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The 2015 Global Omnichannel Retail Index

The future of shopping has arrived

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Executive summary

Retailers around the world are starting to transform their relationships with their customers by offering an omnichannel shopping experience. With the omnichannel approach, consumers can make their purchases via their choice of sales settings: They can channel-hop among online and physical stores, smartphones, tablets, social media, call centers, and email, for example. This gives consumers more ways to shop and interact with a retailer, more information about products or categories of products that interest them, and greater product availability. Ideally, retailers are rewarded with more lucrative relationships with their customers and a deeper understanding of customer behavior and preferences — along with the chance to target product recommendations and discount or promotional campaigns directly at individual consumer needs.

To evaluate the ways that omnichannel shopping is beginning to redraw the retail landscape, Strategy& conducted an analysis of omnichannel's market penetration and potential in 19 countries or regions. With the data we obtained from industry sources (*see Appendix on page 18*), we constructed the Global Omnichannel Retail Index, which assesses omnichannel readiness in nine retail segments within each of the 19 countries or regions. The index sets a rating for each country on a scale of 1 to 100 based on four metrics: consumer behavior, degree of digitization, omnichannel potential, and infrastructure. Some of the index's conclusions are unexpected; for example, China is number one in both the omnichannel grocery segment and the omnichannel apparel and footwear segment. Other results are more intuitive: It is no great surprise that the top three omnichannel countries — the U.S., the U.K., and Australia — are e-commerce powerhouses. However, we believe that all of the index's findings will be extremely useful to retailers in determining future strategic approaches, regardless of whether their omnichannel participation status can be described as leading the pack, falling behind, not yet ready, or about to dive in.

Consumers want a choice of shopping channels

PwC's 2015 survey of shoppers in 19 countries revealed that consumers want what they want when they shop.[1] Those needs include attractive prices; convenience; great customer service; and quick, if not immediate, gratification. Before the emergence of e-commerce and especially before mobile commerce, consumers rarely got the full package in one shopping experience; however, the growth of e-commerce has precipitated a transformation that goes well beyond Web purchases. In many of the largest sales categories, retailing is in the throes of morphing from a single-channel, exclusively online or offline activity into a more multifaceted omnichannel landscape that gives consumers many more options for shopping.

In this new environment, consumers can channel-hop among online and physical stores, smartphones, tablets, and social media, to name a few of the growing array of possibilities. Omnichannel retailing allows them to select the channel that is most convenient for making purchases, reading product reviews, comparing features and prices, and getting customer support. For example, an individual can shop online for a television with the features she is looking for at the price she wants to pay, read reviews from other consumers who have already purchased the model, then reserve the item to buy later. Subsequently, she can go to the store to see the TV firsthand, purchase it with a mobile app on her smartphone, and have it delivered to her home within hours.

Retailers achieve significant benefits from omnichannel shopping as well. They gain a comprehensive picture of individual customers and their preferences by merging data and insights obtained through consumer activities across channels. This analysis helps retailers better understand customer behavior and wishes, which allows them to produce and deliver sales and promotional content and product recommendations targeted at their immediate needs. In turn, these omnichannel programs can generate significant gains in conversion rates and purchases. Sports clothing outfitter Peak Performance, like several other retailers, has an omnichannel strategy that includes an option for the customer to order online, then have the item shipped from a nearby store. For Peak Performance, the ship-from-store option is now responsible for about 20 percent of all orders, and it has ensured more efficient and timely home deliveries and greater local product availability because merchandise is stocked in stores based on regional consumer preferences. This option has also minimized the inefficiencies of large warehouses with huge inventories. Peak Performance has reported a discernible increase in online conversion rates since it launched the omnichannel strategy in 2010; in the same period, its shipping costs have declined by 14 percent and average shipping time has improved by two days.

Many well-known retail companies have developed successful approaches to this new way of shopping. Neiman Marcus, for example, merged its online and offline divisions in 2014, so that the same team oversees merchandising, planning, and marketing for its physical stores and its e-commerce. Nevertheless, on a global basis, the majority of retailers have not fully embraced omnichannel delivery so far. Some of their reluctance has to do with the obstacles they must overcome to implement the strategy. For one thing, they have to invest significant capital up front to integrate front- and back-end systems and operational procedures and to reallocate resources to the new design. Equally important, the silos that are prevalent in many retail firms — an online/offline/social media divide that leads to channel-centric behavior — have to be eliminated and replaced by a new customer-centric, channel-agnostic retail model. At the same time, the majority of consumers we studied in our research said that having multiple channels is something they have come to value in the shopping experience — the more channels, the better. Retailers risk ceding multiple avenues of customer growth to their more aggressive competitors if they don't accommodate this consumer expectation.

In the Strategy& Global Omnichannel Retail Index, each market and segment was evaluated with four distinct metrics:

- *Consumer behavior:* the degree to which customers in the specific countries or regions already fulfill their retail purchases via an omnichannel approach, e.g., Web-to-store or store-to-Web instead of pure online or pure offline shopping
- *Degree of digitization:* the level of sales channel digitization within a market
- *Omnichannel potential:* the average compound annual growth rate (CAGR) of Internet as well as mobile retailing
- *Infrastructure:* the penetration of omnichannel devices and services, such as mobile apps, smartphones, and tablets

The goal of this work is to offer retailers a clear and unvarnished guide to omnichannel readiness and maturity in different regions and sales segments. For some retailers, this information may serve as inspiration to take advantage of an opportunity that is growing right in their backyard. For others, it may justify a wait-and-see approach but simultaneously encourage them to be ready to enter the fray as the omnichannel market heats up.

Regional results: The leaders

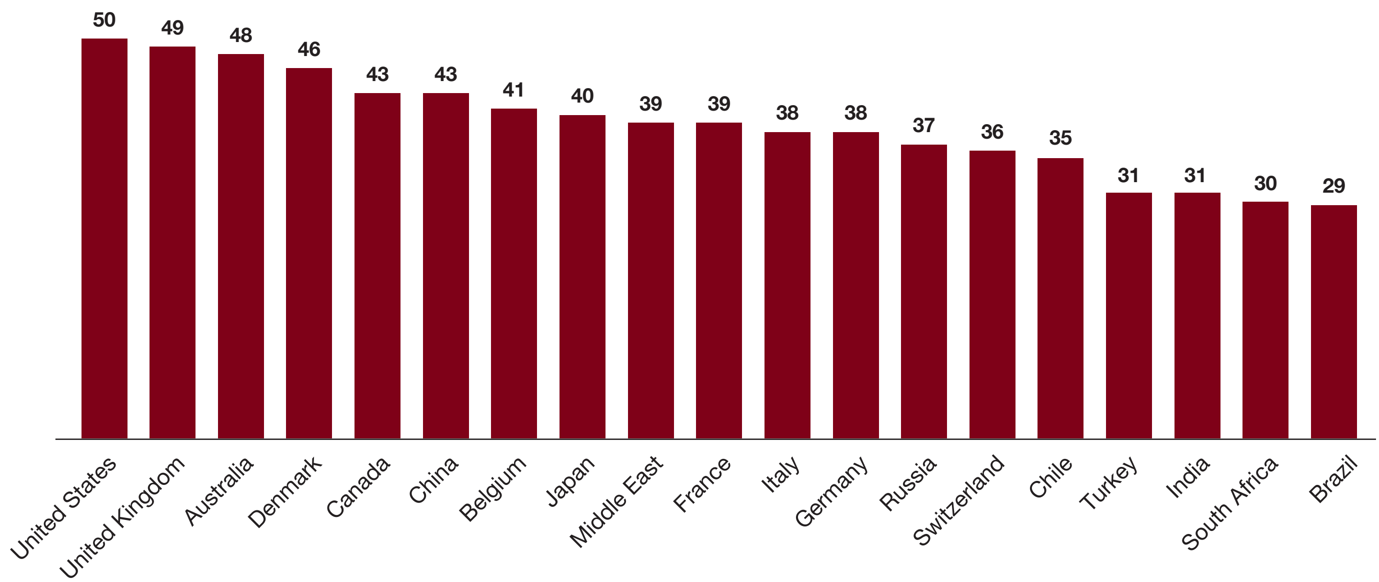
Reflecting the prevalence and maturity of e-commerce in English-language countries, the United States (which ranks 50 on a scale of 100), the United Kingdom (49), and Australia (48) hold the top three spots in the Global Omnichannel Retail Index (*see Exhibit 1, next page*). These countries, particularly the U.S. and U.K., have high mobile penetration; retailers that have made the investments to develop the advanced capabilities needed to implement omnichannel; and consumers who have wholeheartedly embraced omnichannel retailing.

Consumer electronics and appliances and also media products are the segments with the highest omnichannel penetration. Grocery products lag behind the other segments, and in that category China is ahead of the U.S. and the U.K. (*see Exhibit 2, page 8*).

In the countries where retailers have made notable excursions into omnichannel shopping, there have been a number of intriguing approaches. Four examples of successful omnichannel delivery:

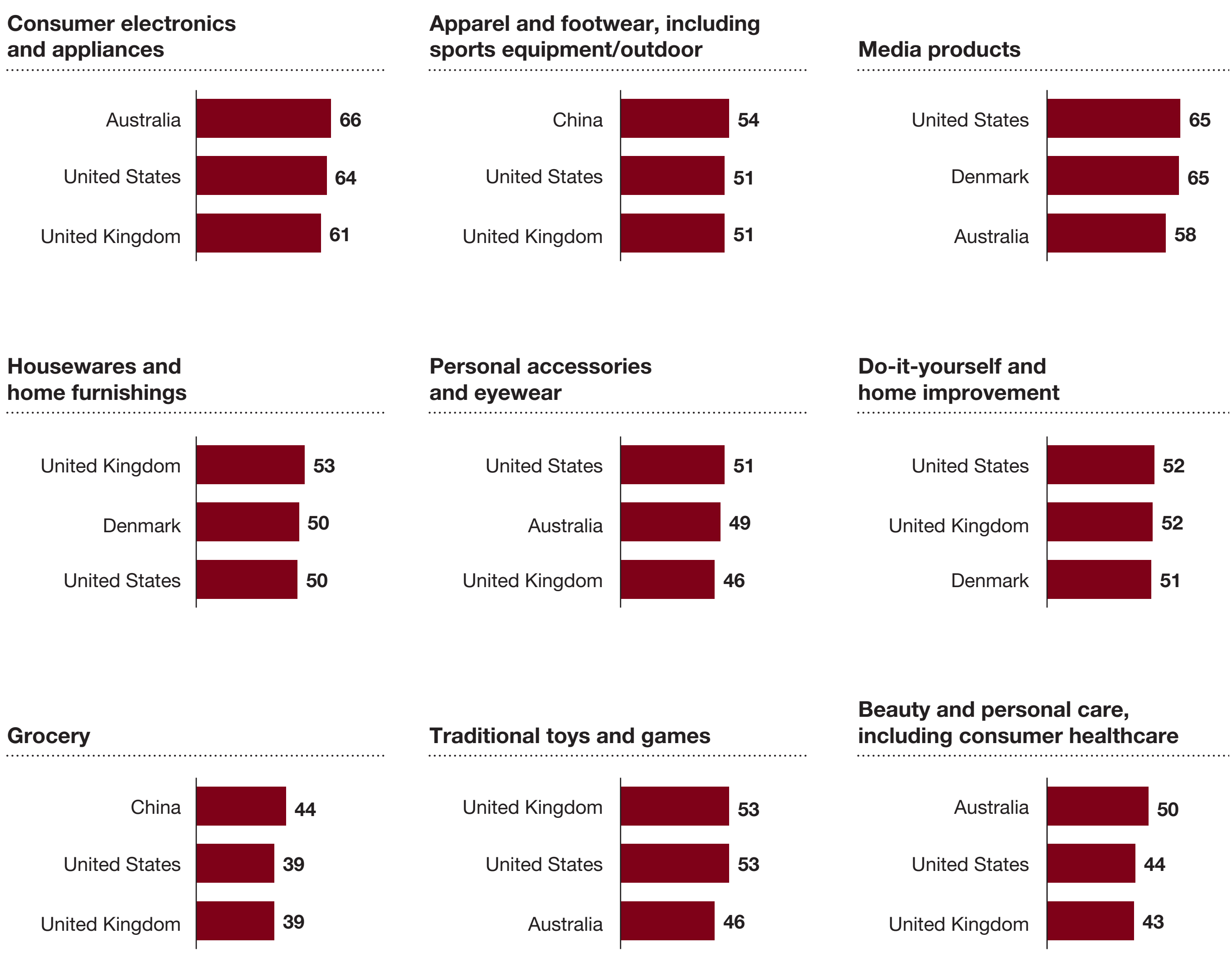
- In 2014, the U.K. retail chain Argos, which sells electronics; clothing; and a wide range of sports, health and beauty, and home products, launched its “Get Set Go Argo” campaign, the biggest strategic change in the company’s 40-year history. In-store customers are now able to browse products and place orders on iPads, then go to a collection point to pick up their items. In addition, a “Check & Reserve” service lets consumers research online whether a product is available in an Argos store and then pick it up at the physical outlet within 60 seconds of arriving there; items purchased on eBay can also be retrieved in this way at Argos stores. Upon announcing the campaign, Argos CEO John Walden said, “We are seeking to reposition our stores to support a digital future, in which digital channels are the primary interface for customers, but stores continue to be critically important as a national network for product collection, and a local presence for local colleagues to provide customer service.” The strategy is generating sales activity: As of 2015, 46 percent of Argos’s sales are made over the Internet, and 34 percent of the retailer’s sales come from the Check & Reserve system, according to the company’s 2015 annual report.

Exhibit 1
Global Omnichannel Retail Index — by country or region (scale 1–100)



Source: Strategy&

Exhibit 2
Global Omnichannel Retail Index — leaders per category



Source: Strategy&

- Department store John Lewis, also in the U.K., has gone well beyond "click and collect" (buy online and pick up in store) front-end omnichannel retailing by setting up advanced omnichannel back-end operations. The branch stores have replaced central warehouses, and when a customer buys online the order is fulfilled from the nearest physical John Lewis store. The purpose of this approach is to ensure that customers get their deliveries in a timely fashion, that local inventory matches local preferences as much as possible, and that customers can physically view items that they would like to purchase in the store if they choose. In 2010, John Lewis forecast about US$500 million in online sales by 2013, but the retailer outpaced these predictions by a factor of three. Click-and-collect now accounts for 45 percent of all John Lewis's online orders. Moreover, the company has found that shoppers who take advantage of the full omnichannel network tend to spend three times as much as people who are still using single channels for purchases, primarily because the improved convenience and customer experience encourages them to buy more.

- In the U.S., Macy's is the omnichannel poster child, having first implemented the strategy in 2008. The department store's omnichannel approach includes same-day delivery from physical stores for some products ordered online as well as customized online clothing sales promotions based on a consumer's size, taste in clothes, favorite colors, and other preferences. In fact, Macy's has punctuated its belief in the importance of omnichannel to its future prospects by hiring a dedicated chief omnichannel officer.

- In Australia, popular electronics and home appliance retailer Good Guys also fills online orders from its physical stores, and uses its website as a source for information about special sales, buying guides, and estimated energy usage costs for its products.

Where China stands

With its vast population and expanding middle class, China is a tempting market for retailers. And because of China's relatively recent emergence, which has coincided with significant advances in personal technology and e-commerce, the embrace of online retailing in the country has been swift. In fact, China has already overtaken the United States as the world's largest online retail market, according to data from the Chinese Ministry of Commerce and the U.S. Department of Commerce.

In addition, China is rapidly catching up with the U.S. and U.K. in omnichannel activity, ranking fifth (tied with Canada) in the Global Omnichannel Retail Index, with a score of 43. And in a pair of categories — apparel & footwear and grocery — China is the top omnichannel nation.

Two major Chinese retailers that have successfully implemented omnichannel strategies make particularly heavy use of mobile apps:

- Tmall, a subsidiary of Alibaba Group and China's largest retailer with a market share of more than 50 percent, has bridged the gap between its online and offline activities through a mobile app. The app allows consumers to scan products in physical stores and place them in an online shopping cart to purchase later or request home delivery. Tmall stores act as warehouses for products and ship items in three batches each day, which means that in many cases customers can receive their packages the same day they were ordered.

- Lane Crawford, a Hong Kong–based designer label clothing retailer with additional stores in Beijing, Shanghai, and Chengdu, launched a storewide campaign connecting online and offline sales in 2014. The initiative includes a mobile app called Fashion Scan that offers exclusive videos about new products, trends, and items available for sale online or offline. And it offers digital in-store checkpoints that deliver unique content about designs and clothing to smartphones and tablets. Increased in-store interactivity with consumers on their mobile devices ensures that customers are engaged and entertained during their shopping trip; in turn, that affords Lane Crawford a wider window for convincing more receptive consumers to purchase items before leaving the outlets.

Europe is lagging

European countries heavily populate the middle of our omnichannel index, indicating that although online retailing is growing in Europe, the value of an omnichannel presence has been by and large ignored. A good example is Germany, where e-commerce penetration is comparable to that in the U.S. but omnichannel strategies are scarce. Indeed, among large German retailers, only a few, most of which are in the consumer electronics sector — Conrad, Media Markt, and Saturn, for example — have focused on providing a seamless omnichannel experience for customers.

Consequently, Germany ranks low on the omnichannel index, at 38. The lack of omnichannel penetration is, in part, rooted in the overall lack of innovation and mechanization in the country's retail industry and is also the result of a general disinclination to focus on providing superior customer experience. Moreover, much of the resistance to improving customer interactions is a by-product of Germany's high percentage of discount retailers, which have traditionally focused on low prices rather than on technological advances and modernization strategies. In addition, Germany has a large share of conservative, old-line family shop owners and few international retailers that could compel the local retail industry to embrace higher levels of innovation.

Interviews with consumers show that not only do German retailers downplay omnichannel strategies, but the country's shoppers appear to be equally hesitant to embrace omnichannel opportunities when they are offered, largely because they are unaccustomed to omnichannel and are more loyal than many other European populations to local stores, a step or two removed from e-commerce. Switzerland, France, and Italy have mirrored Germany's slow omnichannel adoption. The only European outlier in the Global Omnichannel Retail Index is Denmark, which ranked fourth with a score of 46. Denmark equals the U.S. in two retail categories — media products and housewares & home furnishings — and is just one point below the U.S. in do-it-yourself & home improvement.

Switzerland, France, and Italy have mirrored Germany's slow omnichannel adoption. The only European outlier is Denmark.

One prominent Danish omnichannel retailer is the modernist furniture company Bolia, whose CEO, Lars Lyse Hansen, recognized in 2010 that newly emerging technology could be used strategically to improve customer experiences by bringing online and offline retailing closer together. With this in mind, Bolia has launched an online 3D room planner that lets shoppers customize rooms and purchase furnishings from their computers and mobile devices. In addition, in-store customers can log in to their accounts, retrieve their room plans, and discuss alternatives for furniture and designs with sales assistants. To emphasize the success of Bolia's omnichannel strategy, Hansen told www.computerweekly.com, "Even though we have never had as high online sales as we have today, at the same time, we have never had more visitors in our stores."[2]

Other Danish retailers that are leaders in omnichannel delivery include the apparel and footwear chain Bestseller and Dansk Supermarked, which allows customers to save shopping time by ordering groceries online, then picking up the orders at a store.

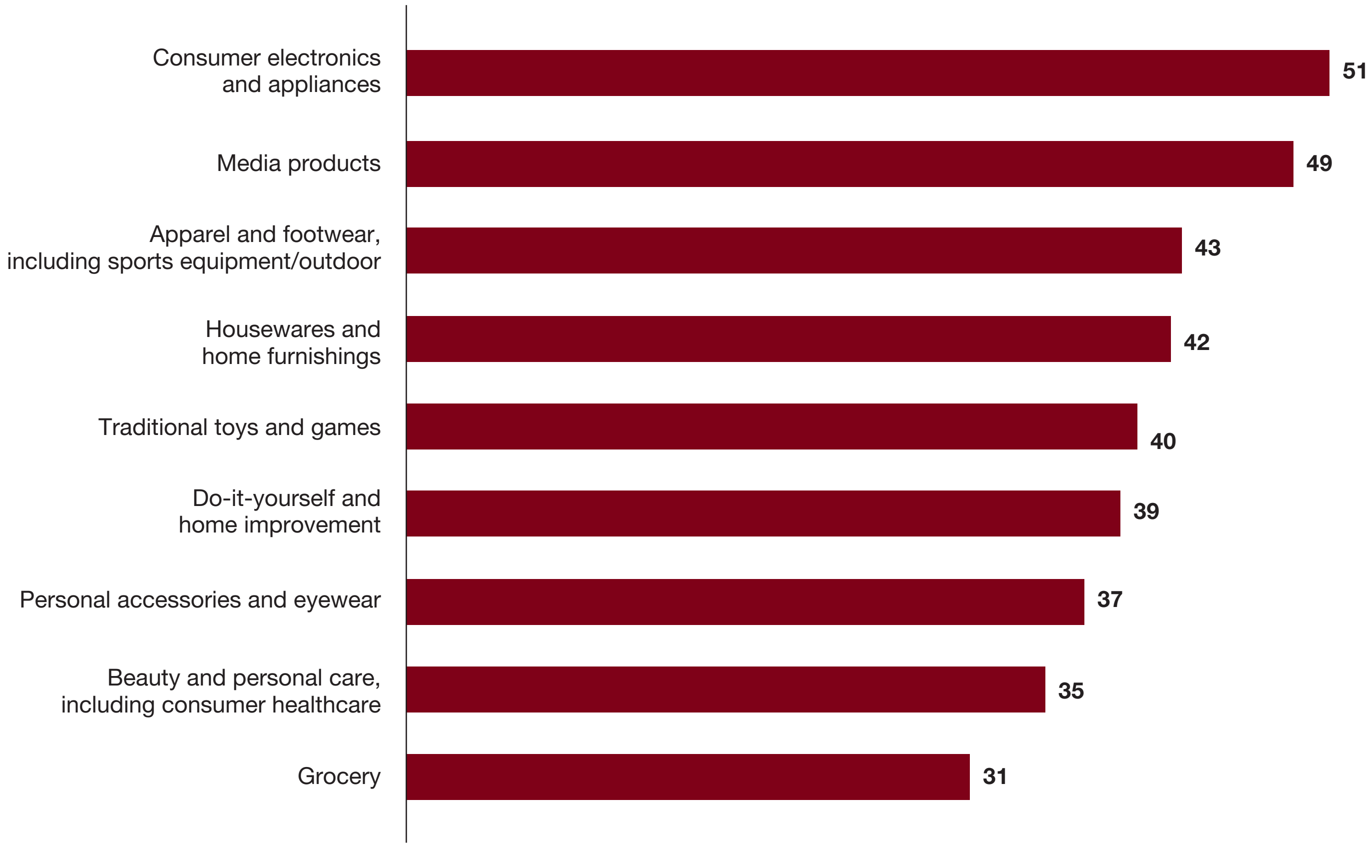
Segment ups and downs

The retail segment with the strongest omnichannel offering, according to our index, is consumer electronics & appliances (*see Exhibit 3, next page*). This sector and other mature omnichannel markets, such as media products, have been compelled to adopt aggressive and creative sales approaches in large part because of stiff competition from e-tailers, including Amazon and eBay. As these new rivals began to pick off customers from traditional retailers, brick-and-mortar players had no choice but to move quickly into e-commerce to compete on price and convenience. And once they had a strong online presence, the most adaptable and inventive of the "legacy" companies saw the value of blurring the lines between online and offline — and developing robust omnichannel strategies.

Perhaps the most ambitious of these companies was Best Buy, the world's largest electronics retailer, which began its omnichannel program in earnest about three years ago as the company was reporting the worst losses in its history. Here's a thumbnail sketch in our own words of how Best Buy handled the transition to omnichannel:

> *For starters, Best Buy established one of the first click-and-collect programs by placing an in-store pickup link on many of its Web pages. The program, which became available in all Best Buy stores in 2010, catered to the wishes of many of Best Buy's customers who preferred to browse for products and pay online but haul home the TV they bought from the store so they could have it immediately. According to Best Buy executives, 40 percent of shoppers on www.bestbuy.com choose to pick up their purchases in stores.*
>
> *Best Buy simplified the e-commerce process, cutting the number of clicks required to make a Web purchase down to only three. The company also developed a targeted sales program online that enabled it to use any information it had about the consumer based on past in-store or Internet activities to make recommendations that matched the customer's immediate needs. A person living in Chicago, for example, might go to the site when the city was having a heat wave and see offers for a portable air conditioner.*

Exhibit 3
Global Omnichannel Retail Index — by category



Source: Strategy&

In addition, Best Buy merged its online and offline divisions, effectively turning the stores into warehouses for www.bestbuy.com purchases, and better aligned pricing so that customers in any channel paid the same amount unless special discounting programs for specific channels were in effect. With the implementation of its omnichannel strategy, Best Buy has able to stabilize the business. And although the company's success is not solely linked to the omnichannel improvements, Best Buy CEO Hubert Joly said in a May 2015 earnings statement that the retailer's efforts to merge in-store and digital operations "allowed us to consistently outperform the market."

However, to continue seeing these results, Best Buy — like other brick-and-mortar retailers that have embraced omnichannel — cannot let up. After all, its e-tail rivals, many of which forced traditional retailers to reconsider their store-centric strategies, are themselves beginning to move into the offline world with physical showrooms and pickup-and-return facilities.

The least mature omnichannel segment is grocery, with a ranking in our index of only 31. The slow development of this category is primarily due to its relative unattractiveness to customers, most of whom want to see and touch an apple or a piece of cheese before they buy it, and the challenges that supermarkets face in implementing an omnichannel strategy — specifically, the complex logistics of shipping perishable products as well as the cost of having numerous facilities located close to consumers.

We anticipate that in the next few years the grocery segment will build on its still meager online market share numbers (for example, 5 percent of the total grocery market in the U.K. and 3 percent in France). Yet despite the success of online companies like FreshDirect in the U.S., which at least demonstrates a thirst among consumers for the convenience of purchasing food, including produce, via the Web, the evolution of an omnichannel strategy for groceries is still unclear. Supermarket companies will have to navigate a diverse landscape populated by large offline players, such as Tesco and Sainsbury's, as well as online and expanding hybrid online players such as FreshDirect, AmazonFresh, and Waitrose.

China's leadership in this segment comes from the prevalence of new concepts in its crowded cities. Supermarket Vinux, for example, has set up kiosks displaying a wide range of grocery products in small storefronts throughout the country. Shoppers place orders on mobile phones, which are readily used in China for e-commerce, and pick up their items the next day. With little local inventory needed, Vinux has been able to cut the price of groceries by as much as 10 percent, which is further buoying enthusiasm for this omnichannel approach.

Despite the success of online companies like FreshDirect in the U.S., the evolution of an omnichannel strategy for groceries is still unclear.

Omnichannel drivers

Mature omnichannel markets tend to be similar in having sophisticated and thriving digital channels, which usually include established pure e-tailers that force offline players to expand into an omnichannel setting. Indeed, for retailers themselves, three conditions are critical to the success of omnichannel strategies:

1. *Enhanced technological infrastructure.* This includes networking and communication advances, such as broadband mobile Internet and smartphone penetration; location-based services for offering deals and promotions to customers relevant to where they are; sophisticated apps that provide in-depth product and pricing information, customer reviews, and comparison shopping; functional mobile payment plans; and buy-in-store/ship-to-customer as well as click-and-collect capabilities.

2. *High customer expectations.* When consumers demand "the best of both worlds in both worlds," they anticipate an offline component that provides personal product advice and recommendations as well as instant product availability combined with an online component that offers transparency in terms of inventory and pricing, customer reviews, simple product comparison features, and convenient and reliable shipping and payment programs.

3. *Retailer readiness.* To adopt the omnichannel model, retailers need a series of characteristics that many of them have not yet effectively embraced, including a corporate culture that treats online and offline business and sales strategies as a single entity; the merger of organizational units and dismantling of silos; the harmonization of systems and analytics; the development of innovative and compelling concepts, tools, and apps for seamless channel transition; and integration into the app ecosystems popular among consumers.

Strategy&'s analysis for the Global Omnichannel Retail Index shows that most markets already provide the necessary technological infrastructure and that a majority of consumers are excited about the benefits of a mixed online and offline retailing environment. However, after the necessary infrastructure is in place, the biggest roadblock for omnichannel adoption lies in the readiness of retailers — or, put another way, in their focus on the customer experience and their willingness (or ability) to invest in the technology needed to drive the strategy.

Conclusion

Although omnichannel delivery is making strong inroads in many retailing segments, the strategies are still in their infancy. However, as technology continues its rapid advance, the sophistication, convenience, creativity, and value of omnichannel approaches will increase as well.

Above all, the widening presence of mobile devices and the expanded use of mobile networks as e-commerce engines will serve as catalysts to a blended online/offline retailing experience. Consumers will vote with their money, choosing to shop with the retailers that best address their preferences for the best of the digital and brick-and-mortar environment. And as the lines between online and offline become indistinct, omnichannel retailing will simply be the way we shop; it will be ubiquitous and no longer a differentiator. It will be what retailers must do to be profitable.

Appendix: The Global Omnichannel Retail Index Methodology

The Global Omnichannel Retail Index was developed as a means of measuring omnichannel retailing maturity, presence, and success in 19 countries and regions as well as in nine retail segments. The index is based on an assessment of four separate metrics:

- *Consumer behavior:* the degree to which customers in the specific countries already fulfill their retail purchases via an omnichannel approach, e.g., Web-to-store or store-to-Web. Data points are available per country and retail segment. The original values are scaled to 0–100 and weighted at 40 percent of the overall index. (Data source: PwC Total Retail Study)

- *Degree of digitization:* the level of sales channel digitization. Values describe the combined share of Internet and mobile purchases in the specific country and retail segment. Values are scaled to 0–100 and weighted at 20 percent of the overall index. (Data source: Euromonitor)

- *Omnichannel potential:* the growth potential of Internet and mobile retailing. Values describe the average predicted CAGR for both Internet and mobile sales penetration between the years 2012 and 2016. The values are scaled to 0–100 and weighted at 20 percent of the overall index. (Data source: Euromonitor)

- *Infrastructure:* The penetration of omnichannel devices and services in the specific country. This metric consists of four submetrics: broadband penetration as a percentage of households, plus mobile, smartphone, and tablet penetrations as percentages of population. The degree of digitization is derived as the average of these four submetrics, scaled to 0–100, and weighted as 20 percent of the overall index. (Data source: PwC Global Media and Entertainment Outlook)

The analysis was conducted throughout 2015 and is based on 2014 data. The index assessed the following nine retail segments: consumer electronics and appliances, apparel and footwear (including sports equipment/outdoor), media products, housewares and home furnishings, personal accessories and eyewear, do-it-yourself and home improvement, grocery, traditional toys and games, and beauty and personal care (including consumer healthcare).

The analysis examined the following 19 countries or regions for omnichannel activity: United States, United Kingdom, Australia, Denmark, Canada, China, Belgium, Japan, Middle East, France, Italy, Germany, Russia, Switzerland, Chile, Turkey, India, South Africa, and Brazil (ordered by ranking). Country scores are derived as non-weighted averages across all retail segments.

Endnotes

[1] "Total Retail 2015: Retailers and the Age of Disruption: PwC's Annual Global Total Retail Consumer Survey," PwC, Feb. 2015, www.pwc.com/totalretail.

[2] Eeva Haaramo, "Nordic Retailers Get Physical to Combat International Digital Giants," July 3, 2015, www.computerweekly.com/news/4500249299/Nordic-retailers-get-physical-to-combat-international-digital-giants.

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