



WINNING CUSTOMERS

LESSONS FROM GERMAN RETAIL

In online retail, winning is everything. Fixed costs may be low but fierce price competition means thin margins which require massive volumes to deliver a profit. With customers able to easily shop around online to find the best deals on the products they want, there's little value in being their second choice.

So who are the winners today and how can you ensure your business is one of the front-runners in the future? How satisfied are customers with what you and your competitors offer? And, in customers' eyes, how do multichannel retailers compare with those who operate purely online?

This article shows how the Oliver Wyman Customer Perception Mapping tool can identify winners and losers and how a Customer Perception Map can be used to inform a winning customer proposition for the online business.

UNDERSTAND WHAT CUSTOMERS REALLY THINK

Simply asking customers how satisfied they are does not tell you why they shop where they do. In addition, because each customer is more familiar with some retailers than others, it does not allow meaningful comparisons between all competitors.



To address this, we have developed a methodology called Customer Perception Mapping.

We ask thousands of customers to make direct, detailed comparisons between different retailers across dozens of shopping attributes. The survey is constructed in a way that allows us to match what consumers say about different retailers with their actual choices about where to shop – to generate fair measurements of how well each retailer is doing in customers’ eyes.

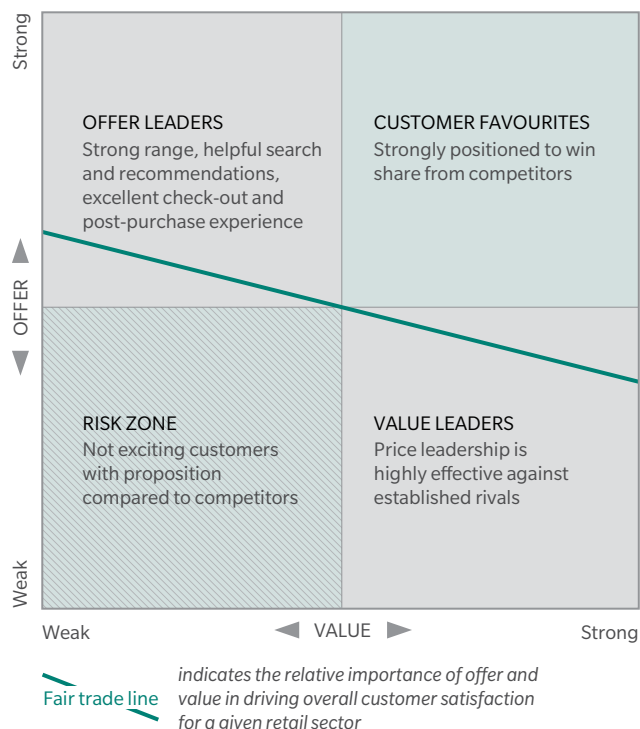
Customer Perception Mapping distils customer satisfaction into two fundamental, independent aspects: offer and value. Effectively, it summarises the retail proposition down to “what customers get” and “what it costs them”. For any given retail market, these two measures can be presented in a single Customer Perception Map that shows how customers view each of the players in each market (see Exhibit 1).

Over the past decade, we’ve applied this approach across many different bricks-and-mortar retail markets in different geographies, and have found the results it generates to be a good leading indicator of financial performance.

USE CUSTOMER PERCEPTION MAPPING TO CREATE A COMPETITIVE ADVANTAGE

The Customer Perception Maps shown in Exhibit 2 paint a high-level picture of online retail in Germany. They identify those who have a winning customer proposition and those who are vulnerable to losing market share. By looking more closely at the detailed customer responses from this dataset, we can suggest three common strategic learnings that apply across geographies.

Exhibit 1: Interpreting a Customer Perception Map



- 1 Amazon does have areas where other retailers could gain a customer advantage.
- 2 Move the battle to the shopping experience.
- 3 Bricks-and-mortar category leaders must upgrade their online proposition.

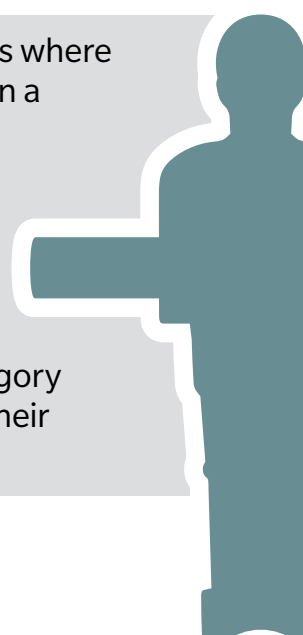
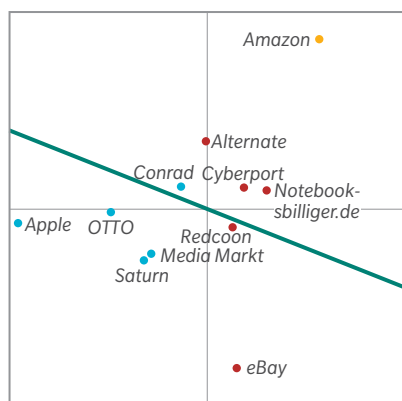
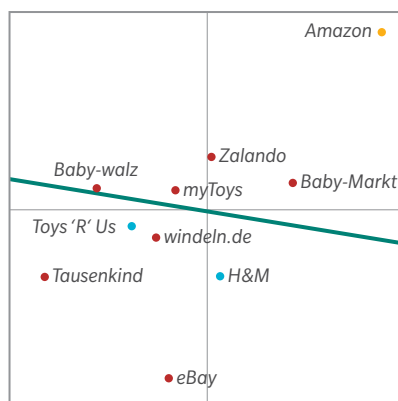


Exhibit 2: Customer Perception Maps for the different retail sectors in Germany

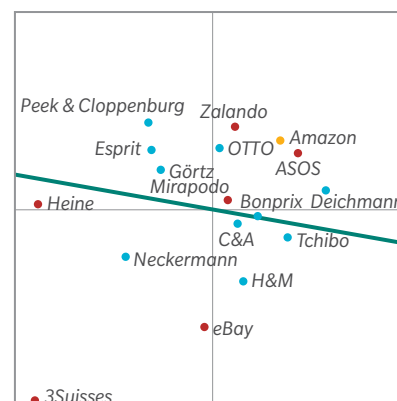
ELECTRONICS



BABY AND CHILDREN



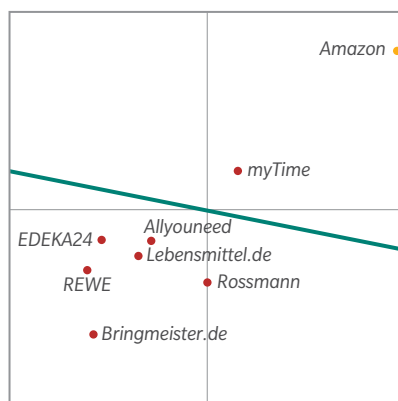
APPAREL AND FOOTWEAR



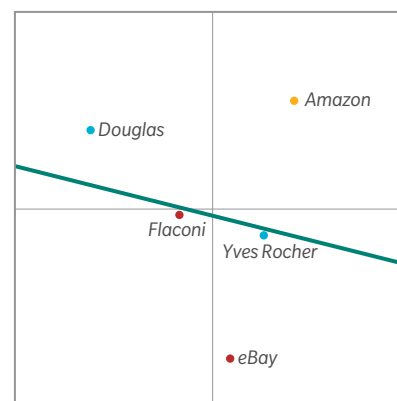
GENERAL RETAIL AND MARKETPLACES



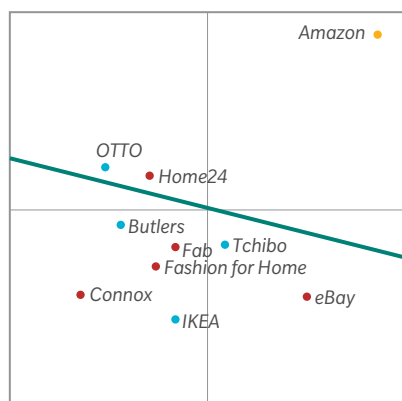
GROCERY



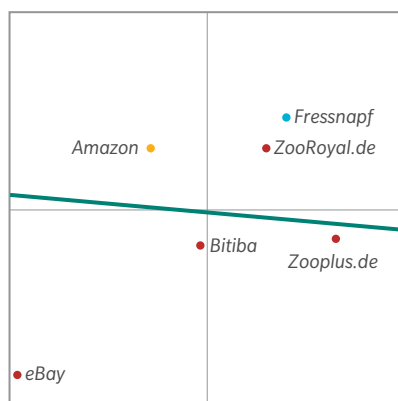
HEALTH AND BEAUTY



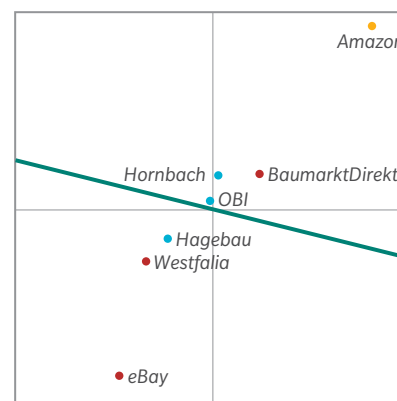
FURNITURE AND HOME DECORATION



PET FOOD



DO-IT-YOURSELF



Online-only retailer

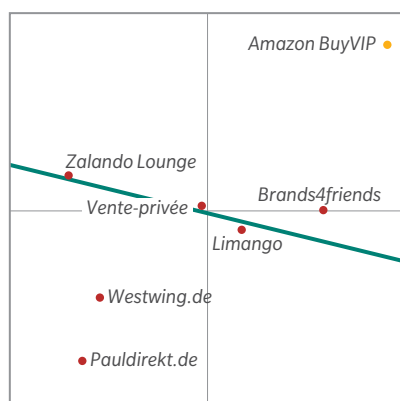


Multichannel retailer

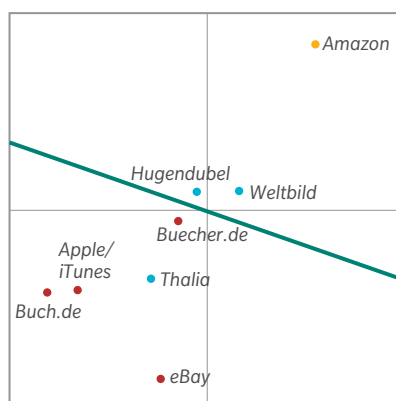


Amazon

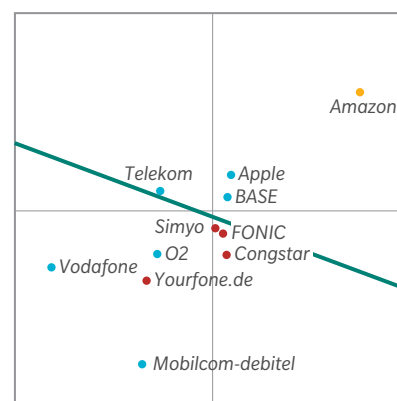
SHOPPING CLUBS



BOOKS



MOBILE



LESSON 1 Amazon does have areas where other retailers could gain a customer advantage

In every sector shown in Exhibit 2, Amazon scores highly out of the 12 sectors investigated and it was the clear customer favourite in ten. Clothing and shoes and pet food are the only exceptions: here, Amazon trails the category leader overall and ranks no higher than third in the market for either value or offer.

In addition, although Amazon's proposition is strong overall, there are four specific areas where it displays some vulnerability, shown in Exhibit 3.

Exhibit 3: Four areas where other online retailers could win the customer battle against Amazon

VALUE

Amazon's weakest area is the low number of promotions it runs, which reflects their decreased aggression around price and discounting. Amazon scores relatively poorly on this dimension across all sectors, even those where its rating for other aspects of value is high. There seems little doubt that customers have noticed this change, but it remains to be seen whether it will ultimately be enough to cause any significant damage.

Range is generally Amazon's greatest strength, but it is sometimes beaten by at least one competitor that offers a better range of premium products. The perceived gap is, admittedly, small – but as with product discovery and selection, a category killer's focused, tailored proposition could create an advantage.

RANGE

PRODUCT DISCOVERY AND SELECTION

Product specialists often seem to beat Amazon on certain dimensions: expert advice, product filters, and the usefulness of pictures and videos provided. This is particularly true in categories where shopping is more emotional or subjective – clothes and shoes, furniture and home decoration, baby and children, and, to a lesser degree, beauty and pet food. This might be an area in which Amazon's broad scope turns out to be a disadvantage, and sectors where searching is complicated may be better served by a specialised online shop.

This tends to be one of Amazon's strengths, as would be expected given its Prime service and strong focus on logistics excellence. Even so, it shows some weaknesses on ease of collection and returns, as well as on customer service.

PURCHASE AND POST-PURCHASE EXPERIENCE





LESSON 2 || Move the battle to the shopping experience

Online, location is irrelevant, price transparency is all but perfect, and retailers can offer a broad range of products. Such characteristics of a retail proposition might have been of marginal significance in the bricks-and-mortar world, but they now give the advantage to online players. Similarly, each of the three following areas plays a much stronger role in customer satisfaction with online shopping than with retail:

- Ease of use
- Product recommendations
- Checkout experience.

Clicking through an app or web page is not the same as browsing products on a shelf in front of you, and customers are often looking for more guidance. It means that winning in online retail is not all about offering lower prices or a broader product range – you probably will not be able to. Instead, retailers – and particularly multichannel retailers – must leverage these other sources of competitive advantage, as explained in the article *Changing the Rules: Viable Models for E-Commerce*.

LESSON 3 || Bricks-and-mortar category leaders must upgrade their online proposition

In general, customers see traditional bricks-and-mortar category leaders trail as inferior to their newer online competitors. The specific gaps vary across sectors and across retailers but, in general, poor competitiveness falls into three categories:

1. **Lack of scale**
Typically affects product range, product reviews, and technology-enabled recommendations
2. **Lack of commercial aggressiveness**
Exhibited in the delivery charges, returns policy, and pricing
3. **Lack of excellence**
Where a company is behind the curve in the development of digital products such as product display, shop usability, and filter options.

Traditional retailers need to upgrade their offer attractiveness quickly: they risk being squeezed out by sector leaders who have scale advantages that not only reduce costs but also allow them to deliver superior offer quality. Scale advantages in online retail take many forms – compounding the winner-takes-all nature of the market:

- It becomes more economical to invest in a superior digital experience
- Big data plays an essential role in supporting customers in product discovery and selection
- Network effects in product ratings, reviews, and recommendations come into play.



CONCLUDING REMARKS

In terms of customers' perceptions, it's clear that, in Germany, Amazon has a big lead over almost all other retailers in almost all markets, and this is likely to be the case in many other countries as well. Their only obvious weakness is in situations where the purchase decision is particularly complex, purchase occasions where a tailored shopping experience and a more comprehensive high-end range can allow a specialist retailer to deliver a more attractive proposition. In fact, the importance of recommendations, ease of use, and service as competitive weapons is likely to drive increasing specialisation in both pure online and multichannel retail over the next few years – perhaps offering some significant growth opportunities.

Beyond this, how customers view different online retailers has strong implications for established bricks-and-mortar players. Today, they are rated poorly

compared to newer, pure e-commerce operators; to compete successfully online, they will need to raise their game significantly. And this means more than just competing more aggressively on the “traditional” retail levers of price and range – ease of use and the shopping experience also have an important influence on where online customers choose to shop.

Some of the traditional retailers' weaknesses are the result of deliberate decisions not to invest: to protect margins and live with the competitiveness gap that results. This is understandably tempting from a short-term perspective – and indeed, in some cases it might be unaffordable to do anything else. But in the longer term, it may fatally undermine their ability to compete online.

While Amazon is a customer favourite in **80%+** online categories, there are vulnerabilities for the savvy retailer to exploit.

