NAVIGATING THE NEW DIGITAL DIVIDE

Capitalizing on digital influence in German retail
The New Digital Divide

"The gap between consumers’ digital behaviors and expectations and retailers’ ability to deliver the desired experiences"

92% of in-store shoppers use a digital device before or during their store visit

54% of in-store shoppers prefer to use their own device for product research instead of asking the store assistant

44% of in-store shoppers want to use a mobile wallet

"It’s not about e-commerce, it is just commerce"

Digital-influenced in-store sales: €126B

E-commerce sales: €39B
Introduction

Digital is changing the retail world as we know it today. However that does not mean digital is a threat to classic retail. On the contrary, we at Deloitte Digital see it as a unique opportunity. In our study ‘Navigating the New Digital Divide’ we show how the use of digital devices profoundly influences consumers’ in-store shopping behavior. After conducting an extensive survey in 2015 with over 2000 retail customers across Germany, we know that 92 percent of consumers use a digital device before, during, or after their physical shopping trip. While consumers are changing their digital behavior at an accelerating pace, big players in retail are still hesitating to acknowledge the widening gap between consumers’ expectations and business reality. Retailers are missing out on a tremendous opportunity if they don’t address this ‘New Digital Divide’.

In times of fast-changing technologies, the way we use digital and mobile devices is evolving rapidly. When talking about digital, online channels are only a small part of the whole story. In Germany, 91.5 percent of sales are still taking place in physical stores – so why restrict yourself to e-commerce, which only accounts for 8.5 percent of retail sales? Based on our considerable experience and extensive research, we believe that restricting the analysis to online as a sales channel fails to address its actual potential. Today, being online is the new normal. It’s not about e-commerce, it is just commerce. This is why digital should primarily aim to boost those sales which are still taking place in physical stores.

Based on the results of our survey, we believe we are at the dawn of a period that will see tremendous growth in the level of digital influence on in-store retail sales. This will shift the debate away from the contest between online and offline retailers towards leveraging digital in physical stores. To pave the way for retailers, this study aims to point out the key features of digital consumer behavior and to give essential recommendations on how to become truly digital. This study is part of a series of global surveys which include Australia, Canada, China, India, Mexico, the Netherlands, the United Kingdom, and the United States.
## Busting myths in retail to embrace the potential of digital in physical stores

<table>
<thead>
<tr>
<th>MYTH</th>
<th>VS.</th>
<th>REALITY</th>
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<tr>
<td>“Purchase decisions are made inside retail stores”</td>
<td>1</td>
<td>“Digital pulls the purchase decision out of retail stores”: sixty-four percent of customers use digital devices for shopping-related activities before they visit the physical store</td>
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<td>“Digital is about buying online and on-the-go”</td>
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<td>“Digital influences the entire online, mobile and offline shopping journey”: thirty percent of in-store retail sales are influenced by the use of digital technology</td>
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<td>“Digital requires a shift in attention to online and mobile channels”</td>
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<td>“Digital requires rethinking the overall shopping experience”: forty-four percent of customers would like to use a mobile wallet</td>
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<td>“Digital is turning retail stores into showrooms for online customers”</td>
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<td>“Digital lifts in-store conversion”: four out of five customers convert in-store when a digital device is used during their shopping experience</td>
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<td>“Social media decrease the willingness to spend money in retail stores”</td>
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<td>“Social media users spend more once in store”: customers who use social media during their shopping process are three-and-a-half times more likely to spend more than non-users</td>
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An increasing number of shoppers already made up their minds by the time they reach the store’s front door.

92% of shoppers use digital devices before or during the shopping trip for product related research.

Before: 64% of shoppers use digital devices
- PC & Laptop: 66%
- Smartphone: 17%
- Tablet: 17%

During: 27% of shoppers use digital devices
- PC & Laptop: 25%
- Smartphone: 56%
- Tablet: 19%

After: 10% of shoppers use digital devices
- PC & Laptop: 31%
- Smartphone: 51%
- Tablet: 18%

Purchase decision:

Before

In-store
More and more of the moments that matter are taking place outside of the store environment while using digital devices. The retail experience is shifting towards an ecosystem that is built and directed by the customer. Digital usage data indicates the interaction points which are most critical to customers, and where they may choose to seek information. In fact, 92 percent of customers in store have used digital devices for purchase-related purposes before or during their shopping trip. Digital technologies and the resulting interconnectivity grant customers access to independent product information outside of retailers’ control throughout the entire shopping journey. In fact, 64 percent of customers use digital devices before a store visit to research product information or to get inspiration. Every second consumer uses a laptop or desktop computer at home to obtain such information, while 75 percent of shoppers prefer to use smartphones and tablets when in store.

The self-determined customer

An increasing number of customers have already made up their minds by the time they reach the store’s front door. Seventy-one percent of customers are now leading their own shopping journey (becoming aware of products through means outside of retailer or brand communications), while only 29 percent get their initial inspiration from a retailer or brand advertisement. To succeed in capturing the sale, retailers need to find ways to position their store and product information earlier in the customer journey. They should focus on designing and building customer experiences that integrate how their customers are shopping for their products – not just point customers to purchase if their main purpose is to seek inspiration or information.

Call to action: reinvent the digital-enabled customer experience

1. Attract consumers’ attention well before they visit your store and keep them engaged at all stages of their shopping journey.

2. Provide a highly personalized customer experience along all (digital) touch points, from the first contact (e.g. Google search or Facebook advertisement) to in-store navigation, mobile payment and digital after-sales services.

3. Focus on every touch point of your customer’s path to purchase in order to influence decision-making outside the traditional ‘in-store control zone’.
“Digital technologies influence 30 percent of in-store retail sales”

Comparison between digital- and mobile-influenced in-store sales and e-commerce in Germany, 2014*

- In-store retail sales: €420B
- Digital-influenced in-store sales: €126B
  - Digital Influence Factor: 30%
  - Mobile Influence Factor: 15%
  - Digital-influenced sales are influenced by the shopper’s use of any digital device
  - Mobile-influenced sales are influenced by the shopper’s use of a web-enabled mobile device
- Mobile-influenced in-store sales: €63B
- E-commerce sales: €39B

* Channel sales based on calculations from Handelsverband Deutschland (HDE)
Digital includes much more than e-commerce and mobile applications. Customers’ continuous connectivity expands the digital influence from online (including mobile) to offline shopping. Evidence supports that digital technologies influence 30 percent of all in-store retail sales in Germany. To quantify this impact, we developed two metrics called the Digital and Mobile Influence Factor.

**Digital and Mobile Influence Factor (DIF and MIF)**

The Digital Influence Factor (DIF) is the percentage of in-store retail sales influenced by a customer’s use of any digital device including desktop, computers, laptops, netbooks, tablets, smartphones, wearable devices, and in-store devices (i.e. kiosk, mobile payment device). It is an accelerating phenomenon that shapes how customers shop and make decisions, expecting more from retailers’ digital offerings. Part of the DIF is the Mobile Influence Factor (MIF), which shows the percentage of in-store retail sales influenced by a customer’s use of a web-enabled mobile device, including smartphones. The DIF in Germany is 30 percent, meaning that digital technologies influence 30 percent of in-store retail sales. The MIF in Germany is 15 percent, indicating that half of the digital influence is accounted for by the use of mobile devices.

### Call to action: operate and measure physical and digital businesses jointly

1. Place digital at the core of your retail strategy and operations.
2. Rethink the way you measure and analyze performance, success, and overall influence (both digital and non-digital) throughout the shopping journey.
3. Combine and simplify the best of physical and digital experiences (e.g. one-click buying) as customers no longer differentiate between channels during their shopping journey.
"The majority of shoppers research product information on a digital device"

- 50% research on own digital device
- 15% research on in-store digital device
- 35% consult store assistant

Digital

Non-digital

Experience gap between customers’ digital demand and current use

- 44%
- 36%
- 21%
- 12%
- 2%
- 4%

Shoppers desire
Shoppers current usage

Mobile wallet Mobile check-out Retailer’s app

28% of shoppers claim to spend more when using a mobile payment solution
This study goes well beyond the current conventional wisdom of Omni-channel – a concept the market has grown to understand as connecting all sales channels. More than 50 percent of all in-store customers prefer to research product information, find inspiration, or compare prices on their own devices instead of approaching an in-store assistant. Fifteen percent of customers prefer to use a digital in-store terminal to check information, leaving only 35 percent in favor of personal advice. However, in-store assistance is still preferred for after-sales service such as returning products and scheduling pick-ups.

**The potential of mobile solutions and “buy online, pick up in-store” (BOPUS)**

Mobile payment solutions and applications such as mobile wallets, mobile check-outs, and retailer-specific apps are in high demand. An impressive 44 percent would like to use a mobile wallet to pay in store. The mobile check-out is desired by 36 percent of the customers, but only used by 2 percent of consumers so far. This technology combines self-checkout terminals with sensors (Internet of Things) and mobile payment solutions. The Internet of Things, where objects in the physical world are connected to electronic virtual networks, is likely to determine the in-store experience of the future. The service of buying products online and picking them up in store is used by only 9 percent of all customers, while 13 percent would like to use it.

Catering to these demands is a powerful tool for increasing revenues: twenty-eight percent of customers believe that a mobile payment solution would increase their spending, and BOPUS customers are twice as likely to spend more than non-BOPUS customers.

**Call to action:** engage your customers before, during and after their shopping trip

1. Reconnect with self-sufficient customers, regardless of whether inside or outside the store, by meeting their desire to use new technologies and services that simplify their shopping trip.

2. Embrace indirect communication channels (e.g. blogs and forums) to provide your customers with relevant information in new ways to help them make an informed decision inside or outside the store.

3. Reinvent the store assistant engagement model by integrating digital into their everyday processes instead of merely providing your staff with digital tools.
Shoppers using digital devices in-store are more likely to buy

Digital impact on conversion during the shopping process

<table>
<thead>
<tr>
<th>Age group</th>
<th>Conversion rate</th>
<th>Conversion lift</th>
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<tbody>
<tr>
<td>Before + During</td>
<td>46%</td>
<td>42%</td>
</tr>
<tr>
<td>Before + During</td>
<td>65%</td>
<td>74%</td>
</tr>
<tr>
<td>Before + During</td>
<td>80%</td>
<td>68%</td>
</tr>
<tr>
<td>Before + During</td>
<td>78%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Notes: • Conversion rate is defined as traffic divided by the number of sales transactions (in this study, traffic is defined as the number of walk-ins). • Conversion lift is defined as the percentage increase in conversion from the baseline. In the context of this study, lift represents the increased percentage from standard conversion rates (i.e. when digital was not used before or during the shopping journey).

Digital impact on spending

Shoppers claiming to spend more money on shopping due to the use of digital devices

Shoppers claiming to spend less money on shopping due to the use of digital devices
The majority of retailers in the market are posting aggressive e-commerce growth numbers between 20 to 30 percent or more. This growth, however, is coupled with flat to declining in-store business. In many cases, real (non-seasonal) growth is coming from the online channel; this therefore does nothing to revive the health of what could be construed as the most critical asset – the store base. The answer to the question of how to win has to go even further, and must address the new competitive environment.

**Digital usage during shopping trips drives conversion and increases spending**

Most customers are coming into stores not only with a precise objective in mind, but with a specific path sketched out. Although they are focused on purchasing a specific item, we found that customers continue to use digital devices once they have entered the store. Our research reveals that customers using digital devices in store are more likely to buy. Compared to the situation when no digital device is used, conversion lifts by 74 percent when a device is used during shopping and 42 percent when a device is used before the shopping trip. Among customers who use a digital touch point while shopping, one out of three claims to spend more due to the use of such devices during the shopping process. In fact 28 percent of millennials (age group 18-34) believe they spend more money, in contrast to only 17 percent among non-millennials (age group 35+). However, 19 percent of 35+ year-olds expect to spend less due to digital. This highlights the importance of the right digital communication channels and user journeys per age group, as the customer’s perception of the digital influence on spending can be contrary.

**Call to action: develop valuable ecosystems**

1. Incentivize your customers to use their smart devices when inside your store to lift conversion by inspiring and engaging them on a personal level.

2. Develop partnerships, alliances, and collaborations with multiple players of different types and sizes to create value from your relationships within an ecosystem that is beyond the capacity of any single organization.

3. Employ third party technologies to lift conversion at the point of sale (e.g. iBeacons for push notifications, in-store navigation) and increase customer loyalty (e.g. through game design principles).
Social media users spend more money on shopping than non-users

Share of consumers believing to spend more due to the use of social media

Most influential social media platforms

1. FACEBOOK
2. YOUTUBE

Age group

Use of social media for shopping

Before: 52%
During: 34%
After: 14%

25% increase in conversion rate if shoppers use social media
Retail customers have unprecedented access to information, and they place their trust in those sources they believe to be the most authentic. Information has been disconnected from inventory – meaning customers can learn about products, compare prices, read reviews, and make decisions independently of traditional retailers. As a result, the traditional role of marketing is being disrupted as much as the overall retail landscape. Our data tells us that retailers are losing their voice as they compete with innumerable new information sources. Customers look to influencers through social media, often friends or family, subject-matter experts, or independent bloggers, for their trusted information. They also visit review sites to assess the quality of a product and provider, price and customer service. Most importantly, many customers place their trust in these influencers, specifically because they are not tied directly to retailers or brands.

**The opportunity of social media**

The good news is that, even though customers tend to look for advice outside the traditional ‘in-store control zone’, they convert at a higher rate than non-users when using social media. Our survey reveals that the conversion rate of social media users is 82 percent compared to 65 percent for non-users (a 25 percent conversion lift). Additionally, social media users spend more than non-users. The most significant increase in spending can be found among millennials (age group 18-34), as one-third of these customers spend more due to social media influence as opposed to only 6–16 percent among non-millennials (age group 35+). Facebook and YouTube remain to be the most influential platforms.

**Call to action: transform the role of marketing**

1. Make inroads into the sources of inspiration and information with which the consumers already interact.
2. Prioritize the creation and curation of more authentic content that speaks directly to the customers and influencers, and listen to the crowd to achieve a greater level of authenticity.
3. Evolve your marketing from the promotional, traffic-focused approach towards the creation of trust by engaging social influencers and brand ambassadors.
Shoppers curate different shopping experiences for different categories

Digital Influence Factor

- Food & Beverages: 20%
- Health & Wellness: 32%
- Apparel: 35%
- Home & Furniture: 41%
- Entertainment: 42%
- Baby & Toddler: 43%
- Automobile: 45%
- Electronics: 49%

Mobile Influence Factor

- Food & Beverages: 9%
- Health & Wellness: 15%
- Apparel: 18%
- Home & Furniture: 20%
- Entertainment: 20%
- Baby & Toddler: 20%
- Automobile: 20%
- Electronics: 25%

Conversion of shoppers using digital devices during their shopping trip

- Food & Beverages: 88%
- Health & Wellness: 77%
- Apparel: 77%
- Home & Furniture: 74%
- Entertainment: 72%
- Baby & Toddler: 87%
- Automobile: 60%
- Electronics: 59%

Conversion of shoppers not using any digital devices during their shopping trip

- Food & Beverages: 22%
- Health & Wellness: 18%
- Apparel: 21%
- Home & Furniture: 15%
- Entertainment: 11%
- Baby & Toddler: 34%
- Automobile: 18%
- Electronics: 9%

Percentage of shoppers spending more money due to the use of digital devices
Deep dive: digital influence by product category

Customers are in charge of their own shopping journey and design it individually on a product level. How a customer gets inspired and informed to buy shoes may differ greatly from how he or she buys groceries or electronics, as evident from disparities in digital behaviors. In fact, the Digital Influence Factor ranges from 20 percent for the food and beverage category all the way up to 49 percent for electronics. The variation is clear: shoppers curate different shopping experiences for different categories. Overall, at the category level, Digital and Mobile Influence Factors continue to be highly correlated.

Conversion lift by category

Digital has a different effect on conversion in every product category. According to our research, the product category of entertainment (e.g. books, music, movies, games) has the highest conversion uplift when digital devices are used by customers: from 19 percent conversion when no digital device is used to 72 percent conversion when a digital device is used. The other extreme can be seen in the food category, where digital has a very limited effect on conversion.

Spending lift by category

The amount spent per shopping trip increases if customers use digital devices during their journey. The category enjoying the highest lift turns out to be baby/toddler as 22 percent of customers in this category claim to spend more. The smallest lift in spending is marked by the electronics category. In general, the customers claiming to spend more are also highly influenced by social media.
BRING US YOUR CHALLENGES AND WE WILL REIMAGINE YOUR FUTURE IN RETAIL

Deloitte Digital is creating a new model for a new age – we’re a digital agency and a consultancy with scale, infusing innovation and design into everything. We combine leading digital and creative capabilities with the deep industry knowledge and experience Deloitte is known for. That means clients can bring us their biggest challenges, knowing we have what it takes to bring a new business vision to life.

To us, the question is about much more than “being digital”. It’s about how we use digital to inspire engagement, preference, and loyalty. It’s about how we transform behaviors, brands, businesses, and move bottom lines. The combination is what sets Deloitte Digital apart. It’s what allows us to achieve the results our clients need and expect. For more information, please see our website and visit us at our studios.

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Moving from myth to reality

Now it’s your turn!

In a world in which nearly everyone is always online, there will be no offline. Retailers need to be aware of the dissolution of online versus offline and gear towards both worlds to provide a single all-inclusive customer journey. To understand and prioritize digital investments and ultimately maximize impact, retailers need to identify how customers’ decisions are influenced by digital. Technologies like iBeacon and augmented reality, to name just two, will reshape customer experience and behavior by personalizing each individual shopping trip. To understand how this works, retailers need to answer some key questions:

- When a customer describes something he/she wants in their own words, does a search engine take the customer directly to the right product?
- Is information on all in-store options available to customers on any digital device?
- Is there a way for a customer to receive personalized offers?
- When looking for online product reviews, do these reviews tell customers what they need to know?
- If the item is not exactly right, is another satisfying solution available?
- Is the search journey seamless and user-friendly?
- Are consumers using retailer-provided sites/apps or third party sites/apps?
- Which competitor (traditional or not) is providing highly desirable user experiences?
- What technology is needed to enhance the customer experience and leverage customer data?
- Is the brand experience integrated and unified along the entire customer journey?

If you are interested in more data on the digital influence on retail please visit our website:

www.digital-influence-factor.com