

Navigating the New Digital Divide

Digital influence in Australian retail 2015

Deloitte.
Digital



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Executive summary

The influence of digital on in-store shopping, a dynamic Deloitte calls the 'digital influence factor', is radically changing how customers shop and make decisions in-store.

This is not news to Australian retailers, who have been engaging digitally with their customers for several years. However, as a new Deloitte Australia report shows, local retailers may be underestimating the power of digital influence on in-store shopping – and the speed with which this influence is growing.

Our research reveals that, rather than lagging the world in terms of consumer demand for digital engagement, Australia is as mature as other (better served) markets. Australian shoppers have a similar digital influence profile to those in the US and Canada – and are actually ahead of most European countries in terms of the impact of digital on the shopping journey.

Digital influence is now at the core of the in-store shopping experience. Our survey found that 40% of in-store visits are influenced by digital in Australia, compared with 27% in the UK. Also, when consumers use digital devices to research, find and compare products – before, during and after shopping in-store – it boosts both average conversion rates by 25% and order sizes by 21%.

At the same time, digital is both diluting the influence of traditional retail marketing on consumers and changing the role of in-store employees. Our research showed that most shoppers enter a store already aware of the product they want to buy through their own research of retailer and neutral information sources; almost half of them say they do not need service from a sales assistant.

We can expect this influence to grow rapidly, driven by a tech-savvy population in which frequent shoppers are the most digitally engaged retail consumers of all. If Australia follows the same trajectory as other geographies such as the US, digital could influence a majority of in-store sales in the next few years.

Previously, many traditional retailers considered 'online' to be a distinct sales channel requiring considerable investment and returning lower profit margins, whilst also potentially threatening in-store sales. This view drastically underestimates the potential value and return on investment of digital on in-store experience. Digital and traditional channels are blending and complementing each other along the end-to-end customer journey. Digital will be critical to the future of the store – not the cause of its demise.

40%

The digital influence on
in-store retail visits in Australia

With in-store sales accounting for 93% of total retail sales in Australia, the importance of digital influence should not be taken lightly.¹

Although almost a third of Australian retailers cite omni-channel as their number one strategic priority,² we believe these findings should be a wake-up call for retailers. They indicate a new 'digital divide' caused by the sector underestimating the consumer appetite for digital across their shopping journey.

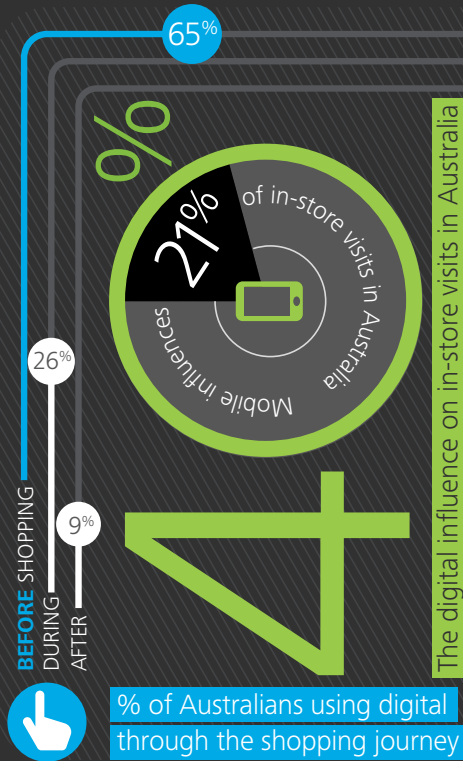
To adapt to this new reality, Australian retailers may need to:

- **Reimagine customer engagement** – to offer a relevant and personalised experience throughout the customer journey through a deep understanding of customer preferences and shopping behaviours
- **Reset pricing strategy** – to allow greater speed and flexibility in setting and changing prices to attract customers and maintain margins

- **Rethink supply chain** – to expand ranges without the associated cost, improve delivery convenience to customers and create cost efficiencies in the value chain
- **Recalibrate the role of the store** – to blend the physical and digital experience more seamlessly and reconsider the purpose of the store in the shopping journey
- **Reinvent the role of employees** – to bridge the current digital gap in the in-store experience.

Those affected should act without delay. A towering wave of digital influence is about to roll in, leaving many traditional retail outlets floundering in its wake.

The Digital Divide



The digital influence on in-store visits in Australia

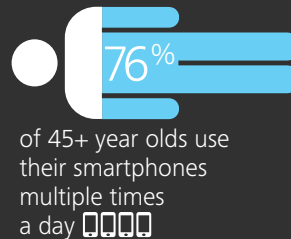
Developed country digital influence



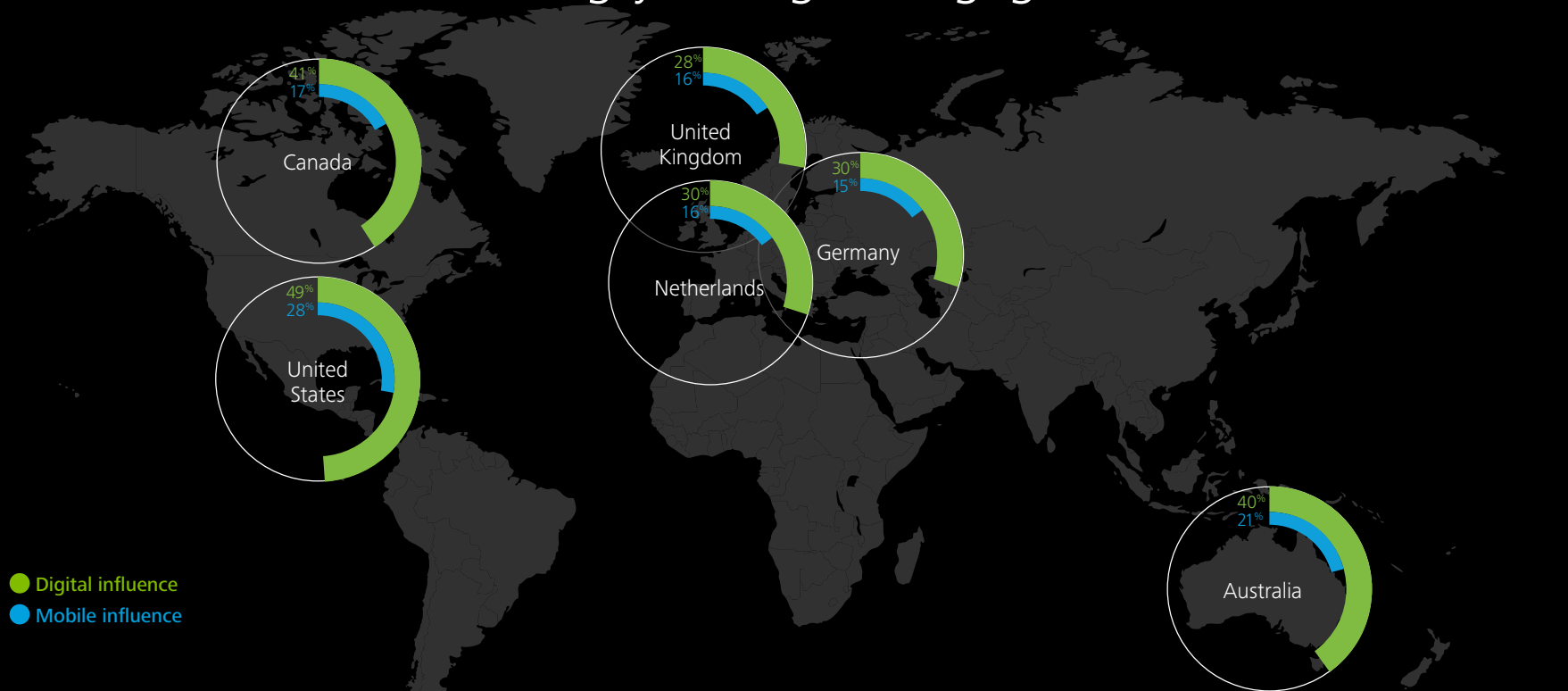
social media users are 26% more likely to purchase a product than non-social media users



Digital influencing all generations



Australian consumers hungry for digital engagement



Australian consumers have one of the highest appetites for digital engagement in the developed world.

In terms of digital influence, they come in third only to US and Canadian shoppers – and much higher than those in the UK where, despite a relative lack of digital influence, online retail sales are already up to 12.5% and growing.³

Historically, local retail sales have not gone online in Australia as quickly as in other markets. In part, this is because they did not need to. Australia has some particular characteristics that make the

market unique – geography, weather, labour costs, margin erosion by increased distribution costs, population densities and existing real estate. This makes serving the Australian consumer complex and unique.

But digital is not just a channel. Pervading every aspect of consumers' lives, it is fast becoming an integral part of every element of the in-store shopping experience.

Australian culture drives digital appetite

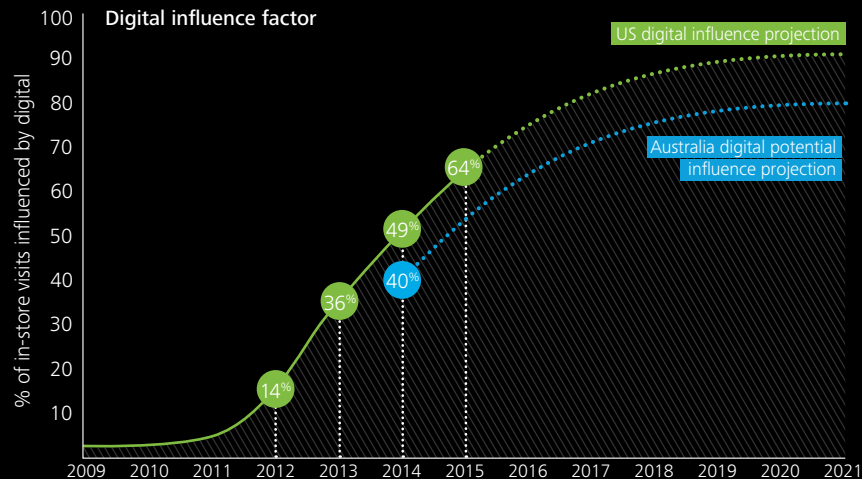
The local influence of digital stems from Australia's unique geo-demographic profile. Isolated by distance, Australia's multicultural population has always had a culture of looking outward. Pre-digital, this manifested in global gap year travel and a willingness to pay a premium for overseas brands. In the digital age, it has encouraged high internet penetration and early adoption of digital devices and social media. The drawcard of talking to, collaborating with and buying from the rest of the world has trained the population to be tech-savvy across the generations.

This – and a cultural disregard for protocol – is why Australians led the way in breaking out of the geo-location box. Determined to access ring-fenced products and content, local consumers took up freight forwarding and found ways to acquire overseas credit cards. Now more global retailers are selling direct, this practice is less common – but it remains an important reminder of the backlash waiting for any brand that short-changes local consumers on the basis of geography.

Digital influence climbing rapidly

In 2014, digital influenced 40% of in-store visits in Australia. Assuming digital influence grows in line with the US trends – where digital influence has multiplied by four times over the last three years – digital influence could impact a majority of retail in-store visits in Australia within the next few years. Digital will soon be the deciding success factor for retail in store.

In the digital age, Australia's geographic isolation and multicultural population has encouraged high internet penetration and early adoption of digital devices and social media.



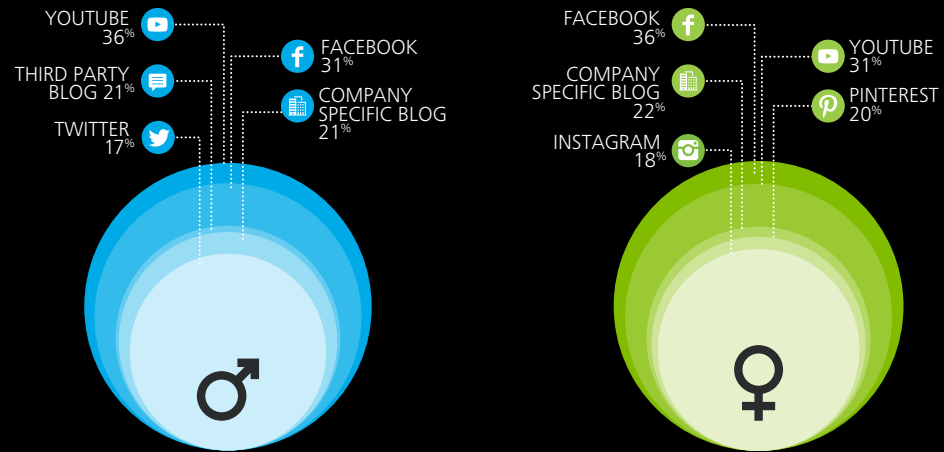
Mobile and social merge

Mobile influence is surging dramatically driven by high rates of smart phone penetration and social media adoption. Australia is the sixth most concentrated smartphone market in the world after Singapore, South Korea, Norway, Spain and Sweden.⁴ More than half the population updates or checks social media between one and 20+ times a day – up 170% since last year.⁵ Facebook, Australia's largest social network, receives around 13 million unique local visitors to the site per month – about 57% of the total population.⁶

The growth of social media access on mobile is changing the shopping experience, as it offers users the ability to connect with context. Increasingly, digitally influenced shoppers are tagging locations and sharing images and experiences. They are also seeking for inspiration or advice from friends or neutral sources of information, at any point in time in their journey. YouTube and Facebook are cited as the most influential platforms across genders.

Retailers should look for ways to engage and 'influence the influencers', as our survey found that those influenced by social media are 26% more likely to purchase a product than non-social media users.

The most influential social media platforms in Australia: the percentage of respondents that acknowledged that each social media site is influential when making a purchasing decision



Social media users are **26%** more likely to purchase a product than non-social media users

How and why are Australian shoppers using digital?

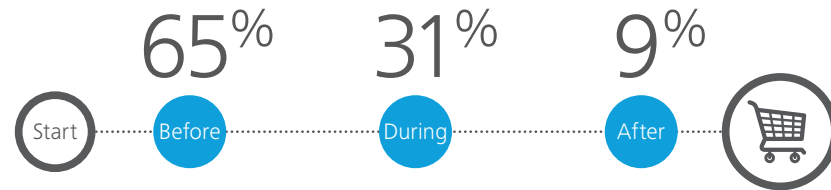
Digital at the core of the shopping journey.

Two-thirds of digitally-influenced shoppers use a digital device before and nearly a third during their shopping trip.

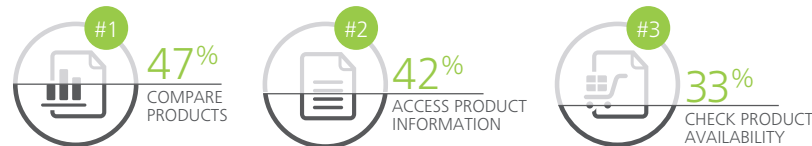
One of the main reasons why all generations use digital, from Millennials to Boomers, is because it makes their shopping experience easier and more convenient.

In fact, 76% of Australians over 45 use their smartphone multiple times a day. Even in the 55 to 70-year-old age category, one in five use digital devices when shopping. Older generations are more likely to search for products and product information on a retailer's web site. Whereas, younger generations (18–34) are more likely to conduct broader research using search engines. And the influence doesn't stop at the store, as we see digitally influenced shoppers going to the store to see and experience the products, then making their purchase at home on their digital device.

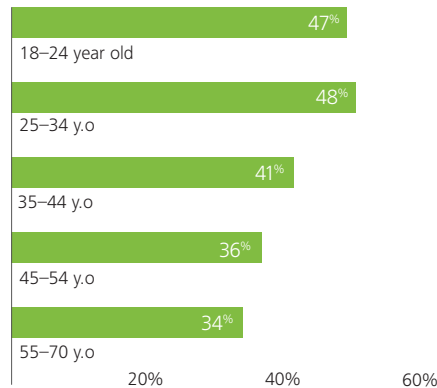
Percentage of Australians using digital along their shopping trip



Australian shoppers' top digital activities during their shopping trip



Proportion of age groups who think digital makes shopping 'easier'



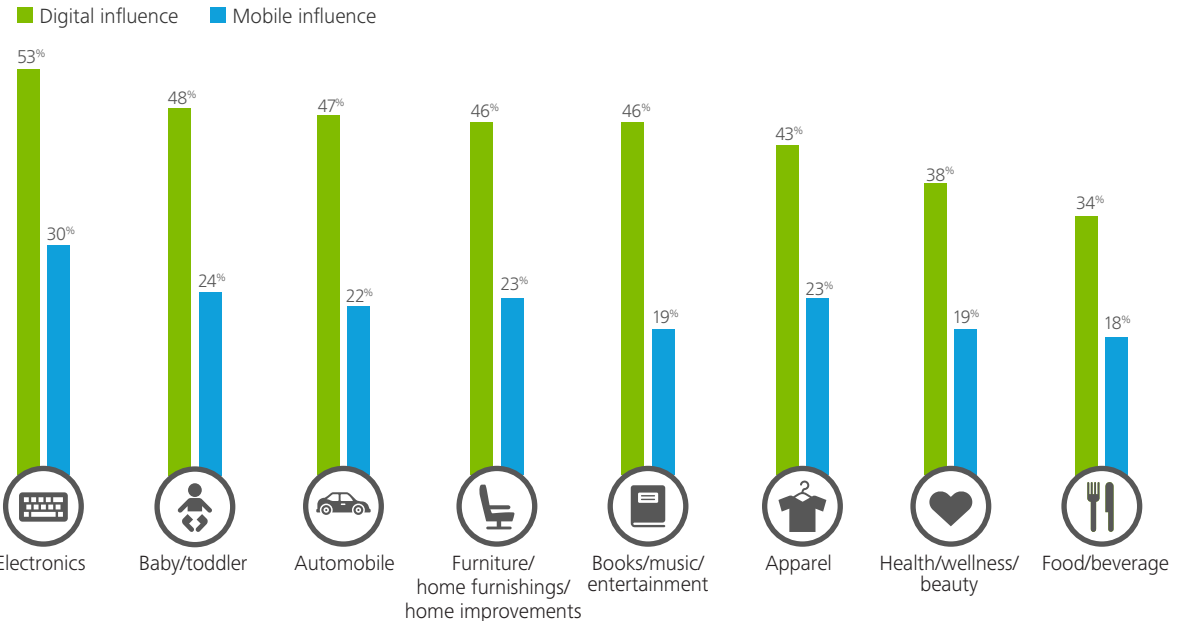
Impact by category

Digital influence spreads across all categories. None is immune, but some are seeing a bigger impact than others.

Electronics, automotive, books/music, furniture and baby/toddler are the categories which are the most influenced by digital.

Australian shoppers want to be active and in control when it comes to using digital during their shopping journey. They cited the ability to quickly search and access product information, and the ability to compare product prices, as their primary objectives, across all product categories. Consumers were less interested in the ability to choose from targeted and personalised products or the ability to view instructional videos.

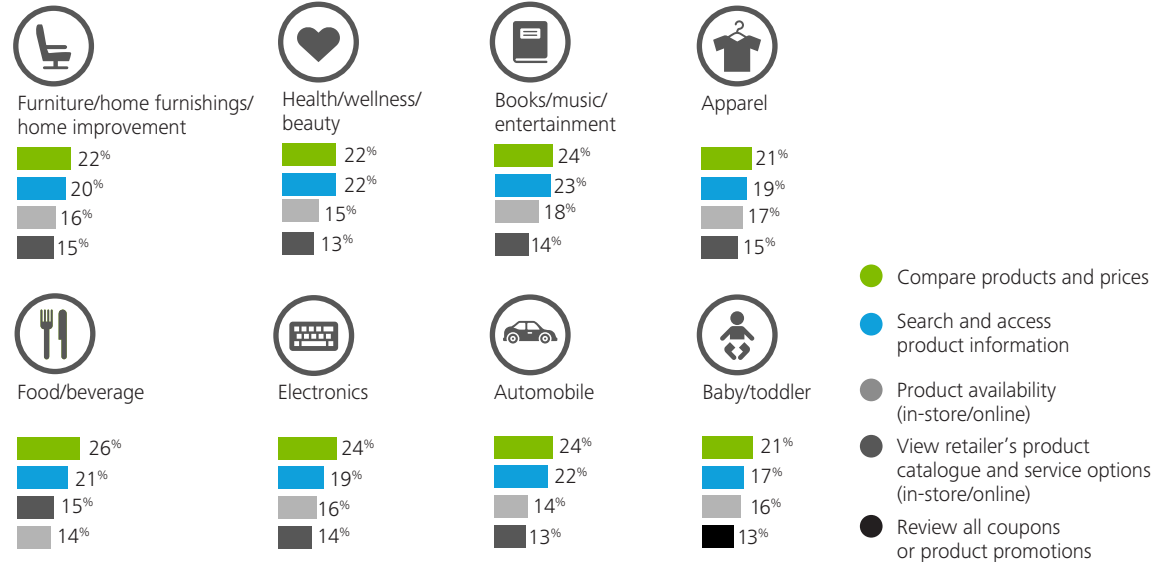
Digital and mobile influence by category



Nuances across categories

- **Electronics** retailers can expect high levels of global research and comparison, with consumers expecting the same price points/range as they can find globally.
- **Automotive** customers use digital throughout the buying process, not only to compare prices but to consult user reviews and choose a dealership.⁷
- We believe **furniture** retailers may be particularly vulnerable given Deloitte's Christmas 2014 survey found those furniture/homeware retailers who were surveyed were not focusing on omni-channel as a strategic priority.⁸ Two-thirds said their strategic focus was on efficiency and a third on organic growth.
- Categories where consumers believe digital has somewhat less of an influence are **food/beverages** and **health** where personal advice or touch and feel are part of the sales process. That said, Australians are already getting around the touch/feel/try issue by researching in-store but buying online.

Preferred usage of digital per category



Impact on purchasing decisions

The moments that matter for the shopper spread across the shopping trip, and it starts well ahead of the visit in store.

Shoppers have strong preferences for finding information by themselves from any sources. Those most influenced by digital will spend more – but retailers will have to work harder to reach them.

The moment of truth for product selection and purchase quite often happens before shoppers enter a store, influenced by digital and social media.

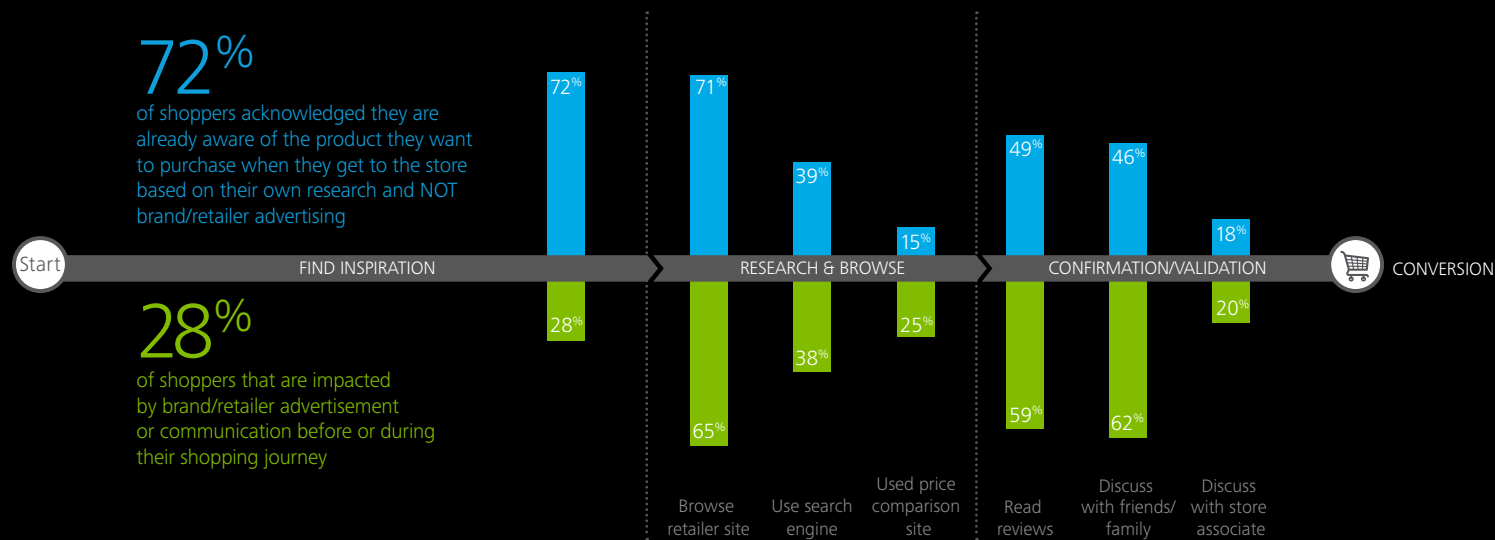
For example, 72% of consumers arrive in-store already aware of the product they want to purchase. This contrasts with only 28% still influenced by brand/retailer advertisements or communications.

When it comes to validating their purchase, consumers trust neutral sources of information over retail advertisements. Reviews are their preferred

method, with discussions with family and friends coming a close second.

However, this is not necessarily bad news for retailers. Those influenced by social media are 26% more likely to purchase a product than non-social media users. Consumers using a digital device spend more in-store: of those already aware of a product, 69% who bought it also purchased other items.

The moments of truth along the shopping journey



Impact on retailers' KPIs

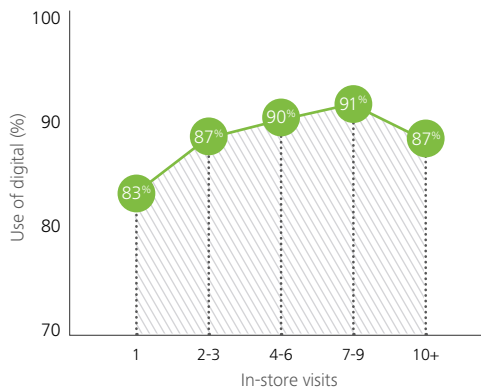
Simply measuring online channel sales misses the bigger picture, as digital has a much broader influence on retailers' success measures.

Most retailers are still tracking digital sales only to measure the impact of digital, which is a lagging indicator. Retailers need to consider the entire shopping journey, identify the 'moments of truth' that matter to the shopper – especially in the early steps of the process to get inspiration and research products – and focus on them.

In-store visits

Loyal customers are those most likely to be digitally engaged, busting the myth that Australians either buy online or in-store. In fact, the most frequent in-store visitors are the ones using digital most to support their trip.

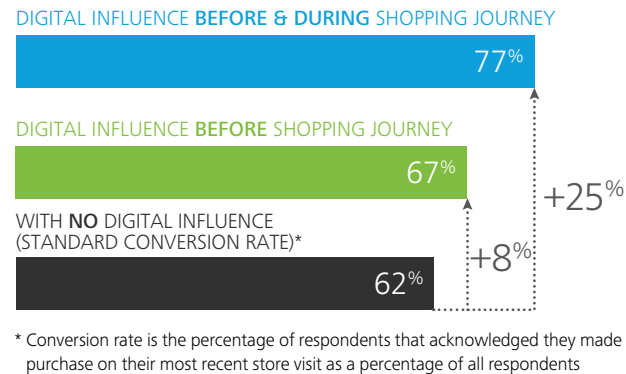
Percentage of shoppers using digital before or during shopping trips split by their average store visits



Conversion

Digital has a direct impact on the in-store conversion rate. On average, retailers gain a conversion lift of 25% when digital devices are used before and during the shopping trip.

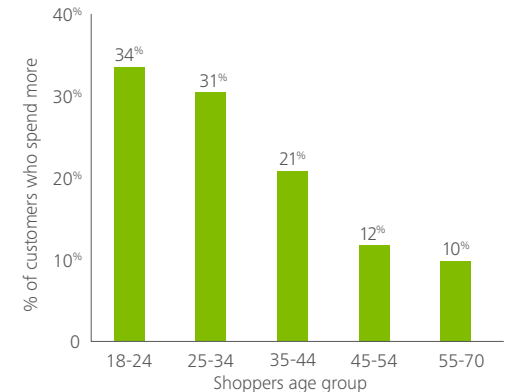
In-store conversion uplift between non-digitally influenced and digitally influenced shoppers



Order size

Digital also impacts the level of spend as shoppers, across all age groups. On average, 21% of shoppers think that digital increases their order size, as they receive personalised offers or additional product suggestions.

Percentage of shoppers who acknowledged they spend more due to digital



Implications for retailers

In a fast evolving landscape, digital has fundamentally changed the retail business. Retailers need to think beyond the traditional channel lens to drive their strategy and investments.

Retailers that have underestimated the influence of digital on in-store shopping may need to:

Reimagine the customer experience

To cut through the blizzard of external influences, retailers will have to fight harder to engage with their customers in a relevant and personalised way. Traditional push marketing tools and campaigns are no longer sufficient to influence the digitally enabled shopper.

Successful retailers use a customer-centric approach to understand shopping behaviours and preferences across channels. Retailers now have access to a large range of powerful and flexible technologies to derive insights from customer data and offer a blended physical and digital customer experience.

However, using a customer-centric approach goes far beyond the narrow focus on sales and service channels. It has multiple implications throughout the organisation, from front-line marketing and sales all the way to operations and technology platforms. It also helps retailers to overcome traditional organisational and cultural challenge by making data-driven investment decisions.

If retailers cannot articulate precise and compelling reasons to engage, stores might lose influence in favour of an online presence. In 2014 in the UK, six years after the 2008 collapse of Woolworths was followed by a series of dramatic retail failures, some 44,000 shops still stood vacant, with vacancy rates at 18% in greater London.⁹

Reset pricing strategy

The weaker Australian dollar means the global/local price differences that have plagued Australian retailers could be less of an issue in the next few years. However, this does not mean that current pricing strategies are appropriate.

Some local retailers have yet to adapt to the reality that pricing no longer has to be based on stock keeping units. The ability to search for and incorporate additional data into the pricing equation, means pricing strategies can adapt in response to location, weather, the time of day – or what a competitor's web site says it has in stock. Used in this way, digital will give local retailers greater speed and flexibility in setting and changing prices to attract customers, beat the competition and maintain margins.

Rethink the supply chain

Now that Australians are shopping in an endless aisle, some retailers will need to reconsider store quantum, location and range. For many, the answer will be to support in-store ranges with digital access to a much broader inventory. Already, national brands are giving smaller stores the range of flagship outlets by making internal online catalogues available to customers on apps and iPads.

This is a complex challenge for Australian retailers. To be able to offer click and collect to product level accuracy requires inventory management, logistics and supply chain systems and processes capable of presenting accurate information in real time. In other markets, click and collect has boomed and increases around peak seasons.

However, legacy IT systems operating in an overnight batch manner put a big obstacle in the way. The problem then is two-fold: to re-engineer and re-platform legacy systems is expensive and complex, yet essential to allow for greater click and collect accuracy; to create home delivery solutions requires costly last-mile delivery solutions which erodes margin. Either way, the answer is costly.

Add to that the trend for free or discounted returns for goods that don't exactly meet customer needs and the supply chain is now a key battleground.

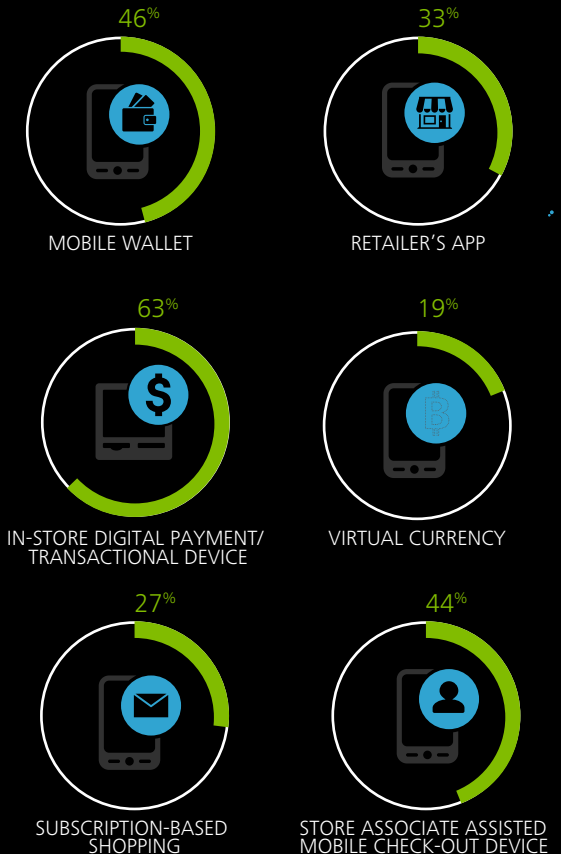
Recalibrate the role of the store

The role of the store is not dead. With 'going to the mall' ingrained in Australian culture, retail outlets have the potential to continue to exert power over purchasing decisions. But their influence will only hold if stores evolve to fit their purpose in the customer's increasingly digital shopping journey. In future, we expect physical and digital will blend more and more, with the purpose, size and shape of the store all changing dramatically.

Traditional checkout will disappear as new mobile payment options become mainstream, enabled by regulatory changes. 46% of Australians are already interested in mobile wallet payments in the form of mobile payment apps, which will follow the popularity of mobile banking apps. 44% say they are interested in using mobile checkout devices assisted by store assistants for payments in the future. Around a third also express an interest in paying using a retailer's app.

The banking sector in Australia is already working to integrate loyalty and touchless payment solutions. These will offer Australian retailers an enhanced payment solution with the added benefit of customer demographics and spending patterns.

Would you be interested in using the following to make a payment in the future?



52%

of Australian consumers spend more when they use 'click and collect' service

Click and collect will become business as usual, with 52% of Australian consumers who use this option saying they spend more when paying this way. Initially, retailers may extend hours at either end of the day to support click and collect. But it will soon become more sophisticated. Already we have seen different collection options appear to serve the Australian customer – from stand-alone lockers to branded and staffed shop units where numerous pure play online and multichannel retailers can be collected and returned. In the UK, branded pop-up stores at travel hubs allow customers to try on the clothes they have ordered at the collection point.

Social media will be brought in-store – not just as a token gesture but central to the physical shopping experience. Already, viral campaigns are being embedded with discount codes that are only good in-store. US retailers with large Pinterest followings are displaying 'top pinned' items with the distinctive red logo. During New York Fashion Week, pop-up stores emerged in Manhattan to showcase new lines, but no money was exchanged. Instead, customers were directed to post a tweet or share a photo on Instagram in return for free gifts. Social media also has the potential to play an increasing role in customer surveys and satisfaction.

Retailers with a social media presence can also gain valuable customer insights, efficiently and in real time, by tapping into virtual focus groups.

Beacons will enhance bill boards – with Bluetooth Low Energy (BLE) transmitters allowing retailers to project personalised adverts and offers onto a consumer's phone when they are in the vicinity of the store. In the US, Macy's, an early adopter of Proximity Marketing, announced in September 2014 that it will be rolling out BLE technology to all of its stores after a successful pilot.

Increasingly, the physical/digital blend will be enabled by **immersive technology**. Currently, augmented reality (AR) dressing rooms allow customers to try on clothes easily and quickly. Make-up mirrors show new cosmetics applied to a photo of a customer's face. AR catalogues let shoppers see pieces of furniture in place at home, with an app that measures the size of the products against the surrounding room and fixtures. Cosmetic companies are already embedding AR into apps for make-up, allowing customers to trial colours, shortlist product and share with their social contacts. Winners will take AR to new levels, drawing in new customers.

Reinvent the in-store employee experience

With the majority of digitally influenced shoppers arriving in-store armed with product information and shoppers expecting different services from sales assistants, the role of retail employees is changing. At the very least, retailers need to invest in making sure employees know as much about the product as the customer does, including availability and price comparisons. Sales assistants need to be digitally savvy and equipped with digital devices to assist with real-time, national inventory checks and answer other product questions.

Beyond this, retailers need to evolve the role of employees to play a more significant part in customer engagement. In banking, branch employees have been given digital tools that offer analytical insights about 'next best conversations' or provide a graphical analysis of financial health checks. Retail employees will need to undergo a similar metamorphosis.

Retailers are already evolving the role of in-store employees. For example:

- Incentive structures based on store sales have been recalibrated to include online sales for catchment areas
- Product knowledge at the employee's fingertips, together with product locators, reduce the reliance on long-term permanent employees by allowing casual and newer staff to have the same knowledge
- Knowledge at the fingertips can increase the flexibility of employees to work across a number of stores, allowing retailers to optimise the cost of labour
- Employees themselves can act as a crowd from which to source expertise using internal collaboration networks to 'ask an expert'
- Training lead times can reduce with formal training augmented by reference material surfaced on mobile devices.

In a dynamic and ever-changing environment, investing in developing the workforce will be key to evolve, respond to the digital challenge and harness its benefits.

Appendix

Survey methodology

The survey was commissioned by Deloitte and conducted online by an independent research company January 29 – February 6, 2015.

The survey polled a national sample of 2,001 random consumers. Data was collected and weighted to be representative of the Australia Census for gender, age, and geographic region (state/territory).

A 90% confidence level was used to test for significance.

Below are the margins of error for specific sample sets in this study:

- National random sample – 90% confidence, margin of error 2-3% (+/-)
- Device owners – 90% confidence, margin of error 2-3% (+/-)
- Smartphone owners – 90% confidence, margin of error 2-3% (+/-)
- Tablet owners – 90% confidence, margin of error 3-4% (+/-)

Additionally, a sub-set of consumers were randomly assigned to provide information about how they use a digital device to shop for up two different product sub-categories (such as shoes or books and music).

Sample sizes ranged from 139 to 142– 90% confidence, margin of error 7-8% (+/-). Specific digital behavior data represents consumers who use digital devices to shop.

Digital influence projection

The digital influence factor was calculated using a proprietary methodology to arrive at the percentage of digitally influenced conversions. Traffic for each store type was modeled statistically, then segmented into trips where digital devices were used either before the trip, during the trip, both before and during the trip, or not at all. Segment specific conversion rates were applied to arrive at digitally-influenced conversions.

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9. *The changing face of retail. Where did all the shops go?* Deloitte, 2014

Appendix

Glossary

Digital: Any digital device or touch point, including: desktop computers, laptop computers or netbooks, tablets, smartphones, wearable devices, in-store devices (i.e. kiosk, mobile payment device)

Mobile: Any web-enabled mobile device, including: smartphones, wearable devices (e.g. Apple Watch)

Social media: Any usage or access of a social media site or app (e.g. Facebook, Instagram, Twitter, Pinterest), regardless of the digital device used to access/view

Digital Influence Factor: The percentage of in-store retail visits influenced by the shopper's use of any digital devices and touchpoints, including: desktop computers, laptops, netbooks, tablets, smartphones, wearable devices and in-store devices (i.e., kiosk, mobile payment device)

Mobile Influence Factor: The percentage of in-store retail visits influenced by the shopper's use of a smartphone

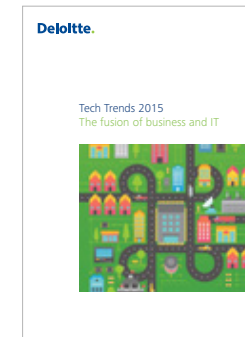
New Digital Divide: The gap between consumers' digital behaviors and expectations and retailers' ability to deliver the desired digital experiences across channels

Conversion: The proportion of people that acknowledged purchasing on a shopping trip

Related materials



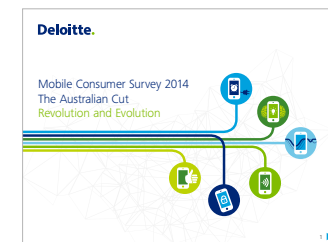
Digital Enterprise Framework



Tech Trends 2015



The Retail Review 2014



Mobile Consumer Survey 2014



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