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IPSOS VIEWS

The evolution of shopper behaviour

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GAME CHANGERS

Continued developments in digital technology and advances in e-commerce mean that the way we shop for products and services is also evolving. Technology has created a digital retail landscape that is unrestricted by geography and the normal dynamics of bricks and mortar stores. Physical stores are also changing as they not only integrate technology in-store but better connect with the digital world to increasingly deliver a seamless omnichannel offering. As a result, we need to understand these changes and their implications when planning go-to-market strategies or optimising shopping marketing programmes.

In this white paper we will look at five changes we're experiencing, look at why it's happening and reflect on how Ipsos is adapting to the situation in five distinct sections:

1. Increasing **complexity of choice** promotes shortcuts in decision making
2. **Pre-store preferences** are a huge factor shaping purchases
3. The digital revolution is reinventing shopper **behaviour**
4. New disruptive **e-commerce** models evolve everyday
5. **Omnichannel** brings together the physical and digital worlds

1. Increasing complexity of choice promotes shortcuts in decision making

Complexity of choice is an issue for shoppers buying everyday products. Continuous, iterative innovation and the proliferation of line extensions mean that most categories have become very fragmented. Trying to consider all options is a cognitive task that our brains simply cannot handle. Therefore, we use visual shortcuts to selectively focus on what is most important and filter out irrelevant information[1]. The brain has to eliminate unwanted stimuli to cope with the complexity of the surrounding environment. This is why shopping (both in store and online) is really about "de-selection". This is arguably getting more acute with increasing expectations of convenience and dwindling attention span.

Technology can of course help us make quicker decisions and we are seeing increasing adoption of Artificial Intelligence (AI), chat bots and voice activation*.

****For more on this topic, read our white paper "How food shopping habits are being transformed by tech". Likewise, retailers can aid shoppers through increased curation of ranges and more intuitive navigation both at physical fixtures and online.***

2. Pre-store preferences are a huge factor shaping purchases

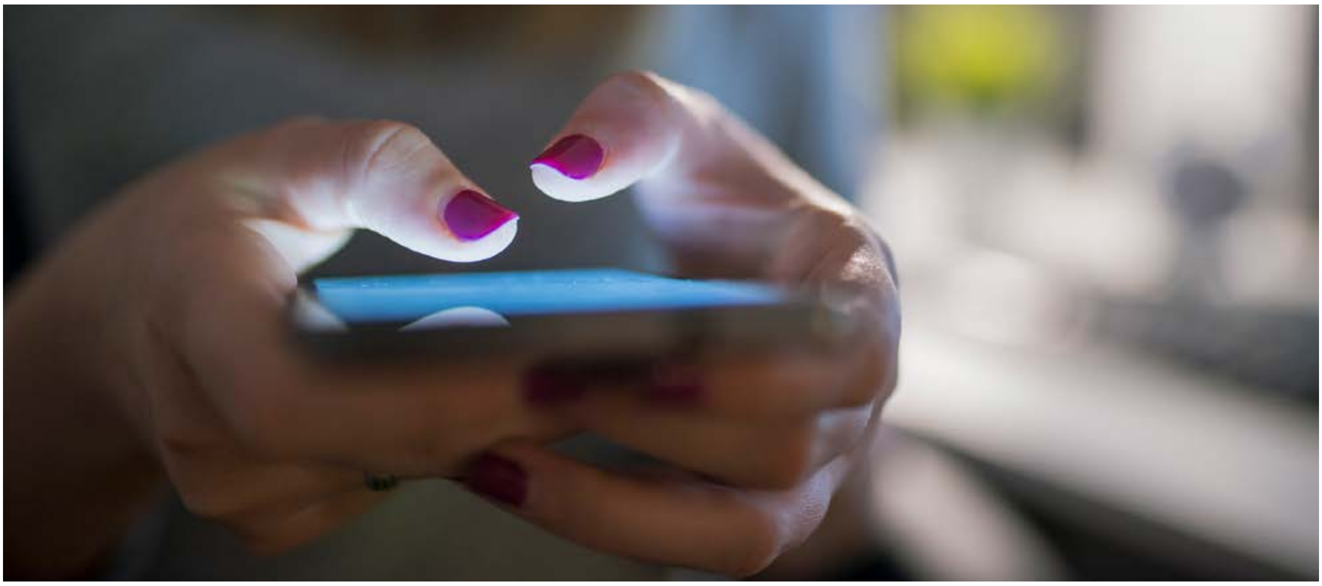
We are seeing through our LIFE Path research at Ipsos that a high percentage of brand decisions are being made pre-store, particularly for the things that we buy very frequently. Increasingly, complexity in-store certainly plays a role but so does the cumulative impact of brand touchpoints and of course product experience that drives repeat purchasing. Even for a category like confectionery, which may be traditionally thought of as a strong impulse category, we see that existing brand preferences are stronger than any influences encountered during purchasing; this means that brand building and saliency are critical in driving consideration and preference.

“A high percentage of brand decisions are being made pre-store, particularly for the things that we buy very frequently.”

3. The digital revolution is reinventing shopper behaviour

Through our smartphones and tablets we have a wealth of information at our fingertips including reviews, comparative pricing, product features. We have the power to influence others through what we post on social media and of course through ratings and reviews, resulting in access to immediate and tangible information on products.

This digital eco-system helps us to make more informed and rational decisions about the product choices that we make. We are also influenced by increasingly sophisticated and more targeted digital advertising. Digital goes beyond what we read on a screen. The rise of AI-powered digital assistants and voice-activated systems like Amazon Echo show a trend where we rely on these tools to help us make the right decisions. Arguably our decisions are at risk of being led by AI and the algorithms that drive them.



4. New disruptive e-commerce models evolve every day

E-commerce continues to grow at a global level. Today e-commerce represents around 9% of total retail sales globally (averaged across all categories and markets), though is set to nearly double in the next five years. E-commerce is particularly strong in markets such as China (24%)[2] and the UK (16%)[3]. However, e-commerce is not about simply buying the same products through a different channel. The digital environment reduces the "cost of entry" for new brands and so allows new players to emerge and create even greater choice. E-commerce also allows transactions to take place in very different ways and ultimately changes the way that we buy products.

> "We have the power to influence others through what we post on social media...

Here are a few of the many examples of disruptive e-commerce models:

Direct-to-consumer models

Direct to consumer models offer brands the opportunity to communicate directly and own relationships with shoppers. Dollar Shave Club is probably the most famous and one of the most successful direct to consumer e-commerce models. Founded in 2012 by a first-time entrepreneur Michael Dubin, it took on the male shaving category dominated by Gillette (at the time 72% of the market). The proposition was high quality razors at a fraction of the price delivered to your home on a subscription basis. The genius was making it feel less like a shaving supply company and more like a full scale men's club, driven by creative online advertising that went viral. Dollar Shave Club gained massive market share and in 2016 Unilever paid $1bn for the company. Today, Dollar Shave Club has revolutionised how many men buy their shaving products, spawning a multitude of copycat models including one from Gillette itself and (US) pharmacy chain CVS.

Amazon, success through critical mass and innovation

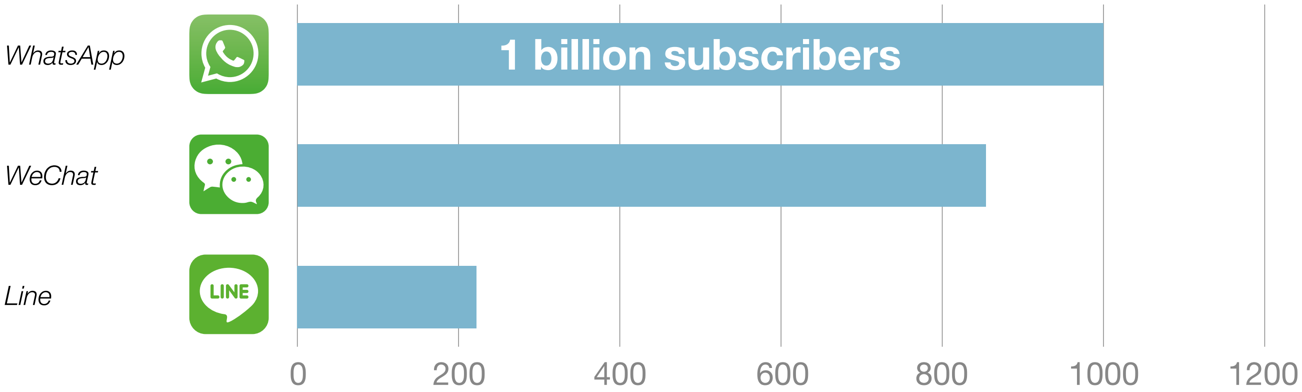
Amazon has become a dominant force in online retailing by providing ultimate convenience and setting the new expectations regarding ease of ordering and speed of delivery. In the US, Amazon now has more than 80 million Prime subscribers and data shows that these shoppers spend on average $1,400 a year vs $800 for non-Prime subscribers[2]. Amazon was also first to develop "automated replenishment" through the launch of Dash buttons – providing instant re-ordering for frequently used everyday brands.

Amazon has subsequently moved into Zero UI (user interface) shopping with the Amazon Echo allowing voice activated shopping. Adoption of Echo has been impressive; according to US PR consultancy, Walker Sands, 24% of US consumers now own a voice-activated device with another 20% planning on purchasing one in 2018. Amazon Echo was the best-selling product on Amazon Prime Day. This all being said, Amazon has recognised that being a pure play won't deliver the results it needs, especially in fresh groceries. Their acquisition of Whole Foods is a clear indication of the need to develop an omnichannel offering that blends physical stores with online convenience.

E-commerce services

A whole service economy has grown around technology that can link those who want something with those who are prepared to deliver. Companies like GO-JEK in Indonesia and Rappi in Latin America are great examples. Those using the app can get products purchased and delivered on demand. Rappi's business model is to get FMCG companies to pay for prominent placement (the app is organised by product not by stores) and placement accounts for 55% of Rappi revenue. But people also use Rappi for many other services such as moped drivers delivering cash rather than users having to venture out to cash machines themselves.

Global penetration of messaging apps (active users - millions)



Source: Statista 2017

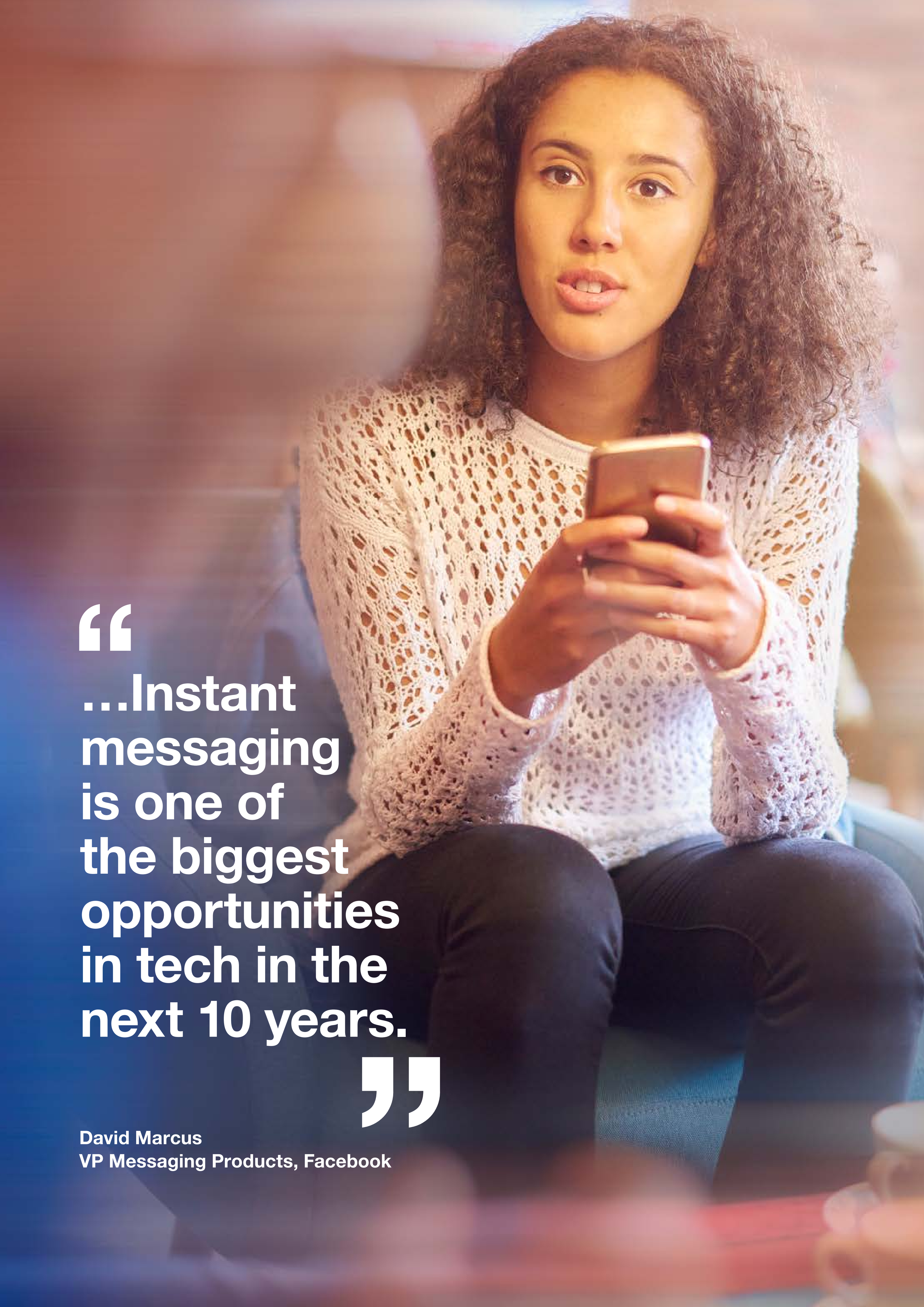
Chat-commerce

The growth of chat platforms has provided brands with an opportunity to generate digital impulse purchase opportunities. Platforms such as WeChat (China) and Line in Asia are most advanced with this. Beyond messaging, WeChat offers shopping, music streaming, taxi booking, cinema tickets, – all with integrated payments. A massive 95% of luxury brands are present on WeChat and Line has even experimented with grocery deliveries through targeted weekly offers. The power of chat platforms is of course their sheer scale - WeChat has over 800 million users in China. While this is largely an Asian phenomenon, WhatsApp, the world's biggest messaging platform with over 1 billion subscribers, is moving towards integrating e-commerce opportunities for brands.

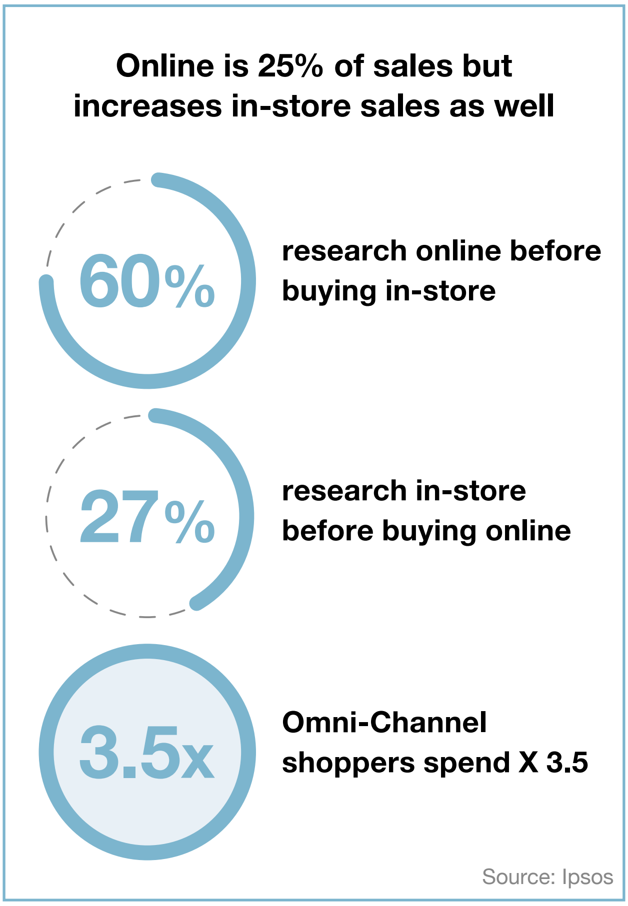
The feasibility of chat becoming popular between businesses and consumers took a massive step forward in 2016 when Facebook decided to allow retailers to create chatbots using its Messenger platform. This meant that customers didn't need to download and install a new retailer specific app – it meant just inviting a bot to a Facebook conversation and then interacting with it.

By doing so, this mechanism overcame a growing obstacle, in as much as nearly 50% of smartphone users were no longer downloading new retail apps. According to Facebook, after Sephora, the beauty products retailer, launched its appointment schedule service via Messenger, its in-store makeover bookings increased by 11%.

Other platforms are following suit. In June 2017, Apple announced plans to launch Apple Business Chat. WhatsApp will soon be testing its business exchange features too.


"…Instant messaging is one of the biggest opportunities in tech in the next 10 years."
David Marcus
VP Messaging Products, Facebook

5. Omnichannel brings together the physical and digital worlds

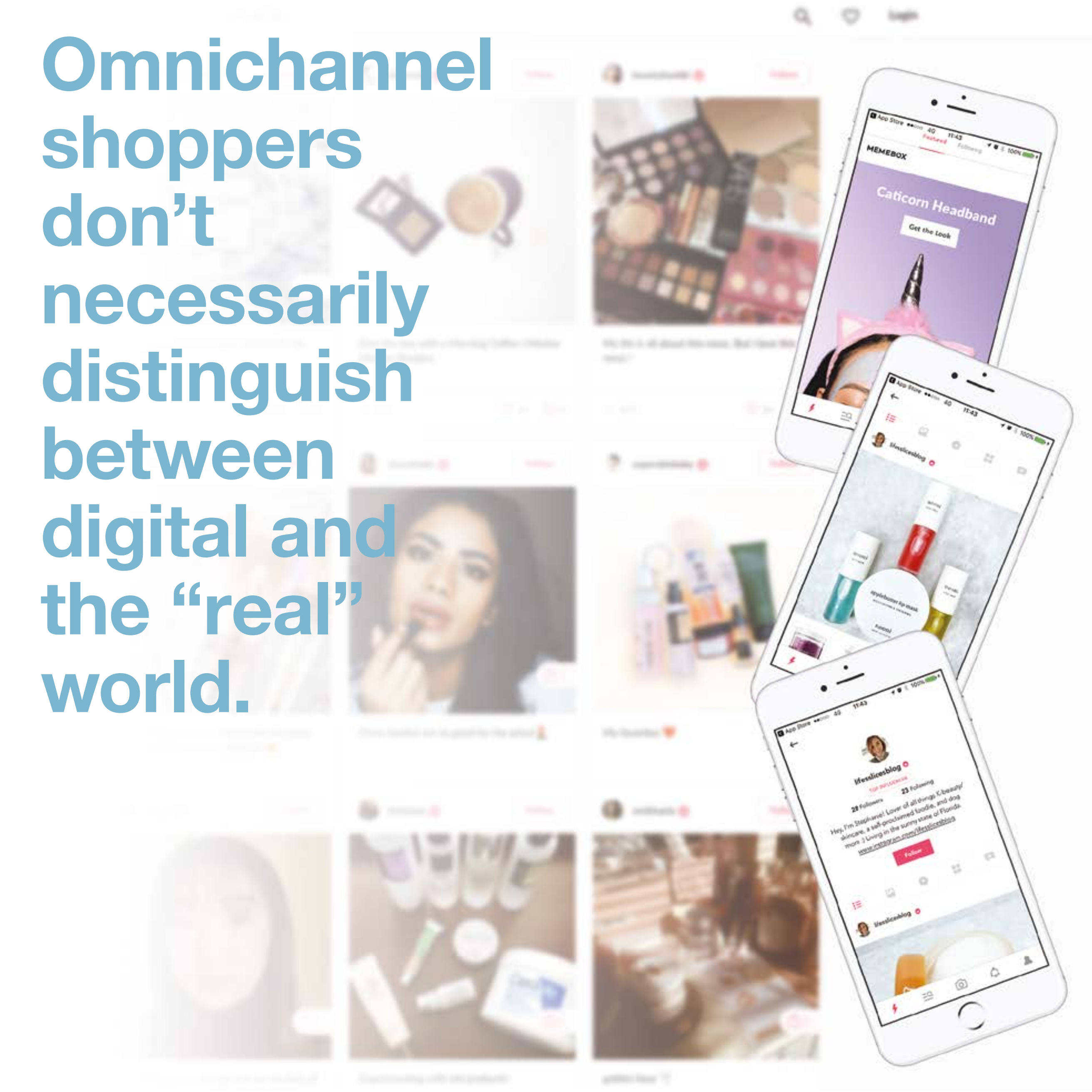


True omnichannel retailing means we can buy online, on mobile or in-store and choose to collect or have these items delivered to us or at a location that's convenient to us. It also means we can manage returns through multiple channels. Omnichannel therefore provides ultimate convenience and reduces barriers to purchase. Physical locations allow us to view, touch, try and evaluate products (an important factor in many categories) while digital channels provide access to inspiration, information and of course efficient remote purchasing. For true omnichannel businesses this potentially changes the role of the physical store, which can be become smaller as they don't need to stock all products and can focus on delivering more of an experience.

A great example of this integration is John Lewis in the UK. A quarter of their transactions now take place online, but this has not been at the expense of sales through physical stores. Indeed, giving shoppers a seamless omnichannel experience promotes spending. John Lewis has found that omnichannel shoppers spend 3.5 times more than those shopping through only a single channel.

Many pure online players have also realised the importance of the interplay between the physical and digital world. Memebox is a Korean beauty company, that started as a pure online player selling curated beauty boxes from major Korean brands, but has since expanded to provide own label products. Eighty percent of sales are on mobile but they've now started to open physical stores where shoppers can experiment with new products.

Omnichannel shoppers don’t necessarily distinguish between digital and the “real” world.



Our research points to the following:

1. **Increasing complexity of choice promotes short cuts in decision making**

   Brands need to connect with shoppers in the moments that matter most, be that focusing on targeted digital marketing or ensuring optimal visibility in-store. Retailers need to think about assortment and how to make product selection as intuitive and fluid as possible.

2. **Pre-store preferences are a huge factor shaping purchases**

   This means brands need to maintain mental saliency to be top of mind or at least in the (conscious/sub-conscious) consideration set.

3. **The digital revolution is reinventing shopper behaviour**

   Digital touchpoints can strongly reinforce or disrupt brand preferences so having the right digital presence and right messaging is important to influence decision making at the right moments.

4. **New disruptive e-commerce models evolve everyday**

   Brands need to consider new routes to markets and be available in new channels that offer greater convenience and quicker fulfilment.

5. **Omnichannel brings together the physical and digital worlds**

   Retailers increasingly need to offer seamless solutions; "fluidity" is becoming a new "currency" that can differentiate retailers.

Brands need to connect with shoppers in the moments that matter most.

All of these factors make the path to purchase more complex to understand given the multitude of touchpoints that brands can use, new channels and increasing choice. At Ipsos we help our clients navigate this evolving landscape and better understand shopper behaviour and motivations, by providing both a holistic view of the path to purchase (LIFE Path), the dynamics of online behaviour (Co-browsing & Webshop) as well as tactical research that informs activation both in-store and online.

References

[1] *Mechanisms of visual attention in the human cortex. Ungerleider 2000*

[2] *Statista.com 2017 (The statistics portal)*

[3] *UK Office of National Statistics (2017 estimate)*

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