Shoppers disrupted

Retailing through the noise

How can IBM help?

IBM Retail solutions offers long-standing commitment and investment in leading-edge mobile partnerships, cognitive computing solution development, acquisitions and research that provide disruptive creativity and take a new approach (new business models) to solve business problems.

Solutions include integrated systems of record, systems of engagement and systems of execution that span all phases of the consumer's brand experience and all channels of brand interaction to consistently deliver on the promise of omni-channel retailing. Deep industry experience—combined with software, consulting and infrastructure—enables IBM to deliver the integrated solutions needed to unite physical and digital worlds, supported by an extensive, collaborative and innovative business partner ecosystem.

In search of a "new normal"

Shoppers have experienced tremendous disruption over the past five years. The explosion of digital technologies, the spread of social networks, a new generation of advanced analytics – all of these and more have combined to create an omni-channel environment that has completely transformed both the shopping experience and customer expectations. When and how will a "new normal" emerge, and what must retailers do to get there? To find out, the IBM Institute for Business Value analyzed more than 110,000 responses to global surveys from 2010-2014 to reveal how the speed and intensity of customers' changing attitudes and behaviors translate into must-haves for retailers.

Executive summary

Over the past five years, the emergence of the technology-enabled "smarter consumer" has upended the traditional retail business model. The days when department stores or large discount chains targeted promotions to mass audiences according to commonalities across age, gender and income are giving way to market segments composed of single individuals. Instead of relying upon the retailer to push product out, knowledgeable shoppers are pulling product through the pipeline, telling retailers exactly what they want, when they want it and how they want it delivered. Customer interactions have moved from transactions controlled by the retailer, to relationships driven by the consumer.

In this executive report, based on cumulative research over the past five years by the IBM Institute for Business Value – with more than 110,000 customer responses – we will explore how the emergence of digital technology, and the increasing willingness of consumers to use it, has disrupted the retail industry at virtually every level – from shoppers, to megastores, to digital to social media, and more. Further, we will provide recommendations that can enable retailers to position themselves to slice through this disruption and provide seamless, omni-channel customer experiences and conversations that can help build customer loyalty, create value and positively impact the bottom line.

For the retailer, the challenge has become about understanding the full potential of new technologies – of knowing what customers need and want – even before they know it themselves. Those organizations that understand and respond to the shifting retail dynamic can place themselves in a position to capitalize on the wealth of consumer information at their disposal. On the other hand, retailers that continue down the traditional path are likely to falter in the face of continued shopper-driven disruption.

64%

of shoppers say they are willing to
share email contact information
with a trusted retailer.

38%

say they are willing to share their
social handles.

28%

say they are willing to share
their location.
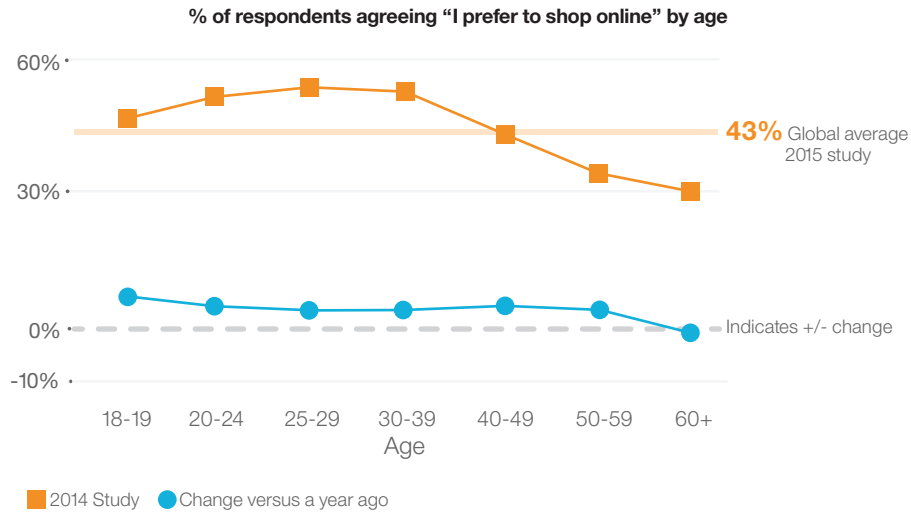
Shoppers send clear messages about expectations

Consumers have come to expect superior service from all of the organizations with which they interact. And they no longer compare apples to apples. They want their retailer to provide an experience on par, or better than, their last, best interaction – whether that contact was with another retailer, a bank, an airline or a car dealership.

Further, through their changing shopping habits and communication preferences, shoppers are telling retailers exactly how to deliver those experiences. In particular, three specific shifts in consumer behavior should be driving retailers to adopt strategies and tactics that will facilitate delightful, shopping experiences at every touch point, create open and interactive communication approaches and provide consistent benefits across both digital and brick-and-mortar channels. These are:

- *The continuing affinity for digital*. While the growth in online and mobile shopping has stabilized somewhat over the past two years, the affection customers have for these channels is still strong. More and more, consumers indicate their next purchase will be through digital channels (see Figure 1).

Figure 1

More shoppers self-described as preferring to shop online; a strong age skew indicates that additional growth is likely

% of respondents agreeing "I prefer to shop online" by age

43% Global average 2015 study

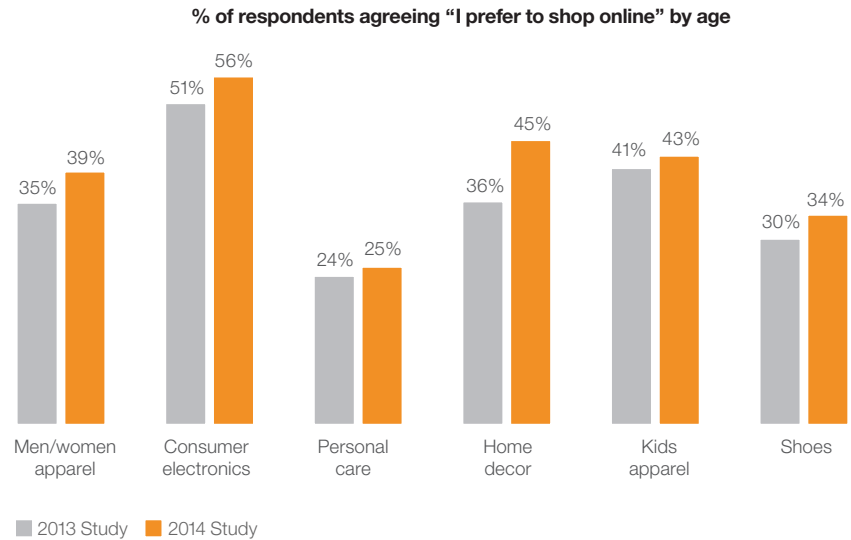Indicates +/- change

■ 2014 Study ● Change versus a year ago

Source: IBM Institute for Business Value.

- *The desire for more open, contextual conversations.* In today's environment, offering a generic discount coupon is no longer enough to generate loyalty. Customers are increasingly willing to share information with retailers, and they want their interactions to reflect this. Customers are ready; they are just waiting for retailers to catch up (see Figure 2).

Figure 2

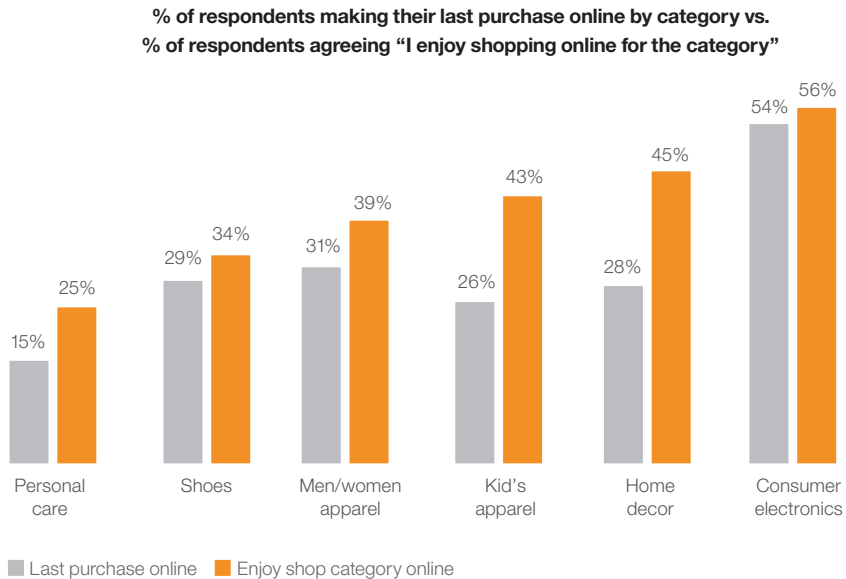*More shoppers described themselves as enjoying shopping online for a given category*

% of respondents agreeing "I prefer to shop online" by age

Category	2013 Study	2014 Study
Men/women apparel	35%	39%
Consumer electronics	51%	56%
Personal care	24%	25%
Home decor	36%	45%
Kids apparel	41%	43%
Shoes	30%	34%

■ 2013 Study   ■ 2014 Study

Source: IBM Institute for Business Value.

- *The demand for consistency in physical and digital experiences.* While the "physical-digital convergence" is not a concept that shoppers are likely to know by name, they understand the context. They want to reap the same benefits from both their digital shopping and in brick-and-mortar stores (see Figure 3).

Figure 3

The gap between enjoying shopping a category online and channel of last purchase differs by category
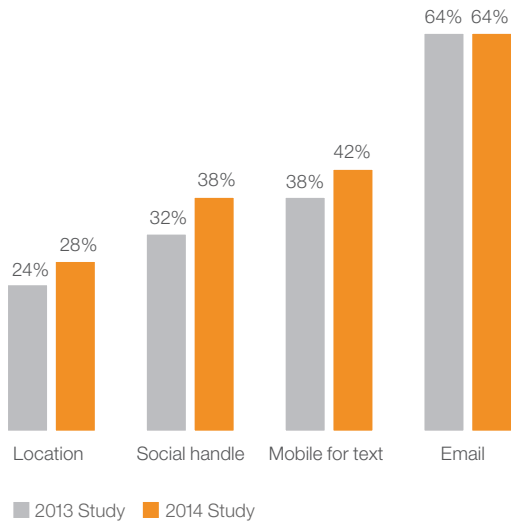
% of respondents making their last purchase online by category vs.
% of respondents agreeing "I enjoy shopping online for the category"

Category	Last purchase online	Enjoy shop category online
Personal care	15%	25%
Shoes	29%	34%
Men/women apparel	31%	39%
Kid's apparel	26%	43%
Home decor	28%	45%
Consumer electronics	54%	56%

■ Last purchase online ■ Enjoy shop category online

Source: IBM Institute for Business Value.

Figure 4

Willingness to share contact information with a trusted retailer has grown across social, location and mobile media

% of respondents indicating they would share contact information with a trusted retailer

Location — 24% / 28%
Social handle — 32% / 38%
Mobile for text — 38% / 42%
Email — 64% / 64%

■ 2013 Study ■ 2014 Study

Source: IBM Institute for Business Value.

Beyond just convenient: a growing affection for digital shopping

The question is no longer whether shoppers will embrace digital shopping, but how much more will they do so and how will it change the perception of brick-and-mortar stores? Our multi-year study reveals strong consumer signals that digital shopping still has room to grow.

For example, the study found that customers have an increasing affinity for the browse, click and purchase experience. Nearly half of shoppers today describe themselves as preferring to shop online. A telling age skew also exists here, with shoppers under 40 exhibiting an above-average and growing preference for online shopping (see Figure 4).

Another indicator that affection has deepened for digital shopping is shown in a large shift in perceived convenience. Purchasing at the store and leaving with the item is considered the most convenient fulfillment method for many consumers, but the option to purchase online and have the product delivered has gained considerable ground. Delivery of online purchases was preferred by 36 percent of shoppers in 2014, up from 23 percent in 2011.

Some industries are seeing growth in this domain far beyond the average of all non-grocery industries. For consumer electronics, for example, 54 percent of consumers preferred digital purchasing in 2014 – likely driven by the release of new generations of smart phones. Other product categories, while still dominated by in-store sales, are seeing substantial growth. Personal care and home décor products, for instance, are still mostly store-driven, but the role of digital for both categories is increasing.

Falling barriers to digital grocery shopping
Shoppers' needs for immediacy, vast assortment, hand-picked fresh items and more are listed as reasons why many experts believe online grocery will not achieve the digital heights of other non-grocery trips. However, innovators are finding ways to meet these needs, and some of the new players are not retailers. Digital shopping's delivery benefit is getting faster and is becoming available in more geographies, which works well for many grocery trips. However, grocery delivery is introducing a new range of non-traditional competitors that present themselves as the heroes of near real-time fulfillment. Not just satisfied with speed, these upstart organizations are offering fresh grocery-shopping expertise, including such things as personal grocery shoppers and rating systems for produce. The combination of benefits is serving to allay some customer fears about the online grocery shopping trip. Grocers who truly reimagine the mobile grocery shopping experience, leveraging customer knowledge and cutting-edge design, are likely to be rewarded by eager (often high-margin) digital shoppers.

A case for gamification in youth apparel shopping
In youth apparel shopping, 43 percent of respondents described themselves as having enjoyed a youth apparel digital shopping experience, but only 26 percent made their last purchase in this category online. Why? You don't need to be a parent of a small child to guess shopping from the couch might possibly be more enjoyable than shopping in a physical store with a little one. But what are the barriers to that online trip and can digital shopping's benefits help lift them? The gap is larger than shopping for adult apparel, so the barriers are greater than digital clothes shopping limitations in general, like fabric feel. What about the instances where kids' clothes shopping requires a "shared decision" between parent and child? What if they could work together to find the intersection of what parent wants and the child wants in a fun, visual medium? Hard to do in a physical store, but the digital medium could facilitate such a task and solve a problem enjoyably.

New reasons for shoppers to love digital retailing

Perhaps most important, not only are shoppers finding digital channels convenient, they are also finding the experience enjoyable. As noted in the prior section, more shoppers in 2014 described themselves as enjoying shopping online for a given category than in any of our previous studies. But that enjoyment does not always translate to a purchase. Our research reveals a gap still exists between those who describe themselves as enjoying digital shopping for a particular category and their most recent channel of purchase.

For example, in home décor, 45 percent of respondents described themselves as having enjoyed a home décor digital shopping experience, but only 28 percent made their last purchase in this category online. Unsurprisingly, consumer electronics showed the most balance, with 56 percent of consumers saying they enjoyed digital shopping and 54 percent indicating they made their last purchase digitally.

Shoppers appreciate "context"

Digital shopping done right leverages the strengths of each of the two mediums, online and mobile. In both mediums, shoppers respond well to great visual design; therefore design expertise aligned to the specific medium is essential for a retailer. More than just providing "screen space," mobile applications can facilitate shoppers' "on-the-go" and "where-I-am -now" shopping trip behaviors. Within this context, online and mobile shoppers' experiences can feel hyper-personalized to "me and my shopping moment."

For website visits, the ability to facilitate the shoppers' specific trip type is possible. Shoppers may be "spearfishing," referring to a shopping trip where they know precisely what item they want and use the website's search functionality to find it. On the opposite end of the spectrum might be a "treasure hunt" or "browsing trip," where a shopper is looking for inspiration and suggestions and surprises.

Why care about context?

Whether you think of it as hyper-personalized or contextual, understanding and activating a shoppers' context can supercharge customer interactions. Our retails studies over the past five years have shown that consumers want (and are today getting from more than a few companies) tailored, meaningful messages. Effective messaging uses a variety of inputs to create a virtual portrait of the intended customer. Moving beyond simple demography, companies are collecting (or, through analytics, discerning) many of their customer's preferences and interests, their location, responses to prior communications, browsing and purchase behavior, relevant social messaging and more, allowing retailers to infuse context into their messaging. Shoppers know and appreciate a well-crafted contextual message when they get one.

But messaging is not the only use of context. Many industries are setting the pace in creating these contextual interactions. In banking, for example, ATMs collect the history of customer use and provide welcome screens that offer shortcuts to preferred transactions. In the hospitality industry, hotels offer personalized service and support and guest recognition at every touch point – based on previous guest preferences. Airlines, insurance providers and a host of other companies are becoming adept at communicating with customers based on their knowledge of customer interests.

The desire for more open, contextual conversations with retailers

Evidenced by their increasing willingness to share information with trusted retailers, including social, location and mobile contact methods, shoppers are eagerly waiting for retailers to embrace contextual dialoguing.

Today, 28 percent of customers are willing to share current location information with trusted retailers, and that number is growing, up from 24 percent in 2013. More consumer interest is shown in social and mobile sharing, with 38 percent of shoppers willing to share their social handle (up from 32 percent) and 42 percent willing to share mobile for text (up from 38 percent).

These numbers are not without qualification. Retailers, in the past, have not always played by the customer-mandated rules of contextual conversation, often sending messages that didn't quite conform to the manner consumers desired. As a result, even though our research shows that more consumers are willing to share social, location and mobile information than in previous years, they remain guarded. Although 42 percent of customers see the potential for benefit in sharing location via GPS, only 28 percent are willing to share this information with even their most trusted retailers.

In social media, we see 38 percent of shoppers willing to share their social handles, with younger consumers considerably outpacing others. However, growth in this area is coming from older shoppers, or late adopters (see Figure 6).

Whether through GPS, social, mobile-for-text or other information, the data reveals substantial room for growth in customer information sharing, if retailers take the necessary steps to make their shoppers feel secure. For example, 54 percent of customers see the potential benefit of sharing mobile-for-text with retailers, but only 42 percent are actually willing to do so.

Consumers are actively engaged with other companies and wish retailers would begin to play by the rules and engage in meaningful contextual conversations. The question is: will retailers step up to the plate?

Figure 5

*Willingness to share social handle with a trusted retailer shows an age skew that indicates more growth is likely*

% of respondents indicating they would share social handle with a trusted retailer

38% Global average 2015 study

Indicates +/- change

■ 2014 Study   ● Change versus a year ago
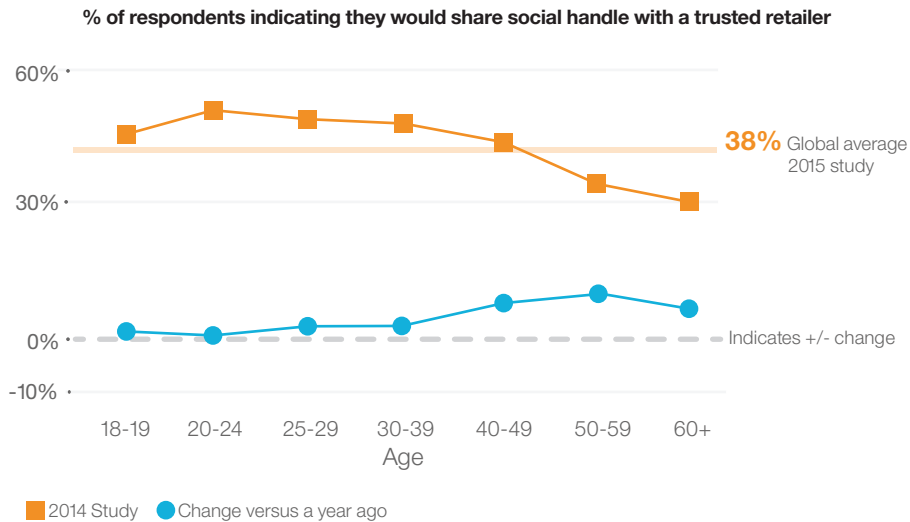
Source: IBM Institute for Business Value

Figure 6

Associates able to access purchase history/preferences to provide more personalized promotions is a growing differentiator for some shoppers

% of respondents indicating this capability is important in the selection of a retailer

36%

2013 Study year

41%

2014 Study year
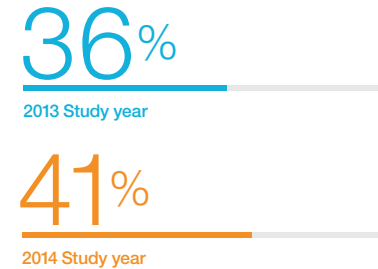
Source: IBM Institute for Business Value

Consumers are looking for seamless, personalized shopping experiences.

Translating shoppers' physical-digital convergence expectations

Consumers have come to expect superior experiences from all of the organizations with which they interact. Ultimately, they are consumers are looking for their shopping experiences to be seamless and personalized, regardless of touch point or technology used.

Surveyed consumers responded strongly to a number of questions (translated into consumer language) posed specifically to understand the importance today of delivering on the promise of a more seamless experience, focusing on physical-digital convergence themes. The research identified two areas on which to focus retail efforts to harmonize omni-channel shopping experiences. First are the "on-my-demand and meant-for me" contextual deliverables, and second are consumer thoughts on enhancing inventory visibility.

Convergence: Adding digital shopping strengths to physical stores and vice versa
Digital brings the potential to tailor the shopping world to one consumer and provides that consumer the workflows to facilitate many of his or her shopping tasks. Physical stores are not traditionally set up to deliver such a tailored, on-demand experience. That does not mean retailers cannot enhance a few areas. Consumers are enjoying online benefits and, when asked, they respond enthusiastically to concepts that bring a flavor of "on-my-demand" personalization to the store. For example, an increasing number of shoppers who approach a store associate would find it valuable and differentiating to have that associate able to present a personalized communication on the spot.

Of course, stores deliver a rich, multi-faceted experience that the online channels cannot fully provide. The question is whether retailers can translate and inject some of the best store benefits into virtual stores. For example, can retailers bring two of the strongest store advantages – merchandising experiences and personalized and intelligent assistance – to their digital channels? Innovators are making strides, providing "at-home merchandising" and providing personalized assistance based on historical online shopping behavior.

Truly tailored recommendations
Many retailers are working on personalized recommendation offerings for shoppers online. Few, however, have found the key to truly differentiated recommendations for a shopper – recommendations that incorporate the rich details a retailer has not only about that shopper but also about his or her interactions with different items in their assortment. Companies with hyper-contextual recommendation engines, such as Pandora and Netflix, are setting customer expectations about what the online experience should be. Retailers must pay attention and keep learning. There are certain inventory items that are strong indicators shopper personalities and specific types of shopping trips. Adding that knowledge to known customer behavior can provide more than just an "also-purchased-with" list. The goal should be to get real recommendations working online, continue learning about how and why customers make certain choices and impart that knowledge to associates.

Retailers need to learn how and why customers make certain choices.

Figure 7

For personalized promotions, shoppers have an increasing interest in being able to "control" the communications by valuing "on-demand" options

% of respondents indicating the ability is important in the selection of a retailer

Offers personalized promotions to me while I am in the store

30% (2013)	
30% (2014)	

Provides me the option for "on-demand" personalized promotions when I am in the store

40% (2013)	
44% (2014)	

Provides me the option for "on-demand" personalized promotions when I am online

45% (2013)	
48% (2014)	

■ 2013 Study ■ 2014 Study

Source: IBM Institute for Business Value

On-my-demand personalized messages

Retailers have great ideas of what they would say to certain customers if they met them in the store. However, in the digital realm, messages are crafted and scattered into the ether of email and other messages, with retailers just hoping they get noticed. However, customers are getting specific, personalized messages from other companies – Amazon and Netflix are great examples – and they are expecting the same from their retailers. There is, as well, a growing desire for on-demand, truly personalized communications not only outside of the store, but in the store itself. Consumers are looking for communications they can initiate or "pull" when they are ready to hear them, instead of getting non-targeted "pushes" from the retailer. This shopper-pull concept avoids the traps of over-messaging and laser-targets the "moment of decision" for that shopper.

Shoppers' inventory visibility imperatives converge as well

Shoppers' tolerance for out of stocks is dwindling as they perceive a "low out-of-stock world" from their online experiences. Evidence of this is found in the importance shoppers place on inventory visibility, both before going to the store and while in-store. Sixty percent of surveyed consumers indicate that an important differentiator for them when selecting a retailer is the ability to find out if an item is in stock before going to the store.

Retailers with inventory-visibility empowered store associates are noticed by shoppers as well, expanding customers' view of what associates can or cannot do for them. Forty-six percent of consumers say the ability of an employee to solve an out-of-stock issue via mobile device represents an important differentiator in selecting a retailer, up from 40 percent last year.

Recommendations

Shoppers have been disrupted, forever changed by applied technology, and they like their new capabilities. In the digital space, they are having new and compelling experiences while they surf, and they see how those concepts could work everywhere. They notice if something that delighted them in one place is missing from the next place, virtual or physical. Retailers must remember that customer expectations are set not just by other retailers, but also from any number of industries looking to connect with and delight their customers. Consumers are enjoying the deep context provided to enhance experiences with preferred companies, in and out of retail. Our research shows many are waiting for their preferred retailers to join in the contextual conversation.

To that end, retailers must:

1. *Grant meaningful "places at the table" for online and mobile and embrace the differences in each medium*. As consumers turn more and more to digital shopping, the ability to provide a rich and seamless experience from medium to medium will be critical to both attracting and retaining customers. Visibility of inventory, ability to have immediate one-on-one interactions, virtual merchandising and the like will be increasingly important to continue the growth in digital transactions.

2. *Collect (or, by analytics, discern) insights to generate context and combine those customer insights with merchandising acumen (trip occasion, category path-to-purchase, mandatory attributes) to craft and execute hyper-personalized messaging.* The old tried-and-true method of pushing out generic messages to "customer segments" no longer

applies in today's age of advanced analytics. Customers no longer compare your ability to know and communicate the right messages to the capabilities of other retailers; they are, instead, judging you according to their overall best personalized experience, regardless of industry. Retailers now have the capability to know exactly what customers want – sometimes even before the customer knows. This information must be used wisely to communicate specific messages to specific people, at the right time and through the right medium. The key is to know, understand and play by the customer's rules.

3. *With context in mind, invite eager customers to join in your experimentation, clearly communicating specific benefits.* Have opt-in customers test a new product-recommendation game, or experiment with location-based offers in specific departments. Entice the right customers, encourage them to join, find out if they want to play and make sure that the results or the insights gleaned from these experiments are broadly distributed, not just within marketing but in all affected areas of the business.

4. *Revisit your customer-engagement roadmap with special attention to inventory visibility and "on-the customers' demand" messaging, in and out of the store.* Wise tech-enablement of stores and store personnel will deliver much against the highly noticeable and less-tolerated gaps between digital and physical. Develop the critical capabilities to offer options and resolve issues in out-of-stock situations.

Are you ready for the challenge?

- What are you doing to with learnings from digital channels to convert browsers to purchasers? For example, how are you keeping the consumer engaged in the mobile channel to close the sale?
- How are you using customer information to create tailored, contextual messages based on the consumer's shopping persona and purchasing behavior?
- How closely do your digital offerings match your in-store personality? Do you have complete inventory visibility online? How can customers interact with you in real-time online, should the need arise?

For more information

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. Follow @IBMIBV on Twitter, and for a full catalog of our research or to subscribe to our monthly newsletter, visit: ibm.com/iibv

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