Deloitte.

The consumer evolution

Changing behaviours trigger new business models

Table of contents

Consumer behaviour has undergone a massive transformation in an incredibly short period of time. It's an evolution that has had—and continues to have—a profound impact on shopping trends, retailers' and manufacturers' relationships with consumers, operations and beyond.

Changing behaviours trigger new business models

Consumer behaviour has undergone a massive transformation in an incredibly short period of time. It's an evolution that has had—and continues to have—a profound impact on shopping trends, retailers' relationships with consumers, operations and beyond.

First, we watched the rise of the Connected Consumers, those who demanded the ability to engage with brands when they wanted, no matter where they happened to be. Companies responded, investing in e-commerce, moving into social media and mobile, providing our first glimpses of the omnichannel world, which allows the consumer to shop anytime, anywhere and any way they want.

A 2013 Deloitte study suggests a gap in the perceived importance of e-commerce and companies' readiness to execute. While **92%** of consumer packaged goods CEOs surveyed felt e-commerce was a strategic sales channel, **only 43%** believed their company had a clear, well-understood e-commerce strategy.

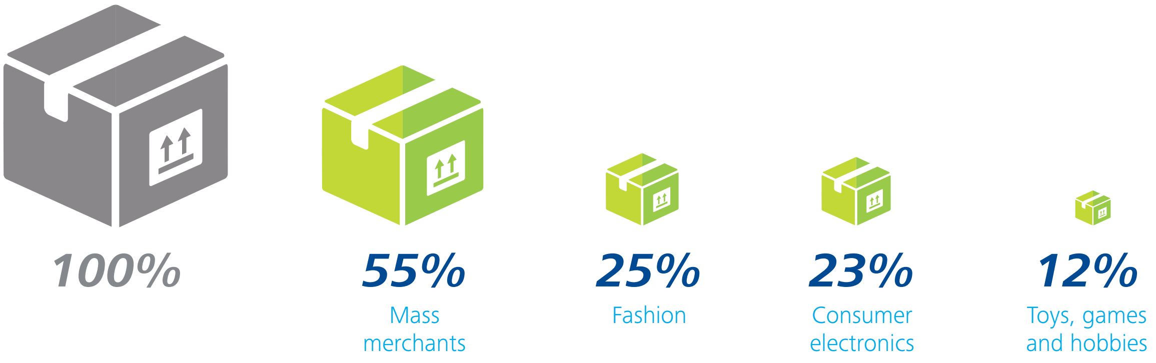
Source: Deloitte research, CPG companies: Your next growth opportunity has a user name and password

Source: Deloitte research

Consumers continued to develop and change. Soon, the Empowered Consumer emerged, straying from the tried-and-true way of shopping to follow their own path to purchase. A staggering 75-85% of consumers pre-shop online. Only after exhaustive product research, online price comparisons and talking with their networks online and face-to-face, would the Empowered Consumer set foot in a store—only to then buy online later. Companies continued to work at the path-to-purchase puzzle, searching for ways to connect and attract consumers at key stages along the way.

The evolution continues today, taking consumer empowerment to the next level. Having reshaped the consumer experience up to the point of purchase, today's Consumer-in-Chief now wants a say in the 'last mile,' the all-too-often overlooked experience between the purchase and the last touch-point of delivery. The Consumer-in-Chief demands choice, flexibility and personalized attention after the purchase is made: in-store purchases shipped home, online purchases picked up in-store, delivery to a community locker or even drive-through pickup and easy returns.

Parcel volume increases in Canada for key industries



Source: *YOY parcel volume growth – 2013 to 2014. Data derived from 2,014 e-commerce customers within 9 key industries*

With e-commerce poised to surge, the 'last mile' has emerged as the next major competitive battleground. U.S. e-commerce sales across all retail channels grew 19.1% annually between 2000 and 2012, a rate far above the 3.2% annual growth in sales overall.[1] According to Deloitte's research, online shoppers expect their online purchases of packaged goods to rise 67% over the next year, and 158% over the next three years.[2]

The Consumer-in-Chief's demands are driving change to companies' very core, reshaping how retailers, brands and manufacturers will do business. Delivering the omnichannel or direct-to-consumer experience involves full integration into all aspects of a company's value chain. Efficient supply chains are fast becoming both a competitive advantage and a brand differentiator: 72% of the supply chain leaders Deloitte surveyed said that service levels would be a key differentiator in the years to come. Data analytics, already key to understanding consumers, is becoming even more critical. Even real estate is being re-examined through a customer-centric, omnichannel lens.

[1] *Source: U.S. Census Bureau Retail Indicators Branch*

[2] *Source: Deloitte research*

Supply chain leaders are using several strategies to achieve a more efficient, effective supply chain that delivers both a competitive advantage and an improved consumer experience.

Source: *Deloitte research, CPG companies: Your next growth opportunity has a user name and password*

As a result of this evolution, new players are pursuing opportunities in consumer-focused industries. Real estate companies, technology firms, analytics specialists—and most importantly, supply chain, logistics and fulfillment companies—now all find themselves with a vital new role delivering on the complete omnichannel experience.

Understanding the modern consumer

As consumers continue to evolve, becoming more sophisticated and complex, so too are companies focusing on understanding what customers need and want. While clear answers are yet to surface, it's apparent that there are business principles that are vital to the survival of consumer-based companies in the near future:

- Stores and other physical locations still have a purpose—but not necessarily the original one. Consumers can learn about and buy products using social, mobile or the Web. Physical locations must deliver what those channels can't, including a compelling reason to visit. A defined customer experience along the whole path to purchase is crucial.
- Consumers demand a seamless, personalized experience that meets *their* needs. That means no matter the channel, consumers want to be able to browse and buy what they want, how they want, and when they want.
- Consumers expect their customer account, loyalty program, gift cards and similar information to be used in every channel. Ease of use and interaction without duplication of effort is paramount. And as new payment methods and technologies arise, they want to be able to use them.
- The 'last mile' matters. A lot. Convenience, flexibility and speed will be key as companies strive to provide consumers with a myriad of pickup and delivery options including same day shipments.
- Consistent and personalized service includes flexible, efficient returns—across channels.

Consumer snapshot

78%
of consumers **trust peer recommendations**

50%
of consumers make **multichannel purchases**

85%
of consumers **browse online** for products **daily or weekly**

33%
of consumers **use multiple channels** when making a purchase

38%
of smartphone users have made a **purchase using a smartphone**

25%
of recent online purchases were for products that **customers couldn't purchase locally**

Source: *Deloitte research*

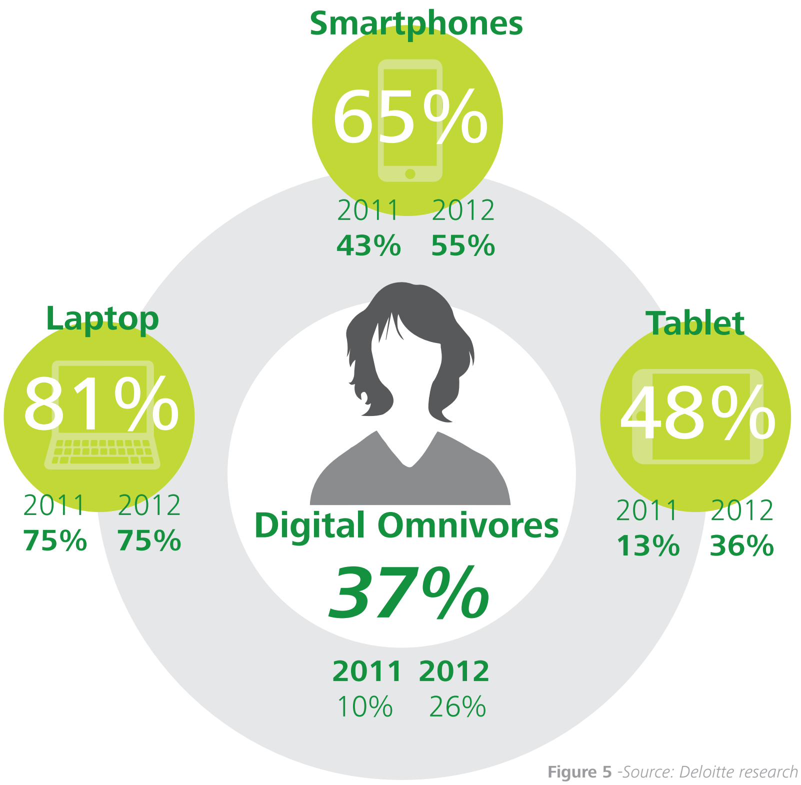
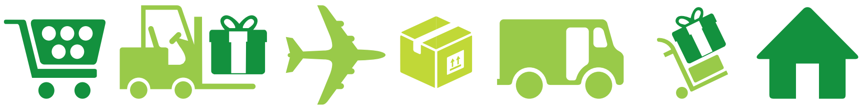


Figure 5 *-Source: Deloitte research*

Over one-third of the U.S. consumer base is a 'digital omnivore'—owning and regularly using a laptop, tablet and smartphone

In the next three years, we are likely to witness rapid, triple-digit growth in online consumer packaged goods purchases by consumers of all ages (see figure 5); as well, digital commerce is likely to drive incremental sales among older consumers. In this business environment, the winning companies will be those that can deliver a unique experience over the 'last mile.' Though imperative, technology investments alone aren't the answer to meeting consumers' demands—if anything, such investments are becoming table stakes.

Yet this itself is no small feat. To deliver what the Consumer-in-Chief wants, companies must now rethink their *entire* organization, embracing new business models and new ways of operating. Those that fail to do so may find themselves quickly losing ground to more innovative competitors.



Winning the battle for the 'last mile' isn't only about speed and efficiency—though with the 'last mile' accounting for 75% to 85% of companies' total cost of distribution, those are certainly important factors.

Now, companies are grappling with how to deliver a brand experience through the home stretch as well.

How can a luxury retailer, for instance, translate the consumer's in-store experience of having their expensive dress carefully folded and wrapped in a gorgeous, ribboned box?

Today's shipping experience—a brown box dropped on the front porch or sent to a depot for pickup—hardly compares.

Building a better business model

For many companies, the process of building a new and improved business model should begin by coming to terms with the very different role stores and other physical locations play in today's complex, online, socially charged network.

The traditional store model—the point where consumers close the transaction—is obsolete. Yet the physical presence as a part of the path to purchase is as important as ever. Companies must redesign their networks, reimagining the format, design and physical environment to reflect what consumers want. There must be a compelling reason for consumers to visit. For example, if they want to showroom, then companies' stores should be designed to deliver a stellar showroom experience, while also enabling consumers to then buy online.

One major U.S. retailer is investing in robotics, advanced analytics and shipping innovations to improve operations and deliver a great consumer experience. Even consumer packaged goods brands are reinventing the consumer experience they deliver and using technology to make it happen. A chocolate manufacturer, for example, is currently testing 3D printers in consumers' homes to allow them to personalize chocolates. In order to offer the perfect fit, a sporting goods maker will scan a customer's feet and deliver a truly tailored pair of shoes only weeks later—size 8 left and size 8.5 right? No problem.

The rise of the 'destination store'

The Consumer-in-Chief has forever changed the role of the store. Physical locations are now *destinations* that drive purchases across channels, rather than serve as the last stop on the purchase journey.

These destinations must deliver a brand experience that engages and even entertains in order to draw consumers and encourage them to linger. Video screens, Wi-Fi, in-store cafes and events for loyal customers are all examples of how brands are already transforming their physical locations into places consumers want to be.

What about store stock? Service counters? Here, technology makes the difference. Now, a company could showcase its marquee products—whether it be the fall fashion line or next year's two-door coupe—and allow consumers to browse and order the full product line using a tablet.

Reimagine the store—and the store network

In responding to the behaviours and demands of the evolving Consumer-in-Chief, traditional retailers and consumer-focused companies are realizing that they may no longer require the real estate footprint they once did.

While traditional retailers look at reducing their real estate footprints, some online retailers are now discovering that establishing a physical presence in key markets can build their brand and drive sales.

One U.S. clothing retailer, for example, entered the Canadian market online only at first; eventually, consumer data helped the company pinpoint the optimal location for a physical store in a major Toronto shopping centre. This pull strategy ensured that they were driving enough business in Canada to justify incurring the costs of a new store.

Brick-and-mortar basket size stagnates as online basket size grows

Brick-and-mortar vs. online sales*	**Brick-and-mortar vs. online sales in three years****
Food—perishable (e.g., cheese, frozen foods)	
$133 vs. $18	$136 vs. $30
Food—non-perishable (e.g., cereal, salty snacks)	
$78 vs. $14	$77 vs. $24
Beverage—non-alcoholic (e.g., soda, juice)	
$35 vs. $8	$34 vs. 14
Household consumable products (e.g., paper towels, dishwashing soap)	
$29 vs. $11	$25 vs. $19
Personal care (e.g., deodorant, shampoo)	
$23 vs. $13	$17 vs. $22
Total	
$297 vs. $64	$289 vs. $108

** Monthly spend for online shoppers surveyed*

*** Monthly spend for online shoppers surveyed, at historic e-commerce US growth rate of 19.1% and overall retail growth rate of 3.2%*

How to change isn't necessarily clear, since it's not simply a matter of shuttering locations. Ultimately, companies will discover that they need less retail square footage and a very different store layout overall. Rather than a series of standard, cookie-cutter format locations, companies will operate a complex network of physical formats and online channels, all focused on delivering a single, seamless, positive brand experience.

Local consumer demographics will play a pivotal role in dictating the size, format and features of each location. In high-density urban centres, where space is at a premium, companies can opt to focus on mobile and online orders and use the physical location for order pickups. In suburban markets, companies may retain larger centres with more product selection and cater to consumers travelling by car, yet still provide them with a range of delivery options. Companies can open distribution centres in strategic locations to quickly fulfil orders from all channels.

Reimagining the retail store network: Questions to focus on

- **Channel roles.** What roles do online and physical channels serve? What is the value proposition for the physical locations? What formats are needed?
- **Brand.** How strong is the company brand? How different is the Unique Selling Proposition? How many physical locations are needed for brand credibility?
- **Geography.** How far will consumers travel to visit a location? Where are locations needed to provide sufficient coverage in an omnichannel environment?
- **Cost model.** How will your cost model change to support the new role of physical locations? How will staff costs change? What will be your cost to serve consumers across channels?
- **Existing portfolio.** What are the short- and long-term opportunities for optimizing the existing real estate portfolio?

Source: Deloitte Research, The changing face of retail – The store of the future: the new role of the store in a multichannel environment, 2011

Omnichannel's business model implications

To deliver the experience the Consumer-in-Chief expects, companies will need to do more than rethink and remake their network of front-line physical locations. The consumer-centric approach to doing business that consumers demand must also be driven deep into the organization. If not, the result could be poor performance and dissatisfied customers.

Organizational structure

The final frontier of omnichannel retailing is truly establishing an omnichannel organization and compensation structure. Companies will need to tear down long-standing silos and traditional divisions between different parts of the business. Marketing, store and analytics teams need to be integrated to ensure consumers receive consistent messaging and offers across channels. Merchandisers, buyers and finance teams need to work together to make sure customers can view, learn about and purchase the full range of products on any channel to increase basket size. Even leadership teams may need to be overhauled to reflect the needs of the omnichannel business.

Inventory and distribution take centre stage

The 'last mile' to the customer is the new battleground in omnichannel retailing. Allowing a customer to buy any way they want is bringing new players into the market. Inventory management will be vital, and organizations will need to invest in the processes and systems required to effectively manage inventory across each channel. Warehousing and logistics decisions will need to consider the needs of traditional and online channels, and support efficient and fast order fulfilment and delivery.

With companies poised to do battle in order to 'win the last mile' by delivering a superior post-purchase experience, distribution will become more important than ever. Store formats, distribution centre networks and even the choice of shipping partners will need to be determined based on their contribution to giving consumers what they want.

A new approach demands a new kind of employee

Sophisticated, well-informed consumers and stores designed to deliver a brand experience—not just sell product—are changing what retailers need from their employees. Today's employees must be brand advocates, relationship builders and product experts, not simply salespeople.

This shift is causing companies to re-evaluate how they recruit, train, manage and compensate talent. More and more companies are emphasizing cultural fit in their recruiting—the combination of personality and attitude that resonates with consumers and supports the brand image companies want to project.

Training is changing too, as companies leverage technology to provide staff with the product information they need to keep up with their knowledgeable customers. The days of product catalogues and policy manuals are gone. Tablets now put a company's full product range at employees' fingertips, allowing them to help the customer browse, purchase and arrange delivery on the spot.

Deloitte research shows that conversation rates increased 9% when customers were assisted by employees possessing a high degree of product knowledge and strong interpersonal skills.[3]

If there's one issue businesses continue to wrestle with, it's how to compensate and provide incentives to staff in an omnichannel world, where an interaction in one channel may result in a sale in another. To date, we have yet to see a definitive solution to this challenge. What is certain is that traditional methods of determining compensation (e.g., store sales targets) are unmatched to the new way of doing business.

[3] *Deloitte Research, Driving profitability through your store associates: the make or break factor for retailers, 2010*

A U.S.-based mobile phone manufacturer has capitalized on mobile technology to revolutionize how it delivers employee training.

The company designed app-based training modules that its retail staff can use in the downtime between customer visits. Badges, leaderboards and other gamification strategies keep employees engaged with the training by celebrating achievements and encouraging healthy peer-to-peer competition.

The approach appears to be working:
The handset maker reported a 40% jump in sales after introducing the mobile training apps.

Know your consumer: What they want and how to give it to them

Consumer-focused companies are responding well to the rapid changes in consumer behaviour and expectations in recent years. Their investments in online, mobile, social and data analytics represent important progress towards providing consumers with the service and convenience they demand.

Yet without fundamental changes to their business models, many may find themselves unable to realize the full benefits of embracing an approach that best serves the evolved consumer. Now is the time for companies to look at every facet of their organization and make the changes needed to ensure that the *entire* business is focused on delivering a seamless, outstanding consumer-centric experience.

Will we see a future where small, hovering drones deliver packages to our doors? No one really knows. What is certain, however, is that to survive, companies must continue to listen to and engage with the ever-evolving, ever-demanding Consumer-in-Chief.

Contact us

Ryan Brain

National
Consumer Business Leader

rbrain@deloitte.ca
416-643-8210

Jennifer Lee

National
Omnichannel Leader

jenniferlee@deloitte.ca
416-874-3344

Rob Carruthers

Atlantic
Consumer Business Leader

rcarruthers@deloitte.ca
902-721-5645

Lucie Lazar

Quebec
Consumer Business Leader

lulazar@deloitte.ca
514-393-7388

Rick Kohn

British Columbia
Consumer Business Leader

rkohn@deloitte.ca
604-640-3228

Sherri Penner

Ontario
Consumer Business Leader

spenner@deloitte.ca
905-323-6014

Special thanks to our contributors:

Adrian Xu
Andrea Ng
Jake Gregory
Liza Turner
Kathy Paszkowski

www.deloitte.ca

Designed and produced by the Deloitte Design Studio, Canada. 14-2442M