Global Retail Industry

Driving Successful Shopping Occasions Through Deeper Insights

2005 Shopper Study: U.K., Germany, and France

NRF 2006 Executive Briefing Session

Gina Paglucia Morrison
January 17, 2006

ON DEMAND BUSINESS™

Agenda

- **Executive summary**
- Introduction
- Methodology and key findings
- Implications

To succeed in today's marketplace retailers need to develop a much deeper understanding of their target customers

Driving Successful Shopping Occasions

- Traditional, ***largely demographic classifications of retail customers are inadequate*** in a marketplace that has become increasingly complex, competitive and polarized
- To satisfy today's consumers' increasing expectations of the shopping experience, ***retailers need a much deeper understanding of their target customers***
- ***In 2005, IBM conducted an online survey*** of more than 5,000 grocery, clothing and electronics shoppers ***in the U.K., Germany and France***
- The ***results confirmed the findings of IBM's 2004 U.S. shopper survey*** regarding the multi-faceted nature of today's shoppers ***and revealed additional shopper insights***
  - Customers have ***different value drivers for different shopping occasions or missions***
  - Shopping ***missions evolve***
  - ***Mood plays a major role*** in the shopping experience and ***can significantly influence spending***
  - ***Customers want convenience*** and are ***willing to embrace new technologies and services***
- To drive more successful shopping occasions, retailers need to
  - Deliver more ***tailored shopping experiences***
  - Create an ***emotional connection*** with customers
  - ***Leverage technology*** to satisfy customers' needs and expectations

Table of contents

IBM believes retailers must become *truly customer-centric* to achieve sustainable growth in an emerging "World of Extremes"

2010 Mega-Trends

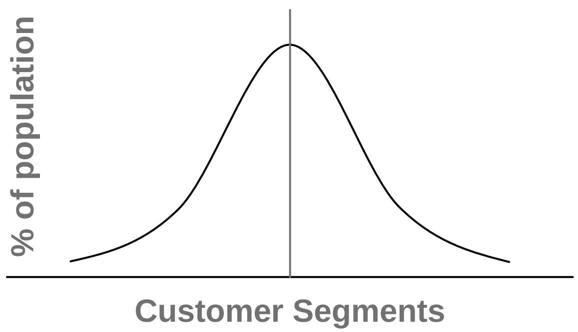
1. Customer value drivers fragment
2. Gatekeepers become more guarded
3. Information exposes all
4. Mega-retailers break the boundaries
5. Partnering becomes pervasive

Key Strategic Challenges

- **Undifferentiated incumbents will be squeezed out of the market**
  - Growth and perceived value move to the extremes
  - "The middle" becomes unsustainable
- **The sources of competitive advantage will erode faster than ever**
  - Ever-increasing information transparency
  - Constant pressure to provide "more value for less"
  - Broad access to best-in-class capabilities via specialists
- **Organizational constraints prevent retailers from responding to new customer needs**
  - Fragmented approach to overall customer experience
  - Lack of alignment between strategy, processes, metrics, infrastructure, etc.

Customer value drivers are continuing to fragment as a result of changing demographics and value systems

20th Century Homogenous Customers



Extreme shifts in:

Age

Wealth

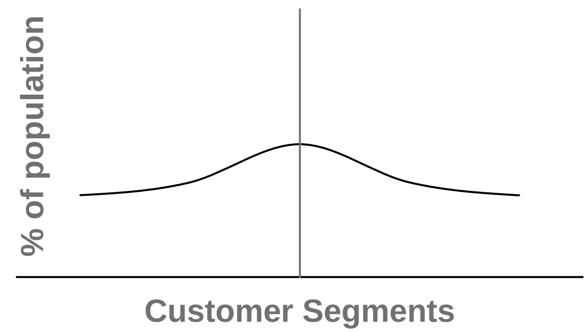
Ethnicity/Culture

Lifestage patterns

Household composition

Value systems

21st Century Fragmented Customers

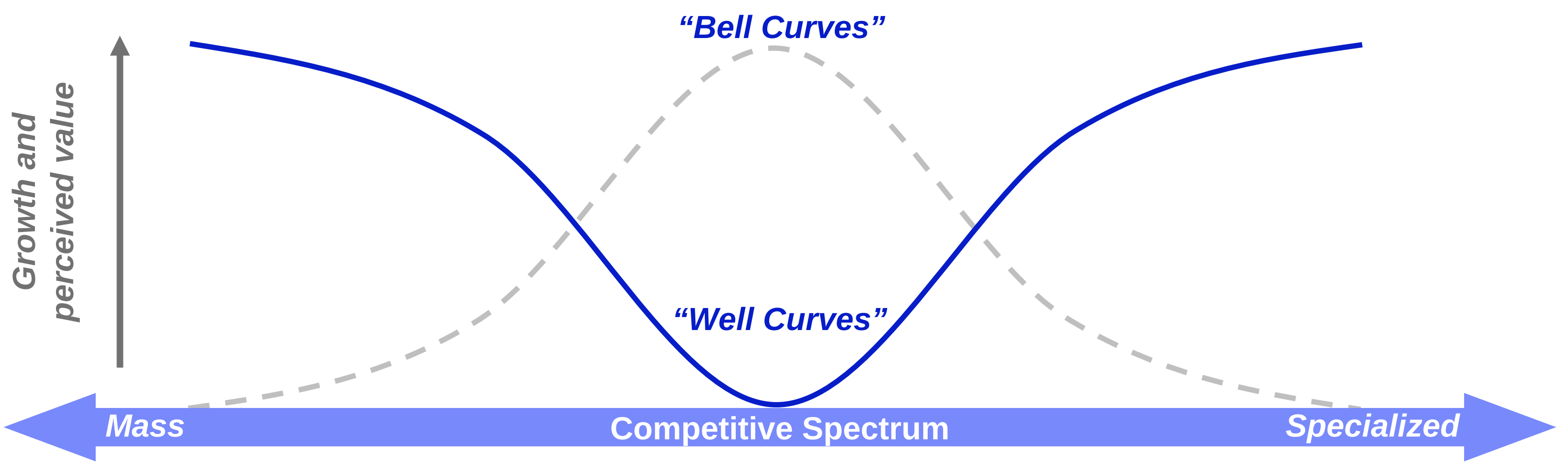


"Norms" become increasingly rare; retailers must delve deeper to understand the needs and purchasing drivers of customer micro-segments.

Source: IBM Institute for Business Value analysis

By 2010, we expect to see an increasingly complex, bifurcated retail marketplace with big winners and losers

Polarization in the Consumer Marketplace



Customers are seeking to maximize their buying power for basic goods with low emotional investment.	Customers are seeking to maximize "personal value" when purchasing goods with high emotional importance.
Mega-retailers are rapidly capturing dominant market share by delivering "good enough" value at very low prices.	Differentiated specialists are building profitable, high-growth niches by delivering unique, relevant value to targeted groups of customers.

Succeeding in such an environment requires a customer-centric approach based on deeper customer insights

Need For Deeper Insights

- A key component of customer centricity is the ability for retailers to ***tailor their offerings to the needs of their target customers***
- To effectively address the needs of today's complex shoppers, retailers need to develop a more ***holistic view of customers*** that goes beyond understanding who their customers are, to ***better understanding their motivations***
  - Why they are shopping
  - What they want to accomplish
  - How they prefer to shop
  - What services they require
  - What makes them visit a particular store
- With this level of understanding, retailers can
  - ***Align products and services more closely*** with customers' needs and preferences
  - ***Manage core activities more effectively***

Agenda

Executive summary

Introduction

Methodology and key findings

Implications

To further examine these fragmenting value drivers, we surveyed more than 5000 shoppers in the U.K., Germany and France

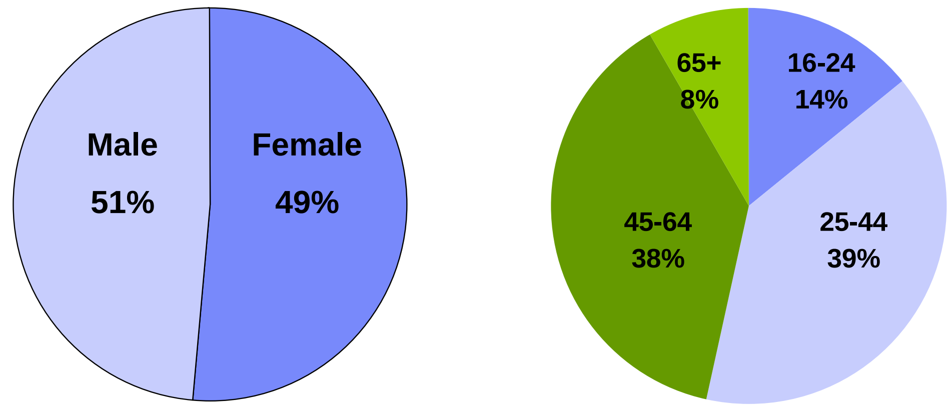
Completed Surveys

Total = 5450

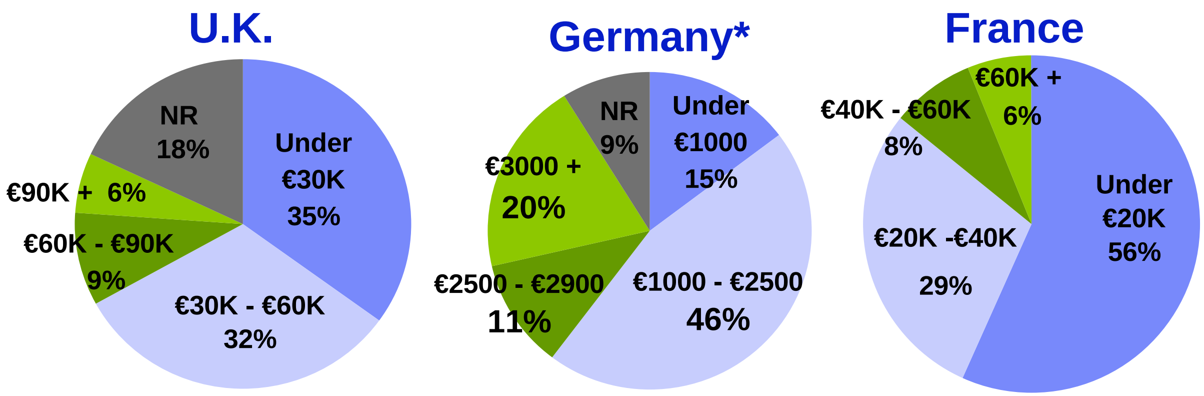
Online survey of shoppers in three specific product categories:

- **Grocery (N = 1817)**
  (shopped within the past three months)
- **Apparel (N = 1886)**
  (shopped within the past six months)
- **Consumer electronics (N = 1747)**
  (shopped within the past 12 months)

Aggregate Respondent Demographics



Gender   Age



Income

*Note: Germany income is monthly net, France and U.K. are annual gross. NR refers to no response by survey respondents
Source: IBM Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Key findings

Our findings confirmed prior results on the multidimensional nature of today’s shoppers and revealed new insights

Key 2005 Shopper Study Findings

1. ***Customers have different value drivers for different shopping occasions or missions***; they want different things not only when they are shopping for goods in different product groups but also when they are shopping for goods in the same product group but on different missions
2. ***Shopping missions evolve***. Customers often start by looking for items in a single product category but end up buying items in other product groups as well; sometimes they purchase such additional items in specific patterns
3. ***Mood plays a major role in the shopping experience*** and can significantly influence how much customers spend
4. Lastly, ***customers want convenience***; they place a high premium on ease of shopping and are willing to embrace new in-store services and technologies that are relevant to their particular shopping needs

First finding: Customers have different value drivers for different shopping missions/occasions

1

Today's Multifaceted Customers

- In 2004, IBM conducted a survey of U.S. shoppers to explore the concept of fragmented consumer value drivers
- We found that shoppers' needs and preferences for the shopping experience varied depending on the product group they were shopping for and the particular goal of that trip
- The findings of our recent study confirmed this concept, namely the increasingly multi-faceted nature of today's shoppers
  - Customers want different things when they are shopping for goods in different product groups
  - And, when they are shopping for goods in the same product group for different shopping missions/occasions

Key findings

1

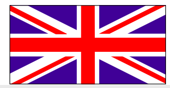
These value drivers include motivations and preferences that we will illustrate through product/country specific mission profiles

Motivations and Preferences

- Shoppers have different value drivers which are exhibited in numerous ways including
  - Frequency with which they undertake a particular mission
  - The value and composition of their shopping basket and the extent to which they actually bought the product group
  - The extent to which they focused on a particular product group
  - Emotions experienced on their shopping trip
  - Whether their purchase was planned or an impulse
  - Reasons for visiting a particular store
- To illustrate these differences, we will compare these features across four shopping missions:
  - Two clothing missions in the U.K.
  - Two consumer electronics missions in Germany

Key findings

In the U.K., shopping for basic clothes is a more spontaneous and impulsive activity than shopping for work clothes, and more often completed in the context of other shopping needs



Adult Basic Clothing		Adult Work Clothes
20 times per year	**Frequency**	**5 times per year**
€64	**Average basket value**	**€58**
41%	**Only/mainly shopped for clothing**	**71%**
99%	**Actually bought clothing**	**100%**
51%	**Shopping was "enjoyable/relaxing"**	**47%**
11%	**Shopping was "a chore/hardwork"**	**19%**
41%	**Purchase was planned**	**64%**
	Reasons for visiting that particular store	
26%	*I was shopping for other goods there as well*	**12%**
26%	*There is always something new in the stores*	**13%**
19%	*The sizes and designs fit me/my children/my partner well*	**29%**
	Basket composition - Items over 5%	
Clothing 99%, Packaged foods 24%, Fresh foods 22%, Drinks 15%, Personal care 14%, Household products 13%, Pre-prepared meals 12%		Clothing 100%, Packaged foods 12%, Fresh foods 12%, Drinks 9%, House-hold products 7%, Personal care 6%
	Top three retailers purchased from	
Tesco, Marks & Spencer, George at Asda		**George at Asda, Marks & Spencer, Matalan**

Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France, 2005.

Key findings

1

In Germany, only two thirds of replacement shoppers and browsers of consumer electronics actually purchased something on their trip

Replace Broken Item/Equipment		Just Browsing to Keep Up to Date
2 times per year	Frequency	4 times per year
€192	Average basket value	€129
80%	Only/mainly shopped for electronics	54%
67%	Actually bought electronics	65%
55%	Shopping was "enjoyable/relaxing"	57%
20%	Shopping was "a chore/hardwork"	11%
80%	Purchase was planned	66%
	Reasons for visiting that particular store	
47%	*It's easy to find what I need*	36%
29%	*The staff are able to give good advice*	22%
19%	*I was able to use its website in my research*	10%
	Basket composition - Items over 5%	
Consumer electronics 67%, Computers 34%, Books and music 15%, Packaged foods 14%, Fresh food 13%, Drinks 10%, Household products 10%, Personal care 7%		Consumer electronics 65%, Computers 29%, Packaged foods 17%, Fresh food 17%, Drinks 15%, Household products 12%, Clothing and accessories 11%, Books and music 11%, Personal care 10%
	Top three retailers purchased from	
Media Market, Saturn, Aldi		Media Market, Saturn, Aldi

Source: IBM/ Institute for Business Value and The Store/kantar 2005 Shopper Survey for U.K., Germany and France.

Second Finding: Shopping missions evolve and customers sometimes purchase additional items in specific patterns

2

Basket Analysis Reflects How Missions Can Change

- ***Many customers*** who go out shopping for items in one product group ***end up buying all sorts of other things as seen in the composition of their baskets***
- Furthermore, ***there are consistent and statistically significant relationships between some of the items bought by certain customers***
- These relationships suggest that ***shoppers will purchase certain items in combinations with others on a given shopping trip***, for example between food and non-food grocery items or between grocery items and hard goods
- Interestingly, these ***relationships were mostly found in clothing and electronics buyers baskets***, while ***few if any relationships were found in grocery***

2

For example, consumer electronics buyers consistently buy grocery items and clothing, though they are less likely to buy computers

Correlation analysis example: *U.K. Consumer Electronics Replacement Shopper*

	Packaged	Fresh	Prepared	Household	Personal	Prescription	Clothing	Computers	Electronics
Packaged	1								
Fresh	0.76687 <.0001	1							
Prepared	0.42534 <.0001	0.40358 <.0001	1						
Household	0.73312 <.0001	0.69728 <.0001	0.49596 <.0001	1					
Personal	0.78736 .0144	0.63542 <.0001	0.55207 <.0001	0.60771 <.0001	1				
Prescription	0.19203 .0144	.39528 <.0001	0.25117 .0013	0.37851 <.0001	0.25117 .0013	1			
Clothing	0.54601 <.0001	0.5195 <.0001	0.55207 <.0001	0.38422 <.0001	0.70138 <.0001	0.25117 .0013	1		
Computers	-0.05117 .5179	-0.05946 .4523	-0.01021 .8974	-0.06725 .3952	-0.01021 .8974	-0.04888 .5367	0.0725 .3593	1	
Electronics	0.13012 .0989	0.09022 .2535	-0.05205 .5107	-0.04439 .5749	0.07868 .3196	-0.04458 .5732	0.01332 .8664	-0.46401 <.0001	1

Note: The relationships represented here are a sample of the items customers purchased. The top figure in each box represents the strength of the relationship between two product categories; the bottom figure represents the significance level. The items that are highlighted are those with correlations above 0.4 and with significance levels greater than 99.99 percent, or less than 0.001 percent due to chance.

Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Key findings

2

In contrast, grocery shoppers appear to fill their baskets based on what they need rather than in any particular theme

Correlation analysis example: *German Main Stock Up Shopper*

	Packaged	Fresh	Prepared	Household	Personal	Clothing	Computers	Electronics
Packaged	1							
Fresh	0.03106 .6569	1						
Prepared	0.11165 .1092	0.01338 .8483	1					
Household	0.16386 .0183	0.13306 .0560	0.16504 .0175	1				
Personal	0.01544 .8252	0.03857 .5811	0.17068 .0139	0.27006 <.0001	1			
Clothing	-0.05762 .4095	0.07451 .286	0.11638 .0949	0.16379 .0184	0.32893 <.0001	1		
Computers	-0.04114 .5561	0.04314 .5371	0.12672 .0688	0.08566 .2197	0.2336 .0007	0.58107 <.0001	1	
Electronics	0.09965 .1531	0.11315 .1045	0.15999 .0213	0.11429 .1011	0.14445 .0378	0.42237 <.0001	0.37845 <.0001	1

Grocery basket analysis also reflects the predominance of replenishment behavior.

Note: The relationships represented here are a sample of the items customers purchased. The top figure in each box represents the strength of the relationship between two product categories; the bottom figure represents the significance level. The items that are highlighted are those with correlations above 0.4 and with significance levels greater than 99.99 percent, or less than 0.001 percent due to chance.

Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Key findings

Basket analysis creates both opportunities and challenges for retailers depending on the product group

2

Insights From Basket Analysis

- The ***electronics and clothing correlations reflect the nature of the stores shoppers are frequenting and how they respond to the in-store environment***
  - As customers visit stores that sell multiple product groups they can be influenced by the assortment and placement of merchandise and special promotions, to look at a much wider range of products
  - Therefore, retailers that understand what persuades shoppers to put other things in their baskets can design their stores to capture such impulse buying
- In ***grocery, the randomness of their baskets reflects the fact that replenishment forms a large part of grocery shopping***
  - It is possible that customers buy what they need when they need it, not in any particular combination
  - This unpredictability creates challenges for both grocery retailers and the brand companies to determine how best to merchandise their products
  - It also points to the importance of the in store experience as a differentiator away from just the product characteristics of availability and price

Third finding: Mood plays a major role in the shopping experience and impacts how much shoppers spend

3

Emotions During the Shopping Trip

- ***Emotions*** experienced by shoppers, ***varied to a great extent across the different countries and the different product groups***
- In general, those who were shopping for ***groceries reported lower levels of enjoyment or relaxation*** than those who were shopping for clothes and consumer electronics
- For example, only 34% of British grocery shoppers thought that the trip was enjoyable or relaxing
- In comparison, ***50-60% of clothing and electronics shoppers of all three countries thought the shopping trip was enjoyable or relaxing***

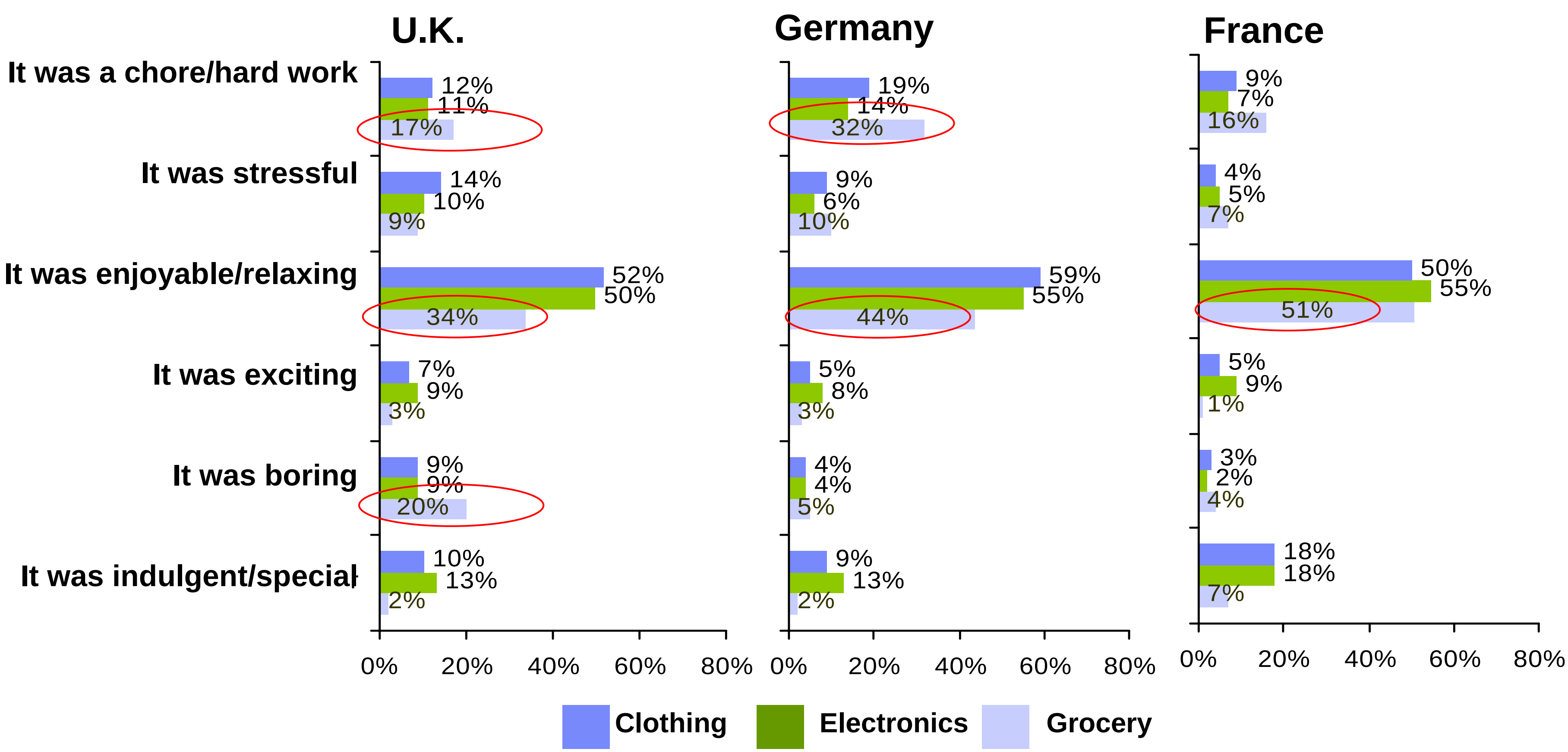
Key findings

Grocery shoppers were more likely to find the experience a chore/hardwork and, particularly in the U.K., also boring

3

How did you feel about the shopping trip?

Percent of Respondents



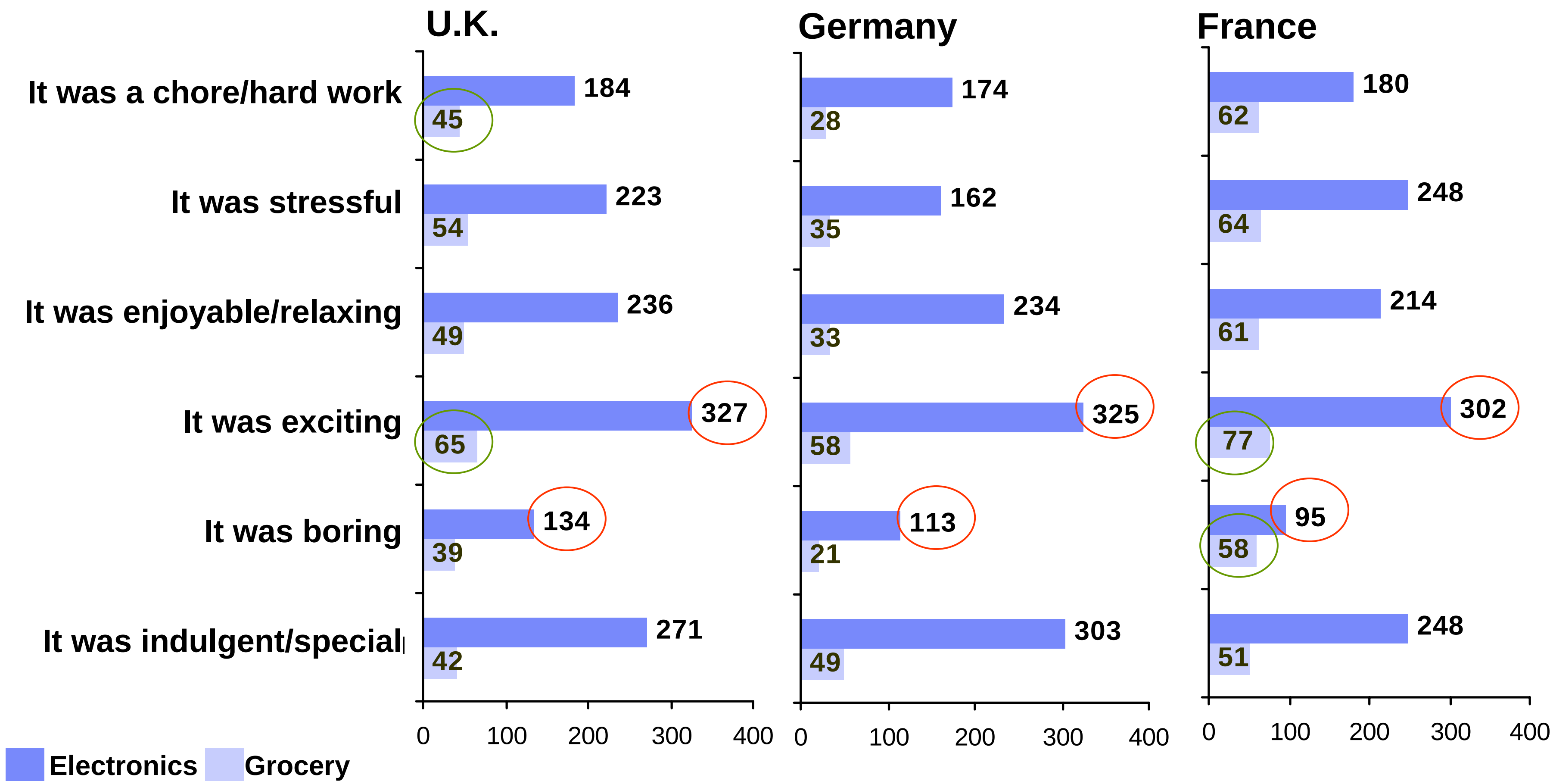
Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Key findings

The importance of mood is clear; having an exciting experience was linked to significantly higher levels of spending

Average Size of a Grocery or Consumer Electronics Basket

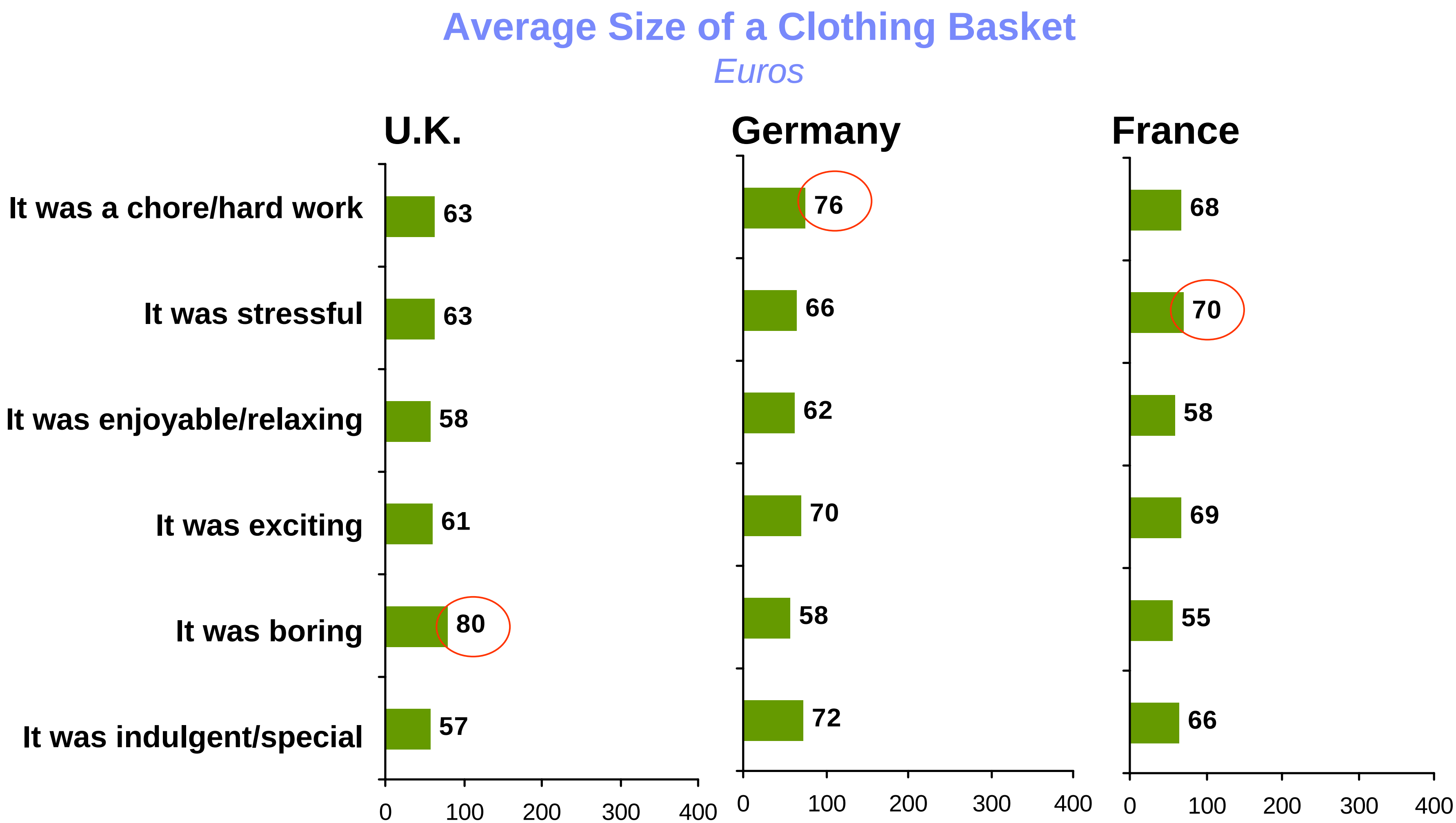
Euros



Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Key findings

In contrast, clothing shoppers who reported a negative emotion were the highest spenders



Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Therefore, connecting with customers can influence basket size and improve the overall shopping experience

3

The Importance of Connecting with Customers

- The relationship between the ***emotions and spending patterns*** of grocery and consumer electronics shoppers shows ***how vital it is to engage with customers during the shopping experience***
  - When customers feel engaged and excited, they stay longer in a store and spend more money
  - When they feel bored or regard the trip as hard work, they spend less
- The apparently ***negative connection between the mood and expenditure of clothing shoppers may reflect the difficulty of buying clothes***
  - It is a much more personal matter and it is often also hard finding clothes that fit, finding the right outfit or finding the right size in stock
- So the ***challenge for clothing retailers in particular is to concentrate on making the experience as painless as they can***; for example
  - Maintaining high in-stock levels on key items
  - Making it convenient for customers to purchase product that is unavailable while they are shopping

Key findings

Fourth finding: Customers want convenience and are ready to embrace new technologies and services

4

Role of Technology Today's Shoppers

- Today's consumers want the ***information they need to make the right decision*** and the ***means to get through the store as efficiently as possible***
- Survey findings show that ***customers in all three countries are actively embracing the Internet***
  - 44% of German respondents, 40% of French and 37% of British reported that the Internet was an important part of their overall shopping process
  - In fact, 70-90% of consumer electronics shoppers across the three countries reported using the Internet primarily to gather technical information, look for ideas about what to buy, compare prices, and search for special offers
- ***Comfort level with other technologies varies across countries***
  - For example, 46% of German respondents said that they felt confident using the automated services which are nowadays available in many stores, versus only 31% of British respondents and 24% of French
- However, ***most respondents were interested in new in-store services and technologies and the French were among the most eager***

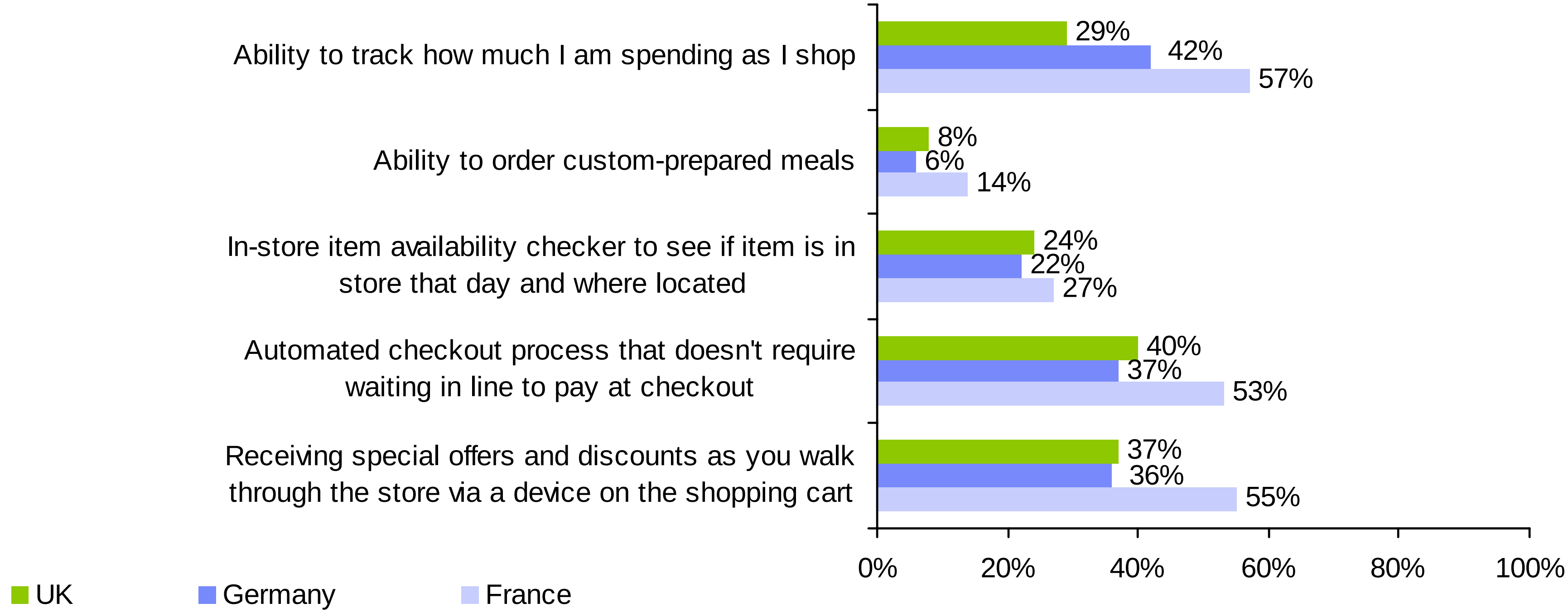
Key findings

For example, grocery shoppers are interested in getting through the store more quickly and having more control of the process

4

Level of interest for new store services and technologies: Grocery

*Percent responding “extremely/strongly interested”**



German respondents’ enthusiasm for being able to track their spending while they were shopping reflects the extent to which they focus on costs

Note: Response of 6 or 7 on a scale from 1-7, where 1 is “not interested at all” and 7 is “extremely interested”
Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

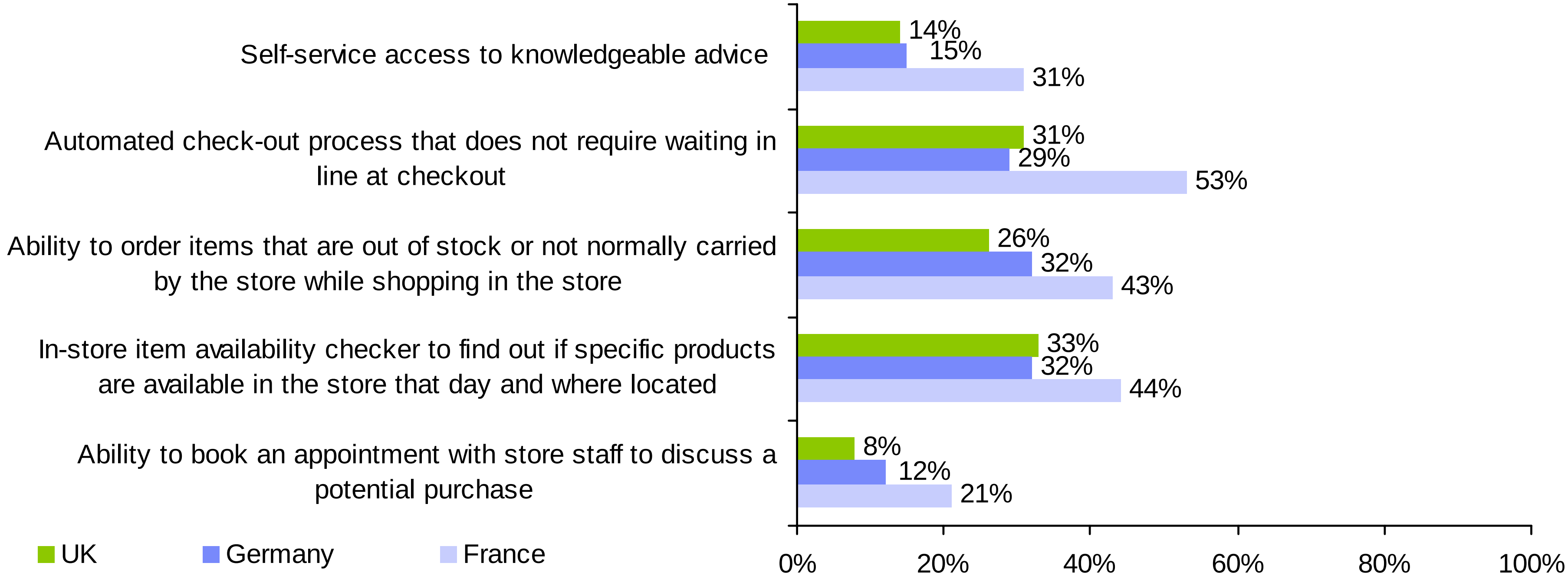
Key findings

Clothing shoppers are concerned with item availability as well as convenience and ease of shopping

4

Level of interest for new store services and technologies: Clothing

*Percent responding "extremely/strongly interested"**



Shoppers' preference for being able to order items they can't find or check the availability of an item reflects their desire to reduce the hassle caused by out-of-stocks.

Note: *Response of 6 or 7 on a scale from 1-7, where 1 is "not interested at all" and 7 is "extremely interested"
Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France.

Beyond the key findings discussed, other interesting national differences exist in spending patterns and shopping channels

Spending

- **French shoppers spend more than their fellow Europeans on groceries**, with an average basket worth €56, vs. €32 for Germans and €48 for the British
- **Germans splurge on clothes** (particularly clothes for work and special occasions), with an average basket worth €66 vs. €60 for the British and €64 for the French
- However, the **French have the best-dressed offspring**; they spend an average €71 per trip buying basic children's wear and make 16 such trips a year (compared with the five trips British parents make and the three trips German parents make)
- The **British spend the smallest sum on clothes, but they spend the most on consumer electronics** (€222) while Germans spend the least (€154)

Channels

- The **French market for groceries and consumer electronics is dominated by Carrefour.** Boutiques play a much more important role in the clothing sector, as do Kiabi, C&A and H&M
- In **Germany, hard discounters Aldi and Lidl** are the two top choices for groceries, and among the top five choices for consumer electronics, after Media Market and Saturn. Aldi is also one of the top five retailers for most clothing missions, together with H&M and C&A
- **In the U.K., Tesco is** the top grocer retailer followed by Asda. It is also among the top ten retailers for most clothing missions and the first choice for customers buying basic clothes and children's clothes. In electronics Tesco is only a minor player as Argos and Comet are in the lead

Source: IBM/ Institute for Business Value and The Store/Kantar 2005 Shopper Survey for U.K., Germany and France .

These shopper survey findings imply three key implications for retailers

Survey Implications

- Provide a more tailored shopping experience that reflects not only who your target customers are but how they want to shop

- Create an emotional connection with your customers by capturing their attention and imagination and building a sense of excitement

- Use technology to satisfy your customers’ shopping needs and expectations

Deeper insights are the foundation for enabling retailers to help customers successfully complete their desired missions

Conclusion

- ***Customers walk into stores every day with specific shopping missions***; it is the task of retailers to provide a product/service offering that stimulates them to make a purchase
- The ***ability to develop relevant offerings requires that retailers have deeper insights***, such as
  - What missions attract customers to their stores
  - What customers need while on those missions
  - How their customers go about shopping
- With these insights, retailers can develop store formats, merchandising and servicing strategies that are more closely aligned with the shopping strategies, needs and preferences of their target customers
- The ***more tailored the experiences*** they provide, the ***more retailers will be able to differentiate themselves from their rivals and the greater the rewards they will reap***