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## Navigating The New Digital Divide: Capitalizing on digital influence in Mexican retail





# The Digital Influence Factor

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When we decided to explore what “Digital Influence” would mean for the Mexican Retail landscape, our objective was simple: to test our belief that mobile technology and easy access to digital information was beginning to make an impact on sales in digital channels. In reality, we discovered that the impact of digital is not exclusive to sales within digital channels – these devices are also impacting in-store sales and consumer behavior.

Over the last couple of years, the retail industry has changed significantly with the introduction of new digital technologies. By the end of 2012 and beginning of 2013, many brick & mortar retailers started focusing more on their online channel and a few ecommerce pure players retailers launched their platforms in Mexico. A new era has started for Retail in Mexico, the Digital era.

According to recent Deloitte research, however, many retailers have failed to leverage the potential and meet the digital expectations of their customers. This gap, the “new digital divide,” puts at risk much more than just online shopping revenue.

Clearly, the gap is different in nature from the standard notion of “digital divide” that describes socio-economic differences based on access to information technologies. Nevertheless, for retailers, it poses a serious threat to overall revenue and a bold challenge to the way they respond to, and anticipate, customer’s shopping habits in-store. The fact is, traditional retailers are leaving money on the table and are allowing pure eCommerce retailers to capture a growing share of revenue that could be theirs.

Digital devices are increasingly influencing everyday life, including in-store purchase behavior, which is growing faster than anyone could have anticipated.

In 2014, eCommerce sales in Mexico reached \$4.57 billion USD and represented 1.2% of total retail sales. Sales in the eCommerce channel are expected to be \$6 billion US this year, boosted by 30% year-over-year growth.<sup>1</sup> According to Mexican Association of Internet (Amipci), by 2017 there will be 46.6 million smartphones in the country<sup>2</sup> which represents ~38% of the population (Mexico’s population is 122.3 millions)

Given this acceleration in Mexico, the retail landscape has changed and will continue to evolve rapidly over the next few years, to a model in which digital channels will no longer be a ‘nice to have’ alternative but a fundamental channel for growing and influencing the business. The digital shopping experience should be integrated with the brick-and-mortar shopping journey, and not treated as an isolated or distinct business alternative solution. Retailers need to change the way they define, execute, and measure their digital strategy, to ensure that the customer’s needs and wants are properly addressed.

1. Ecommerce Grabs Small Share of Mexico’s Retail Sales. eMarketer  
2. AMIPCI Study. Internet Penetration 2014

# The Digital Influence Factor

For the first time in Mexico, Deloitte conducted a study of thousands of consumers in order to understand how they research and shop for products. We gained an understanding of how customers are not only driven by their needs and wants, but also by how retailers offer information.

Digital influence in retail is a reality in Mexico and retailers continue to be slow to react to these changes. Now is the time for retailers to react in order to survive and thrive in this rapidly evolving environment.

Deloitte defines the “digital influence factor” as the influence of digital devices on the in-store shopping journey. It is not only shaping how customers shop and make decisions in-store, it is setting new digital expectations of retailers in terms of how they help their customers gather pertinent information to make shopping decisions and purchases to react.

While there are some retailers that believe the digital era is still far from real, consumers are evolving at a much faster pace, thus increasing the gap between what consumers want and what retailers are offering. The effort retailers will have to make to close this gap will be bigger by the day, unless companies decide to listen to what consumers are saying and react!



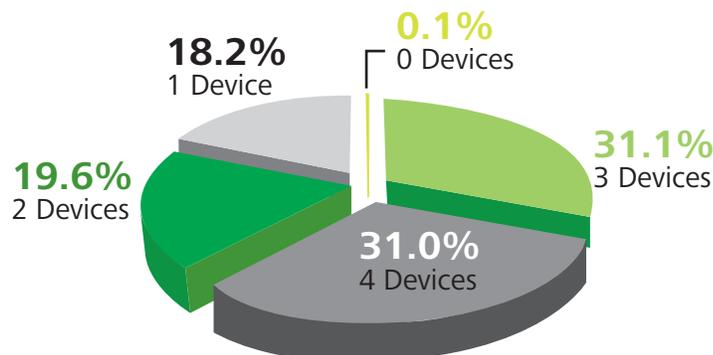
Internet penetration in Mexico has reached 51%, meaning 53.9 million people are Internet users<sup>3</sup>



78% of survey respondents own digital device

Consumers are looking for solutions that are only available in much more evolved markets. This has created a very attractive market for big players. By the end of 2015, we expect to see two of the biggest global pure-play eCommerce retailers try to poach market share away from the traditional brick-and-mortar retailers in Mexico.

## DIGITAL DEVICES OWNED PER PERSON



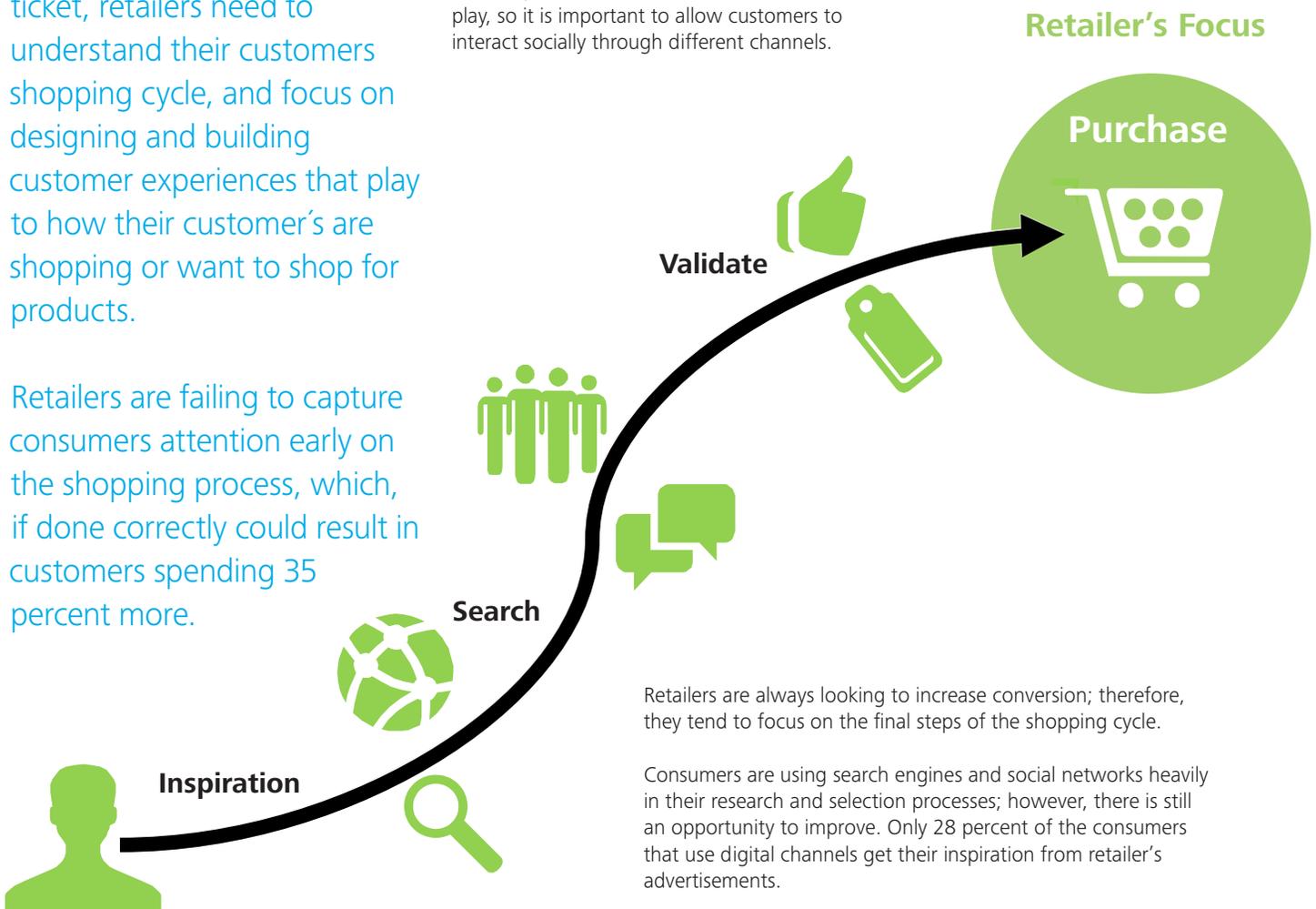
3. AMIPCI Study. Internet Penetration 2014

# The Inspiration Funnel

To succeed in capturing the sale, and ideally increasing the ticket, retailers need to understand their customers shopping cycle, and focus on designing and building customer experiences that play to how their customer's are shopping or want to shop for products.

Retailers are failing to capture consumers attention early on the shopping process, which, if done correctly could result in customers spending 35 percent more.

Product information plays a very important role in the shopping experience. Early in the customer journey, consumers seek to understand product attributes, prices, and alternative products; however, once they pre-select a product, social validation comes into play, so it is important to allow customers to interact socially through different channels.



Retailers are always looking to increase conversion; therefore, they tend to focus on the final steps of the shopping cycle.

Consumers are using search engines and social networks heavily in their research and selection processes; however, there is still an opportunity to improve. Only 28 percent of the consumers that use digital channels get their inspiration from retailer's advertisements.

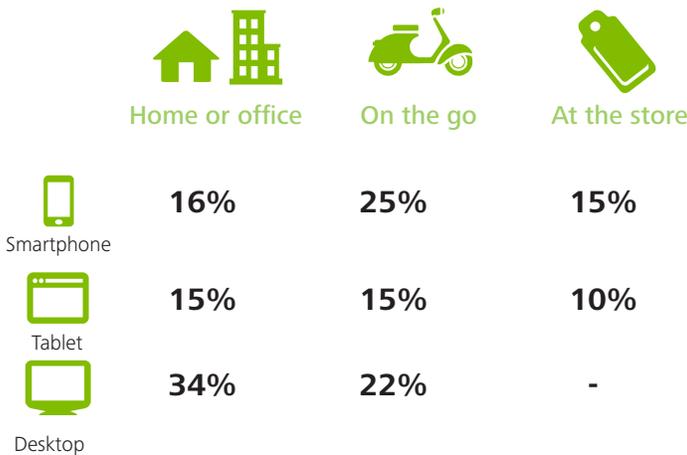
As retailers develop strategies to increase their digital marketing efficiency, it is important to develop new capabilities that will enable them to provide a seamless experience throughout the entire shopping process.

# Drilling Down in Retail

Mexican consumers are searching for more practical, faster, and easier ways of buying. They are steadily shifting towards eCommerce, which explains the market's roughly 40% annual growth rate.

According to our research, 16% of Mexican consumers prefer to search for a product using a search engine compared to 14% of customers who prefer to research a specific retailers site when searching for a product.

## Where customers are using digital devices and the type of device used while shopping

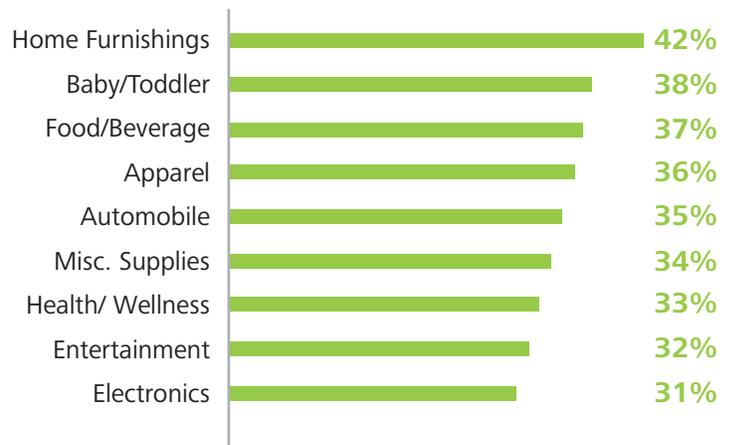


The two main processes consumers use digital devices for are to select or validate products and to find inspiration or basic ideas.

Interactions with digital devices are increasingly influencing the way consumers make shopping and purchase decisions.

Digital across all platforms – desktop and laptop computers, tablets, and smartphones – is influencing over \$1.2 billion USD being spent across all categories of in-store retail sales, increasing at a rate of over 18% year-over-year since 2013.

## Digital influence per category



The graph shows how digital is influencing the different categories. Customers are using a digital device at some point during their shopping experience, whether it is to research for products, compare products and prices or buy the product.

Nowadays, research is the most influenced phase of a shopping process. Nevertheless, as the market matures and retailers develop more digital capabilities, the information availability increases and customers can decide faster and easier, increasing the importance of the final stages of the process.

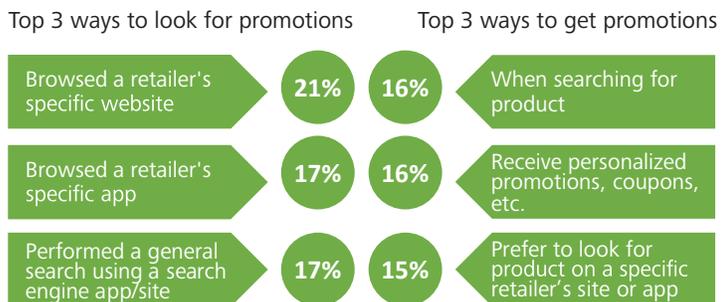
So, how can retailers bridge the gap? First, they should stop viewing their in-store and digital strategies as distinct and separate issues.

Retailers are not capable of responding to their customers' demands. While consumers are using digital devices heavily throughout their shopping experiences, very few retailers are developing their digital capabilities.

Developing a digital strategy and enabling all digital capabilities is a journey that will require a considerable amount of time and effort. The speed at which new technologies are evolving makes it even harder to catch up.

The moment is now: is your company moving fast enough to catch up with technology?

Consumers are evolving quickly as new technologies appear on the market. Four years ago, using a digital channel to shop for any product other than plane tickets and hotel rooms seemed quite futuristic. Today, pure players, brick-and-mortar retailers, and small boutiques are competing for the same customer.



Consumers are not as loyal to brands as they used to be in the past. Today, consumers can more easily research and compare products and prices – the retailer that really understands its customers also understands where they are researching, what they are comparing, and how they are shopping. Retailers that act upon these patterns have the opportunity to develop and maintain customer loyalty.

Understanding consumer behavior is the key to success in this changing market. The need to generate more personalized offers and target consumers at the right time with the right message is now more important than ever.

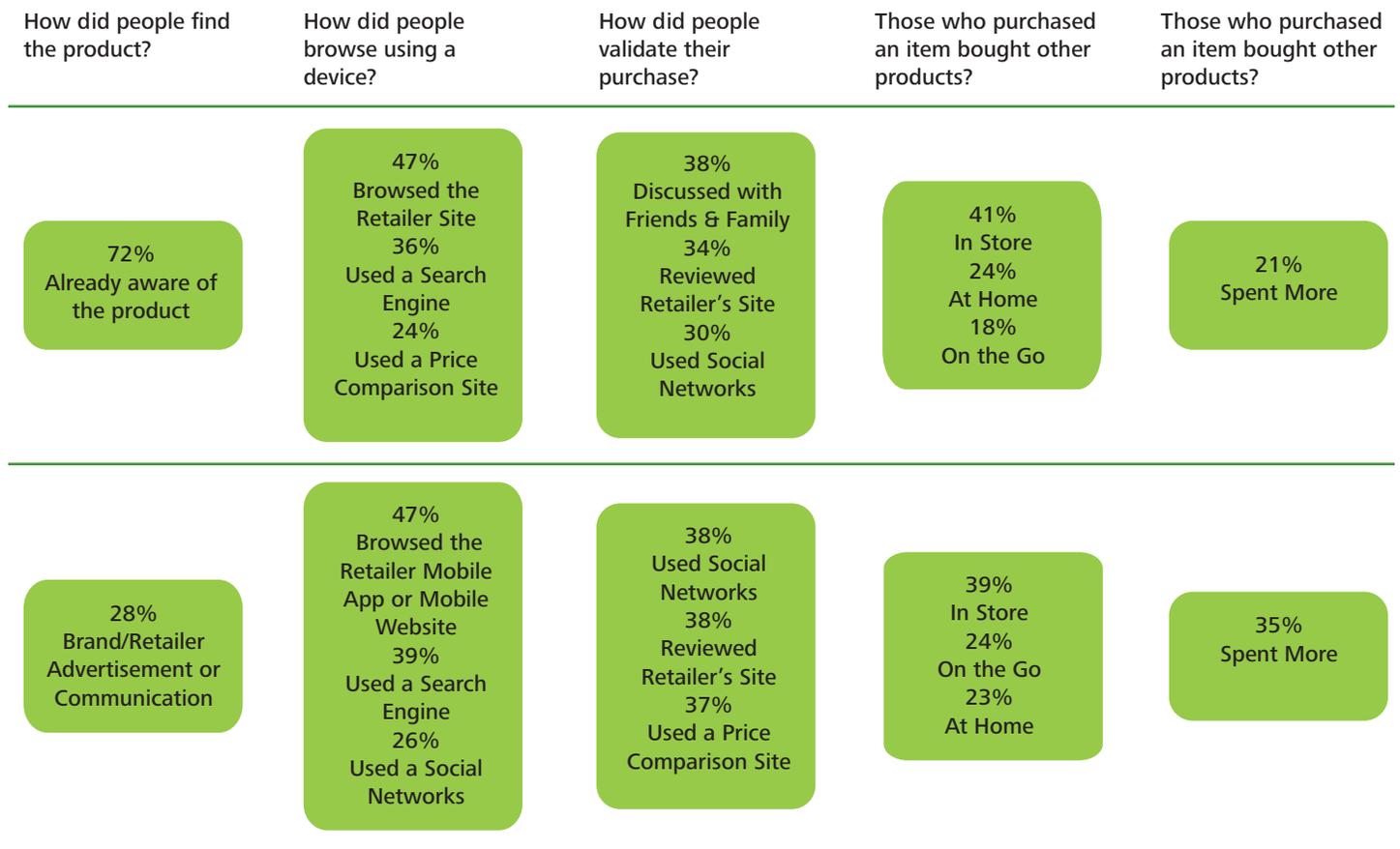


Customers' behaviors differ at each step of the shopping journey; therefore, retailers must approach each phase differently. The messages sent to customers **must be adapted to these behaviors in order to increase the return on investment.**

# The Inspiration Funnel

Digital interactions can affect multiple points along the shopping journey. By failing to capture the consumers' share of mind at critical decision points, retailers potentially fail to become a part of the consideration set and therefore risk losing out on the sale at the end of the journey.

By understanding the way customers interact on the shopping experience, retailers can optimize their marketing efforts to increase sales throughout the different channels.



# Spend Habits

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By analyzing consumer behavior not only by category but also by age group, according to our research, we found out that retailers must not only send the right message to consumers at the right time. They also need to understand how to reach their customers such that they are likely to spend more than what they had originally intended.

Each age group has different interests and motivations. These differences are not often considered when defining promotions and marketing campaigns.

Incorporating this data represents an opportunity to better cater to the needs of these different age groups.

## 34 years and younger

Consumers are more likely to spend more as they gain confidence that the product is a good fit for his/her needs due to product information and reviews available online

## 35 years and older

Customers are more likely to spend more by buying a complementary item along with original planned purchase (e.g., due to research/reviews)

If a retailer wanted to increase its furniture, home furnishings and/or home improvement sales, it would have a greater chance of succeeding by triggering consumers aging between 35-64 years with a complementary product to the one they are already searching for. One option for this would be a bundle with a special price.

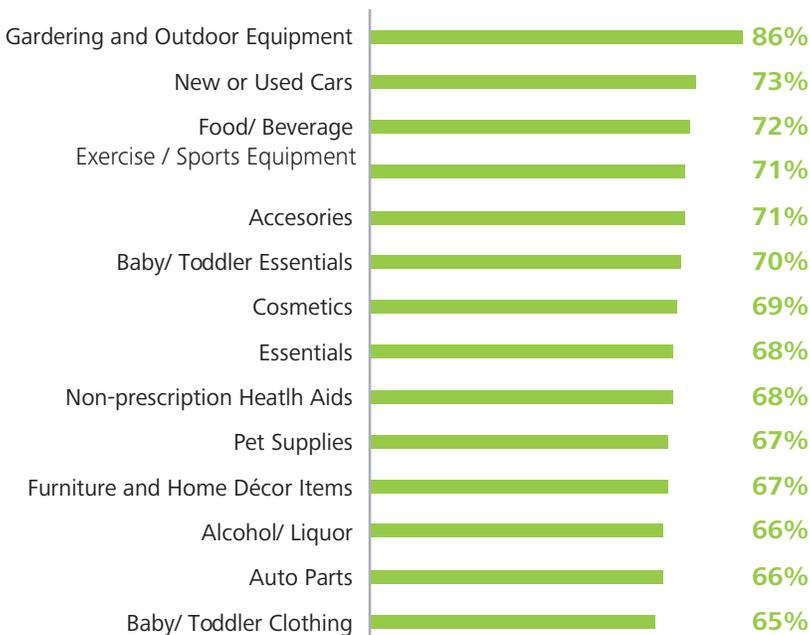
Although price-oriented, the youngest group of consumers also need social validation and always seek extra information on the products they want to purchase (often through reviews). This proves how important it is for retailers to explore social communities and social interaction with customers.

# Social Networks

Social media, is mainly used by consumers to find inspiration or to finally select a product, through validation from friends and family and social networks. This plays a more important role in specific group ages and categories:

- On average, 65 percent of the consumers used social media as part of their shopping journey
- 86 percent of the consumers shopping for gardening and outdoor equipment used social media
- 70 percent of the consumers shopping for baby and toddler essentials consult social media to gather inspiration while purchasing

## Percentage of consumers that use social media during their shopping journey



As mentioned previously, social validation is very important for consumers. Specifically, 65 percent of survey respondents use social media at some point on their shopping experience (either before, during, or after purchasing).

Although there are many social networks available and each has its own complexities to manage, retailers should focus their investments where it matters most: Facebook, YouTube, Twitter, and Instagram.

# Have you mastered these digital dos and don'ts?

What store type do you operate? How many product categories does your store offer? Your digital strategy will need to take these factors into account.

Consider the impact of the digital influence factor on the different store types shown in the below figure.

- Electronics has the highest digital influence factor, at 70 percent
- Books/Music/Entertainment purchases are also significantly influenced by digital influence factor of 65 percent
- Food/Beverage purchases are least influenced, at 51 percent

Category	Mobile Influence Factor	Digital Influence Factor
Food/ Beverage	28%	51%
Apparel	33%	64%
Electronics	35%	70%
Furniture/ Home Furnishings / Home Improvement*	30%	59%
Books/ Music/ Entertainment	33%	65%
Health/ Wellness/ Beauty	31%	61%
Automobile	32%	60%
Baby/Toddler	30%	57%
Miscellaneous Supplies	25%	49%
Total	31%	59%

## Tailor the experience

Each digital feature and function should be adapted to the customer's desired activities. Do not create a solution that provides the same experience throughout the different platforms.

## Consistent but different

Branding and information should be consistent across all digital platform devices, but adapted to their specific platform to offer a better customer experience.

## Better, not more functions

Customers do not want more tools, they want improved capabilities. For example, having a dedicated app instead of a general search engine will reduce the possibility of losing clients to a competitor's site.

## Don't focus on conversion at every touchpoint

Treat eCommerce, tablets, and mobile platforms as shopping engines, not purely conversion engines. Help the client browse, gather information, and push product recommendations during the awareness and research phases in the customer experience lifecycle, and help them check out when they are ready to buy.

## Be social media friendly

Social media sites can be valuable tools for customers and retailers. Product information and recommendations can be integrated strategically to broaden the client's shopping experience.

# Challenges retailers in Mexico will face

Retailers need to take into consideration several challenges while selling online: consumers are concerned about providing their personal details through the internet, internet connections are often slow or unreliable, and the country has important socioeconomic differences.

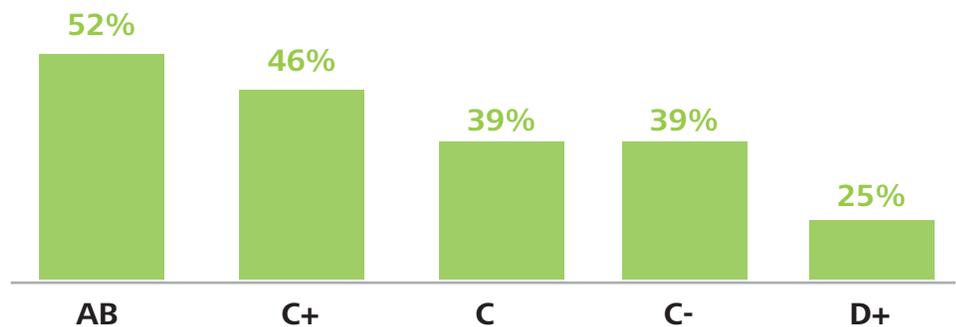
All of these factors affect eCommerce sales a preference for the use of computers or laptops to make a purchase.

**Confidence** – retailers face the challenge of receiving and processing customers’ personal details through the internet. Customers are often reluctant to give out their credit card information and personal details, and they do not trust that their packages will arrive.

**Slow internet connection** – mobile users feel their internet connection is very slow and unreliable; therefore, a lot of time is spent in order to make a purchase. Moreover, they may not be able to see the videos or images of what they intend to buy.

**Socioeconomic differences** – there is a common belief that only the higher socioeconomic layer buys using eCommerce. Nonetheless, according to a study done by AMIPCI in June 2014, 25% of the mobile phone owners of the D+ level have bought using this channel.

**INTERNET PENETRATION BY SOCIOECONOMIC GROUP**



**Preference for the use of computers or laptops to make a purchase** – customers are searching for product characteristics and information through their smartphones, but have a preference to buy using a computer or laptop, potentially representing a decrease of impulse sales. This can be reduced by having a shopping app to improve the shopping experience.

Note: Socioeconomic groups according to the Mexican Association of Research Agencies and Public Opinion (AMAI - Asociación Mexicana de Agencias de Investigación y Opinión Pública)

# Analysis Methodology

## Survey Methodology

This survey was commissioned by Deloitte and conducted online by an independent research company on November 21-26, 2014 and January 13-20, 2015.

The survey polled a national sample of 3,016 random consumers. Data were collected and weighted to be representative of the Mexican Census for gender, age, income and ethnicity. A 90 percent confidence level was used to test for significance.

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

- National Random Sample – 90 percent confidence, margin of error 1-2 percent (+/-)
- Device Owners – 90 percent confidence, margin of error 1-2 percent (+/-)
- Smartphone Owners – 90 percent confidence, margin of error 2-3 percent (+/-)
- Tablet Owners – 90 percent confidence, margin of error 2-3 percent (+/-)

Additionally, a sub-set of consumers were randomly assigned to provide information about how they use a digital device to shop for up to two different product sub-categories (such as shoes or books and music). Sample sizes ranged from 149 to 178 – 90 percent confidence, margin of error 7-9 percent (+/-). Specific digital behavior data represents consumers who use digital devices to shop.

# Authors and Contributors

## Authors

Carlos García César  
Partner

José Algara  
Manager

Luisa Calderón  
Senior Consultant

## Contributors

Pablo Ruedas  
Senior Consultant

María Fernanda Montiel  
Senior Consultant

Ayrton Rodríguez  
Business Analyst





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