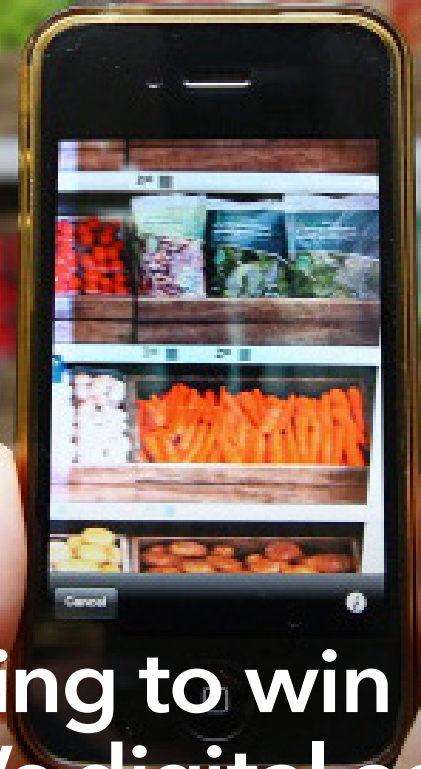


> Scan here to start shopping



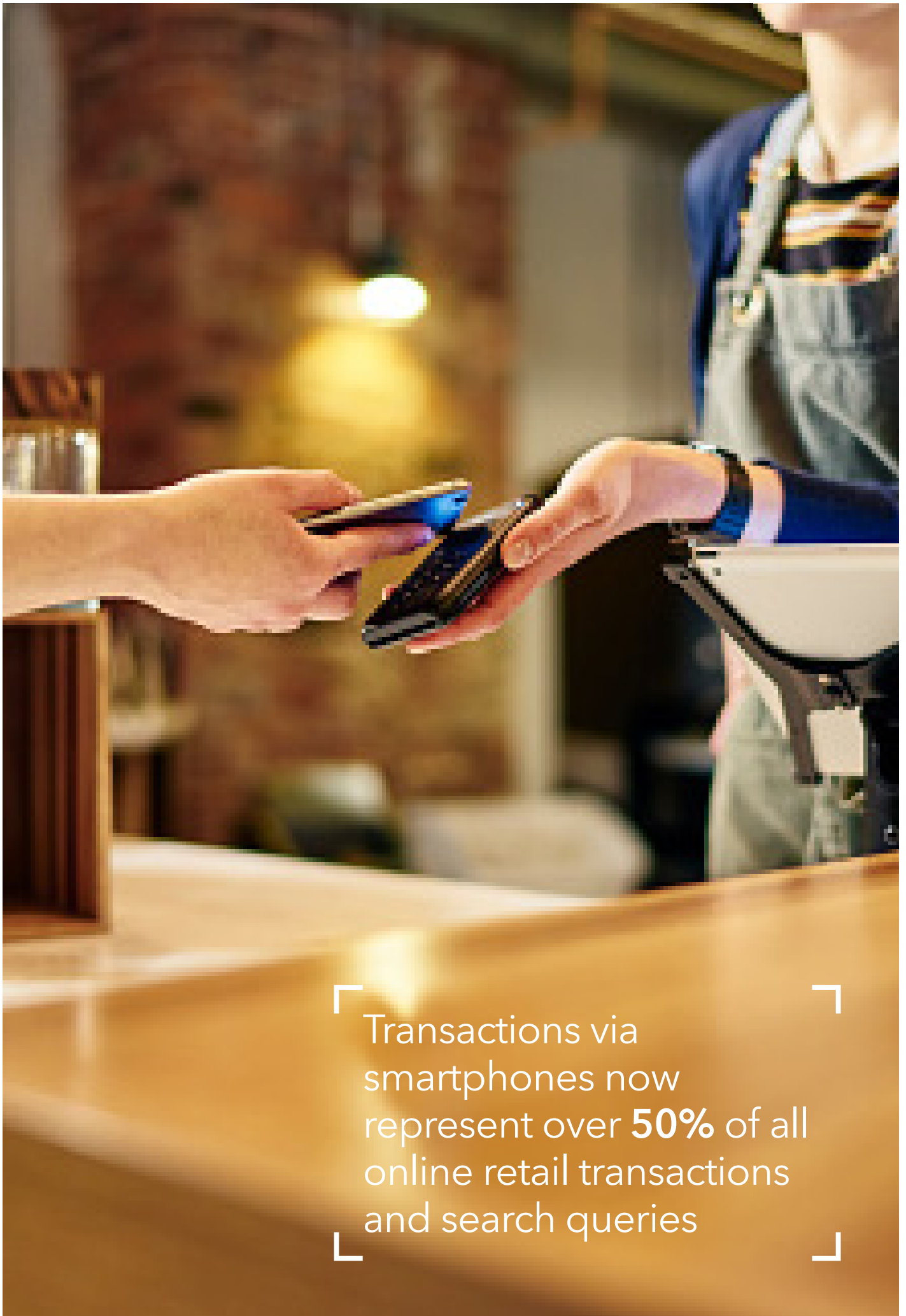
Partnering to win in retail's digital age

How to stay ahead



OC&C
Strategy consultants

uncommon sense

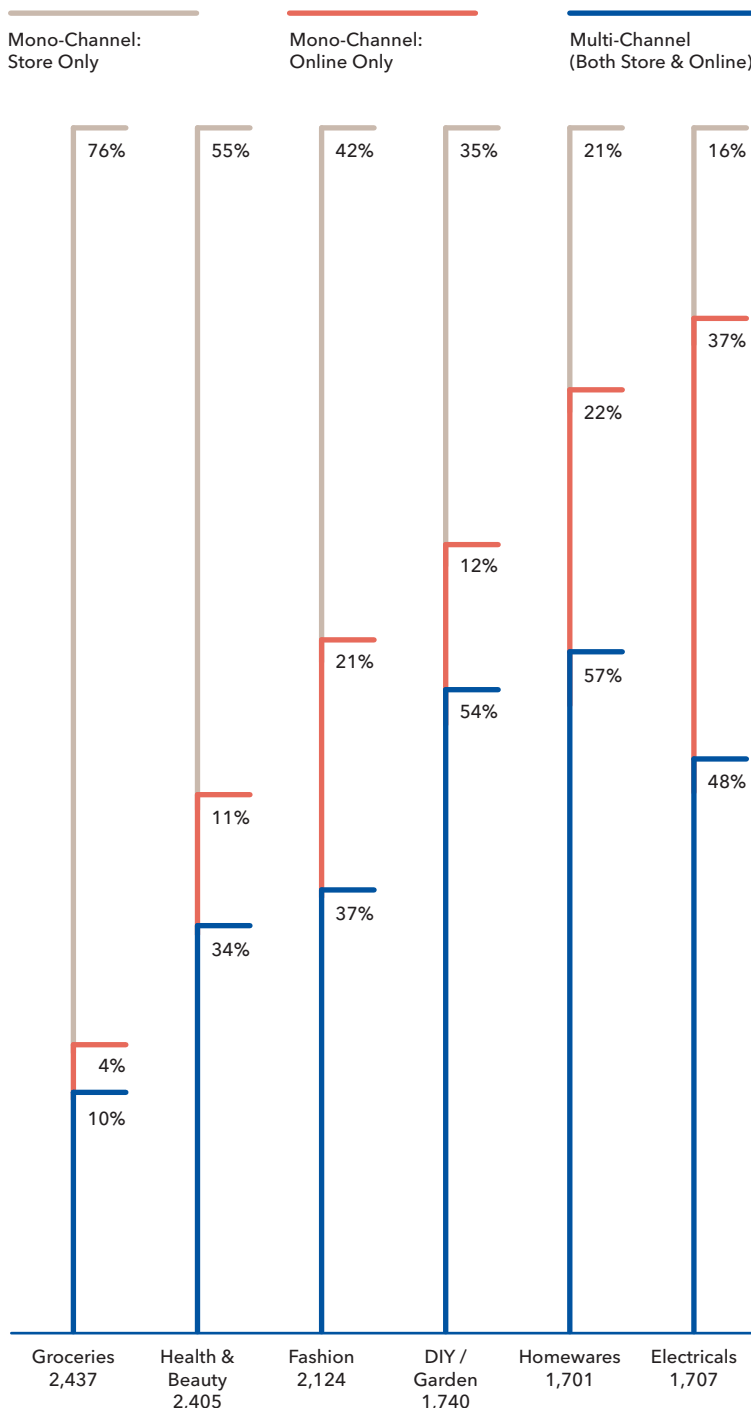


Transactions via smartphones now represent over **50%** of all online retail transactions and search queries

The retail channel landscape continues to evolve apace and, as always, it is led by major shifts in consumer behaviour.

FIGURE 1: SHARE OF JOURNEYS BY CATEGORY THAT ARE MULTI-CHANNEL VS MONO-CHANNEL¹

% share of journeys



1. Share of customer's most recent purchase journey across UK, FR and DE that are mono-channel or multi-channel (where channel = desktop, mobile/tablet website, retailer app, or store)

Source: OC&C Consumer Survey November 2017, ComScore, OC&C analysis

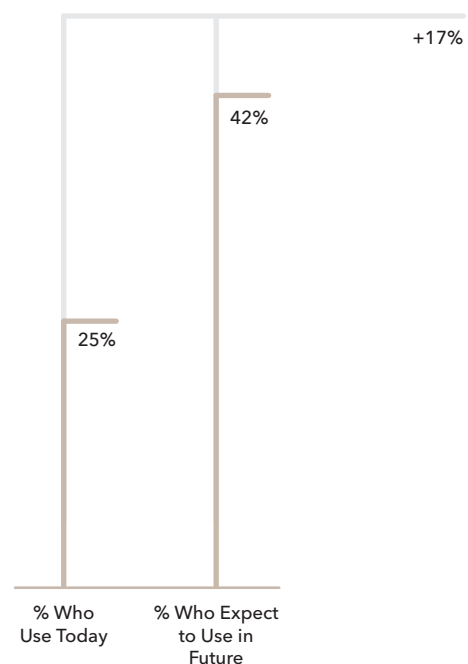
For the last three years we have been living in the era of M-commerce: transactions via smartphones now represent over 50% of all retail transactions and search queries across the UK, France and Germany, while over 60% of retail customer journeys now involve digital channels at some point and these journeys continue to fragment into smaller and more granular steps.

HOWEVER, AS QUICKLY AS M-COMMERCE HAS ARRIVED, CONSUMERS ARE ALREADY MOVING ON:

- Social retail has been established in China for some time, but it is now finally being embraced by younger European consumers and we forecast that 10% of total E-commerce spend will be through digital social channels by 2025.
- Digital assistants and voice search are opening up new growth opportunities for retailers operating at the frontier of these new developments. Over 50% of search queries will be voice-driven by 2020.

FIGURE 2: CONSUMERS WHO HAVE USED SOCIAL MEDIA TO PURCHASE AN ITEM¹

% respondents



1. % of consumers who have either purchased directly or indirectly through social media platforms

Source: OC&C analysis

The response of many retailers to this rapid change has been to adopt omnichannel strategies, aiming to create seamless (and improved) customer experiences across all channels. However, our research and interviews suggest that this has not been the panacea retailers thought it might be.

Customers tell us that retailers have failed to deliver on the promise of 'joined up journeys', while retailers tell us they have often added significant cost and complexity, but only received limited incremental returns - growth has been largely substitutional.

FIGURE 3: TOP OFFLINE CUSTOMER PAIN-POINTS

% of customers who cite as a pain point
Service in-store

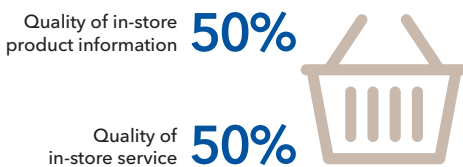
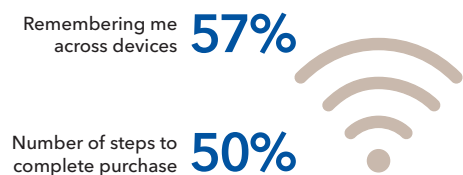


FIGURE 4: TOP ONLINE CUSTOMER PAIN-POINTS

% of customers who cite as a pain point
Speed online



Source: OC&C Consumer Survey November 2017, ComScore, OC&C analysis

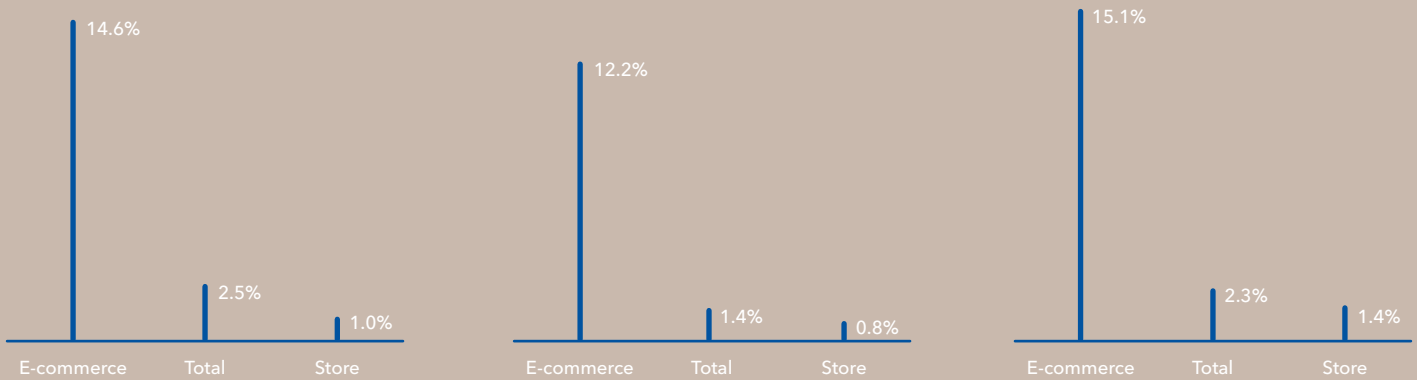
“Forget the word omnichannel - we are re-orientating around our customers and the touchpoints that matter - We need to engage appropriately with our customers through a channel based on what they’re trying to do.”

CEO, FTSE 250 Retailer

“Omnichannel thinking is flawed -it creates an over focus on channel-led thinking rather than customer-led thinking. Winners obsess about customers and focus on anticipating their needs. We put all our energies into our customer and what we need to do to stay relevant for her.”

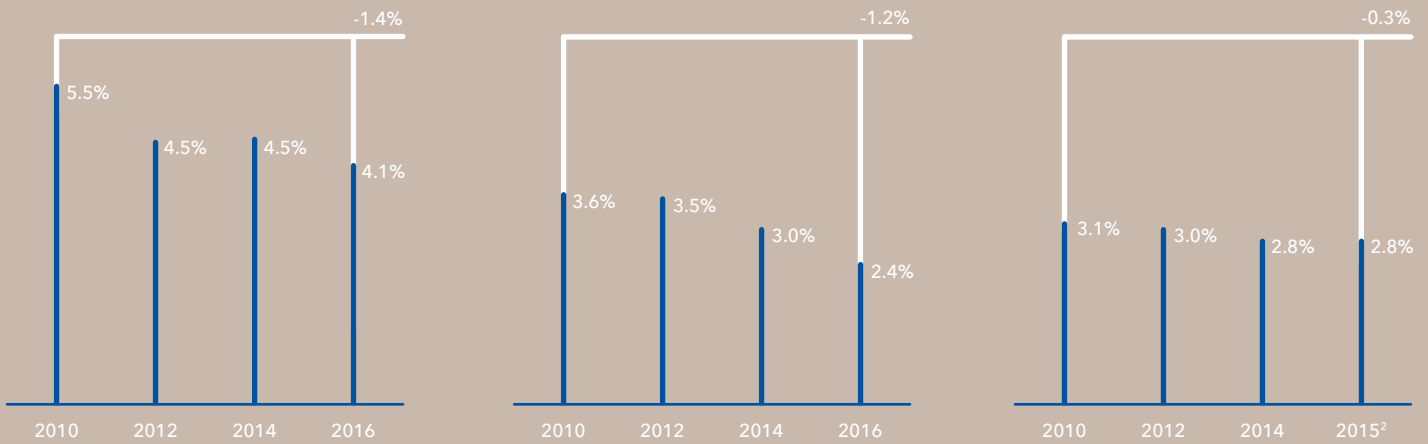
CEO, UK Retailer

FIGURE 5: RETAIL SALES GROWTH BY CHANNEL - UK, FRANCE AND GERMANY, 2011-16 CAGR



Source: Euromonitor, OC&C analysis

FIGURE 6: % EBIT MARGIN OF TOP 100 MULTICHANNEL RETAILERS BY MARKET ^{1, 2, 3}



"We can't afford to recruit the right people and invest in the tech that is required to keep up"

CEO,
UK Retailer



"We have had to completely redevelop our IT tools as they weren't scalable enough"

CEO of Internet Sales,
French Retailer



"Enacting a cultural change in the company through recruitment has been a long, painful process"

CEO of Internet Sales,
French Retailer

1. Top 100 multichannel retailers by 2016 revenue in each market (multichannel defined by excluding platforms, bricks + mortar and pure-play retailers)

2. 2015 used in Germany due to lack of published figures for 2016

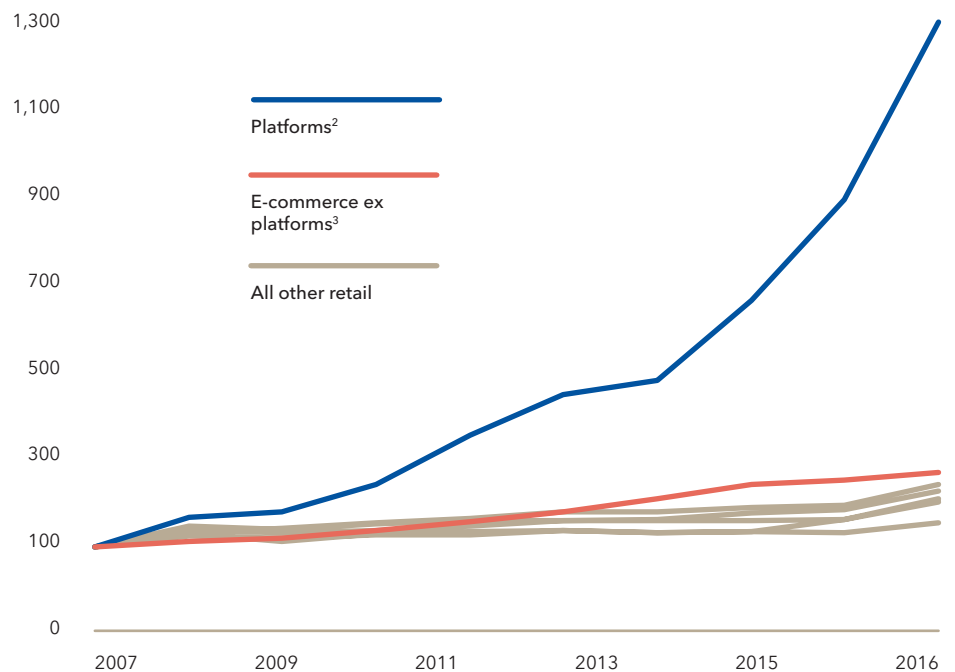
3. UK: 96 retailers, FR: 69 retailers, DE: 82 retailers

Source: OC&C Retailer Interviews, BvD, OC&C analysis

The challenge is not going to get any easier

Retail platforms continue to expand their influence and thus elevate expectations about customer experience. The level of investment in technology alone makes it impossible for many multichannel retailers to compete and these platforms are now taking their skillsets and customer propositions offline - investing in stores to close the loop and provide a physical location for the majority of retail transactions that involve a physical experience.

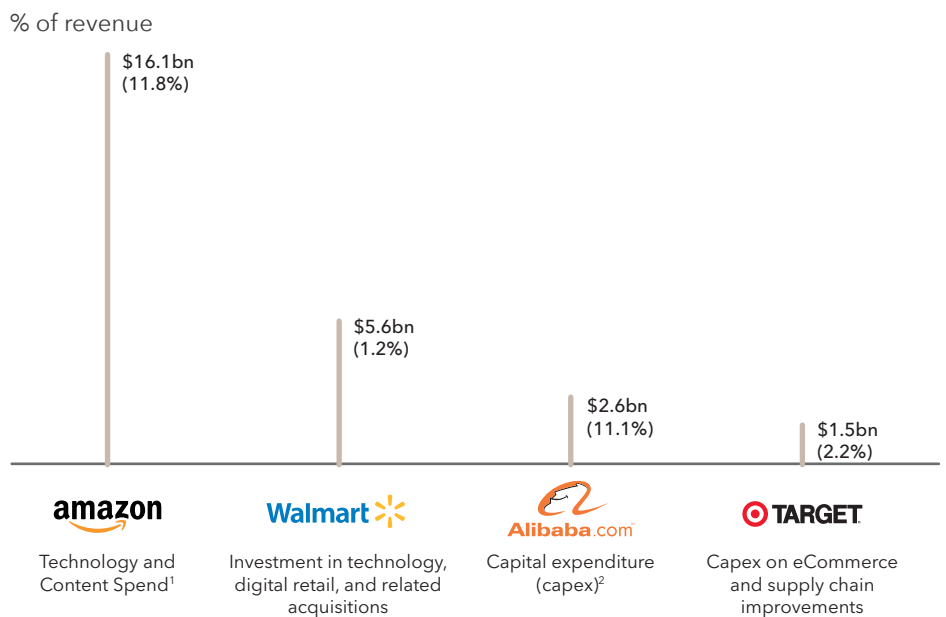
FIGURE 7: GLOBAL REVENUE GROWTH OF PLATFORMS VS TRADITIONAL RETAIL¹ =2007 INDEXED TO 100



1. The top 200 retailers by 2016 revenue were analysed
 2. Based on revenue of Amazon, eBay, Alibaba, JD.com, Zalando (Other platforms such as Asos and Farfetch are not in Top 200)
 3. Includes online pure plays and online sales of traditional retailers
 Source: BvD, Euromonitor, OC&C analysis

Alibaba will more than double R&D spending to \$15bn over the next three years

FIGURE 8: INVESTMENT IN TECHNOLOGY & ACQUISITIONS 2016 \$BN



1. 12 months to March 2017
 2. 2017 capex
 Source: Annual Reports, Bloomberg, Market Watch, OC&C analysis

So how should retailers respond?

We interviewed dozens of retail leaders from across Europe and surveyed over 6,000+ consumers to discover how this latest wave of change will play out and how you can ensure you stay on the right side of the changes taking place.

OUR RESEARCH DEMONSTRATES THAT WINNING RETAILERS ARE ALREADY THINKING DIFFERENTLY IN FOUR KEY WAYS:

1. Think customer, not channel

CUSTOMER

2. Reinforce your distinctiveness

DISTINCT

3. Organise around speed and accountability

SPEED

4. Partner to win

PARTNER



Imperative 1:
Think customer,
not channel

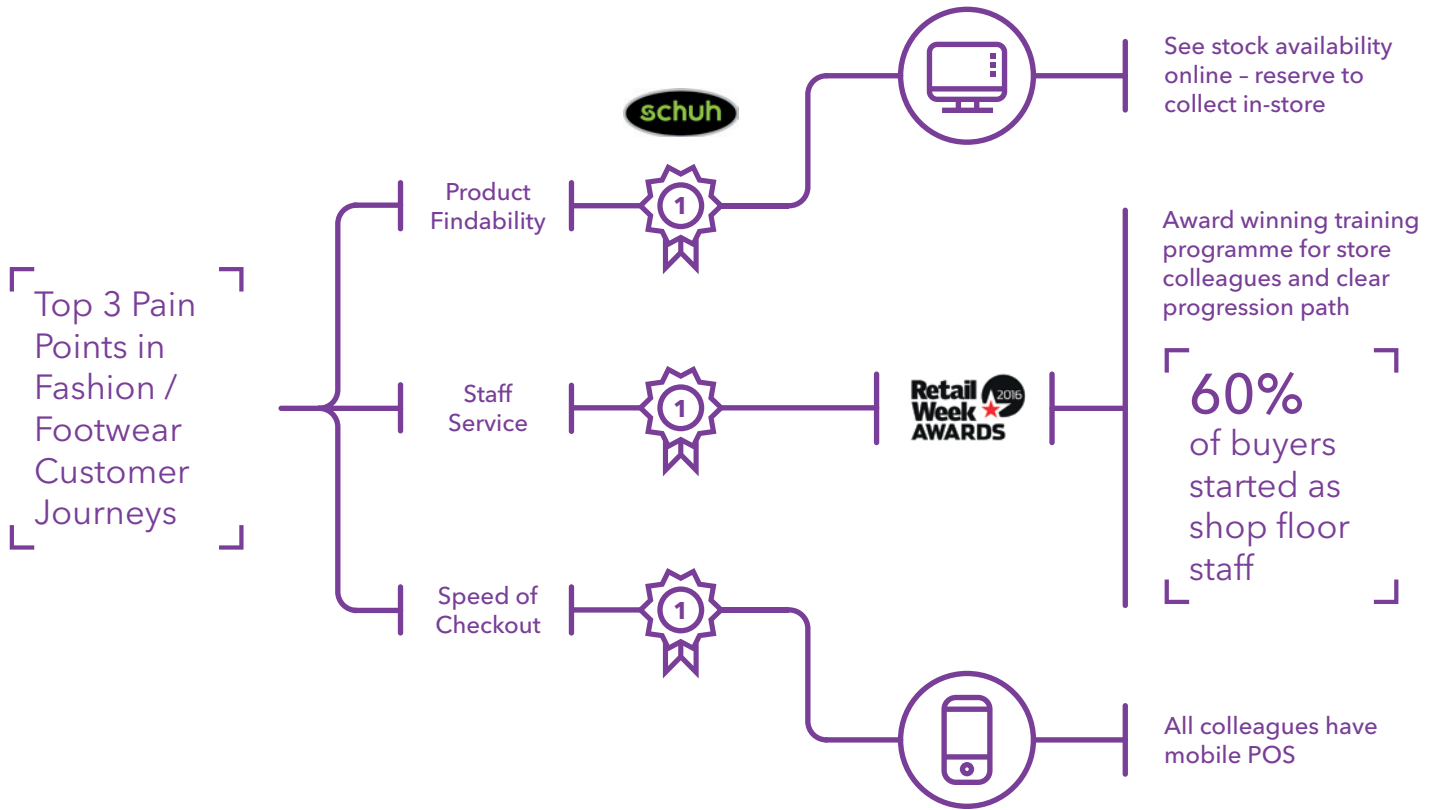


Customer journeys are becoming increasingly complex, but winning retailers are cutting through this complexity. They have a laser focus on understanding the discrete steps in their customer's purchase journey (and how customers are completing them) as well as creating a customer experience that delights at each stage.



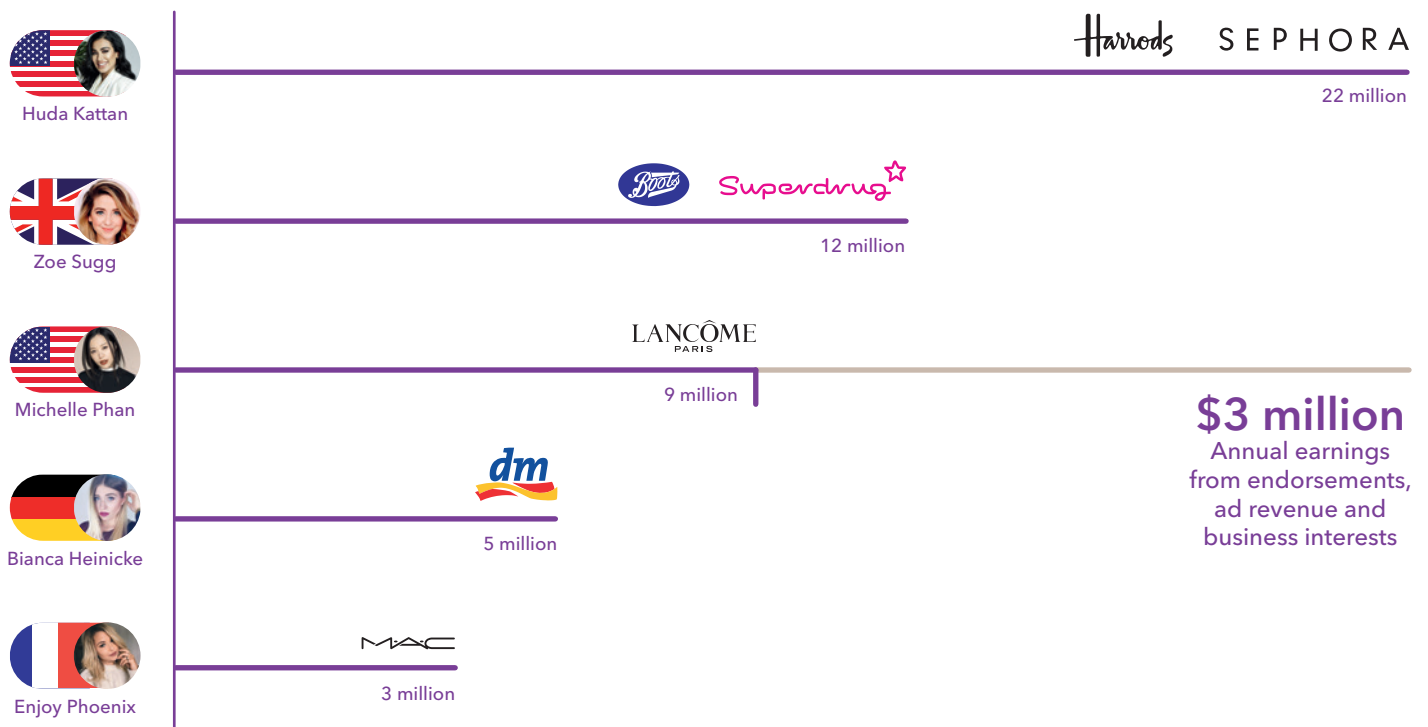
Schuh in the UK are a clear case study of this, winning customers and driving performance through focusing on addressing the critical elements of their customer's journey.

FIGURE 9: PEER RANKING IN OC&C PROPOSITION INDEX



Retailers are shifting their marketing budgets and strategies to match their target customer missions. The growth of social media continues to create a new set of dimensions through which retailers can interact and communicate with their target customers. The use of influencers is only the start and the shift to more transactional and in-app purchasing should support a much more coherent social media retail experience.

FIGURE 10: TOP INFLUENCERS BY NUMBER OF YOUTUBE SUBSCRIBERS¹: HEALTH & BEAUTY



1. As of November 2017, subscribers on Youtube
Source: Press Reports, Instagram, Youtube, OC&C analysis

“We have rejigged our investment from traditional media to social media and influencers and we are seeing a fantastic sales uplift, especially when it comes to make-up”

L'Oréal

Imperative 2: Reinforce your distinctiveness





As consumer 'paths to purchase' fragment, multichannel retailers must re-focus on what they are brilliant at. The dimensions of differentiation haven't changed. It's still about value, quality and service but, without the insulation of having a physical location, the fundamentals of a retailer's underlying proposition are increasingly laid bare.

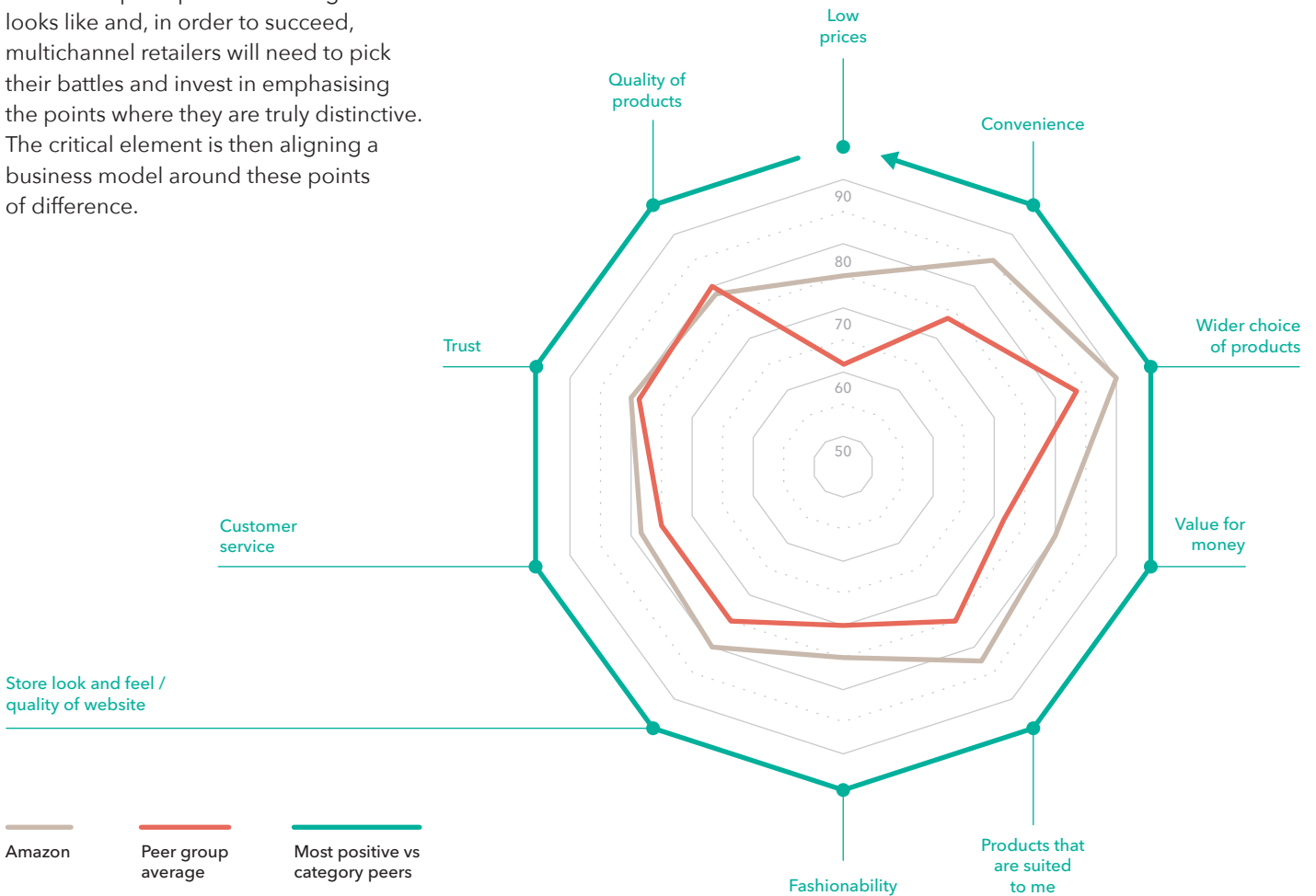
Day 8 - Mercedes-Benz Fashion
Week 2017/018 Collection
'Life as barbie' fashion show,
Beijing China

“We need to take a step forward in our proposition – what used to work isn’t enough, we are taking a much more aggressive view on the source of our future competitive advantage.”

CEO, UK Retailer

Online pure players have elevated customers’ perceptions of what good looks like and, in order to succeed, multichannel retailers will need to pick their battles and invest in emphasising the points where they are truly distinctive. The critical element is then aligning a business model around these points of difference.

FIGURE 11: AMAZON PROPOSITION INDEX RATING VS PEERS¹



1. Peer Group contains top 3 GMs/Electricals from UK (Argos, John Lewis, Wilko), France (Fnac, Galeries Lafayette, Boulanger) and Germany (MediaMarkt, Saturn, Conrad)
 Source: OC&C Proposition Index 2017, OC&C Retailer Interviews, OC&C analysis

Many retailers envy the price and quality equation that grocery discounters are able to deliver, but don't appreciate how this is enabled by a clear set of efficient and ruthless commercial, supply and retail processes that deliver on the customer promise. Every product is tendered once a year and follows an identical rigid process with a product benchmark clearly defined to provide a singular price and quality benchmark to beat.

FIGURE 12: GROWTH OF "NEAR ME" SEARCHES, 2015-2017

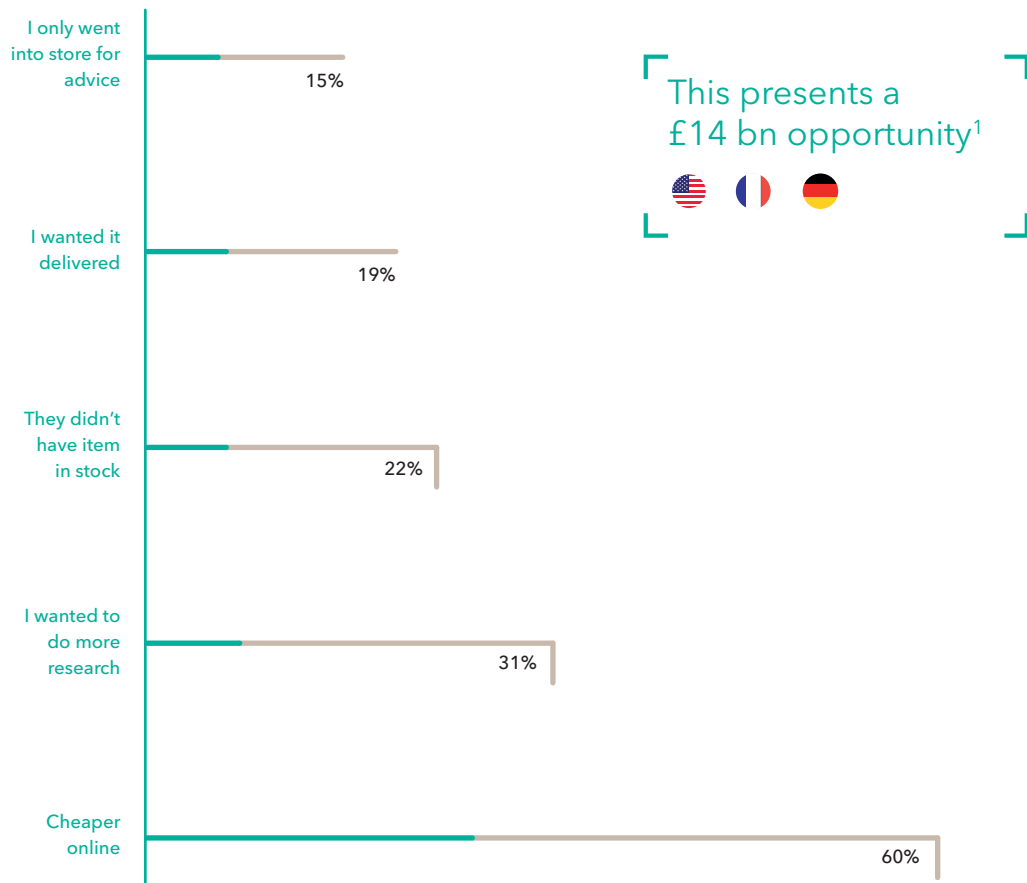


Google Trends data, search interest relative to the highest point on the chart for the given time period
Source: Google Trends, Think With Google, OC&C analysis

Multichannel retailers also maintain a clear local advantage vs. pure plays that should be exploited. Firstly, linking offline and online data together can help drive additional volume to stores, while also helping tailor the local proposition to customer demand. Many of the retailers we spoke to are only starting to scratch the surface on what is possible.

There is then a substantial prize for multichannel retailers in capturing the sales leakage from stores. Our estimates suggest £14bn of sales were lost to the offline channel as consumers browsed in store before purchasing with a competitors online. Understanding the reasons for this help identify the priority actions to take.

FIGURE 13: REASONS FOR BROWSING BUT NOT PURCHASING IN-STORE



1. 11% of online customers browsed in-store before making the purchase online. Online sales revenues were estimated at £126bn in 2017

Source: OC&C Consumer Survey November 2017, Euromonitor, OC&C analysis

Our research also reveals that winning multichannel retailers are not only competing with the platforms – they are leveraging them as a channel in their own right. Confident in the quality of their own offer, we see winning retailers selectively partnering to gain exposure to the additional traffic partners can provide. This is not for everyone but handled well can be a powerful driver of customer growth.

FIGURE 14: SUCCESSFUL MULTI-CHANNEL RETAILERS ARE SEEING (THE RIGHT) PLATFORMS AS AN OPPORTUNITY TO EXTEND THE REACH OF THEIR OFFERING

SEPHORA + 天猫 Tmall.com

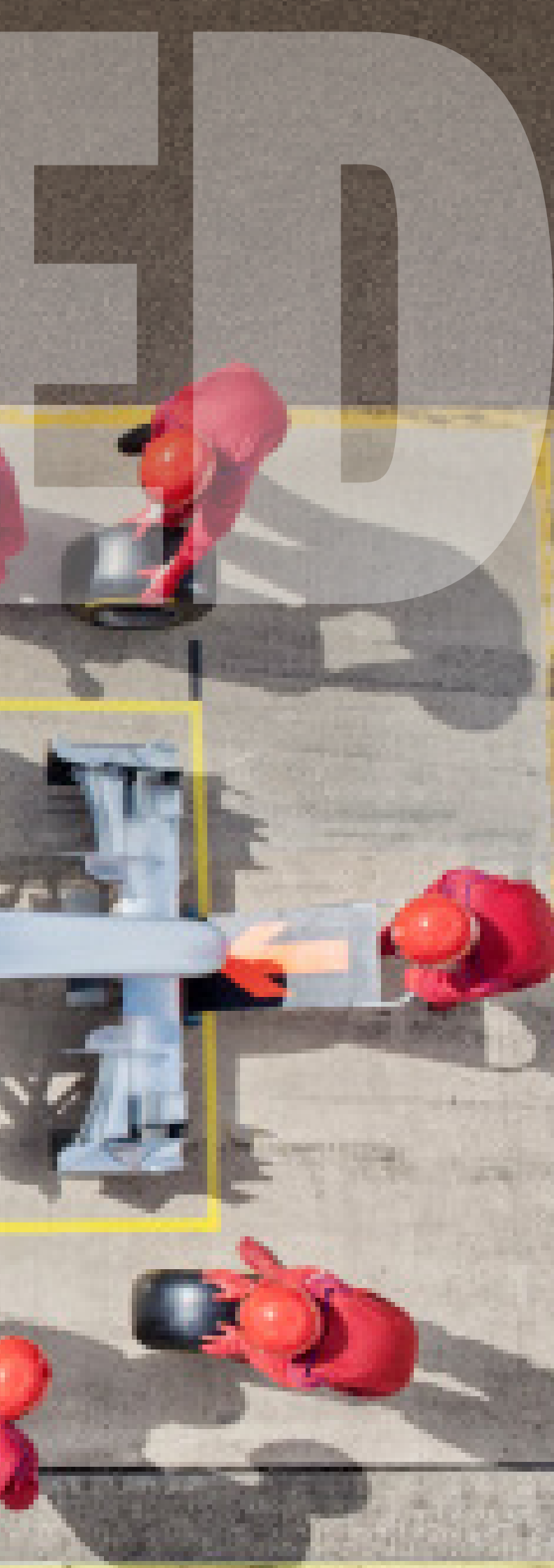
The screenshot displays the Sephora Tmall.com storefront. At the top left is the Sephora logo with the text 'SEPHORA 丝芙兰官方旗舰店'. To the right is a promotional banner for 'SEPHORA Avocado mask' with the text '“轻”稳肌肤 “薄”护美丽' and '立即购买'. Below the banner is a navigation bar with links for '首页', '所有产品', '品牌专区', 'NEW 丝家新品', '正品保证', '品牌故事', and '本周上新'. A search bar contains the text 'sephora'. Below the search bar is a filter section with categories like '所有分类', '品牌', '规格类型', and '是否为特殊用...'. The main product area shows several items from the 'SEPHORA COLLECTION' line, including 'Aquaso thin air puffs', 'SEPHORA makeup brushes', 'SEPHORA Avocado mask', 'SEPHORA Makeup remover', and 'SEPHORA Makeup primer'. A vertical sidebar on the right contains icons for '购物车', '客服', and 'TOP'.

DRIVERS OF PARTNERSHIP

- ✓ BROADENS CUSTOMER REACH IN THE LARGEST E-COMMERCE MARKET
- ✓ MAINTAINED CONTROL OF ONLINE STORE
- ✓ COMBATS COUNTERFEIT MARKET

Imperative 3: Organise around speed and accountability





Addressing your customer and investing in your proposition are fine in theory, but the major question we heard throughout our research was:

“How do I make this actually happen?”

Our work suggests three vital principles:

- Create end-to-end accountability for categories and functions: Employ fewer people and smarter people. Embrace technology and use automation to carry out central roles such as financial reporting and measuring marketing performance.
- Make data drive your decision making: Track every part of your business. If you can't measure it, you can't manage it. And then orientate your business around the information that matters. Practically this means creating an expectation that data should be the focus of meetings and drive decision-making.
- Test quickly, fail fast, stay the course: Create processes that short-circuit the traditional administrative red tape that has developed over time. Winning retailers shift from idea to trial, to evolution, and then roll out rapidly. This often requires new teams and resources outside of current structures.



LINK COMMERCIAL TEAMS TO TECHNOLOGY CAPABILITIES

“We have IT developers embedded into customer facing e-commerce teams like merchandising and checkouts. We’ve found that this has been great for improving collaboration and has meant we can launch changes much more quickly.”

**E-commerce Director,
UK Retailer**



**AGGREGATE MARKETING SPEND
AND BUDGET RESPONSIBILITY**

“Our marketing team is integrated and channel agnostic. We leverage online marketing to generate in-store sales. Incentives are based on overall P&L, not for a specific channel.”

**Head of Internet & Customer Relations,
French Retailer**



**END-TO-END BOARD RESPONSIBILITY FOR
CUSTOMER-FACING TECHNOLOGY**

“We recently appointed a Chief Customer Officer who is in charge of planning from a customer perspective and has end to end responsibility of the customer journey.”

Head of Multichannel, German Retailer

Imperative 4: Partner to win

PARTNER



WELER



The final imperative for multichannel retailers is not to think that you can win on your own. A consistent theme from our research was that winning retailers should take every decision with an open mind about how to best to move forward.

Partnering can provide access to talent, upgrade technology, share investment and enable a retailer to move at a pace that is not possible alone.

This is about more than selecting suppliers or technology partners - it reflects a mind-set that expands across the entire retail value chain.

WHY PARTNERING IS AN IMPERATIVE

“Anyone can create templates and methods, but you need someone who makes it more precise and actionable”

COO, French Retailer



TALENT

“We need to look at alternative ways to differentiate our proposition, partnerships are a great way to do this in a capital-light way”

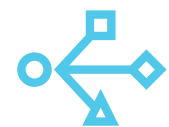
CEO, UK Retailer



INVESTMENT

“Partnerships would give us access to more technology and international capabilities”

Head of Corporate Development, German Retailer



TECHNOLOGY

“Working with partners is a quick way to improve our technology, infrastructure and logistical capabilities”

Head of Internet & Customer Relations, French Retailer



PACE

Walmart, the world's largest retailer by revenue, serves as a case study of how this can work in practice. Whether it's acquiring new capabilities and technology, partnering to create new ways to interact with customers, or developing marketplace to bring more product and consumers in to the eco-system, they have thought innovatively and collaboratively about what will be required to win.

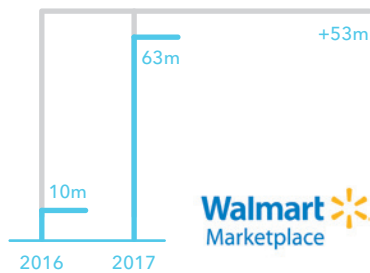
FIGURE 15: THE WORLD'S LARGEST RETAILER IS PURSUING A BROAD RANGE OF PARTNERSHIPS TO WIN



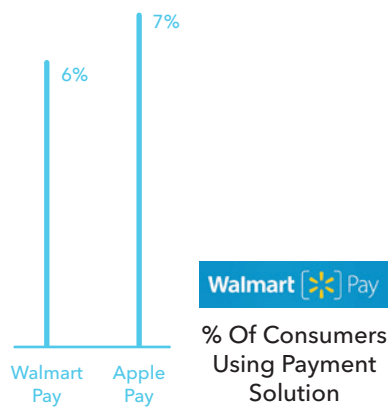
Compelling Retail Proposition
Expanding Ecommerce Offer



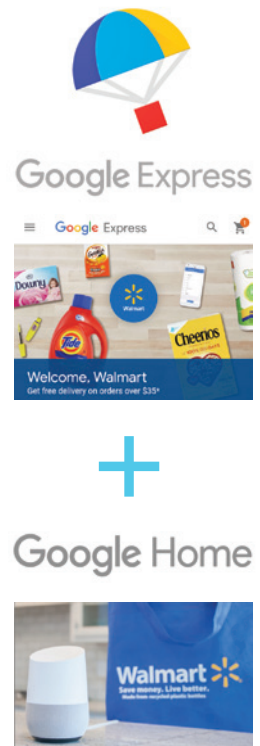
Third-Party Margin Streams
Product range growth²



Payments Solution Growth³



Customer Growth & Loyalty
Expanding Customer Reach



1. Walmart investment in technology, digital retail and related acquisitions
 2. Millions of products in online range, May 2017
 3. Share of consumers using payment method in last 3 months (Forrester consumer survey)
 Source: Annual reports, Forrester, Desk research, OC&C analysis

Are there external capabilities that could make our customer proposition better? Are there skillsets or assets that will help us get where we need to be faster and more efficiently? For retailers that are confident in what they are trying to achieve and clear on their future distinctiveness, it will be a strength - not a weakness - to let others help them deliver on their ambition.

FIGURE 16: PARTNERING WILL BE VITAL - WINNING RETAILERS ARE ALREADY DOING SO ACROSS MULTIPLE DIMENSIONS



PARTNER TO WIN

"We need to look at alternative ways to differentiate our proposition, partnerships are a great way to do this in a capital-light way"

CEO, UK Retailer

"Working with partners is a quick way to improve our technology, infrastructure and logistical capabilities"

Head of Internet & Customer Relations, French Retailer

"We can't do this by ourselves - due to the gap in skills and investments"

Head of Internet & Customer Relations, French Retailer

ABOUT OC&C

More than 30 years of unpicking the most complex business challenges with simple, uncommon sense.

We're an international consulting firm, but we've never seen size as an end in itself. Our expertise is focused on a few core specialisms, allowing us to deliver results that get noticed.

Our people are agile thinkers, cut from different cloths but united by a relentless curiosity and desire to solve problems. To us, each client challenge is unique, so boilerplate solutions don't cut it.

We interrogate a problem until we find its root. Then we develop a powerful way to solve it. We don't duck the difficult answers, we give clients the strategies they need.

OFFICES

Belo Horizonte

Hong Kong

Istanbul

London

Munich

New York

Paris

São Paulo

Shanghai

Warsaw

Report authors:

OC&C Strategy Consultants

David De Matteis

Partner

david.dematteis@occstrategy.com

James Walker

Partner

james.walker@occstrategy.com

Jan Bergman

Associate Partner

jan.bergmann@occstrategy.com

Tom Charlick

Associate Partner

tom.charlick@occstrategy.com

Ankul Wangoo

Manager

ankul.wangoo@occstrategy.com

Google

Jeremy Morris

jeremymorris@google.com

Miriam Strasmann

mstrasmann@google.com

Camille Bonnasse

cbonnasse@google.com

©2017 Google LLC All rights reserved.
Google and the Google Logo are registered
trademarks of Google LLC

© OC&C Strategy Consultants 2018.
Trademarks and logos are registered trademarks
of OC&C Strategy Consultants and its licensors.



OC&C
Strategy consultants

www.occstrategy.com