive shopping experience. When customers point their smartphone in the right direction at locations such as public squares, a virtual store is displayed where items sit on shelves or hang from the walls, thereby creating a simulation of a physical retail store so that shoppers can feel more immersed in their online shopping trip.

In China, brick-and-mortar companies can also offer a more ‘connected retail’ experience through digital technology solutions such as contact centres, social listening and analytics.

A study by Forrester highlights customers’ expectations when interacting with brands through diverse channels (*Figure 6*).⁹ Referred to as “connected retail,” the experience is built

on the premise that a unified brand story must be relayed across channels to ensure a consistent customer experience using technology to integrate channels and digitize the back office.¹⁰ Connected retail requires a single view of the customer journey that is woven into seamless interaction from discovery, experience and transaction through to fulfillment and after-sales service. (Read *Cloudy above, full speed ahead*, a PwC paper commissioned by Orange Business Services, on how digital cloud solutions are helping online retail and e-commerce companies to keep up with growth in the Asia Pacific.)

Consumers who used channel in previous three months



Base: 1,384 global consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Cisco Systems, August 2010

Figure 6

Next-generation contact centres enable such seamless experience delivery by integrating technology platforms across voice, mails, text and social media. A product enquiry online can be serviced over voice by the customer service personnel, which can be documented and emailed to the consumer. Complaints can be registered online on social media platforms and addressed in real time. In addition, contact centres can integrate, store and analyse customer data available through their interactions across channels. This allows companies to understand their customers better, micro-segment them and offer personalised solutions and targeted promotions on a more timely basis. Such contact centres are often global in nature, with the server hosted on the cloud and accessible from many locations, allow firms to deliver a quality experience to customers across the globe.

Similarly, social media listening has emerged as a transformative market research tool that allows firms to tune into the flow of data being generated online from digital chatter to digital transactions. Listening can provide real-time feedback on changing consumer preferences and can enable firms to stay on top of industry trends, source potential expertise and talent, and preempt competitors' moves. But the real benefit of social listening lies in the analysis of data for generating insights to enable informed business decisions in a timely manner. This can drive inputs to customer servicing, strategy, innovation, product development, communications, brand, operations or compliance. For instance, Xiaomi, the world's fifth-largest smartphone brand, leveraged social listening in order to understand consumers' opinions on aspects such as marketing, sales, products, and service throughout the customer lifecycle.

A 1% improvement in customer experience can translate to a more than 5% increase in cash flow.¹¹

In markets such as China, where customer habits are rapidly turning to the use of mobile and non-linear shopping behaviour, improved consumer experience delivery will help traditional retailers remain competitive, protect profits and market share, and even win back share in segments where the in-store experience is critical to the purchase. According to a study based on the American Customer Satisfaction Index (ACSI) and Compustat data, a 1% improvement in customer experience score can translate into more than 5% increase in future cash flow.¹¹ Brick-and-mortar retailers that embrace digital technology to adapt to changing customer preferences and competitor pressures can look forward to a long and prosperous life in the digital world.

Digital solutions can enable brick-and-mortar retailers to provide an enhanced customer experience, by marrying offline strengths with digital advantages. By implementing digital solutions, retailers can offer a more 'connected retail' experience across channels to customers and win in the digital era.

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