A Forrester Consulting Thought Leadership Paper Commissioned By Demandware

The Future Of Retail And Tomorrow's Consumer

A Market Research Study On The Evolving Consumer And Retailers' Readiness To Engage With Them

June 2011

Headquarters | Forrester Research, Inc.
400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617.613.6000 | Fax: +1 617.613.5000 | www.forrester.com

Forrester Consulting
Making Leaders Successful Every Day

Table Of Contents

Executive Summary: Commerce Enters A New Phase

Consumers are evolving. Mobile devices and growing Internet connectivity have changed their expectations; early adopters are actively using the Web, mobile, and in-store technology in their research and purchase behaviors. Increased access to information and new customer experiences are raising the bar for retailers and brands, many of whom have only begun to understand the implications for their businesses.

In early 2011, Demandware commissioned Forrester Consulting to examine the changing consumer and implications for retailers and brands in North America and Europe. Forrester surveyed 192 multichannel retailers, interviewed eight of those retailers, and also surveyed 454 multichannel consumers, focusing on consumers who are accessing the Web several times per day from multiple touchpoints and locations. We found that consumers are increasingly shopping across channels, and while retailers are further along than expected in executing cross-channel tactics, significant barriers remain. Retailers must get serious about holistic and exceptional experiences or risk disappointing unforgiving consumers and falling behind competitors.

Key Findings

Forrester's study yielded five key findings for consumer brands and retailers to take away:

- **The impact of delivering poor experiences in one channel extends across all touchpoints.** A bad experience in one channel doesn't just impact a consumer's perception of that channel. Consumers now project that view across the entire company and all touchpoints. Consumers use a variety of touchpoints to inform purchase decisions, raising the stakes for brands and retailers. As consumers increasingly share across web- and mobile-enabled social networks, a single poor experience gains farther-reaching consequences.

- **Inhibitors to becoming multichannel remain pervasive.** Barriers include everything from business models, technology, corporate incentives, and metrics to company culture and service policies. To meet the needs of the changing consumer, retailers and brands must remove technological, operational, and cultural roadblocks to serving the consumer across channels. Retailers must ensure that matrixed organizational structures are supplemented by cross-channel incentives to avoid constant ongoing channel conflict.

- **Retailers are investing in multichannel but in a largely unintegrated way.** Many retailers are deploying on-site multichannel capabilities and in-store technology, but largely online with little cross-touchpoint capability, from stores to mobile to the Web, for example. And where site features are deployed, there's little effort to expose consumers to new features and optimize usability. Retailers and brands must invest in solutions that enable agility and market these capabilities actively to consumers — and their organizations.

- **Retailers fall short of many consumers' mobile expectations.** Consumers are using mobile devices to inform their purchase decisions across touchpoints and indicate a strong desire to leverage them even further in the future. Smartphone penetration remains low, but as it grows, smartphone owners' expectations for multichannel capability will increasingly become the norm across all consumers.

- **Social commerce is a distraction for retailers and brands.** Consumers show little interest in connecting and transacting with companies within social networks today. While social commerce results for some companies today are promising, for a majority of companies, prioritizing social over mobile may be a misstep. Companies must monitor trends in social commerce closely and continue to experiment as new interactions evolve with the advent of location-based mobile/social tools; while social commerce today has little clear ROI, this may change over time or present opportunities in specific cases like private sales, product previews, special offers, clearance events, and unique social marketing events.

A New Phase Of Commerce, Led By A Changing Consumer

"Multichannel" will not work as a construct for customer experience moving forward. It is time to retire channel-centric thinking altogether and move to a new framework that reflects the growing importance of a diverse set of consumer touchpoints, including traditional channels such as the store, the website, and call center as well as emerging touchpoints like mobile, social, web search, tablets, and even interactive TV or game consoles. Forrester calls this agile commerce.[1]

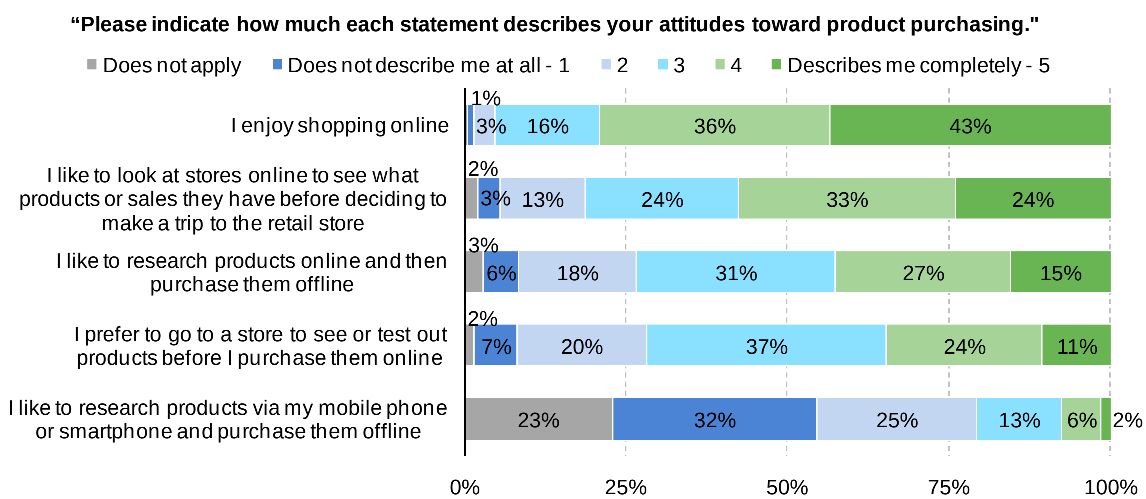
> *Agile commerce is an approach to commerce that enables businesses to optimize their people, processes, and technology to serve customers across all touchpoints.*

This new phase of commerce is brought about by rapidly changing consumers. The individuals are the same, but they are now embracing and using technology and information as never before. North American and European consumers use multiple touchpoints actively and in combination. Smartphone owners in particular have increased expectations for multichannel retail experiences. Our research found that:

- **Consumers across all age groups are now multitouchpoint shoppers.** Consumers love shopping online and use the Web to research for both online and offline purchases (see Figure 1), but when asked where they purchase a favorite brand, all age groups were equally likely to say online as offline. Search engines dominate as online shopping starting points, but in the end, consumers use a variety of tools to complete their research and decision-making, including stores. In fact, 45% of consumers surveyed reported using a physical store as a resource when researching products they inevitably buy online. The consumers' starting point is one of many influential touchpoints required to convert them from shoppers to buyers to loyal customers, and all touchpoints play a role in supporting their research, purchase, and service needs.

Figure 1

Consumers Leverage Many Channels When Researching And Buying Products



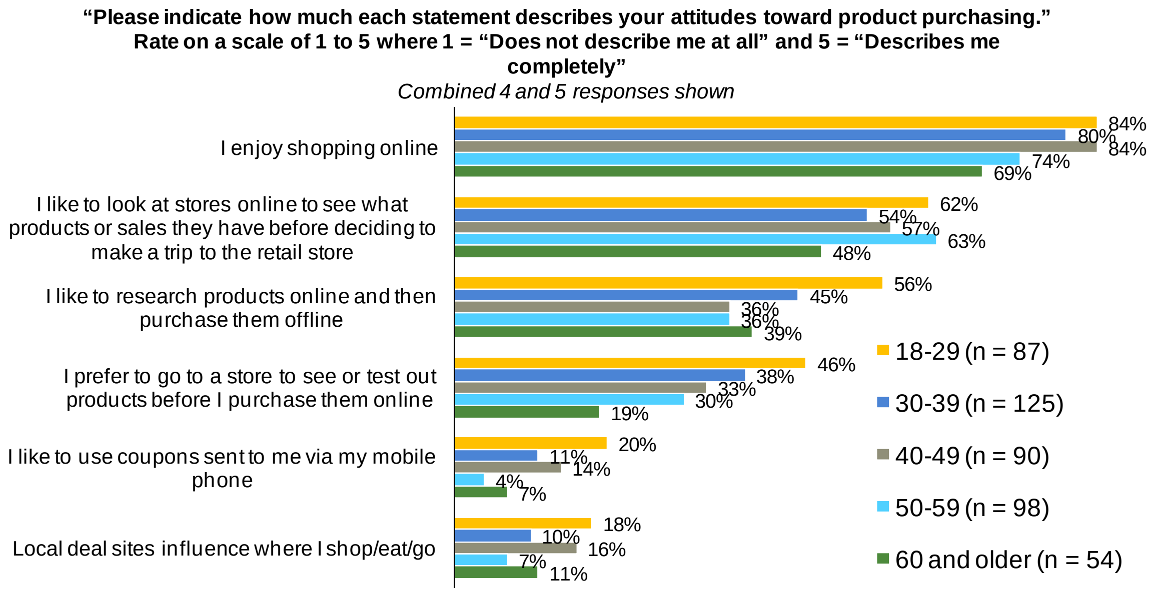
Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **The younger generation is growing up with touchpoints, and smartphone ownership increases expectations.** Younger online consumers are most likely to be aware of and use cross-touchpoint functionality (see Figure 2). They also have the highest expectations of the experience. Smartphone owners also tend to have higher expectations of cross-touchpoint experiences and have desire for further capability in the future (see Figure 3). As smartphone ownership increases over the next few years, the implications for brands and retailers will be profound. The emerging customer behaviors of using smartphones to look up product information, locate products, compare prices, and redeem offers will increase across a broader set of customers as will direct mobile commerce.

Figure 2

Multichannel Shopping Appeals To Consumers Across The Generational Spectrum But Especially The Young

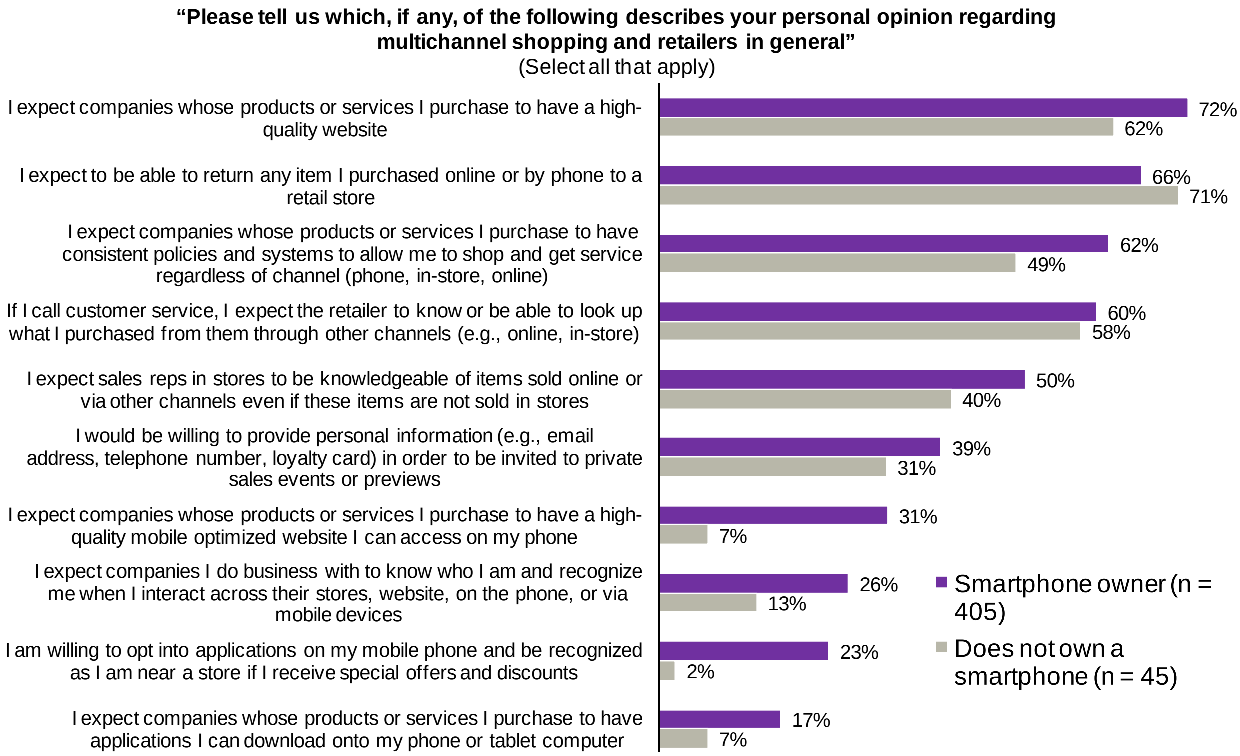


Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure 3

Smartphone Owners Have Higher Multichannel Expectations Than Nonsmartphone Owners



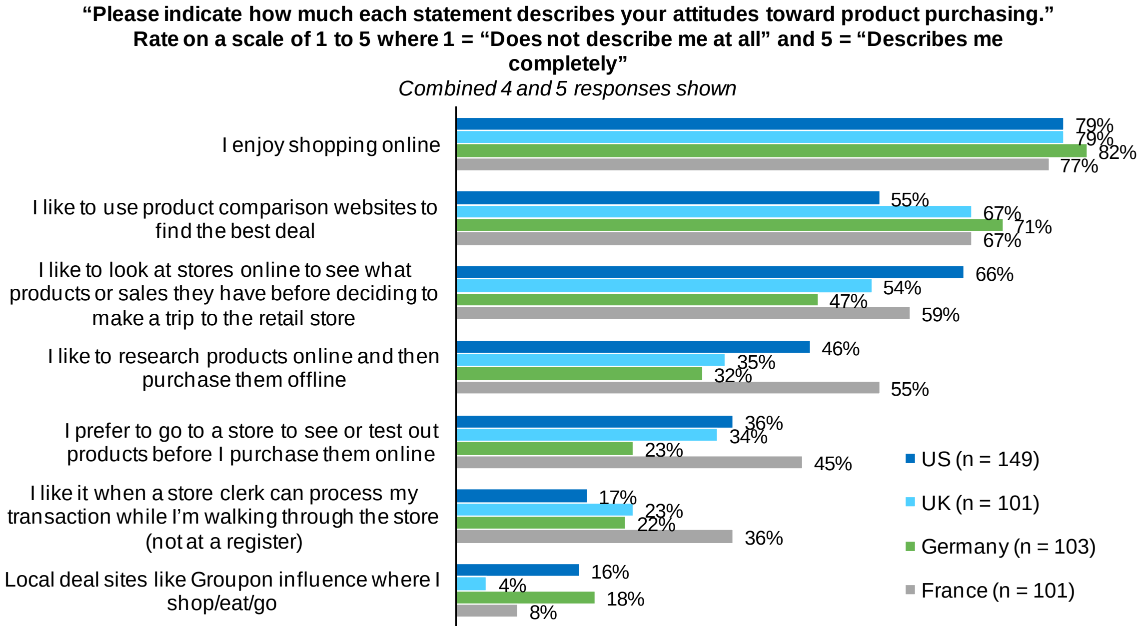
Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Geographical preferences in multitouchpoint shopping are important to acknowledge.** There is considerable consistency in cross-touchpoint shopping expectations across consumers in the US, UK, Germany, and France. However, there are also some subtle differences that are important to consider, for example, French consumers are more likely to rely on stores for transactions although they use the Web for research in large numbers (see Figure 4). German consumers are less likely to see benefit in in-store pickup and offline purchasing, largely due to the limited offerings of online retailers in Germany today. However, German consumers are more likely to use comparison-shopping sites and opt into deal sites than their peers in other countries. With widespread cross-touchpoint functionality offered by online retailers in their countries, UK and US consumers have the highest expectations for overall multichannel capability by retailers, above their German and French counterparts (see Figure 5).

Figure 4

Cultural Preferences In Multichannel Shopping Emerge, With French Consumers More Reliant On Stores

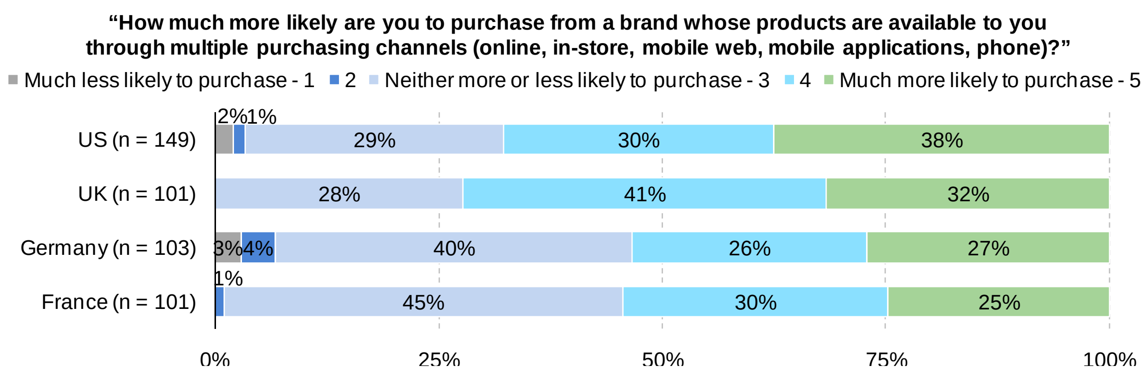


Base: multichannel consumers in each country

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure 5

US And UK Consumers Care Most About Whether Retailers Are Multichannel



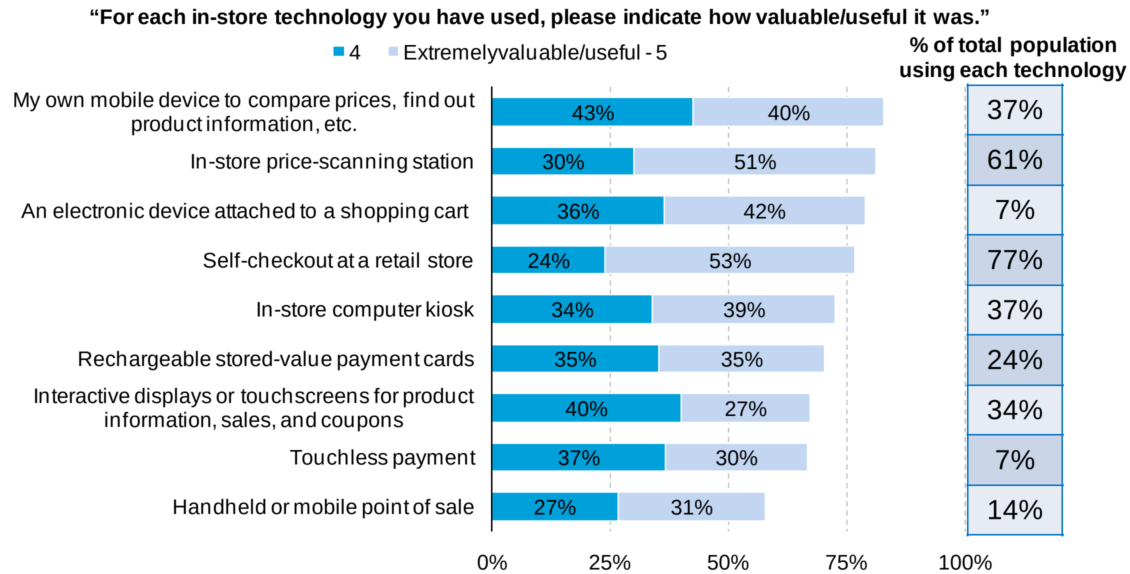
Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Consumers' own personal smartphones top their list of most valuable in-store technologies.** Consumers like in-store technology in general, finding much of it useful. However, consumers reported their own mobile devices as the most useful form of in-store technology (see Figure 6). Despite the relatively short time that consumers have used smartphones (34% of smartphone owners have owned one less than a year and 80% for less than three years), their presence in retail activities is clear (see Figure 7). As consumers get more comfortable with smartphones as shopping tools and more consumers own smartphones, retailers and brands will be profoundly affected whether or not they support these touchpoints.

Figure 6

Consumers' Own Mobile Devices Are The Most Important In-Store Technology

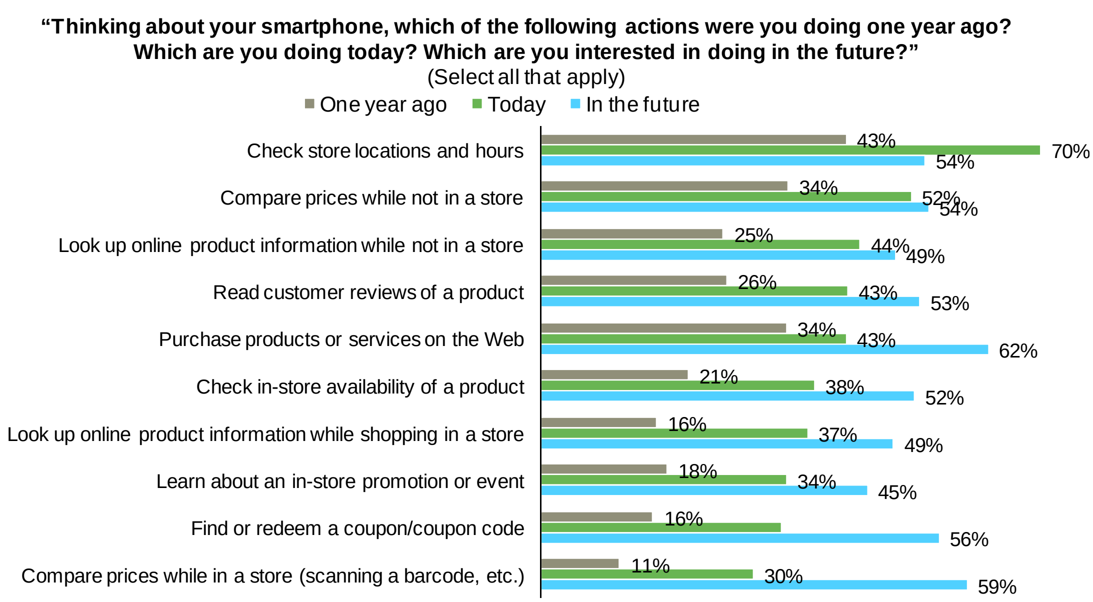


Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure 7

Customers Are Adopting Mobile As A Shopping Tool Quickly And Are Eager To Use It More



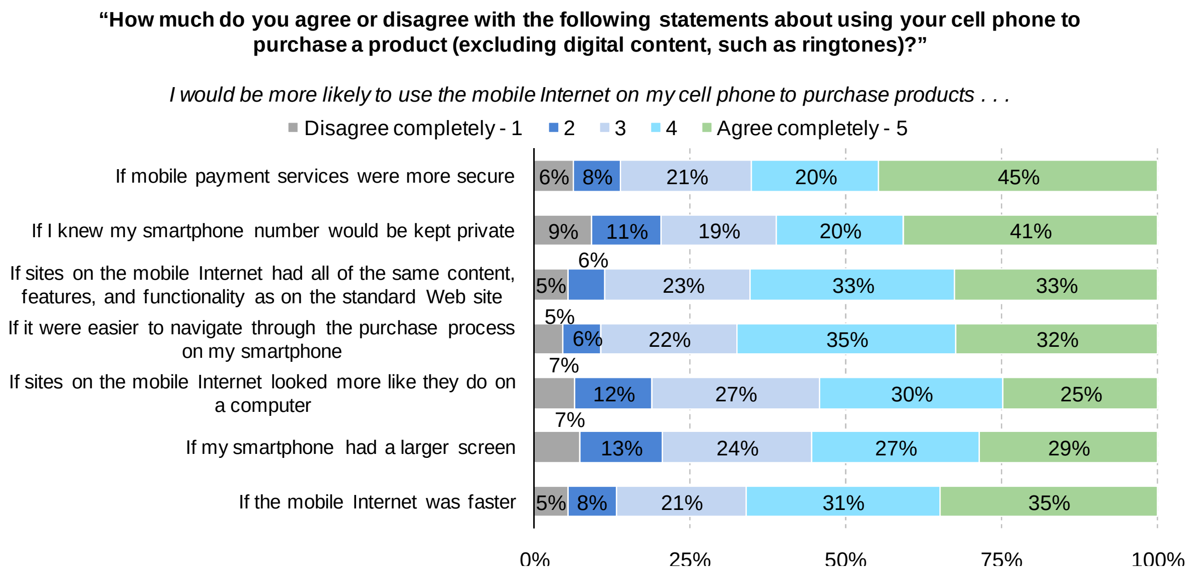
Base: 409 North American and European multichannel consumers who own smartphones

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Perceived security and privacy issues, download speed, and usability are holding back mobile commerce.** Much like the early days of web-based eCommerce, consumers are concerned about the security and privacy of mobile shopping (see Figure 8). Many of these concerns may be perceived, not necessarily based in direct experience but rather in the unfamiliar nature of mobile commerce, and may be reinforced by media and other sources. As consumers become more comfortable with mobile commerce, as payment methods evolve, and as retailers become better at messaging security and privacy features and policies, consumers may feel more comfortable. Consumers also tell us they are challenged by the usability of mobile sites and apps and desire better download and interaction speeds as well. The design of mobile experiences — be they mobile web-based or apps — must be informed by all of these concerns.

Figure 8

Speed, Perceived Security Issues, And Usability Remain Barriers To Mobile Commerce Growth



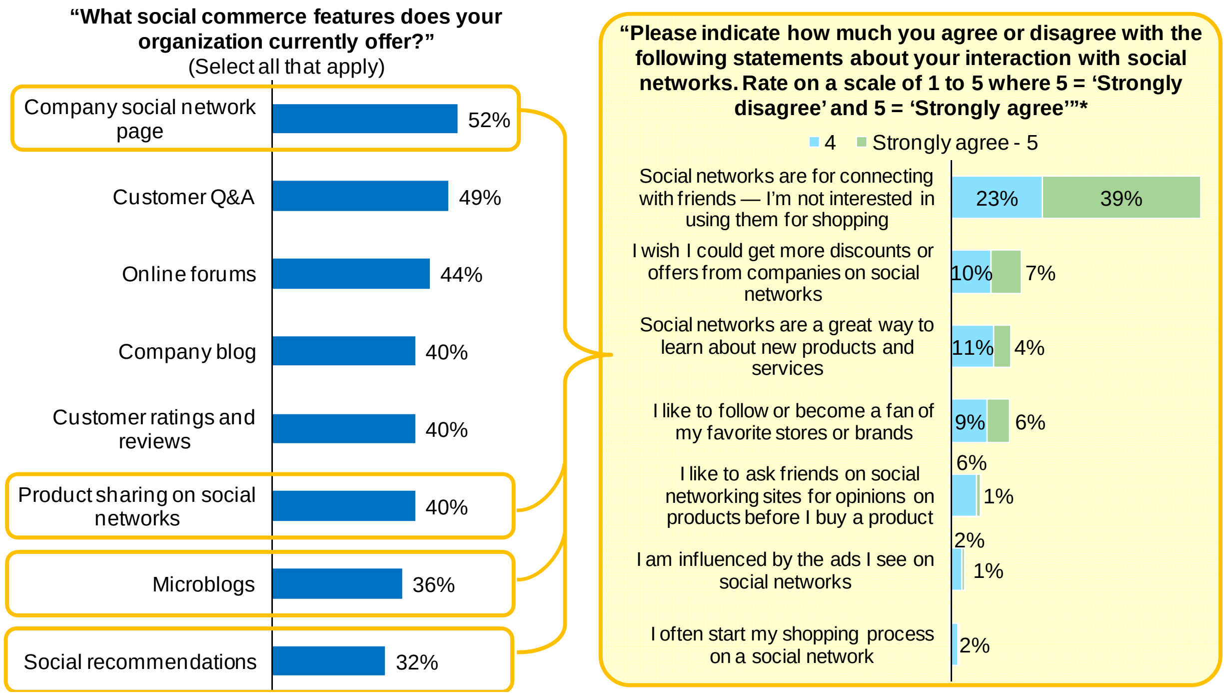
Base: 409 North American and European multichannel consumers who own smartphones

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Social schmocial, consumers are lukewarm on social commerce.** Social networking has become a part of everyday life for many consumers. But consumers see social networking sites and tools as important for connecting with friends (see Figure 9), and few see value in engaging with companies within the social networking sites. While social is an interesting new touchpoint for retailers and brands, consumers' lukewarm interest in social networks as a source of shopping information or as a place to buy mean that its priority for retailers and brands pales in comparison to other priorities, such as mobile. Companies should continue to experiment and observe social commerce trends as new sites, tools, and smartphone capabilities evolve consumer expectations and behaviors.

Figure 9

Despite Retailers' Prioritization, Most Consumers Are Lukewarm On Social Commerce



Base: 192 global multichannel retailers
*Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Multichannel Retailers Have Progressed But Must React Faster

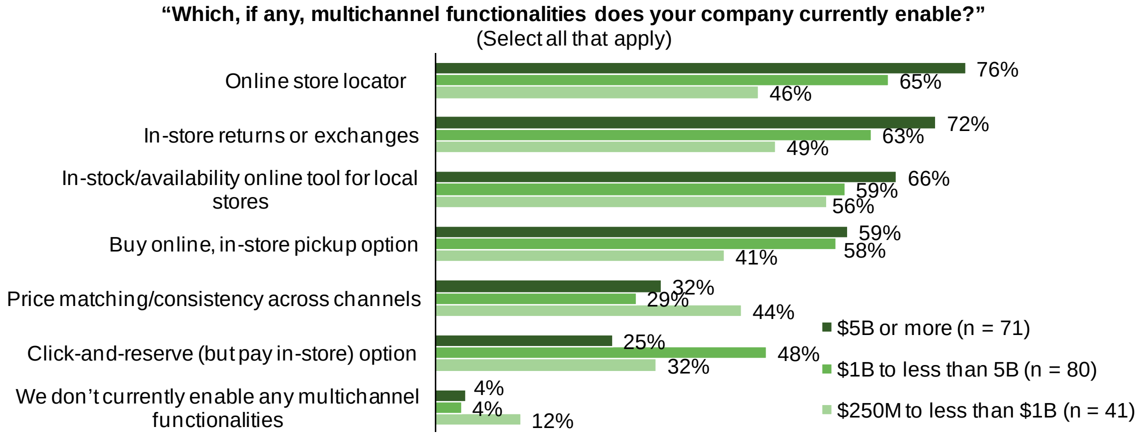
Many retailers have added multichannel ordering features to their websites or worked to improve the in-store return experience. They have added features such as ship-to-store from their websites. They have added visibility to in-store inventory from the website. They have added store locators and integrated features into smartphones. Despite this progress, they are not yet ready to be agile commerce companies:

- **Retailers have progressed, but many issues persist.** Multichannel website functionality has become common among retailers of all sizes (see Figure 10). But despite this trend, the inhibitors to becoming a fully agile commerce retailer or brand remain. These include channel-centric business models, legacy technology infrastructure, and corporate policies that prevent optimal cross-touchpoint customer experiences (see Figure 11). And for retailers or brands who have implemented cross-touchpoint capabilities, few are promoting these offerings to the consumer.

"Our [multichannel] capabilities are more about the image — what's presented on the site around branding, etc., than the actual capabilities. I believe multichannel customers are worth more, but strategically this fact isn't yet reflected." (Global web manager, large luxury retailer)

Figure 10

Multichannel Website Functionality Is Now Mainstream Among Retailers

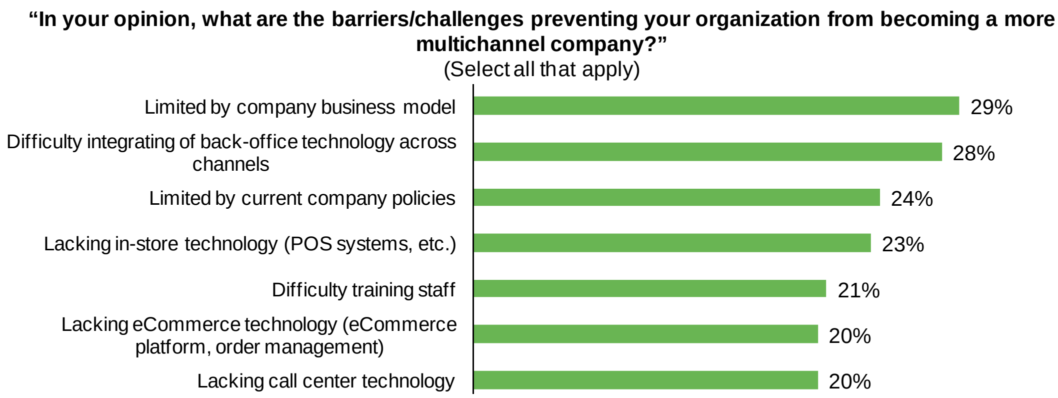


Base: global multichannel retailers of each size

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure 11

Hurdles To Multichannel Retail Remain Many And Varied



Base: 192 North American and European multichannel retailers

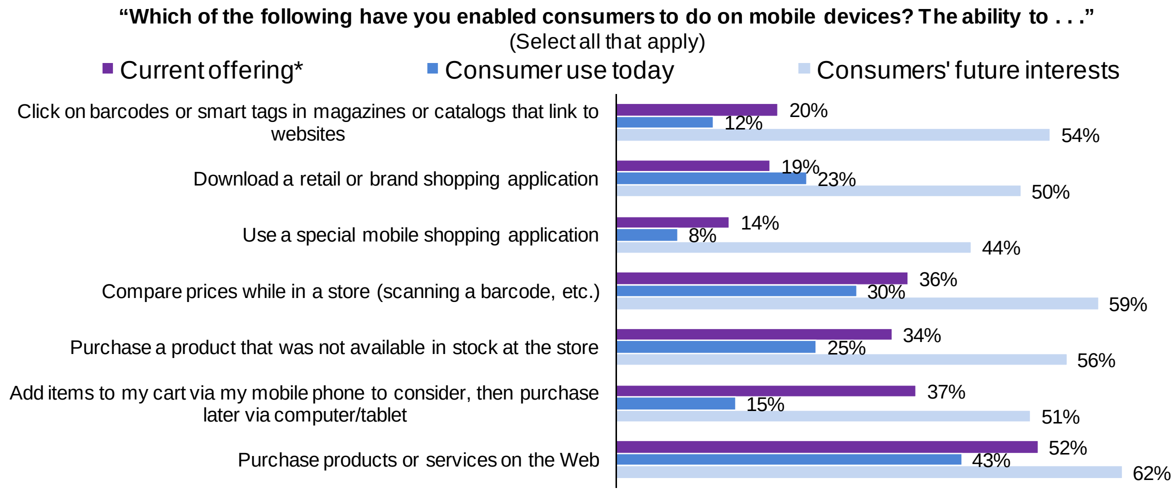
Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Majority of retailers' mobile commerce experiences does not yet meet consumer expectations.** Despite this, it hasn't stopped consumers from using these devices to inform their purchase decisions across touchpoints. As mentioned previously, smartphone owners are new to the medium — and new ownership is driven by the desire for ubiquitous web access, access to email, and convenience. Women in particular are excited by how to use smartphones for mobile commerce, enjoying apps to a greater degree than men. There's no question that retailers are beginning to invest heavily in mobile, but compared to consumer desires, they are still falling short in many areas (see Figure 12).

"Social is getting as much attention as mobile for us. We are just strategically going forward under the assumption they will be important, so we want to keep them going at an even pace." (Group vice president, customer centricity and strategy, large national department store)

Figure 12

Retailers Fall Short Of Many Consumers' Mobile Desires



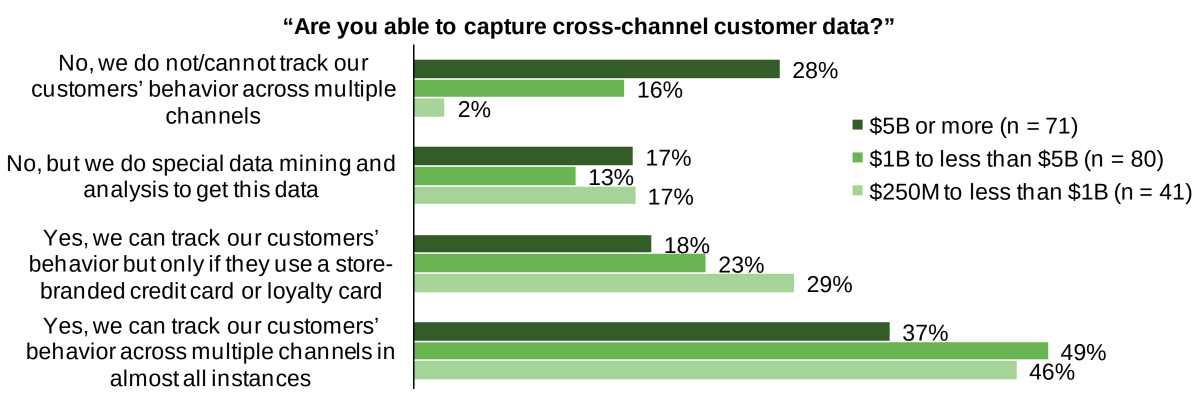
Base: 409 North American and European multichannel consumers who own smartphones
*Base: 118 global multichannel retailers who have enabled some kind of mobile application or website

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Surprisingly, smaller retailers outpace their larger competitors in attributing cross-touchpoint business and capturing critical customer data.** Despite smaller investment levels and resources to draw upon, smaller retailers are out ahead of larger retailers on key success factors for agile commerce, including cross-channel sales attribution and capturing cross-channel customer sales and channel data. This capability is critical to enabling companies to progress past channel-centric business practices to one that enables multiple touchpoints in an agile commerce context. Multitouchpoint business intelligence and marketing capability will be critical in delivering relevant, personalized, contextual capabilities to the consumer in the future.

Figure 13

Smaller Organizations Are Doing More To Track Customer Data Across Channels



Base: 192 global multichannel retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **The pace of agile commerce technology adoption has quickened and will continue to accelerate.** Retailers have deployed a wide variety of agile commerce capabilities to streamline purchases and service of consumers regardless of touchpoint. At the largest companies, the mandate has come from the highest levels of the organization, indicating that agile commerce is now top of mind for senior executives. However, executives with responsibility for multiple touchpoints, for example, the website, online marketing, mobile commerce, and social commerce, must work diligently to help their senior management and technology organizations understand that to become agile, they need a stable, robust, secure platform ecosystem that can be exposed through services and tools to enable touchpoints to be developed and optimized quickly.

"Ten percent [of our customers] are both in-store and online, and they are 4x to 6x more valuable than the average customer. Things like in-store returns are table stakes now." (Group vice president, customer centricity and strategy, large national department store)

- **Organizations continue to focus on collaboration as a tool to enable agile commerce, but is that enough?** The organizational structure at many US multichannel retailers is oriented toward enabling collaboration among channel owners, yet as retailers are falling short in many areas like cross-channel attribution and customer data collection, it is difficult to move beyond cooperation and communication to enabling the emerging expectations of consumers. In the US, eCommerce is likely to be more closely connected with other channels. By contrast, in the UK and even more so in Germany, eCommerce is a highly distinct division within the company, preventing effective cross-touchpoint customer experience. Interestingly, in Europe, close to half (44%) of all eCommerce divisions report to the CEO, while in the US that figure is just 17%, perhaps reflecting a maturation of eCommerce as one of many consumer-facing touchpoints that must be closely operated together.

"When I go to the store they still see us as the enemy. One of my jobs is to break down those walls. Right now, the store channel is really store-focused. If eCommerce doesn't push it [multichannel], no one else in the organization will." (SVP eCommerce, regional department store)

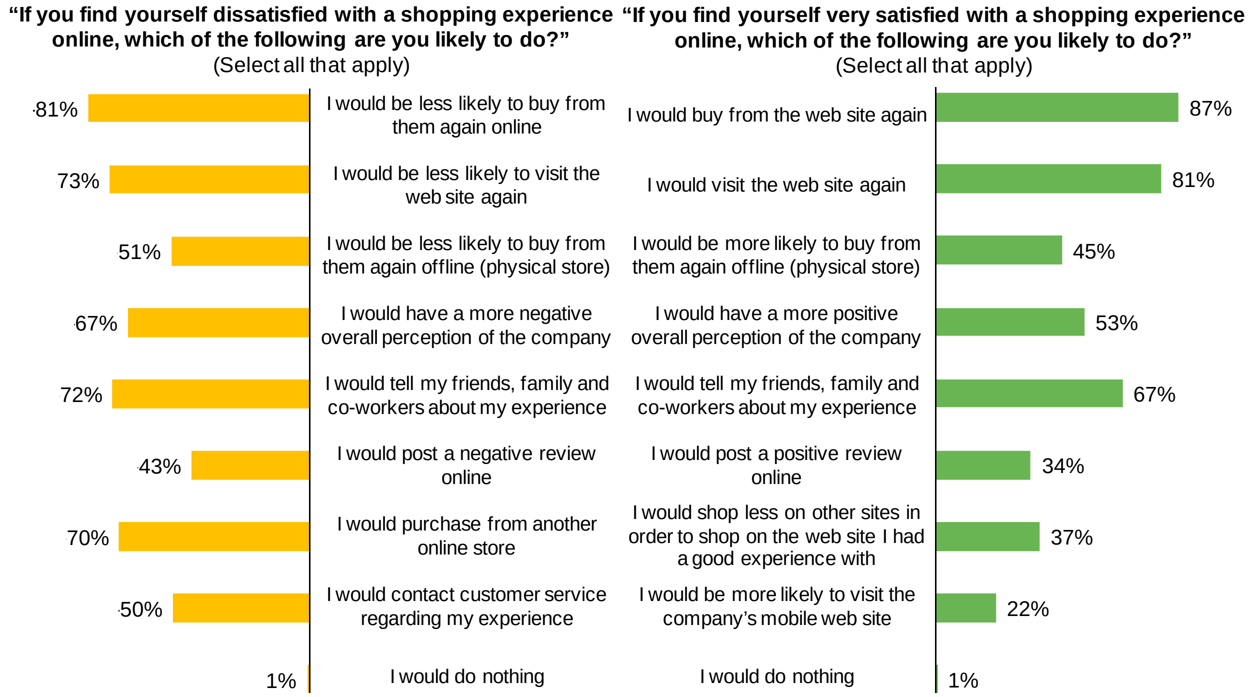
Retailers Must Recognize That Getting It Wrong Has A Profound Impact

While consumer expectations of multichannel interactions increase and it is difficult to keep up with an empowered, connected consumer, brands and retailers must recognize that the impacts of delivering a sub-par experience are far-reaching. Retailers need to recognize that today; if you get it wrong at one touchpoint, the consumers' negative experience will impact their perceptions of you across all touchpoints. This is a significant finding. The fact that the impact of a bad experience crosses all touchpoints, not just the one in which the experience occurred, raises the stakes on multichannel companies.

A retailer who delivers a sub-par online or mobile experience, for example, will see the impact of that experience reflected in how consumers view the company's other channels, e.g., stores or call centers. This poses a challenge as retailers and brands experiment with mobile commerce, social commerce, and other emerging touchpoints. As consumers see best-of-breed experiences and begin to engage, their expectations evolve quickly. And as consumers today share their experiences liberally within social media, the reach of their perceptions and conclusions the can lead to profound consequences for companies. Consumers today — and increasingly tomorrow — will shift their spending when they have an especially good or especially poor experience (see Figure 14), and that may well impact all the touchpoints offered by a company.

Figure 14

The Impact Of Positive And Negative Experiences Of Consumers Are Profound



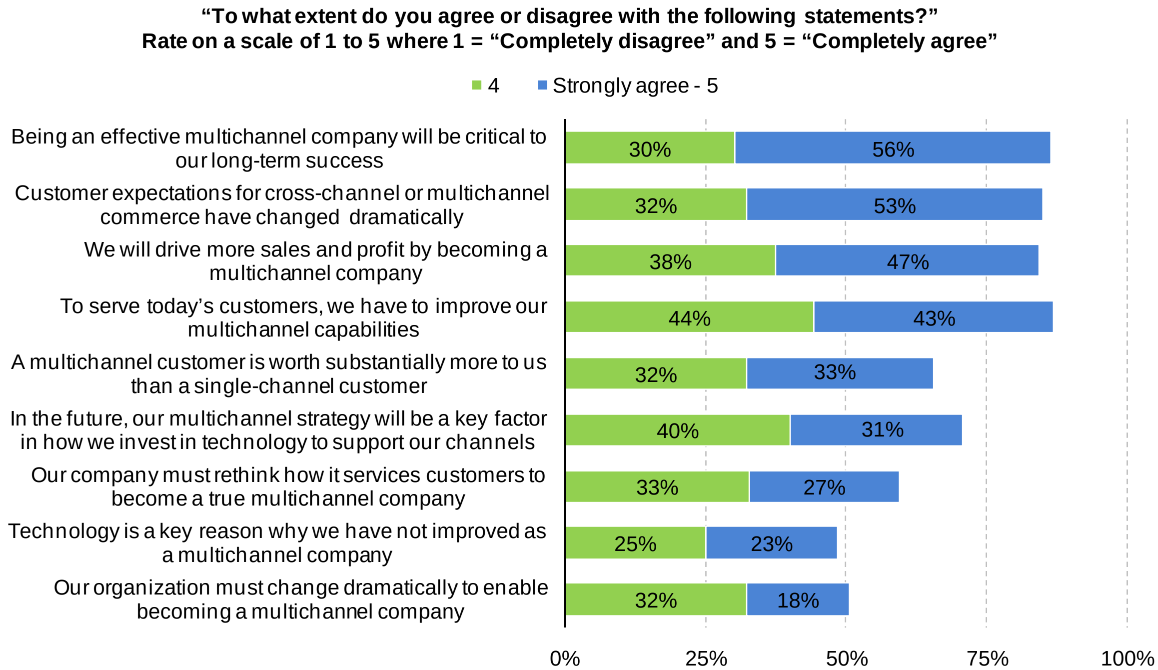
Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

- **Many retailers see multichannel retailing as critical, but only half of retailers see the need for substantial changes.** This gap raises concerns that retailers and brands may not be prioritizing their multichannel investments, organizational efforts, and mind-shift enough to meet consumer expectations, likely underestimating the potential impact of an inferior experience (see Figure 15). The lack of recognition of a need for change is particularly interesting given the benefits many retailers report that come from multichannel strategy (see Figure 16). Complacency in the need to evolve to agile commerce may reduce a company's competitiveness and ability to retain customers in the future, increasing acquisition costs and reducing profitability.

Figure 15

Retailers Think It's Essential To Be Multichannel, But Only Half See A Need For Substantial Changes

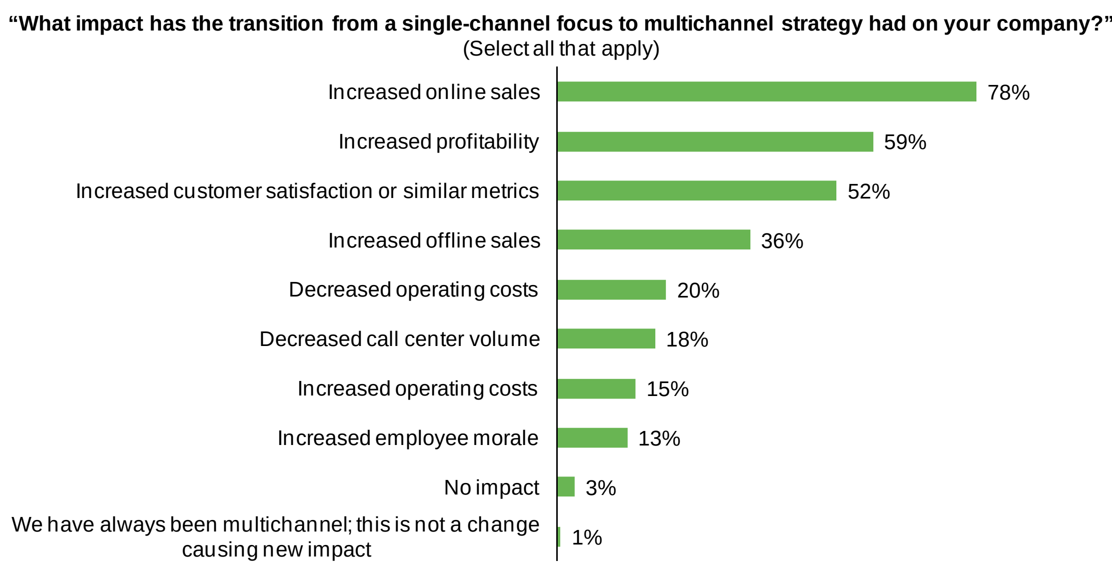


Base: 192 global multichannel retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure 16

The Results Speak For Themselves; Retailers Report Very Positive Business Results From Multichannel Strategy



Base: 192 global multichannel retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

KEY RECOMMENDATIONS — MOVING FROM CHANNEL-CENTRIC TO CONSUMER-CENTRIC COMMERCE

Retailers and brands must focus on improving processes, systems, and capabilities to meet changing consumer expectations. The stakes are increasing, and businesses that ignore this evolution will be negatively impacted as they move forward. Forrester's in-depth surveys with consumers and businesses and interviews with retail executives yielded several important observations, which represent key success factors for all retailers and brands:

- **Retailers need to move quickly to keep up with consumers' evolving cross-touchpoint expectations.** Consumers expect to interact with businesses now across touchpoints. They enjoy their smartphones, websites, and in-store technology, which facilitate research and shopping capabilities, and expect policies and capabilities, which enable them to research, shop, transact, and get service across touchpoints easily. Businesses must understand evolving consumer and design experiences supported with technology, which, for example, enables consumers to add items to a cart on their phone and access it on the website or in the store. Consumers expect personalized and relevant experiences when shopping or getting a service, which are contextual to their touchpoint and location. While businesses express an understanding of the importance and benefits of multichannel retail, they are not prioritizing the needed improvements in technology, operations, and marketing to become consumer-centric businesses.

- **The time to build a compelling mobile experience is now.** The behavior of smartphone owners is changing rapidly, and smartphone adoption is growing rapidly. These device owners are building habits and loyalty to mobile sites, so retailers and brands cannot wait to build mobile capability that delivers on consumer expectations and foresees their needs. Female smartphone owners in particular present a group that brands and retailers should consider developing apps for. Add to that the fact that poor mobile commerce experiences may now impact consumers' perceptions of retailers' and brands' other touchpoints or assortments. Retailers and brands should prioritize mobile commerce initiatives over social commerce initiatives at this point.

- **Retailers must work to ensure that matrixed organizational structures are supplemented by cross-channel attribution and incentives.** Channel conflict remains a key fundamental inhibitor that brands and retailers must work to resolve. This can be done by rewarding their staff for cross-channel revenue and improved customer experience metrics. Retailers must work actively to break down channel-centric thinking by implementing cross-channel functional teams, which combine customer experience design resources, marketing resources, touchpoint owners, and technology professionals that drive positive and differentiated cross-touchpoint consumer experiences.

- **Examine cultural expectations for cross-touchpoint capabilities carefully as you go global.** Retailers and brands operating in multiple countries across multiple touchpoints need to understand consumer expectations in each geography in which they plan to operate. For example, consumers in the UK and US have high expectations for cross-touchpoint ordering, while French consumers will be more likely to research online but then to convert in stores, and German consumers are least likely to see holistic cross-channel capabilities as important in deciding with whom they shop. However, as smartphone usage grows in all these countries, we can expect consumers' demands for holistic cross-channel experiences to grow in importance.

Appendix A: Methodology

In this study, Forrester Consulting conducted an online survey of 454 multichannel consumers and 192 multichannel retailers and conducted eight follow-up interviews with surveyed retailers across the US, UK, Germany, and France. The surveys and interviews intended to evaluate the evolution of multichannel shopping and consumer behavior as well as retailers' reactions and plans to improve the multichannel customer experience. Consumer survey participants included 149 US, 101 UK, 103 German, and 101 French adults who shop online and through at least one other channel. Retailer survey and interview respondents included 102 US, 40 UK, 31 German, and 19 French decision-makers responsible for the strategy of their online channel at retail organizations selling through multiple channels, with $250 million or more in annual revenue and $5 million or more in online revenues. The study began in December 2010 and was completed in February 2011.

Appendix B: Supplemental Material

Related Forrester Research

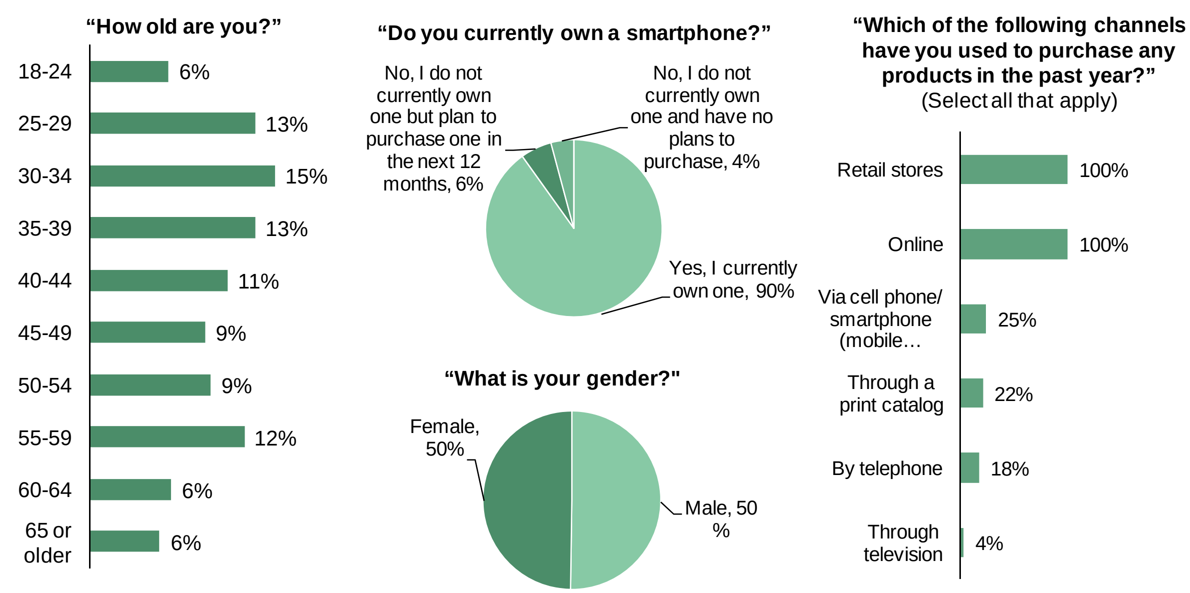
"Welcome To The Era Of Agile Commerce," Forrester Research, Inc., March 11, 2011

"What Every Exec Needs To Know About The Future of eCommerce Technology," Forrester Research, Inc., August 27, 2010

Appendix C: Demographics/Data

Figure C1

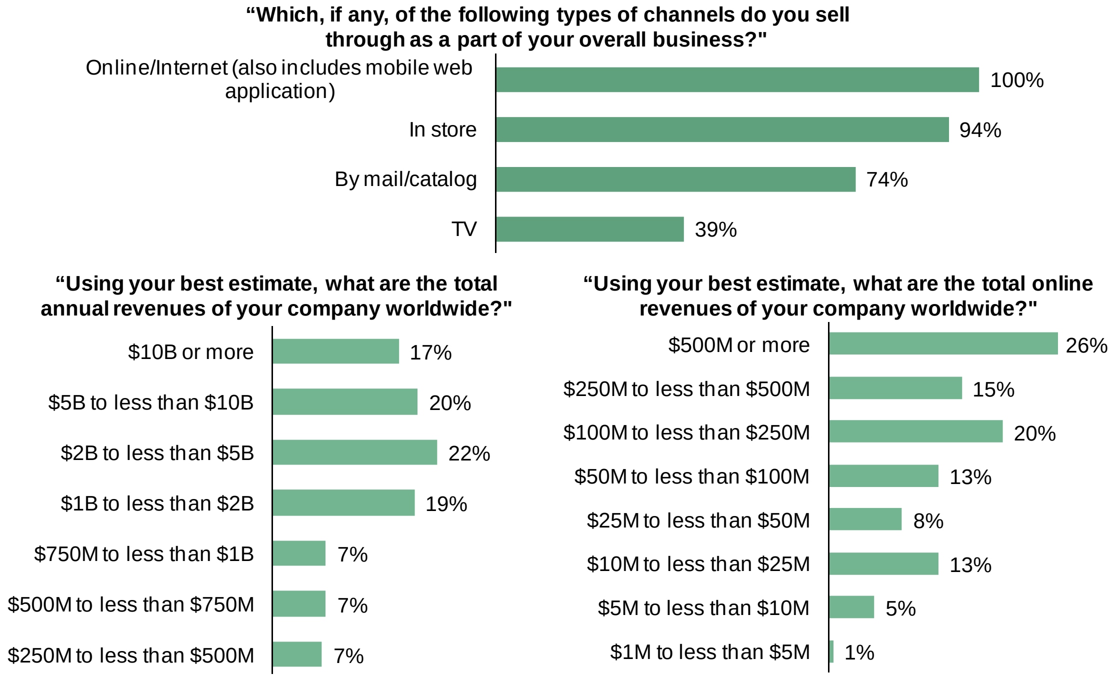
Consumer Demographics



Base: 454 global multichannel consumers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Figure C2
Multichannel Retailer Demographics



Base: 192 North American and European multichannel retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of Demandware, Q1 2011

Endnotes

[1] For more on agile commerce, see "Welcome To The Era Of Agile Commerce," Forrester Research, Inc., March 11, 2011.