Rise of the Individual Shopper

Changing the Paradigm from Serving Many Customers to Serving Each Shopper
Total Commerce

Shoppers are searching blogs and social networks for recommendations about products to buy. They are examining user reviews and accessing pricing and coupon engines to find the lowest prices. They are entering stores armed with more information than sales associates, and while there they are scanning products on shelves as if the store were a showroom.

During each of these actions the retailer has minimal ability to exert influence. Clearly, the center of gravity has shifted toward the shopper and retailers are scrambling to meet the challenge.

The path forward will not be the same for every retailer, but there is one certainty – success will be found by embracing the shopper’s Web-fueled, digitally powered and non-linear journey. It will take a total effort to engage shoppers in every channel, touchpoint and Web-based service.

This is a daunting task. Many old systems will need to be scrapped. Capital will need to be invested and innovations discovered. Organizations will need to be restructured, new competencies acquired, and agile enterprises created to aggressively adopt new services as fast as shoppers adopt them.

The task will require heavy lifting and some retailers will fall behind. Those that survive will listen closely and learn from customers, a mission embraced in this report, the fourth annual Shopper Experience Study. It is produced in partnership with Cognizant and a research team of leading analysts headed by Steven Skinner, vice president of Cognizant’s retail, hospitality and consumer goods practice. Key consultants and research analysts on the Cognizant team include Meena Patel and Greg Kameika.

The 2013 Shopper Experience Study examines responses from 2,500 shoppers in the United States and Canada. The hallmark of the study is to combine shopper-based insights with recommendations for retail strategies, a rare convergence not easily duplicated or even attempted in most other reports.

The full scope of the research includes many more findings than can fit into this document. For those who want to learn more about the vast scope of the study, which includes in-depth analysis in key global markets, contact me at jskorupa@edgellmail.com or visit the Cognizant website at www.cognizant.com.
By the Numbers

Twenty-five hundred shoppers were surveyed for this study in March 2013. Of these, 2,000 were in the United States and 500 in Canada.

One of the primary goals researchers had when designing the survey was to acquire a respondent pool that mirrors as closely as possible the buying power and influence of the major consumer categories: gender, age and household income. This effort required careful control over the composition of each group and strategic decisions about sizing.

For example, in terms of gender, the respondent pool consists of 70% women and 30% men. The deliberate over-weighting may not seem logical in other businesses, but to retailers it reflects the reality that women dominate purchase decisions either directly or indirectly.

In terms of age groups, the goal was to recognize the still-large influence of the Baby Boomers (46 to 64) while also allotting a significant segment to Gen Yers (18 to 32) not only for their buying power but also for their influence on purchases made by older groups.

Finally, for income breakouts the respondent pool reflects domination by two groups — $25,000 to $75,000 and $75,000 to $150,000. A small group of respondents, just 4%, did not want to share household income information.
Technology Is Cool, But Shoppers Want Service

THE GAP BETWEEN FIVE OVER-HYPED TRENDS AND ACTUAL SHOPPER PREFERENCES REVEALS IMPORTANT IMPLICATIONS FOR RETAILERS

BY STEVEN SKINNER

While many retailers are revamping their price-match policies and capabilities, there is no substitute for getting price right the first time. Our fourth Shopper Experience Study highlights retail’s major changes and its intriguing consistencies. The 21st century shopping process is becoming increasingly non-linear and digitally driven.

There’s no doubt that retailers are modernizing, responding throughout their enterprises to industry and consumer trends with an array of shopping and fulfillment options and the deployment of new technologies.

Yet shoppers also want the retail basics: Whether they shop in stores or online, the top influencers of purchase decisions are price and product selection. Out-of-stocks is their number-one in-store dislike, as it has been every year since we started the study.

Shoppers emphasize that more people and technology won’t close the customer service gap. Instead, they want more meaningful face-to-face interactions. Improved customer service skills top the list of improvements they’d like to see among store associates, as it has for the previous four years. When in-store shoppers have questions or complaints – about products, price or features — they prefer to talk to store employees rather than utilize self-service options. In short, customers still want to be served.

Use of the Internet to research purchases has gained steadily in importance, although shoppers are more likely to do their research on manufacturers’ or third-party websites rather than retailers’ sites. Surprisingly, the overall impact of smartphones and tablets has changed little in four years.

**MYTH-BUSTING: FIVE OVER-HYPED TRENDS**

As retailers have launched new initiatives, the results haven’t always been what the industry expected. The effects of some trends once predicted to bear important ramifications for retail remain muted. Rather than take retail by storm, they’re registering far more modest starts than anticipated.

**MYTH 1:** Mobile shopping is the wave of the future. Sure, shoppers, particularly Millennials (18 to 32), love to use mobile devices to find the nearest store, comparison shop and check prices. But when it comes to tapping the “checkout” button for online purchases, they prefer to use more traditional devices. Shoppers’ overwhelming first choice platform is a desktop or laptop computer in the home or office. They make less than 3% of annual purchases with mobile devices, a finding that’s consistent across segments by age, income and education.

**IMPLICATION FOR RETAILERS:** While a mobile presence is the cost of doing business today, retailers should select mobile sites’ features, functions, offers and product categories cautiously. Maintaining their investments in traditional online sites and the physical store is a must.

**MYTH 2:** Price matching is the answer to Amazon and showroaming. Time and again respondents note the importance of price in their purchase decisions. Indeed, by a factor of 3 to 1, shoppers in our survey ranked online pricing as their top reason for shopping in-store but purchasing online. Less clear, however, is what shoppers do when unsatisfied with store prices. Our research shows that more than half the time, shoppers exit stores and look elsewhere, whether in another brick-and-mortar store or online. Only 20% of shoppers request price matching. Electronics is the most requested category for price matching, and home furnishings the least requested.

**IMPLICATION FOR RETAILERS:** While many retailers are revamping their price-match policies and capabilities, there is no substitute for getting price right the first time and for ensuring it is consistent with customer expectations and brand image. Price matching does not save sales that are lost when shoppers walk out of stores without buying.
myth 3: Shoppers want more self-service tools. It’s true that online shoppers expect functionality and information. But when it comes to in-store shopping, customers’ consistent message for the past four years is that they want — and expect — service, not technology. They’ll use in-aisle scanners for price checks, but they often shy away from using kiosks to locate products. Personalized experiences rank well ahead of interactive ones. To shoppers, inefficient checkout is worse than no self-checkout. As an influencer of in-store purchase decisions, customer service closely follows price and selection. And when store shoppers need help, they are most likely to visit the customer service desk.

implIcAtIon For retAIlers: Retailers need to arm their sales associates with the same information customers have access to, but shoppers reiterate time and again that they favor better “soft” interpersonal skills from sales associates, not more technology.

myth 4: Social media’s impact on shopping is increasing. While there’s no denying the influence of social media, its role in the shopping experience remains far more measured than first predicted. Three years ago, retailers were rushing to set up Facebook stores and garner ‘likes.’ Today, most have shuttered their Facebook stores. Our survey respondents say social media is their least used source of information and the lowest influencer while shopping. Shoppers are more likely to want to discuss problems with live people or fill out surveys than they are to post comments on social media sites.

implIcAtIon For retAIlers: Social media provides an additional way to interact with customers, but it does not replace traditional communication methods. Retailers should focus their investments on social media customer outreach and social listening to discover broad patterns in customer behavior and use that knowledge to tune their core services and products.

myth 5: Cross-channel fulfillment is a key customer expectation. Many retailers have rolled out “order online/pick up in-store” capabilities and many others are making plans to. Yet our respondents indicate that seamless pricing and service are “must haves” that are often missing with this option. The majority express frustration with retailers that have not modified their policies and trained their employees to address seamless cross-channel fulfillment.

implIcAtIon For retAIlers: With all its moving parts and information needs, order online/pick up in-store is easy to get wrong and can result in disappointed customers. Given the substantial investment the service requires, retailers should address associate training, store policies and inventory processes to scale operations as well as supply chain efficiencies.

“Know thy customer” has long been the merchant’s mantra. But in today’s omnichannel, hyper-connected world, the adage applies to all parts of the organization. The Millennial generation is driving the evolution of a new shopping paradigm, but many segments of every retailer’s customer base place high value on the themes mentioned above. The challenge is first focusing on the themes that are most important to your most valued customers, and then bringing policies and processes into alignment across your customer touchpoints, and getting the details right.

Steven Skinner is vice president of Cognizant’s retail, hospitality and consumer goods practice.
The foundations of retail, upon which merchants have based their businesses for generations, have evaporated and been replaced by a non-linear shopper journey that begins and ends anytime, anywhere. The journey includes a wide variety of touchpoints outside of brick-and-mortar stores and most are beyond a retailer’s control or ability to influence.

Against this backdrop, retailers continue to search for ways to drive profitable growth. But in times like these, when foundational elements evaporate, a radical rethinking of business models is required and incremental adjustments will not be sufficient to ensure growth or even survival.

The path to meet today’s challenges will embrace the shopper’s Web-fueled, digitally powered, non-linear lifestyle. Retailers will need to engage shoppers skillfully in every channel, touchpoint and Web-based service available today. And then they will need to be ready to quickly adopt emerging technologies when they arrive tomorrow.

This is a daunting task. Easy to say, difficult to execute. Survival will depend on careful listening and learning from customers to fund and implement go-to-market strategies and solutions that are aligned with the kind of shopper preferences highlighted in this study.

**RISING HEDGES**

Embracing omnichannel capabilities in stores that align with customers’ lifestyles

- Top dislike when shopping in a store occurs when the product is out of stock
- The top action shoppers take when the price in the store is higher than they think it should be is to leave and look in another store
- Being unable to pick up online orders in a store is a much greater negative when shopping for specialty products than it is for consumable products.

One of the major findings in the 2013 Shopper Experience Study is that price matching while in a store is a fast-emerging trend among shoppers. This preference shows up in several sections in the report. The reason it is such a strong trend is that it is based on the number one factor that influences in-store purchases – competitive prices and promotions, according to respondents.

Two other strongly rated factors that influence in-store purchases are: having the right product selection and ease of returning products.

Retailers spend a lot of effort studying the effect of prices on sales and they have long understood that getting pricing right is critical to success. But equally critical to success is understanding that shoppers have elevated their sensitivity to prices and taken it to a new level since the Great Recession.

When asked to choose their top priority for making improvements among store associates, three out of 10 shoppers (29%) said they want associates to have the ability to match competitive prices, which is up sharply from 21% in a year-over-year comparison to a similar question. This is a powerful finding because shoppers could select only one answer to the question and only one other option scored higher, which was to improve customer service skills at 32% (up from 25% in 2012). All other factors lagged far behind.
Why should retailers pay attention to the above findings about price sensitivity? Because shoppers will express their displeasure by using all the digital tools at their disposal to locate the price they want. However, the best retail strategy is to get the price right in the first place.

When asked what they would do if the price in the store is higher than they think it should be, the majority of study respondents said they would leave the store and do one of two things: either look for the product at a lower price in another store or look for it online. The next highest ranked action was to ask an associate to match the price, which was chosen by 21%. (More about price matching later in the study.)

A second major takeaway found in several sections of the report is that shoppers clearly want retailers to embrace omnichannel capabilities and technologies. No doubt this is more strongly favored by younger age groups than elders, but it is a mistake to assume older consumers are averse to using digital devices and therefore use this unsubstantiated perception to justify postponing implementation of consumer-facing in-store technologies.

Today’s shoppers have gotten fairly comfortable using devices in stores. When asked what they want to do when they need assistance in a store the top choice was to use price scanners in aisles or use in-store kiosks.

Another action shoppers cited when assistance is needed was to go to an in-store customer service desk, which is essentially Retailing 101. New trends in retail often are layered on top of traditional practices as opposed to replacing them. However the big takeaway here is that the use of price scanners and kiosks tied the traditional customer service desk at the top of the rankings. One is as old as retailing, the other is so new that many stores still do not possess the technology.

For stores to grow and succeed they will need to respond...
quickly to the shopper’s hypersensitivity to pricing. For many retailers this will take the form of adopting new technologies and training for store associates to support price matching when shoppers find a better price online or in a competitive store and request the same price.

Price matching was recently rolled out by Walmart, Target, Best Buy, Toys ‘R’ Us, Tesco and others. Given a choice these retailers would not have deployed the technology to verify competitive prices nor would they have created the processes for store managers to authorize price-matched transactions.

But these retailers recognized that they want to succeed today and survive tomorrow. Instead of fighting against the rising tide and ignoring customers, they have decided to embrace omnichannel capabilities that align with their customers’ lifestyles and price expectations.

Shoppers tell us this strategy is essential to getting current and future business. Retailers that don’t listen and learn will find shoppers leaving stores and looking at competitors to make purchases.

**E-COMMERCE STRATEGIES**

Pricing, promotions and practicality rule the online shopper experience

- Top 2 factors that influence online purchase decisions are cost of delivery and competitive pricing
- Online shopping has achieved virtual parity with in-store

**TOP 2 RATED ONLINE PARTNERS THAT SHOPPERS WANT THEIR FAVORITE STORES TO WORK WITH ARE THOSE THAT PROVIDE MEMBER DISCOUNTS AND GROUP BUYING/DEALS**

**TOP FACTORS THAT INFLUENCE ONLINE PURCHASE DECISIONS**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.5</td>
<td>Delivery cost</td>
</tr>
<tr>
<td>4.5</td>
<td>Competitive price, markdowns, discounts &amp; promotions</td>
</tr>
<tr>
<td>4.1</td>
<td>Ease of returning products</td>
</tr>
<tr>
<td>4</td>
<td>Delivery time</td>
</tr>
<tr>
<td>4</td>
<td>Fast, easy checkout</td>
</tr>
</tbody>
</table>

(On a scale of 1 to 5)

shopping for specialty products, but not so for consumables where stores are preferred by 75%

Researching, browsing and purchasing online have become deeply integrated into the shopping experience. Even when the transaction is not completed online (via a desktop, laptop, mobile phone or tablet) the digital world exerts a strong influence on the shape, direction and speed of the customer’s path to purchase.

When they interact with retailers online, shoppers are looking for a wide range of information and services, some of which are delivered by third-party providers. Shoppers show a clear preference for retailers with partners that offer member discounts and group buying deals. This desire to find bargains online is a continuing theme in the study and fits in with the hyper price sensitivity that has become a defining characteristic in retailing.

Since it is as important for retailers to know what consumers don’t like as much as what they like, this study asks shoppers to reveal both. Often the things that shoppers dislike are even more powerful than the things they like, so this line of inquiry can produce invaluable insights.

Topping the dislike list with a rating of 4.5 out of 5 is the
feeling that delivery cost is too high. Not all retailers can offer free shipping on all products, but tightening up supply chain costs and passing the savings on to shoppers will be essential to maintain the growth of online sales.

Other prominent dislikes reflect shopper issues with current retail websites. These include purchase price is not communicated clearly or early enough (4.1 rating out of 5), can’t find product information needed (4.1), can’t find the product wanted on the website’s search engine or through navigation (4.0), and can’t return the product to a store (4.0).

Corroborating evidence of the power of these dislikes on achieving online sales is found in the list of top influences on purchase decisions, where delivery cost scored a rating of 4.5 out of 5 (same as it did on the dislike list).

Other top influencers on online buying decisions are: competitive prices (including markdowns, discounts and promotions) at 4.5 out of 5, having the right product selection (4.4), ease of returning products (4.1), fast and easy checkout (4.0), and a satisfying delivery time (4.0).

Many of the findings in this section of the study point to the insight that shoppers don’t think in terms of separate sales or information channels. They think of the retailer as a brand that can be accessed in many ways. Shoppers have already made this shift through the use of powerful consumer technology. Retail enterprises are so massive that it is difficult to make shifts as quickly as consumers, but that is precisely the challenge that needs to be met.

While there is a great deal of buzz around mobile commerce, tablet commerce and other emerging smart-device channels, it is important to note that shoppers strongly prefer to use traditional devices for e-commerce activities. By a wide margin, desktop or laptop computers are the first choice for conducting online shopping, chosen by 84% of respondents. iPhones and iPads cannot be ignored but they are well behind at 27% and 21% respectively. Android devices were selected as a preferred choice by 24%.

An interesting split occurs when we examine in-store versus online shopping preferences when all products are available in both. For specialty product shoppers the edge goes to the in-store channel, but it is close — 53% to 47%. But with consumable products, the in-store experience is three times as popular as e-commerce, where 75% of respondents selected in-store shopping over 25% for shopping online.

Breakouts like these have significant meaning for retailers. Specialty product retailers clearly need to take their website and online presence to a new level to meet consumer demand. And consumable product retailers need to be equally focused on their in-store experience.

OMNICHANNEL IMPERATIVE
Channels proliferate but the experiences must be seamless to shoppers

- Although Facebook is the favorite social network that shoppers want stores to work with Pinterest surprisingly comes in second place
- Twitter and blogs have fallen sharply in importance to shoppers year-over-year
- Men are more likely than women to buy online and pick up in a store, especially for specialty products, by more than 2 to 1
Better prices – or at least the perception of better prices – exert great power to draw shoppers online, even if they’ve already shopped for the item in a store. Finding a better price online was by far the most popular reason consumers selected for shopping in-store but purchasing online, chosen by 42% of respondents. Lower prices far outstripped such other options as no sales tax or delivery charge (14%), unavailability of associates in the store (13%) and more product choices online (12%). As previously noted, pricing sensitivity among today’s consumers is sky high and retailers who ignore this major trend do so at their own peril.

The adoption of omnichannel purchase paths that involve multiple touchpoints has been well documented. This year’s survey indicates one aspect of the phenomenon, shopping in a brick-and-mortar store and buying products online, continues to pick up steam. We asked shoppers to tell us how many times they had done this since January 1, 2013, and more than four out of 10 (43%) said they had done it one to three times. Nearly three in 10 (28%) had done it four to six times since the beginning of the year.

Retailers that currently do not support buying online and picking up in a store should seriously consider plans to deploy it. This is especially true for shoppers of specialty products who expressed a much stronger feeling of dislike toward retailers that did not support buying products online and picking them up in a store.

The survey also reveals a difference between the genders when it comes to the likelihood of using a buy online/pick up in store service. Men are more likely to take advantage of this service than women, particularly in the specialty products category. 32% of men have used such services between one and three times this year when buying consumable products versus 24% of women. In the specialty products category the difference is more pronounced: 34% of men versus 15% of women have bought online and picked up in a store between one to three times this year.

The term omnichannel refers to the experience of both consumers (the buyers) and retailers (the sellers). It also includes part of the shopper’s journey that is separate from the transaction phase, which is the most important phase to the retailer. From the shoppers’ perspective, browsing and researching are critical steps that have a strong influence on final purchase decisions.

Shoppers still frequently rely on print materials and in-
formation provided on product packaging to make informed decisions, but year-over-year analysis reveals that the store’s website nearly doubled in importance for specialty products. Also making a similar near-double digit leap in shaping purchase decisions is the use of Internet searches and visiting a variety of websites.

Reliance on websites to provide the information for making a purchase decision is particularly strong for those seeking specialty products compared to consumables. This makes sense given that consumables include staple items that are often repeat purchases. Specialty, on the other hand, can include infrequently bought items that may require in-depth research, especially if the products are in the big ticket, high tech or luxury categories.

The role of social networks in the omnichannel mix is still evolving (much as the networks themselves are). Shoppers are interested in seeing their favorite retailers work with partners to provide them with practical benefits, such as member discounts and group buying offers (the top ranked options selected by shoppers when they were asked to rate the strength of digital partnerships). Several member discount and group buying services have become successful in the past two years and shoppers have embraced them.

Facebook continues to be the number one social network for shoppers, racking up a 3.9 rating of importance out of 5 for both specialty products and consumable. These numbers are down a bit from last year (4.1 for specialty and 4.2 for consumables), but the difference is slight and it is too early to tell if it is a trend.

Some trends to watch in social network sites are: MySpace continues a downward slide, dropping from a 2.8 rating for both specialty products and consumables to 2.4 for specialty and 2.0 for consumables; blogs dropped in both product categories but it was steepest for consumable products, going from 3.4 to 2.8; and Twitter also dropped in both product categories with the steepest descent in consumable products, from 3.2 to 2.7.

These online and social media influencers are critical re-
sources for a growing number of shoppers, so they should be of corresponding interest to retailers trying to reach, attract and engage them.

RISE OF PRICE MATCHING
Using competitive awareness to maximize the home field advantage

- Shoppers requested retailers match prices from 1 to 3 times in the last three months for electronics products (according to 26% of shoppers) and for consumables (20%)
- Men (35%) were much more likely than women (22%) to ask retailers to match prices from 1 to 3 times in the last three months for electronics products
- Men (19%) were more likely than women (13%) to ask retailers to match prices from 1 to 3 times in the last three months for home furnishings products

Arriving just in time for the 2012 peak holiday selling season a handful of major retailers announced chainwide price matching guarantees as a way to capture customers looking for door-buster sales. Instantly, a major trend was born. But was it driven from the bottom up, from shoppers’ demands, or from the top down, from retailers acting on a hunch?

The answer found in this study is that price matching is clearly a response to shopper demands. As previously noted, we found that nearly three in 10 (29%) said they would like to see the ability of store associates to match prices in stores. This figure is up sharply from 21% in 2012.

However, we thought we needed to dig a little deeper and find out how big the trend really is. How often do shoppers ask retailers to match prices and how many shoppers actually do it?

Overall the answer is one to three times during the last three months for roughly 20% of shoppers. This means that about eight in 10 shoppers have not yet asked a retailer to match a competitive price. For those who have done it one to three times in the last three months the highest numbers are recorded for electronics (26%) and consumables (20%).

Electronics is the most active category for shoppers asking retailers to match prices, especially for males. More than a third of males (35%) say they have requested that retailers match prices one to three times in the last three months for electronics products and 15% of males have requested it more than four times.

Surprisingly the same pattern of male domination holds for the home furnishings category, with measurably more men than women requesting price matches with greater frequency.

The one product category where men and women request price matches in relatively equal numbers is for consumables: 22% for men and 18% for women who did so from one to three times in the last three months. During this same period 17% of men and 8% of women requested price matches more
than four times.

Clearly price matching is still an emerging trend among shoppers and retailers alike, but it shows up as being important in so many ways to so many shoppers that retailers would be smart to take notice now and begin planning a response.

**PERSONALIZATION PREFERRED**

Getting to know customers’ individual wants and needs

- The top-rated service or feature while shopping in a store is a personalized experience
- The top personalization action rated by consumers in a store is receiving special treatment based on loyalty
- Loyalty tracking numbers are the top rated piece of information shoppers will share to get a more personalized shopping experience

Retailers have been moving away from mass marketing for years, but is one-to-one marketing the answer or is it an idealized state forever out of reach? This is a question retailers wrestle with, but shoppers do not. They want retailers to get more personal but in highly selective ways. Shoppers will exchange some personal information for individual recognition but not too much and only in the right context. Balancing the limitations and opportunities of personalized marketing is the key to gaining more influence in the shopper’s non-linear path to purchase.

This point was made clear in the study when shoppers were asked to rate how strongly they felt about in-store services and the highest rated option was personalized in-store experiences (scoring 3.8 out of a maximum of 5). This finding applied to all age, gender and income groups, however it is worth noting that younger age groups favored interactive experiences and consistent information noticeably higher than older groups.

When asked to rate the top personalized shopping techniques the highest rated service is special treatment in the store based on loyalty (given a 3.9 rating out of a maximum of 5). It is closely followed by acknowledgement of status as a highly valued customer in the store (3.5 rating) and offering special treatment in the store based on loyalty (3.5).

Shoppers indicate growing willingness to share information in exchange for a more personalized shopping experience in

**LOYALTY ID IS THE TOP PERSONAL INFORMATION SHoppers ARE WILLING TO SHARE TO GET PERSONALIZED EXPERIENCES FOLLOWED BY E-MAIL COLLECTED AT POS AND INFO FROM WEBSITE ACCOUNT**
three ways that retailers should consider: 1. Tracking customers by their loyalty number (3.2 rating out of a maximum of 5); 2. E-mail address collected at point of sale (2.8 rating); and 3. Collecting name, address and e-mail to register for a website account (2.8 rating).

Admittedly the latter two information-sharing techniques are not strong endorsements, but the important point is that all three grew incrementally year-over-year.

It is worth noting that there are personalizing techniques that retailers should probably stay away from. The following are not only poorly rated by shoppers but they also dropped in a year-over-year comparison: placing cookies on a shopper’s computer to allow tracking, tracking shoppers by their credit card number, and using geolocation services on mobile phones to track shoppers.

The door is open for retailers to become more relevant to shoppers through targeted personalization techniques if they have the required customer databases and analytical abilities in place. Shoppers will reward those retailers who quickly move through the open door.

PAYMENT TRENDS
Traditional payment methods still beat new alternatives

• Shoppers today rate traditional payment options much more highly than using a digital wallet payment via mobile devices
• PayPal is the only non-traditional payment method that has significant acceptance and is increasing year-over-year
• Men are significantly more open to using digital wallets than women; younger age groups show much more interest than older shoppers

Shoppers may be on the lookout for the latest fashions or the hottest new consumer technologies, but when it comes to paying for their purchases they are sticking with the tried-and-true – at least so far.

On a scale of one to five where one stands for least likely to use and five stands for most likely to use, shoppers gave bank-issued credit cards the rating of 4.1, making it the only payment method to receive a higher rating than in 2012. Debit cards were next highest with a rating of 3.3.

Using a digital wallet via a personal mobile device was dead last with a 1.6 rating. Based on this finding, retailers should feel no pressure to jump on the digital wallet bandwagon until research shows that consumer acceptance is growing.

Despite clear consumer reluctance a flurry of new players and technologies has entered the payment arena in the last
18 months. Many are centered on turning consumers’ smart mobile devices into payment vehicles. Companies vying for a share of consumer digital wallets include some of the biggest names in finance, telecommunications and technology, including Visa, Verizon, Google, Apple, eBay and Amazon.

PayPal is building off a strong base in the e-commerce sector and has also been aggressively expanding into the brick-and-mortar channel. As a result it achieves a strong 4.0 rating out of a maximum of 5 and essentially remained steady in a year-over-year comparison.

All other payment options dropped sharply year over year: ISIS fell from 3.5 to 2.4, both Google Wallet and Apple iTunes from 3.7 to 2.8, and Visa Wallet from 3.8 to 3.0. The mobile wallet phenomenon appears to be hitting the classic Gartner Hype Cycle phase called the “trough of disillusionment.” It is worth noting that the next step in the cycle is an upward phase called “slope of enlightenment” that ultimately leads to broad adoption.

There are several explanations for the slow progress of digital wallet solutions. One is inertia: credit and debit cards have had decades to build up consumer and retailer acceptance, so any new solution will need to overcome a steep hurdle. Another factor is that the field is wide open to newcomers and shoppers are waiting for a winner to emerge with critical mass before committing to a digital wallet solution.

Analysis by gender shows that men and women are equally likely to use PayPal, but that is not the case with the other digital wallet options. For all others it is clear that men are more likely to use them than women.

There is also a sharp difference in age-group acceptance. Not surprisingly younger shoppers are more likely to use digital wallet solutions across the board compared to older age groups. This pattern is also true for using PayPal, but as the clear leader in the alternative payment field the differences are relatively small between younger and older age groups.

Retailers need to keep a sharp eye on developments in the digital wallet payment arena, particularly retailers that serve a younger or male demographic. These groups will be the early adopters of new payment options and will increasingly make their preferences known to retailers.

**DON’T FORGET FUNDAMENTALS**

The importance of pricing, speed, convenience and associate skills

- Top in-store influencers on purchase decisions are competitive prices and promotions and having the right product selection
- Top in-store dislikes are out-of-stocks, difficulty finding products and unclear pricing and promotion information
- Top in-store service shoppers would like to see improved by associates is in-person customer service skills

32% OF SHOPPERS SAY THE TOP STORE ASSOCIATE IMPROVEMENT THEY WANT TO SEE IS IN-PERSON CUSTOMER SERVICE SKILLS
Retailers are in the business of providing a consistent, convenient and enjoyable experience for every shopper. These are the fundamentals of success. They will always be important and everything that is added to the retail mix does not diminish the importance of maintaining a strong grip on the fundamentals.

In the new post-Recession marketplace a heightened sense of price sensitivity has become embedded in the shopper’s DNA, as previously noted. When asked how much a list of factors influences in-store purchases, shoppers made their top selection competitive prices and promotions. Coming in a close second is finding the right product selection.

Another key fundamental is making sure store shelves are fully stocked. Shoppers selected out-of-stocks as the top thing they dislike when shopping in a store. When checking out, the top dislike occurred when the cashier is unavailable or distracted. This is followed closely by a checkout process that is inefficient or inaccurate.

When asked to name an in-store action by store associates they would like to see improved 32% of shoppers selected improving in-person customer services skills as their top choice. When consumers have a problem while shopping in a store the actions they rated most likely to take are telling an associate or asking to speak with the store manager.

Getting inventory right as well as pricing, promotions, checkout and store associate training are basics that retailers must master in order to succeed in building a loyal cadre of return customers.

Many findings in this year’s survey, as they did in previous ones, reinforce the message that solid fundamentals are the foundation upon which strong retail organizations are built.

However, the overarching theme of this report is that fundamentals only get retailers so far along the road to success with consumers. They are a good starting point but much more is required.

### TOP RATED FACTORS FOR INFLUENCING IN-STORE PURCHASE DECISIONS

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive prices and promotions</td>
<td>4.5</td>
</tr>
<tr>
<td>Right product selection</td>
<td>4.3</td>
</tr>
<tr>
<td>Fast, easy checkout</td>
<td>3.9</td>
</tr>
<tr>
<td>Quality of customer service</td>
<td>3.9</td>
</tr>
</tbody>
</table>

(On a scale of 1 to 5)

Retailers are in the business of providing a consistent, convenient and enjoyable experience for every shopper. These are the fundamentals of success. They will always be important and everything that is added to the retail mix does not diminish the importance of maintaining a strong grip on the fundamentals.

In the new post-Recession marketplace a heightened sense of price sensitivity has become embedded in the shopper’s DNA, as previously noted. When asked how much a list of factors influences in-store purchases, shoppers made their top selection competitive prices and promotions. Coming in a close second is finding the right product selection.

### TOP RATED THINGS SHOPPERS DISLIKE WHEN SHOPPING IN A STORE

(On a scale of 1 to 5)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices/promos/discounts are not clearly marked</td>
<td>4.3</td>
</tr>
<tr>
<td>Product wanted is out of stock</td>
<td>4.3</td>
</tr>
<tr>
<td>Difficulty finding wanted product</td>
<td>4.1</td>
</tr>
<tr>
<td>Store associates not easily accessible</td>
<td>4.0</td>
</tr>
</tbody>
</table>
Retailers seeking to work with social media to attract male shoppers would do well to make the campaign interactive or gamified. For both consumable and specialty products, men expressed a greater interest in interactive and fun social networking experiences than women.

Retailers should consider making exclusive offers on social networks to appeal to women: for both consumable and specialty products women expressed a greater interest than men in exclusive promotions and sales.

The in-store shopping experience can also be tailored to each gender. While all retailers should focus on improving customer service, those serving a female clientele should make it a high priority. More than one in three (34%) of females would like to see improvements in associates’ in-person service.

This year’s shopper survey uncovers some significant differences in key shopping influencers for men and women, as well as differences in their priorities and preferences during the shopping experience itself.

When researching products, particularly specialty products, men are much more likely than women to use non-retailer digital resources, such as Internet search engines and websites, social media or a manufacturer’s website or mobile app. In a typical month, men use Internet searches and websites five times, compared to only 3.9 times for women. Men are also more likely than women to use a store’s mobile app, although usage of this resource by both sexes remains fairly low, below two times per month.

GENDER SPECIFICS
Real differences exist in use of digital resources, social networks and shopping in stores

- On social networks, men prefer blogs, MySpace and Twitter while women skew more toward Pinterest
- Women prefer exclusive promotions/sales offered via social media, while men respond more to interactive and gamified experiences
- When seeking a better price for an item, women are more likely to visit another store while men are more likely to go online

This year’s shopper survey uncovers some significant differences in key shopping influencers for men and women, as well as differences in their priorities and preferences during the shopping experience itself.

When researching products, particularly specialty products, men are much more likely than women to use non-retailer digital resources, such as Internet search engines and websites, social media or a manufacturer’s website or mobile app. In a typical month, men use Internet searches and websites five times, compared to only 3.9 times for women. Men are also more likely than women to use a store’s mobile app, although usage of this resource by both sexes remains fairly low, below two times per month.

TOP 2 RATED ACTIONS TAKEN BY SHOPPERS WHEN THEY HAVE A PROBLEM IN A STORE IS TO TELL AN ASSOCIATE OR ASK TO SPEAK WITH A STORE MANAGER

<table>
<thead>
<tr>
<th>Problem</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashier not available</td>
<td>4.4</td>
</tr>
<tr>
<td>Checkout process is inefficient or inaccurate</td>
<td>4.3</td>
</tr>
<tr>
<td>Discounts or credits not quickly processed</td>
<td>4.0</td>
</tr>
<tr>
<td>Cashier tries to sell me more products</td>
<td>3.9</td>
</tr>
</tbody>
</table>

(On a scale of 1 to 5)
customer service skills compared to 28% of males.

When shoppers find an item in a store with a price higher than they believe it should be, women are more likely than men to leave the store and look for the item in another store (35% for women versus 29% for men). Men will also leave the store, but they are more likely to look online for a lower price (25% versus 21%).

**AGE APPROPRIATE**
Understanding the digital divide and the dark side of disengagement

- Younger age groups are far more trusting of online ratings/reviews and social media comments than older shoppers
- Older shoppers are much more influenced by in-store signage (both print and digital)
- Younger shoppers favor consistent services and features plus interactive experiences

Many retail brands draw clear lines in age-appropriate messages they send to the public in terms of product mixes and marketing. But even retailers who need to appeal to all (or most) age groups recognize there are distinct differences that need to be considered.

For example, the study finds that when asked to rate the importance of factors that influence in-store purchase decisions there is a big gap in age groups when relying on comments found on social media sites as well as online customer ratings and reviews. Both of these influencers are much more highly rated by younger shoppers than older age groups.

Not surprisingly, the pattern of greater acceptance and reliance on digital media by younger age groups is fairly consistent throughout the findings in the study, and this extends to shopping online and picking up in a store, using mobile apps, and acceptance of digital wallets. But there are also nuanced differences that go beyond the digital divide.

For example, older shoppers are much more engaged when entering a store. They are more influenced by both print and digital signage than younger shoppers and also rely more on services and functions provided by associates.

This tendency provides retailers with an opportunity to more fully serve and engage older shoppers in stores and convert them into loyal customers. From the perspective of younger shoppers this finding actually indicates a sense of in-store disengagement that has a dark side worth noting – younger age groups are far more likely to walk out of a store without saying a word to an associate or manager when a problem occurs.

Older shoppers are more likely to comment about problems. Younger shoppers are more likely to leave and go to another store or shop online to complete a purchase. So even though younger shoppers do not rate such things as service by associates or in-store signage as highly as older shoppers, providing these things may be just as important to ensure that problems don’t occur with long-term consequences.

The overarching mission of this report is not to find differences between genders, age groups, sales channels, digital tools, technologies or fundamentals. The mission is to provide insight into the changing dynamics of modern retailing through the lens of the consumer, to help provide a more relevant and satisfying shopping experience.

The old rule of thumb was that retail organizations were built to last. Today, retail organizations must be built to change. And the changes must be driven by the wants and needs of shoppers.
Focus and Flawlessly Execute

FIVE KEY PRIORITIES THAT SERVE SHOPPERS AND DELIVER PROFITABLE SALES

BY STEVEN SKINNER

With retail changing at breakneck speed, and customers continually evolving as the shopping journey grows more non-linear and digitized, where does the retail executive focus? We identify five priorities for serving customers seamlessly and delivering profitable sales.

1. **Create a pricing competency that matches your business.**
   Don’t rely on price matching. A majority of shoppers still show reluctance to ask for it, and if the price doesn’t meet their expectations they are just as likely to leave the store and buy elsewhere versus ultimately making a purchase at that store. Your priority is to set the expectation for price and then communicate a value proposition that matches it. If the price doesn’t match the story you create, you won’t get a second chance.

2. **Implement well-defined policies and procedures – and then communicate them.** Online and store channels grew up differently and frequently have policy conflict. Those policies must be harmonized against often conflicting business goals and cultures. Creating policies is only the start. Equally important – and often forgotten — is the task of thoroughly communicating them to the organization. Providing a consistent customer experience requires that associates and employees work from the same playbook. So clearly articulate what your organization will and won’t do. Cross-channel consistency provides the seamless execution that keeps customers coming back.

3. **Drive your initiatives with data and information integrity.**
   From in-store inventory levels, product and pricing details to customer product feedback, today’s shoppers see it all. Once-a-day batch updates can’t support their expectations for buying anywhere, anytime. Inaccurate inventory and drastic price differences will turn them off. Data and information integrity isn’t glamorous. But it provides the accuracy that’s critical for engaging shoppers and earning their trust.

4. **Remember your store associates on the front lines.**
   Customers expect quality service. Essential to the new omnichannel environment are well-trained associates empowered to serve shoppers. Simply putting tablets in the hands of store associates doesn’t create top-notch service. Associates need training in the new technologies as well as in the softer skills of customer service.

5. **Execute flawlessly.**
   Customers’ desire for consistency puts a premium on execution across all channels. The key is focus. While you don’t have to be all things to all people, the business capabilities and offers you prioritize for delivery to your customers must align with their core preferences and be executed flawlessly and delivered seamlessly.

Creating an “omnichannel” operating model could be the hardest project your company embarks upon over the next 24 months due to its many overlapping challenges, processes, and policies. By focusing on the right customer and brand priorities and delivering a consistent shopping experience, retailers can successfully navigate the changing landscape.
ABOUT COGNIZANT’S RETAIL PRACTICE

Cognizant’s Retail Practice leverages deep domain, consulting, and enterprise architecture expertise to deliver competitive advantage to supermarkets, department stores, specialty premium retailers, and large mass-merchandise discounters across the grocery, general merchandise, apparel, home and office, and consumer electronics segments. Working with 11 of the top 30 global retailers, the practice provides comprehensive business solutions in the areas of supply chain, merchandising, stores, e-commerce and retail analytics to enable retailers to transform their businesses, drive innovation, and address rapidly changing shopping needs, preferences, and methods of retail customers. The practice helps retailers embrace the future of shopping by applying innovative platforms such as IntelliPeak™ to better manage peak/holiday season sales, and IntelliSTORE™, which leverages social, mobile analytics and cloud technologies (the SMAC Stack™) to deliver superior in-store customer experiences.

ABOUT COGNIZANT

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world’s leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 162,700 employees as of March 31, 2013, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.