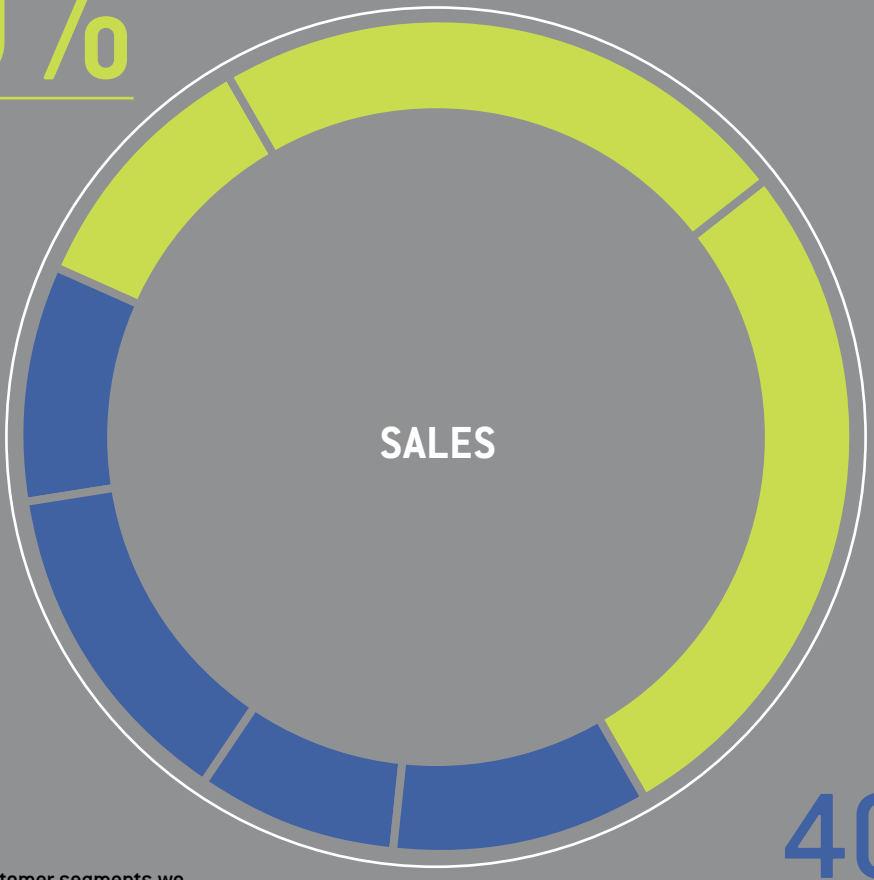
think:act STUDY

In-depth knowledge for decision makers

60%

OFFLINE



40%

MULTICHANNEL

Four of the seven customer segments we identified engage in multichannel shopping. Yet offline customers still dominate the market.

WHAT THE CUSTOMER REALLY WANTS

The truth about shopping in a multichannel world – Opportunities for retailers and manufacturers.

Amazon is Shopping for you.
Staff put together customers' orders with the help of computers.

WHAT THE CUSTOMER REALLY WANTS

The truth about shopping in a multichannel world – Opportunities for retailers and manufacturers.

A study by Roland Berger Strategy Consultants and ECE

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INTRODUCTION

THE DEBATE ABOUT ONLINE AND TRADITIONAL OFFLINE RETAIL HAS GROWN STALE. HIGH TIME TO THROW A FEW FRESH INSIGHTS INTO THE MIX .

The debate about competition between online and traditional offline retail has been dragging on for a long time now. The same arguments are traded back and forth again and again. The whole subject would be rather boring – if it were not, for many companies, a question of life or death. But for all the tiresome discussions, few tenable conclusions have been reached as regards the future. It is therefore high time to throw a few fresh insights into the mix: First and foremost, competition within and between sales channels ought to result in better offerings for the consumer. It also opens up a whole host of opportunities for retailers and manufacturers, both online and offline.

According to most voices in the debate, incumbent retail groups must enter the digital world or their demise is only a matter of time. However much they try to serve customers in their stores, analog alone is not enough. It doesn't make any difference how much they invest offline – whether it be in building exciting retail landscapes, creating emotional worlds or training their sales staff. None of that means anything to digital natives, goes the argument. Don't expect tomorrow's customers to drive into town or visit a shopping mall when they can shop using their smartphones instead. Thanks to sophisticated apps, they know exactly how prices are developing, and all the details of the products on offer.

This is the picture widely presented by the media. Even the French, who love their department stores, are sounding the death knell. At the beginning of 2013, Libération penned a requiem for traditional retailers: "The big companies on the Internet, who only have warehouses, robots and a few employees to manage, will sweep away our traditional department stores."[1] But is it really that simple? Is the picture really that one-dimensional – or are the platitudes just a reflection of certain deeply ingrained prejudices?

A number of examples suggest that there must be something wrong with the picture. With its iPads and iPhones, Apple is one of the strongest brands in the Internet industry. Yet it is clearly prepared to splash out on elaborate flagship stores in prime locations. Even home appliance manufacturer Vorwerk, famous for selling in the customer's front room, now also has a presence in selected stores. Why? Clearly, brick-and-mortar retail has certain strengths that top companies are either unwilling or unable to do without. So where has the debate gone wrong?

Countless conferences and studies have tackled this issue. They all agree that "click and mortar" – combining online and offline – seems to be the way forward for retailers. Everyone must master the art of multichannel retail. When it comes to the implications for management, however, the debate often devolves into anecdotal evidence and supposed common sense, rather than arguments rooted in fact. Clear answers to the central questions in the discussion are rather hard to come by.

Ultimately, the core questions are these: What do consumers really do? How do they navigate the online and offline worlds? Is multi-channel retail merely an academic concept, or is it a reality for customers? And above all: What can retailers and manufacturers learn from the answers to these questions?

These questions were investigated by ECE (the market leader in downtown shopping malls in Europe) and Roland Berger Strategy Consultants, in collaboration with the Otto Group and Union Investment. This report is the result. In it, our aim has been to give a voice to the people who will ultimately determine the form that retail takes in the future: the consumers.

[1] **FAZ (2013)**

OUR STUDY

OVER 40,000 PEOPLE ACROSS THE LENGTH AND BREADTH OF GERMANY LET US LOOK DEEP INTO THEIR SHOPPING BAGS.

This study provides a comprehensive overview of consumers' current purchasing behavior in online and offline sales channels. The geographical focus is on Germany.

In 64 shopping malls across Germany, we interviewed around 42,000 consumers about their shopping habits. We wanted to know what they buy online and what they buy offline. We also wanted to know why. What do they expect of retailers? And do the criteria they apply vary depending on the product group? Combining the results with socioeconomic parameters and data on consumers' personal values, our investigation delivered a very granular picture of retail customers.

In addition, nearly 2,000 respondents kept a personal diary of their shopping activities in November 2012, recording exactly how much they spent, when, on what product groups and via which sales channels. This panel of respondents took us on a veritable multichannel journey through their information-gathering and purchasing behavior. In total, they documented spending of roughly EUR 2 million spread across 84,000 transactions.

We then discussed shoppers' motives and preferences in a number of focus groups. We also looked at over 50 studies of multichannel retail to compare and validate our findings.

Surveying customers in actual shopping situations had the tremendous advantage of providing authentic, reliable responses. However, the results may be slightly biased toward offline retail. Nevertheless, we believe that the large number of respondents makes the findings relevant for all manufacturers and retailers.

The shopping malls in which we carried out the surveys were all in downtown locations. More than four out of five consumers use other retail facilities, too. Accordingly, the consumers we talked to in our survey are generally representative of brick-and-mortar retail customers in inner cities. The latest study conducted by IfD Allensbach (the ACTA Study 2012) also found that only 8% of consumers make more than 20 purchases a year on the Internet. At the present time, it follows that the percentage of consumers who only buy online and never set foot in a brick-and-mortar store is negligible.

53

META-ANALYSIS
Analysis of a total of 53 studies on the subject of multichannel retailing

41.718

MALL SURVEY
We conducted surveys in 64 shopping malls all over Germany. A total of 41,178 respondents participated – between 389 and 976 per mall (November 7 10, 2012)

1.872

SHOPPING DIARIES
1,872 respondents, 84,233 transactions and documented spending of roughly EUR 2 million (November 1-30, 2012)

7

FOCUS GROUPS
7 focus groups with 51 participants in all investigated consumers' motives and preferences in offline and online shopping

F1

Many sources, one outcome: For the purposes of our study, we conducted an extensive meta-analysis, questioned more than 40,000 respondents, asked nearly 2,000 of them to keep shopping diaries and held 7 focus groups.

Splitting our study into four parts – meta-analysis, focus groups, large-scale survey and shopping diaries – enabled us to cover the entire market, consumer preferences and detailed transactions in a single study. To our knowledge, no other study has yet painted a picture of the situation that is so rich in detail and so strongly based on facts.

Our analysis focused in particular on examining certain dogmas that are all too often treated as facts in the current debate:

Dogma 1: Sooner or later, large swathes of brick-and-mortar retail will be replaced by online.

Dogma 2: Online, price is the only thing that matters. Offline, personal assistance is the decisive factor.

Dogma 3: Offline retail is degenerating into a showroom for online retailers. Customers these days only go into stores to have a good look at the products and find out about them. The actual buying takes place online. In-store sales are doomed to collapse.

Dogma 4: Young people have already been lost for brick-and-mortar retail. Digital natives grow up with the Internet and are constantly online through social networks such as Facebook. Inevitably, they do most of their buying online and will continue to do so in the future.

Dogma 5: Multichannel retail will make everybody happy. "Click and mortar" is the only real way for traditional retailers to survive in the future.

F2

Customer Typologies in the Multichannel World

Our seven customer segments vary significantly in terms of their shopping behavior and demographic data.

Our study clearly showed that discussions about the future development of retailing must take a much more granular and discerning approach in the future. Some dogmas are too one-dimensional. Others are actually completely misleading. One important reason is that consumers' needs are not homogenous. On the contrary, customers vary greatly in terms of what they expect of the online, offline and combined retail worlds.

The shopper segments we identified prove the point: Based on information such as frequency of offline and online purchases, household income and basic values, tried-and-trusted statistical methods enabled us to distinguish between seven consumer segments. Shopping behavior and the underlying motivation for this behavior vary significantly across these segments.

Important differences in shopping behavior become apparent even at a high level. Of the seven customer segments identified, three make purchases almost exclusively offline, while four regularly buy products both in offline retail outlets and on the Internet. Overall, the segments showing an affinity for offline retail account for around 64% of respondents and 60% of sales. This is clearly the larger and economically more influential of the two groups.

Six simple questions were enough to assign each customer to one of the segments with an accuracy of approximately 75%.

- **1. How often do you buy things on the Internet?**
- **2. How often do you buy things in regular stores?**
- **3. How old are you?**
- **4. How many minutes does it take you to drive downtown?**
- **5. Given your normal day-to-day schedule, are the opening times of regular stores a problem for you?**
- **6. What is your household income?**

MAINSTREAM OFFLINE SHOPPERS

Surf the Net liberally every day, but only exceptionally buy things online. They prefer to go shopping in regular stores with friends, attach great importance to having a fun experience and are careful with their money.

Household size: 3.1 · Average HHI: EUR 2,219 · Average age: 28.4
Share of sales: 23% · Segment size: 25%

TRADITIONAL SENIOR SHOPPERS

Service-oriented pensioners who like to spend time shopping, almost exclusively in brick-and-mortar outlets.

Household size: 1.9 · Average HHI: EUR 1,957 · Average age: 64.1
Share of sales: 27% · Segment size: 28%

SIMPLISTIC SHOPPING MINIMALISTS

Minimalists who don't like going shopping. This group wants shopping to be as easy and stress-free as possible, and is looking for attractive overall prices.

Household size: 2.5 · Average HHI: EUR 2,427 · Average age: 46
Share of sales: 10% · Segment size: 11%

FUN-SEEKING MULTICHANNEL NATIVES

Mostly school kids and college students who spend a lot of time on the Internet every day and who also like to hang out in malls. This group makes frequent purchases via both channels, when they have the money.

Household size: 2.6 · Average HHI: EUR 1,242 · Average age: 24.5
Share of sales: 8% · Segment size: 9%

WELL-OFF SHOPPING ENTHUSIASTS

A financially stable segment with the highest household incomes. Enthusiasts willingly and frequently go shopping both offline and online. They expect high quality and are less concerned about price.

Household size: 2.9 · Average HHI: EUR 3,510 · Average age: 45.6
Share of sales: 13% · Segment size: 10%

EFFICIENT MULTICHANNEL SHOPPERS

Make frequent use of the Internet for shopping because store opening times are difficult to squeeze into their hectic schedules. However, they also go shopping in regular stores, depending on what is fastest and most convenient.

Household size: 2.9 · Average HHI: EUR 3,009 · Average age: 32.6
Share of sales: 10% · Segment size: 9%

NON-URBAN SHOPPING PRAGMATISTS

Have to travel long distances to get to malls or other brick-and-mortar retail facilities. Planned purchases are made online. If they do happen to find themselves in regular stores when out and about, they are given to liberal spontaneous buying.

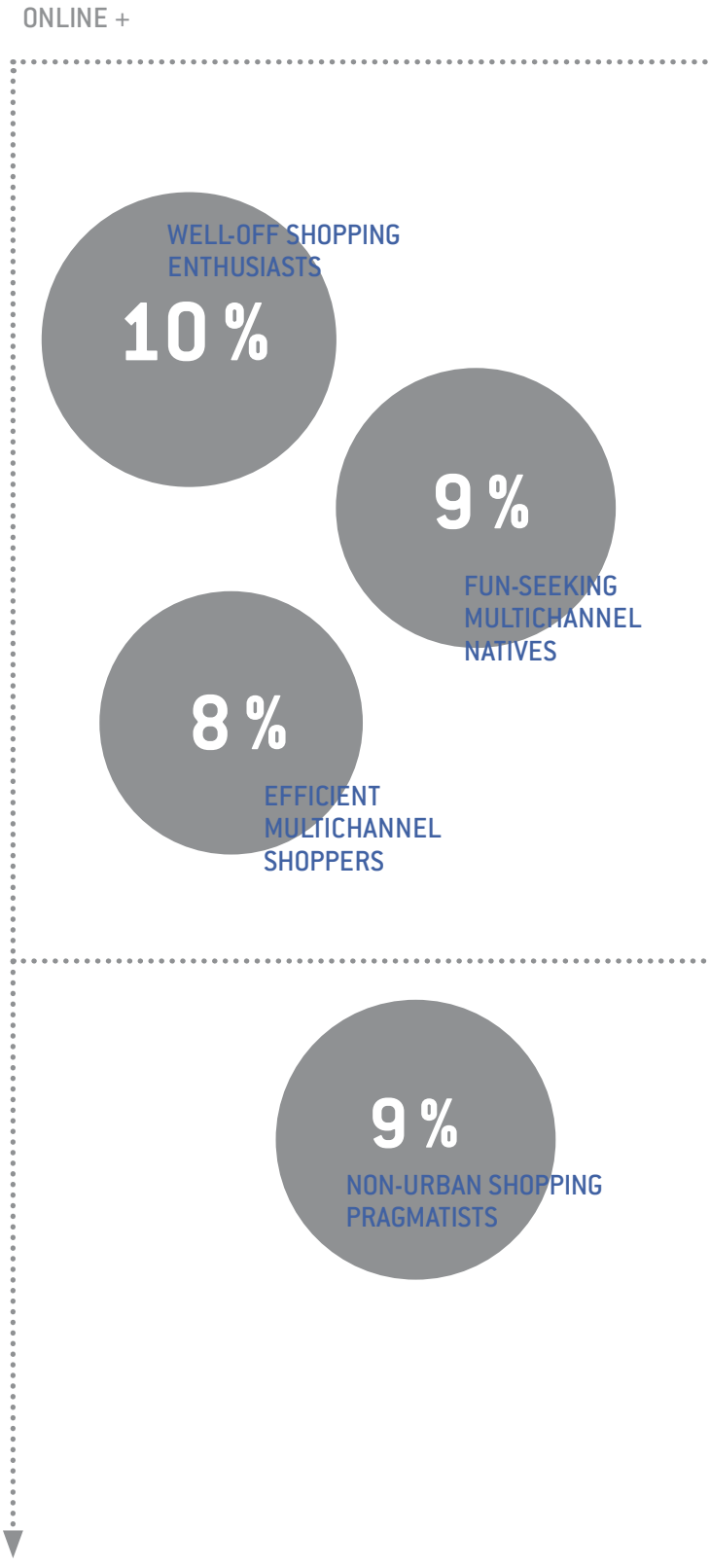
Household size: 2.9 · Average HHI: EUR 2,743 · Average age: 33.6
Share of sales: 9% · Segment size: 9%

HHI: Household income

F3

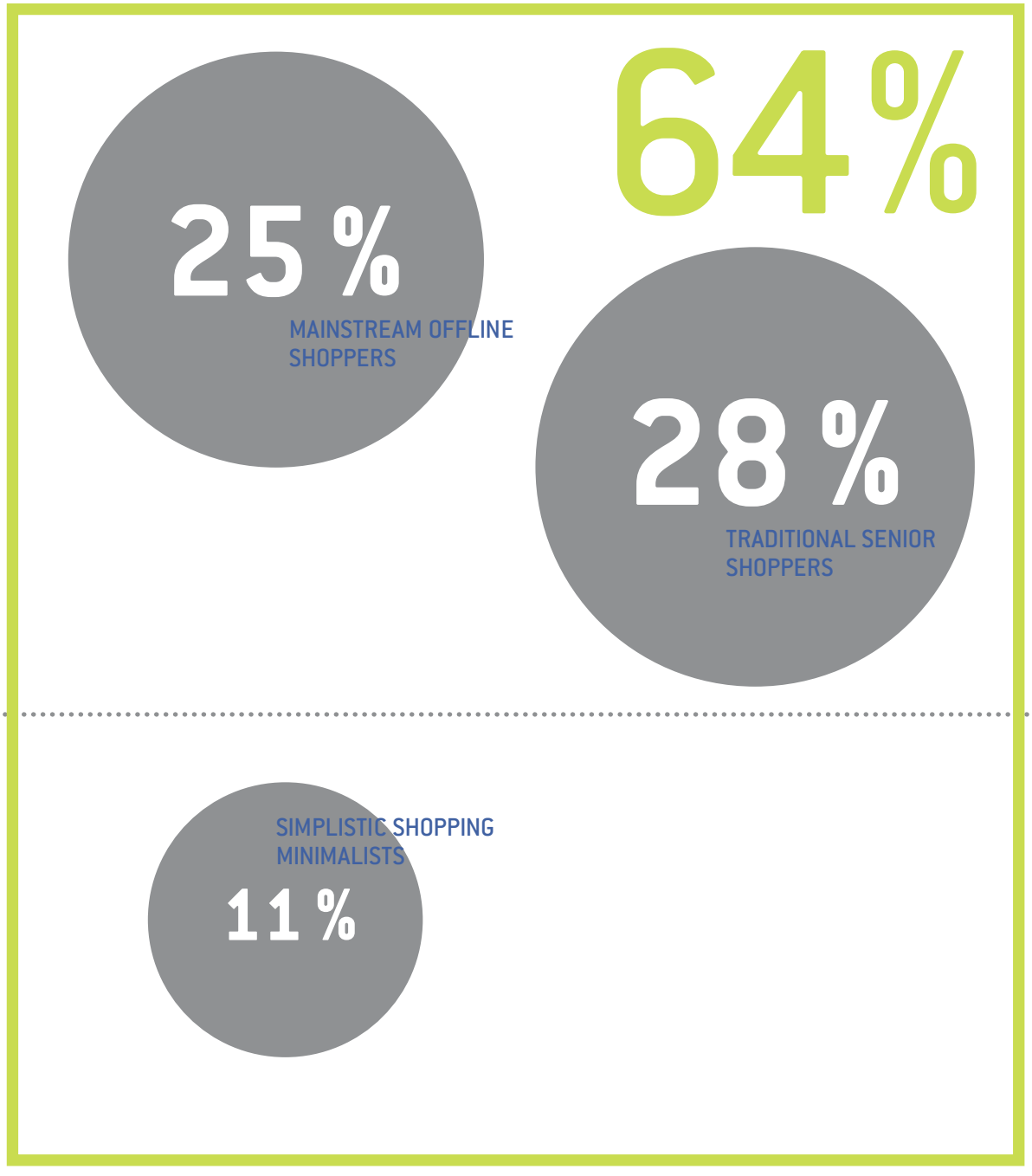
Offline is the dominant retail form

For nearly two-thirds of consumers, brick-and-mortar retail outlets are the most important places to shop. A good third of consumers regularly make purchases both offline and online.



The seven consumer segments differ in size as a proportion of the total population. They also differ in terms of how frequently they shop online or offline.

ONLINE –


64%
25 %
MAINSTREAM OFFLINE SHOPPERS
28 %
TRADITIONAL SENIOR SHOPPERS
SIMPLISTIC SHOPPING MINIMALISTS
11 %

OUR FINDINGS

THE EARTH IS NOT FLAT: ONLINE IS NOT THE ONLY DIMENSION.

DOGMA 1

Sooner or later, large swathes of brick-and-mortar retail will be replaced by online.

OUR REPLY

In many cases, observers actually underestimate the speed at which online retail is catching up. Our study shows that the proportion of sales made online is actually twice as big as generally assumed. But brick-and-mortar retailers and manufacturers should not allow themselves to be intimidated by the seemingly all-powerful online world. They must carefully analyze their product and target groups and learn to play their trump cards.

Statistics produced by the German Retail Association (HDE) suggest that 7% of sales revenues were generated online in 2012. And while 7% of the more than 84,000 transactions we analyzed in November 2012 were indeed online, their share of total sales revenues was actually closer to 16%. That is a powerful signal.

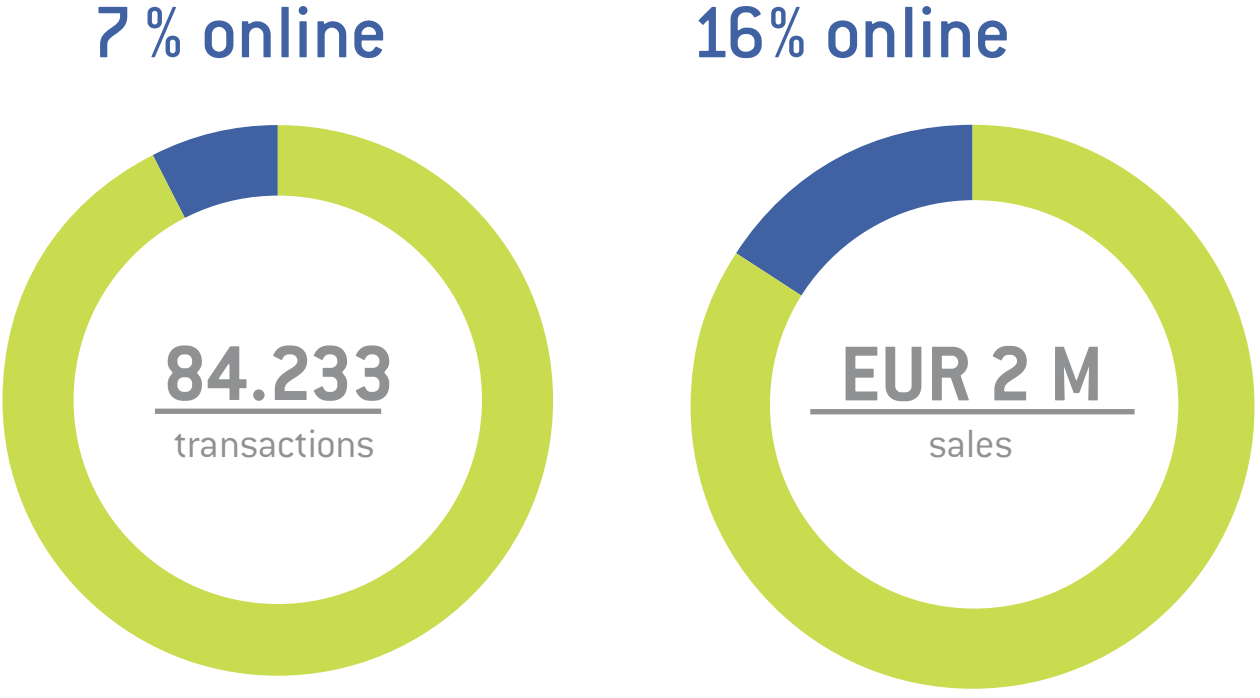
Detailed examination of the data shows that the proportion of online spending varies considerably as a function of age and income. On the age front, we found – as expected – that under 30-year-olds as a whole do more of their shopping online than people over the age of 55, the difference being just under seven percentage points. Another alarming sign for brick-and-mortar retail is that customers with higher net household incomes spend nearly 18% online, compared to just 12% for low-income groups.
No significant differences were observable between the sexes.

Online shopping's share of the spoils also varies markedly depending on the product group. It is not news that online purchases in the consumer electronics segment are comparatively strong. Our study confirmed this, with 27% of all online spending being devoted to electronic products. Depending on the shopper segment, online spending on electronic products ranges from 20% to 49%.

Fashion follows in second place, absorbing almost 22% of total online spending – a figure that is rising steeply. There are pronounced differences between the shopper segments on this score. Analysis of the two most fashion-crazed segments reveals that Fun-Seeking Multichannel Natives spend 36% of the budget they set aside for fashion online. By comparison, the other segments spend substantially less on fashion online, ranging between 4% and 29%. Measured in terms of sales revenues, Mainstream Offline Shoppers – the other consumer segment with a strong affinity for fashion – also already buys just under 11% of its fashion items on the Internet. While significantly less than the figure for Fun-Seeking Multichannel Natives, that is still a surprisingly high number for a segment that basically shows affinity for offline outlets.

F4

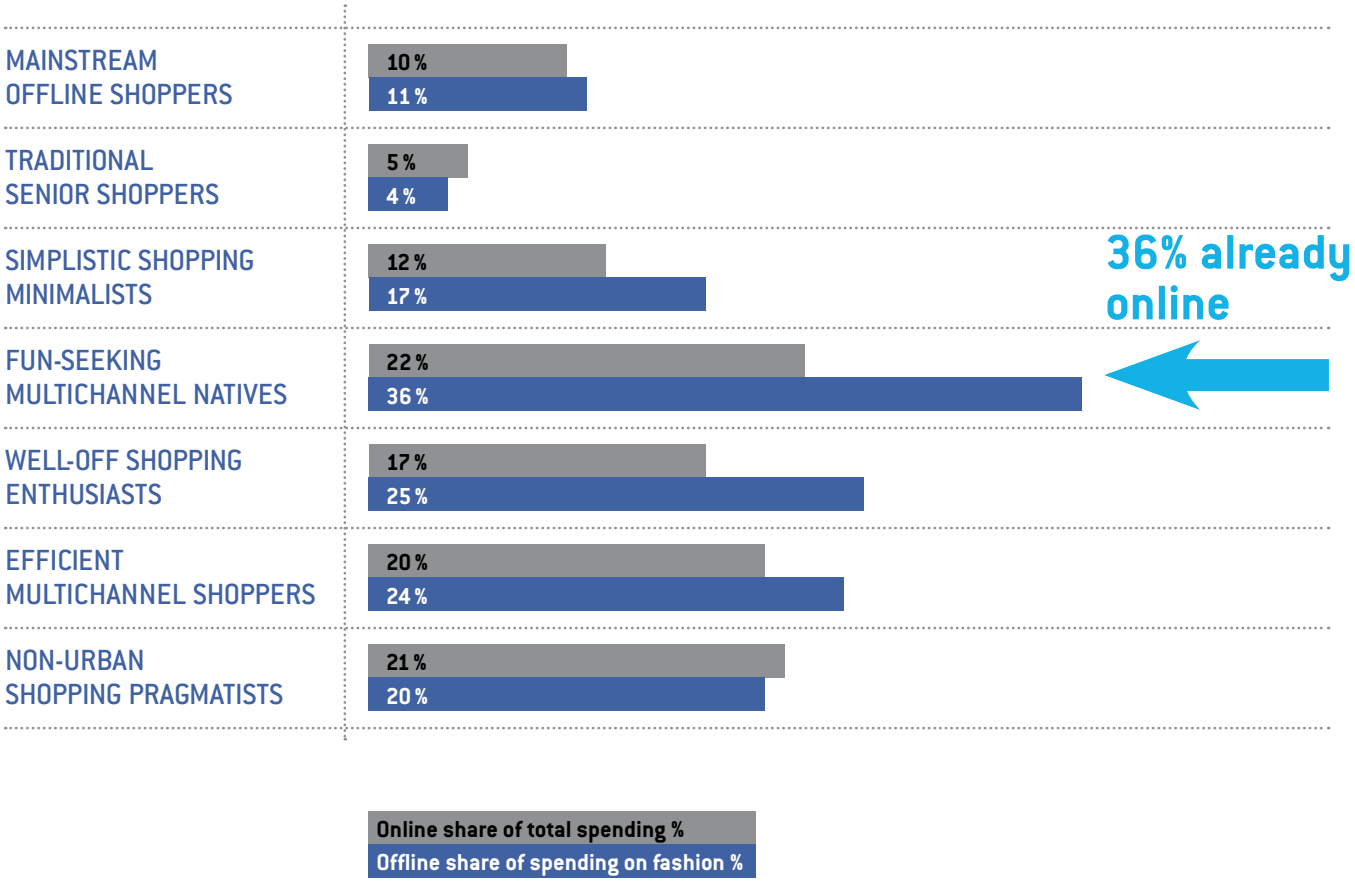
The ECE/RB study indicates that online channels already account for 16%



F5

Young fashion: Most consumers prefer to buy clothes in brick-and-mortar outlets. Not so the Fun-Seeking Multichannel Natives – fashion junkies who have clearly discovered the joys of online shopping.

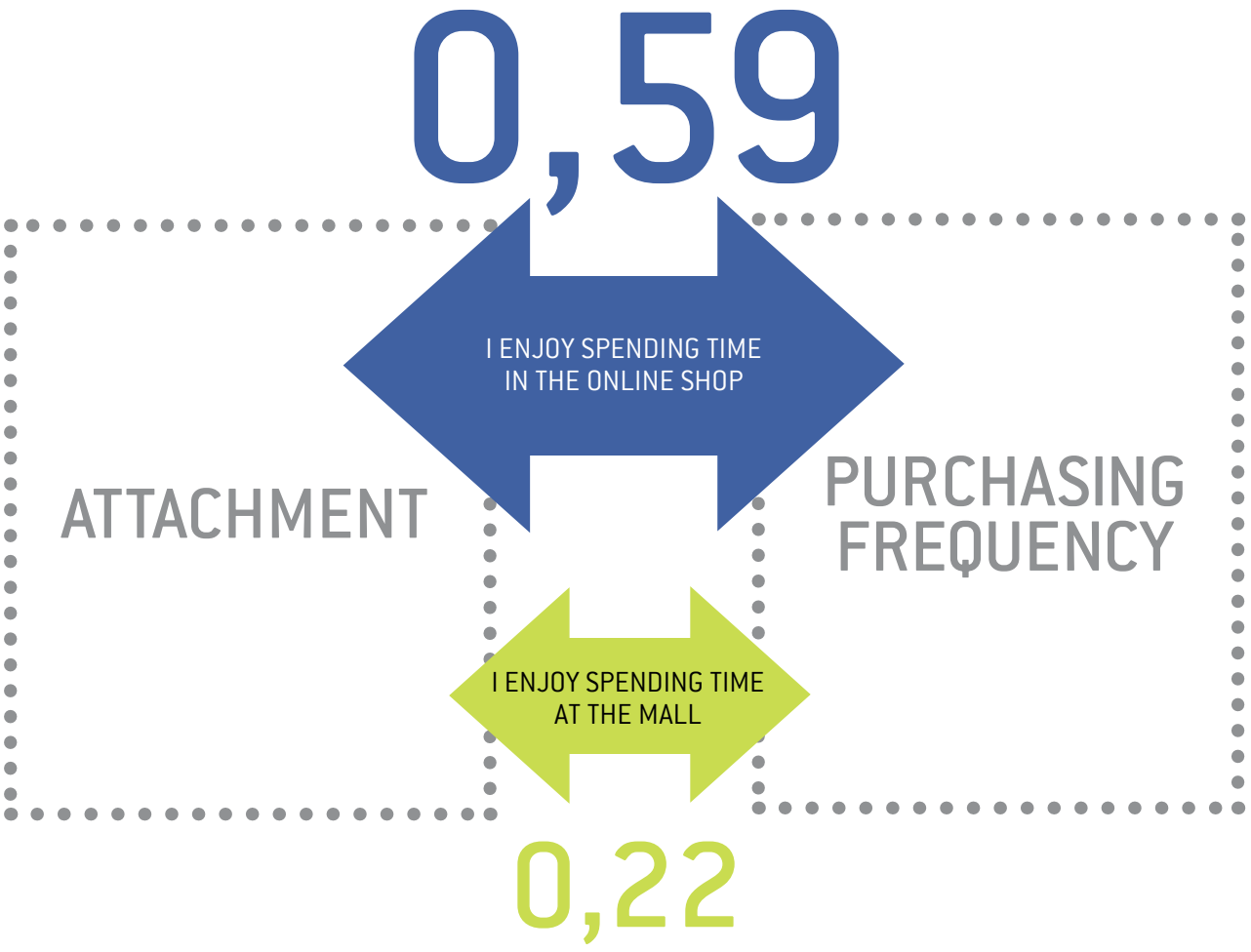
Offline and online spending per respondent (%)



F6

Online shops can increase the level of attachment customers feel toward them by generating excitement and arousing emotions.

Correlation between level of attachment and purchasing frequency in regular stores and online shops.



The correlation is significant at a level of 1%

Index: From 0 (no correlation) to 1 (very strong correlation)

It follows that online shopping poses a real threat to brick-and-mortar shopping – a threat that should not be underestimated. Worse still, the impact of emotions on consumers' shopping frequency is much more powerful for online than offline. Our study found that if an online shop succeeds in capturing the imagination and cementing the loyalty of its customers, the impact on their purchase frequency is more than twice as high as for regular stores. This finding is confirmed by comparing the correlation between emotional attachment to a shopping channel and associated purchase frequency. In other words, a customer who enjoys visiting Esprit's online shop will probably make purchases there more than twice as often as she would in a downtown Esprit store that she also enjoys visiting.

However, traditional retailers must not allow themselves to be intimidated by the seemingly all-powerful online world. Brick-and-mortar stores still have a few aces up their sleeve. The figures back this up, too. The importance of brick-and-mortar stores in most people's daily lives is reflected very clearly in their channel-specific purchase frequency. Nearly two-thirds of our respondents make frequent purchases – at least once every two weeks – in their local mall or downtown. That makes them regular customers of these outlets. On the Internet, only around 13% of consumers make purchases with a similar frequency, while a good half of them never visit online shops.

Alongside buying frequency, another compelling argument for brick-and-mortar stores is their greater potential to cultivate trust. Unlike on the Internet, most purchase decisions in offline retail (74%) are not preceded by any form of advance reconnaissance activity. By comparison, only 46% of online purchases are not subject to such activity. At the same time, shopping cart analyses based on the transaction data we collected show that different product categories are purchased together more often in brick-and-mortar stores than online. Offline, fashion apparel is the key anchor category, very frequently purchased together with shoes, but also with electronic products and books. Online, shopping cart analysis reveals no association whatsoever between different product categories. On the Internet, people tend to be much more focused when buying certain products or product groups. They rarely buy products from different categories together. Online customers do not give in to temptation as easily as they do in an attractive offline store, where the principle that *"once you've seen something, it's hard to resist"* often applies, as a participant in one of our focus groups put it.

Customer segment analysis also indicates that, in the future too, the lion's share of retail trading in Germany will continue to take place offline. Nor is it only the older Traditional Senior Shoppers who still cling to the offline channel. Mainstream Offline Shoppers, who make up around 25% of the total population, are aged 28 on average and therefore quite at home with the Internet; indeed, many of them grew up with it. Yet they almost exclusively make their purchases offline. Although these young people enjoy going online and do so regularly, they still do most of their shopping in brick-and-mortar stores, only in exceptional cases buying things on the Internet. One 22-year-old female respondent gave us an example of such an exceptional case: *"If I need something fast or am looking for something very unusual, I'll go online. But I still prefer to go to a regular store."* Moreover, the share of offline sales is still nearly 80% even for self-confessed multichannel buyers. There is, then, no evidence for the alleged large-scale demise of brick-and-mortar retail.

CONCLUSIONS

The findings are unambiguous: Brick-and-mortar retail enjoys (1) significantly higher sales volumes, (2) higher purchase frequencies, (3) a broader mix of products in the shopping cart, and (4) higher levels of spontaneous buying. Clearly, traditional retail still has many opportunities ahead of it – and by no means small ones, provided they are put to good use.

At the same time, our study shows that online retail is growing, and is doing so faster than many observers expected. Online customers' powerful emotional attachment to their virtual shops pose a particular threat to brick-and-mortar stores. The potential open to online retail is thus enormous. The online retail world can be likened to a Hydra: It has many heads, but each is of a different size and poses a different level of risk to offline retail.

We believe that many conventional retail concepts have already reached the eleventh hour. Traditional retail has no choice but to act now. To remain competitive in the medium to long term, brick-and-mortar retailers must adapt to consumers' changing purchasing patterns and acquire multichannel capabilities. The only way for them to do that is to understand their customers. The first question that retailers must therefore ask themselves is: Why do my customers buy things offline rather than online, or vice versa? What makes them choose one option over the other?

DOGMA 2

Online, price is the only thing that matters.
Offline, personal assistance is the decisive factor.

OUR REPLY

Wrong! The decisive factor in both cases is when and how consumers actually get the product. Price does play a bigger role online, but it is not the primary factor that determines which channel shoppers choose. Offline retail scores with a strong touch-and-feel factor.

If price were the only thing that mattered in online retail, the book trade would have been spared a lot of grief. With the exception of a few niche markets, books are subject to price controls in Germany. There is thus no difference between online and offline offers in this category for the vast majority of products. Yet online providers – with Amazon leading the charge – established their first major bridgehead in precisely this segment, gradually expanding into other product categories over time. Brick-and-mortar bookstores such as Thalia and Hugendubel had previously enjoyed dynamic growth. Now, dwindling sales volumes are forcing them to relinquish selling space. Logically, then, there must be other, more powerful reasons than price why customers choose a certain sales channel.

In a multichannel shopping world, retail companies need to understand why consumers pick this or that shopping channel for this or that purchase transaction. Why, for example, does one customer regularly buy shoes online while another only ever buys them in-store? Is price really the key factor here?

We asked our respondents to state their reasons for buying products online or offline. Our findings show that price certainly can be a criterion in choosing one channel over the other. But consumers have quite different expectations with regard to online and offline prices. Far fewer respondents agreed that *"The price in regular stores is usually better than on the Internet"* (mean: 2.6) than the reverse (mean 4.5). For people buying things in regular stores, getting the best price is less important than other factors. Online shoppers, on the other hand, are much more strongly price-driven. As one participant in a focus group put it: *"Prices [on the Internet] have got to be low."*

However, our findings also show that price is by no means the most important decision criterion. For consumers, the factor that clinches the fundamental choice of shopping channel is how they get the things they buy: straight away, or conveniently delivered to their doorstep. All other motives for choosing a shopping channel are secondary – in all product categories and across all customer segments. Getting the product straight away in the store is the decisive factor for offline buyers (mean: 5.7), while convenient delivery is the decisive factor for online shoppers (mean: 5.1).

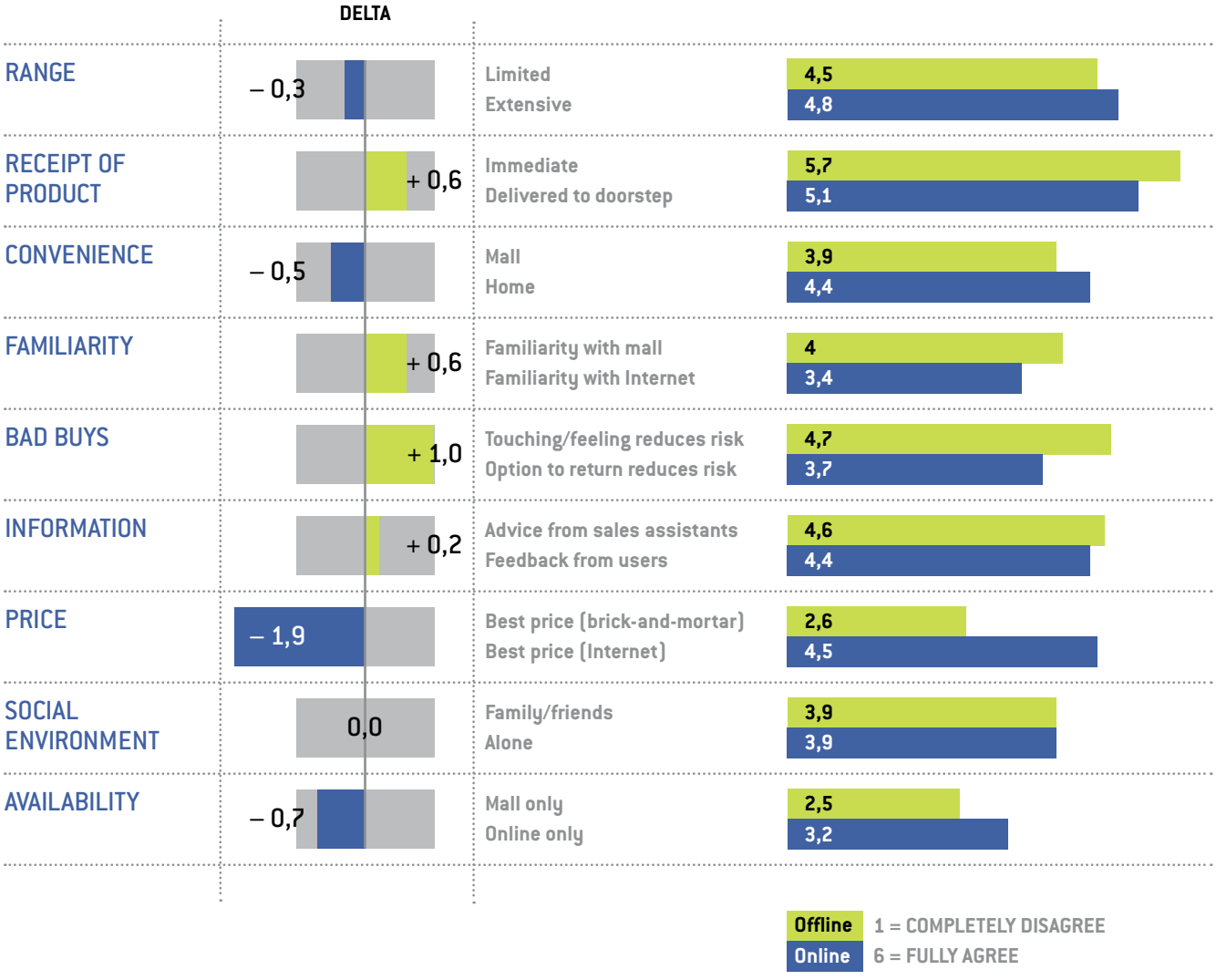
The primary driver for choosing one shopping channel over another is thus a basic preference on the part of consumers for how they receive the product. Customers who want or need a product immediately opt to buy it offline. For them, the important thing is that the product is in stock and they can take it home with them straight away. By contrast, consumers for whom it is important that the product is delivered conveniently to their home choose online – in the case of heavy or unwieldy products, say, or simply because they have neither the time nor the inclination to go to a regular store. One consumer explained it this way: *"I buy things online when I can't be bothered to go to the store."*

Another significant advantage that traditional retail has over online shopping is that customers can hold the product in their hands and try it out immediately. Shoppers rate the possibility of "touching and feeling" a product as considerably more important (mean: 4.7) than the option of sending it back to an online retailer if they don't like it (mean: 3.7). Referring to online shopping, one respondent said: *"If you don't like the item, it doesn't feel right or it doesn't fit, you have to send it back. And even for small amounts, you still have to pay the postage and packing."*

F7

Motives for choosing one channel over the other – What matters to customers is when and how they get the product. All other motives are secondary.

Motives for making purchases offline vs. online (mean values)



CONCLUSIONS

These findings have the following implications for brick-and-mortar retail: Customers are aware that online prices are usually lower than those in regular stores but they still make purchases in the latter because, for them, parameters such as touch and feel and the ability to walk out of a store with the product under their arm make the difference. Brick-and-mortar retailers should therefore think very carefully about the extent to which they need and, above all, want to engage in a price war with their online rivals. Two things could prove fatal: First of all, customers must not be driven to the search engines by excessive prices in regular stores. Secondly, it would be equally foolish to constantly match online prices. Hardly anyone expects them to do so. As our findings show, customers are willing to consciously pay higher prices in brick-and-mortar stores than online. Having said that, brick-and-mortar retail prices must remain reasonable, and the price differential must be justified by customers' perception of added value. To quote a respondent in one of our focus groups: *"I also think the idea of service is important. I am willing to pay more for advice, because I know that I will be twice as happy in the end – and that I can go back and speak to the same person if something really doesn't work."*

To create lasting differentiators, we believe that traditional retailers must build on their existing strengths. Where consumers primarily want to touch and feel products, and take them home with them immediately if they buy them, store concepts based on multi-sensory components can give them a competitive advantage that online channels cannot imitate. Concepts already used by Abercrombie & Fitch and Hollister bear impressive testimony to the magnetic pull of a well-designed blend of aromas, music and authenticity on consumers.

Wherever possible, traditional retailers should also try to achieve complementarity between the two shopping channels in the way they meet customers' needs – a "click and mortar" approach. Their aim should be to link the benefits of online and offline shopping in such a way that added value is perceivable to customers. Runners Point, for example, sells a fast-moving basic assortment at its relatively small brick-and-mortar outlets. Its online shop not only constitutes a virtual expansion to the chain store's shelves, it also creates an opportunity to intelligently combine online and offline services in a way that makes purchases especially attractive to customers. Customers can try shoes on and receive in-depth advice in the store. Instead of the inconvenience of having to carry chunky shoeboxes around while they do the rest of their shopping, however, they can simply pay for the product in the store and have it delivered to their home at a time of their choosing.

To shore up (or win back) sales in the future, traditional retailers should also seek to apply the advantages that have so far been the exclusive preserve of online shopping, such as customer-specific purchase recommendations and convenient delivery, to offline retail. Their setting already offers wonderful opportunities for this, such as geofencing and central pick-up stations. This being the case, the next questions to ask in order to better understand how the offline and online channels interact are: What happens during the customer journey? How do customers gather information? And where, ultimately, do they make their purchases?

DOGMA 3

Offline retail is degenerating into a showroom for online retailers. Customers these days only go into stores to have a good look at the products and find out about them. The actual buying takes place online. In-store sales are doomed to collapse.

OUR REPLY

Showrooming is a real phenomenon – but more so in discussions than at the point of sale. True, roughly one in five consumers gather information via one channel and buy via another. But offline information gathering brings much less cash into online coffers than vice versa. Indeed, this kind of information-gathering behavior opens up new opportunities for brick-and-mortar retail.

If one is to give credence to a UK study, every retailer's nightmare came true during the last Christmas shopping season. One in five consumers claimed to have gone into a store just to look at a product[1] – having already decided to buy it online.

Our figures suggest that this phenomenon is similarly widespread in Germany. The data shows that, here too, the groundwork takes place offline for roughly one in five online purchases. However, almost as often – in 17% of cases – the customer journey runs in the opposite direction: Consumers find out about a product online before going to a regular store to buy it.

As part of our investigation, we asked nearly 2,000 respondents to keep a personal diary of their shopping activities. It emerges that the way that they gather information about items differs significantly for the two top-selling product categories, consumer electronics and fashion.

Consumer electronics: In terms of sales volume, this is the most important product category for online retail. In this category, the Internet has indeed established itself as the main information channel. More than four out of five people who bought products online gathered product information online in advance, on their computer or smartphone. Fewer than one in three looked for information offline. On the other hand, almost half of all people who bought products offline first gathered product information online.

Fashion: In our sample, fashion is the second-biggest-selling online retail category. An unusually high figure of 55% of online purchases are made without any information being gathered in advance. In the other 45% of cases, most consumers first gather information online, with just under one in five consumers also looking offline. By contrast, nine out of ten people who buy fashion items offline do so without looking on the Internet first.

Analysis of consumer behavior also reveals the following insight: Up to now, only H&M, Esprit and Thalia have succeeded in getting both online and offline channels established among customers' ten favorite stores. H&M leads the field in terms of customer perception offline. Online, however, it comes in fifth place, trailing by a considerable distance with only just over 10% of votes. Amazon (which 66% of customers voted their favorite online shop) and eBay (37%) dominate the online segment. These channel-specific discrepancies in brand perception are particularly important when looking at consumer behavior along the customer journey. For vertically integrated retailers such as H&M and Esprit, online purchases preceded by in-store research merely shift sales between the two channels. Ultimately, it matters little whether the customer purchases the product in an Esprit store or merely tries it on there and then buys it on the Otto or Zalando websites: Esprit earns money on the transaction either way. However, multibrand retailers face an entirely different situation. If a customer goes into a Saturn store to find out about a Samsung TV, it is quite possible that he or she will actually buy the product on Amazon rather than from the Saturn website. In this case, Saturn initiates a purchase decision from which Samsung and Amazon benefit, rather than Saturn.

Nevertheless, we believe it is not enough to look at information and purchasing behavior along the customer journey solely in relation to the number of transactions. When discussing the showrooming phenomenon, we need to look at the specific sales volume accounted for by spending on the Internet after customers have first researched a product offline. To get a feel for the importance of showrooming, we have linked our numbers to generally accepted figures for total retail volume. Extrapolating total retail sales for 2012 from data published by the German Retail Association (EUR 397.8 billion offline, EUR 29.5 billion online), we get an interesting picture at retailers' point of sale. Around EUR 6 billion of sales a year take place online after offline research; however, over EUR 68 billion of sales take place offline after online research. In other words, in terms of sales volumes, channel-shifting is eleven times more beneficial to brick-and-mortar retail than it is to online. For offline retail to only see the risks of cross-channel information-gathering while ignoring the far greater opportunities it offers, can only be described as negligent.

When discussing customers' information-gathering and purchasing behavior, it is important not to forget one key point: When consumers gather information before making a purchase, they still mostly do so in the same channel in which they make the purchase. As many as 54% of online purchases are preceded by research on the Internet, while 17% of consumers who make purchases offline gather information in-store before they buy.

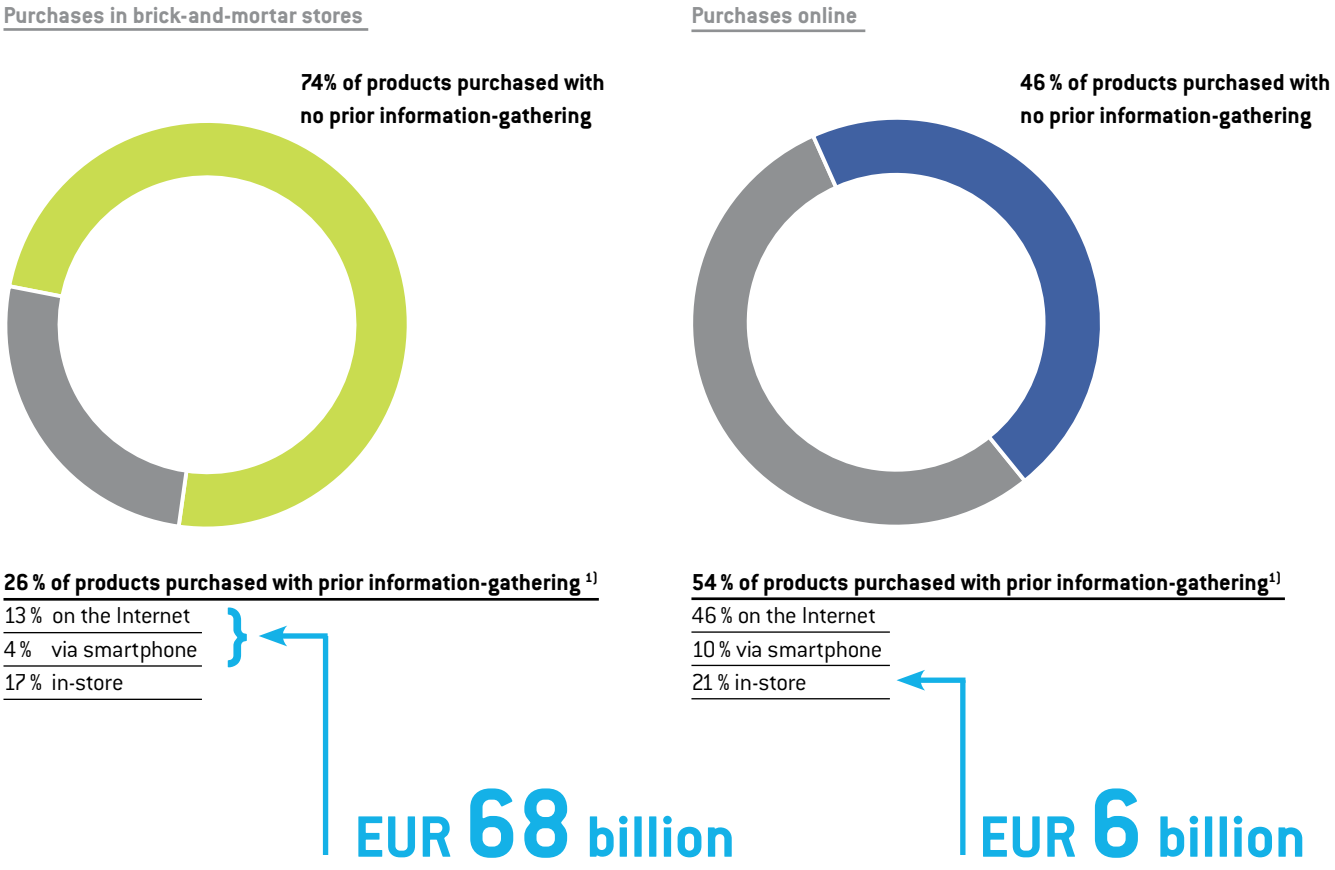
[1] **Foolproof© (2013)**

What does this mean from a retail perspective? If a channel can gain customers' trust as their preferred source of information, it is very likely that the purchases will also take place in this channel. Moreover, customers do not always make informed purchase decisions – nor do they always want to.

Temptation and impulsiveness have a powerful influence on consumers' buying behavior, as does the quality of advice provided in-store. These are areas that traditional retail is far better able to exploit than the Internet.

F8

Less need for prior information-gathering in brick-and-mortar sales. Where customers do gather information in advance, eleven times more offline purchases follow online research than vice versa.

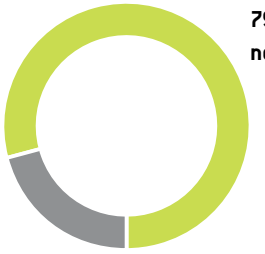


1) Multiple responses allowed

F9

Prior information-gathering is rarer for purchasers of fashion items.

Purchases in brick-and-mortar stores



79 % of products purchased with no prior information-gathering

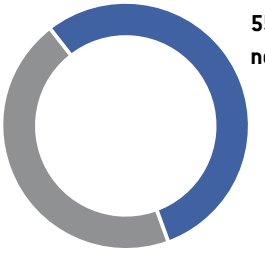
21 % of products purchased with prior information-gathering[1)]

8 % on the Internet

3 % via smartphone

15 % in-store

Purchases online



55 % of products purchased with no prior information-gathering

45 % of products purchased with prior information-gathering[1)]

35 % on the Internet

10 % via smartphone

19 % in-store

Prior information-gathering is standard practice for consumer electronics.

Purchases in brick-and-mortar stores

46% of products purchased with no prior information-gathering

54 % of products purchased with prior information-gathering[1)]

39 % on the Internet

10 % via smartphone

30 % in-store

Purchases online

24 % of products purchased with no prior information-gathering

74 % of products purchased with prior information-gathering[1)]

70 % on the Internet

13 % via smartphone

30 % in-store

[1)] Multiple responses allowed

F10

Only H&M, Esprit and Thalia are in the top ten for both retail channels. Amazon and eBay dominate online sales.

Consumers' favorite offline and online stores

Top 10 Offline		Top 10 Online	
1. H&M	23 %	1. Amazon	67 %
2. dm	21 %	2. eBay	37 %
3. Saturn	13 %	3. Zalando	15 %
4. Thalia	11 %	4. Otto	12 %
5. Media Markt	9 %	5. H&M	11 %
6. Esprit	9 %	6. Esprit	5 %
7. Douglas	7 %	7. Tchibo	3 %
8. Real	7 %	8. Thalia	3 %
9. Depot	6 %	9. myToys	3 %
10. Deichmann	5 %	10. Weltbild	3 %

Percentage of mentions across all respondents; up to three responses allowed

CONCLUSIONS

Showrooming really happens – and will very probably gain in importance in Germany in the years ahead. Yet how customers gather information and which channel they ultimately use to make purchases is not of equal importance to each and every retailer. Showrooming poses less of a threat to vertically integrated retailers. For them, it essentially means shifting sales between channels. If that is done astutely, it can actually present opportunities.

Of course, not all retailers – and especially not multibrand retailers – can simply assume that customers will gather information in their stores and then buy the items on their websites. Few brands ever get themselves anchored in consumers' online and offline evoked sets; and those that have done so have so far only achieved partial success. Accordingly, even if showrooming is still a much smaller phenomenon (in terms of sales volumes) than gathering information online prior to making purchases offline, channel shifts along the customer journey can still pose a threat to many retailers and manufacturers' brands. In many cases, customers choose their brand first and only then look for a suitable retailer. And there is a world of difference between potential customers googling for "sports shoes" or, for instance, googling for "Adidas".

One option is for manufacturers to co-opt showrooming for their own ends and accommodate consumers' need for information, even prior to online purchases. The growth of showrooming and online sales can thus suddenly cause players who would previously never have dreamed of investing in bricks and mortar to go looking for selling space. As traditional advertising channels such as TV and print see their significance wane, these players are recognizing the growing importance of busy locations such as shopping malls. Prominent examples from the consumer electronics segment include Bang & Olufsen and Samsung, with their specific store concepts. Yet even a short-term on-the-ground presence can be beneficial by enabling customers to experience brands that are otherwise sold online. To coincide with the current launch of its online shop in Germany, Britain's venerable Marks & Spencer brand, for example, has placed its new collection in pop-up stores in several German cities. Purchases can then be made at the in-store iPad bar.

Another possibility for brick-and-mortar stores is to "catch" consumers on the premises before they change channels. Even if customers only stopped by to gather information before buying something online, there is a reasonable chance of persuading them to buy the item on the spot. Retailers need to understand how to provide the right purchase stimulus in the preferred channel. In the case of offline information-gathering prior to a planned online purchase, this has the following implications: Suitably trained and savvy sales staff must recognize the customer's need and succeed in closing the transaction in-store. In addition, offline retailers must specifically target customers' greater spontaneity when they enter a store. The urge to buy will only take root and grow if the retailer creates a compellingly seductive atmosphere. Two good examples are the shopping environments of the Breuninger Group and the Globetrotter stores, both of which cleverly showcase products and provide professional assistance and advice. A note of caution, however: This is not a case of simply ramping up the number of sales staff. Advice doesn't improve because you employ more people: Improvements are primarily a function of the quality, authenticity, credibility and motivation of your staff.

Assuming that traditional retailers want to maintain a major role in a multichannel shopping world, this leads us to the next set of questions: Which target groups use and value brick-and-mortar retail? What segments make up traditional retailers' customer base, and in what ratio?

DOGMA 4

Young people have already been lost for brick-and-mortar retail. Digital natives grow up with the Internet and are constantly online through social networks such as Facebook. Inevitably, they do most of their buying online and will continue to do so in the future.

OUR REPLY

That is a myth. The younger generation has widely varying needs when it comes to shopping, and by no means all of these needs are met online.
Comparing the two youngest segments, it appears that the majority of young consumers feel most at home in traditional stores. A substantially smaller group of young people enjoy using both channels.

Engrossed in their smartphones, tablets and laptops, the digital natives are everywhere. It would, however, be a mistake to assume that their purchasing and media consumption patterns are homogeneous. The younger generation is a generation divided. And, according to our findings, young consumers with an affinity for offline are still in the majority. One in four respondents belong to the Mainstream Offline Shoppers segment, which accounts for 23% of all the spending covered by our study. The average age in this segment is just over 28, so it includes many young families. Only a very small proportion of their shopping – barely 4% – is done online. So what factors are important to these consumers? What makes them decide for a given shopping channel?

Despite spending several hours a day on the Internet, Mainstream Offline Shoppers have an aversion to online shopping. As our focus group sessions showed, consumers in this segment have little positive to say about their experience of online purchases to date. The products they ordered were of substandard quality or didn't fit, or they ran into problems when complaining about defective items. They also see the less-than-practical delivery options and complicated procedures for returns – which are all too often necessary – as further disadvantages.

This segment is especially afraid of making bad purchases on the Internet. Because of the effort involved, returning items bought online is still not seen as a genuine alternative. On the other hand, Mainstream Offline Shoppers rate the ability to touch, feel and even try out products in brick-and-mortar stores as a major bonus. There is also little difference in their subjective perception of offline and online prices. For this segment, buying things on the Internet is something of a last resort, engaged in only if all else fails – for example, if the product is not available via other channels.

A further point is important: For Mainstream Offline Shoppers, the shopping experience is the most important aspect of making a purchase. They enjoy being inspired and consciously allowing themselves to be tempted and seduced in-store. They also claim that social aspects are important to this shopping experience: being together with family and friends, getting some food together during shopping trips and receiving personal assistance. As they see it, only offline retail can satisfy these demands.

This segment, with its affinity for offline, contrasts with the 9% of respondents who belong to our other young segment of consumers: Fun-Seeking Multichannel Natives. Fun-Seeking Multichannel Natives are aged just under 25 on average, and are thus the most youthful segment. Their motivation pattern is quite different from that of Mainstream Offline Shoppers. They enjoy shopping and do so extensively, be it in conventional stores or online. They attach exceptionally high significance to thrills and fun, status, and esthetic considerations. That is why it is so important to them to celebrate shopping as an "event" – but also to take their purchases home with them so they can enjoy them straight away. In this respect, they regard offline as unbeatable.

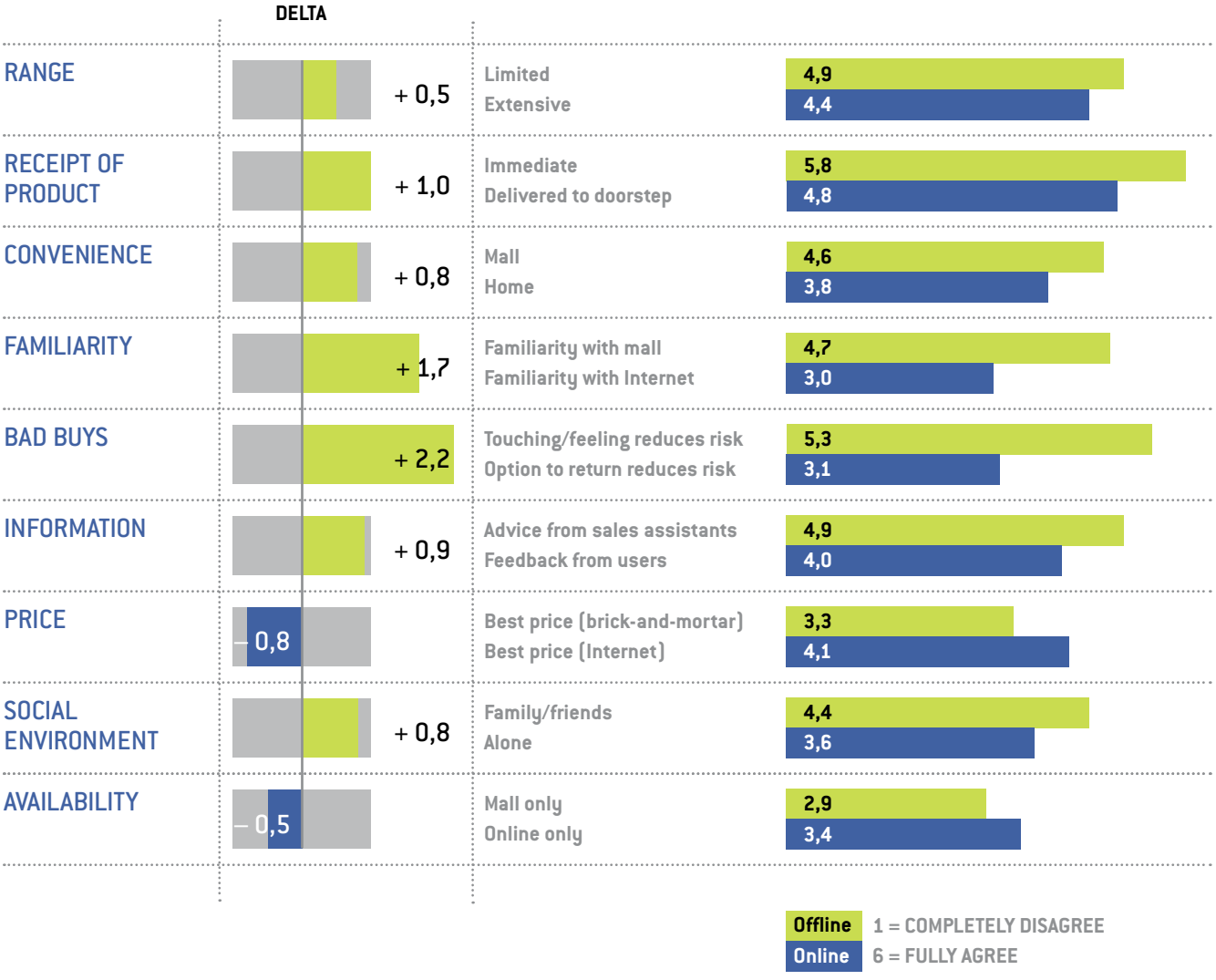
Fun-Seeking Multichannel Natives have comparatively low incomes. As a result, they are very careful with money, and take an extremely positive view of the prices available on the Internet compared to those in brick-and-mortar stores. When buying offline, they make comparatively frequent use of their smartphones to find out whether the same product is available more cheaply online – especially if they suspect that they are paying over the odds in a store. They also readily share product information with other online users.

Limited budgets are not the only factor that makes the Internet an attractive alternative for this segment, however. Compared to in-store shopping, Fun-Seeking Multichannel Natives rate online shopping as more convenient. They also perceive both the choice and availability as superior on the Internet. As our focus group sessions revealed, this segment is particularly likely to make purchases online when the product they want is not available offline, or when they can't afford the item yet and can only make the purchase later on. For them, the Internet is also a natural complement to what is available offline. They take it for granted: *"Some things, such as books, I only buy online, but others, such as shoes, I prefer to buy in a store. Overall I prefer going to stores, but I couldn't live without the Internet – I need both."*

F11

Mainstream Offline Shoppers – Brick-and-mortar has the edge for shopping, especially when they want to try products out.

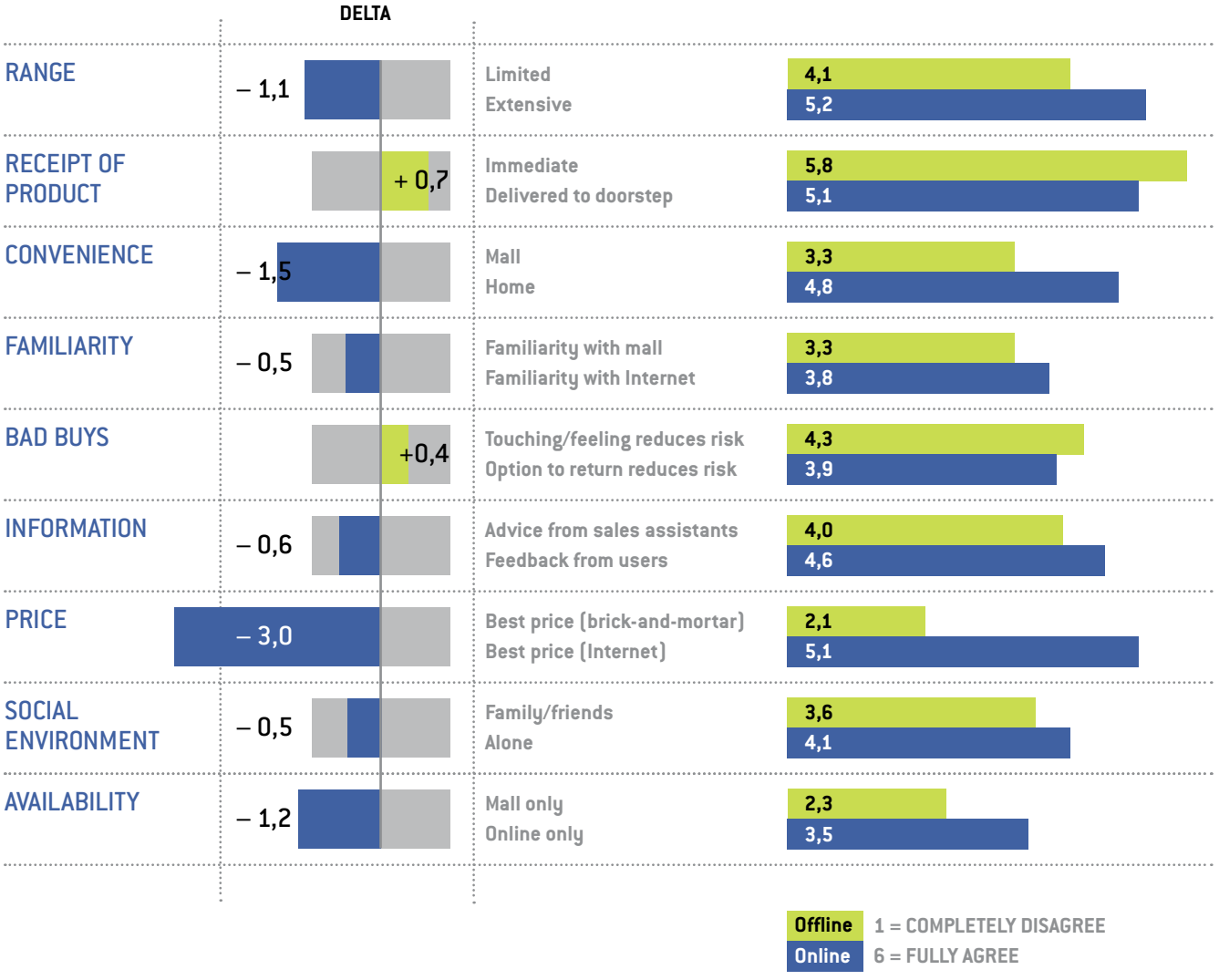
Motives for making purchases offline vs. online (mean values)



F12

Fun-Seeking Multichannel Natives – Shopping online has definite benefits, especially regarding price.

Motives for making purchases offline vs. online (mean values)



CONCLUSIONS

To survive – and thrive – in a multichannel shopping world, it is imperative to know and understand your customers' data. What makes them tick? What do they expect? Young consumers, represented by our two segments Fun-Seeking Multichannel Natives and Mainstream Offline Shoppers, are not a homogeneous group, especially in terms of their online purchasing behavior. Many of the needs of digital natives – and above all the need for shopping to be a social experience – can be met only by brick-and-mortar retail. Future development and, hence, the loyalty of both segments, hinges on how their life pans out in the future.

Right now, Fun-Seeking Multichannel Natives have plenty of time to go shopping but not much money. Although they prefer traditional shopping expeditions, cost constraints often force them to go on the Internet instead. Proportionally, this segment spends more money online (22%) than any other segment. Depending on how much these consumers earn in the future and the extent to which their career leaves them short of time, they could later turn into Well-Off Shopping Enthusiasts or Efficient Multichannel Shoppers. Be that as it may, today's Fun-Seeking Multichannel Natives grew up with the Internet and unreservedly embrace this shopping channel as a valid alternative. We therefore assume that this segment's future online spending will be even higher than the Internet sales generated by the three other multichannel shopper segments.

Despite their comparatively high affinity for online, it is not impossible that some Fun-Seeking Multichannel Natives might be "re-educated" to see the benefits of brick-and-mortar retail. For example, the positive experience of taking a new purchase home with them straight away could be a way to win young people with an affinity for online back over to the offline world, if retailers developed suitable offers. One option would be to let customers reserve a product online and then pick it up offline. Other promising approaches could include satisfying this segment's need to share their views about products and the shopping experience online with other consumers. The "Social Mirror" installed in Adidas' Neo Store is a good example: Using this mirror, customers can immediately share their new outfit with friends on Facebook and Twitter. Retailers could pursue similar ideas in malls, meeting the online and offline demands of Fun-Seeking Multichannel Natives simultaneously – and thus building this segment's loyalty to brick-and-mortar retail.

The second group of young consumers – Mainstream Offline Shoppers – account for a quarter of all customers and sales. They also have a weakness for offline purchasing, which makes them singularly important to brick-and-mortar retailers. The good news is that young consumers with a high affinity for offline retail still exist. Having said that, traditional retailers should not take the customers of this group for granted. If attractive online shopping options are able to overcome Mainstream Offline Shoppers' skepticism about shopping on the Internet, and if they have a more positive experience of shopping online in the future, their share of online purchases could increase too. As one respondent in this segment told us: *"If shopping on the Internet worked perfectly, I would buy there too."* If that were to happen, the Mainstream Offline Shoppers could evolve into multichannel shoppers in the future. However, given the fact that the overall shopping experience is critically important to this segment, and they currently mainly make purchases offline despite the existence of online shopping alternatives, brick-and-mortar still holds all the trump cards for this important segment. Successful examples such as Ikea show how easily shopping can be transformed into an event that simultaneously satisfies a wide variety of other needs, such as family-friendly shopping and integrated catering concepts, in certain consumer segments. This fundamental concept lends itself perfectly to shopping malls, enabling them too to meet the needs of Mainstream Offline Shoppers. The question now is: If offline shopping is to remain important in the future, what is the best way to link the two channels, online and offline?

DOGMA 5

Multichannel retail will make everybody happy. "Click and mortar" is the only real way for traditional retailers to survive in the future.

OUR REPLY

There is something to be said for it, but only if you go about it the right way. It is not enough simply to integrate online and offline channels. Consumers expect multichannel retail to deliver very different goods – from pure fun to no-frills efficiency. Retailers must understand these expectations and explicitly accommodate them.

Everyone agrees that, if the online channel continues to grow more forcefully, brick-and-mortar retail also must boldly step out into the online world. This is no longer news. But actually taking this step is harder than it at first appears. Online cannot simply be the extended arm of offline offerings. Moreover, the huge challenge of convincingly establishing an online presence for traditional offline brands is not the only problem. Above all, there is the fact that consumers make purchases via different channels, sometimes for completely contradictory reasons.

Our study shows that one in three shoppers makes great use of multichannel options. This group in turn breaks down into a total of four segments, each of which places differing demands on multichannel shopping.

Well-Off Shopping Enthusiasts account for around 10% of all customers and are the most attractive segment financially. On average, they are in their mid-forties, have a good job, have the highest income of all the segments examined and also have the highest average monthly expenditure. To win over these customers, retailers must above all score high marks for quality. This will then trigger a phenomenon that is vitally important for Well-Off Shopping Enthusiasts: a good feeling about the act of purchasing *per se.*

When it comes to the second group – Non-Urban Shopping Pragmatists, representing just over 9% of consumers – brick-and-mortar retail is at a serious disadvantage. These consumers live in more rural areas and are happy to do their daily shopping in their local area or online. This is because most of them would have to drive for at least three-quarters of an hour to get to the nearest shopping mall or comparable facility. And doing that has to be worth their while. Here again, creating suitable stimulus would pay off for retailers. Why? Because once you get Non-Urban Shopping Pragmatists inside a store, their spending is above average and they have a very strong propensity to make spontaneous purchases. The right setting is likewise crucial for the third-largest multichannel segment, Fun-Seeking Multichannel Natives. We examined this group in considerable detail in relation to Dogma 4: They are looking for thrills and fun.

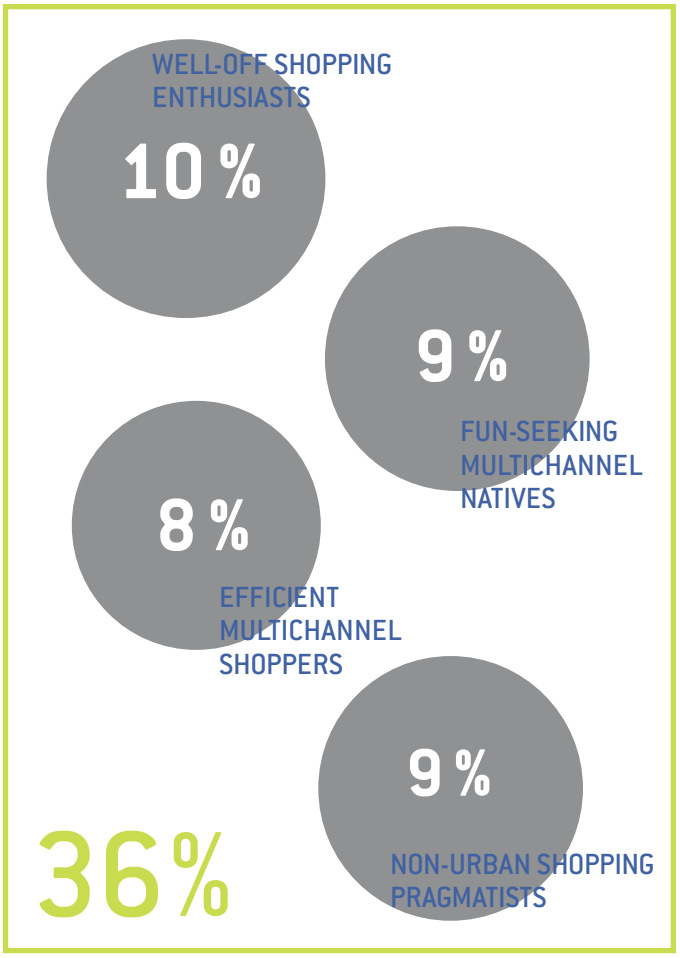
That criterion is of virtually no relevance to the fourth multichannel segment: Efficient Multichannel Shoppers. This segment makes up 8% of consumers. Time is of the essence for them, so they plan very carefully when and where they will buy the items they want.

Their highly efficient shopping patterns are reflected in a below-average number of transactions and above-average expenditure. These shoppers relatively often use smartphones and/or the Internet to gather information, including before they visit a traditional store.

F13

The needs of multichannel shoppers vary.

Multichannel segments' share of the overall market



CONCLUSIONS

Many factors will determine the future prospects of the retail industry. Experts agree that multichannel retail will play a vital role in winning tomorrow's customers. First and foremost, retailers and manufacturers must therefore find out whether a multichannel approach is at all feasible given their particular customer groups. The pivotal question is: What percentage of my customers are multichannel shoppers?

If it turns out that the customers do indeed shop in multiple channels, the next question is: Why do they buy certain products in one channel rather than the other? Where customers mainly want to save time, online and offline channels should be integrated in a "click-and-mortar" constellation that benefits customer convenience. This can be done by setting up pick-up stations for pre-ordered products, for instance, or crafting personalized offerings.
The UK's Tesco Group has implemented this kind of model: Tesco customers have the option of shopping online and specifying a two-hour time window within which they want to pick up the goods. Anytime within the two-hour window, customers can drive to the store and get their shopping. They don't even have to get out of their vehicle: Tesco staff load the products straight into the trunk of the car, and off they go again.

Alternatively, where the shopping experience is the most important factor for customers, retailers should celebrate shopping as an event across all available channels. Offline, retailers such as Breuninger already organize this kind of shopping experience. Similar events are now also being staged online: In Australia, Vogue magazine has launched an online shopping night where all participating websites run special offers.

For customers who live some distance away from retail outlets, it has to be worth their while traveling to the nearest shopping facility. One possibility would be for retailers to let them check whether the products they want are available offline – a service that is already fairly widespread at stores such as Ikea and Saturn.

To put all this in a nutshell: Do it right and you can get consumers really excited about multichannel shopping. But "doing it right" means different things to different customers. The most important factor in a successful multichannel strategy is understanding that different consumer groups have different needs, and then understanding what these needs are and how they are structured. Instead of lumping all consumers into the same category, multichannel strategies must be carefully aligned with the customer segments that are economically relevant for the product category and the brand. Above all, it is important to address the specific needs of the targeted segments. And the only way to do that is to gain a better understanding of your customers' data.

OUTLOOK

THE FUTURE BELONGS TO MULTICHANNEL RETAIL.
DATA-DRIVEN APPROACHES SHOW THE WAY FORWARD.

For many product categories and customer segments, the palpable mood of doom and gloom in the debate about online growth and multichannel retail is exaggerated. In the years ahead, success in four key dimensions will determine the outcome of competition between offline retailers and their Internet rivals.

Young consumers are split: Neither sales channel has yet won over 100% of young consumers. The needs of the younger generation are simply too diverse. This point is illustrated by comparing Mainstream Offline Shoppers (average age: 28) with Fun-Seeking Multichannel Natives (average age: 25). Juxtaposing these two segments also reveals that younger and better educated consumers tend to place more orders online and to merge their online and offline worlds to a greater extent. If brick-and-mortar retail continues to successfully meet the widely differing needs of younger people better than online channels in the majority of cases, then offline stores will indeed be able to defend their current dominant position.

Multichannel retail is the acid test: Multichannel users place widely differing demands on retailers. How efficient can retailers' offerings become to satisfy the needs of efficiency-driven shoppers without becoming boring and ultimately taking the fun out of shopping for well-off consumers? Acting in isolation, few retailers will be able to master this balancing act. To define the most effective multichannel strategy, providers first need an exact knowledge of their customers' shopping habits. We have listed the six simple questions that companies can use to identify their customer structure. Building on this foundation, they can then develop a multichannel strategy that is aligned with their customers' needs.

Servicing rural areas: The urban population in Germany is growing, but the population as a whole is set to shrink. Rural regions will thus become increasingly unattractive to traditional retailers. Consumers will be forced to turn to online offerings instead. Can today's offline retail providers come up with alternative models?

Activating reluctant buyers: As the Simplistic Shopping Minimalists segment shows, more than one in ten consumers don't actually enjoy shopping, even though they could afford to splash the cash. Up to now, neither online shops nor offline stores have truly understood the needs of these consumers or coaxed them out of their shell. Vast potential remains to be tapped here in the future.

These four dimensions are very different. As yet, no ready-made solutions exist. One development is foreseeable, however: Competition for customers is already fairly cut-throat in Germany, and it will intensify to a level seen in scarcely any other country. Data-driven approaches that help retailers understand their customers and know what they really need are indispensable. They are the only thing that can show retailers the right way forward in a world of multichannel shopping.

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Page 40: Roland Berger Strategy Consultants;
ECE Projektmanagement G.m.b.H. & Co. KG
Page 43 : Alessia Pierdomenico/Reuters/Corbis

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Februar 2013

Abercrombie & Fitch shopping experience

A study by Roland Berger Strategy Consultants and ECE

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