# Digital equality

## THREE STEPS TO BETTER SERVE LOW-INCOME CONSUMERS ONLINE

**George Faigen and Chris Baker**

Digital has been one of the most discussed trends in retail over the past decade. This is not just hype: Many sectors have seen exponential growth of online sales, and almost every product category has been affected to some degree. In our view, though, all the existing commentary about online retail's growth ignores the challenges and opportunities around low-income consumers. Despite comprising a significant minority in developed markets and a majority in others, this group is not well served by many online propositions. In response, we have written this article to explain why low-income shoppers are important; to explore the difficulties they face when shopping online; and reveal three ways retailers in developed economies can respond to serve these consumers.

Our research suggests that, as the gap between the highest and lowest incomes widens, the opportunities for building any type of proposition for low-income customers become more significant. In many situations, including where the market is not growing fast enough to keep owners and shareholders happy, retailers cannot afford to ignore the importance of low-income shoppers. For example, the bottom 30 percent of earners still represent 20 percent of grocery spend in the US, 19 percent in the UK, and 22 percent in Russia.

Low-income consumers are increasingly tech savvy and possess better technology than ever before. Despite increased online access, growth of online spend in this group has been much slower than that of middle- and higher-income consumers.

To attract more low-income customers to their online propositions, we think there are three main areas for retailers to focus on:

1. Develop low-cost fulfillment options.
2. Offer flexible payment methods.
3. Improve the mobile experience.

## 1. DEVELOP LOW-COST FULFILLMENT OPTIONS

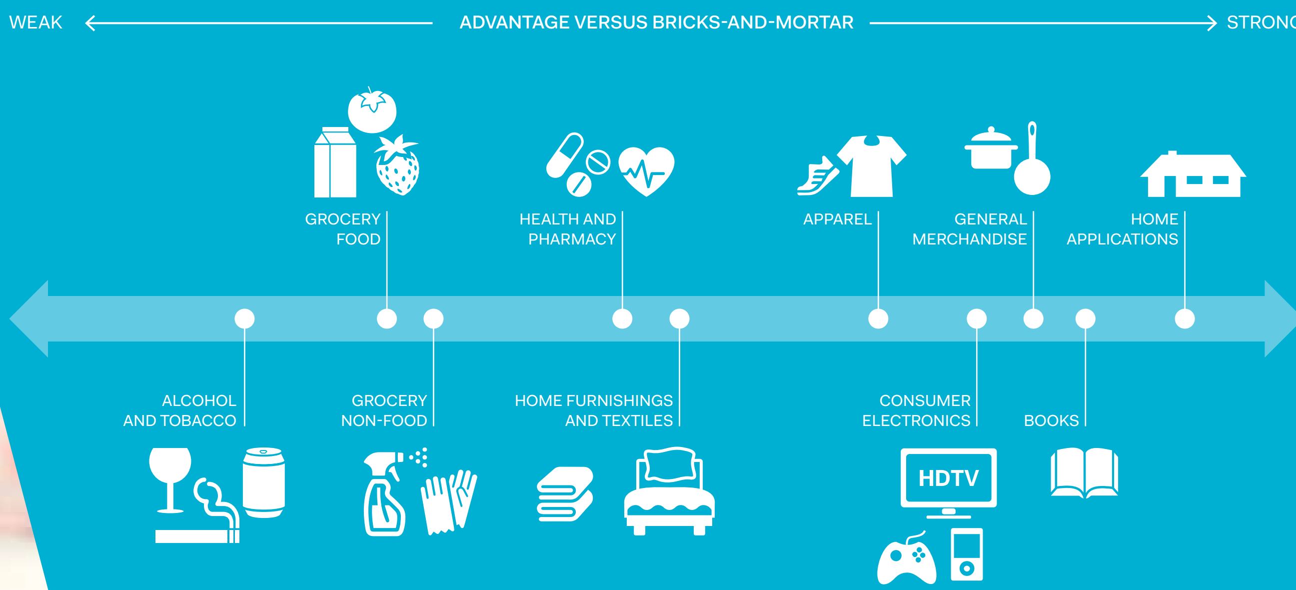
The cost structure of an online retailer is very different from that of a bricks-and-mortar business. On the one hand, an online retailer benefits from carrying less inventory, less shrink, less real estate, and fewer front-line staff. On the other hand, they face higher costs on the supply chain side, especially for item handling and return shipping costs.

In certain product categories, costs cancel out in a way that favors online retail. These are the categories where online sales have captured over 50 percent of the market, such as books, music, and movies. In contrast, in categories such as home furnishings, alcohol, and food, handling and supply-chain costs significantly outweigh other savings, making it more expensive to serve customers online. (See Exhibit 1.)

In product categories where shopping online adds cost to the business model, some of these costs are usually passed on to consumers as delivery charges.

SOURCES
Consumer Expenditure Survey, US Bureau of Labor Statistics 2015; Family Spending 2014, UK Office for National Statistics; Russian Federation Federal State Statistics Service 2015

Exhibit 1: Comparative cost advantage of online retail versus bricks-and-mortar business




This can require a larger upfront cash outlay than is feasible for consumers living from one payday to the next. Even Amazon only offers free shipping with a paid membership, or with long delivery times, or only for select products or large spends.

The simple fact is that, for low-income consumers, it doesn't make sense to pay someone else to pick your order and deliver to your house when you could do this yourself. To serve these consumers, retailers will have to become more flexible about which specific elements of the online value chain they execute for customers, and conversely, which elements they let customers execute for themselves, in order to reduce costs and prices.

An obvious step is to eliminate last-mile costs by providing pickup points or click & collect; this proposition is popular in France for online grocery shopping (see Case Study). In the future, other ways to reduce last-mile costs could include incentives for customers in the same area to share deliveries or pickup orders for friends and neighbors.

These approaches could be used not only to neutralize a cost disadvantage in categories such as fresh food, where last-mile expenses are a real issue, but also to fund additional price reductions in categories where selling online is already cheaper than in store.

## 2. OFFER FLEXIBLE PAYMENT METHODS

Many low-income customers are also underserved by banks and they either prefer to pay in cash, or indeed, are forced to do so due to a lack of other options. In the UK, 7 percent of customers in the bottom 40 percent of incomes don't have a debit card, whereas in Germany, France, and the US the figure is 13 percent, 24 percent, and 33 percent of customers, respectively. The problem is even more pronounced in the less advanced economies: In South Africa, 60 percent of customers in the bottom 40 percent of incomes lack access to a debit card, and in Russia the number is 64 percent.

To address this inequality, retailers need to create ways for online customers to pay in cash. One option is allowing for cash payment at a pickup point, which also, of course, addresses last-mile costs. Walmart's click-and-collect program in the US already enables this type of payment.

Another option, especially for large retailers, would be helping lower-income customers manage their banking needs, for example, by issuing prepaid cards that customers can top up with cash.

Indeed, such a system could help some consumers save by locking away cash, and could be expanded to include a credit facility to help customers manage between paydays.

Similarly, it is possible to sell products online that are then paid for in installments. For example, UK online retailer Very allows customers to pay before delivery, or pay in three interest-free installments over three months, or use their credit service to spread the cost further. This flexibility has provided their customers with a unique proposition not available at other low-cost, fast-fashion shopping websites.

Flexible payment methods would also allow lower-income customers to benefit from bulk order discounts, which are often not possible because the initial outlay is just too high. To assist, retailers could find ways to help their lower-income customers plan beyond their current funds. Layaway programs, for example, where customers can reserve a product and pay in installments, have made a comeback in recent years. Now is the time for retailers to think about offering an equivalent service for big, bulk, online shops that can be dropped off at a local store or convenient pickup point.

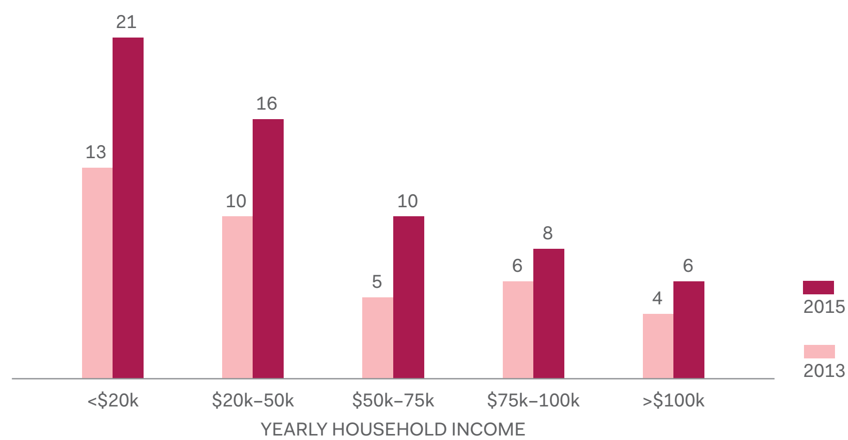
SOURCE: Asli Demirguc-Kunt and Leora Klapper, 2012, Measuring Financial Inclusion: The Global Findex Database

## 3. IMPROVE THE MOBILE EXPERIENCE

With the rise of smartphones and public Wi-Fi hotspots, many people on a low income can get good internet access, and they are the people most likely to be using their phone as their primary way to get online. (See Exhibit 2.)

This development represents a new and significant opportunity for retailers who wish to support these customers. Currently, however, too many mobile commerce (or "m-commerce") sites are simply smaller versions of the full website, and completing a complex transaction like purchasing groceries, clothes, or electronics can be tedious and difficult on a small screen.

Exhibit 2: Percentage of US adults who access the internet at home by smartphone only




Source: US Digital Users: The eMarketer Forecast for 2016

Investing in a version of the website that is custom-formatted for mobile browsing and purchasing is essential to capture the orders and reorders of customers who use their phone for shopping.

Beyond an easy-to-use mobile site, some retailers have tried to simplify online ordering with features that are not budget friendly. For example, both Amazon's automatic reorder buttons for household items and FreshDirect's click-to-buy recipes save time for middle- and high-income customers. However, in their current form, these systems reduce or erase the price transparency that is critical for lower-income consumers.

Retail leaders are investing in their mobile shopping experiences and designing new features that save both time and money. For low-income customers, this could be a grocery app that allows customers to set their own unique budget, or customize dietary preferences to generate their own weekly shopping list and meal plan. Similarly, a general merchandise retailer who provides parents with a pre-assembled order of school supplies at the lowest possible cost – perhaps allowing the family to start making payments months in advance – might be a very attractive option for many low-income shoppers.

## CONCLUSION

Online shopping will continue to grow across multiple product categories, but many retailers are missing the opportunity to reach out to their competitor's low-income customers who would like to shop online. Serving this group will require developing new and creative solutions, as well as reinventing parts of their bricks-and-mortar experience for the digital age. However, significant numbers of low-income consumers are likely to shift their retail spend to those retailers who offer a range of services designed specifically to meet their online shopping needs.

CASE STUDY

# CREATING AND MAINTAINING A SUCCESSFUL CLICK-AND-COLLECT BUSINESS MODEL

Introduced in 2004, the click-and-collect format known as Drive has gone on to win 5 percent of grocery sales in France. Auchan and Leclerc were the pioneers of the format, which provided a cheap alternative to home delivery for online orders, and they were able to use it as an advantage over the competition.

With click-and-collect sales plateauing, French grocers are now innovating again to stay ahead. Two solutions are currently being played out:

1. Offering a reduced product range compared to hypermarkets (8,000 SKUs versus 30,000), with 45 percent of products representing their own white label brand (with higher margins). In the remaining product space, suppliers are left to battle it out to be included, giving grocers a better position in negotiations. The result is significantly better online profit levels, some of which can be passed on to consumers in the form of lower costs.
2. Moving from in-store picking for online orders to fulfilling orders from a dark store or central warehouse. This can cut order preparation time by half – on average from 40 minutes to 20 – and thus cut cost from the system.