



Mind the gap: What really matters for apparel retailers in omnichannel

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Foreword

Omnichannel retailing is the phrase on the lips of every executive in the sector today. It is a brave frontier for retailers who aspire to provide a seamless, integrated shopping experience across all touch-points. But it also comes with IT investments, logistics headaches and other complications – and many retailers question its impact on profitability. In the UK, women's apparel is a key battleground. Many retailers have begun to build infrastructure to support omnichannel retailing, but they are not sure about the specific factors that most matter to shoppers. In 2015, it is very much a test-and-iterate retail marketplace.



Separating myth from fact

We set out to identify the factors that should really matter for apparel retailers when it comes to omnichannel. To do that, we conducted a detailed survey of 3,000 female retail consumers in the UK, regarding their shopping behavior at 17 different national retailers, including high street, fast fashion, and department stores, as well as retailers focusing on price-conscious consumers.

To avoid the biases that can creep into hypothetical purchases, we focused on actual purchases and asked about three specific categories of clothing: casual everyday tops, dresses for special occasions, and ladies coats. We focused on *derived*—not stated—drivers of purchase and loyalty, because what consumers say does not always translate into what they do.

To supplement this, we also created a panel of omnichannel mystery shoppers. This team conducted over 100 store visits and shopped online, to give additional insights into the shopper journeys and an assessment of the things retailers are doing to support omnichannel sales.

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We only find omnichannel in the averages

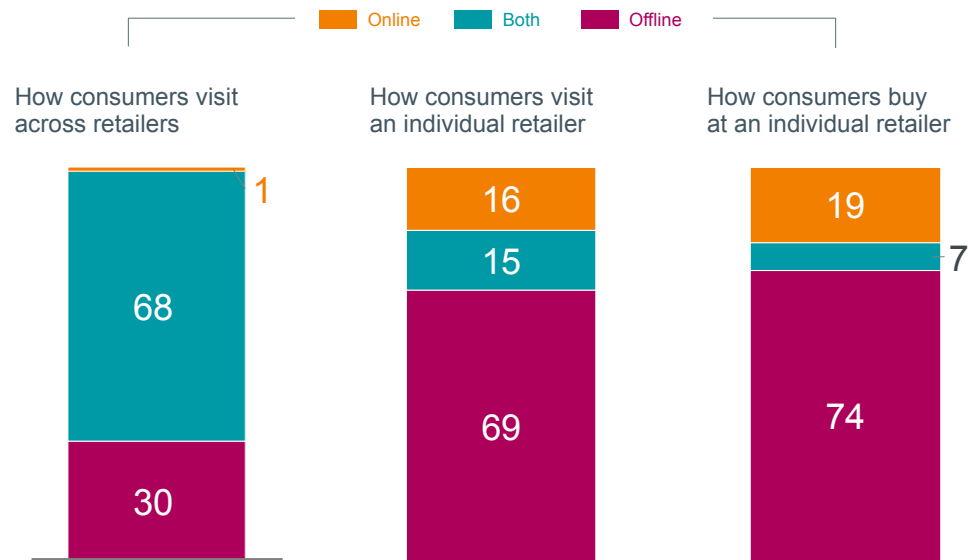
There were a number of surprising findings. To start, the retail industry assumes the consumer is already shopping in an omnichannel mode, but the data does not bear that out.

However, when we asked consumers which channels they used to purchase at an individual retailer, only 7% purchased through both offline and online channels (Exhibit 1).

Exhibit 1

Today's world is still on/offline and not yet omni

Percentage of survey respondents by channels visited or purchased from in the last 12 months



SOURCE: McKinsey UK omnichannel apparel survey conducted in September 2015, with data from specific purchases across several categories: coats, dresses and everyday tops, n=3,435

The majority of consumers purchased *either* offline (74%) or online (19%). Even the store visit data – which one might expect to show the consumer browsing more freely across both channels – showed that when it comes to an individual retailer, only 15% of consumers visit both channels to inform their purchases.

Remarkably, this means that for most retailers, the majority of their consumers still only experience them through one channel; they are not yet omnichannel shoppers.

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Data shows online shoppers have new concerns

As the vast majority of consumers still shop *either* online or offline, we wanted to discover what factors actually led to purchases in each channel. After all, if most apparel consumers still shop in only one channel, it is critical for retailers to get these channels right first.

As we dove into the data, it became clear that online-only consumers are an important category for retailers, as they are a mix of loyal consumers who know well enough what they want to order online without going to store, and opportunistic consumers that happen to find an item that they like even though they don't buy from that retailer's traditional stores.

This takes on additional importance when shoppers are filtered by age. As you might assume, online channels are more important to younger consumers. But the degree to which this matters is still impressive. In our research, we found 28% of 18-24 year olds shop via online only, whereas only 10% of those the 46-65 age group do the same. So, it is fair to conclude that online channels are likely to become more popular moving forward. But does an online shopper want the same things an in-store shopper does?

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Our data there provided an intriguing answer: less than you might think. Some top attributes are the same: product and fit are important, and brand are in the top five attributes for both. Promotions are in the top 10 too, as is product range, though the former has seems less of a concern for online shoppers. New attributes specific to online shopping, including website quality, delivery value for money, delivery options, returns process and delivery speed are *as important* to online consumers as brand and offline experience – and they are more important to online customers than attributes about stores are to offline customers. One interesting finding: store queues are a top-ten concern cited for online consumers, as they likely influence perception of how easy click and collect or in-store returns will be. (Exhibit 2)

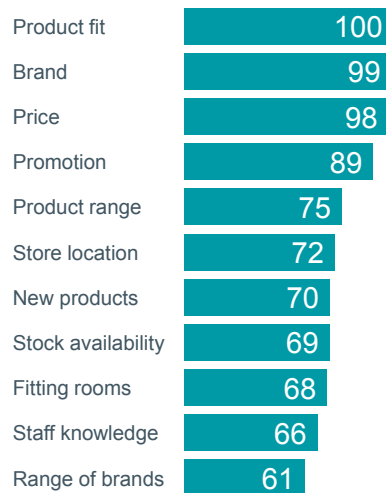
Exhibit 2

As a result, retailers must focus on getting each channel right – and we have examined what matters in each

Top attributes by derived importance; indexed, 100=best

■ Deep-dive topic

What matters to **offline** customers



What matters to **online** customers



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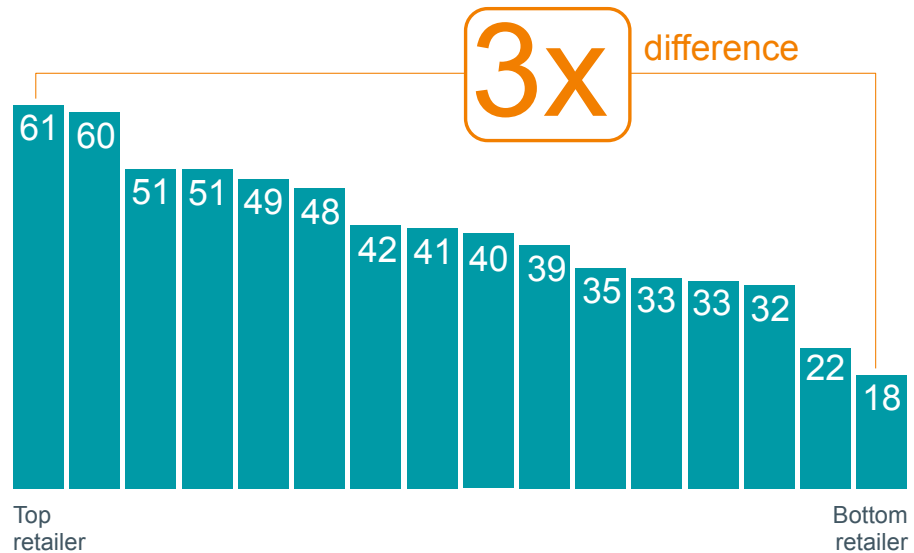
Delivery and collection value for money is one real differentiator

Any apparel retailer will be surprised to see “delivery & collection value for money” rank even higher than brand. Moreover, when we asked each customer how he or she felt about the value for money provided by each of 17 retailers, the spread of satisfaction scores widened considerably. Three times more people were satisfied with some retailers than others. Why would that be? In our research, we dug more deeply to get at the answers to that question, and to locate things that retailers could do to shift those perceptions. (Exhibit 3)

Exhibit 3

Consumers' perception of delivery value for money varies significantly between retailers

Perception of value for money % of respondents satisfied



It is not straightforward to differentiate with the obvious factors: price of standard delivery, threshold for free delivery, and delivery speed. In fact, it turns out that several players with varying satisfaction ratings, but identical parameters – GBP 3.90 delivery fee, GBP 50 threshold for free delivery, etc. – showed disparate performance. Speed of delivery also seemed to be important only in some cases, not broadly across our pool of retailers.

So what does drive perception in delivery & collection value for money? The first factor that the research pointed to was delivery options. As one might imagine, there is some variation between the array of delivery options offered by our 17 retailers. Many of these options differed in terms of convenience of the delivery and speed. However it was clear that retailers who offered 6-7 delivery options scored much higher than those offering only 1-2.

A second differentiating factor was the number of pickup locations. Intuitively, one would assume that the number of pickup locations differs amongst the retailers. It also makes sense that consumers value convenience and prefer more delivery locations. Here retailers fell into three camps. The bottom performers only use their small retail networks as ready-made locations for delivery & collection. As such, these players have around 100-300 pick-up points. The middle-ranging performers also make use of their retail networks – but these players have larger retail networks (up to ~800 points). The top performers however tended to participate in collection networks, in-store collection, or store locker collection. These affiliations magnify the retailer’s reach, without the cost of adding stores and staff.

A third, perhaps underappreciated factor is positioning of the delivery and collection offerings. This is achieved through website structuring, messaging, marketing and simplicity of the delivery process. For example, on each product page there should be a clear presentation of delivery options with at least one price threshold listed as free. Free delivery should also be promoted on the front page of the retailer’s web site, as well as on each page of the site. This need not be intrusive, but a subtle, consistent nudge for shoppers. In addition, we believe it is important to let consumers know how close their cart may be to the amount that would qualify them for free shipping (e.g., “Add only GBP 10 to this order for free shipping”). This can be done via a small flag or box with details loaded into each product page. (Exhibit 4)

Exhibit 4

What matters in positioning of delivery and collection offerings





Returns: The other part of the puzzle

High on the list of what matters to online customers is also ease of returns. Here the perceptions of our 17 retailers are even more dispersed than they were in value for money. Satisfaction scores ranged from 25 to 100 percent across the group. We believe this is driven by a combination of factors. For example, there are baseline levels of performance, known in the industry as “hygiene factors,” and this means that there is a certain minimum level of service across the industry. While underperformance in this category of activity may hurt retailers, these factors are not important enough on their own to allow retailers to differentiate.

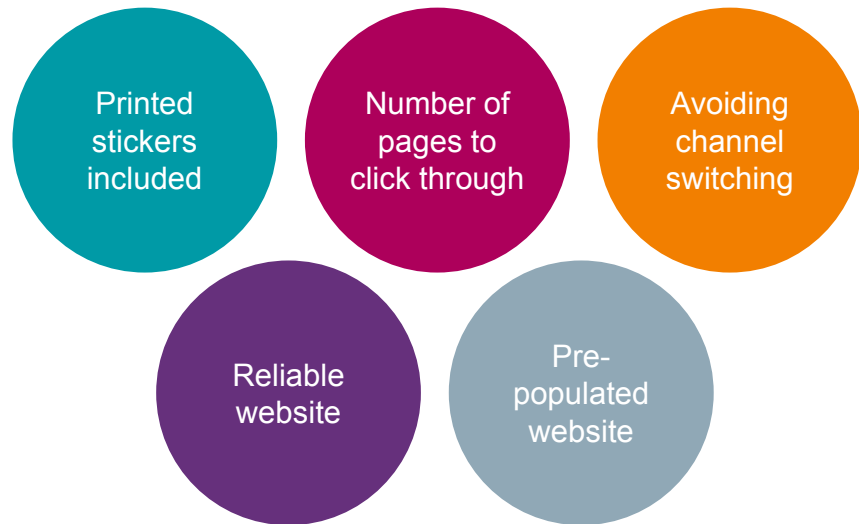
Among the factors that don't seem to impact overall perceptions in returns: Time allowed to make the return; free courier or free post; and number of drop-off locations. For the first factor, we see a reasonably wide range of time metrics, with some retailers having very long return policies, but in general our analysis shows it does not drive customer preference. The second factor, free courier or post, is one where consumers expect this to be free, and most retailers offer them in one form or another. The third hygiene factor, drop-off locations, is also difficult to differentiate with, as most of the retailers in our survey offer access to a wide network of collection points, such as post offices.

So, if these factors are largely table stakes in UK retail, which factors do make a difference? Our mystery shopping results point to the ease and convenience of the actual returns process. For example, pre-printed address stickers included in the order at shipping is one that seems to make a difference. Another opportunity: The number of pages a customer has to click through on a web site to make a return. Reducing clicks in the returns process can pay dividends in greater customer satisfaction. It is also important to minimize or eliminate channel switches, meaning forcing consumers to do returns at stores for merchandise purchased online. Instead, allow consumers to perform returns in the same channel that was accessed to make the purchase. retailer's web site. Both are factors that consumers appreciate strongly. (Exhibit 5)

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Exhibit 5

For returns, what matters is the ease and convenience of the customer experience



Delivery speed

Finally, one other factor appears to be strong enough to allow for some differentiation: speed. Levers that retailers might be able to pull in order to influence customer perceptions of their speed include later cut-off times to qualify for certain levels of shipping, and flexibility in terms of delivery to fit various purchasing scenarios (e.g., tiers of shipping to differentiate urgent needs (more expensive) from less urgent needs (less expensive)).



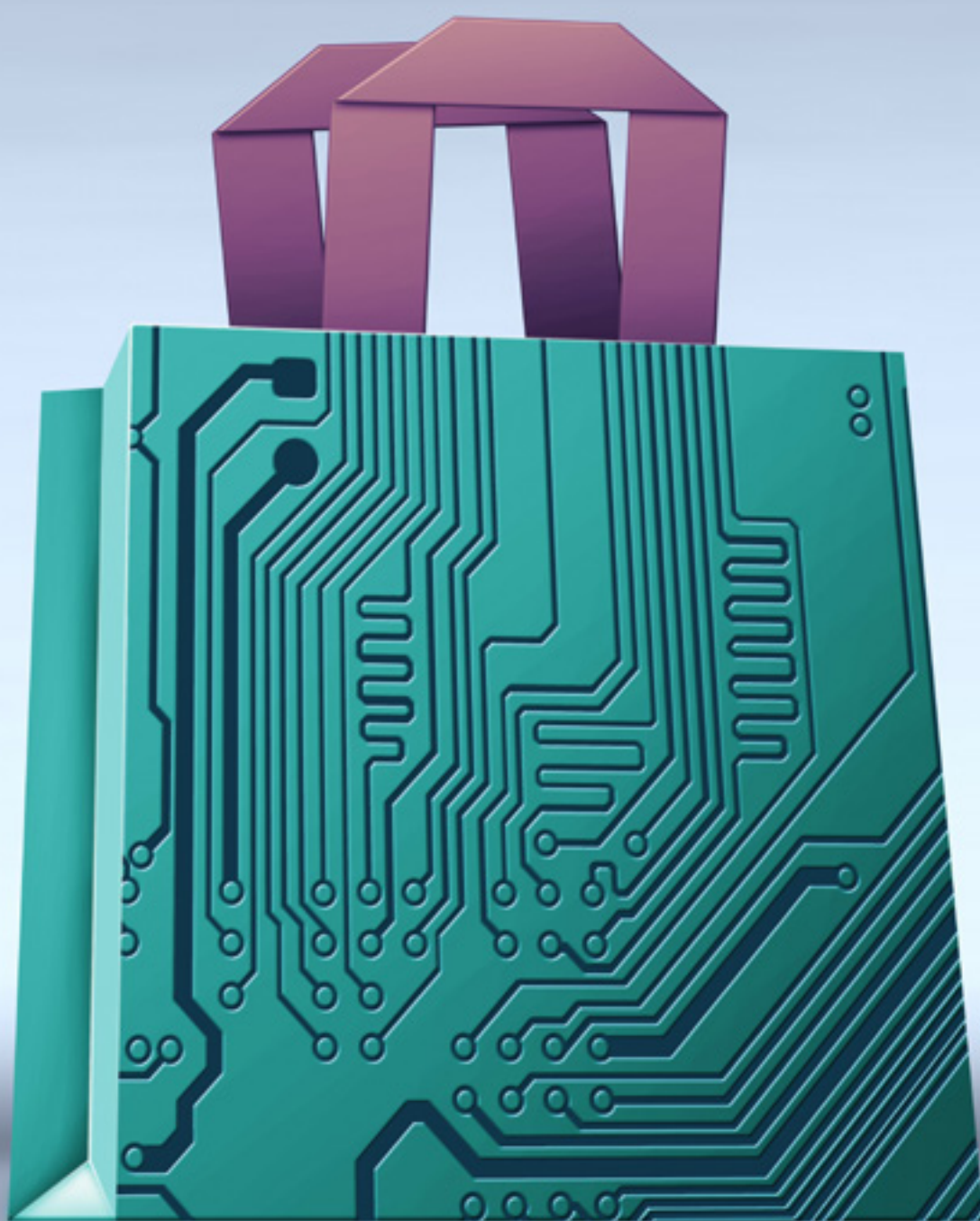


Still a long way to go for offline

At a high level, the mystery shopper data indicates that UK apparel retailers are far away from fulfilling their potential offline. Simple in-store hospitality is barely up to scratch. In only 9% of store visits were our shoppers acknowledged as they entered the store. In only 5% of visits were they proactively approached by members of the sales staff. In only 27% of cases did the checkout clerk inquire as to whether the customer had found everything they were looking for. Attempts to rescue the sale by checking for stock in other stores also fell below standard. Just 21% of visits included an offer to check stock with another store, and that figure only rose to 55% when mystery shoppers asked directly for a clerk to do so. Put another way – even if a consumer explicitly asked the shop assistant to check for another size or colour in another store, in almost half of the cases that shop assistant could not or would not do it.

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These numbers make a critical point. At the beginning of this article we showed that for any individual apparel retailer, the vast majority of their consumers still visit and purchase only offline. Therefore getting it right offline is crucial – not only for today, but because it is the foundation for future success in omnichannel. If today’s shop staff cannot check alternative sizes at another store, how can we expect them to check stock online, through mobile phones or tablets? Similarly, if today’s consumer is not impressed with a retailer’s offering offline, what would entice them to take up an offer to go omnichannel?



Omnichannel is far from omnipresent

Most apparel retailers today have already made some degree of investment into omnichannel. However many investments are still off the mark. For example, while 70% of the retailers in our universe offer smartphone apps that allow consumers to check stock of an item online, only 17% of retailers allow consumers to check in-store availability online. In only a very few cases did our shoppers encounter use of handheld technology being used by sales floor personnel, making it more difficult for a retailer to integrate online and offline channels.

In addition, omnichannel is far from omnipresent. On only 23% of our store visits did a staff member offer to check availability of an item on the retailer's web site, and when the mystery shoppers suggested that clerks check online, the figure only rose to 33%.

“In only a very few cases did our shoppers encounter use of handheld technology being used by sales floor personnel, making it more difficult for a retailer to integrate online and offline channels.”

In short, when it comes to omnichannel strategies, most retailers seem to struggle. However, we believe this is good news – and there is opportunity from correcting this state of affairs.



Retailers have time to set things right

It is clear that the world is still more multichannel than omnichannel. At an individual retailer level, consumers tend to choose one preferred channel, and retailers' business processes are still optimized for that channel. For apparel retailers, this means that the majority of their consumers still experience them either offline or online.

The first task for retailers is to focus on the fundamentals of each channel. As the research shows, there is plenty for retailers to do in both channels. In order to succeed online, retailers will need to ensure they have mastered delivery and collection, engineered ease and convenience into their stores and web sites, and streamlined returns processes across channels. For offline, priorities include basic in-store hospitality and "rescue the sale" measures which need to be brought up to scratch.

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Fixing these fundamentals will form a strong foundation for omnichannel retailing. Shop staff that can check for alternative sizes at other stores are more likely to be able to check stock online, through mobiles or tablets. Similarly, consumers impressed with a retailer's offline offering are more likely to be enticed by that retailer's omnichannel offering when presented.

The good news is: it's not too late. Our research shows that consumers have not rushed in adopting omnichannel behavior, and no retailer is miles ahead of the rest on delivering it. So there's time to hunker down and fix the basics, but it will be important to do so quickly, as the omnichannel tide is coming.



When asked how consumers have shopped in the past year,

68%

say they use both online and offline channels – hence the belief that this is now an omnichannel sector



When we asked consumers which channels they used to purchase at an individual retailer, only

7%

purchased through both offline and online channels



Brand is only

#4

of the most important factors for online customers, with website usability and delivery and collection value for money ranking higher

For returns satisfaction,
scores ranged from

**25% to
100%**

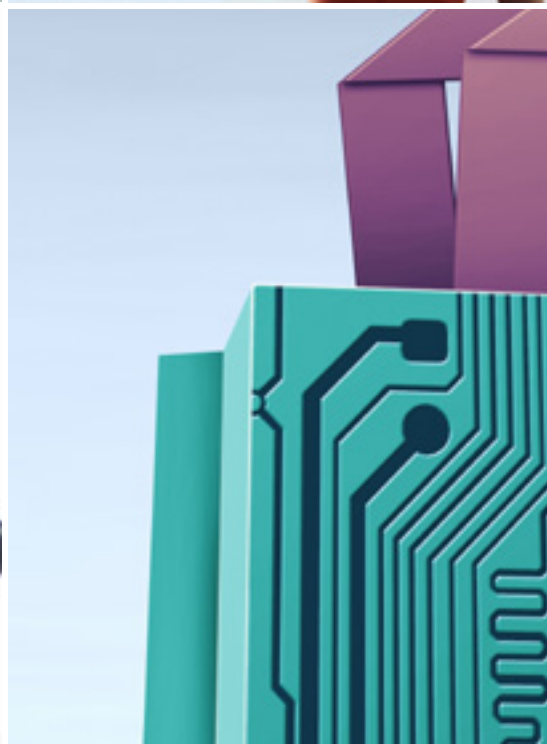
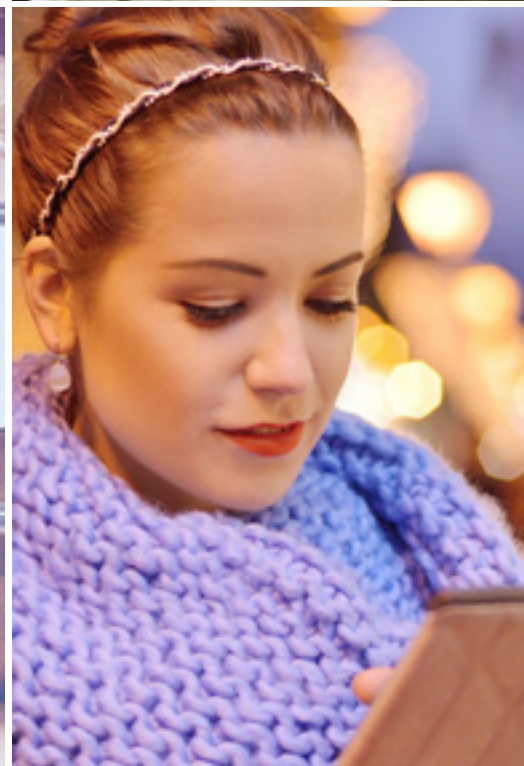
across retailers



There is

3x

difference in consumer
perception of retailer's
delivery value for
money offer



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