The New Digital Divide

Retailers, shoppers, and the digital influence factor

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Digital

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The digital influence factor

It is a well-known fact that digital platforms are changing the fundamental workings of many businesses. Music and television have undergone radical changes in just a few years as mobile devices are empowering consumers and forever changing their habits in terms of how they listen and how they watch.

A similar, but less apparent, revolution is underway in retail – and the speed of the change is far greater than anything analysts predicted just a couple of years ago. The influence of digital devices on the shopping journey, a dynamic Deloitte calls the 'digital influence factor,' 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.

Today there is a need to measure the success of digital investments against a new set of key performance indicators to encourage retailers to rethink their digital strategies and offerings in the marketplace. The positive impact to store traffic, conversion, order size, and loyalty is clear and retailers have a tremendous opportunity to harness the power of digital (Figure 1).

According to recent Deloitte research, many retailers fail to leverage the potential of or meet the digital expectations of their customers. That gap, the 'new digital divide,' puts at risk much more than just online shopping revenue. Clearly, this 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, customers' shopping habits in-store. The fact is, traditional retailers are leaving too much money on the table and are allowing strictly online retailers to capture a growing share of revenue that could be theirs.

Digital devices' influence on in-store purchase behavior is growing much faster than anyone could have anticipated. Deloitte's research shows that today, digital technologies influence 36 percent or $1.1 trillion of in-store retail sales, and this number will likely increase to 50 percent of in-store sales by the end of 2014.

Given this acceleration, we are at a tipping point in retail – a point where digital channels should no longer be considered a separate or distinct business. Instead, digital is fundamental to the entire business and the entire shopping experience, in and out of the store. As this new reality begins to have a greater impact, retailers should change dramatically the way they think, measure, and invest in digital and address their customers' digital needs and wants.

Yet, many retailers measure the success of their digital investments by narrowly focusing on 'conversion in the channel' – customers making purchases directly through their devices. In most cases, retailers prioritize their investment in features that drive on-device conversion, which are not necessarily the same features that the in-store customer wants. This limited perspective fails to appreciate or capture the full value of digital devices as a tool in influencing the shopper's path to purchase. In fact, retailers are often failing to properly measure and apply even the most basic digital metrics such as conversion, visits, and page views. Viewed holistically, these metrics can be powerful leading indicators of customer preference and purchase intent.

Figure 1. The impact of digital on various retail measures of success

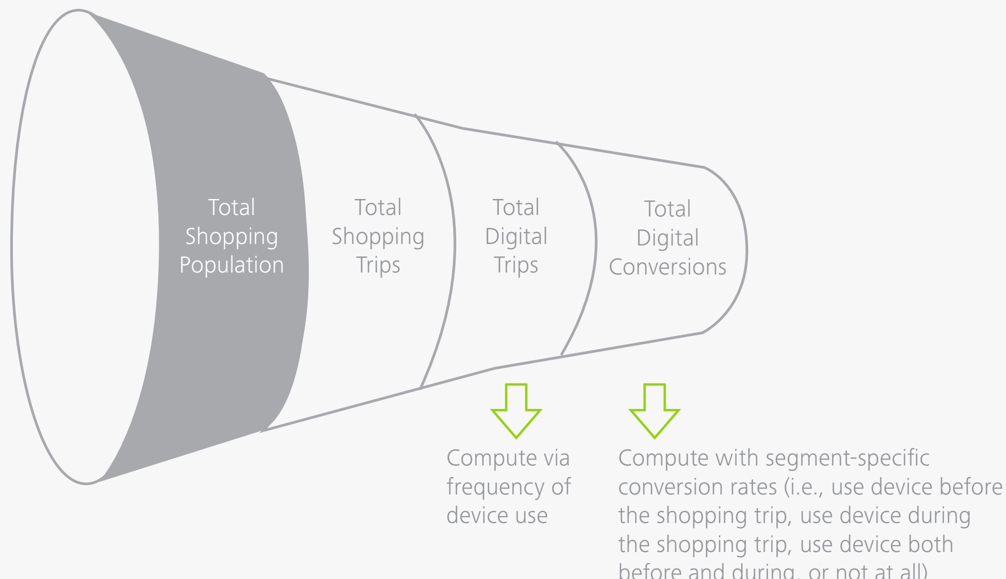
Traffic	Conversion	Order Size	Loyalty
84% of visitors report using digital for shopping-related activities before or during their most recent trip to a store	Consumers who use a device during their shopping journey convert at a **40%** higher rate	**22%** of consumers spend more as a result of using digital – with just over half spending at least 25% more than they had intended	**75%** of consumers said product information found on social channels influenced their shopping behavior and enhanced brand loyalty

So, how can you bridge the gap? First, you should stop viewing your customer and your digital strategies as distinct and separate issues. Today, people and their devices are wired as one. Integrating digital into the customer experience has become a business imperative, and retailers who ignore this fact will likely be trapped in the digital divide – the gap that separates shoppers' digital needs and expectations from the experiences retailers are actually providing to them.

As you begin to consider these issues, we want to share with you some of the findings and analysis drawn from a rigorous and detailed survey we conducted with a random sample of over 2,000 retail shoppers across the United States in late 2013. Our proprietary methodology enables us to estimate the percentage of traditional in-store sales being influenced by digital devices during the shopping process (Figure 2).

Truth be told, the findings are different from what we expected – and while this study builds on the findings of our 2012 study, *The Dawn of Mobile Influence*, the results clearly indicate that the pace of change has accelerated at a rate well beyond what we and other analysts anticipated. This accelerated pace of change makes bridging the digital divide – quickly and effectively – a business imperative.

Figure 2. Digital influence factor methodology*



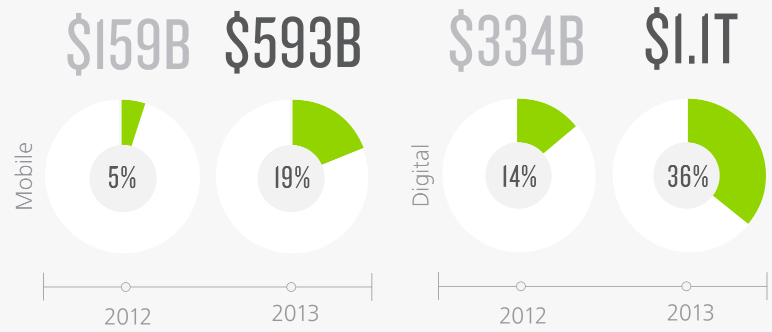
*Methodology varies by store type

Drilling down

Developing a strategy to bridge the digital divide begins with understanding the full impact of the digital influence factor, selecting and measuring the right indicators, assessing your digital strategy in the context of your brick-and-mortar stores, and knowing how to interface with your customers.

Digital is increasingly influencing the way consumers are making shopping and purchase decisions. Digital across all platforms – desktop and laptop computers, tablets, and smartphones – is influencing 36 percent of the over $3 trillion dollars being spent across all categories of in-store retail sales.[1] That is 36 cents of every dollar spent in-store. Smartphone devices alone influence $593 billion, or 19 percent of all in-store retail sales. The rate of smartphone influence has increased significantly since 2012, when it represented just 5 percent or $159 billion of in-store sales (Figure 3).

Figure 3. Mobile's and digital's influence on in-store sales

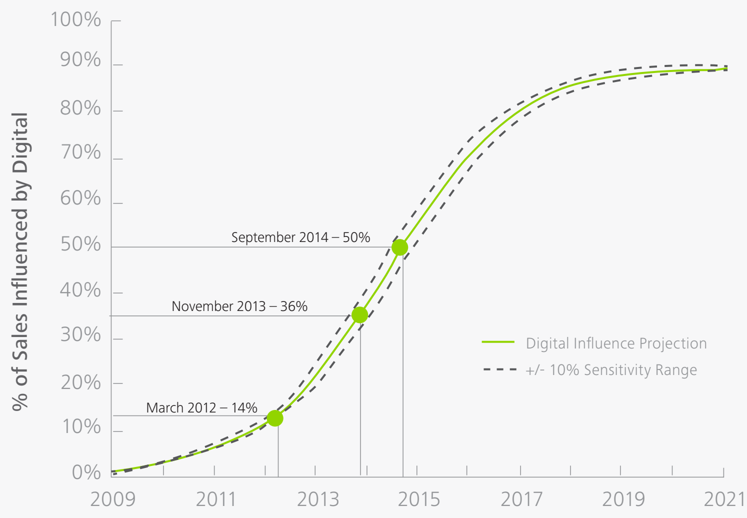


The digital influence factor affects $1.1 trillion dollars in sales and is projected to grow to $1.5 trillion by the end of 2014 (Figure 4).

The main factors driving this dramatic growth are:

- The increased adoption of smartphones, which accounts for 75 percent of the growth we are seeing.
- Significantly increased usage, sophistication, and comfort among early digital device adopters, which accounts for the additional 25 percent of the growth.

Figure 4. Digital influence factor projections



[1] Retail sales calculated using U.S. Census Bureau January-November 2013 actual sales totals and December 2013 Advance Monthly Retail Trade estimates

Are you evaluating the right metrics?

To appreciate the impact of the digital influence factor, you must be able to assess the effect of digital on the right measures of retail success. Here are some of the key indicators you should consider.

Traffic

How do you measure the relationship between digital usage and the traffic in your store? How significant is it? Our survey indicates that 84 percent of shoppers used some type of digital device for shopping-related activities before or during their most recent store trip.

Conversion rates

A great digital experience has the biggest impact when used both before and during the shopping experience. It can make all the difference between converting to a sale or not.

In fact, conversions increase 40 percent when customers use digital before and during shopping in-store. Figure 5 shows the use of digital devices during the different phases of the shopping journey and their incremental positive impact, or "lift," on conversion rates.

An effective digital experience has to be pertinent to the moment – whether at home or in the shopping aisle. The more the digital experience and information match the shopper's needs at a given moment, the more likely she is to buy and the higher the conversion rate.

Figure 5. Digital's impact on conversion during the shopping process

Notes

- Conversion rate is defined as traffic divided by the number of sales transactions (in the case of a store, traffic is defined as the number of walk-ins).
- 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).

Order size

Retailers' digital offerings can persuade customers to spend more. In fact, shoppers who bought more – while using digital – said they spent 25 percent more than what they had originally budgeted.

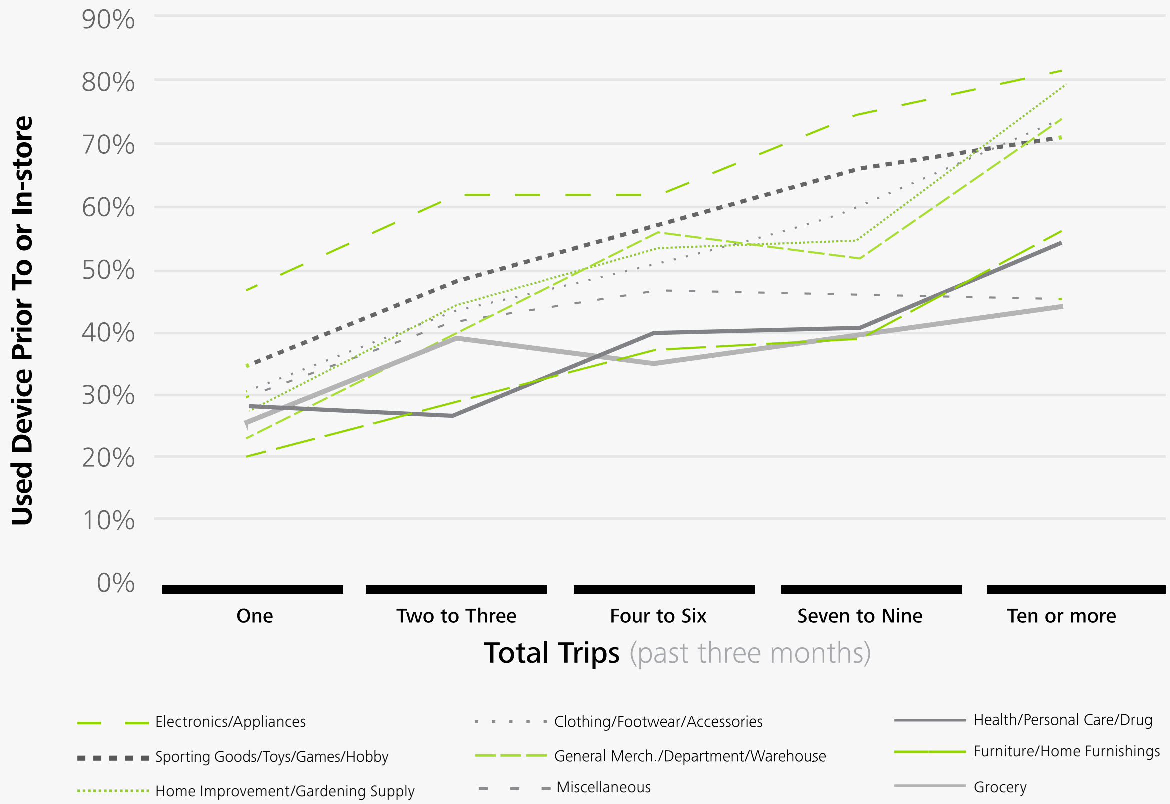
How specifically can retailers reach shoppers and influence them to buy more? Personalization is vital to cross-selling and provides an important platform to drive order size. By deploying functionality like digital personalized shopping assistants, retailers can provide customers with shopping suggestions as they browse products in-store or pertinent reviews from other customers.

Loyalty

Digitally-savvy shoppers who come to your store frequently are more likely to use digital devices and do so at an increasing rate. This is true across all store types (Figure 6).

Your best customers are using digital more frequently and systematically. In a nutshell, "getting it right" with your best customers is vital. To bridge the digital divide, consider how you can create an integrated digital platform that allows access to user-specific data across multiple devices. This will enable users to access their information anywhere, anytime.

Figure 6. More frequent visits, greater use of digital



How do your operations team and chief financial officer measure the return on your digital investments?

Return on digital investments

The current intense focus on customer relationship management and analytics to gauge the return on digital-related investments has created a tunnel vision among some retailers: they expect each individual investment to yield an incremental return.

Digital investments should not be evaluated individually, but instead measured holistically across the enterprise as a means to influence consumer purchase decisions. This represents a better way to accurately understand the net benefit and overall competitive advantage brought to the organization.

Moreover, retail leaders will realize that return on investment (ROI) in the digital world tapers off as the overall investment grows. The reason is simple: there is more "cannibalism" going on than many realize. As shopping behaviors change, customers are adopting digital forms of communications. In many cases, the effectiveness of the more traditional forms of media are declining. This reality changes the investment equation. In addition, digital features and functionality are rapidly becoming table stakes in the retail industry, and the mere deployment of a digital platform is insufficient. It should be tailored to the needs of customers and in fact, generic platforms may only widen the digital divide.

Is your brick-and-mortar strategy digital savvy?

Some 94 percent of all retail sales take place within the confines of a physical store.[2]

The brick–and-mortar store is not dead! It is a powerful asset when it comes to creating a shopping experience. The trick is to connect the dots along your customers' purchase journey and to engage with them consistently, yet also in a moment-appropriate way.

A generic digital strategy, in and of itself, is no differentiator for retailers. An effective way for retailers to harness the power of digital is to create a customized digital strategy and distinct digital experience that both address and correspond to the needs and expectations of customers.

So why is the in-store digital experience so vital to a retailer's success? Our findings suggest that consumers are often relying more on their digital devices for many in-store shopping activities than the store associate (Figure 7).

It is a fact. Your customers want to use digital in-store. That is why your brick-and-mortar strategy needs to focus specifically on how you can support the customer's digital shopping experience once she has passed through the doors of the store. The vast majority of retailers today have created mobile applications that optimize on-device commerce over in-store experience. Our data shows that this is a fundamental miss in terms of priorities.

Figure 7. Where consumers prefer to go for assistance in-store

[2] Physical store sales calculated using U.S. Census Bureau Quarterly Retail E-Commerce Sales, 4th Quarter 2013

Have you mastered these digital dos & don’ts?

One digital strategy does not fit all. This concept represents a significant challenge for big-box retailers who cannot customize the digital experience for every type of product they sell – but specialty stores can.

What type of store do you operate? Is it a speciality store that carries a few product categories, or a big-box store with thousands of different categories? These factors can help shape your digital strategy and the experience you create for your shoppers. After all, buying a nice watch and buying a car tire are radically different experiences.

The evidence supporting specialized digital experiences is overwhelming. Consider the impact of the digital influence factor on different store types (Figure 8):

- Influence is highest in electronics/appliances stores (58 percent)
- Also very significant in furniture/home furnishings stores (56 percent)
- Influence is significantly lower in grocery stores (29 percent)

Figure 8. Digital influence by store type

Store type	2012 Mobile influence factor	2012 Projection of mobile influence in 2016	2013 Mobile influence factor	2013 Digital influence factor
Electronics/Appliances	8%	32%	31%	58%
Furniture/Home Furnishings	4%	14%	26%	56%
Sporting Goods/Toys/Games/Hobby	5%	17%	27%	50%
Clothing/Footwear/Accessories	6%	23%	24%	47%
Home Improvement/Gardening Supply	5%	17%	22%	42%
Miscellaneous	3%	12%	19%	38%
Health/Personal Care/Drug	4%	16%	19%	35%
Convenience Store or Gasoline Station	3%	10%	18%	34%
Grocery	6%	21%	16%	29%
General Merchandise/Department/ Warehouse Club Store	7%	26%	14%	23%
Average	**5%**	**19%**	**19%**	**36%**

Customers want relevant information and different touchpoints that correspond to where they are in their shopping experience.

Give customers more than a seamless experience, and not just the 'same' digital experience across touchpoints

For years, the seamless shopping experience was considered to be the touchstone of the shopper's journey. Today, because of the digital divide, providing customers with a seamless experience is simply not enough.

Consumers use their different devices at different points in the journey and for different purposes (Figure 9). Consequently, they expect retailers to provide platforms and tools appropriate to a specific device, specific category, and their use of that device.

Figure 9. Top digital activity by store type

COMPARE PRICES/FIND COUPONS

Clothing/Footwear/Accessories

Sporting Goods/Toys/Games/Hobby

Home Improvement/Gardening Supply

Furniture/Home Furnishings

Health/Personal Care/Drug

Jewelry

Baby

GET PRODUCT INFORMATION

Auto Parts and Accessories

Books/Music/Entertainment

Electronics/Appliances

PLAN STORE TRIP

Grocery

How can you create the right mix of seamless and customer- and device-specific platforms?

Tailor the experience
The features and functionality customers encounter at each touchpoint should correspond with the activity of the moment:

- What is she looking for?
- Is she shopping or buying?
- Is she at home or in the store or somewhere else – such as a competitor’s store?

Avoid the trap! Do not create a platform solution that caters to the “lowest common denominator” – the same experience across each device or platform.

Consistent but different
Overall, shoppers are looking for an experience that is consistent in terms of branding and information across digital device platforms. They tell us that they want sites and platforms that interface well with their particular device – for example, mobile apps and sites should focus primarily on product information, ratings, and discounts/coupons.

Better, not more functions
You likely will not help the sale process by building more functions into your digital platforms. Customers want better, not more, tools.

To capture greater market share, consider how you can build more streamlined functionality – for example, fewer necessary clicks into your websites and mobile apps. That way, your customers will use your dedicated apps instead of more general search engines that might lead them to a competitor’s site. Conversion rate increases by 12 percent when customers use the retailer’s own app or site to shop.

The shopper’s paradox
If you stop trying to sell to her, she will buy more. That is a powerful contradiction. When it comes to the digitally-influenced shopping environment, “less is more.”

When your shopper looks at her laptop at home or on a handheld mobile device in-store:

- She doesn’t want to have to navigate through endless layers of a website
- She wants to get to the right page quickly so she can see her choices
- She wants you to recognize when she’s shopping and when she’s buying

Don’t focus on conversion at every touchpoint
If your customer is browsing or comparing products or prices, help her do that. If she is ready to buy, help her check out and avoid unnecessary wait time. Treat eCommerce, tablets, and mobile platforms as shopping engines, not just conversion engines.

Be social media friendly
Social media outlets can be valuable tools for both customers and retailers. In a preferred scenario, product information, style expertise (from bloggers, designers, etc.), and personal recommendations (from trusted friends and family members) can be integrated strategically into the broader shopping experience.

To drive traffic to your store, be creative and confident in promoting relevant products to your customers through social media.

Addressing the new digital divide is a business imperative

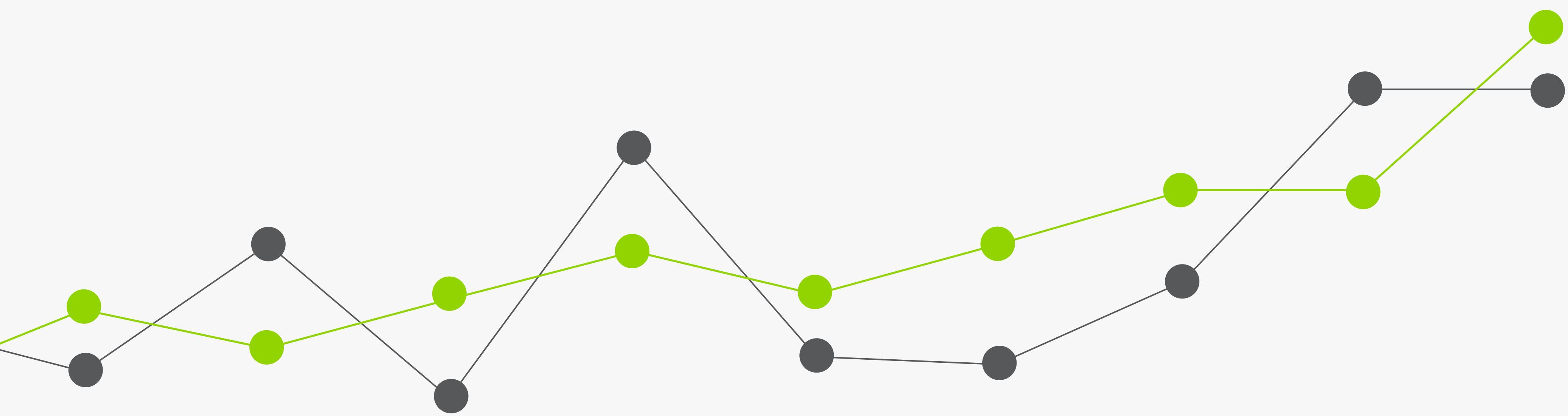
Do you face these new digital divide challenges?

	We see customers...	We see retailers...	Bridging the digital divide
Customer Experience	Using "screens" (desktop, mobile, tablet) very differently throughout their path to purchase.	Creating sameness across "screens" by emphasizing functionality such as responsive design and failing to recognize these individual interactions as part of a larger journey toward the path to purchase.	Customers want a shopping experience that "connects the dots" along their path to purchase. Viewed as discrete interactions across screens, these interactions are meaningless. Viewed as a holistic customer experience, these interactions become powerful predictors of preference and purchase intent.
Marketing/ Budgeting	Say (84 percent of customers) they shop retailers' web/mobile site as a part of their planning for an in-store visit.	Set their digital budgets as a percent of eCommerce or channel sales.	By the end of 2014, digital will likely impact over 50 percent of in-store sales. Yet many digital marketing budgets fail to recognize this level of impact on the overall business.
Merchandising	Express a desire to curate their own personal assortment in advance of a store visit by creating digital lists and reminders.	Continue to create highly disparate online and in-store merchandise assortments.	Disparate assortments between online and in-store frustrate customers who are effectively pre-shopping an assortment that does not exist. The inverse is true as well – how can you make her aware of unique, local in-store assortments if your digital experience does not indicate this in advance of her visit?
Analysis/ Measurement	Signal a preference and purchase intent as a part of their pre-visit browsing activity.	Over-focus on "after the fact" measurement of online activity, such as channel attribution, conversion, and click-through rates.	Customers who are pre-shopping an assortment before buying in-store have little/no intent of converting online. Consequently, their visits appear in most attribution and abandonment reporting as "failed" conversions. This significantly understates both the effectiveness and potential of your digital strategy.
In-store Experience	Express (54 percent of purchasers) a desire to better use mobile to speed their research and checkout experiences.	Over-emphasize features/functions such as store location and in-store wayfinding, and create functional capabilities for store associates that customers would rather have on their own devices.	Digital has a far more profound impact on the purchase behavior of your preferred and most frequent customers than it does on new or "one and done" customers (who are the primary users of features such as store locators, wayfinding, inventory look-up, etc.).
Product Information and Digital Content	Look for product information in a digital format before and during the shopping journey. The content ranges from product information and inventory to interactive content, pricing, promotions, social reviews and ratings, etc.	Create product information and digital content that is only specific to the online catalog and do not create the same depth of information for in-store products.	This digital divide is causing retailers to lose sales. Retailers need to standardize and customize product information and content across platforms (digital and in-store). Customers respond negatively when this information is unavailable and take their business to other retailers where they can find this information.

The face of retail is changing at a speed that no one could have predicted just a few years ago. Digital is no longer a new frontier for retail – it is today's business imperative.

Some take-aways to consider as you assess your digital strategy

- The digital impact on in-store shopping and purchases is greater and growing faster than previous projections indicated.
- From the customer's point of view, eCommerce and brick-and-mortar businesses are no longer discrete. This attitude challenges the most basic organization structure and business model of many retailers.
- Many executives in your company may be working on disparate pieces of the digital customer experience. The "dots" – from digital to customer experience, to merchandising, to vendor decisions, and others – should be connected by an integrated strategy.
- Customer expectations in terms of digital's role in the brick-and-mortar shopping journey are most likely being (re)defined by retailers outside of your direct competitive set.



Analysis methodology

Survey methodology

The survey was commissioned by Deloitte and conducted online by an independent research company between November 15-22, 2013. The survey polled a national sample of 2,006 random consumers. Data were collected and weighted to be representative of the U.S. 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 2-3 percent (+/-)
- Device Owners – 90 percent confidence, margin of error 2-3 percent (+/-)
- Smartphone Owners – 90 percent confidence, margin of error 2-3 percent (+/-)
- Tablet Owners – 90 percent confidence, margin of error 3-4 percent (+/-)

Digital influence projection

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

The digital influence factor projections were based on fitting an adoption model to historical data, with an assumed saturation rate of 90 percent.

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