

The omnichannel opportunity  
Unlocking the power of the  
connected consumer





# Foreword

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The internet and the development of mobile devices have revolutionised the retail sector, enabling consumers to research and shop at their convenience, anytime, anywhere. As consumers embrace new technologies the shopping experience has become increasingly sophisticated, enabling new ways for leading retailers to reach their audience.

This new system of retailing – connecting stores, e-commerce, mobile apps and social media – is referred to as omnichannel retailing. By integrating and aligning channels, omnichannel retailing provides a flexible and seamless shopping experience to consumers, regardless of whether the customer walks into a store, browses on a website or orders via a mobile phone.

Omnichannel retailing creates opportunities for retailers, ranging from potential extension of sales domestically or overseas, to capturing more lucrative sales or increasing brand awareness and loyalty.

As omnichannel retailing becomes pervasive in Europe, it is critical to measure its various impacts in order to gauge the extent to which retailers can capture increased sales, and to inform the development of omnichannel strategies.

This study commissioned by eBay examines these effects in selected European markets. Our team of economists and retail market experts in the UK and Germany have teamed up to measure the value for retailers from serving omnichannel consumers. We have surveyed consumers in selected European markets, and held discussions with leading European retailers to explore their views on omnichannel retailing and how companies can best respond. In addition, an econometric model was built to examine the sales impacts experienced by retailers that have already embraced these trends across certain markets in order to assess the value of adopting an omnichannel strategy.

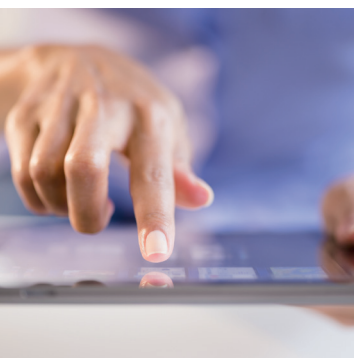
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# Executive Summary



## Connected consumers want to be able to buy anytime, anywhere

Connected consumers are driving a revolution in retailing. With access to a range of new technologies and a wide variety of online resources, these connected consumers are using multiple sources of product information when shopping, including in-store displays, retailer websites, online review sites, online marketplaces and social media. About a third of UK and German consumers used multiple channels during a recent purchase.<sup>1</sup> By engaging across different channels consumers can research and shop at their convenience, anytime, anywhere.



Omnichannel retailing responds to this trend, by seeking to provide a flexible and seamless shopping experience regardless of whether the customer walks into a store, browses the web, or orders via a mobile phone. By being broadly present across channels and enabling each channel to serve the customer at any point through the purchase journey, retailers can raise brand awareness, drive loyalty and ultimately value.

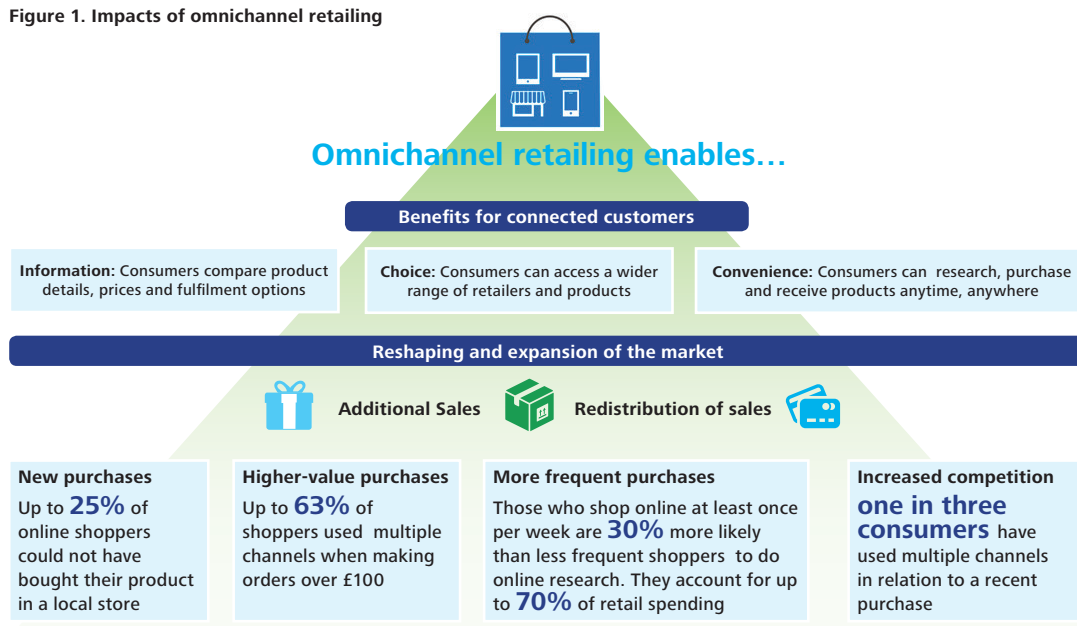
These trends have the potential to enable new purchases where the product or service desired was otherwise not available to the consumer, or new opportunities for retailers, by enabling each channel to serve consumers at any point of their shopping journey. However, increased choice, information and convenience also increase competition. As omnichannel shopping becomes pervasive in Europe, measuring its various impacts is crucial to gauge the extent to which retailers can capture increased sales and retain or enhance profitability, and to inform the development of omnichannel strategies.

## Is there value for retailers from serving omnichannel consumers?

Omnichannel retailing can enable new purchases of products that would not have been available in local stores, by providing a more flexible shopping experience: **up to 25% of recent online or mobile purchases in the UK and Germany involved products which customers could not have purchased locally.**<sup>2</sup> This represents nearly €9bn in online and mobile sales in the UK in 2012, and up to €7bn in online and mobile sales in Germany.<sup>3</sup>

Omnichannel retailing creates opportunities to exploit rapid sales growth through emerging channels such as mobile, and to capture lucrative markets. **Frequent shoppers and those planning high-value purchases are more likely to use a range of channels for their purchases, so a presence across channels allows retailers to capture this market segment.**<sup>4</sup> Omnichannel retailing can also create new sources of competition, potentially leading to a redistribution of sales across retailers.

Figure 1. Impacts of omnichannel retailing



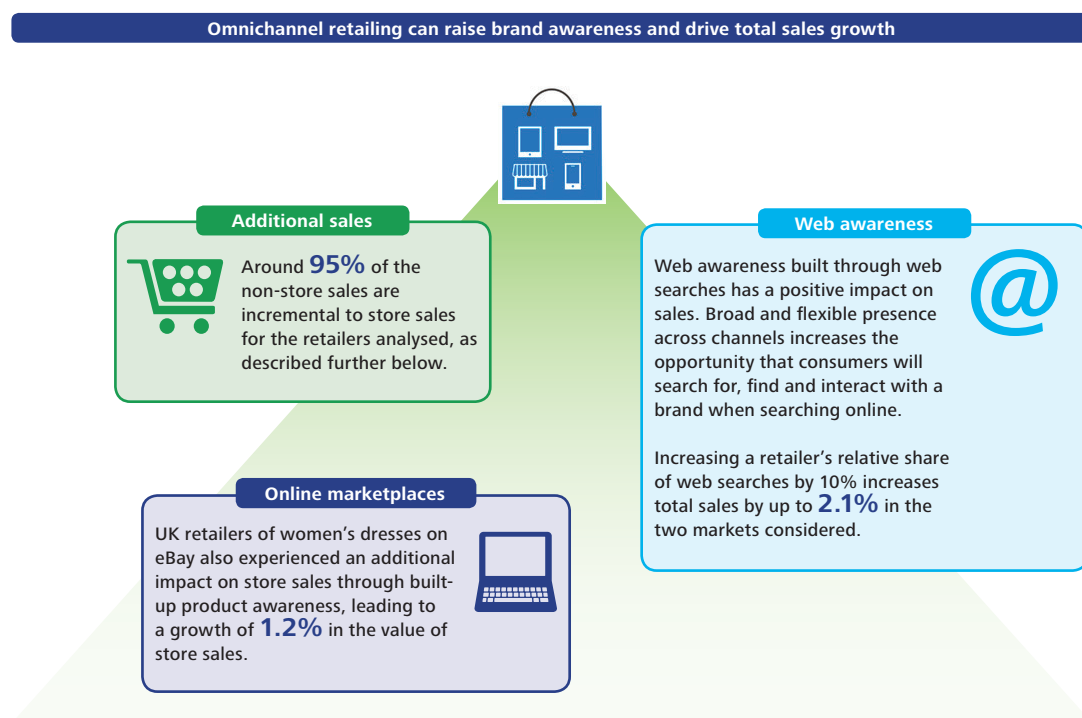
Source: Deloitte omnichannel consumer survey 2013

## How can retailers use different channels to raise brand awareness and drive sales growth?

Retailers can take advantage of the opportunities created by an increase in choice and convenience by using new channels to build brand awareness and loyalty, and by offering a flexible shopping experience across a number of channels. Factors such as a broad online presence and a higher share of searches can all raise brand awareness and increase sales across channels.

An econometric analysis of the key drivers of sales in the UK women's dresses market and the German domestic appliance market reveals the magnitude of this impact. **A presence across channels helps leading retailers increase their store and total sales. This effect results from increased awareness of retailers' products built through a broad online presence, and the expansion of these retailers' non-store sales, which are found to be largely incremental to their store sales.** Awareness generated through websites, apps, and online marketplaces creates a positive effect across all sales channels, not just online.

Figure 2. Key drivers of sales for retailers in the UK women's dresses market and the German domestic appliance market

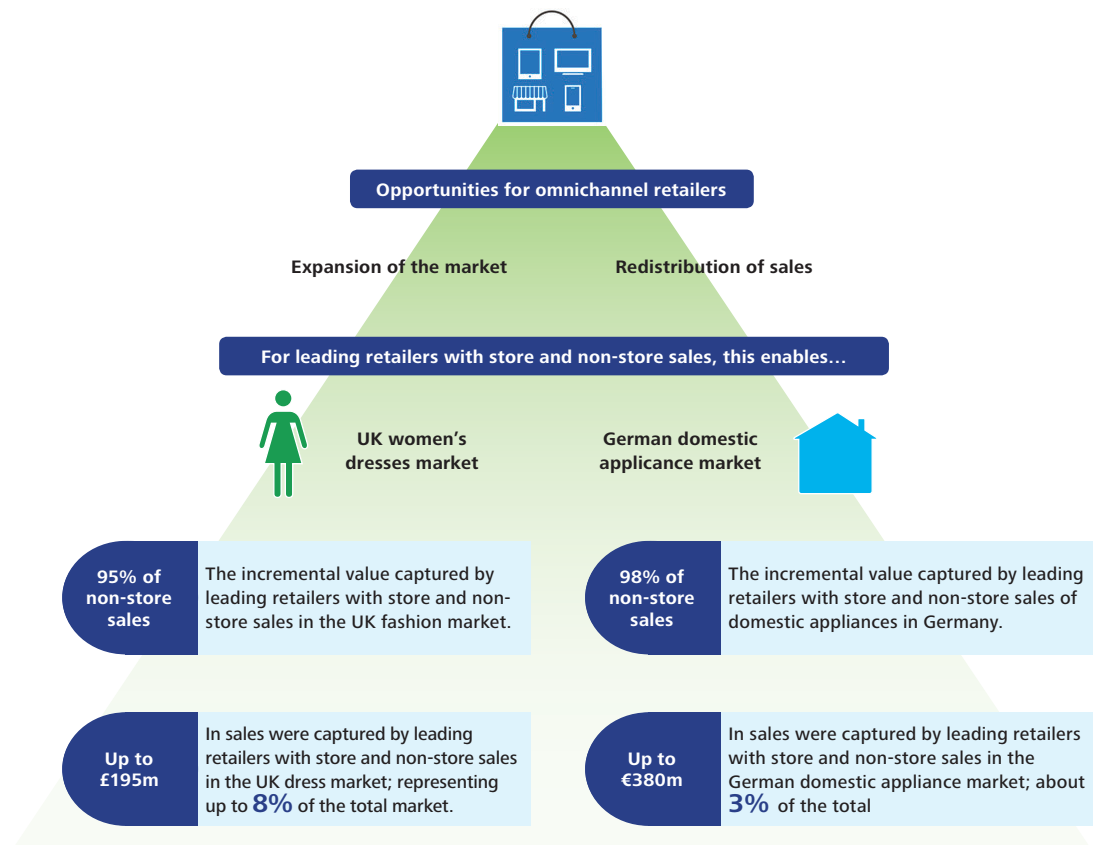


Source: Deloitte analysis

Note: non-store sales include sales through websites, catalogues, mobile and tablets

Leading retailers with presence across store and non-store channels have succeeded in capturing additional sales through non-store channels, through increased awareness of their products, an expanded market and/or a share of sales captured from competitors, and through access to fast-growth channels. These retailers may have captured up to £195m in sales in the UK women's dresses market in 2012 in this way and up to €380m in the German domestic appliance market, representing 8% and 3% of total sales in the respective markets.<sup>5</sup>

**Figure 3. The impact of presence across store and non-store channels on leading retailers**



Source: Deloitte analysis

In addition, in the UK women's dresses market, retailers with a smaller store footprint, and those with a higher share of non-store sales, captured a higher level of incremental value from non-store sales. This suggests that **by combining store and non-store presence leading retailers have been able to attract new customers and appeal to distinct markets – in doing so they not only increase their level of non-store sales, but they do this at very little cost to their existing sales.**

While specific modelling would be required to extend this analysis to other markets, these results provide a high level indication of the potential scale of incremental sales that may have been captured by leading retailers with presence across store and non-store channels in other markets.

Assuming a similar level of incremental value per € spent, and taking account of how retailers' incremental sales vary with their share of non-store sales, it is estimated that leading retailers with presence across store and non-store channels may have captured up to €6.7bn in incremental sales in the five largest European fashion markets, and in the order of €1.4bn in incremental sales in the five largest European home and garden markets in 2013.<sup>6</sup>

## How can retailers realise the omnichannel opportunity?

Leading retailers are already developing a variety of strategies in order to embrace the opportunities created by omnichannel retailing. These strategies blur the boundaries between channels including online and offline. They include the use of the store in new ways, such as installing in-store technology to enable shoppers to browse the retailer's catalogue and alternative offers conveniently, and place orders; using the store as a display site for certain products, combined with home-delivery options; as a collection point for online and mobile orders; or as an experience place to build loyalty.

Omnichannel strategies also include achieving broad presence across own and third-party online sites to maximise opportunities to showcase the brand through consumers' purchase journey; offering flexible delivery options for items purchased through non-store channels, and options to deliver within a short period of time; or using new technologies such as location recognition or tracking consumers' purchase history across channels, for customers that have signed up with these retailer's services, to inform of relevant services or avoid having to repeat stages of the purchase journey.

**Retailers are also using omnichannel retailing to unlock cross border opportunities.** In the EU, the number of consumers who have bought cross-border has doubled since 2008. Retailers in the UK and Germany generated over €8bn in online retail exports in 2012.<sup>7</sup> Omnichannel strategies can help retailers further expand their international presence, capturing sales in new markets in a more agile fashion. Retailers' strategies include using owned and/or third-party online sites to sell internationally, potentially combined with the opening of flagship stores to showcase products and act as collection/delivery points, and using a range of fulfilment options – from home-based logistics centres to partnering with third-party international delivery networks.

In order to obtain additional insight into how retailers perceive the opportunities created by omnichannel retailing, and omnichannel strategies, interviews were conducted with leading retailers in Europe. These retailers operate across sectors, including groceries, fashion, furniture and home products, and vehicle maintenance and DIY; and the majority of them were based in either the UK or Germany. Retailers often expressed the view that adoption of omnichannel retailing will be inevitable, and that retailers who do not do so will lose out, but that consumer demand for omnichannel shopping is ahead of most retailers' ability to fulfil it currently.

This report's tips for realising and exploiting the full potential of omnichannel retailing are set out overleaf. These have been informed through our own research and the interviews with retailers.

Agility and flexibility across channels could become a key differentiator for retailers, who can also benefit by exploiting high growth channels such as mobile and social media and by being quick to embrace new technologies ranging from location recognition services to new forms of online payments. **As omnichannel shopping becomes pervasive, embracing these trends effectively and promptly and continuing to adapt to technology-enabled changes in consumer behaviour can enhance retailers' competitive positions.**

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# Tips to realise the omnichannel opportunity

## Pursuing a customer-centred omnichannel strategy

- Retailers should continuously seek to understand their customers' behaviours in the new environment/the different paths to purchase, and enable their channels to operate flexibly to allow customers to use the channel of their choice at any point of the journey.
- Retailers should seek to be present across a breadth of channels, from stores and catalogues to websites, apps and social media, in order to maximise the chances that consumers find them and engage with them at any stage of the shopping journey.



## Taking a holistic view

- Retailers need to promote a culture across the organisation that embraces omnichannel retailing, promoted by the company's executive leadership.
- Retailers should move towards a model that remunerates staff for sales that happen in their catchment, and attribute costs and revenues on this basis, rather than by channel.
- Retailers need to be prepared to align their entire operations with omnichannel retailing, from marketing and distribution, to staffing and IT.

## Integrating channels

- Retailers should ensure product information and prices are consistent across channels, but make use of the specific advantages of each channel to engage consumers and market their products.
- Over time retailers may need to move to an integrated IT platform from where all channels are run, possibly with different front ends.



## Streamlining logistics

- Retailers can appeal to consumers who value flexibility and convenience by offering a range of fulfilment options. A re-evaluation of delivery networks and partnerships may be appropriate to accommodate this flexibility in a cost-effective way.

## Redefining the store

- Retailers will need to re-evaluate their portfolio of retail sites and make the most of stores as part of the omnichannel experience – for example by leveraging technology to enhance the store experience, using some outlets as flagship stores, or adapting some stores to be used as collection points.

## Enabling cross-border trade

- Retailers can sell internationally through their online and mobile sites, combined with home-based logistics centres, through third party international delivery networks, or through local delivery/collection centres, to test out new markets before deciding whether to establish a store presence. Leveraging alternative payment methods, which facilitate interoperability between payment systems, can help retailers further unlock the omnichannel cross-border trade potential.
- Partnerships with third parties can help retailers sell and deliver internationally while reducing the costs associated with marketing, promotions and supply chain.



## Embracing the emerging enablers

- Retailers should regularly monitor consumer adoption of new technology developments, and seek to adopt such technologies that can drive increased loyalty or help capture new customer segments.



# 1. The connected consumer

## Consumers want to be able to buy anytime, anywhere

The advent of e-commerce almost 20 years ago revolutionised retailing, and online and mobile retail sales are now worth over \$1.25trn<sup>8</sup> globally. Today, over 74% of individuals in the EU have internet access,<sup>9</sup> with the majority of consumers in the UK, Germany, France, Spain and Italy now owning smartphones,<sup>10</sup> and about 18% owning tablets.<sup>11</sup>

Consumers are now using new technologies to research products and shop through a variety of channels. These connected consumers can shop from retailers regardless of geography, store opening hours or their own location. Retailing is therefore becoming truly mobile, allowing customers to shop anytime, anywhere, and making research, shopping and item collection flexible regardless of the channel used.

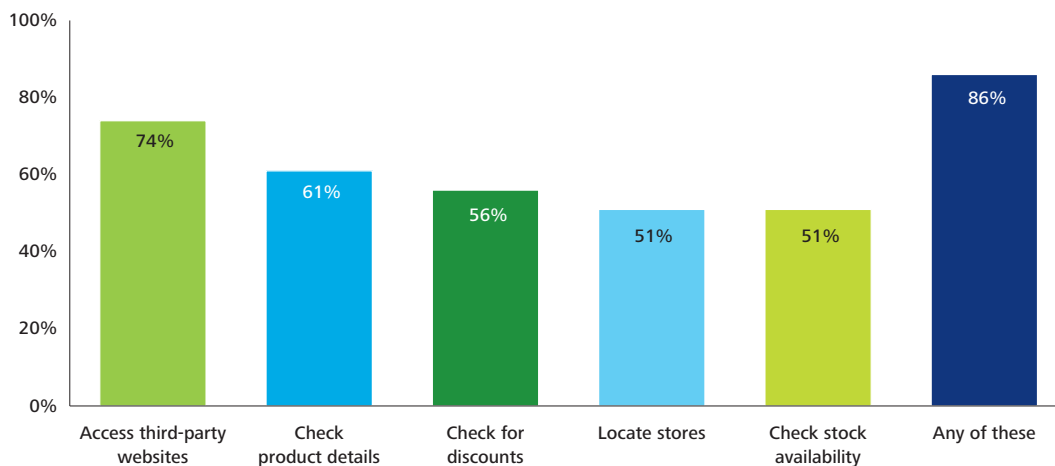
### Consumer technology has changed the shopping experience

Connected consumers are using a range of tools to discover new products and brands, to do research on product availability and price, to complete and fulfil their purchase, and to build loyalty with retailers. 86% of UK and German consumers use their computers, mobile phones and tablets for a range of shopping related research activities; 74% of UK and German consumers use third-party websites for a range of shopping related research activities; 74% of UK and German consumers use third-party websites such as online marketplaces, review sites, and price comparison sites in relation to shopping.<sup>12</sup>



**Figure 4. Proportion of consumers who use the internet in relation to shopping**

Question: For which of the following activities do you use your [computer/smartphone/tablet]?



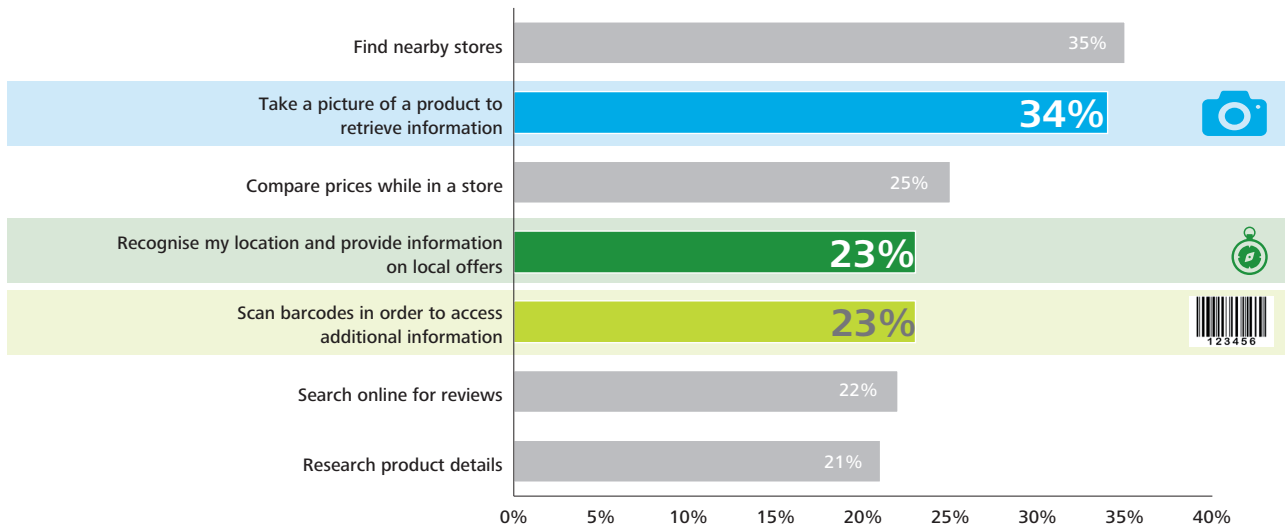
Source: Deloitte omnichannel consumer survey, 2013

Consumers are using a range of technologies and resources during the course of a single purchase: **over 30% of UK and German consumers reported using a variety of channels during a recent purchase. 34% of consumers report using online resources, including social media and mobile apps, before or during a recent purchase in a store, while about 30% of consumers used other channels prior to making a recent online or mobile purchase.**<sup>13</sup>

Mobile and social media are becoming a prevalent part of the shopping experience. 29% of internet users follow brands on social media, while 22% of them claim to be influenced by a retailer's social media presence.<sup>14</sup> £1.5bn per year is currently spent through mobile in the UK, and it is estimated that mobile influences £15bn in UK spending.<sup>16</sup> 56% of adults in the UK and Germany use their phones for shopping-related research,<sup>17</sup> and consumers are embracing emerging mobile-specific technologies such as location recognition and barcode-scanning in the context of shopping.

**Figure 5. Proportion of smartphone owners who use their phone to...**

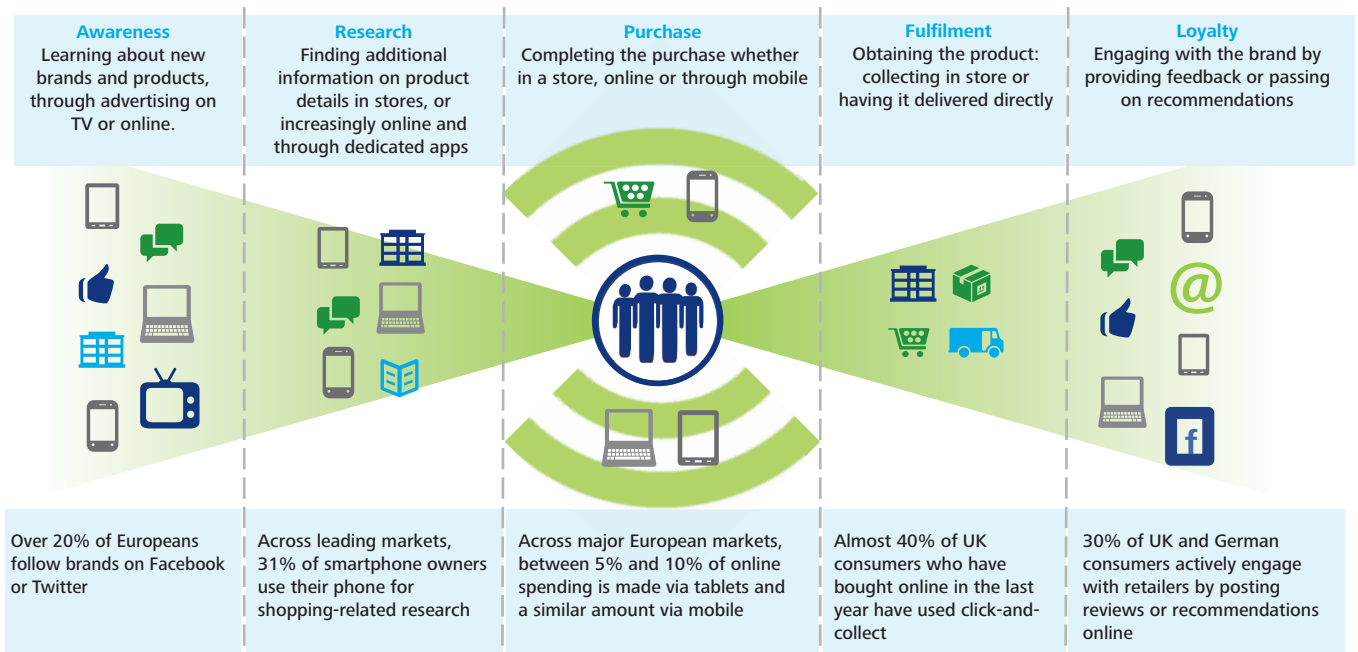
Question: for which of the following activities do you use your smartphone?



Source: Deloitte omnichannel consumer survey, 2013

The purchase journey has become flexible and sophisticated as a result of the wider range of channels connected consumers use while shopping. In this environment a presence across channels helps retailers ensure that consumers can find them and engage with them at any stage of the shopping journey.

**Figure 6. The Omnichannel Purchase Journey**



Sources: The Economist; Planet Retail; Planet Retail; Mintel; Deloitte consumer survey

Omnichannel retailing responds to this trend, by seeking to provide a flexible shopping experience regardless of whether the customer walks into a store, browses the web, or orders via a mobile phone. The ultimate objective of omnichannel retailing is to provide a seamless experience, where the consumer engages primarily with the brand, instead of the channel.

## 2. The omnichannel retail revolution

### Omnichannel retailing creates benefits for consumers and opportunities for retailers

Omnichannel retailing has the potential to reshape retail markets. It empowers connected consumers by making it easier for them to access information and compare product details; by increasing choice; and by increasing convenience and the range of options for shopping.

These trends have the potential to enable new purchases where the product or service desired was otherwise not available to the consumer, by enabling each channel to serve consumers at any point of their shopping journey. For example, an increase in product awareness through websites, apps, mobile or a presence on online marketplaces can lead to additional store sales. However, increased choice, information and convenience also increase competition.

As omnichannel shopping becomes pervasive in Europe, measuring its various impacts is crucial to gauge the extent to which retailers can capture increased sales and retain or enhance profitability, and to inform the development of omnichannel strategies.

To examine and estimate the magnitude of these impacts, this study analyses consumer behaviours and the key drivers of sales in the omnichannel marketplace, seeking to answer the following questions:

- *Do omnichannel consumers have the potential to expand the market?*
- *Is there value for retailers in targeting omnichannel consumers?*



A survey of shoppers in the UK and Germany ("The Deloitte survey") has tested the extent to which omnichannel consumers are reshaping the market and the opportunities facing retailers as a result of omnichannel shopping behaviour.

- *Do omnichannel strategies help retailers capture incremental sales and what is their impact on retailers' store sales?*
- *How can retailers use different channels to raise brand awareness and drive sales growth?*



An econometric analysis has tested how retailers' sales have been affected by combining a store presence with non-store channels such as online, mobile and catalogues, and the impact of building brand awareness across channels.

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These trends have the potential to enable new purchases where the product or service desired was otherwise not available to the consumer, by enabling each channel to serve consumers at any point of their shopping journey.

## Omnichannel retailing supports increased choice and convenience

Unconstrained by physical location, omnichannel consumers are able to access a wider range of brands and products. For instance consumers in rural areas can shop with retailers who only have a physical presence in larger cities. Consumers can also buy from retailers based in other countries, or access a range of niche or specialty brands.

In the UK and Germany up to 25% of recent online and mobile purchases involved products which customers could not have purchased locally. This represents nearly €9bn in online sales in the UK in 2012,<sup>18</sup> and up to €7bn in online and mobile sales in Germany.<sup>19</sup> When consumers were surveyed about a recent online purchase, their motivations for buying online suggest that **up to 37% of transactions made online may be additional to existing in-store purchases.**<sup>20</sup>

**Figure 7. Consumers' motivation for buying online**

Question: For which of the following activities do you use your [computer/smartphone/tablet]?



Source: Deloitte omnichannel consumer survey, 2013

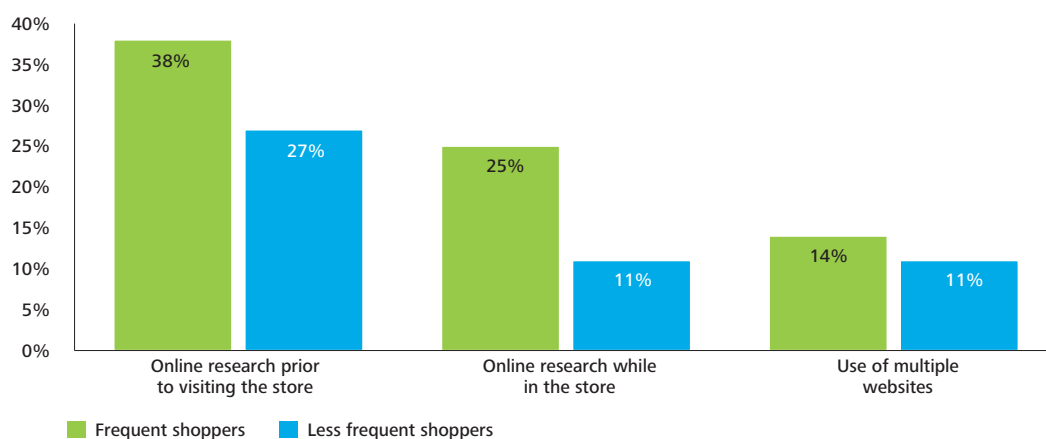
Consumers can also shop flexibly by buying through non-store channels and having a product delivered to a store of choice. 30% of UK and German consumers indicate convenience as a reason for making a recent purchase online.<sup>21</sup> Omnichannel retailing can further increase convenience for consumers through the wider range of options for delivery and fulfilment, including the option to collect from store or have items delivered promptly from local delivery points.

## Omnichannel retailing creates opportunities to capture lucrative markets

Almost 20% of consumers in the UK and Germany shop online at least once a week,<sup>22</sup> and these consumers also shop offline more frequently than average. They spend more than average, accounting for up to 70% of retail spending,<sup>23</sup> (equivalent to up to €560bn across these two markets in 2012). These **frequent, higher spend shoppers are more likely to use multiple channels during a purchase**. For example, they are 30% more likely to do online or mobile research and use multiple websites before visiting a store; they are almost twice as likely to use mobile technology while shopping in-store.<sup>24</sup>

**Figure 8. Proportion of consumers who combined multiple channels during a recent purchase**

Question: Prior to your recent purchase, did you do any of the following?

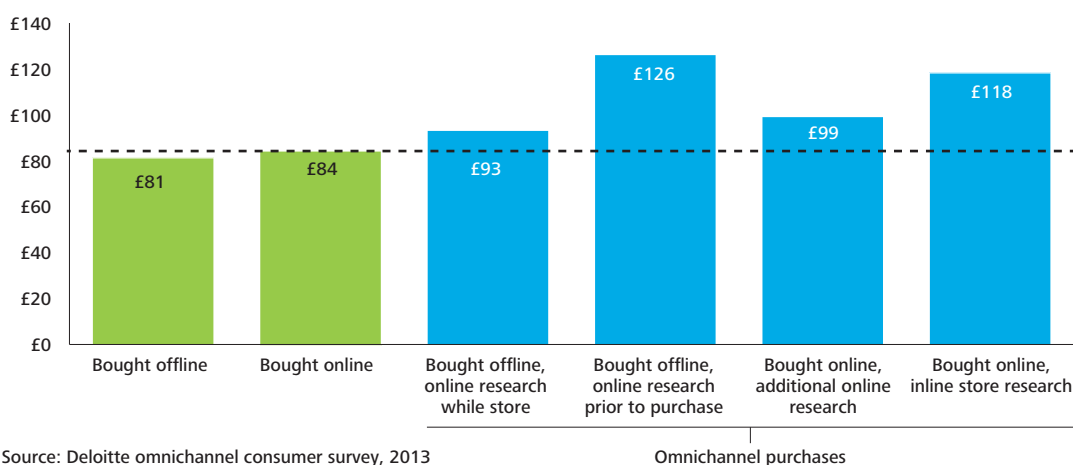


Source: Deloitte omnichannel consumer survey, 2013

**High-spend purchases are also more likely to involve multiple channels.** Whether the purchase was completed in a store or through non-store channels, high-spend purchases are more likely to be preceded by research through alternative channels. Purchases by consumers who reported researching online before buying in-store were of 50% higher value than purchases made by those who shopped through a single channel.<sup>25</sup> When asked about a recent purchase, 63% of UK and German consumers who had spent over £100 used multiple channels during their purchase, compared to 33% of all consumers.<sup>26</sup>

**Figure 9: Average spending by channel of purchase**

Question: How much did you spend on your recent purchase? Prior to purchasing, did you do any of the following?



Source: Deloitte omnichannel consumer survey, 2013

A presence across multiple channels and online platforms will help raise awareness of the retailer and increase the likelihood of frequent shoppers and buyers of higher value items learning about the retailer's products.

## Retailers with store and non-store presence can build product awareness and capture incremental sales

A number of traditional retailers are developing online and mobile propositions, and pure-play online retailers and electronic marketplaces are now a feature in many markets. Retailers want to know to what extent developing an omnichannel proposition enables them to:

- Capture incremental consumer spending brought about by increased choice and convenience.
- Capture sales away from other retailers, including a proportion of spending from frequent shoppers and high-value purchases, which are more likely to involve multiple channels.
- Gain a competitive advantage by building brand loyalty, targeting customers more effectively through marketing and personalised offers, and offering flexible options for fulfilment and delivery.

To test the extent to which leading retailers with store and non-store presence have captured incremental sales, whether resulting from raised awareness, market expansion and/or redistribution of consumer spend, an econometric analysis was undertaken of store and non-store sales drivers in two specific markets: the UK market for women's dresses and the German domestic appliance market. These two markets were chosen to capture different types of shopping behaviours, from more spontaneous purchases in the women's dresses market to larger and more durable purchases in the home and garden market.

### The markets

The UK market for women's dresses, worth £5.4bn in 2012, has been quick to adapt to omnichannel retailing. The online share of the women's dresses market in the UK has increased from about 11% to 21% from 2009 to 2013. This is partly driven by pure-play online retailers, but the top high-street retailers in this market now all sell through non-store channels as well. The analysis covers 17 leading retailers with a store and non-store presence in this market; these retailers hold a 54% share of the total market, and 40% of the non-store market (66% excluding pure play online retailers).<sup>27</sup>

The German market for domestic appliances is worth €11.4bn in 2012. Non-store sales have doubled, from 12% to 21% of the market from 2009 to 2013. Although a number of retailers are embracing an omnichannel strategy, the majority still sell through a single channel. About 50% of the online market for domestic appliances is held by pure-play online retailers, whereas retailers present across channels account for 15% of online sales.<sup>28</sup>



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### The econometric model

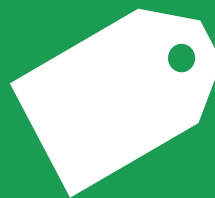
An econometric model was built to estimate the sales that retailers with store and non-store presence are capturing, whether due to market expansion and/or redistribution of sales among retailers.

The model measures the net effect of presence across store and non-store channels for retailers by considering the impact of non-store presence on offline sales in two ways: directly in terms of sales diversion from stores; and indirectly through increased product awareness. These two components together allow the impact of an omnichannel strategy on store and non-store sales to be understood.

This analysis focusses on those leading retailers with two sources of sales: store sales, and non-store sales (i.e. through websites, catalogues, mobile, tablet and eBay). The model also considers web searches, advertising expenditure and store space as drivers of sales.

The model examines the relationship between store and non-store sales by analysing information on retailers' advertising, their presence on eBay and web searches (measured through google trends) for a specific retailer and product. The model allows these factors to impact both store and non-store sales, and to have both a contemporaneous and a long-run cumulative effect. As well as looking at the drivers of store and non-store sales independently, the model considers the interaction between these channels.

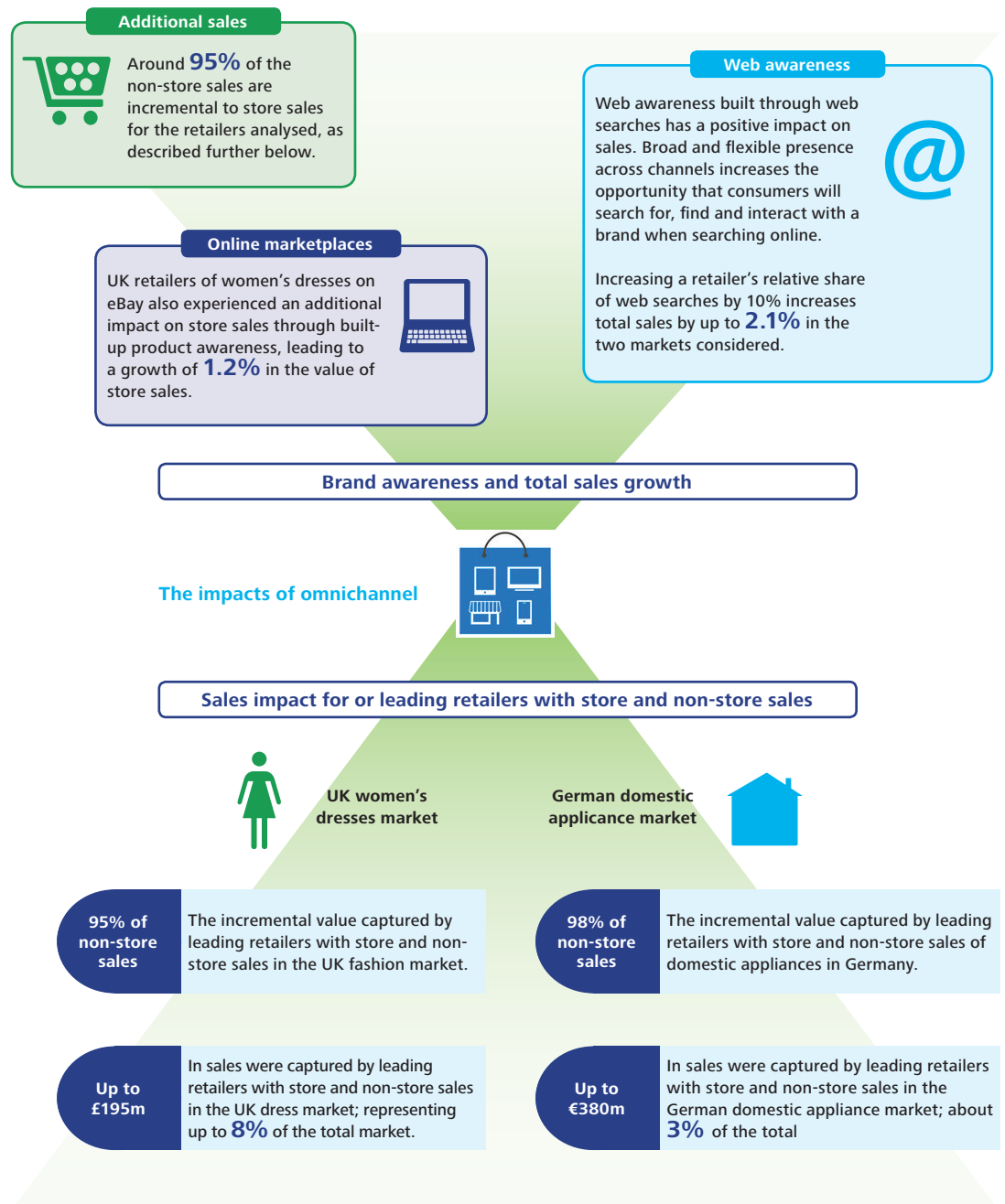
The model can estimate the proportion of non-store sales that are incremental to existing store sales for a retailer, and it also estimates the impact of variables such as web awareness, advertising and presence on eBay on sales. The full details of the econometric model are provided in Appendix A.



The analysis finds that, in both of the markets analysed, **those retailers with presence across store and non-store channels have been successful in capturing additional sales by building product awareness in the web and through non-store sales: for every £100 spent through non-store channels, over £95 is incremental to store sales.**<sup>29</sup>

Increased product awareness resulting from a broad online presence and a higher share of searches increases total sales, both in stores and through non-store channels. Broad and flexible presence across channels increases the chance that consumers will search for, find and interact with a retailer's brand when browsing for a product. The model finds that increasing a retailer's relative share of web searches by 10% increases total sales by up to 2.1%, while presence in online marketplaces (measured by presence on eBay) has a positive impact on total sales.<sup>30</sup> This impact is over and above the effect of paid advertising in raising product awareness, which the model also identified as a key driver of sales.

Figure 10. The impact of presence across store and non-store channels for retailers in the UK women's dresses market and the German domestic appliance market



Source: Deloitte analysis



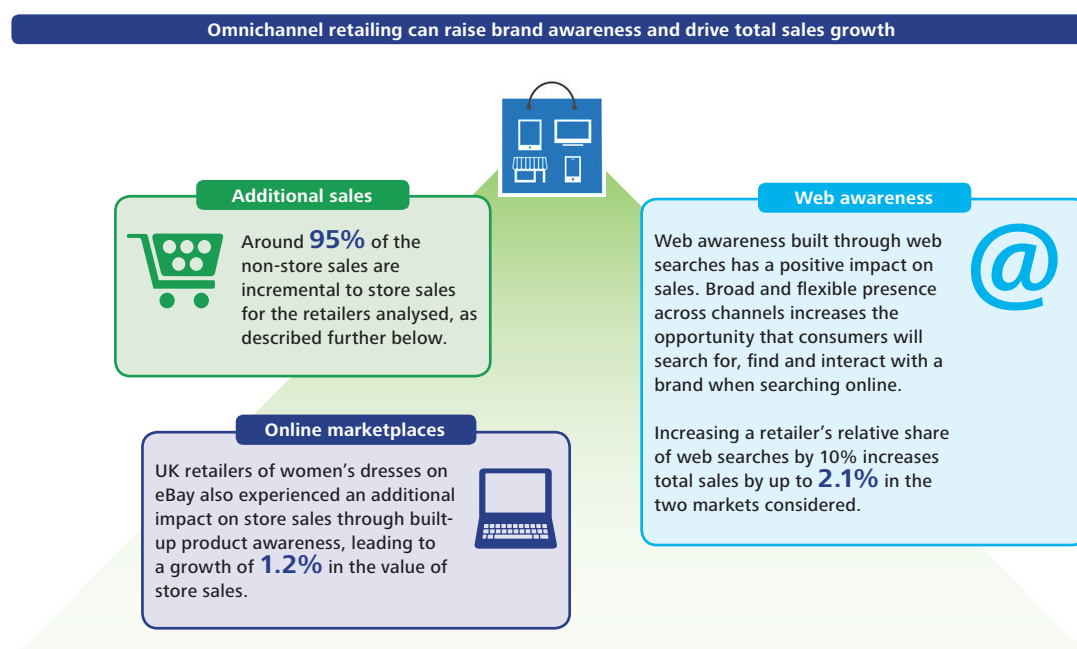
## The UK fashion market

The analysis of the UK market for women's dresses examines the impact of store and non-store presence for 17 retailers with offline and online sales, out of the 30 leading women's dresses retailers in the UK, over the period 2009 to 2013.

### Impact of key drivers of store and non-store sales

Through presence across store and non-store channels, retailers create new sales opportunities, including opportunities for building brand awareness and engaging consumers. A presence on multiple websites, including online marketplaces, and product awareness built over time through web searches, drive sales for leading retailers. A broad presence online increases the chance that consumers will find a retailer's brand when browsing for a product, building product awareness. Advertising through a range of media and channels also emerged as a key driver of sales, with a 10% increase in advertising expenditure increasing total sales by 1.4%.<sup>31</sup>

Figure 11. The impact of presence across store and non-store channels for retailers in the UK women's dresses market



Source: Deloitte analysis

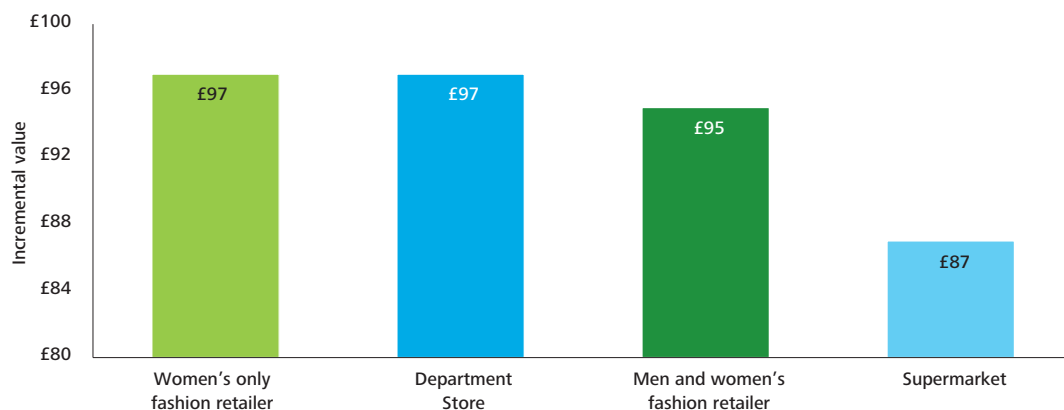
### The impact of non-store sales across leading retailers

On average, 95% of the value of non-store sales of 17 of the leading retailers in the women's dresses market is incremental to store sales.<sup>32</sup> These incremental sales result from raised awareness, market expansion and/or a redistribution of sales across retailers.

For 12 of the 17 retailers considered over 95% of sales were incremental; for one retailer as little as 1.2% of non-store sales were diverted from stores.<sup>33</sup> Department stores and dedicated fashion retailers experience a higher incremental impact compared to supermarkets. Supermarkets already enjoy very high name recognition, whereas high-street retailers and smaller brands benefit greatly from increasing access, awareness and brand affinity. In addition, **retailers with a smaller store footprint tend to experience a higher level of incremental sales** – retailers with fewer stores benefit from using a variety of channels to raise awareness of their products and expand their customer base.

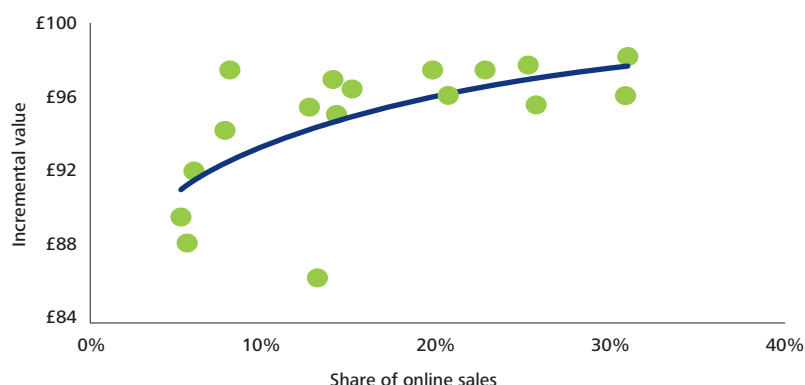


**Figure 12: Incremental value generated by every £100 spent online, by average price and type of retailer**



Source: Deloitte analysis

**Figure 13: Incremental value of an additional £100 of online spending, by share of online sales**



Source: Deloitte analysis

Retailers with a higher share of non-store sales captured a higher level of incremental value from these sales. This suggests that retailers with store and non-store presence are able to attract new customers and appeal to distinct markets through their omnichannel presence – in doing so they not only increase their level of non-store sales, but they do this at very little cost to their existing sales.

On the basis that these retailers account for 40% of the online market for women's dresses in the UK, it is estimated that these leading retailers have captured up to £195m in incremental sales in 2012.<sup>34</sup>

The UK fashion market includes a wide variety of products and retailers, and therefore specific modelling would be required to understand the incremental impact of store and non-store presence on total fashion sales. However, assuming the same degree of incremental sales per £ spent in non-store channels for fashion as for dresses, it is estimated that leading retailers with store and non-store presence may have captured up to £1.7bn in incremental sales through non-store channels in 2013.<sup>35</sup>

#### The role of online marketplaces

Some retailers with store and non-store presence considered in this analysis sell through online marketplaces such as eBay in addition to their own websites. A presence on eBay can help retailers capture incremental value by raising brand awareness: a presence on an online marketplace can increase the likelihood of a retailer appearing in web search results; some consumers may also search online marketplaces directly. **The analysis indicates that a presence on eBay generates growth of 1.2% in the value of store sales.**<sup>36</sup>

## The German domestic appliance market

At present, few retailers in the German domestic appliance market have significant sales through multiple channels. However, in the last few years many leading retailers have begun establishing a presence across multiple channels and among leading German retailers non-store sales of domestic appliances have increased by about 28% year-on-year since 2009.<sup>37</sup> Online sales now make up over 20% of the €11.4bn of sales in the domestic appliance market.<sup>38</sup>

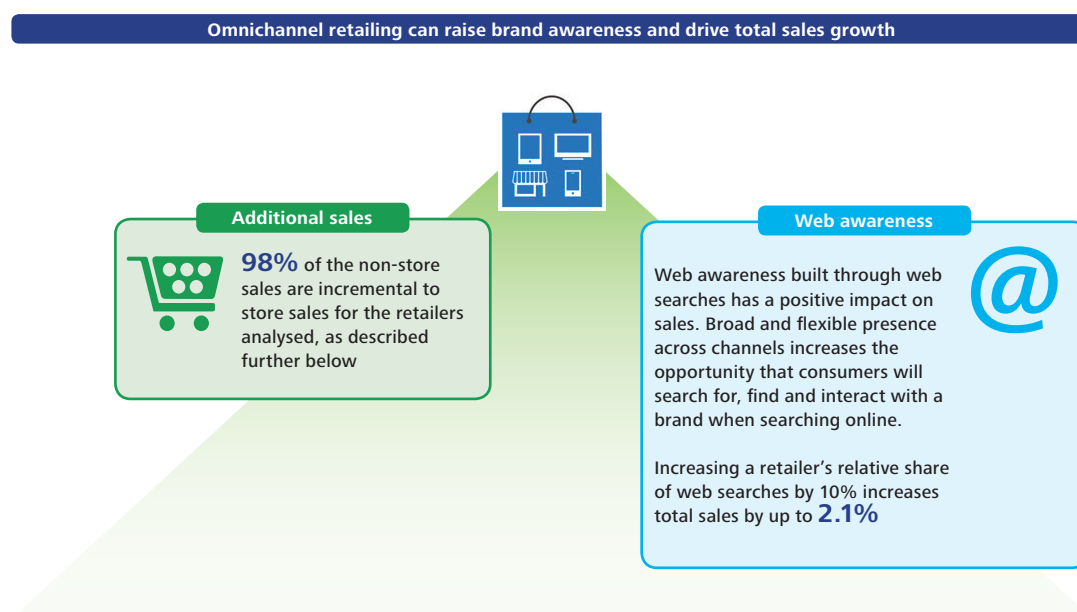
Although the leading online retailers are pure-play e-commerce retailers, omnichannel retailers are gaining ground in this market. The econometric model analyses the sales of four leading retailers who sell through multiple channels and hold about 15% of the non-store domestic appliance market. These retailers have seen their sales grow by about 18% year-on-year over the period 2009-2012, exceeding the growth rate of 3% in the market as a whole.<sup>39</sup> As a result, the share of the total market held by retailers with store and non-store presence has increased by about 50% since 2009.<sup>40</sup>

### Impact of key drivers of store and non-store sales

Research plays an important role in this market, since purchases are more likely to be of durable products and are less likely to be made spontaneously. About 50% of purchases of home and garden products in Germany involve additional online research,<sup>41</sup> whether the purchase was eventually completed in-store or online. Popular sources of information include third-party websites, web searches and the retailer's own website. Presence across store and non-store channels can help companies raise awareness of their products and engage with customers seeking information.

**Non-store sales, a presence on online marketplaces, and product awareness built over time through web searches all lead to an increase in total sales for leading retailers.** This is in addition to awareness built through paid advertising, which the model also identified as a key driver of sales.

**Figure 14. The impact of presence across store and non-store channels for retailers in the domestic appliance market in Germany**



Source: Deloitte analysis

## The impact of non-store sales across retailers with store and non-store presence

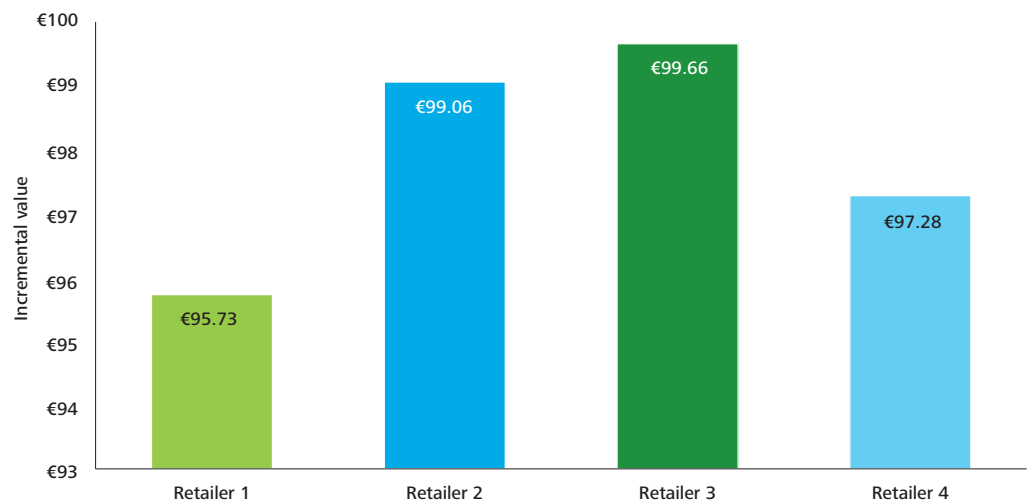
For the retailers with store and non-store presence in the German market for domestic appliances, about 98% of non-store sales are incremental to their existing store sales; that is, for every €100 spent through non-store channels, as little as €2 is diverted from store sales.<sup>42</sup> As omnichannel retailers have only recently developed an omnichannel proposition, this level of incremental sales suggests that leading retailers have succeeded in capturing customers they previously could not reach, and in raising awareness of their products.

The extent to which non-store sales are incremental to their store sales varies across the market. Retailers with a higher share of non-store sales tend to experience higher incremental value from these sales. This suggests that retailers who are successful at capturing non-store sales are benefitting from both the potential expansion of the market and from sales captured away from other retailers.

Selling through non-store channels may have helped these four omnichannel retailers capture sales worth up to €380m in 2012; this represents about 3% of the total value of the market for domestic appliances in Germany.<sup>43</sup>

The home and garden market encompasses a wide range of products and retailers, and therefore specific modelling is required to capture wider effects.<sup>44</sup> However, if the results from the domestic appliance model are extended to the German market for home and garden products as a whole and a similar behaviour among leading retailers is assumed, retailers with store and non-store presence in the German home and garden market may have captured additional non-store sales worth up to €460m in 2012.<sup>45</sup>

Figure 15: Value of incremental non-store sales captured by retailers with store and non-store presence



Source: Deloitte analysis

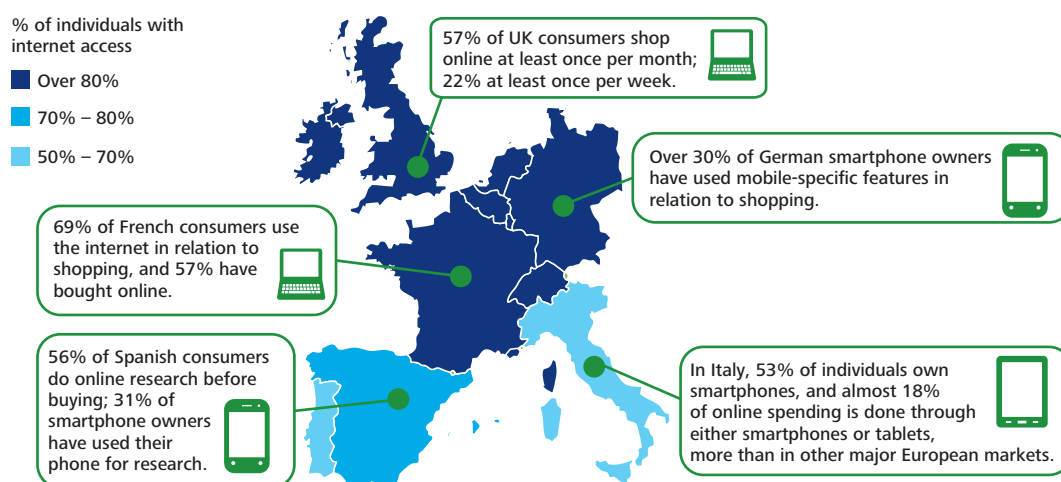
## Other European markets

While consumers across Europe are adopting new technologies and sources of information in relation to shopping, the level of non-store sales across Europe varies significantly by country.

Online sales in the UK made up about 9% of the total retail market in 2012. In Germany and France, the second and third largest online markets in Europe, 7% and 6% of total retail sales were online in 2012.<sup>46</sup>

Spanish and Italian consumers are using multiple channels for research, but still generally buy in stores: about 3% of the retail market comes from non-store channels in Spain, and about 2% in Italy<sup>47</sup> in 2012.

**Figure 16. Use of different channels in connection to shopping across Europe**



Sources: data on online research and purchase from Eurostat; data on smartphone penetration from comScore; data on mobile spending from Planet Retail; data on German smartphone use from Deloitte survey.

### Omnichannel retailing in European fashion markets

The two largest fashion markets in Europe are the UK and Italy, and each of these markets is estimated to be worth over €35bn in 2013. The fashion markets in France and Germany are worth an estimated €28bn in 2013, with the Spanish market worth €14bn.<sup>48</sup>

In general, the fashion industry has been quick to embrace omnichannel retailing and a higher share of sales come through online and mobile channels. In 2013, 20% of fashion sales in Germany are estimated to take place online, compared to about 15% the UK and France.<sup>49</sup>

The value of online sales is generally lower in Spain and Italy. Estimates show that online sales of fashion make up about 4% of fashion sales in Italy and 6% in Spain in 2013.<sup>50</sup>



### Omnichannel retailing in home and garden markets across Europe

Estimates show that the UK has the largest online market for home and garden products in 2013 in Europe, valued at €3.1bn, accounting for about 8% of all online sales in 2013.<sup>51</sup>

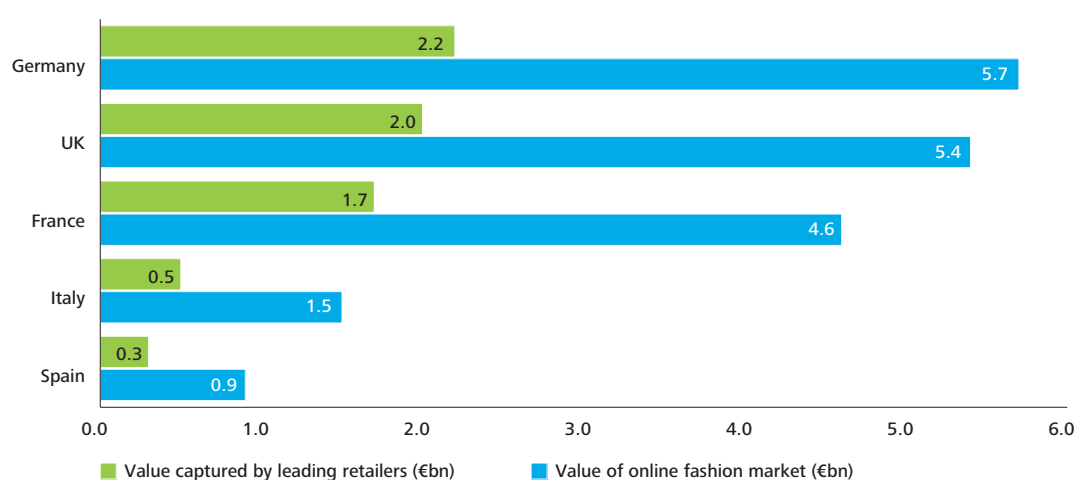
Online sales of home and garden products are worth a similar amount in Germany, but make up a smaller share of non-store trade at 6%. In France, home and garden products sold online amount to an estimated €2.2bn in 2013, about 6% of the non-store retail market in France.<sup>52</sup>

The online market for home and garden products in Italy is smaller, at €0.6bn, although these sales make up a substantial share, 13%, of all non-store trade.<sup>53</sup>



Given the large differences between national fashion and home and garden markets and retailers in each country, specific modelling would be required to capture the effects of omnichannel retailing across Europe. However, employing the results from the analysis of the UK fashion market provides a high level indication of the potential impact of store and non-store presence on leading fashion retailers in other European markets. Assuming a similar level of incremental value per € spent, and taking account of how retailers' incremental sales vary with their share of non-store sales, it is estimated that leading retailers with presence across store and non-store may potentially capture up to €6.7bn in incremental sales in the five largest European fashion markets in 2013.<sup>54</sup> These are likely to come both from some market expansion through omnichannel retailing and redistribution of sales across retailers.

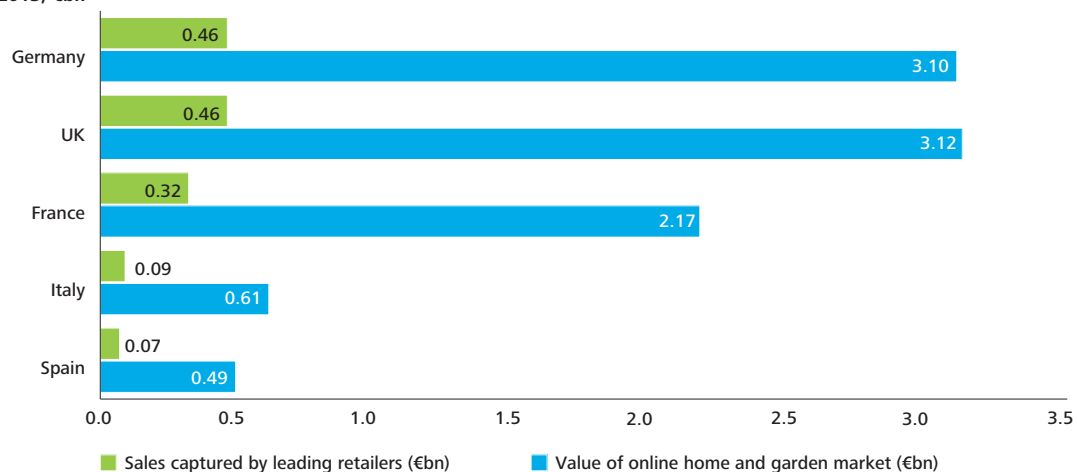
**Figure 17. Estimated sales captured by retailers with store and non-store presence in European fashion markets, 2013, €bn**



Source: Deloitte econometric analysis, applied to market data from Planet Retail

A similar approach can be used to obtain a high level indication of the sales that could be captured by leading retailers in other European home and garden markets, assuming similar level of incremental value per € spent to the German appliance market, and taking account of how retailers' incremental sales vary with their share of non-store sales. On this basis, retailers with store and non-store presence in the home and garden market may have captured up to €1.4bn in incremental sales in the five largest European markets in 2013.<sup>55</sup>

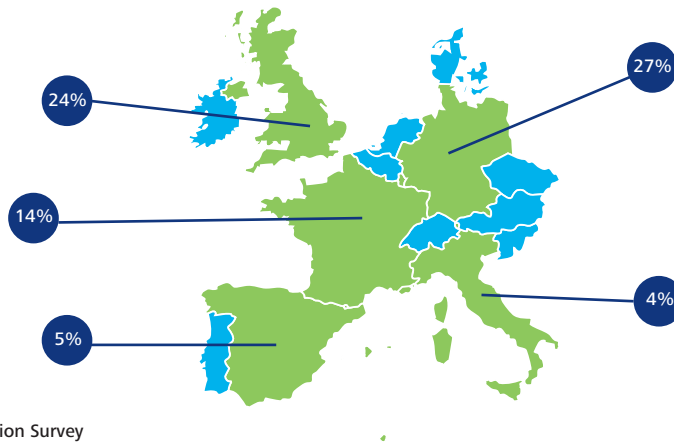
**Figure 18. Estimated sales captured by retailers with store and non-store presence in European home and garden markets, 2013, €bn**



Source: Deloitte econometric analysis, applied to market data from Planet Retail

### 3. The international potential of omnichannel retailing

Figure 19. Proportion of EU cross-border shoppers who have bought from each of the five largest EU countries



Source: EU Commission Survey



In addition to reshaping domestic markets, omnichannel retailing creates new opportunities for retailers to access foreign markets.

Cross-border online trade between the six largest markets worldwide is already estimated to be worth over \$100bn annually,<sup>56</sup> and this figure is predicted to triple by 2018. **The number of EU residents who have made an online or mobile purchase from an international seller has more than doubled since 2008** and in 2013 15% of EU residents made a cross-border purchase.<sup>57</sup>

Currently, books, DVDs and electronic products such as computers and cameras are among products which are more likely to be purchased cross-border.<sup>58</sup>

Retailers in the UK and Germany generated over €8bn in online retail exports in 2012.<sup>59</sup> Omnichannel strategies can help retailers further expand their international presence, capturing sales in new markets in an agile and cost-effective fashion. Retailers are using a range of strategies to capture this cross-border opportunity, including:

- Accepting international sales through their domestic website, and delivering to these territories, via their home-based logistics centres, through third party international delivery networks, or through local delivery/collection centres sometimes using local retailer warehouses/premises.
- Building locally customised websites, combined with the range of delivery options described above.
- Opening “branded shops” on third-party online marketplaces, and using these marketplaces’ international delivery networks, or other delivery options, to get the product to the customer.
- Combining the opening of flagship stores to showcase products and act as collection/delivery points, with a local online presence from where a wider range of orders may be taken.

Cross-border omnichannel strategies also allow retailers to receive real-time local feedback of their products, and customise product offerings and prices to consumers in different markets.

As internet access and mobile penetration increase worldwide, geographic barriers will be further reduced, opening up important new markets to retailers.

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Cross-border online trade between the six largest markets worldwide is already estimated to be worth over \$100bn annually.

## UK and German retailers are embracing cross-border online retailing

### Value of cross-border online trade for UK and German retailers



UK cross-border online exports are estimated to be worth £3.8bn, compared to total annual retail exports of £23.8bn.

Online exports are projected to increase by 26% year-on-year; retail exports are currently growing at 9%.

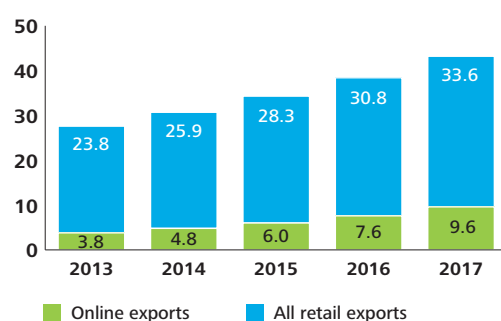
Source: OC&C Consulting and Google "Britain's Retail E-mpire," ONS export data



Online exports from Germany are estimated to be worth at least €3bn, compared to a total online retail market of nearly €28bn.

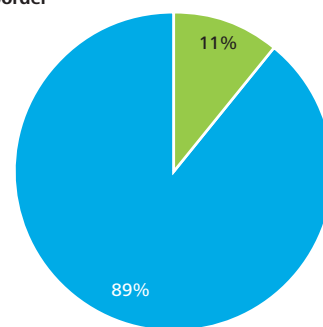
Source: EU Commission and Civic Consulting Survey, 2011

#### Projected value of online and cross-border retailing for the UK (£ billions)



Source: OC&C Consulting and Google, "Britain's Retail E-mpire"

#### Share of the German online retail market that is cross-border



Source: EU Commission and Civic Consulting Survey, 2011

### Key markets for UK and German cross-border retailers



Key markets for online exports from the UK include Germany, China and Australia – over 40% of cross-border online shoppers in these countries have bought from UK retailers.



Germany is the most popular target for EU residents buying cross-border: across the EU 27% of cross-border shoppers have bought from Germany; for Austria, this figure reaches 90%. France, the UK and Italy are also major markets.

Source: Paypal 'Modern Spice Routes' 2013; EU Commission and Civic Consulting Survey 2011

### Cross-border trade through online marketplaces

Online marketplaces can help retailers to reach a global market in a cost-effective manner. Data on the top 100 UK retailers of women's dresses on eBay show that about one pound out of every five spent on the site is cross-border. Between them, these retailers have sold to 182 markets, with the average retailer reaching 138 markets.

Compared to the women's dress market, cross-border trade of home and garden products is more complex – products are likely to be larger and more expensive to ship internationally.

Nonetheless, almost 5% of purchases of home and garden products from eBay Germany are now cross-border. Retailers in this market have sold to 111 countries worldwide.



## Case Studies: Cross-border omnichannel retailing in Spain and Russia

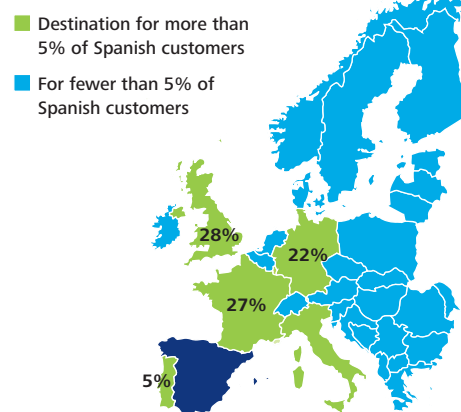
### A third of Spanish online shoppers have bought cross-border

With 33 million internet users<sup>68</sup> Spain already represents an important market for cross-border online retailers. Compared to the rest of Europe, while the online market is still developing, Spanish consumers are more likely to make cross-border purchases: a third of Spanish online shoppers have bought cross-border, a number that has increased by about 19% per year since 2008<sup>69</sup> and is projected to grow further over the next four years.<sup>70</sup>

UK retailers are currently the most popular destination for these shoppers: 28% of those buying cross-border have bought from the UK and 22% from Germany.<sup>71</sup>

Analysis of data provided by eBay UK and Germany show that electronics and fashion items are the two most popular products for Spanish customers buying cross-border. These two categories alone comprise nearly half of all sales from the platform from Spain. The increasing popularity of online shopping is reflected in sales statistics of eBay UK. For example, the sales of women's dresses from its marketplace to Spain have doubled between 2010 and 2012.

Figure 20: Most popular markets among Spanish cross-border shoppers



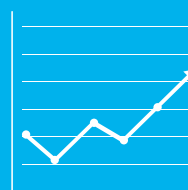
Source: EU Commission Survey

### The Russian online market could triple in size by 2015

The Russian e-commerce market was the fastest growing market in Europe in 2012<sup>72</sup> and thus presents an emerging opportunity for omnichannel retailers. Russian income levels and consumer spending have increased by 50% over the past five years,<sup>73</sup> and this has been accompanied by the adoption of new technologies. The proportion of the population with internet access has doubled over the past five years to 53%.<sup>74</sup> This surge in connections made Russia the most populous online market in Europe, in addition to having the highest number of mobile phones. While mobile phones still lead in popularity, the share of smartphone purchases was expected to reach 50% by the end of 2013.<sup>75</sup>

The adoption of these technologies has generated a boom in e-commerce. During 2012 the online retail market grew by 20% to \$12bn, with 48% of internet users making their first online purchase that year.<sup>76</sup> The Russian online market is expected to triple by 2015 to \$36bn.<sup>77</sup> It is estimated that currently about \$1bn per year of these online sales are cross-border.

Analysis of data of sales to Russia provided by eBay UK suggests strong preference (over one third of all sales) for clothing and fashion accessories among Russian buyers on the marketplace. In the coming years, affordable shipping and a wide selection of products will be retailers' keys for unlocking the market.



## Case Studies: Omnichannel retailers are gaining customers worldwide

Already, retailers ranging from high-street brands to niche specialty companies are using a variety of channels to reach cross-border markets. These case studies illustrate some of the strategies that retailers are using, and the results for their business.<sup>60</sup>

### Topshop's omnichannel strategy for entering new markets is led by flagship stores

Topshop is a British brand targeting women in their 20s and 30s seeking "catwalk-inspired designs" at high-street prices.

Topshop has been expanding internationally, using an omnichannel strategy involving online, mobile and stores. In the United States, for instance, the company uses flagship stores in major cities such as New York and Los Angeles to showcase its latest designs, while making the majority of its sales online or through smaller boutiques within department stores. To ensure that customers who cannot access their stores can still get the most from the shopping experience, Topshop has launched integrated apps for mobiles and tablets and is introducing virtual fitting rooms.

Topshop has physical stores in 39 countries and through its omnichannel strategy now sell in 112 countries.<sup>61</sup> It is tailoring its strategy to different markets, for example opening flagship stores in Hong Kong and Australia, while partnering with more established retailers in Germany. This flexible omnichannel approach is proving a success for Topshop. Its profits have increased by 26%, aided by a 33% increase in international sales.<sup>62</sup>



### One car-part dealer was able to offer same-day international delivery

One dealer of replacement parts for classic cars began selling on eBay in 2002. Since then, it has sold about 500,000 parts per year, and has received awards in recognition of their strong growth.

As its German business continued to grow, the company looked for additional sales opportunities by selling internationally through eBay. Its first step was to establish local-language sites for other major European markets, through which they could offer their full inventory.

With international demand increasing, the company faced a challenge to meet their commitments to rapid delivery. Additional investment in a logistics centre in Germany allowed it to process up to 1,500 packets per hour, enabling same-day delivery for many cross-border customers. International sales now make up over 10% of their orders.



#### Boohoo is using eBay to test out new markets online before opening stores

Boohoo is an expanding Manchester-based e-tailer that sells clothing for men and women. Its website allowed it to reach customers throughout the UK and prepared the ground for an expansion to the rest of Europe. Today the company also directly serves shoppers in the USA, Canada and Australia, allowing them to pay in their local currency.<sup>63</sup>

In 2011, Boohoo began to explore new revenue streams, opening an eBay store and shipping to customers worldwide through its UK listings. Boohoo found that distance was not a barrier for customers seeking affordable fashion: the move generated incremental sales for Boohoo and exceeded the target for sales on eBay by 230%.<sup>64</sup> Boohoo is now directly targeting the markets that proved most successful. The listings aimed at French and German customers are already written in local languages and Boohoo plans to replicate this strategy in other growing markets. Boohoo's strategy is paying off: the company has reported a 79% increase in pre-tax profits.<sup>65</sup>



#### Mountain Warehouse's seasonal products have found a year-round global market

Mountain Warehouse operates over 150 stores in the UK, Poland and Austria, selling a wide range of equipment related to camping, hiking and winter sports.<sup>66</sup> In addition, the company ships internationally from its website.

In 2012, Mountain Warehouse implemented a growth strategy that called for global expansion with minimal capital investment. It partnered with eBay in order to reach 128m potential customers worldwide, increasing sales across the board and ensuring that the company's seasonal products had a year-round market.

The omnichannel strategy facilitated rapid and cost-effective international expansion. Total sales for Mountain Warehouse grew by 19% to £75.1m in 2012, with online sales doubling in value.<sup>67</sup> The company expects online revenues to continue to grow as the eBay stores are used to test new markets. Positive consumer reactions in Germany, France and Italy prompted Mountain Warehouse to open local stores in these markets.



#### MAPCO uses eBay sales data to inform their cross-border strategy

Over the last three decades, MAPCO has built up a reputation as a specialist dealer of auto parts in Germany. In 2011, it decided to sell a limited range of products on eBay, and since then it has expanded to offering its full product range, including some items exclusive to their eBay site. Its decision to sell through eBay was largely motivated by the popularity of the platform, its buyer protection mechanisms, and the fact that the eBay site can be accessed from a range of devices.

When the company decided to expand abroad, it wanted to maintain their partnership with eBay. As its international sales increased, it employed specialised sales teams that enabled it to target their offerings to particular markets, with Russia and Latin America being key targets beyond Europe.



## 4. Realising the omnichannel opportunity

The previous sections have shown the opportunities that leading retailers have been able to capture through a broad presence across channels.

Leading retailers are already developing a variety of strategies to reap these opportunities created by omnichannel retailing. These strategies blur the boundaries between channels including online and offline, and include:

- Placing technology in-store (e.g. through Wi-Fi kiosks, user and staff tablets, etc.), to enable shoppers to browse the retailer's catalogue and alternative offers conveniently, and place orders.
- Shifting the role of the store from a warehouse where all products are stocked, to a display site for certain products, combined with home-delivery options.
- Using the store as a collection point for online, mobile and catalogue orders (click & collect; drive through click & collect), or to try products seen online prior to purchase.
- Making the store an experience place to build loyalty (e.g. by allowing customers to try new food recipes while their online orders are being prepared).
- Being broadly present across own and third-party online sites (e.g. websites, online marketplaces and social media), to maximise opportunities to showcase the brand throughout consumers' purchase journey.
- Offering flexible delivery options for items purchased through non-store channels, including options to collect items from delivery points (sometimes using third-party physical sites in partnership), options to deliver within a short period of time; or options to use text or the web to book a convenient time slot for delivery.
- Using location recognition with customers that have enabled it, to inform of services/offers of potential interest to the customer, as the customer walks near or into a store.
- Retaining purchase history across mobile, web, apps and loyalty cards, for customers that have signed up with this retailer functionality, to inform of relevant services or avoid having to repeat stages of the purchase journey.
- Using owned and/or third-party online sites to sell internationally, combined with different options for international delivery, via owned or third-party international delivery networks, and leveraging alternative online payments which facilitate interoperability between payment systems.



In order to obtain additional insight into how retailers perceive the opportunities created by omnichannel retailing, and omnichannel strategies, interviews were conducted with leading retailers in Europe. The retailers interviewed operate across sectors, including groceries, fashion, furniture and home products, and vehicle maintenance and DIY.

The majority of the retailers interviewed were based in either the UK or Germany: five were headquartered in the UK, four in Germany and two elsewhere in Europe. Most of them have an international presence, either operating stores throughout Europe or globally, or selling internationally through their online and mobile operations. The interviews were conducted with individuals in a range of roles, from CEOs to directors of strategy and e-commerce or omnichannel directors.

All of them sell through multiple channels: in addition to their stores they sell through their websites and have either a mobile site or a dedicated app. They varied in the progress they had made towards integrating these channels, and while some had appointed dedicated omnichannel directors to oversee their strategies, others still managed their stores and online channels through separate divisions.

Retailers were asked for their views on the emergence of omnichannel shopping and how this has changed consumer behaviour. They were also asked about what this means for retailers and how it has affected company culture and different areas across retailers' organisation. Retailers shared their views on the roles played by different channels in the omnichannel shopping environment, and approaches to integrating channels; the interviews also discussed retailers' views on how to engage the connected customer. Discussions covered potential barriers to omnichannel retailing and the challenges of reorganising front-end and back-end operations, and supply chains, in order to meet consumer demand for more flexible shopping, delivery and fulfilment. Further, retailers discussed their views on the opportunities created by omnichannel retailing, including for reaching international markets, and on the emerging enablers that could potentially help retailers unlock omnichannel opportunities in the future.

An overview of existing evidence on these key issues, as well as the views of the retailers' interviewed, are described in more detail below. This analysis forms the basis for a series of tips for retailers seeking to fully realise the omnichannel opportunity.

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**In order to obtain additional insight into how retailers perceive the opportunities created by omnichannel retailing, and omnichannel strategies, interviews were conducted with leading retailers in Europe.**

## Providing a customer-centred experience

Consumers are engaging with retailers in a multitude of ways, across multiple touchpoints, leveraging the technology available to them. In a survey of US retailers, it was suggested that consumer demand is the main driver towards the emergence of omnichannel retailing and the integration of different shopping channels.<sup>78</sup>

The ultimate objective of omnichannel retailing is to provide a consistent experience, where the consumer primarily engages with the brand, instead of the channel.

*“Omnichannel retailing means that customers engage with the brand, rather than with the channel; all customers need to have full access to the retailer’s offer through all channels.”*

*“Social channels are important for allowing customers to connect to the brand.”*

### Retailers’ views (interviews):

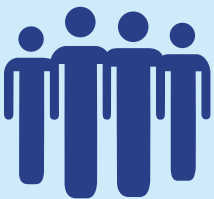
The retailers interviewed recognise that as consumers use more channels for shopping retailers need to adapt to this behaviour, although some retailers have been quicker to embrace this mode of shopping than others. Embracing omnichannel retailing was seen as inevitable by most interviewees, as mobility and ubiquity are today a reality.

The majority of the retailers interviewed agreed on the need to give customers complete flexibility and to ensure that all channels can be used for each stage of the purchase journey. Nonetheless, the view was also expressed in one instance that retailers can make the most of their strengths by encouraging consumers to use particular channels for particular elements of the journey (e.g. research, completing the purchase). Some retailers thought that omnichannel retailing will ultimately mean there is only effectively one retail channel in the eyes of the consumer, but with a number of touch points.

Retailers recognised that progress still needs to be made to fully integrate channels, and that most retailers still do not fully understand the omnichannel purchase journey and consumers’ different routes to purchase. For example, data limitations make it difficult to track consumer behaviour across channels, and some retailers contended that the value of omnichannel consumers is still uncertain. Retailers often expressed the view that consumer demand for omnichannel retailing is ahead of most retailers’ ability to fulfil it currently.

Retailers agreed that relevance of the offering, customisation and personalisation are important in the new connected environment. Some retailers interviewed use purchase history to make specific product recommendations to individual customers, while others warn that misguided personalisation can be off-putting.

The retailers interviewed often used social media to promote new products, and to enable consumers to find additional information or videos with advice and suggestions. The view was expressed that social media empowers the consumer, and that the retailer can no longer unilaterally control the communication about its brand, placing greater pressure on reputation and quality of service.



#### Tips

- Retailers should seek to understand their customers’ behaviours in the new connected environment and the different paths to purchase, and enable their channels to operate flexibly to allow customers to use the channel of their choice at any point of the journey.
- Retailers should seek to be present across a breadth of channels, offline and online, in order to maximise the chances that consumer find them and engage with their brands at any stage of the shopping journey.

## Taking a holistic view

Omnichannel retailing involves change across all areas of the firm, from marketing and sales to IT and supply chain management. Succeeding in the new environment requires a company culture that embraces omnichannel retailing, and that the required operational change is driven from the top of the organisation.

Survey evidence suggests that those retailers whose omnichannel operations had full executive support and were led by marketing and sales tended to be more successful at creating a customer-focussed strategy.<sup>79</sup>

### Retailers' views (interviews):

The retailers interviewed expressed a unanimous view that an effective omnichannel strategy requires engagement throughout the organisation and strong executive leadership.

Retailers also indicated that integrating all channels requires all staff to act to champion the brand, rather than the channel where they work. This in turn requires changes in how staff are remunerated, and how costs and revenues are attributed. Retailers in Germany reported that this was a particular challenge when working with franchisees. One UK retailer interviewed was experimenting with postcode attribution of online sales in order to align incentives throughout the company. This suggestion appears useful in the context of effective incentivisation.

Whilst technology will blur the boundaries between channels, retailers generally thought that an integrated strategy across channels may make use nonetheless of the strengths of each channel: for example online's ability to display an unlimited amount of stock, and reach customers unconstrained by physical location, with the store providing the opportunity to trial, touch and feel, experience and obtain purchases immediately.

The significant operational changes required across the organisation were acknowledged in interviews across all roles, as well as the significant challenges associated with such change. These are described in further detail below.

#### Tips

- Retailers need to promote a culture across the organisation that embraces omnichannel retailing, promoted by the company's executive leadership.
- Retailers should move towards a model that remunerates staff for sales that happen in their catchment, and attribute costs and revenues on this basis, rather than by channel.
- Retailers need to be prepared to align their entire operations with omnichannel retailing, from marketing and distribution, to staffing and IT.

*"The entire business needs to be genuinely engaged, from CEO to store employees."*

*"A truly omnichannel strategy requires overhauling all operations."*



## Integrating and aligning multiple channels

Consumers using multiple channels expect to be able to switch between them and find consistent product information, range and prices.

A survey of leading retailers worldwide suggested that the most important aspects of a successful omnichannel strategy were creating a single brand identity across channels, and allowing customers to purchase, take delivery or return a product through the channel of their choice.<sup>80</sup>

Another survey showed that leading omnichannel retailers were likely to have websites customised for computers, tablets and phones, and would ensure that loyalty points and saved items were accessible from any device, and that consumer would not have to change devices to check out and complete a purchase<sup>81</sup>.

*“Consumers now expect to be able to access the same information and have the same experience across channels, and are frustrated if they are unable to do so.”*

### Retailers' views (interviews):

Retailers agreed on the need for consistency of information across channels, and the need for consistent pricing. However retailers differ in their approaches to marketing and promotions: some promoted different products and special offers through different channels; others thought that it was important to retain consistency and to honour special offers regardless of the channel. Some retailers interviewed in the fashion and groceries sectors run different promotional offers in different channels in order to manage their stock effectively, whereas some retailers interviewed in sectors involving more durable purchases thought it was important to make the same offers available, regardless of the channel.

*“IT platforms need to serve all channels through a central source. Most retailers are working from legacy IT platforms.”*

While some retailers noted that consumers should be able to have the same experience across channels, other retailers noted that consistency across channels does not require uniformity - retailers can adapt their offerings in order to take advantage of the strengths of each channel. One omnichannel director argued that mobile sites can be simplified to be easier for consumers on the move whereas tablet sites are better suited to video content or new features such as augmented reality.

Many retailers argued for integrated marketing and sales strategies to avoid different channels becoming siloed. Others noted that the scope of an omnichannel strategy and the need for specialised knowledge mean that it takes time to fully integrate and align different channels. It was noted that online and mobile strategies often still remain distinct, including on aspects of pricing and logistics.

Most of the retailers interviewed reported that legacy IT systems were a potential barrier to fully integrating channels. Some retailers have overcome this challenge by using the same IT platform to host their website, payment systems and inventory.

#### Tips

- Retailers should ensure product information and prices are consistent across channels, but make use of the specific advantages of each channel to engage consumers and market their products.
- Over time retailers may need to move to an integrated IT platform from where all channels are run, possibly with different front ends.





## Re-evaluating the role of stores in omnichannel retailing

As online and mobile shopping have increased in popularity, questions are raised about what this means for traditional stores. In the omnichannel environment, the role of the store shifts from driving sales of the product in-store, to being a brand and product showroom that drives revenues across all channels.

A survey of British retailers revealed that 81% of surveyed retailers anticipate a decline in the number of stores, while 54% anticipate decreasing the size of their existing stores.<sup>82</sup>

Although the role played by the store is changing, stores are still a key component of retailing, and various brands which had previously only had an online presence are now considering opening stores.<sup>83</sup> Evidence from the Deloitte survey shows that consumers value being able to visit stores, touching and feeling the product, and obtaining advice from sales assistants.<sup>84</sup>

### Retailers' views (interviews):

All the retailers interviewed agreed that stores remained a key component of their omnichannel strategy, but most acknowledged that their role is changing. Interviews with German retailers suggest that different sectors are responding in different ways: fashion retailers interviewed are putting a greater emphasis on in-store customer service to continue to attract customers, whereas home and garden retailers interviewed envisaged a move towards stores as showrooms, with the majority of transactions being completed online or from in-store kiosks.

Across Europe, retailers are integrating stores into the omnichannel shopping journey by providing in-store Wi-Fi, and equipping employees with tablets; these retailers emphasised the need to ensure that employees have access to the same information as customers and can assist with placing orders. However two interviewees noted that improvements to mobile connectivity or Wi-Fi networks are crucial to fully align store and mobile shopping.

Many of the retailers interviewed recognised that omnichannel retailing will require the number and size of retail sites to be reconsidered. Some retailers are renovating parts of their stores to be used as collection points, and one interviewee raised the possibility of sharing space with the likes of coffee shops or grocery stores in order to provide a better experience to customers. Some retailers in the fashion and grocery sectors have introduced personal shopping services into stores in order to engage with customers collecting online orders and build brand affinity.

Some retailers for whom the store remains at the core of their strategy indicated a preferences for employing websites and apps with a "catalogue" function, used to raise awareness of the brand and product range, with the ultimate objective of driving more customers into their stores.

*"Retailers need to embrace and manage showrooming – provide in-store assistance with online technology, allow customers to compare prices and competitors, but convince them that the retailer provides the best product and service".*

*"A successful online strategy can drive foot traffic to stores and increase awareness of the brand."*



#### Tips

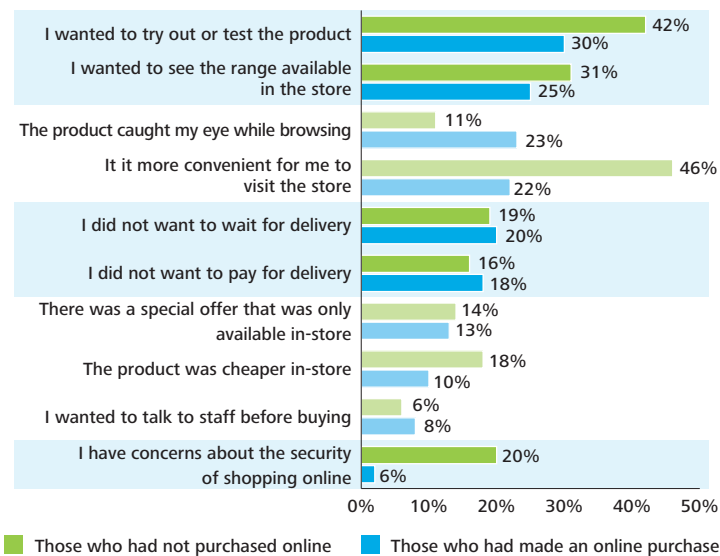
- Retailers will need to re-evaluate their portfolio of retail sites and make the most of stores as part of the omnichannel experience - for example by leveraging technology to enable the store experience, using some outlets as flagship stores, or adapting some stores to be used as collection points.

## Providing flexible options for fulfilment and delivery

Survey evidence suggests that new modes of fulfilment can appeal to consumers, many of whom dislike the cost and delay associated with delivery of purchases made online. There are also benefits for retailers: by offering the option to buy online or through mobile and then collect in store, retailers can reduce the costs associated with returns and create new sales opportunities – 38% of UK consumers report that they are likely to make an additional purchase when collecting a product in-store<sup>85</sup>. Using strategies such as click-and-collect or delivering directly from stores can yield additional benefits in the form of reduced inventory costs.<sup>86</sup>

**Figure 21. Concerns expressed by consumers in relation to online shopping**

Question: What was your motivation for making a recent purchase in a store rather than online?



The option to reserve and collect or more flexible returns policies can help retailers appeal to customers who like to test out products prior to purchase.

Offering a wider variety of delivery options – including same-day delivery or collection from stores – can allay concerns about the delay or cost of delivery.

Those who have not bought online are more likely to have concerns about delivery – the option to order online from within stores could win over these customers.

Source: Deloitte omnichannel consumer survey, 2013

*“Supply chains were traditionally designed around stores; these now need to be re-engineered around customers.”*

*“Speed and agility are key.”*

*“There is potentially a role for partnerships between non-competitors e.g. sharing collection points, delivery networks.”*

### Retailers’ views (interviews):

Retailers interviewed in the UK are meeting this demand by offering different fulfilment options, such as same-day or next day delivery or click-and-collect, and are reorganising their operations to accommodate these services. For example, one company interviewed delivers express orders directly from its stores rather than from warehouses; in contrast, another company has created “dark stores” specifically to handle online orders. German retailers have been less forthcoming in adopting these new modes of fulfilment, but the retailers interviewed are reconsidering their logistics and considering developing their own shipping and haulage networks in order to provide more flexible fulfilment options in the future.

Many retailers noted that delivery and distribution may require significant changes to support full omnichannel retailing – some were concerned that the limitations of delivery networks and insufficient shipping capacity could constraint the potential of omnichannel retailing. Other retailers were considering partnerships, to allow them to take advantage of economies of scale in collection and delivery networks.



#### Tips

- Retailers can appeal to consumers who value flexibility and convenience by offering a range of fulfilment options. A re-evaluation of delivery networks and partnerships may be appropriate to accommodate this flexibility in a cost-effective way.

## Making the most of the cross-border opportunity

Omnichannel retailing has made it easier for retailers to enter new markets in cost-effective ways, generating additional sales opportunities.

### Retailers' views (interviews):

The use of omnichannel strategies to sell cross-border varies across retailers. For example, some fashion retailers noted that online and mobile channels are a cost-effective way of testing new markets in advance of opening stores. One retailer argued that partnerships with third-party sites can be an effective way of entering new markets without bearing the marketing costs associated with establishing and promoting an independent site. A retailer opined that omnichannel retailing creates increased opportunity and need for collaboration between parties on supply chain to obtain the flexibility and agility required in the omnichannel environment. In contrast, some UK and German retailers expressed the view that cross-border opportunities can be mostly addressed through an owned website, or owned fulfilment networks.

In other industries, such as home and garden and groceries, some retailers were of the view that specific supply and delivery requirements, combined with the fact that customers were more likely to want to test products in person, may still require them to open physical stores in order to effectively enter new markets. German retailers in particular thought that the operational challenges involved in selling in multiple international markets remained significant for retailers.

*"Partnerships can help build brand recognition and overcome some of the challenges with expansion in other countries, for example in relation to delivery."*



#### Tips

- Retailers can sell internationally through their online and mobile sites, combined with home-based logistics centres, through third party international delivery networks, or through local delivery/collection centres, to test out new markets before deciding whether to establish a store presence. Leveraging alternative payment methods, which facilitate interoperability between payment systems, can help retailers further unlock the omnichannel cross-border trade potential.
- By selling through non-owned sites and partnering with third parties retailers can sell and deliver internationally while reducing the costs associated with marketing, promotions and supply chain.

## Embracing the emerging enablers of omnichannel retailing

As technology evolves and continues to blur the boundaries between online and offline, retailers will need to continue to respond to resulting changes in consumer shopping behaviour, and ensure the shopping experience remains flexible.

One survey of leading retailers indicated that over two-thirds of them intended to invest in data analytics and mobile technology, with social media and customer engagement through user-submitted reviews also being popular areas for investment<sup>87</sup>.

### Retailers' views (interviews):

*"In the future, agility and flexibility will be the key differentiators."*

Asked about the future of omnichannel retailing, several retailers, across all sectors, believed that mobile will continue to be key to unlock the full potential of omnichannel retailing in the future, as consumers use the technology across the day and at home as well as on the move. Some retailers raised the possibility of using location recognition technology to guide customers through stores or to alert the retailer when a customer arrives to collect an order. Making full use of video, social media and payment systems in the mobile environment were also seen as potential further enablers of omnichannel retailing.

Some retailers also mentioned the opportunity to further integrate technology into the store to make recommendations about relevant products to the customer; and to further leverage online technology to drive inspiration and experience (some retailers were already using for example virtual fitting rooms where customers can try garments online), not just to drive transactions. The potential to develop innovative ideas for physical collection points for online orders (e.g. lockers at stations accessed by PIN, etc.), was also seen as a future potential enabler of omnichannel retailing.



#### Tips

- Retailers should regularly monitor how consumers embrace new technology developments, and seek to adopt such technologies that can drive increased loyalty or help capture new customer segments.

## 5. Conclusions

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Omnichannel shopping is becoming pervasive across Europe, and consumers are leveraging new technologies to improve their shopping experience. Consumers are starting to expect complete flexibility across shopping channels, and are prepared to reward retailers who are able to offer this.

Retailers have an opportunity to reap the benefits of these market changes. By embracing these trends effectively and promptly and continuing to adapt to technology-enabled changes in consumer behaviour, they can capture a share of the market expansion generated by these developments, as well as improve their competitive market position.

The most lucrative customers, such as frequent shoppers and those planning high-value purchases, are using new technologies throughout their shopping journey. Being ready to serve these customers throughout their sophisticated yet valuable journey represents a particular opportunity for retailers.

In this fast moving environment, the opportunity needs to be seized promptly. Retailers who have been quick to embrace these trends are already seeing the benefits: a strategy that combines store and non-store channels and enables each channel to serve the customer at every stage in their purchase journey can raise brand awareness and generate incremental sales; omnichannel strategies can also enable retailers to target international markets in a cost-effective way. Raising brand awareness across channels is beneficial for retailers beyond the internet, and an effective and broad online presence can contribute to driving foot traffic into physical stores.

In a rapidly changing marketplace retailers cannot afford to become complacent. As new technologies create new opportunities for customers to engage with brands and for reaching new markets, they can create additional sources of competition. In order to maintain and expand their position in the market, retailers will need to embrace omnichannel retailing, adapting and integrating different shopping channels into a single strategy over time.



# Appendix A: Estimating the impacts of omnichannel presence



This appendix provides details of the econometric analysis used to estimate the impacts of a retailer's presence across store and non-store channels. Section A.1 explains the methodology and Section A.2 sets out the results for each of the markets studied. The appendix is structured as follows:

- Section A.1.1 introduces the econometric model and sets out the interactions between the key variables and how these variables may be expected to drive online and offline sales.
- The model is set out in section A.1.2, where the relationships between store sales, non-store sales and factors such as web searches, advertising expenditure and a presence on online marketplaces are outlined in a series of simultaneous equations.
- Section A.1.3 explains how the coefficients estimated from these equations are used to calculate the long-run impacts of web searches, advertising and eBay on total sales.
- Section A.2.1 describes the analysis of the UK fashion market, and includes a summary of the data used, the estimated coefficients and the long-run impacts.
- Section A.2.2 describes the analysis of the German home and garden market, and explains the dataset, the results of the estimation and the long-run impacts on sales.

## A.1. Methodology

The purpose of the model is to measure the net effect of presence across store and non-store channels for retailers by considering the impact of non-store presence on offline sales in two ways:

- Directly in terms of sales diversion from stores.
- Indirectly through increased product awareness.

These two components together allow the overall impact of an omnichannel strategy on non-store and store sales to be understood.

This analysis focusses on leading retailers who sell through at least two channels. Each retailer in the sample has two sources of sales: store sales, denoted by  $s$ , and non-store sales, denoted by  $w$ , which aggregates sales across various non-store channels (website, mobile, tablet and eBay). The model also considers web searches, as proxied by Google Trends, advertising expenditure and store space as drivers of sales.

### A.1.1 Overview of the model

The model measures the relationship between store and non-store sales by analysing information on retailers' advertising, their presence on eBay and web searches for a specific retailer and product. The model allows these factors to impact both store and non-store sales, and to have both a contemporaneous impact and a long-run cumulative effect. As well as looking at the drivers of online and offline sales independently, the model considers the interaction between these channels. Figure 22 outlines the dynamic interactions between the variables in the model.

Dashed boxes represent unobservable variables, while solid boxes indicate observable variables. Each of these can be further categorised into three classes:

- Direct impacts on final sales are denoted by solid green arrows while intermediate impacts are denoted by dashed blue arrows.

The model measures how key drivers of sales interact to raise brand awareness and increase sales across channels. The model begins by considering marketing and promotional activities and how they evolve over time, and then considers their impact on online orders and offline sales, and the interaction between sales across these channels.

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These three variables directly impact on sales, and can have a longer-run indirect impact by raising brand awareness:

- Advertising expenditure ( $ad$ ) raises consumers' awareness of the brand, contributing to a level of advertising stock ( $\mu_1$ ) that updates over time ( $\delta_1$ ) and directly influences offline sales  $s_1$ <sup>1</sup>
- Google trends ( $g$ ) plays a double role: first, it helps to predict web orders ( $\alpha$ ); second, it provides a measure of retailer built awareness through the cumulative quantity of web searches ( $\mu_2$ ), which may also drive store sales.
- eBay ( $ebay$ ) also enters the model in two ways: first, eBay sales contribute to total sales and may partially impact sales from the retailer's own website, impacting on web orders ( $\alpha$ ) and, consequently, on online sales ( $w$ ); second, a presence on eBay can raise awareness of the brand and lead to additional store sales ( $s$ ).

Web-orders, denoted by  $\alpha$ , enters the model in two ways: first, it describes web-sales  $w$  by means of  $\lambda_4$ . It also affects offline sales  $s$  by means of  $\lambda_1$ . This captures the effect of online retailing, whereby consumers shop and research through multiple channels, and sales in one channel may influence future sales in other channels.

The next section introduces the model specification in more detail.

#### A.1.2 Model specification

The econometric model takes inspiration from Biyalogorsky and Nail (2003)<sup>2</sup> and extends their analysis in two ways: by moving from a single retailer to a multi-retailer environment and by including a richer set of explanatory variables. Furthermore, the model specifies a structure between the coefficients across companies, and permits variation due to retailers' specific characteristics. This hierarchical framework leads to partial pooling of the information across retailers, and generates potentially more efficient estimates than would be obtained by fitting one model for each company. It also permits the inclusion of more variables than would be possible on a retailer-specific model given the relatively short nature of the panel data-set.

The model consists of a set of  $N$  retailers (indexed by  $i=1, \dots, N$ ), each observed for over a period of  $T$  years (time is generally denoted by  $t=1, \dots, T$ ). Sales volume and sales value are observed for both the companies' online sites and offline stores, in addition to advertising, sales via a third party web-site and web activity as measured by searches through Google-trends.

The model is composed of a series of dynamic simultaneous equations:

- Three equations that explain the observed offline sales  $s$ , online sales  $w$  and online orders  $o$ .
- Three further state-variable equations that represent the unobserved components: the online purchase behaviour  $\alpha$ , the advertising stock  $\mu_1$ , and the stock of web searches  $\mu_2$ .
- One equation describing a time-varying company specific constant for offline sales,  $\phi$ .

Every equation includes an error term that is assumed to be normally distributed and i.i.d. across retailers and time. In particular, all error terms follow an individual Gaussian distribution with zero mean and finite variance, i.e.  $\epsilon_{ijt} \sim N(0, \sigma_j^2)$ , for all equations  $j=1, \dots, 7$ . The full system of equations is outlined below.

<sup>1</sup> These notations are used in the equations detailed below.

<sup>2</sup> Biyalogorsky, Eyal, and Prasad Naik. "Clicks and mortar: the effect of on-line activities on off-line sales." *Marketing Letters* 14.1 (2003): 21-32. Using data from a unique retailer – Tower Records' Internet sales division – the authors develop a model that shows that on-line sales do not significantly cannibalize retail sales and that the firm's web activities build long-term on-line equity.



#### A.1.2.1 Equations predicting sales

**Equation (1) models offline sales**  $s$  as a function of estimated online web orders  $\alpha$  and eBay volumes ( $ebayvol$ ), advertising stock  $\mu_1$ , web searches stock  $\mu_2$ , a dummy variable representing the presence on eBay, a time varying constant term  $\phi$  and an error term.

$$s_{it} = \lambda_{i1}(\alpha_{it} + ebayvol_{it}) + \lambda_{i2}\mu_{i1t} + \lambda_{i3}\mu_{i2t} + \phi_{it} + \gamma_{i1}ebaydum_{it} + \varepsilon_{1it} \quad (\text{Equation 1})$$

As on-line orders may divert in-store sales,  $\alpha$  is included in equation (1) and  $\lambda_{i1}$  measures this diversion effect. As well as including eBay sales  $ebayvol_{it}$ , which could potentially impact store sales, selling on eBay is included as a dummy variable  $ebaydum$  in order to assess whether a presence on an online marketplace can drive sales in stores by raising brand awareness.

**Equation (2) models online sales** as a function of web orders  $\alpha$  and an error term:

$$w_{it} = \lambda_{i4}\alpha_{it} + \varepsilon_{2it} \quad (\text{Equation 2})$$

This equation is an accounting relationship where  $\lambda_{i4}$  measures the average value of the web orders  $\alpha$ . The process for it is provided in equation (4).

**Equation (3) models observed web orders**  $o$  as the sum of true web orders  $\alpha$  and an error term, which reflects possible measurement error in the observations of true web orders:

$$o_{it} = \alpha_{it} + \varepsilon_{3it} \quad (\text{Equation 3})$$

#### A.1.2.2 State-variable equations

The state-variable equations describe how the exogenous variables such as web searches and advertising predict retailers' performance in the market by influencing consumer product awareness (equations 4, 5 and 6).

**Equation (4) models observed web orders**  $\alpha$  as a function of web searches (including contemporaneous Google trends  $g$ , time-increasing Google trends  $gt$ , and an interaction between Google trends  $g$  and the stock of web searches  $\mu_2$ ), eBay volumes, a constant term and an error term.

$$\alpha_{it} = (\beta_{i1} + \beta_{i2}t + \beta_{i3}\mu_{i2t-1})g_{it} + \beta_{i4}ebayvol_{it} + \beta_{i5} + \varepsilon_{4it} \quad (\text{Equation 4})$$

Web orders can be influenced by web searches in three ways:

- Consumers carry out a search on Google, then visit the company's website and buy on-line. If time and web-equity were zero, this effect would be  $\beta_1$ .
- As the Google trends variable is an index and not a volume-metric, an interaction with a trend term  $t$  is included to capture search trends due to retailers' popularity. This is measured by  $\beta_2$ .
- It is also assumed that the effectiveness of converting web visits to sales is affected by the build-up of web searches  $\mu_2$  until the period  $t - 1$ . This is measured by  $\beta_3$ .

The remaining coefficients in equation (4) are  $\beta_4$ , which measures the diversion from website sales towards eBay-shop sales and  $\beta_5$ , a constant reflecting the base level of online sales for a retailer when web searches are zero.

**Equation (5) models advertising stock** as a function of current advertising expenditure  $ad_{it}$  and past advertising stock, where the impact of past advertising is expected to diminish over time at rate  $\delta_{ii}$ .

$$\mu_{i1t} = \delta_{i1}\mu_{i1t-1} + ad_{it} + \varepsilon_{5it} \quad (\text{Equation 5})$$

**Equation (6) models web search stock**, which depends on current web searches, measured by Google trends, and the past web search stock. Similarly to the effect of advertising, past web searches will have a long-run impact on web awareness, but this impact decreases over time at rate  $\delta_{2i}$ .

$$\mu_{i2t} = \delta_{i2}\mu_{i2t-1} + g_{it} + \varepsilon_{6it} \quad (\text{Equation 6})$$

#### A.1.2.3 Time-varying retailer specific constant

**Equation (7) estimates a time-varying retailer-specific constant** that captures the unobserved factors that lead to changes in the level of sales. For example, this could reflect macroeconomic conditions. This is modelled as a random walk process:

$$\phi_{it} = \phi_{it-1} + \varepsilon_{7it} \quad (\text{Equation 7})$$

#### A.1.3 Long-run impacts and total sales elasticities

From the model, it is possible to compute the long-run impact of the exogenous variables on total sales. To calculate the long-run impact of web searches, it is necessary to take into account the effect on web search stock in the current period and in the future, the effect on web orders and then both the direct effect on store sales, and the indirect effect via web orders. Similarly, advertising has both an immediate impact and a long-run effect, and eBay sales have both a direct effect on online orders and thus an indirect effect on store sales.

The equations below are used to calculate the final impact of the exogenous variables on total sales. A first step is to compute the long-run expression of the model.

From equations (5), (6) and (8) the model can be expressed through the long-run relationship:<sup>3</sup>

$$\begin{aligned} tot_i = (\lambda_{i1} + \lambda_{i4}) \left[ (\beta_{i1} + \beta_{i2}T + \beta_{i3} \frac{g_i}{1 - \delta_{i2}})g_i + \beta_{i4}ebayvol_{iT} + \beta_{i5} \right] \\ + ebayvol_i(\lambda_{i1} + \bar{p}_{iT}^{ebay}) + \lambda_{i2} \frac{ad_i}{1 - \delta_{i1}} + \lambda_{i3} \frac{g_i}{1 - \delta_{i2}} + \phi_{iT} \end{aligned} \quad (\text{Equation 8})$$

where  $\bar{p}_{iT}^{ebay}$  is the average order price for an order on eBay for retailers' active on the platform.

Therefore, the long-run impact can be found by computing the elasticity of total sales with respect to each variable. These elasticities capture the percentage increase in total sales induced by a one per cent increase in one of the three exogenous variables: Google trends (Equation 9), Advertising (Equation 10) and eBay sales (Equation 11).

$$\epsilon_{tot/g} \equiv \frac{\partial tot_i}{\partial g_i} \frac{g_i}{tot_i} = \left\{ (\lambda_{i1} + \lambda_{i4}) \left[ \beta_{i1} + \beta_{i2}T + \beta_{i3} \frac{2g_i}{1 - \delta_{i2}} \right] + \frac{\lambda_{i3}}{1 - \delta_{i2}} \right\} \frac{g_i}{tot_i} \quad (\text{Equation 9})$$

$$\epsilon_{tot/ad} \equiv \frac{\partial tot_i}{\partial ad_i} \frac{ad_i}{tot_i} = \frac{\lambda_{i2}}{1 - \delta_{i1}} \frac{ad_i}{tot_i} \quad (\text{Equation 10})$$

$$\epsilon_{tot/ebay} \equiv \frac{\partial tot_i}{\partial \bar{q}_{iT}^{ebay}} \frac{\bar{q}_{iT}^{ebay}}{tot_i} = [\lambda_{i1}(1 + \beta_{i4}) + \lambda_{i4}\beta_{i4} + \bar{p}_{iT}^{ebay}] \frac{\bar{q}_{iT}^{ebay}}{tot_i} \quad (\text{Equation 11})$$

where  $\bar{q}_{iT}^{ebay}$  and  $\bar{p}_{iT}^{ebay}$  are, respectively, the average order on eBay for retailers' active on the platform and the average price of eBay transactions.

<sup>3</sup> Both the long run relationship and the elasticity to Google Trends lose  $\beta_{i2}T$  in the Germany market setting.

#### A.1.4. Results of the analysis by market

##### A.1.4.1 UK Fashion market

The UK fashion market is analysed through the sales of 17 women's dresses retailers ( $N = 17$ ), each observed from 2009 to 2013 ( $t = 1, \dots, 5$ ). Therefore the estimation involves 17 retailers observed through 5 periods and 3 different equations for a total of 255 observations. The specification follows the model stated in section A.1.2.

Data have been collected from various sources:

- Kantar Worldpanel provided data on annual sales from the top 30 women's dresses retailers in the UK. A sample of 17 companies active both online and offline have been used for the model.
- Nielsen Advertising provided data on these retailers' advertising expenditure in relation to women's dresses.
- Information on retailers' characteristics, such as number of outlets, store size, turnover, have been extracted from Planet Retail and Mint.
- Data on eBay sales come from the eBay UK platform, provided by eBay.
- Data on web searches has been generated by Google trends. This is an index provided by Google that shows how often a particular search-term is entered relative to the total search-volume across various regions of the world, and in various languages. In order to disregard possible noise from general web searchers, the index has been constructed by focusing on "women dresses" searches within the UK region, jointly with a retailer's name. In its definition, the index varies between 1 and 100 and searches are allowed for a limited number of terms (up to five simultaneously). In order to allow comparability among retailers, the most searched terms have been used as benchmark of a 5-by-5 term research, and the index has been finally rescaled with respect to the most searched retailers.

##### A.1.4.2 Results

The main results can be summarised as follows, by considering the average effect across the retailers in the sample.

- For each order placed online, about £0.998 is diverted from store sales. Since the average web is worth £28.63, this implies that about 4.8% of the value of web orders is diverted from existing store sales; the remaining 95.2% represent additional sales.
- A 10% increase in the value of Google trends generates an increase in sales of 2.1%. This means that if the Google trend index company specific value rises by 10% with respect to competitors, sales are likely to increase by 2.1%.
- A 10% increase in advertising expenditure increases total sales by about 1.4%

**Table 1. Main results from the UK Model**

	Stores-to-Online diversion (£)	Diversion as % of web orders	Incrementality as % of web orders	Total Sales Elasticity to Google Trends	Total Sales Elasticity to Advertising	Total Sales elasticity to eBay
Average value across retailers	-0.998	-4.806	95.194	0.211	0.138	0.008

Source: Deloitte analysis

These long-run impacts are calculated from the estimated coefficients of the model, as outlined in Section A.1.3. Table 2 shows the estimated value of each of the coefficients in equations 1-7, averaged across the retailers in the sample.

Table 2. Estimated coefficients for the UK model

Coefficient	Role in the model	Average Value	Interpretation
$\lambda_{11}$	Impact of web and eBay orders on store sales	-0.998	An additional web order (which on average is worth £28.63) decreases store sales by an average of 0.98
$\lambda_{12}$	Impact of advertising stock on store sales	0.632	A £1000 increase in advertising stock increases store sales by £632
$\lambda_{13}$	Impact of web searches stock on store sales	1.315	A unit increase in web searches stock increases store sales by £113,507
$\phi_{1T}$	Time varying individual constant evaluated at the final period	107.280	The time-varying constant allows for changes in factors that may impact the level of sales
$\lambda_{14}$	Impact of web orders on online sales	28.639	One additional web order increases online web sales revenue by £28.64
$\beta_{11}$	Constant in the contemporaneous effect of Google trends on web orders	0.0005	On average, a unit increase in Google trends induces a contemporaneous increase in web orders by 0.0005 units
$\beta_{12}$	Rate of change in the contemporaneous effect of Google trends on web orders	0.010	The effect of Google trends on sales in the current period increases at a rate of 1,009 orders each year
$\beta_{13}$	The effect of historical web-stock on the contemporaneous impact of Google trends	0.001	A one-unit rise in web-equity at the end of the previous year increases the contemporaneous impact of Google trends by 64 orders
$\beta_{14}$	Impact of eBay sales volume on web orders	-0.714	An additional order on eBay increases total web orders by $1-0.714=0.285$
$\beta_{15}$	Constant in the equation for web orders	0.423	Web orders when all other drivers of web-sales are zero
$\delta_{11}$	Persistence of advertising	0.851	On average, 85% per cent of the impact of advertising expenditure carries over to the following year
$\delta_{12}$	Persistence of web searches	0.347	On average, 34% per cent of the impact of web searches carries over to the following year
$\gamma_{11}$	Impact of an eBay presence on store sales	1.042	A presence on eBay raises awareness and leads to an increase in store sales of £104,200 for the average retailer selling on eBay

Source: Deloitte analysis

#### A.1.4.3 German domestic appliance market

The German domestic appliance market is analysed by means of 4 (N=4) retailers, each observed from 2009 to 2012 ( $t=1, \dots, 4$ ). As explained in the previous section, this involves 48 observations (4 retailers, 4 time periods and 3 dependent variables).

The model specification follows closely section A.1.2 with two changes due to data availability:

- The eBay presence dummy variable is removed from equation (1).
- The time trend  $\beta_{12}t$  is removed from equation (4).

The system of equations is therefore the following:

$$\left\{ \begin{array}{l} s_{it} = \lambda_{11}(\alpha_{it} + ebayvol_{it}) + \lambda_{12}\mu_{i1t} + \lambda_{13}\mu_{i2t} + \phi_{it} + \varepsilon_{11t} \\ w_{it} = \lambda_{14}\alpha_{it} + \varepsilon_{2it} \\ o_{it} = \alpha_{it} + \varepsilon_{3it} \\ \alpha_{it} = (\beta_{11} + \beta_{13}\mu_{i2t-1})g_{it} + \beta_{14}ebayvol_{it} + \beta_{15} + \varepsilon_{4it} \\ \mu_{i1t} = \delta_{11}\mu_{i1t-1} + ad_{it} + \varepsilon_{5it} \\ \mu_{i2t} = \delta_{21}\mu_{i2t-1} + g_{it} + \varepsilon_{6it} \\ \phi_{it} = \phi_{it-1} + \varepsilon_{7it} \end{array} \right.$$

The following sources of data were used for the analysis of the German home and garden market.

- GfK provided data on annual sales from top 10 domestic appliance retailers, active in the offline and online German market. A sample of 4 companies active both online and offline has been used for the model.
- Nielsen Advertising provided the corresponding advertising expenditure of the selected retailers for the specific product.
- Information on retailers' characteristics has been extracted from Planet Retail and Mint.
- Data on eBay sales comes from the eBay Germany platforms, provided by eBay.
- Data on web searches has been generated by Google trends, as explained above. The index has been constructed by focusing on retailer names searches in Germany. As explained earlier, in order to allow comparability among retailers, the most searched terms have been used as a benchmark of the 5-by-5 terms research, and the index has therefore been rescaled with respect to the most searched retailers.

#### A.1.4.4 Results

The main results can be summarised as follows, by considering the average effect across the retailers in the sample.

- For each order placed online, about €1.88 is diverted from store sales. Since the average web is worth €200, this implies that about 2.06% of the value of web orders is diverted from existing store sales; the remaining 97.94% represent additional sales.
- A 10% increase in the value of Google trends generates an increase in sales of 2.1%. This means that if the Google trend index company specific value rises by 1% with respect to competitors, sales are likely to increase by 0.21%.
- A 10% increase in advertising expenditure increases total sales by about 0.7%

**Table 3. Main results from the German model**

	Stores-to-Online diversion (£)	Diversion as % of web orders	Incrementality as % of web orders	Total Sales Elasticity to Google Trends	Total Sales Elasticity to Advertising	Total sales elasticity to eBay
Average value across retailers	-1.881	-2.068	97.932	0.215	0.067	0.2658

Source: Deloitte analysis

These long-run impacts are calculated from the estimated coefficients of the model, as outlined in Section A.1.3. Table 4 shows the estimated value of each of the coefficients in equations 1-7, averaged across the retailers in the sample.

**Table 4. Estimated coefficients for the German model**

Coefficient	Role in the model	Average Value	Interpretation
$\lambda_{11}$	Impact of web and eBay orders on store sales	-1.88	An additional web order (which on average is worth €200) decreases store sales by an average of €1.88
$\lambda_{12}$	Impact of advertising stock on store sales	0.572	€1,000 increase in advertising stock increases store sales by €572
$\lambda_{13}$	Impact of web searches stock on store sales	0.012	A unit increase in web searches stock increases store sales by €1,246
$\phi_{1T}$	Time varying individual constant evaluated at the final period	97.263	The time-varying constant allows for changes in factors that may impact the level of sales
$\lambda_{14}$	Impact of web orders on online sales	200.31	One additional web order increases total website sales by €200
$\beta_{11}$	Google trends direct impact on web orders	0.711	A one unit increase in Google trends leads to a contemporaneous increase in web-orders of approximately $(71168.6 + 1596\mu_{(i2t-1)})$
$\beta_{13}$	Interaction between t-1 web orders and t Google trends	0.016	A one-unit rise in web-equity at the end of the previous year increases the contemporaneous impact of Google trends by 1,596 orders
$\beta_{14}$	Impact of eBay sales volume on web orders	-0.186	An additional order on eBay increases total web orders by $1 - 0.19 = 0.81$ units
$\beta_{15}$	Web orders constant	1.85	Web orders when all other drivers of web-sales are zero
$\delta_{1i}$	Persistence of advertising	0.467	On average, 47% per cent of the impact of advertising carries over to the following year
$\delta_{2i}$	Persistence of web searches	0.325	On average, 32% per cent of the impact of web searches carries over to the following year

Source: Deloitte analysis

# Appendix B: Consumer Survey

This appendix describes the methodology and results of the consumer survey on Omnichannel customers' attitudes and behaviours in the UK and Germany.

## B.1 Survey methodology

The Deloitte Omnichannel Consumer Survey was conducted by Ipsos MORI in September 2013. The survey sampled 1000 adults aged 16-75 in the UK,<sup>4</sup> and 1000 adults aged 16-70 in Germany. The survey was carried out online, and then the results calibrated to be representative of the entire adult population of each country.

The survey covered both general shopping and online behaviour, including attitudes and the use of different devices, and asked about two recent specific purchases. Wherever possible the survey asked about one online purchase and one offline purchase, within the same product category across a selection of products. For both the online and the offline purchase, consumers were asked about the research done prior to purchase, the amount spent, and their motivation for making their purchase through a particular channel.

This survey methodology allows for a direct comparison between online and offline purchases for the same group of consumers. This means that comparisons between online and offline purchases do not simply reflect differences in the characteristics of those consumers who shop online, or in the types of products which are bought online versus offline. Since the survey was designed to consider a mix of product categories, the methodology does not reflect the relative frequency of purchases in different product categories. Any averages reported in the results therefore reflect recent purchases reported by those surveyed, but may not be indicative of general shopping behaviour across categories, or the share of spending across product categories.

## B.2 Results from the consumer survey

The results presented in this Appendix cover two main areas:

First, the survey asked about consumer behaviour in relation to omnichannel retailing: this covers both the research done prior to a specific purchase, and more general questions on the use of different devices for shopping related activities. Section B.2 contains results on the proportion of purchases that involve additional research, by product category, and the sources used for this research. Turning to general omnichannel behaviour, the Appendix provides details of the fraction of consumers familiar with using different online resources and different devices.

The second topic considered in the consumer survey is the incremental impact of omnichannel. Section B.2 contains results on spending, by product category and channel of purchase. The survey also asked about consumer attitudes towards online and offline shopping in order to assess the extent to which omnichannel retailing expands the market, and whether innovations in online retailing and fulfilment have the potential to increase sales further.

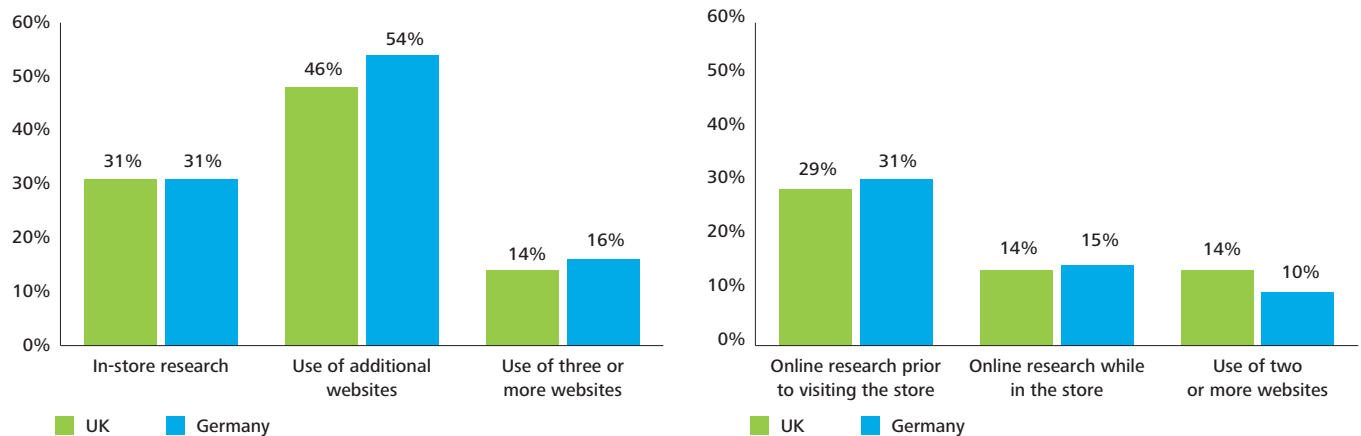
<sup>4</sup> The survey was carried out in Great Britain, however for presentational purposes this is referred to as 'UK' in this report

### B.2.1 Behaviour of omnichannel consumers

Survey respondents were asked about the research done prior to making a specific purchase, online or offline. In both the UK and Germany about one third of consumers used multiple channels during their purchase journey. This includes 31% of consumers who visited a store before buying online, and 34% of consumers who did online research before or during a recent in-store purchase. Purchases of electronics or home and garden products were most likely to involve prior research.

**Figure 23. Share of online (left) and offline (right) purchases that involved additional research**

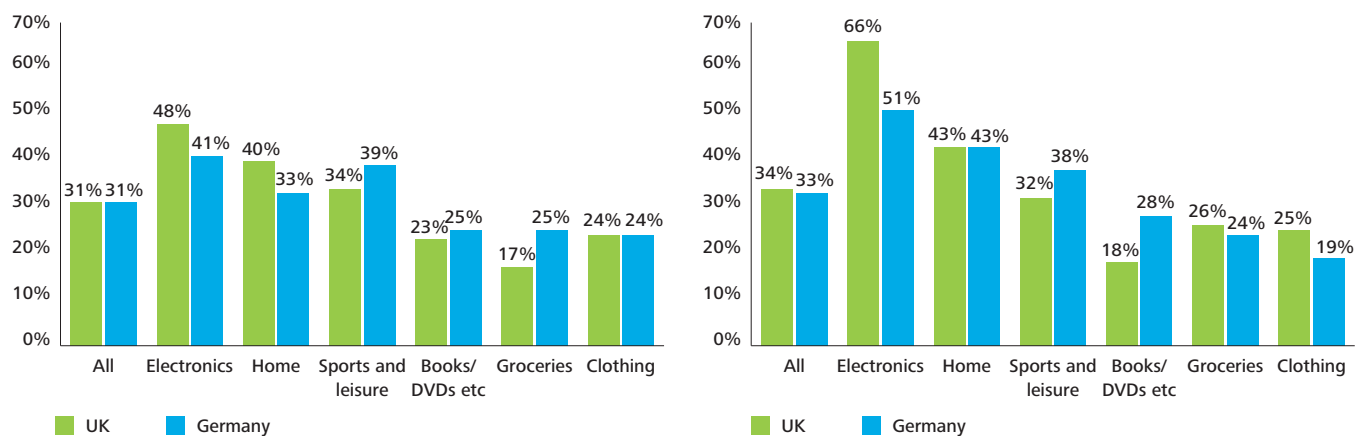
Question: Prior to your recent purchase [of product category], did you do any of the following?



Source: Deloitte omnichannel consumer survey, 2013

**Figure 24. Share of online (left) and offline (right) purchases that involved additional research, by product category**

Question: Prior to your recent purchase [of product category], did you do any of the following?



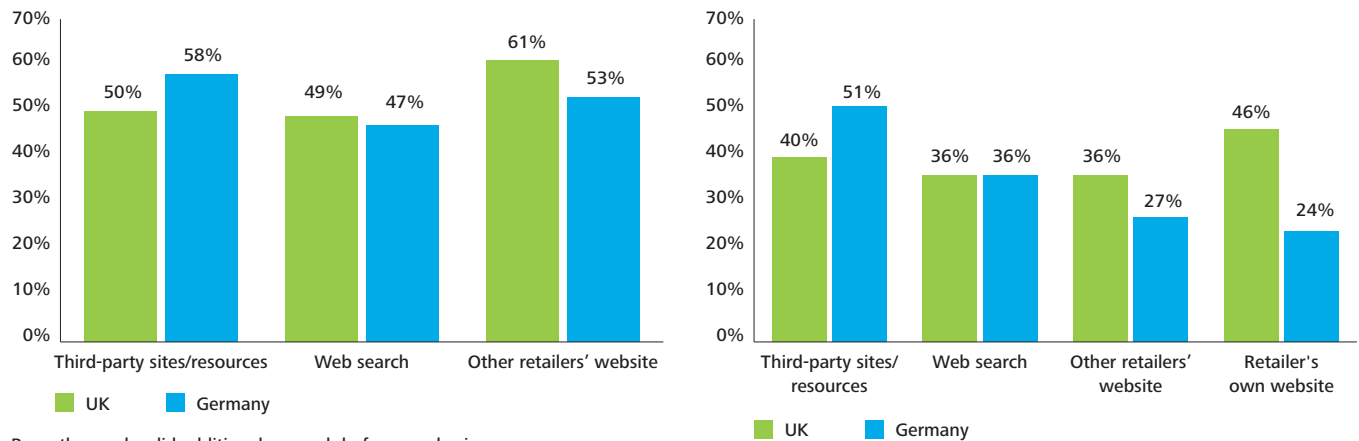
Source: Deloitte omnichannel consumer survey, 2013

For German consumers the most popular sources of information are non-owned websites, including price comparison sites, consumer review sites and group discount sites. These sites were also popular with UK consumers, although they have more likely to visit retailers' own websites.



**Figure 25. Sources used for additional research prior to online (left) and offline (right) purchases**

Question: Prior to your recent purchase [of product category], did you do any of the following?



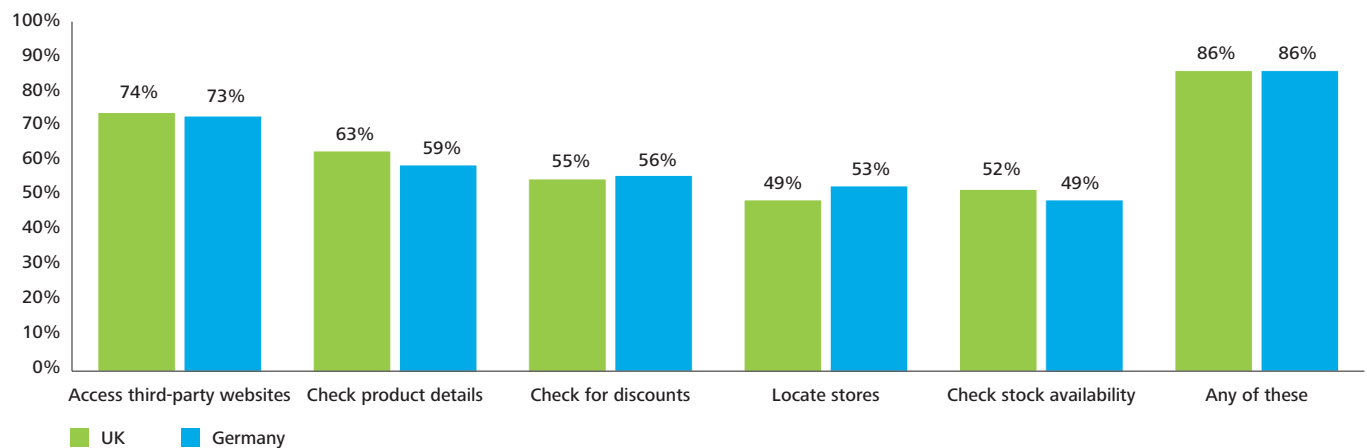
Base: those who did additional research before purchasing.

Source: Deloitte omnichannel consumer survey, 2013

Turning from specific purchases to general consumer behaviour, the survey asked respondents about their use of computers, tablets and smartphones in connection to shopping. The results indicate that about 86% of adults in the UK and Germany should be regarded as potential omnichannel consumers. These consumers are familiar with using a variety of online channels in relation to shopping, although they may not do so in connection to each and every purchase. Again, third-party sites are among the most popular sources of shopping-related information.

**Figure 26. Percentage of consumers who use a computer, smartphone or tablet to...**

Question: For which of the following activities do you use your [computer/smartphone/tablet]?



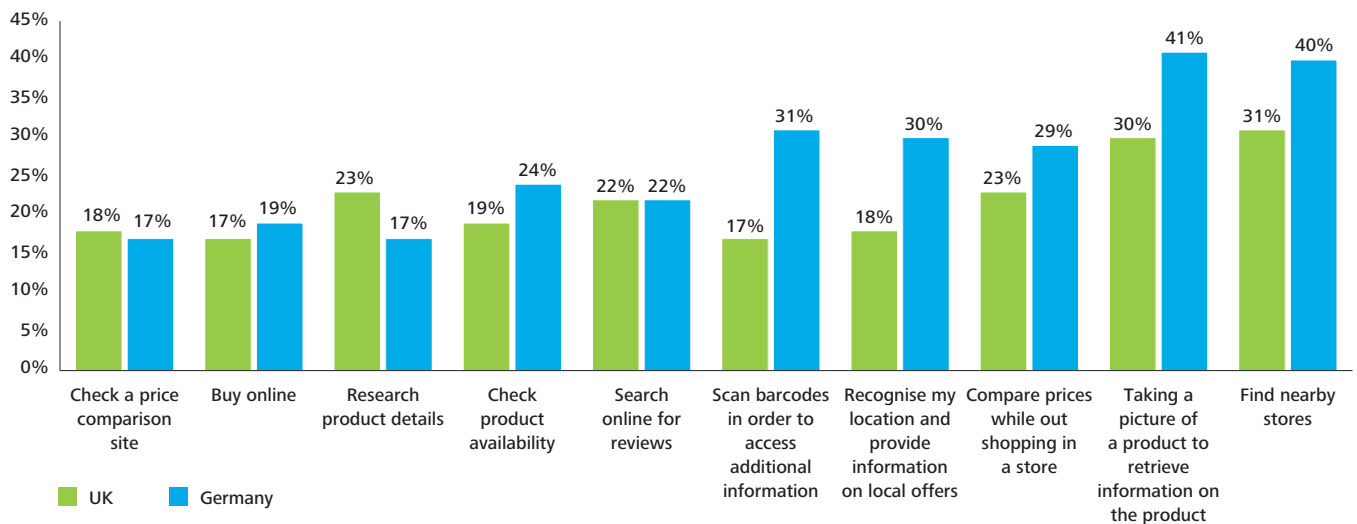
Source: Deloitte omnichannel consumer survey, 2013

In addition to using a variety of online resources, these potential omnichannel consumers are likely to use a variety of technologies in relation to shopping. While laptops remain the most popular device, 56% of UK and German consumers have used mobile technology in connection to shopping, and about 23% have used tablets. Moreover a majority of consumers will use more than one device.

The survey also shows that consumers are starting to use mobile-specific technologies in relation to retailing. While smartphone penetration is lower in Germany, German smartphone owners are more likely to use many of these features in relation to shopping.

**Figure 27. Percentage of smartphone owners who use their device to...**

Question: For which of the following activities do you use your smartphone?



Source: Deloitte omnichannel consumer survey, 2013

This evidence suggests that mobile-shopping should not be regarded only as an extension of traditional e-commerce – consumers are taking advantage of the specific features of smartphones, and so retailers can gain a strategic advantage by adjusting their mobile offerings accordingly.

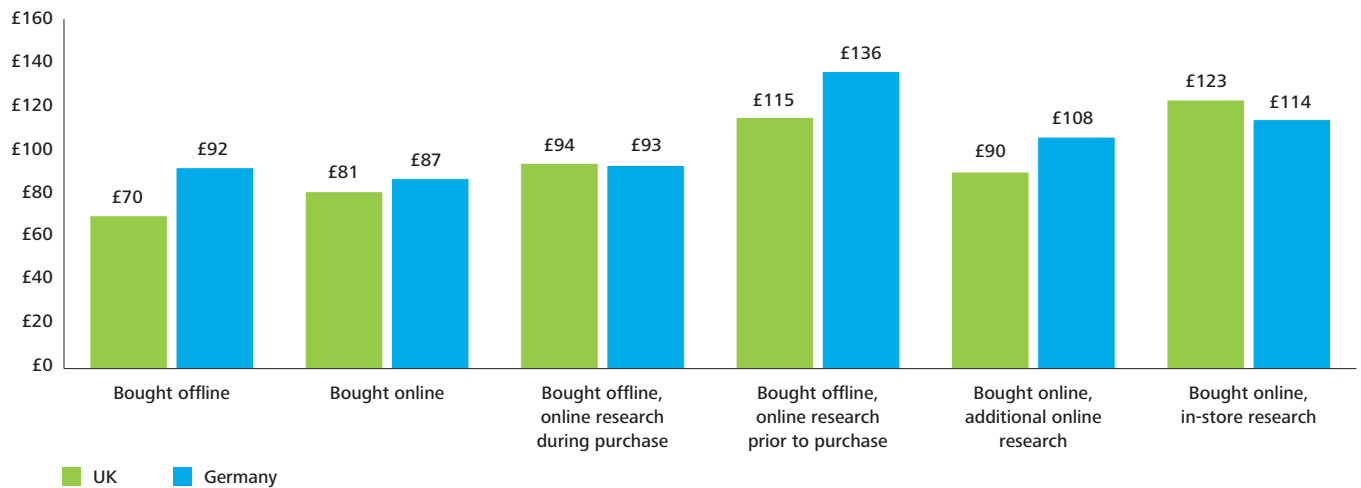
### B.2.2 Incremental impact of omnichannel retailing

The consumer survey also yielded evidence on some of the drivers of the incremental impact of omnichannel. Specifically, it illustrated the importance of increasing access and attracting lucrative high-spending shoppers.

Retailers can use an omnichannel strategy to increase sales by targeting lucrative segments of the market. The survey asked consumers how much they had spent on a recent online purchase and a recent offline purchase within the same product category; they were also asked about the research done prior to purchase. The results show that for many product categories, higher-value purchases are more likely to involve multiple channels. This effect is particularly pronounced for purchases of electronics in both countries, and the effect on sports and leisure products is consistent across the two markets. German consumers are also more likely to use multiple channels prior to high-value purchases of home and garden products.

**Figure 28. Average spend by channel used for purchase and research**

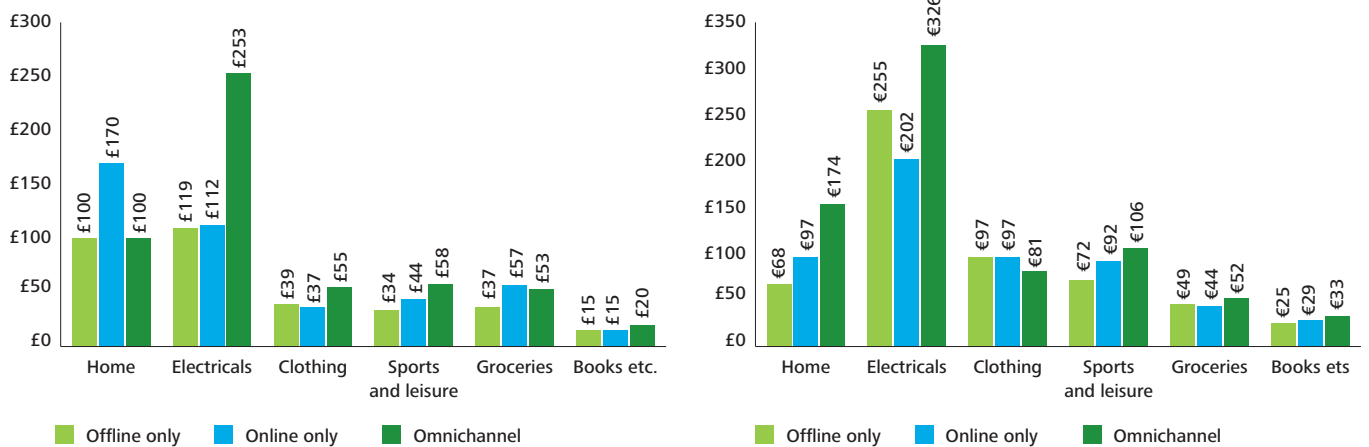
Question: How much did you spend on your recent purchase of [product]? Prior to your purchase, did you do any of the following...?



Source: Deloitte omnichannel consumer survey, 2013

**Figure 29. Average spend by product category and channel of purchase, for the UK (left) and Germany (right)**

Question: Prior to your recent purchase [of product category], did you do any of the following?

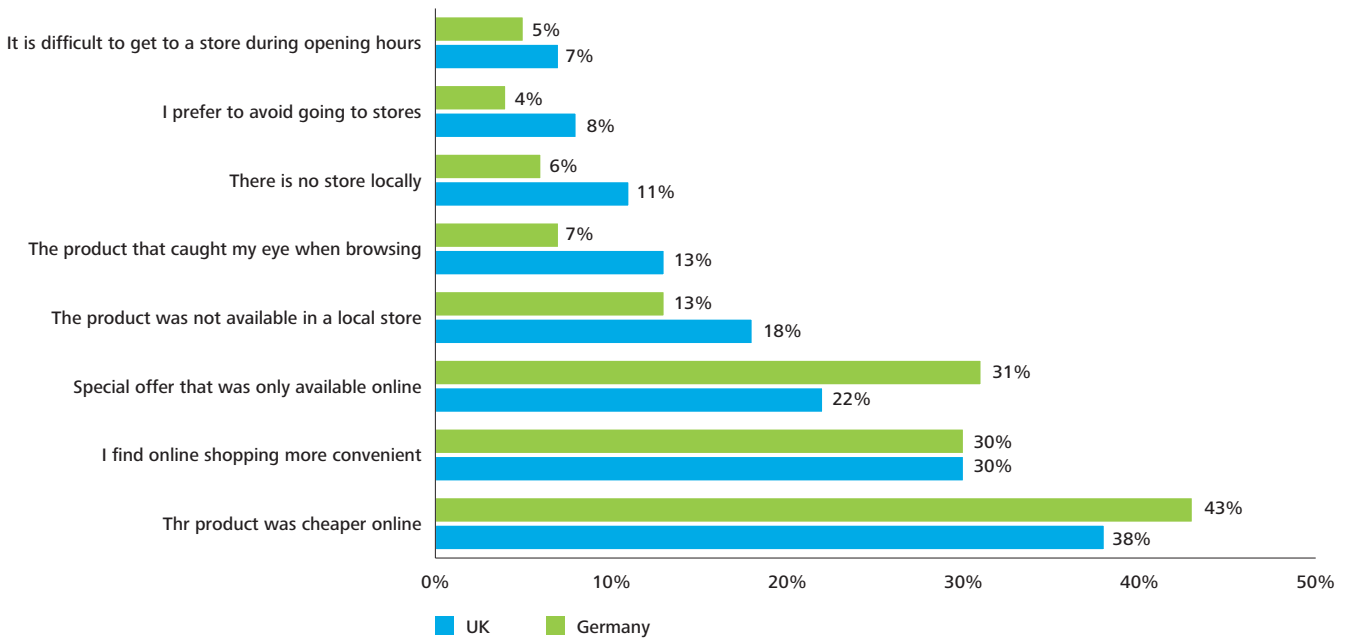


Source: Deloitte omnichannel consumer survey, 2013

Survey respondents were asked about their motivation for buying online rather than offline. While price and convenience were important factors, especially in Germany, a significant share of consumers cited an inability to find a specific product in a local store as a reason for buying online. UK consumers were more likely to value online access to a wider range of products, suggesting that the incremental impact of increased choice may be greater in the UK market.

**Figure 30. Motivation behind recent online purchases**

Question: What was your reason for buying online?

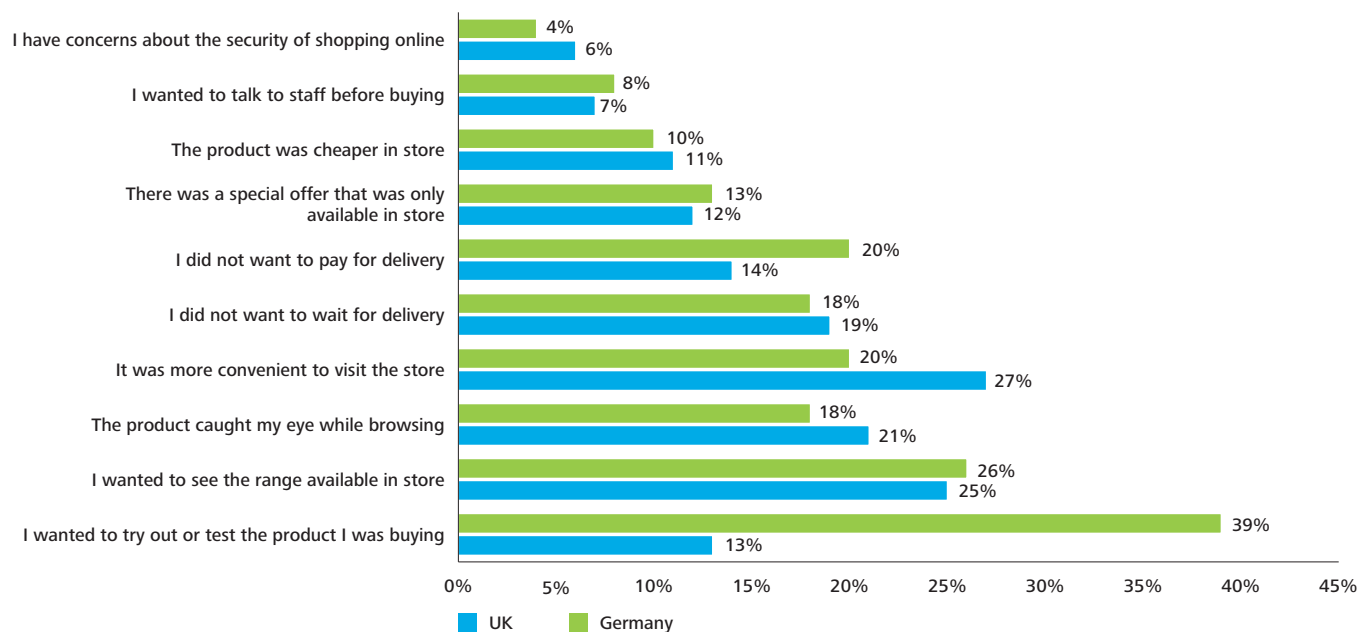


Source: Deloitte omnichannel consumer survey, 2013

The survey also asked consumers about their reasons for making a purchase offline rather than online. The responses illustrate how retailers can use a variety of purchase and fulfilment options to address potential concerns about online retailing.

**Figure 31. Reasons for making a recent purchase in-store rather than online**

Question: What was your reason for buying in a store rather than online?



Source: Deloitte omnichannel consumer survey, 2013

# Appendix C: Endnotes

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