2010 European WebSphere Commerce Summit

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Retail 2010

Meeting the demands of the smarter consumer – United Kingdom view

IBV Retail

January 2010

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Technology is changing the way consumers interact, obtain information, and purchase goods and services

22% of the world's population, **1.46 billion people** are online and is estimated to reach **2.2 billion** by 2013

There are **9 times** more mobile phone accounts than cars in the emerging world.

200m Facebook users in 3 years
2.0b 1,000,000,000,000,000 YouTube videos viewed daily
Amount of data generated every hour by Google searches
It's no wonder we know so much

63% of adults research through social networks and blogs and **47%** of the time is influenced by what is read… the consumer voice has never been stronger

Source: Internetworldstats.com; Strategy Analytics; Informa; Teleco, social networks - www.marketingcharts.com

www.creativethinking.com

As a result, consumers are becoming Smarter – increasingly informed, enabled and demanding

Source: IBM Global Retail Industry

IBM's Institute for Business Value's (IBV) objective was to understand the smarter consumer demands across generations, markets and segments …

Generations

- Teenagers send an average of 2,272 texts per month
- 97% of Generation Y have a computer, 94% have a laptop and 56% own an MP3 player
- Generation X holds the highest level of education

Markets

- Urban population > rural population for the 1st time in human history
- Lower income population is the fast growing income group around the world
- Mature markets have 1.2 billion people and the emerging world has 5.6 billion people

Segments

- Barriers to entry to retail and other industries are lower
- CP companies are adventuring into retail and retailers are moving into CP
- Retail segment lines are blurring

ww.creativethinking.com

The Institute for Business Value surveyed 32,087 consumers across six countries to understand attributes of today's smarter consumer

Markets surveyed	
United States	n=13,960
Canada	n= 3,998
United Kingdom	n= 5,508
China	n= 3,011
Brazil	n= 3,011
India	n= 2,599

Segments surveyed	
Department stores	n=5,143
Discount, dollar or club stores	n=4,680
Specialty apparel stores	n=4,833
Pharmacy & Health and Beauty aid (HBA)	n=4,771
Grocery	n=8,016
Home Merchandise*	n=4,644

Ages surveyed	
Generation Z (15–19)	n=1,344
Generation Y (20–30)	n=7,161
Generation X (31–43)	n=8,817
Generation Jones (44–55)	n=7,215
Baby Boomers (56+)	n=7,550

*Note: 'Home Merchandise' refers to stores in which one shops for TVs, games, appliances, hardware, home décor and/or home furnishings;
Source: IBM Institute for Business Value Analysis Retail 2010, n=32,087; http://en.wikipedia.org/wiki/Baby_boomers; http://en.wikipedia.org/wiki/Generation_Jones; http://www.jour.unr.edu/outpost/specials/genx.overvw1.html; http://en.wikipedia.org/wiki/Generation_Y; http://en.wikipedia.org/wiki/Generation_Z;

In addition we asked IBV to do the same survey on 3320 consumers in the Nordic to get a local understanding of our market

Markets surveyed	
Norway	n= 602
Finland	**n= 851**
Denmark	n= 604
Sweden	n= 1,263

Segments surveyed	
Department stores	n=536
Discount stores	n=584
Specialty apparel stores	n=540
Health and Beauty aid (HBA)	n=538
Grocery	n=583
Home Merchandise*	n=540

Ages surveyed	
Generation Z (15–19)	n=108
Generation Y (20–30)	n=851
Generation X (31–43)	n=1087
Generation Jones (44–55)	n=825
Baby Boomers (56+)	n=449

*Note: 'Home Merchandise' refers to stores in which one shops for TVs, games, appliances, hardware, home décor and/or home furnishings;
Source: IBM Institute for Business Value Analysis Retail 2010, n=3320; http://en.wikipedia.org/wiki/Baby_boomers; http://en.wikipedia.org/wiki/Generation_Jones; http://www.jour.unr.edu/outpost/specials/genx.overvw1.html; http://en.wikipedia.org/wiki/Generation_Y; http://en.wikipedia.org/wiki/Generation_Z;

The IBV surveyed 5508 UK consumers across six segments to understand attributes of today's smarter consumer

Segments surveyed	
Department stores	n=748
Discount stores	n=579
Specialty apparel stores	n=741
Pharmacy & Health and Beauty stores	n=574
Grocery & Convenience stores	n=2,295
Home Merchandise*	n=571

Ages surveyed	
Generation Z (15–19)	n=251
Generation Y (20–30)	n=666
Generation X (31–43)	n=1,526
Generation Jones (44–55)	n=1,487
Baby Boomers (56+)	n=1,578

Notes: *'Home Merchandise' refers to stores in which one shops for TVs, games, appliances, hardware, home décor and/or home furnishings
Source: IBM Institute for Business Value Analysis Retail 2010, n=5,508; http://en.wikipedia.org/wiki/Baby_boomers; http://en.wikipedia.org/wiki/Generation_Jones; http://www.jour.unr.edu/outpost/specials/genx.overvw1.html; http://en.wikipedia.org/wiki/Generation_Y; http://en.wikipedia.org/wiki/Generation_Z

Executive summary:

Smarter Consumers Are Making Smarter Decisions

- Consumers are smarter than ever, they are:
  - **Instrumented:** more than one third desire using two or more technologies to browse and purchase
  - **Interconnected:** more than three quarters of consumers embrace co-creation to influence merchandise design and service offerings
  - **Intelligent:** they know what they want. Across generations and segments, consumers demand personalised promotions

- Generation Y is the key influencer, they are the most:
  - Instrumented, meaning they desire two or more technologies to browse and to purchase
  - willing to try alterative channels
  - likely to follow a retailer

- Tech savvy shoppers define tomorrow - creating opportunities for innovative retailers to leverage alternative channels

- Meeting their demands makes a difference - getting it right will increase purchases and loyalty

Source: IBM Institute for Business Value Analysis, Retail 2010

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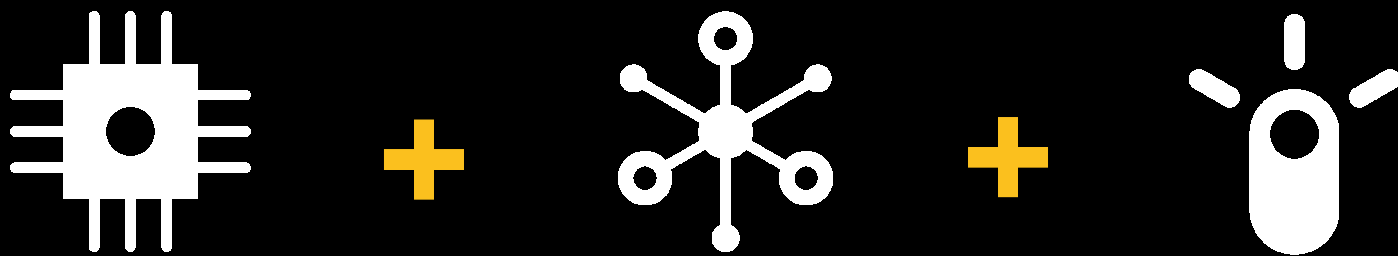
Executive summary & research methodology

Who is this 'smarter' consumer?

- Instrumented consumers
- Interconnected consumers
  - Today
  - Future
- Intelligent consumers

Conclusion

Who is this ‘smarter’ consumer?



Instrumented:

They have instantaneous access to information about retailers, products and other consumers experiences through technology

Interconnected:

They use multiple technologies to interact with other consumers and with retailers

Intelligent:

They have clearly defined expectations of what they want from the retailer now and in the future

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Who is this ‘smarter’ consumer?

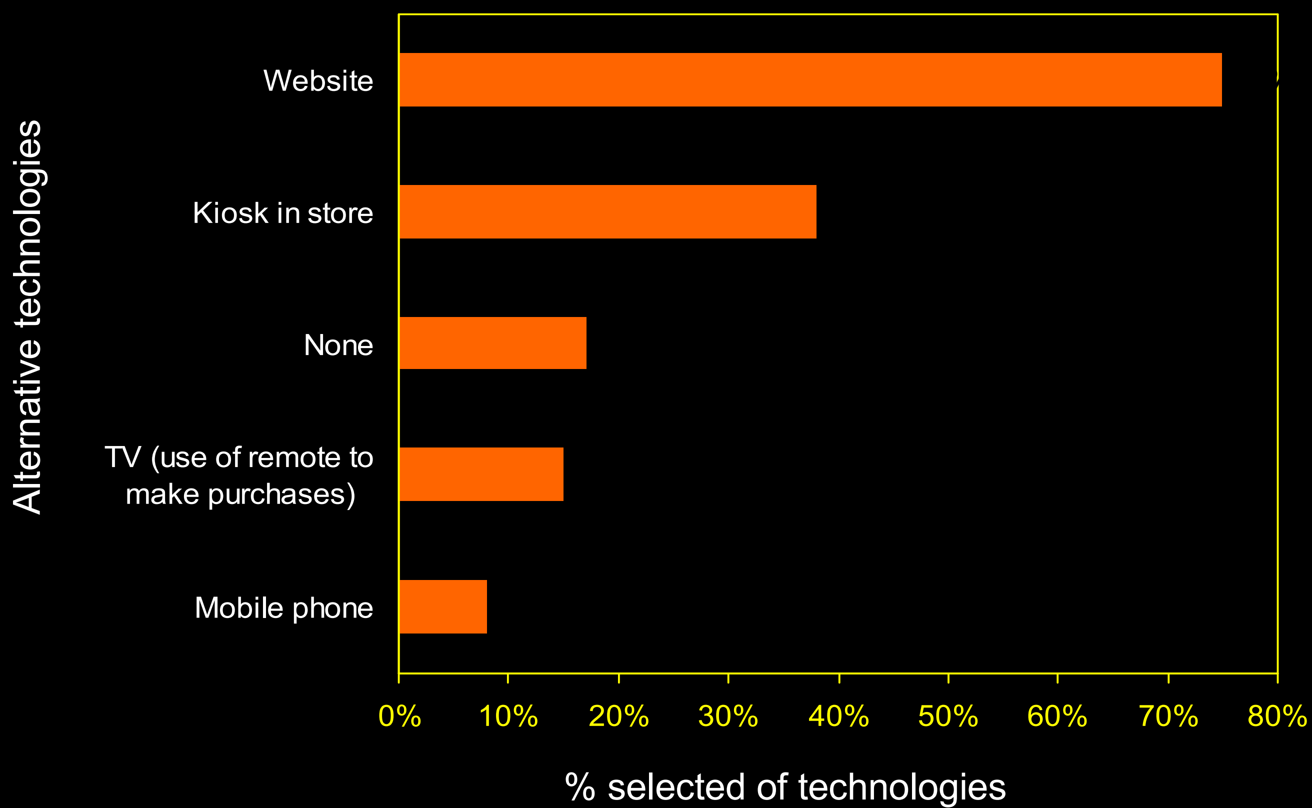
The smarter consumer is:

Instrumented

They have instantaneous access to information about retailers, products and other consumers’ experiences through technology

Consumers have a high level of comfort with some technologies, and their comfort continues to increase with emerging technologies

Consumers choice of alternative methods*



Globally, website usage is 68% and mobile phone usage is 17%

*Note: Respondents selected ‘all that apply’
Source: IBM Institute for Business Value Analysis, Retail 2010, n=5508

Generation Y has the highest level of comfort using technology to shop and make purchases

Generations Y and X are the most willing to use **websites**

Generations Y are the most willing to use **kiosks**

Generation Z,Y and X are the most willing to use **TVs** to shop and make purchases

Generations Y and Z are the most willing to use **mobile phones**

Source: IBM Institute for Business Value Analysis, Retail 2010, n=5508

Consumers in different countries have varying levels of comfort in using technology to shop and purchase

Websites are widely accepted across countries, especially Finland and Norway

74% *(68%)*

Kiosks are popular across all countries, especially in Denmark

31% *(36%)*

Willingness to use **TVs** to make purchases is equal for all countries.

9% *(17%)*

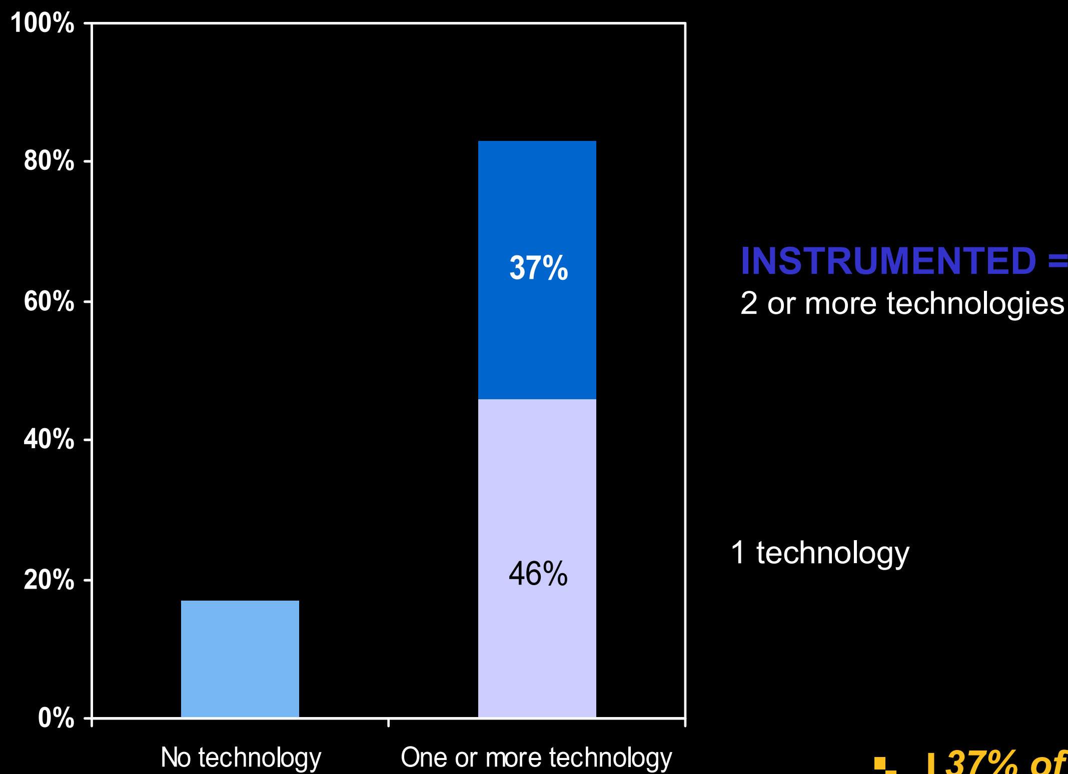
Mobile phones are most widely accepted in Norway

11% *(13%)*

Source: IBM Institute for Business Value Analysis, Retail 2010, population selected website n=3320; population selected Kiosk n=3320; population selected Mobile phone n=3320; population selected TV n=3320

We have defined 'instrumented consumers' as those willing to use two or more technologies for purchasing products

Number of Instrumented Consumers



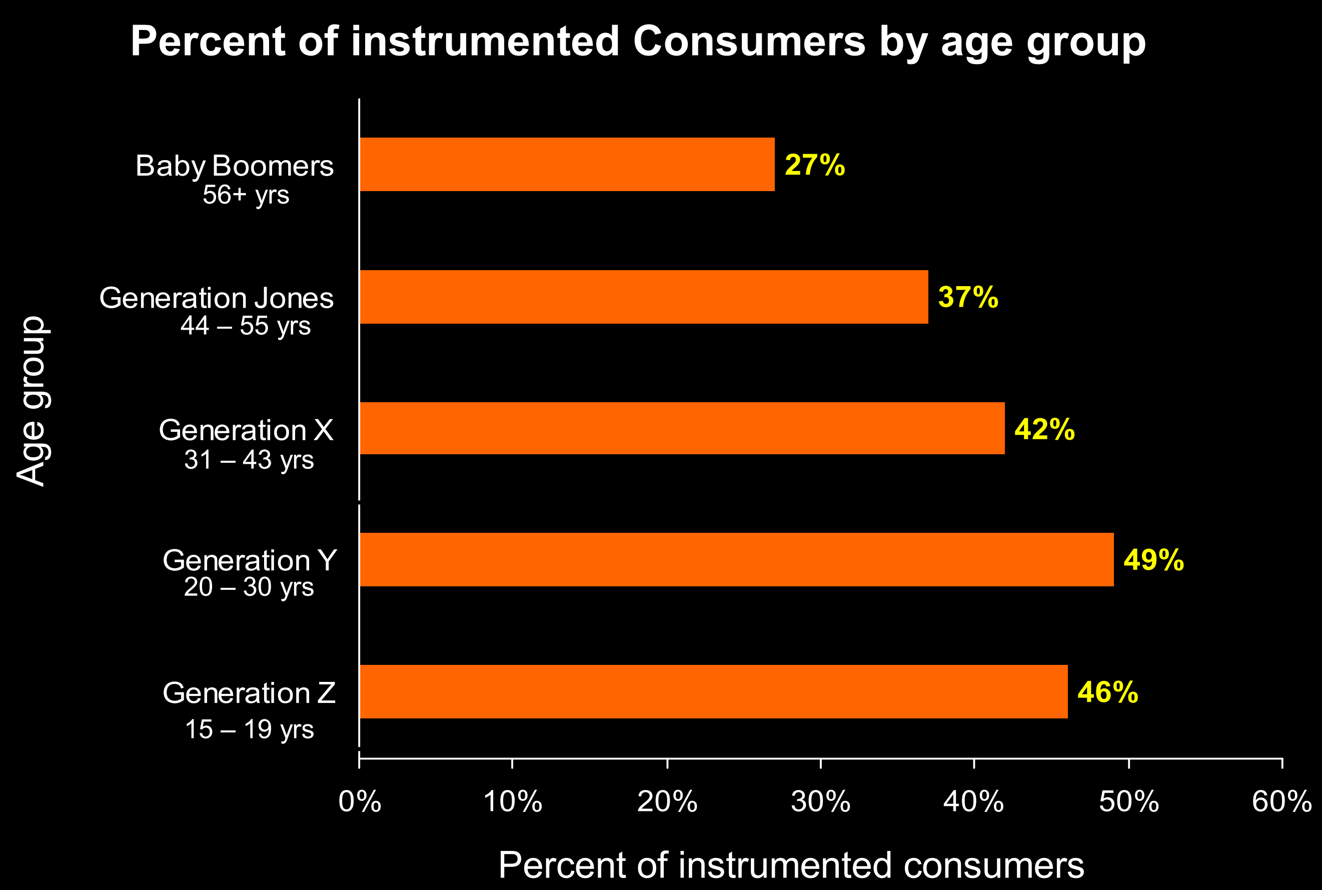
Technologies that consumers are willing to use to shop and to make purchases:

- Website
- Kiosk in store
- Mobile phone
- TV

37% of consumers surveyed said they are willing to use two or more technologies for shopping and making purchases.

Source: IBM Institute for Business Value Analysis, Retail 2010, n=5508

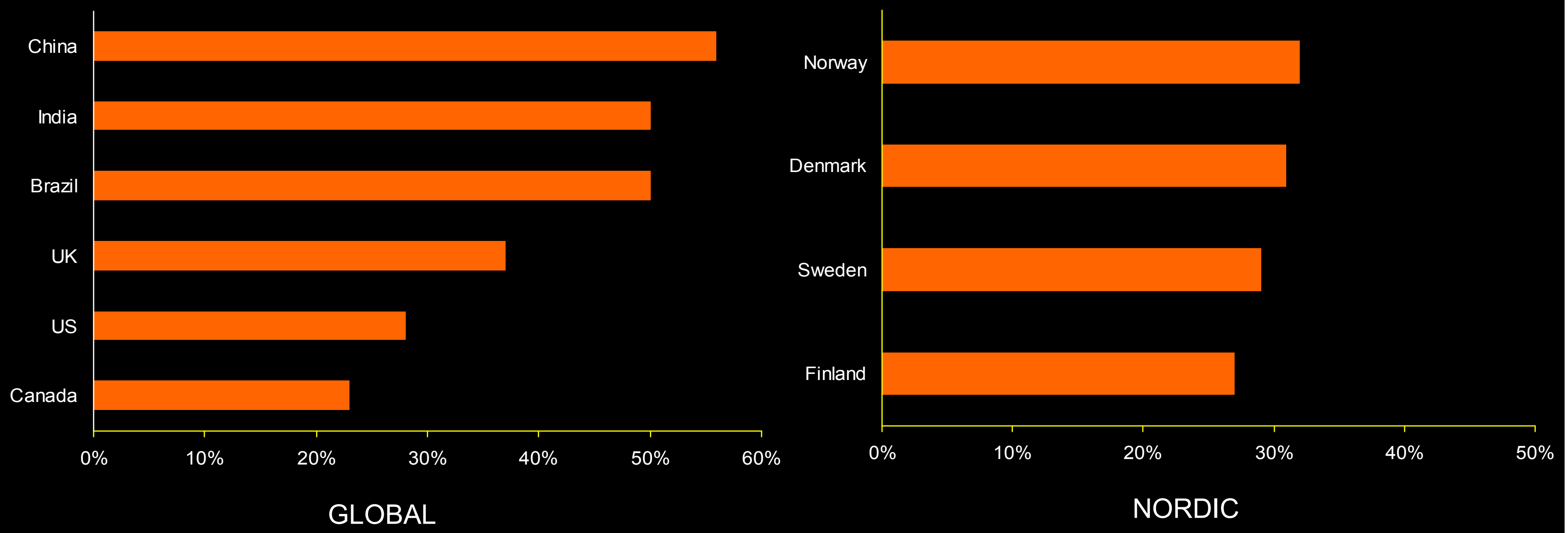
Generations Y and Z are the most instrumented – the most willing to use alternative methods for shopping



Source: IBM Institute for Business Value Analysis, Retail 2010, n=5508

Consumers in Norway and Denmark are the most ‘instrumented’

Percentage of ‘instrumented consumers’ by country



Percent of instrumented consumers

Source: IBM Institute for Business Value Analysis, Retail 2010; Denmark n=186; Finland n=227; Norway n=191; Sweden n=365

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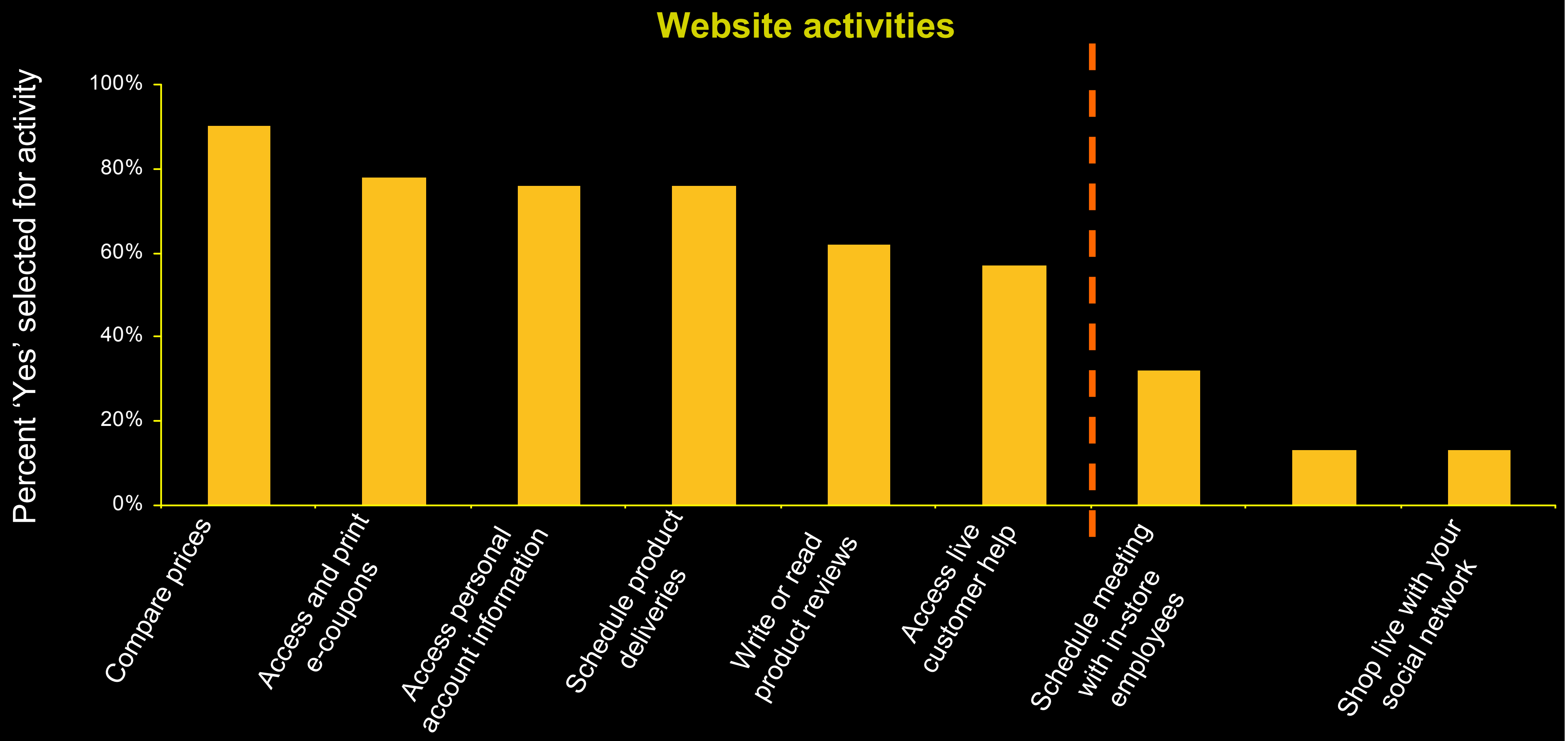
Who is this ‘smarter’ consumer?

smarter consumer is:

Interconnected

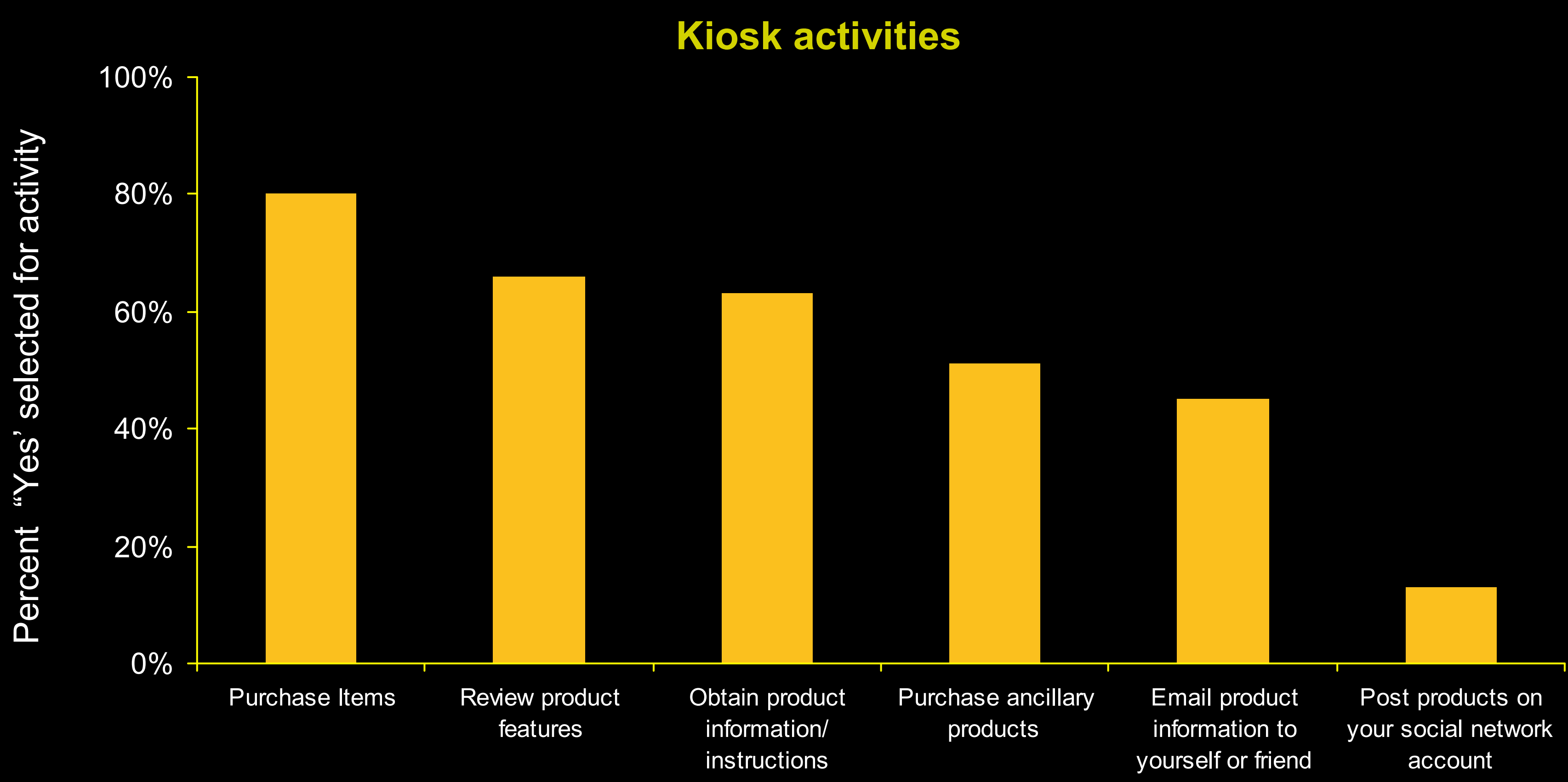
They use multiple technologies to interact with other consumers and with retailers

Web savvy consumers want to use websites for price comparisons, promotions and services and to some extent social networking



Source: IBM Institute for Business Value Analysis, Retail 2010; population who selected website technology, n=4120

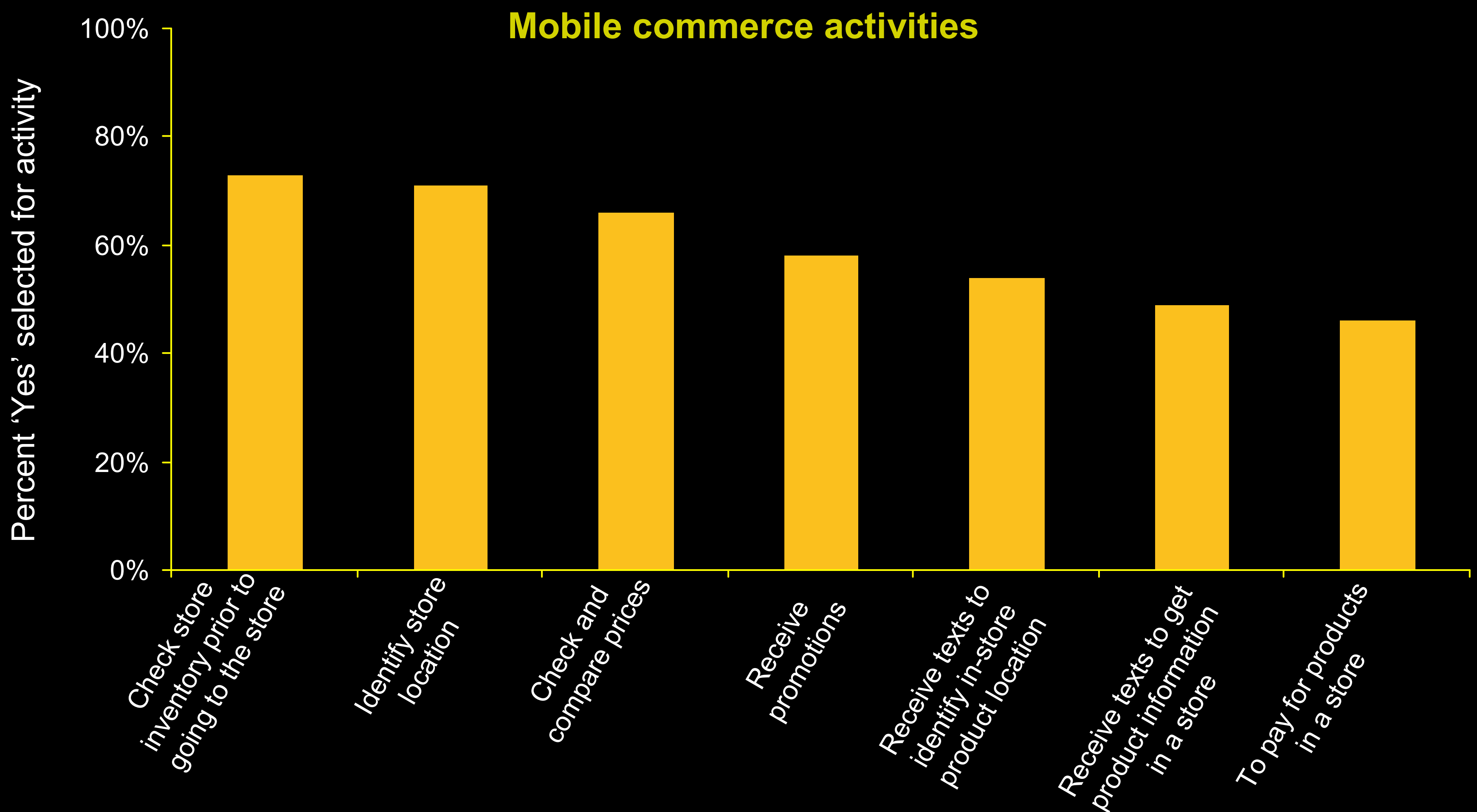
Consumers are willing to use kiosks primarily to review product features, purchase items and obtain product instructions



Generation Z is by far the most likely group to post products on their social network account.

Source: IBM Institute for Business Value Analysis, Retail 2010, population who selected kiosk technology, n=4336

While only 8% of respondents said they want to use their mobile phone for shopping, this group is willing to do a variety of activities



Source: IBM Institute for Business Value Analysis, Retail 2010; population who selected mobile phone technology, n=483

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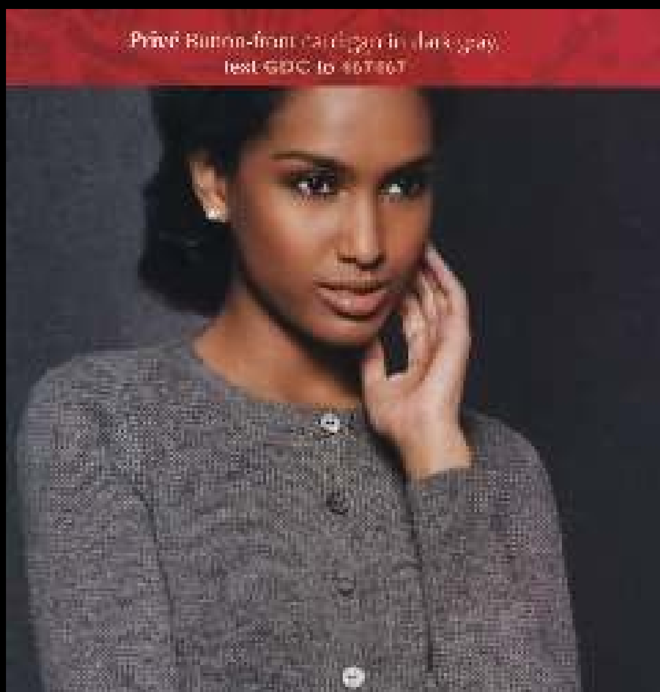
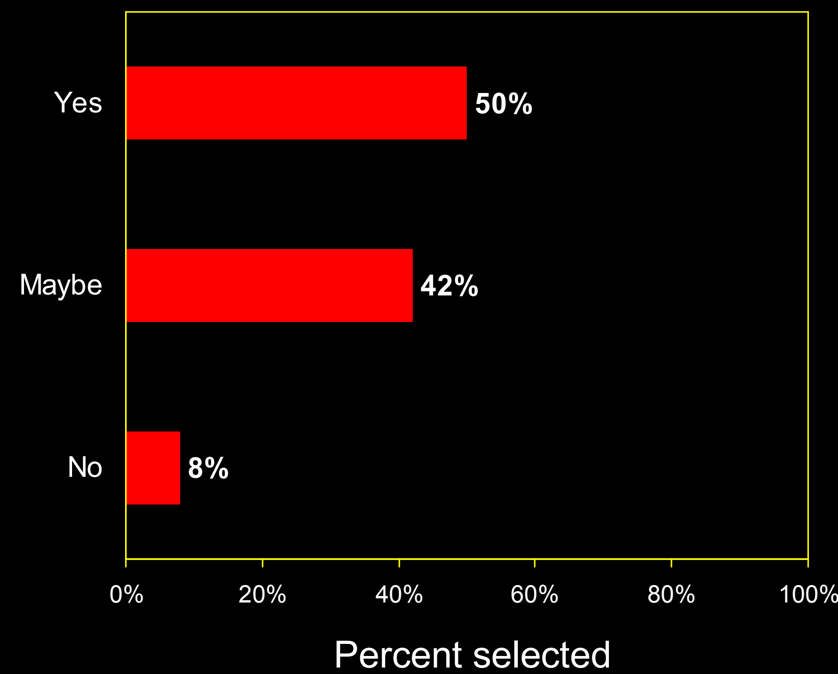
For those who want to use their mobile phone for shopping, 50% are willing to buy items through texting

Prive Button Front Cardigan Dark Gray
Text GDC to 467467



Text and buy it

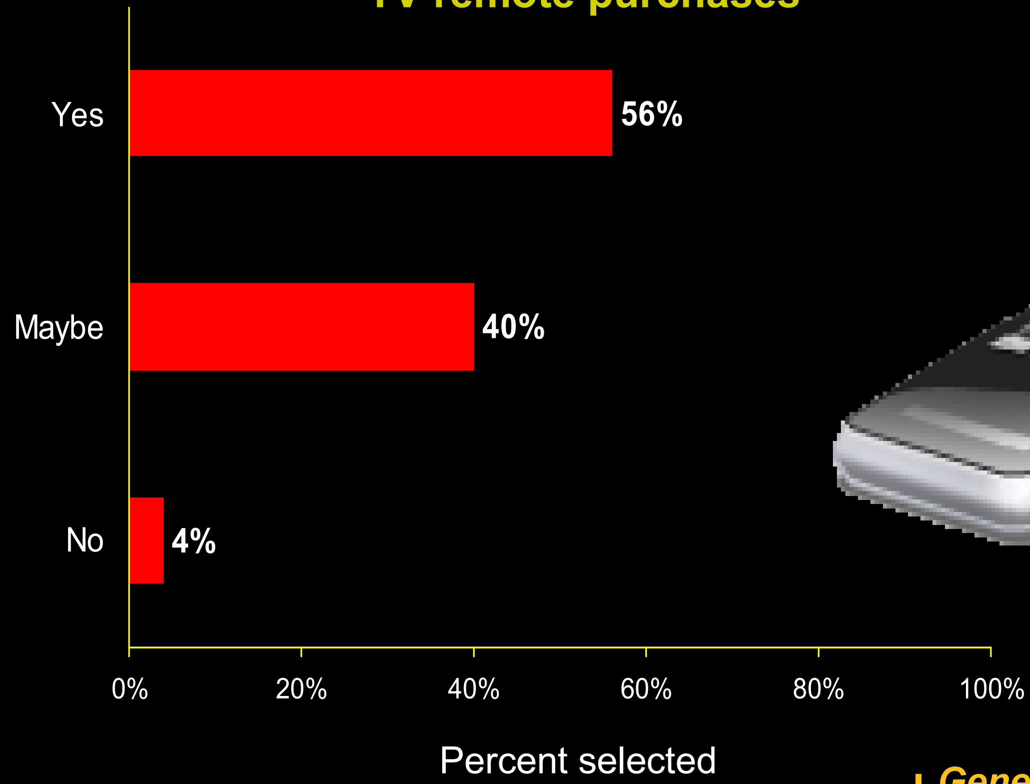


With 58% responding 'Yes', Generation Y is the most willing to use texting to purchase items.

Source: IBM Institute for Business Value Analysis, Retail 2010, population who selected mobile phone technology, n=463

For those willing to use their TV for shopping, 56% would be willing to use their remote to buy items seen on TV

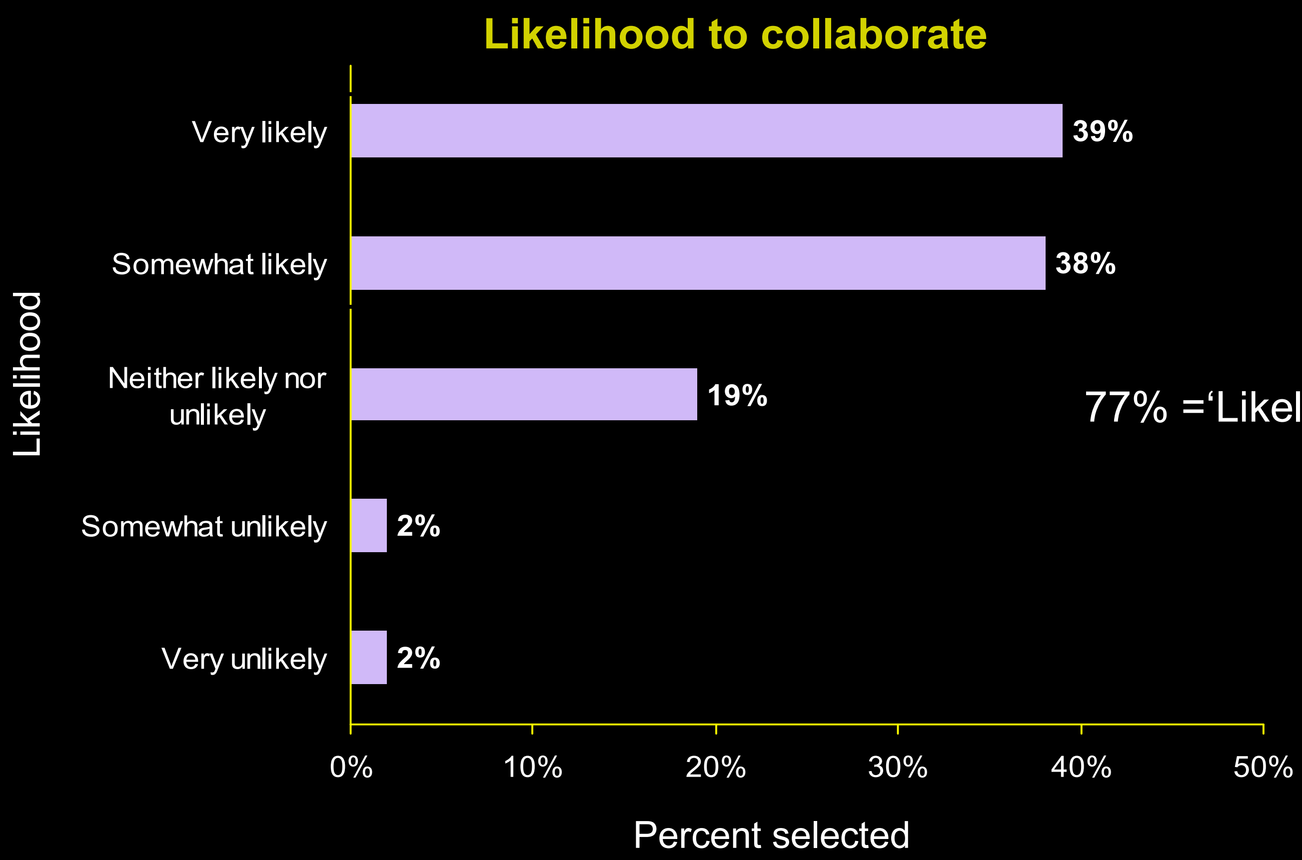
TV remote purchases



Generation Y is again the most willing, 67% said they would try purchasing items using their remote control.

Source: IBM Institute for Business Value Analysis, Retail 2010; population who selected TV technology n=836

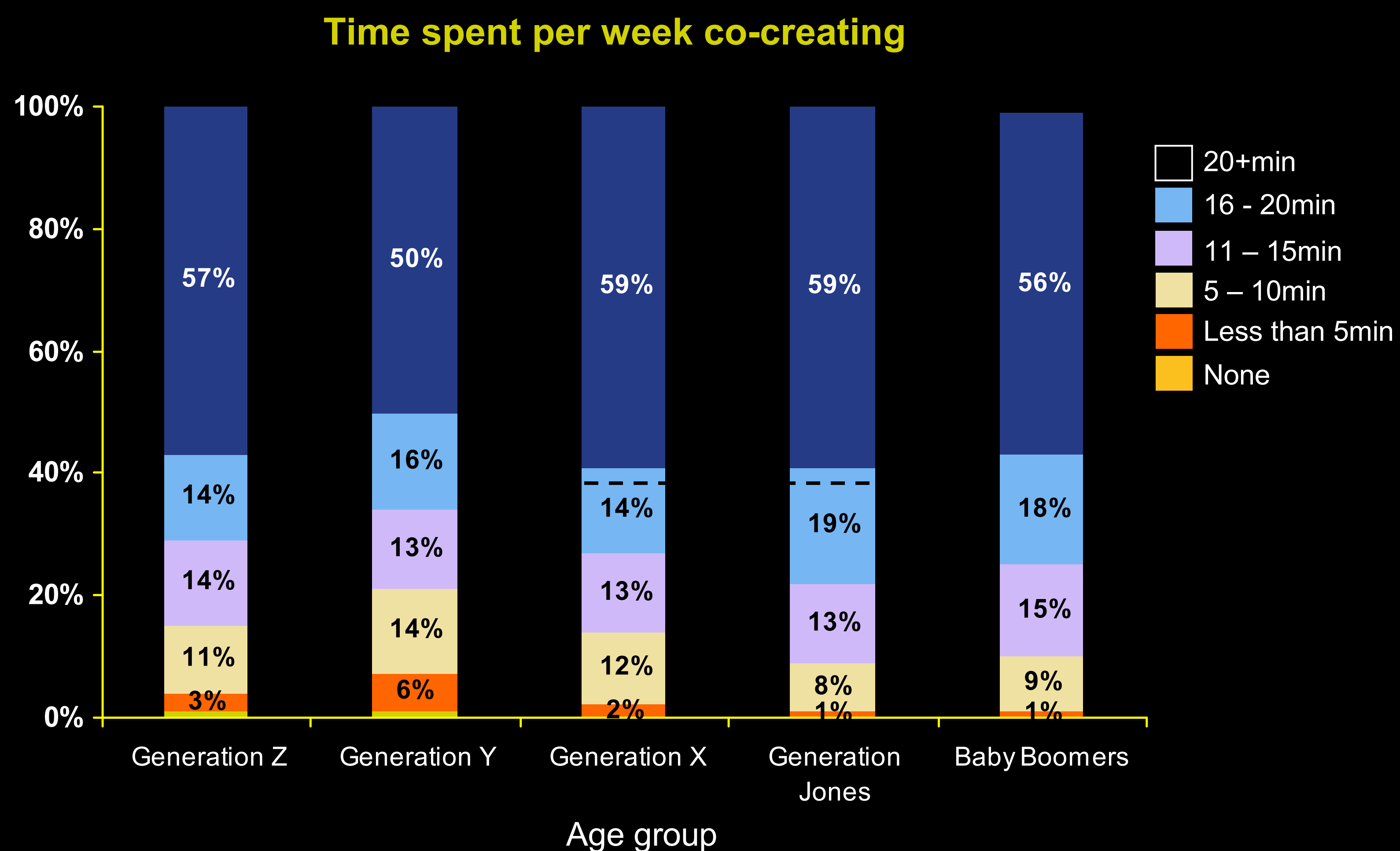
77% of consumers are willing to collaborate -- help you determine product variety, store layouts, and service ideas



77% ='Likely to collaborate'

Source: IBM Institute for Business Value Analysis, Retail 2010, n=2122

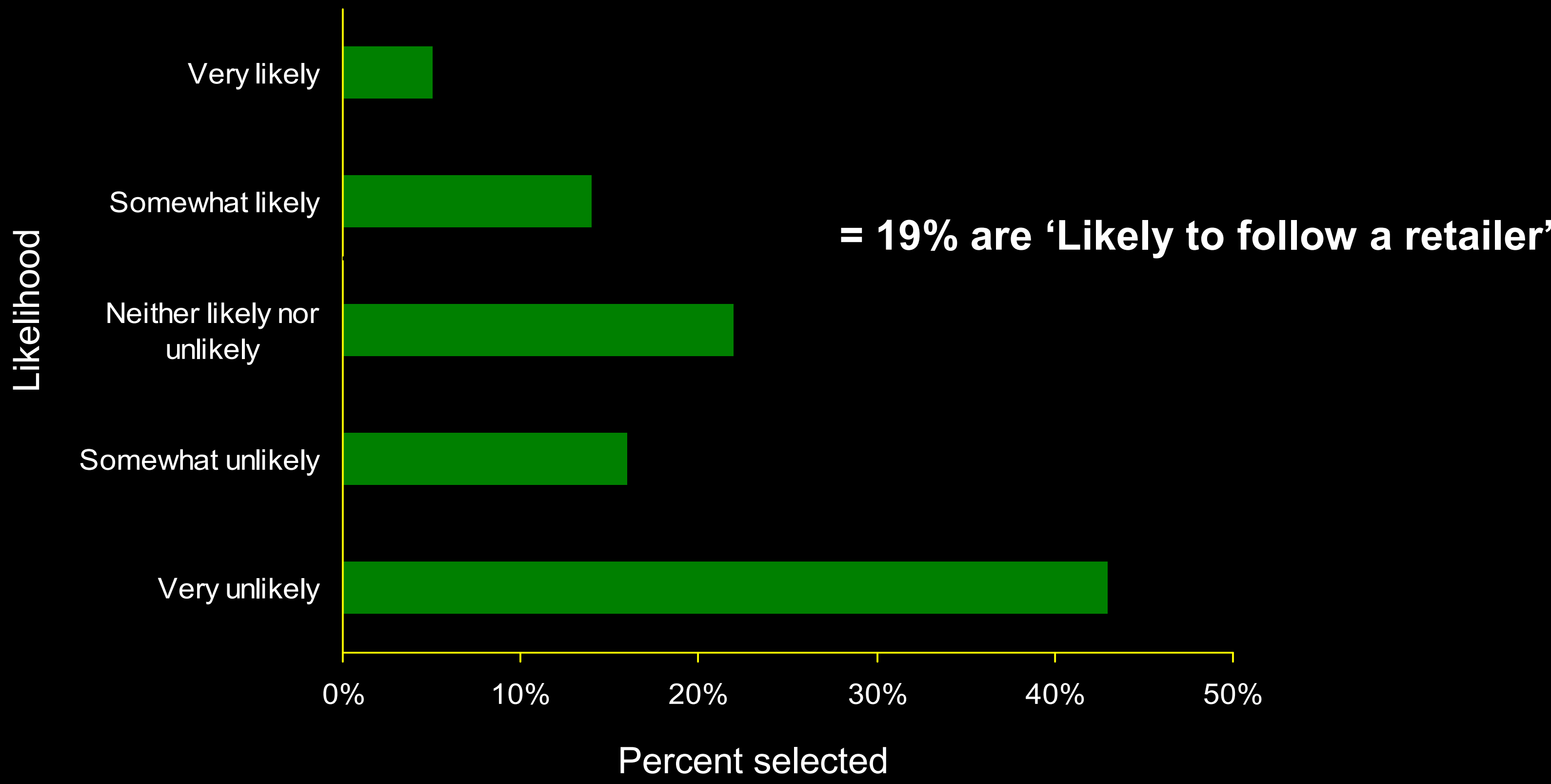
Generations X and Jones are willing to spend the most time co-creating with retailers, but 50% of all generations will spend more than 20 minutes



Source: IBM Institute for Business Value Analysis, Retail 2010; Total population, n=4223

When questioned about social networks, 19% of consumers said that they are likely to 'follow' a retailer…

How likely are you to 'follow' a retailer on a social network, such as Facebook or Twitter?



Source: IBM Institute for Business Value Analysis, Retail 2010, n=5,508

…but there is a value exchange required for those willing to follow a retailer

Most important reasons for 'following' a retailer

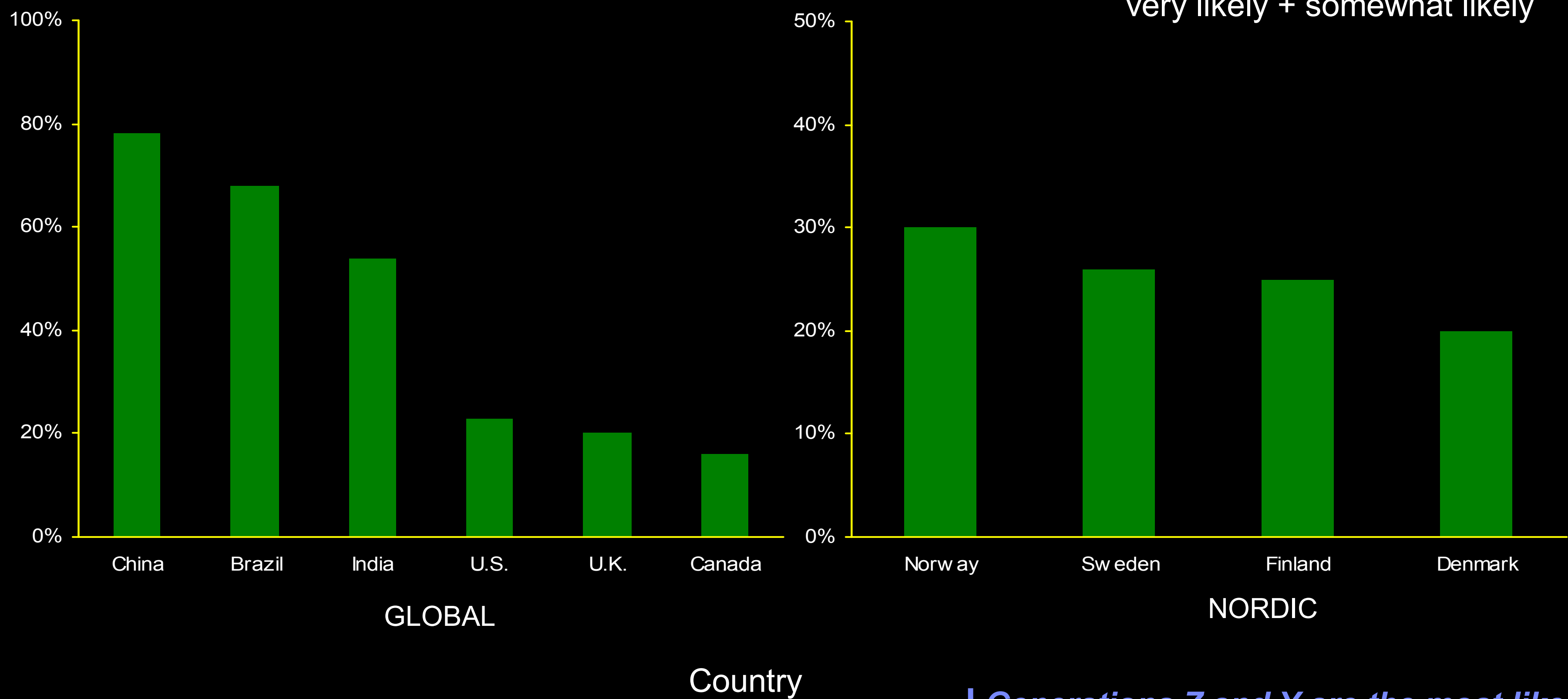
Rank	Reason
1	Being able to trial new products (free samples)
2	Receiving preferred consumer status*
3	Influencing product development or changes
4	Providing feedback to retailer on customer service or store experience
5	Learning news or industry trends
6	Interacting with other consumers
7	Sharing feedback and reviews with people in my social network

Note: *'preferred status' referred to things such as access to special promotions or advance sales notices
Source: IBM Institute for Business Value Analysis, Retail 2010, n=5,508

Consumers in China are the most likely to follow a retailer on a social network. In the mature market Norway takes no. 1 spot.

Likelihood to 'follow' a retailer

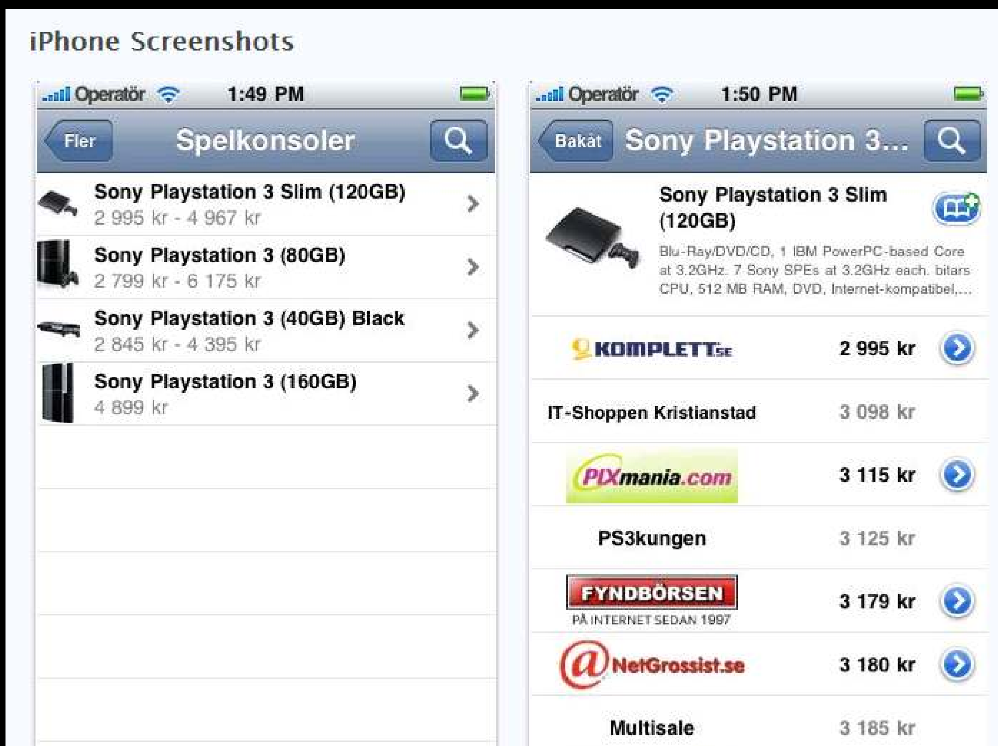
Likely to follow a retailer =
very likely + somewhat likely



Generations Z and Y are the most likely to follow a retailer on a social network; Baby Boomers are least likely.

Source: IBM Institute for Business Value Analysis, Retail 2010; 'likely to follow' n=3320

Tomorrow's opportunity will be found through alternative channels



facebook

Source: Text Buy It Picture Source: Glamour Magazine, December 2009 (Shop Text Inc)

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Who is this 'smarter' consumer?

Intelligent

They have clearly defined expectations of what they want from their retailer now and in the future

Survey Respondents Answered

- *What is most and least important to them when deciding where to shop?*
- *What areas need the most and least improvement by retailers?*

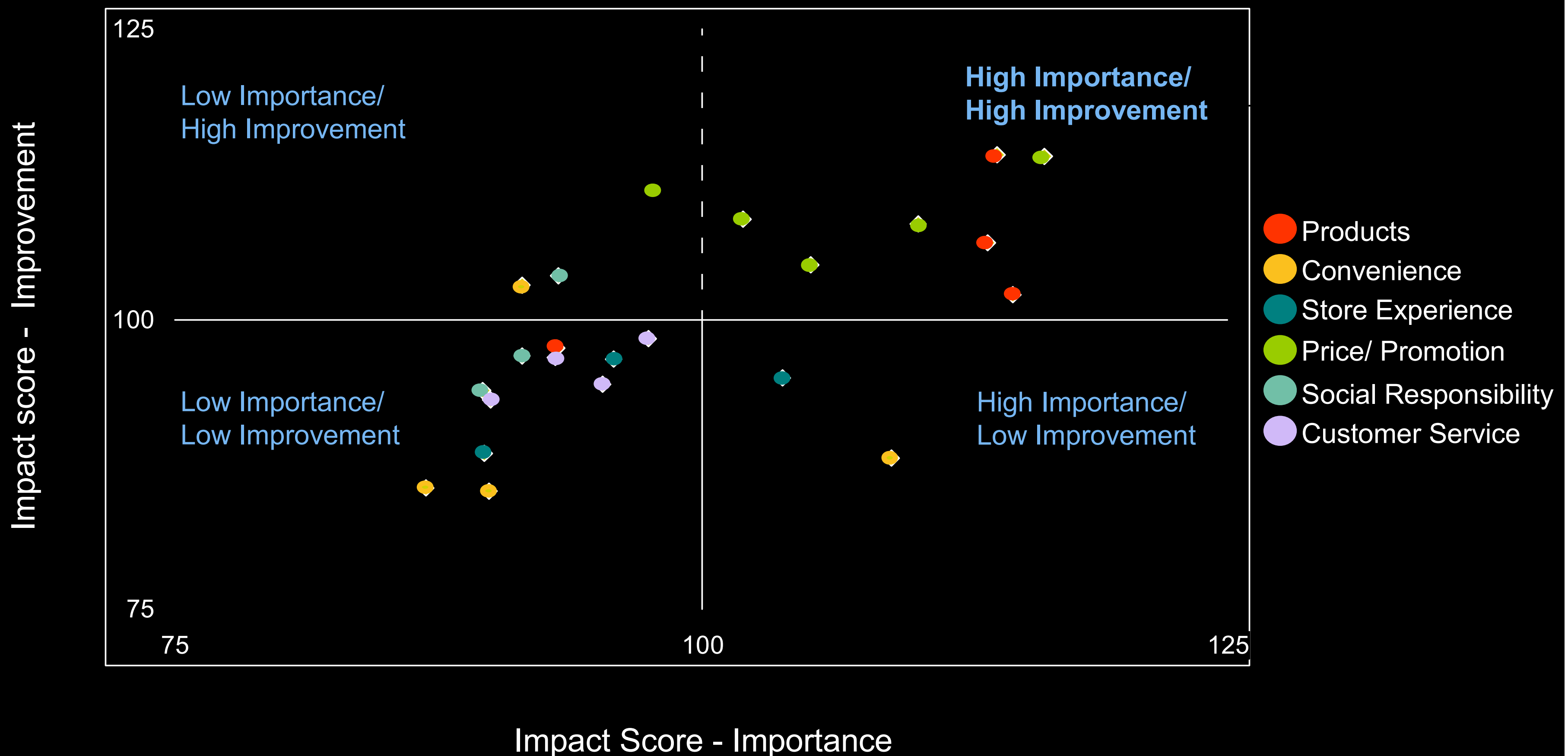
We analyzed the relationship between what consumers believe to be most important and what areas retailers need to make the most improvement

Products	▪ Offers a variety of products ▪ Consistently has products available ▪ Offers better quality products ▪ Provides product information such as where a product originates or product make up (caloric, allergens, materials used [organic])
Convenience	▪ Makes shopping easier by having tools you can use to check prices, locate products and self-checkout ▪ Has convenient hours, parking, location ▪ Allows me to shop in multiple ways (e.g. in store, online, via mobile phone) ▪ Provides services that make my life easier
Store Experience	▪ Provides a consistent experience in store, online or through a mobile phone ▪ Provides a pleasant and enjoyable atmosphere in which to shop ▪ Provides a store/ website layout that makes it easy to find things
Price/ Promotion	▪ Has everyday low prices ▪ Has great sales ▪ Offers me discounts specifically for the things that I buy ▪ Has a frequent shopper program with easily obtained rewards ▪ Offers me various options to provide me with greater value
Social Responsibility	▪ Contributes a percentage of what I spend to local causes (e.g. local schools, local charities) ▪ Works to minimally impact the environment ▪ Values its employees
Customer Service	▪ Has knowledgeable store employees ▪ Has store employees willing to help me in my shopping process ▪ Makes it easy for me to find help ▪ Has store employees that understand my preferences

Source: IBM Institute for Business Value Analysis, Retail 2010

Consumers' priorities point to Price & Promotion and Products as the areas that require the greatest focus

Intelligent Consumers' Priorities



Source: IBM Institute for Business Value Analysis, Retail 2010, n=5,508

Offering personalised discounts and having frequent shopper programs with easily obtained rewards are the top areas on which to focus

Category	Area	☆ Importance Score	☆ Improvement Score	Gap
Price / Promotion	Offers me discounts specifically for the things that I buy	113.58	125.85	-12.26
Price / Promotion	Has a frequent shopper program with easily obtained rewards	101.98	108.67	-6.69
Products	Consistently has product available	114.07	114.15	-0.09
Price / Promotion	Has great sales	105.22	104.70	0.53
Price / Promotion	Offers me various options to provide me with greater value	110.33	108.24	2.09
Price / Promotion	Has everyday low prices	116.27	114.06	2.21
Products	Offers better quality products	113.58	106.58	7.00

★ *Areas in which the **Improvement score and Importance score are both over 100** are the areas that retailers need to focus on first… consumers are saying that **these areas are very important to them AND they feel these same areas need the most improvement***

Once you have consumers' priorities covered, these additional areas are those that will set you apart from the rest

Category	Area	Importance Score	Improvement Score ★	Gap
Convenience	Makes shopping easier by having tools (e.g. check prices)	91.47	102.85	**-11.38**
Social Responsibility	Works to minimally impact the environment	93.22	103.74	**-10.52**

★ ***All Improvement scores are over 100*** *highlighting areas consumers said will differentiate a retailer*

Source: IBM Institute for Business Value Analysis, Retail 2010, n=5,508

‘Personalised discounts’ is the mantra for all generations except for generation Z in which is was a close second

Top 4 focus areas by age group

	Generation Z	Generation Y	Generation X	Generation Jones	Baby Boomers
1st focus area	‘Has frequent shopper program with easily obtainable awards’ (-12.13)	‘Offer personalised discounts’ (-11.71)	‘Offer personalised discounts’ (-11.53)	‘Offer personalised discounts’ (-12.42)	‘Offer personalised discounts’ (-12.52)
2nd focus area	‘Offer personalised discounts’ (-12.00)	‘Has easily obtainable shopper program awards’ (-9.36)	‘Has easily obtainable shopper program awards’ (-8.00)	‘Has easily obtainable shopper program awards’ (-5.46)	‘Has easily obtainable shopper program awards’ (-4.60)
3rd focus area	‘Offers me various options with better value’ (0.50)	‘Consistently have products available’ (2.89)	‘Consistently have products available’ (-0.32)	‘Consistently have products available’ (-0.72)	‘Have great sales’ (-1.42)
4th focus area	‘Have great sales/ Everyday Low price’ (1.23)	‘Offer various options to provide greater value’ (-3.11)	‘Have great sales’ (1.26)	‘Have great sales’ (0.45)	‘Consistently have products available’ (-1.09)

Source: IBM Institute for Business Value Analysis, Retail 2010, n=5,508

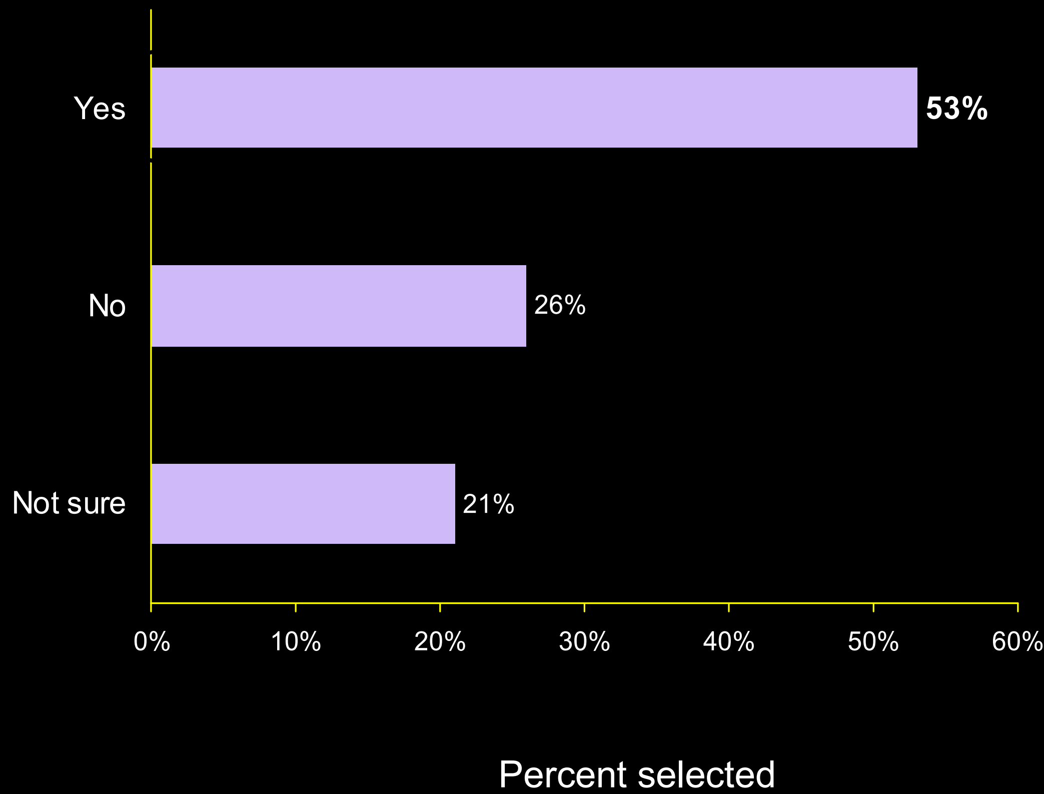
'Personalised discounts' is the top priority for all segments

Top 4 focus areas by segment

	Grocery & Convenience	Department Stores	Specialty Apparel	Discount Stores	Home Merchandise	Pharmacy & HBA
1st focus area	'Offer personalised discounts' (-11.59)	'Offer personalised discounts' (-13.47)	'Offer personalised discounts' (-12.28)	'Offer personalised discounts' (-10.40)	'Offer personalised discounts' (-10.53)	'Offer personalised discounts' (-12.94)
2nd focus area	'Have great sales' (-2.72)	'Has easily obtainable shopper program awards' (-9.62)	'Offer various options to provide greater value' (0.20)	"Consistently have products available' (1.16)	'Has easily obtainable shopper program awards' (-7.77)	Have great sales' (-1.79)
3rd focus area	'Consistently have products available' (-1.38)	'Has an everyday low price' (-5.18)	'Consistently have products available' (0.50)	'Offers better quality products' (4.05)	'Consistently have products available' (-0.24)	"Has an everyday low price' (-1.31)
4th focus area	'Has easily obtainable shopper program awards' (-1.09)	Offer various options to provide greater value' (-3.69)	'Has an everyday low price' (1.88)	'Have great sales' (5.74)	'Have great sales' (0.04)	'Offer various options to provide greater value' (0.54)

The good news is that consumers are ready to reward retailers who get it right

Likelihood to spend more with retailer if improvements are made



- **Each generation** had 50% or more of consumers state they would likely reward retailers for their improvements
  - The percentage is greatest for Generations X (63%) and Generation Y (61%)
- **By segment**, consumers shopping within Specialty Apparel (66%) and Home Merchandise (62%) are most likely to spend more with their retailer if improvements are made
  - The percentage is 50% or above for all segments

Source: IBM Institute for Business Value Analysis, Retail 2010, n=5508

Leverage smarter consumers to turn today's shoppers' market into a retailers' market … by being instrumented

Consumer trend	***Emerging reality for today's retailers***
Instrumented: Consumers want to shop with multiple technologies	**Embrace the channels and technologies that instrumented consumers want to use, specifically Generations X and Y**
Interconnected: Consumers are already networked	▪ Enable the consumers preferred channels with the desired features and functions ▪ Consider technology as a way to differentiate and meet the consumers demands and preferences
Intelligent: Consumers know what they want	Set your technology foundation to allow you to: ▪ Operationalize analytics and create personalised offers and experiences for the consumer ▪ Integrate fulfillment channels to reflect a unified shopping experience

Leverage smarter consumers to turn today's shoppers' market into a retailers' market … by being interconnected

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Leverage smarter consumers to turn today's shoppers' market into a retailers' market … by being intelligent

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Interconnected: Consumers are already networked	▪ Enable the consumers preferred channels with the desired features and functions ▪ Consider technology as a way to differentiate and meet the consumers demands and preferences
Intelligent: Consumers know what they want	**▪ Set your technology foundation to allow you to:** **▪ Operationalise analytics and create personalised offers and experiences for the consumer** **▪ Integrate fulfillment channels to reflect a unified shopping experience**


Thank You