



ONLINE
ON TRACK?
The world of
online retail



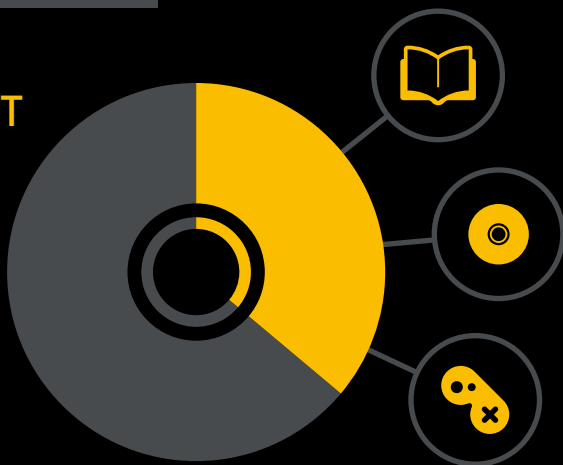
An insight report by
Kantar Worldpanel

AT A GLANCE

ENTERTAINMENT

36%

of all physical games, DVDs, CDs and books are bought online

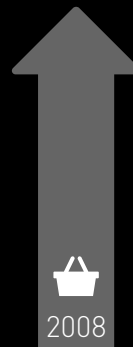


2012

GROCERY

90%

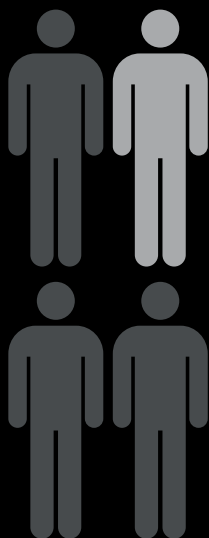
growth in online grocery shopping in the past four years



BEAUTY

25%

of the adult population has bought beauty products online

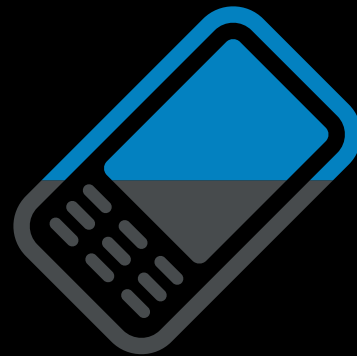


TELECOMS

Over

50%

of the British population now own a smartphone



FASHION

2/3

of people bought an item of clothing, footwear or an accessory online in the past year

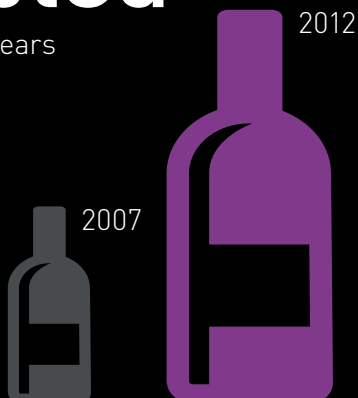


ALCOHOL

Sales of alcohol online have

Doubled

in the past five years



TOILETRIES & HEALTHCARE

Only 10%

of toiletries shoppers have bought products online





A WORLD OF SHOPPERS, A WEALTH OF INSIGHT

Retail is an ever-evolving landscape. The emergence of new technologies, developments in people's habits and tastes and the constantly changing economic situation are all driving retailers to re-think their approach to shopping. It's certainly a sector where you have to keep on your toes.

Online retail has shifted the landscape once more as retailers and brands look to get to grips with this way of shopping. For the most part this move has had a positive effect, opening up new opportunities for building relationships with consumers and ultimately securing sales.

But it has also raised a number of questions, particularly about the future role of the physical store and how traditional high street outlets can compete with new online-only retailers.

It is clear that online shopping is here to stay. According to Ofcom, there are now over 40.5 million active internet users in Great Britain and this number is set to rise as more people get connected.

This report, the first in a series looking at consumer behaviour, will examine the online retail market across the grocery, entertainment, telecoms, fashion, alcohol and health and beauty sectors. Its purpose is to paint a detailed picture of the world of online retail so that retailers and brands can better understand the market and shape their response.



Tim Kidd, Managing Director
Kantar Worldpanel
October 2012

OUR INSIGHT TEAM

“Online shoppers are cash-rich, time-poor, retailers need to cater to these needs.”



Edward Garner
Grocery



“In the future expect to see more high street showrooms, with people ordering items for home delivery.”



Ian Mitchell
Fashion



“There is an obvious gap in the Irish online grocery market as more consumers are getting online.”



Mark Thomson
Ireland & Scotland



“Retailers need to find ways to encourage impulse purchasing online if they want to grow the category.”



Fiona Keenan
Entertainment
& Telecoms



“The online alcohol market is set to double in the next five years and could go even further with occasion marketing.”



Kevan Mulcahey
Alcohol



“The potential for health and beauty online is huge, but retailers need to focus on the right markets.”



Tim Nancholas
Health & Beauty





INTRODUCTION



New online shoppers have boosted the beauty market by £18.3 million in the past year

Street smart

The face of British retail is changing – and it has been for some time. Shoppers are savvier than ever before, spending more online (see graphic below) and demanding new ways of shopping to meet their needs. This has brought new challenges for retailers and prompted concerns over the future of the high street.

Online is here to stay; but how can retailers take advantage of the rise in demand for online availability and encourage greater sales?

Long-term success will depend on combined strategies that cater for online and offline shopping occasions as the divisions between high street and the web are increasingly blurred. Practices like click and collect, ordering in store for home delivery or buying and selling via online marketplaces are becoming commonplace and consumers expect retailers to be available in both the physical and virtual worlds.

The world of the shopper

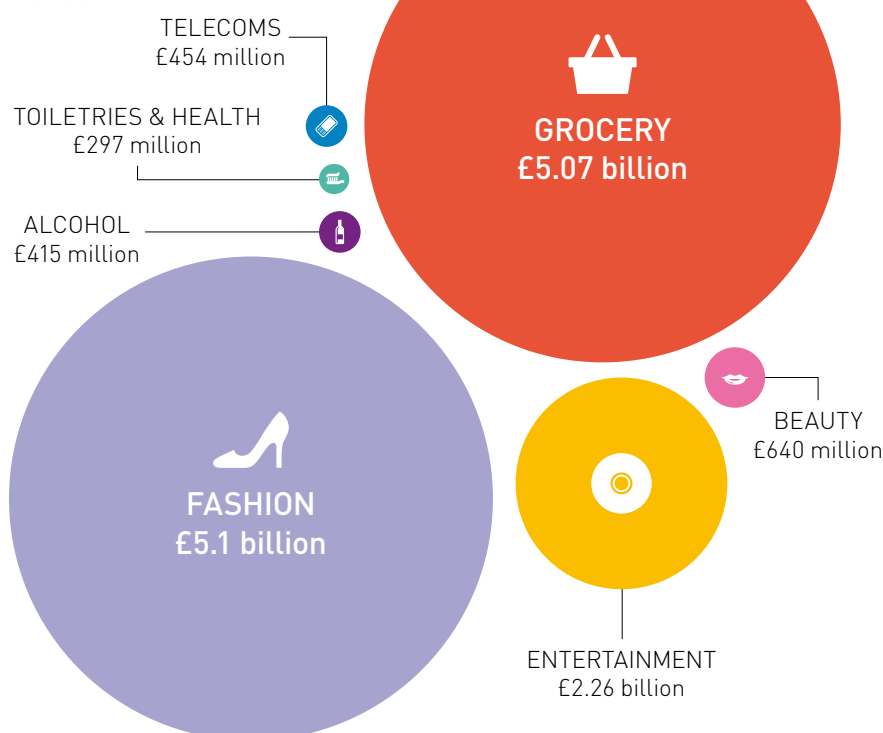
But a combined strategy won't be enough. There are some clear areas that retailers and brands need to work on if they want to grow sales. Online needs to assess its place in the world of the shopper. At the moment it's where people go for planned purchases, rarely straying from their original searches. To grow, the industry needs to address the lack of impulse purchasing online and make online shopping a leisure activity just as it is on the high street.

The in-store environment needs to translate online. People want an experience, with recommendations and advice, as well as the simplicity and convenience of shopping online. This should be developed by retailers to encourage people to spend more.

This report looks at the customers shopping online, examining why they choose the internet and how the path to purchase differs from in store. It provides recommendations on growth opportunities for retailers and brands and considers how to overcome some of the barriers preventing people shopping online.

The findings of the report are drawn from Kantar Worldpanel's continuous research into the shopping habits of up to 30,000 households in Great Britain. We look at who shoppers are, what they are buying and why. We create a detailed picture of the retail landscape, offering in-depth insight into how consumers behave and more importantly why they make the choices they do.

Value of online retail markets



KNOWING SHOPPERS



GROCERY



- Total number of online households: **5.7 million**
- Average online spend per shopper: **£82**
- Average spend in store per shopper: **£18**

BEAUTY



- Total number of online shoppers: **12 million**
- Average online spend per shopper: **£21.60**
- Average spend in store per shopper: **£14.80**

FASHION



- Total number of online shoppers: **30.7 million**
- Average online spend per shopper: **£34**
- Average spend in store per shopper: **£23**

TELECOMS



- Total number of online shoppers: **5.1 million**
- Average online spend per shopper: **£80.88**
- Average spend in store per shopper: **£51.04**

ENTERTAINMENT



- Total number of online shoppers: **32.1 million**
- Average online spend per shopper: **£9.09**
- Average spend in store per shopper: **£12.66**

TOILETRIES & HEALTH



- Total number of online shoppers: **7.6 million**
- Average online spend per shopper: **£6.14**
- Average spend in store per shopper: **£5.38**

ALCOHOL



- Total number of online households: **3.2 million**
- Average online spend per shopper: **£18.02**
- Average spend in store per shopper: **£11.40**

35% of online grocery products are sold via some sort of deal

Over 55s are the fastest growing age group for online fashion sales



Mid-life opportunity?

When online retailers launched, early adopters were generally younger than high street shoppers and also bigger spenders. However, as the market has become more established and popular high street retailers have launched online sites, the demographics have shifted more in line with the traditional high street profile. In the music sector, 35-54s have recently overtaken the 25-34 age group as the biggest buyers online. In the fashion sector, the average age of the online buyer has risen from 38 in 2008 to 41 in 2012.

Over the past year, the fastest growing age group for online fashion sales has been the over 55s who have become more familiar with surfing the net as access to broadband increases. In addition, traditional home shopping retailers, with typically older customers, have moved their emphasis towards websites rather than catalogues. Online is an increasingly important vehicle for mature shoppers.

This is a sign of things to come across the wider online market. Other sectors such as prestige beauty, which typically attract an older demographic, should be looking to take advantage of this opportunity now.

Teen scene

It's not just the older market where there is potential for growth. Teenagers are becoming important shoppers in categories such as beauty and entertainment. But there are barriers to growth as they struggle to shop online without parental plastic. Some online retailers are tackling this by launching e-vouchers and e-cards that allow teenagers to spend online without a debit or credit card. However, more alternative payment methods need to be developed if retailers and brands want to capture this important market.

Innovators

In emerging areas of online retail, like alcohol, online consumers are more likely to try new products. Retailers and brands should use online outlets for launches and brand extensions, capitalising on shoppers' desire for the new and exciting to tempt them into the brand. Online-only launches for new products would also be an effective way of recruiting shoppers to markets like alcohol, a sector undergoing phenomenal change as people shift to drinking in the home rather than in bars and restaurants.

**25% of shoppers
buy clothes online
to take advantage
of offers**

WHY ONLINE?

Clicks vs bricks

The popularity of online shopping is extremely varied across the retail landscape (see graphic below), but why is this the case and what can retailers do to increase their online market share?

More choice

Consumers are looking for a wide selection of products when they shop online. This is why categories such as TV boxsets, where there is an extensive range, perform far better online than in store – 44% of DVDs bought online are TV boxsets; however, in store this type of DVD only makes up 22% of sales. Shoppers like to plan their purchases – browsing options and reading reviews before making their choices. Physical stores are limited by the amount of stock they are able to keep, but they could make consumers more aware of their extensive catalogues online and capture this spend as well.

It's not just about having lots of choice but also providing something different. Customers want new and exclusive products. Promoting items that can't be bought in store would be another way of capturing the customer's imagination and has the added benefit of preventing online sales cannibalising the high street.

Value for money

Online shopping provides people with the opportunity to more easily control their spending. Economy own-label products feature in the majority of online shopping baskets and items on promotion are also proving popular. Grocery products sold on some sort of deal account for 35% of the value of all groceries bought online and this increases to 43% for online sales of alcohol.

With value such a high priority for consumers, retailers must ensure people are fully aware of the savings they can make by shopping online. This could be achieved for example, by developing a strategy where online goods are more competitively priced or offering functionality which allows shoppers to see cost comparisons between the same products from different brands.

Making life simple

With busier lifestyles, more consumers are looking for hassle-free shopping. Convenience is the name of the game. Online makes life simpler, whether that's organising groceries to be home-delivered rather than facing the Saturday supermarket rush, buying the dress you have just seen in a shop window in your lunch break or using virtual stores or adverts to organise quick last-minute deliveries.

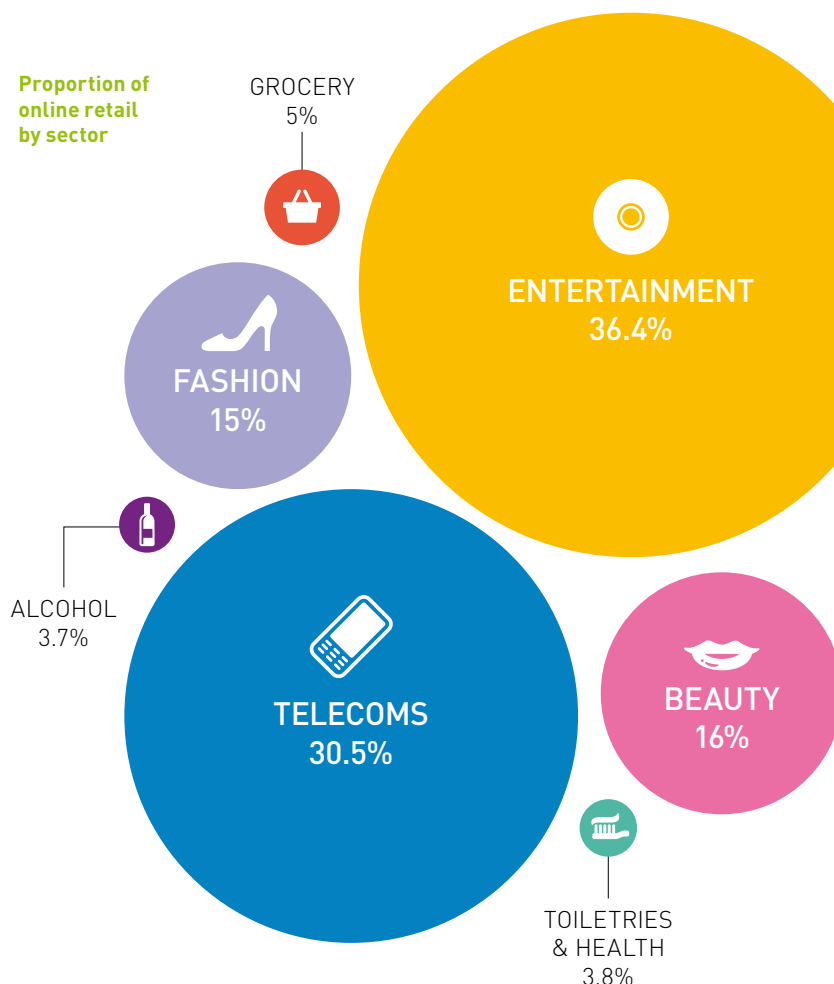
The increasing relationship between physical and online stores has also meant that when products aren't in stock, customers can order online then and there. However, this service could be improved. If retailers offered faster delivery at more affordable prices, it would be much more convenient and compelling for shoppers to purchase online. For example, consumers could order in their lunch break and be guaranteed to receive the goods by the time they got home.

Retailers also need to take advantage of customers' downtime. When consumers are standing in train stations or waiting in public spaces there are opportunities to encourage them to spend. Tesco's recent launch of an interactive shopping wall in South Korea is a good example of how shoppers can be persuaded to shop online outside traditional retail environments if the technology is accessible.

Functional shopping

Understanding the mindset of the online shopper will be crucial for continued growth. Even more so than they do in store, shoppers consider a particular product to fulfil a functional need. For sectors such as grocery and alcohol, this presents an opportunity for occasion-based marketing; offering menus and meal advice for a dinner party or lunch boxes, the ingredients for which can be immediately added to the shopping basket.

Proportion of online retail by sector





TURNING THREATS INTO OPPORTUNITIES

Building trust

Shoppers value the advice they receive in store and retailers should find ways of providing better advice online – or certainly the same level as they would receive on the high street. Developing online instant chat facilities, which allow customers to ask questions or request guidance about the product is a way of addressing this. Customers buying clothes for an occasion could speak directly to an assistant about the styles and colours they are looking for and receive recommendations in much the same way a store representative would do.

Another challenge retailers face is convincing online customers that the products they receive are as reliable and trustworthy as the ones they purchase in store. This highlights the need for a new way of showing the quality of online products – perhaps by developing quality standard marks or using independent verification on websites.

The impulse problem

Shopping behaviours online are very different from in store. Online consumers do not always shop impulsively, presenting a challenge for retailers. This variance needs to be addressed sooner rather than later. Online consumers visit entertainment websites an average of nine times during a 12 week period, but they are there because they know what they want. Looking at some of the top entertainment retailers, such as HMV, Play.com and Tesco, 53% of online shopping trips involve consumers searching for a specific title and despite strong price messages, they are rarely diverted from their original search.

Shoppers have very specific habits when buying online and retailers need to find ways to encourage impulse purchasing if they are to increase sales. This could be in the form of better site functionality, comparable sale and product information, emails to existing customers showing them the 'dress' of the day, using online-only products and offers or navigating customers to suggestions for specific meal occasions by developing menu card sections.

**Online grocery
has grown by
90% in the past
four years**

Driving digital footfall

The number of times consumers go online to shop is far fewer than their visits to high street shops. Shoppers buying alcohol only purchase it online an average of seven times a year, compared with 39 trips a year to a store. Given that consumers spend more online than in store across most categories, it is clear there are financial gains to be made by convincing shoppers online more often. One way to do this could be through loyalty points or free next time delivery.

Forward thinking

There are some sectors and products where customers will always buy offline – for example, when you need to pop out to buy a quick pint of milk. Similarly, healthcare products like cold and flu tablets tend to be immediate purchases, with very few people stocking up on them in advance. But this could change. Why not encourage busy parents to stock up on seasonal healthcare products such as hay fever tablets or cold and flu remedies? Retailers and brands could and should do more to promote and encourage long term purchases for example, through 'healthcare hampers' that provide everything a family needs quickly and easily.



Social shopping

In some ways it will always be difficult for online to become as convenient as in-store, so perhaps, while accepting that convenience plays a part and aspects can be improved, retailers need to think more about how to make online shopping a leisure activity. Retailers could look at developing their own social forums so that shoppers can share their recent purchases with friends and family or send suggestions, as well as tracking their orders and storing future ideas.

Consumers are increasingly surfing the internet as a pastime and retailers should be finding ways of encouraging shopping through these activities. Online games or fashion sites that play new music available for download could be one way or working more closely with digital magazines to persuade people to click through images or shop for specific looks. Entertainment retailers could look at including trailers for new movies on their sites, using these as hooks to draw people in. Leisure is also an area the grocers should be targeting. With more and more people watching cookery shows or looking for recipe advice on the internet, it should be a natural step for supermarkets to provide links to ingredients for recipes.

LEARNING FROM THE COMPETITION

Promiscuity vs loyalty – reasons to be cheerful

Many retailers are already performing strongly online (see examples opposite) but for others there are lessons to be learnt.

The holy grail of retail is customer loyalty. But with an ever growing number of stores and products, it is in danger of becoming a retail anachronism. Surprisingly, however, online shoppers are more loyal to stores than brands. So for retailers like Morrisons, without an online offering, this should be of concern – three million Morrisons' high street shoppers turn to its competitors online.

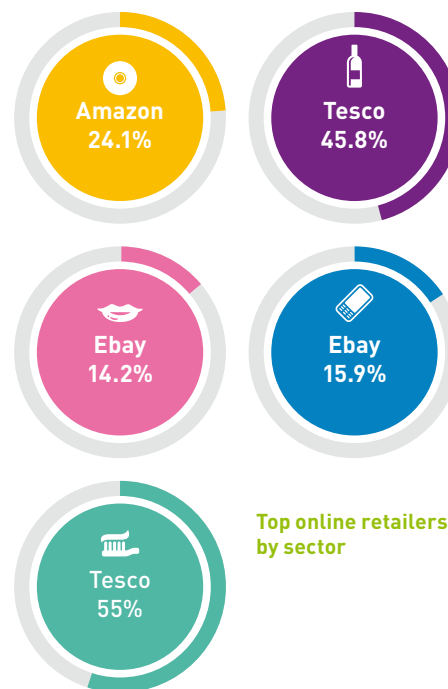
Original bricks and mortar stores should be leveraging existing loyalty schemes to retain their shoppers' spend. Tesco, Sainsbury's, HMV, Game and Waterstones all offer loyalty schemes across store and online purchases, and Play.com has also moved into this space launching Rakuten SuperPoints in August 2012. This is a sign of the more collaborative approach retailers need to take.

Even in the most challenging sectors like telecoms, where switching between networks is prevalent, the operators are working hard to encourage brand loyalty by creating accessible and engaging websites. These allow consumers to access their account information easily so when consumers reach the end of their contracts, and are ready for a new handset, operators can guide them through this process using their online portals and retain their loyalty.

It is a similar situation for brands, with those easily recognised and trusted by the consumer most likely to succeed. Drinks manufacturers such as Stella Artois, Foster's, Gordon's Gin and Hardy's Wine all now have a greater market share online than they do in store and benefit from tremendous consumer loyalty. But brands need to make more of electronic shopping lists by enticing customers to try something new. Online giveaways could be one way of getting products onto a shopper's list and encouraging them to stick to a brand the next time they visit. Alternatively marketing techniques could be used to develop associations, for example, a specific type of beer with pizzas or wines for the Sunday roast.

Brand power

Online presents a massive opportunity for brands to communicate and sell to consumers directly. In the beauty market, manufacturers such as L'Oreal and Procter & Gamble sell products straight to consumers via their own websites. Benefiting from strong brand equity and consumers' increasing propensity to search directly for products, manufacturers are able to entice shoppers away from retailers by providing unique and expert advice and promotions. Other categories with high brand recognition like alcohol or perfume should look to develop customer-facing sites and direct marketing campaigns.



THE IRISH GAP?

Online grocery shopping in the Republic of Ireland is much less established than the UK, accounting for only 1.3% of all grocery spend compared with 5% in the UK. The limited availability of online retailers is one of the key reasons for this disparity. With only Tesco and Superquinn providing a full online offer and SuperValu's online store only available in certain areas more can be done to expand this market.

Despite limited availability, one fifth of Irish consumers are already shopping online. As in Great Britain, online baskets are much bigger than in-store equivalents demonstrating the potential value of the market if retailers grab this opportunity.

Beyond 2012

With three in every four shoppers in Ireland now online, the scope for connecting brands and products to the end consumer in Ireland is growing by the day. Both retailers and brands need to be aware of who is shopping online and how to take advantage – families for example, are some of the biggest shoppers, as well as younger consumers.

It's also worth bearing in mind that although the majority of shoppers are going online via well-used technologies – 85% access it through a laptop, and 68%

using a PC – 20% of online shoppers in Ireland now have tablets and one in two shoppers have a smartphone. This means the development and promotion of retail apps with the ability to shop on the go is crucial for further growth in this sector.

In the future, online will become a major outlet for premium brands. Currently, one in four Irish consumers buy products online at least once a month; however, this increases to one in three when looking at wealthier shoppers – demonstrating an opportunity for online retailers to promote their premium offerings and ensure they are a regular feature of online shopping baskets.

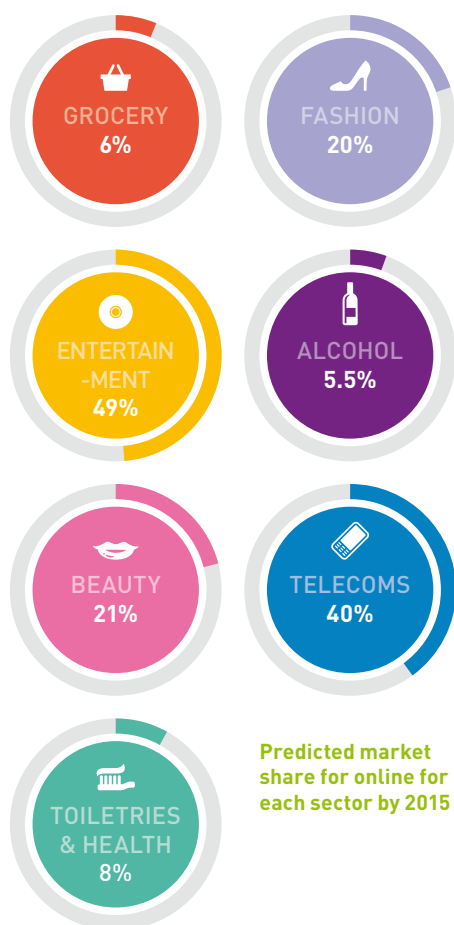
Online retailers and brands also need to be aware that Irish shoppers are savvy buyers. Price comparison websites are giving consumers the opportunity to shop around for better deals and this is reflected in the amount of money these shoppers are spending. For those who visit price comparison sites every day, their average yearly spend on groceries is €4,515. This contrasts with the €5,900 people spend who don't use these sites. With austerity still rife in Ireland, it is vital that suppliers ensure all price information is up to date and that they are tempting consumers with value messages.



WHERE AND WHAT NEXT?

A bright future

Online retail will continue to grow and evolve. That much is certain. We expect to see expansion across all sectors, with the less established areas such as alcohol and toiletries playing catch up with other markets (see graphic below). The amount of money spent online in fashion has doubled since 2008, driven primarily by encouraging existing consumers to spend more and convincing new shoppers to go online. However, a market solely driven by increased penetration will reach a ceiling at some point, unless retailers can continue to convince shoppers to spend more money online by making the whole experience innovative, engaging and easy.



Predicted market share for online for each sector by 2015

Acting on a whim

The long-term success of online retail will be dependent on encouraging impulse purchasing. Nowadays, shopping is as much a leisure activity as a necessity – particularly in the fashion, beauty and entertainment markets – and retailers need to find a way to recreate the in-store browsing experience. The fashion sector has already started to address this by developing virtual mirrors, clear labelling of ranges eg 'for work' or 'going out' and providing suggestions for outfit-building all of which encourage shoppers to buy more. Customers want advice and an experience to match the in-store buzz.

Beyond price

Success is also reliant on making online shopping about more than just price. The main reason 16% of online fashion shoppers go online versus in-store is because there is a wider selection of items. Internet-only products provide differentiation and prevent the loss of spend from physical stores. We are also seeing that those who shop online in the underdeveloped categories, such as alcohol, are more likely to try new products – making online a significant channel for product launches and brand extension.

On the go

Looking forward it is impossible to ignore the rise of m-commerce. Already, 13.3% of all mobile owners have downloaded music to their mobile in the past year, 20.3% have downloaded a game and 22% have watched a video. As the launch of Amazon in the mid-nineties demonstrated, entertainment products such as books, DVDs and games lend themselves to online shopping because of their compact nature. With the development of digital formats this is set to continue. Although we will never recreate the simplicity of downloading digital items in the fashion and beauty sectors, there are now more than 7.5 million consumers who use a retail app on their phone each week demonstrating the huge potential of the mobile market.

Retailers need to react to this opportunity now. It won't be enough to have an app showing the latest ranges and directing spend in-store or online – shoppers want transactional apps so they can shop wherever they are.

Achieving success – either as a brand or a retailer – depends on a rounded strategy. Whether that's creating an online store to prevent customers switching to a rival, developing click and collect offers so consumers get the best of both worlds, using high street stores as showrooms for the product range, establishing innovative and convenient pick-up points for online items or, in the case of online-only retailers, opening up physical stores to balance their offer. Successful retailers will be those who understand their online and offline customers, interrogate their motivations and backgrounds, identify their future wants and needs and adapt their strategies to fit.

7.5 million consumers use a retail app on their phone each week

ONLINE RETAIL IN 2050

- Large parts of the high street will have been replaced by showrooms that allow consumers to view products, which are then delivered home.
- Augmented reality technology will become the norm for people shopping at home, allowing them to visualise high streets, walk around stores, meet friends and test products.
- With expenditure reduced from physical stores, delivery costs and times will have become much lower making online shopping the cheaper and easier option.
- Shopping on the go via mobiles or tablets will be well established, making adverts and marketing on streets, trains or in meeting places crucial.

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Methodology

All the primary data used in this report comes from our shopper panels in the grocery, fashion, telecoms, entertainment, alcohol, and health and beauty sectors. We talk on a continuous basis to up to 30,000 demographically representative households in Great Britain (England, Scotland and Wales) about what they are buying, where they have bought it and why to develop a detailed picture of the British retail market. We manage the largest consumer panels on the market today and because the shoppers do not change we are able to identify trends that are affecting the market and confidently forecast their future evolution.