strategy&

&

The 2017 Global Omnichannel Retail Index

Omnichannel on the march

pwc

Contacts

Berlin

Birger Maekelburger
Principal, PwC Strategy& Germany
+49-170-2238856
birger.maekelburger
@strategyand.de.pwc.com

Frankfurt

Benedikt Schmaus
Partner, PwC Strategy& Germany
+49-170-2238437
b.schmaus
@strategyand.de.pwc.com

Dominik Felsmann
Manager, PwC Strategy& Germany
+49-170-2238439
dominik.felsmann
@strategyand.de.pwc.com

About the authors

Benedikt Schmaus is a partner with PwC Strategy& Germany based in Frankfurt, where he supervises the firm's omnichannel retail offering in Europe. He advises leading retail and consumer goods clients on building digital and omnichannel strategies and transforming their operating models.

Birger Maekelburger is a principal with PwC Strategy& Germany based in Berlin. He supports leading retail clients in creating digital business models, developing digital commerce and omnichannel strategies, defining digital operating models, and designing underlying IT architectures.

Dominik Felsmann is a manager at PwC Strategy& Germany based in Frankfurt. As a leading contributor to the firm's retail and consumer practice, he advises clients on omnichannel transformations and their implications on operating models, organizational structures, and culture.

Executive summary

&

Globally, omnichannel retail is on the march. Over the last two years, in most countries and categories, retailers have become more mature in enabling consumers to research, compare, purchase, and return products across channels. Yet there is still a wide range of performance. To give retailers a snapshot, we analyzed the omnichannel maturity of 28 countries and nine consumer retail categories and created an index, which uses industry data to rank countries on a scale of 1 to 100 across four dimensions: the degree of digitization for retail sales in a country or category; omnichannel potential; consumer behavior; and technology infrastructure.

This is an update to a similar study we conducted in 2015.

Key findings include the following:

- Overall digitization in the countries in our sample increased 27 percent since the 2015 analysis.

- English-speaking countries again dominate among top-performing countries. The U.S., the U.K., Australia, and Canada all ranked in the top five.

- Despite this notable progress in digitization worldwide, some countries, such as Germany, remained flat.

- Media products, consumer electronics and appliances, and traditional toys and games are the most mature omnichannel categories.

- China, which ranked fourth, remains the largest e-commerce market in the world, with high mobile adoption rates and extremely demanding consumers.

- The degree of digitization for retail sales channels has the biggest impact on a country's overall maturity level. This is partly within companies' control: By shifting sales to digital channels, they can foster greater demand among customers.

In addition, this report offers case studies of individual countries and categories. Above all, our aim is to give retail executives a detailed picture of the state of omnichannel execution and a quantifiable means of ranking progress across markets so they can adjust their approaches to individual markets accordingly.

Hard for companies, easy for customers

The use of omnichannel in retail illustrates the principle that it's hard to make some things look easy. From a customer's perspective, the omnichannel experience should be seamless, across physical stores and websites, on mobile platforms, wherever and whenever a customer might be shopping. From the company's perspective, creating such a seamless experience is extremely challenging. It requires coordination and integration across the entire retail ecosystem, and if even one aspect does not go as planned — particularly the sales associates who are the "face" of the organization to customers in stores — the entire experience falls apart.

A real-world example: Recently one member of our team was in a popular German shoe store. This person asked if a particular shoe model was available in his size. Although the retailer has its own online store, and offers click-and-collect fulfillment, the sales associate's simple answer was "No." This ended the conversation. On the way home, our team member searched for the shoe online and found it on Amazon, at a price US$20 lower than in the brand's own stores and with same-day delivery. Because the sales associate was thinking only in terms of the physical store, the retailer lost a sale, and potentially a customer.

To better understand the state of omnichannel execution worldwide, we recently analyzed 28 countries and nine retail categories. This is the second time we have conducted this analysis; the first was in 2015. The results show notable progress overall, but with some categories and countries far outperforming others. (*See Methodology, page 19.*)

Digitization increasing overall

Across the entire sample of countries and categories, digitization — that is, the extent to which sales are done online versus offline — increased by 27 percent over the 2015 analysis. Much of that growth was driven by a rise in sales made via mobile devices.

English-speaking countries outperform

Among the 28 countries in our analysis, English-speaking countries showed the highest maturity levels (as in the 2015 report). The top three countries were the U.S., the U.K., and Australia, respectively, with Canada in fifth place (*see Exhibit 1, next page*). These countries have a higher percentage of online to offline sales, and they have a high level of consumer demand for omnichannel retail, along with healthy and sustainable growth rates and strong digital infrastructure. This is because they were among the first countries to embrace omnichannel strategies, and they built the right infrastructure early on. This has given them a sustained head start.

Among Western European countries, the strongest finishers were Denmark (sixth place) and Sweden (eighth), with Germany significantly lower (17th). In many retail categories, Europe has no significant online business, even though customers are beginning to want it. Overall online retail growth was flat in most Western European countries. Although the necessary infrastructure is in place, there is a very high density of stores in certain categories (such as grocery) and few large players making the investments needed to push consumers to online purchases. For example, Germany showed relatively less consumer interest in omnichannel retail, and the lowest levels of digitization of all countries in the study.

Germany a surprising laggard

Despite Germany's well-earned reputation for innovation and engineering, the country still lags other countries in terms of

Exhibit 1
Omnichannel development progress by country (scale: 1–100)
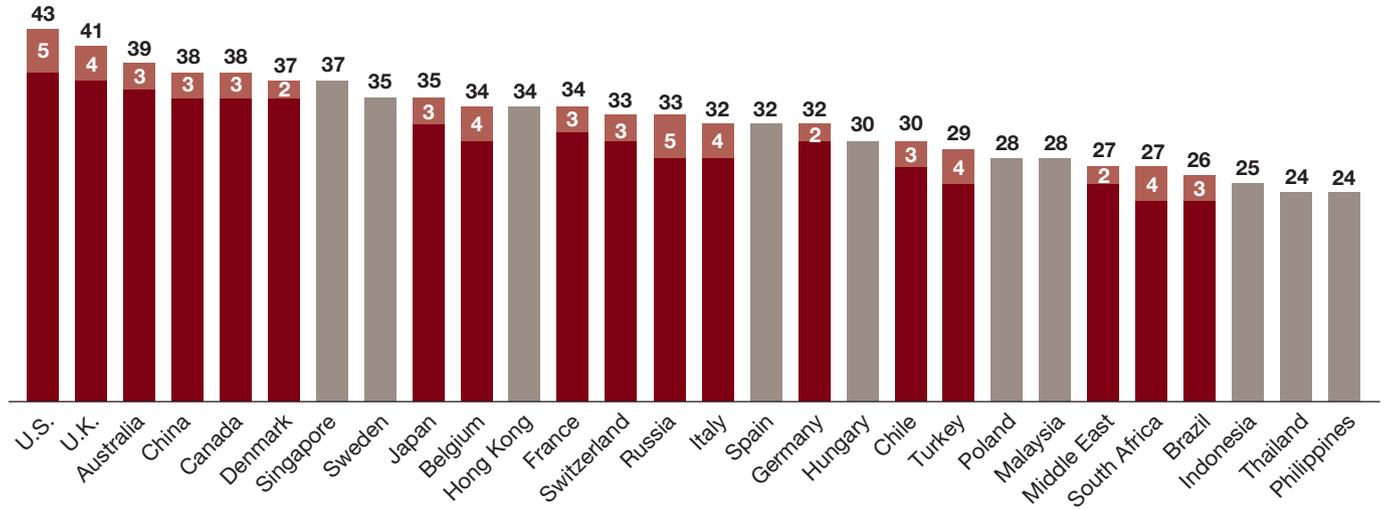
Legend:
- Countries included since 2015
- New participants
- Point growth compared with 2015

Source: Strategy& analysis

omnichannel retail. Its overall index improved by two points compared to the 2015 analysis, but the level of digitization grew slowly. In many of the categories we looked at — including grocery, housewares and home furnishings, do-it-yourself and home improvement, personal accessories and eyewear, traditional toys and games, and beauty and personal care — the German market is still heavily an offline affair.

Part of the explanation has to do with consumer behavior. Germans do not pursue discounts to the same degree as consumers in other countries. Rather than trying to get the best price, they prefer a high-touch shopping experience and don't mind going to physical stores to get that experience. In addition, some of the categories are dominated in Germany by a high percentage of family-owned small and medium-sized enterprises, which have less focus on innovation. And the country is still behind most other developed countries in terms of digital infrastructure. Even the retailers that are starting to offer omnichannel options have not integrated across channels. (For example, they cannot give customers real-time inventory across both online and offline stores.)

Yet there are some signs of progress. Click-and-collect fulfillment was almost nonexistent in Germany in 2015, but most large retailers now offer that model. Customers are increasingly likely to purchase something online and return it in a store — typically the first step in customer adoption of omnichannel retail. And the infrastructure growth rate for the past two years is higher in Germany than in other countries, meaning Germany is catching up.
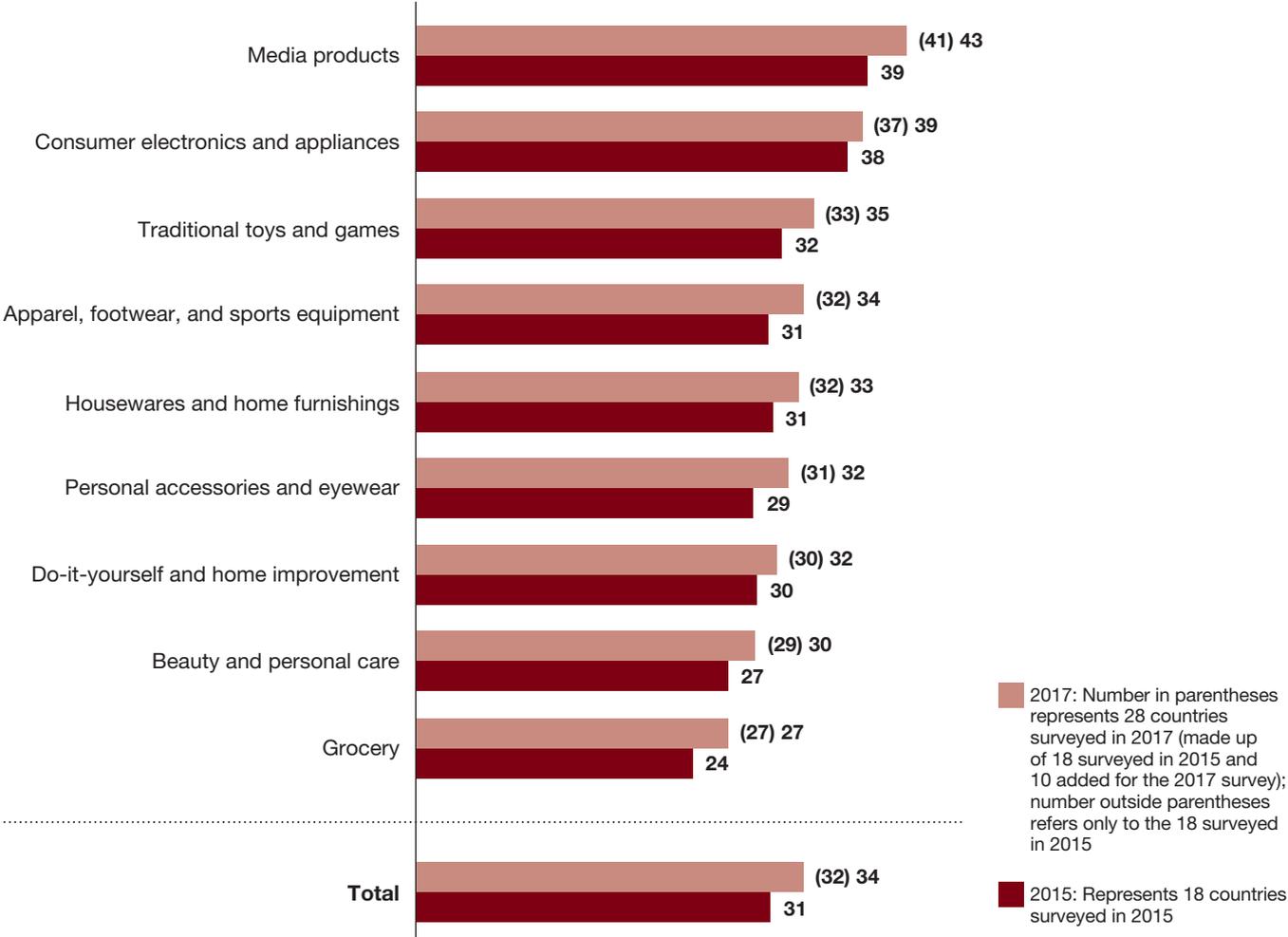
Media, consumer electronics, and toys lead

Among retail categories, media products was the most mature in our analysis, reflecting broader changes in the way people consume newspapers, magazines, movies, and music. Consumer electronics and appliances and traditional toys and games finished second and third, respectively (*see Exhibit 2, next page*). Both are categories in which products are standardized and features are well-documented, making it easy for consumers to compare prices across retailers and purchase the lowest-cost option online. The least mature category was grocery, primarily because the products are perishable and have a high cost-to-serve, due to logistics issues.

Notably, the toys and games segment is not likely to progress much further in terms of omnichannel activity, and will instead evolve to online only. This is because new games are increasingly digital. We think this trend will gather momentum as virtual reality technology becomes more popular. Toy stores, which already represent a sliver of

Among retail categories, media products was the most mature in our analysis, reflecting broader changes in the way people consume newspapers, magazines, movies, and music.

Exhibit 2
Index results by product category (scale: 1–100)

Category	2017	2015
Media products	(41) 43	39
Consumer electronics and appliances	(37) 39	38
Traditional toys and games	(33) 35	32
Apparel, footwear, and sports equipment	(32) 34	31
Housewares and home furnishings	(32) 33	31
Personal accessories and eyewear	(31) 32	29
Do-it-yourself and home improvement	(30) 32	30
Beauty and personal care	(29) 30	27
Grocery	(27) 27	24
Total	(32) 34	31

2017: Number in parentheses represents 28 countries surveyed in 2017 (made up of 18 surveyed in 2015 and 10 added for the 2017 survey); number outside parentheses refers only to the 18 surveyed in 2015

2015: Represents 18 countries surveyed in 2015

Source: Strategy& analysis

sales compared with online channels, are closing in many markets. Even for non-digital games, prices are often lower online.

There are exceptions, however. Among toy companies, Lego is a good example of a company that is effectively balancing online and offline sales. The company still offers its famous building block sets, along with electronic games and movies, dedicated online channels, a comprehensive community-based app (called Lego Life), and an integrated online store as a central hub, including a chatbot that tailors its language and approach to the customer's age. In its own retail stores and those of channel partners, the company treads more carefully, limiting technology to avoid overwhelming customers.

DIY and home improvement shows progress

By contrast, retailers in the DIY and home improvement category have traditionally been less inclined to roll out omnichannel offerings. Many of the products are heavy and bulky, making them expensive to ship. Of the €447 billion (US$533 billion) in global sales, only 4 percent on average is done online. Yet some companies, particularly in the U.S. and Western Europe, are taking notable steps.

For example, U.S.-based Home Depot, the largest DIY/home improvement retailer in the world, has created an integrated view of its supply chain, consolidating all data on inventory, fulfillment channels, and transportation options. That has allowed it to improve the way it handles online orders, potentially fulfilling them from stores rather than distribution centers. Online sales for the company were up 21 percent in 2016.

The country and category overlay

Overlaying country and category results shows which countries are the most mature in specific retail segments (*see Exhibit 3, next page*).

The rest of this report offers more detailed looks at specific countries and categories.

China: A massive and growing e-commerce market

China finished fourth among the 28 countries we analyzed, and it was the category leader for two segments: toys and games and apparel, footwear, and sports equipment. In volume terms, China remains the largest e-commerce market in the world, with $812 billion in online sales, or 17 percent of all retail.

Overall adoption rates for online shopping are at 60 percent, meaning there is room for e-commerce to take a larger share of total digital sales. Even in lower-tier cities, online commerce is now on par with that in hubs such as Shanghai and Shenzhen, and it is expected to grow further, due to a limited number of brand-name stores — particularly foreign brands — in smaller cities.
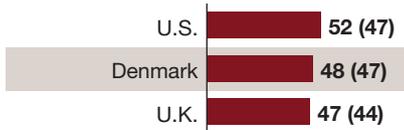
One of the major factors in the omnichannel maturity of China is the rapid adoption of mobile, leading to increased consumer demands of retailers. Shopping in China is highly social, and it often happens through social media. For example, WeChat conversations often include direct links to products and online stores, and customers can pay through the app as well.

Another factor is that much of the country's e-commerce happens through centralized sites such as Tmall (Alibaba's online retail site), rather than individual company or brand sites. Tmall includes mobile purchase and payment options, along with entertainment, social media, news, and other elements designed to keep shoppers on the site longer. As a result, it can capture significant data about searches, purchases, and preferences, which it uses to develop and refine personalized offers.

Exhibit 3
Index results by leaders per product category (scale: 1–100)
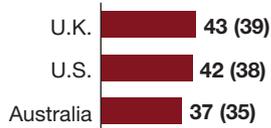
Consumer electronics and appliances

U.S.	**52 (47)**
Denmark	**48 (47)**
U.K.	**47 (44)**

Apparel, footwear, and sports equipment

China	**44 (39)**
U.S.	**41 (37)**
U.K.	**39 (36)**

Media products

U.S.	**57 (54)**
Denmark	**56 (53)**
Canada	**51 (48)**

Housewares and home furnishings

U.K.	**43 (39)**
U.S.	**42 (38)**
Australia	**37 (35)**

Personal accessories and eyewear

U.S.	**45 (41)**
U.K.	**39 (35)**
Singapore	**36 (–)**

Do-it-yourself and home improvement

Canada	**39 (36)**
U.S.	**39 (37)**
U.K.	**38 (37)**

Grocery

Singapore	**33 (–)**
U.K.	**32 (29)**
Australia	**32 (29)**

Traditional toys and games

China	**49 (45)**
U.S.	**48 (43)**
U.K.	**46 (42)**

Beauty and personal care

Singapore	**36 (–)**
Australia	**35 (32)**
U.K.	**34 (32)**
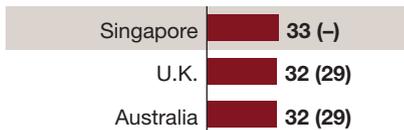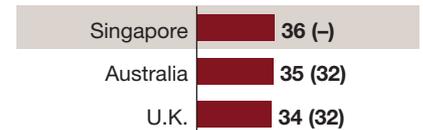
Numbers outside parentheses refer to 2017 score; numbers inside parentheses refer to 2015 score

Countries outside overall top 3 rank

Source: Strategy& analysis

Alibaba also runs a highly successful promotion on Singles' Day in China every November, in which it sends customers to offline stores for special deals and also introduces new products online. In 2017, Alibaba registered nearly $25 billion in sales (about 777 million packages shipped) during the 24-hour promotion.

Singapore: A strong government push

Singapore, a new entrant in this year's analysis, finished seventh. The country's Ministry of Trade and Industry has set a goal for Singapore to become the world's best in omnichannel retail, and it has already achieved that goal in at least two categories: beauty and personal care and grocery. (Singapore also ranked third in personal accessories and eyewear.) The city-state benefits from extremely strong IT infrastructure, with the highest tablet penetration (62 percent) and highest broadband penetration among countries in our sample. Shopping is one of the top three pastimes of most demographic groups, and 40 percent of all shopping happens exclusively online. And because the city-state is geographically small, it is easy for Singaporeans to place orders online and collect their products at one of many 24/7 drop-off and collection points operated by brands and third-party logistics firms.

Singapore's retailers are racing to meet customers' omnichannel expectations. Courts, a consumer products chain that sells electronics, appliances, furniture, and other home goods, is redesigning its stores with digital features, QR code collection points, and other features to facilitate in-store browsing and online purchasing. Other chains, such as Challenger (which also sells electronics) and Luxasia (beauty), are following a similar strategy.

Singapore finished first in the grocery category. (To be fair, Singaporean grocers have the advantage of servicing a small geographic area.) The leading chain, FairPrice, which built its reputation on low prices, now allows customers to buy fresh food online for delivery.

Canada: Leading in the DIY category

Canada was the leading country for mature DIY omnichannel retail. The country has 98 percent penetration of broadband, somewhat astonishing given its sheer size. One of its largest retail chains, Canadian Tire, recently launched a comprehensive transformation to improve its omnichannel execution.

Canadian Tire sells automotive parts along with small appliances, hardware, outdoor gear, and home goods. In 2013, the company spent

Canada has 98 percent penetration of broadband, somewhat astonishing given its sheer size.

millions of dollars for a new IT system that allows it to collect data from customer interactions and use that data to tailor future offers. It also developed a mobile app, including features such as in-store navigation to lead consumers to specific departments or products. New store designs include interactive walls and screens, vehicle test-drive simulators, and design tools that rely on gaming-style 3D graphics (including a virtual reality headset option). Stores are even experimenting with RFID technology that can personalize offers based on what is currently in a customer's shopping cart.

Changing consumer expectations worldwide

PwC recently published the Total Retail Survey 2017, a detailed study on how retail customer preferences are evolving. Among the highlights:

- "Digital natives" who have grown up with technology are now at the age when they can spend their own money on consumer goods. For these consumers, the omnichannel experience is not a novelty — it is the only logical way to shop.

- Worldwide, people rely on their smartphones more and more, particularly for idle periods such as traveling or waiting in line, when they will browse offerings and check in with online stores. Mobile presence is a must.

- Customers' expectations are continuously increasing. They want personalized offers and recommendations to be accurate, and the overall shopping experience to be seamless and easy.

- Most important, customers are willing to pay for the convenience of omnichannel retail.

Implications for leaders

One other aspect of the findings is noteworthy: Although some of the factors in our index are beyond a retailer's control, the degree of digitization — meaning the percentage of overall sales that take place through digital channels — is not. And based on our analysis, this factor has the greatest effect in boosting the overall maturity level. Companies can invest to shift more of their sales online and thus spur greater demand among their consumers, leading to faster progress overall.

For executives at retail companies, that points to several imperatives.

- First, across all categories, companies need to invest in IT and the supply chain while also transforming their operating model to fully integrate their online and offline businesses. For example, merging the online and offline marketing and sales departments leads to less compartmentalization and a more coherent customer experience.

- Companies also need to improve their mobile presence, which is the "glue" between online and offline interactions. Those at lower maturity levels can focus on one aspect of the path to purchase, such as boosting awareness through social media or enabling mobile payments.

- Last, brick-and-mortar stores will always be important. They represent the vast majority of overall retail sales. But retailers need to determine the best role for them in the overall purchasing pathway. Rather than using stores as the main way of selling goods, many retailers are improving their in-store experience, offering consulting services, after-sales service, and richer interactions with products. Many retailers are also using physical stores as logistics hubs — as a final stop before last-mile delivery, or as a place for customers to pick up online purchases or return products.

Conclusion

Across markets and categories, omnichannel retail is no longer a future aspiration but a baseline requirement. Tech-savvy customers demand it, and companies can either meet this expectation or watch those customers depart for more digitally savvy competitors.

Strategy&

Methodology

The Global Omnichannel Retail Index ranks countries on a scale of 1 to 100 using independent metrics and data sources across four categories:

- **Consumer behavior:** The degree to which customers in specific countries fulfill their retail purchases via an omnichannel approach

- **Degree of digitization:** The degree of digitization for sales channels within a market

- **Omnichannel potential:** The average compound annual growth rate of Internet penetration and mobile retailing

- **Technology infrastructure:** The penetration of omnichannel devices such as smartphones and tablets, and services such as broadband

The 2017 analysis added 10 countries — Hong Kong, Hungary, Indonesia, Malaysia, Philippines, Poland, Singapore, Spain, Sweden, and Thailand — and dropped India due to insufficient data.

Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you're

charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we'll help you create the value you're looking for with speed, confidence, and impact.

We are part of the PwC network of firms in 157 countries with more than 223,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com.

www.strategyand.pwc.com