THE FUTURE OF RETAIL IS OMNICHANNEL

MOST CONSUMERS LOVE THE IDEA OF SHOPPING ONLINE, BUT SHARE REMAINS LOW. WHY?

People hate shopping online because the web interface can be slow and clunky, providing poor photos and confusing information. Delivery costs are high and waiting at home for a delivery is inconvenient. Worst of all, there is rarely anyone to speak to for help.

People love shopping online because they can consult a limitless catalogue, filter rapidly by feature and price, and consult user and expert reviews. They can also compare retailers for the best prices. Best of all, they can skip physical stores' check out queues and the traffic jams en route.

An omnichannel model that gives consumers the best aspects of traditional shopping – and spares them the worst – will be a key to the future of retail. Online shopping has already taken over sectors such as music. Yet in other sectors, such as in food, it has been slow to spread.

Our 2017 Digital Shopping survey shows that over 70% of consumers are open to shopping online: they either already shop online regularly, or would switch if the experience or value for money improved. While there is a slightly higher prevalence amongst under-45s, even our 60+ age group was 50–60% open to online shopping for at least some products. Despite this, online sales still only account for 15 percent of the non-food market in much of North America and Europe, and just 3 percent in food.

Two factors in particular have been blocking greater penetration by retailers' online businesses to date, thus holding up the growth of online or omnichannel retail overall: the digital shopping experience and the costs of fulfilment and last-mile delivery. However, we think developments in both areas will lead to big advances.

MAKE IT FUN, MAKE IT EASY

The online shopping experience has come a long way in the past 15 years. Still, for many shoppers online browsing is not as intuitive as walking through a store – particularly when assembling complex baskets as customers do for groceries. For customers who are less comfortable with the web or mobile browsers, voice-recognition technology such as Amazon's Alexa or Google Home could help make digital shopping a daily activity. Further innovations – for instance through augmented and virtual reality – could make the online experience more compelling, and add some of the theatre put on by physical stores. For example, VR applications that let consumers experiment with different looks help sell make-up online.

In some respects, the digital experience has the potential even to surpass physical stores. Some sectors might develop personalized curation services, such as those offered by Cladwell and Thread. These provide customers the advice they would get from the best stores – perhaps better, as they work with algorithms that know far more about the customer than even the best shop assistants. This kind of digital technology will advance the more it is used, because it improves after training on larger, more-diverse data sets. It could be licensed to multiple retailers, saving them the development costs.

Efficient fulfilment and last mile operations are essential for all retailers, as the costs of picking and delivering online orders are substantial. In food, for example, delivery fees can run to over 10 percent of the average basket, discouraging new customers. Today, retailers typically either pass some of these costs on to the customer through high fees or a large minimum order, or they take a profit hit from absorbing these – which means they tend to offer fewer delivery slots to save costs. So reducing the cost of last-mile delivery will be the key to improving this aspect of the consumer experience and increasing adoption.

By understanding these drivers, we can model the effects of rising consumer demand, fees and other barriers, and the supply-side cost structures of different countries. We can then predict the likely online share in each sector under different scenarios. The UK is one of the world's most advanced grocery markets, but costly packaging and delivery still necessitate

Exhibit 1: We believe "blocker removal" has driven and will continue to drive customer adoption

Current blockers of online food, about to be addressed

Source: Oliver Wyman analysis

fees or minimum basket sizes. Our prediction shows that if current fee levels persist in the UK, then the online share of food retail will probably peak at 8 percent, not far above the current level of 6 percent. However, if costs decline and fees disappear, online share could rise to 16 percent by 2030, and continue on up. It will be easier to reduce delivery costs in densely populated areas, where a large number of deliveries can be made in a given journey time. But if cost-effective delivery also becomes feasible in sparsely populated areas, the online share of food might be as high as 19 percent by 2030.

PARTNERSHIPS SAVE TIME AND MONEY

To date, many retailers have struggled to deliver these improvements in online shopping. Some of the new capabilities are costly to develop, and many physical retailers lack the right skills. They also have less innovation in their DNA; they face a higher cost of capital than online incumbents and well-funded startups; and they fear that their efforts could result in self-cannibalization.

One solution – which is becoming more prominent – is to obtain the necessary capabilities from elsewhere. Traditionally, a store has sent round its own truck for home deliveries, but from now someone else might fulfil the task, as DHL does for Amazon Fresh in Germany. A greater variety of services will likely crop up: Passive-cooling packaging is widening the range of options, as non-refrigerated vehicles can be used. That might allow Uber-Eats-type arrangements to emerge, with retailers taking advantage of networks of freelancers. In future, delivery might be supplied as a utility. To enhance the shopping experience, rather than trying to develop voice recognition algorithms in-house, Walmart has partnered with Google Home to use its mature software to deliver a seamless voice-ordering experience.

Forming this kind of partnership is far from straightforward, but retailers of all sizes are increasingly adopting the tactic. Smaller supermarkets such as Morrisons are turning to Ocado, an online supermarket with no stores of its own. Primark, GNC, and Trader Joe's are partnering with e-commerce platform specialists such as Aptos.

So, the consumer of the future will increasingly make purchases online. Penetration will increase with changes in attitude and technical literacy, but mainly because of barrier removal: innovations that make e-commerce more efficient and more fun. The winners in the new era will be those who beat the peloton to offer these sooner, without wasting millions on doomed attempts to develop capabilities in-house. Once the right technical or business process solutions have been found, they can be adopted rapidly across the industry thanks to the rise of specialists and strategic partnerships – which will be major accelerators of online penetration.

Consumers may soon find they have many more reasons to love online shopping than before – and shift their habits accordingly.