

TRANSITIONS

HOW FAR HAVE YOU GOT ON YOUR JOURNEY TO NEW CONSUMER CENTRAL?



CONTENTS

	WHO'S DRIVING NOW?	1
1	RECESSIONARY AND POST RECESSIONARY CONSUMERS	2
2	THE NEW CONSUMER IN THE LONGER TERM	4
3	IMPLICATIONS FOR BUSINESSES	12
4	ADAPTING TO THE AGE OF PRIMARNI	16
5	CONTRIBUTORS AND KEY SOURCES	20

IN FEBRUARY 2010 BDO ANNOUNCED A SERIES OF REPORTS OUTLINING HOW THE POST-RECESSION LANDSCAPE IS CHANGING FOR BUSINESSES IN THE UK. THIS IS THE SECOND OF THESE REPORTS. ITS FOCUS IS THE TRANSITION TO THE NEW CONSUMER.

THE RAVAGES OF RECESSION

As we emerge from the deepest recession in a generation, we do so with collateral damage in the high street and within consumer lifestyles. The casualty list includes retailers Adams, Borders, Coffee Republic, Dolcis, Faith, Woolworths and holiday service providers Kiss Flights, Goldtrail and Scantours . . . among many others.

But, has the recession also scarred consumers for life? Has it changed us and the way we shop, save or use services?

Will recent consumer shifts towards value and simplicity be a long-term legacy, or will consumers quickly shrug off austerity?

The consumer is a curious beast – a sophisticated hunter-gatherer, perhaps – rarely acting entirely logically. By human nature the consumer is resilient and will adapt to change, but, when faced with change, human intelligence invariably seeks the most beneficial future option for itself.

THE GOOD NEWS . . . BAD NEWS

At BDO, we believe that consumer spending will recover and continue to grow. The problem is that it appears the post-recession consumer is evolving into a more astute and demanding consumer – a canny, if not cautious, customer for whom the one-fit consumer model and pre-recession marketing of retail operators will increasingly not work.

WHO'S DRIVING NOW?

THE RECESSION HIT OUR ECONOMY AS EFFECTIVELY AS A DRIVING EXAMINER SLAPPING THE DASHBOARD AND CALLING AN EMERGENCY STOP. UK PLC REACTED AS IF THE LEARNER HAD HIT BOTH BRAKE AND ACCELERATOR. THE ENGINE STALLED.

We've got it going again now but as a driver we are perhaps less confident, and under examination worldwide perhaps viewed as less able. But, it doesn't mean that we'll fail the test!

The recession brought reality to the fore, and the recognition of a new world order. That's good. We can now concentrate on our true economic strengths rather than suffering from the 'hangover' of empire and trying to compete above our weight.

The rise of the Eastern economies (significantly China and India) will take the world back to a more natural economic balance, and the UK's world economic position will settle to an appropriate level.

The days of double-digit growth have passed. We are entering the era of harder for longer for less. And that applies to the consumer sector too.

Despite the initial financial crisis frenzy, and the ferocious speed of the recessionary storm stoked by the doom and gloom media coverage, we believe that this recession is much like previous ones – with a subtle but important difference.

The recession acted as a catalyst for consumer behavioural change.

We argue that the recession has accelerated (or decelerated) consumer behaviour trends that were slight but already in play. For example, it accelerated the desire for a meaningful personal experience and decelerated the ethical and green agenda. Decelerated is not the same as stopped – those trends are still here and will return.

Either way, either side of the recession we have moved from conspicuous consumption to considered consumption. Customers are beginning to drive the consumer market.

This is an important evolutionary change but one for which UK plc has significant advantages and proven skills that will help it drive its own recovery in home and international sectors.

- Location/time-zone: we are a fulcrum between the world's two largest economies – USA and China.
- Our well developed economy is entering an extended period of 1 per cent – 2 per cent growth.
- Language: empire's greatest bequest has ensured English is the language of choice for worldwide business.
- Education, IT, marketing, and financial services: disciplines required to build world class businesses and disciplines where we have world class expertise.
- Retail, leisure and hospitality operators, many of whom are world class and have honed their skills and expertise in a local market place that has been fiercely competitive.

We are also of the view that consumer spending will continue to grow – though we all need to get used to the new reality.

Don Williams
Partner, BDO
National Head of Retail



RECESSIONARY AND POST RECESSIONARY CONSUMERS

A BIG ECONOMIC DOWN-TURN INEVITABLY AFFECTS CONSUMERS AND THE BUSINESSES THAT SERVE THEM. FORTUNATELY, THERE HAVE BEEN DOWN-TURNS BEFORE, AND, FOR THOSE WELL PLACED TO SURVIVE, THEY HAVE SOME LESSONS TO TELL ABOUT HOW CONSUMERS WILL REACT THIS TIME.

THE NEW CONSUMER – SHORT TERM

- Debt adverse
- Equating value with utility
- Still wanting enjoyment
- Looking for longevity
- Suspicious of big business
- Shopping intelligently; researching more
- Brand and price savvy
- Impatient with poor service levels
- Make do and mend now a consideration

LEARNING TO LIVE WITH NEW VALUES

In 1939 economist Joseph A. Schumpeter predicted trouble whenever debt was "lightheartedly incurred by people who foresaw nothing but booms." In 2010 as in the aftermaths of previous economic contractions, consumers are keen to pay down rather than ratchet up debt. Credit cards are now fewer in number and cooler in temperature. Debt is less available, and nervousness about job security inevitably makes consumers think twice before taking on an extra commitment. Reflecting on this, Eric Janszen wrote in Harvard Business Review in July 2009 that those wishing to sell to the new consumer would have to get used to a consumer unwilling or unable to pay for their consumerist urges with debt. "To win over newly tight-fisted, debt-averse consumers, companies will need to follow the path of firms that succeeded in previous downturns by promoting

CASE STUDY

RECESSION BEATER

Lifestyle retailer The White Company continued to successfully build a brand during the recession based on quality products and excellent customer service. A clever transactional website has underpinned its success.

The economic crisis has also bred cynicism, particularly about financial services. The new consumer, even though more inclined to save, seems to be less inclined to provide for their pension; less likely to buy expensive insurance with their products.

value and utility over luxury and brand.” Morrisons’ primary school uniform range at £2 per item, whatever the item, catches the mood of the moment.

MORE OF THE SAME, OR WILL LESS BE MORE?

It’s important not to over-react. In their pursuit of value and utility new consumers are not contenting themselves with second best. Despite the financial crisis, it was interesting how many people were caught overseas at Easter when Eyjafjallajökull blew its top. It is exploding volcanoes and striking airlines rather than personal economic crises that are persuading more consumers to think about taking holidays closer to home.

What’s true for holidays appears true for other luxuries of life. Perhaps consumers will want the same size bottle for less, or be less inclined to buy the next model up with its unnecessary optional extras, because value for money has become more important than ever. Sainsbury’s reasonably successful economic downturn has come as a consequence of being able to demonstrate value for low cost. Consumers still want to buy – and not just life’s necessities.

SECTORS THAT PAY

Some sectors seem more affected than others. There is some evidence that people are eating and drinking out less and at home more. Drinking at home is cheaper than drinking out. Those still eating out are looking to take advantage of whatever deal they can. An increasing number will only eat where they can take advantage of a discount voucher. Indeed, informal markets for discount vouchers are already emerging on the internet.

Value means that new consumers are looking more for quality and longevity when purchasing products. The new car will be kept for longer than three years; the TV won’t be replaced for the latest new model. Consumers interested in value, quality and longevity are also more willing to complain. The service component in a retail proposition is now more important than ever.

The economic crisis has also bred cynicism, particularly about financial services. The new consumer, even though more inclined to save, seems to be less inclined to provide for their pension; less likely to buy expensive insurance with their products. Research by Boston Consulting Group among 12,000 respondents in 14 countries shows that more than half believe the financial crisis has intensified their distrust of big business in general.

1

A recession and recovery like any other but with a subtle difference. This time recovery will be elongated as customers' disposable income will be under pressure unlike in previous recessions. It is important to unpack short term behaviour as a reaction to recession and longer term trends.

EFFECTIVE SPENDING

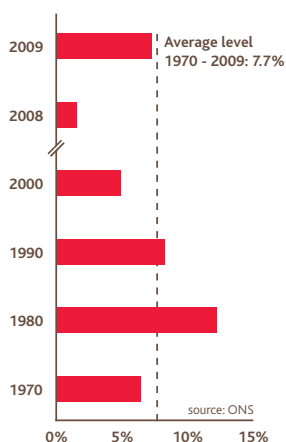
The truth is that the new consumers on their journey into the future are willing to be persuaded to spend, but they're looking to spend more effectively. Effective spending, though triggered by the recession, encourages innovation. Low-cost airlines have stoked up the market for short breaks. Almost half of British shoppers are actively looking for new groceries, according to international food and grocery researchers IGD.

The new 'value retailers' are reinventing previously tired sectors of the retail industry. Retail guru Mary Portas, talking to The Scotsman, reckons that the charity shop sector is due for a resurgence. "There is a return by consumers to a more intelligent way of shopping, and I think it's now clever to shop in charity shops," she says. "We've gone through 15 years of really high consumption where fast fashion and very cheap value fashion affected people's shopping habits. Now, with the financial crisis and the environmental crisis, there's a slower way that people are consuming and there's a more sophisticated approach to consumerism. So to me charity shops are like, whoopeedoo!"

A recession and recovery like any other but with a subtle difference. This time recovery will be elongated as customers' disposable income will be under pressure unlike in previous recessions. It is important to unpack short term behaviour as a reaction to recession and longer term trends.

HOUSEHOLD SAVINGS RATIO 1970 - 2009

Consumer saving levels are back to historical average levels



THE CONSUMER

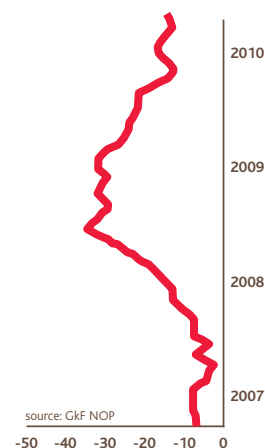
SPENDING LESS BUT STILL WANTING TO SPEND



WHAT'S BEEN PUT ON HOLD ?
GREEN | BLING | ETHICS

CONSUMER CONFIDENCE 2007 - 2010

Consumer confidence remains fragile, but is much improved



RECESSION WINNERS

Sainsburys
Asos
Whitbread
Nandos
Dominos Pizza
Love Film

RECESSION LOSERS

Asda
Marks & Spencer
Punch
Mitchells & Butlers
Luminar
HMV

SWITCHING BRANDS

Reduced levels of brand loyalty

SMARTER BUYING

Hunting for value through the internet

TRADING DOWN

Purchasing cheaper goods & services that offer better perceived value

increased advertising, loyalty programmes, discount vouchers, brand partnerships

multichannel formats, price comparison sites, social media, price matching

lower entry price points, own-labels, product unbundling, new product innovation



ONE FIT CONSUMER MODEL NO LONGER WORKS

THE OPERATOR

OPERATOR REACTIONS



THE NEW CONSUMER IN THE LONGER TERM

SUPPLIERS OF GOODS AND SERVICES TO CONSUMERS NEED TO MAKE LONG-TERM INVESTMENT DECISIONS. TEMPORARY SHIFTS IN CONSUMER BEHAVIOUR – EVEN IF THEY LAST A COUPLE OF YEARS – ARE FAR LESS SIGNIFICANT THAN LONGER TERM TRENDS. OUR VIEW IS THAT MANY OF THE CHANGES SUPPOSEDLY TRIGGERED BY THE RECESSION WERE IN PLAY ANYWAY, BUT NOW THEY ARE UNDER THE FLOODLIGHTS.

THE NEW CONSUMER – LONGER TERM

- Ecologically aware
- Decline in respect for institutions
- Demand for simplicity
- Considered rather than conspicuous consumption
- Demand for service as well as product
- Newly defined consumer segments
- Consumption merging with entertainment, socialising, information
- Demand to be treated as an individual
- Continued impatience with poor service
- Price conscious and well researched
- Wanting to be enticed to spend through a great service experience and product innovation
- Wants to spend wherever, whenever and however they want

SPOTTING THE REAL TRENDS

What are the changes in consumers that matter?

Greater ecological awareness has led many new consumers to question their commitment to the throwaway economy – even if a product is 100 per cent recyclable. New consumers, looking for value and longevity, tend to flit from one retailer to another and have an increasing reluctance to demonstrate blind brand loyalty. British scholars Paul Flatters and Michael Willmott report in Harvard Business Review that both these trends were happening anyway – but the recession might have speeded them up. Other trends, they argue, might have been slowed down by the recession – such as ethical consumption and extreme-experience seeking. Commitment to the green economy might have been

dimmed by the recession, but will come back in the long term. Other long term trends that Flatters and Willmott predict include a decline in respect for institutions and authority, and an increasing demand for uncomplicated, user-friendly products that simplify new consumers' lives.

CONSIDERED CONSUMPTION NEEDS CONSIDERED RETAILING

Before the recession really bit, the conspicuous consumption and excesses of the pre-credit crunch era were already being replaced by a more considered consumption. Consumers have been getting bored of being flash. As *The Economist* put it a few months ago: "Now many people no longer seem consumed by the desire to consume."

The model of the City banker aiming to impress his client by downing £300 bottles of wine over dinner, is being replaced by the social entrepreneur who, through his contacts, knows a small family restaurant in SW4 whose chef understands lamb chops like no-one else this side of Paris. The considered consumer is one less impressed by size, or volume, or unnecessary extras, or even excess variety.

Considered consumers want what's right, and will expect 'considered retailers' to supply it without obliging their customers to fight through aisles of stuff that's wrong. 'What's right' includes matters of geography, ecology, seasonality, and a fair distribution of reward up and down the supply chain. New consumers want to be responsible but don't know how, and expect new retailers to help them. New consumers want to know that their strawberries come from Hertfordshire, not from England; they want their potatoes in March to be local and 'old' rather than to be imported and 'new'. Waitrose is already doing this by prominently displaying the county of origin.

At the same time, considered consumers have a different take on what it means to be individualistic. The ostentatious individualism that reflected a commercial environment in which competition ran unbridled is being replaced with a greater sense of collectivism. Teenagers will continue to mix top dollar premium branded clothing with that purchased from a value chain. We are firmly in the age of 'Primarni'.

Additionally, we may see a trend of borrowing gear and wearing each other's clothes. Conversely, the old rush for everyone to be seen sporting the same insignia is being replaced with the importance of the quirky, idiosyncratic, characterful use of the hand-me-down, and often 'brand-me-down'.

In a web-dominated world it is easier to tailor product and service to the particular needs of the individual. Rather than expecting individuals to conform to the brand, brands are increasingly being obliged to

accommodate the individual – a change that was happening anyway but again accelerated by the recession.

THE INCREASING IMPORTANCE OF SERVICE

Paradoxically, in our increasingly interconnected world where product information is readily available, products themselves are becoming less important. Service, on the other hand, becomes more and more important in the mix.

Between 1970 and 2008 the proportion of total household expenditure spent on services increased from 35 per cent to 52 per cent of total UK domestic household expenditure (Office of National Statistics). Indeed, the notion of product and the role of consumer is becoming increasingly difficult to see clearly. Old definitions and stereotypes are blurring. Shopping is something you can do at home, in a shop, sat at your desk or on the move.

In the good old days, consumers would be advertised to at home and would then go to a shop to buy. Increasingly, consumers go to a shop to inspect, then retire home to buy on the internet, via their satellite TVs, or their mobiles. Or, potential customers can check customer reviews and competitor prices on their iPhones instore.

Service is blurring into product; consumption is merging with theatre; advertising is merging with information sharing and entertainment. And manufacturers, retailers, restaurateurs, hoteliers and entertainers are still working out how to do it slickly. When audiences at Casino Royale saw James Bond tell his girl that he was wearing an Omega and not a Rolex, audiences groaned in cinemas up and down the country.

NEW TYPES OF CONSUMER: WHAT GENERATION GAP?

Categories of consumer are themselves changing. Suppliers of services and products who are sticking to old definitions and classifications are in danger of missing out. In a recent *Harvard Business Review*, Sylvia Ann Hewlett, Laura Sherbin and Karen Sumberg argued that the composition of many companies' workforces is changing.

The combination of Generation Y (eagerly advancing up the professional ranks) and Baby Boomers (often refusing to retire) has in a few short years dramatically shifted the composition of the workforce. Each of these generations is roughly twice the size of Generation X, which lies between them. Boomers and Gen Ys are together redefining what constitutes a great place to work. Also, they tend to share many attitudes and behaviours that set them apart from other generations.

2

CASE STUDY

PERSONAL SHIRTS

Shirt maker TM Lewin has established a loyal following on the basis of high quality products often sold at great prices. It is now increasingly offering greater personalisation through bespoke made-to-measure services and an evolving website.

What's true of the workplace is also true of the market place. The suggestion that Generation Y and Baby Boomers have more in common than they might think, is one for retailers to mull over.

It's less and less appropriate to patronise the elderly as being technologically unsavvy. Grandma has long worked out that if she wants to communicate with her grandchildren she needs to get on Facebook or Skype. The Telegraph recently reported that over two thirds of those buying e-readers in the United States were over 40. Far from appealing only to early adopters or to those who never liked paper and print in the first place, e-readers, with their ability to increase font size or change background colour and even read the text out loud, have been discovered enthusiastically by the partially sighted, the long-sighted and the old and supposedly tired!

Indeed, the older generation is one that is changing the fastest. In the last few decades the older generation has retired earlier and focused its time and attention more on leisure. Over the next few decades we expect this to change. The older generation will retire later, and not necessarily in the same 'retirement' way, with the world of work and retirement separated by a party and a whip around. New consumers will cut back on work rather than retire, they will find themselves as busy as before but in different ways. An increasing number won't really retire at all, and – despite what the Trades Unions might argue – will choose this option willingly and enthusiastically.

The young adult categories are also changing. Adults without work are returning to education; school-leavers, once automatically bound for university, are now questioning whether they want to incur all that debt. The workplace and the classroom are drawing closer together, and the services and products required by the inhabitants of both need thinking through carefully. It might be cheaper for students to buy text books for their e-readers. But many students without e-readers sit at their desks with several books open in front of them, as well as their notes, and a fistful of illegal photocopies – and continue to believe their experience is more rewarding.

The rise of the social entrepreneur suggests another blurring of categories that consumer focused organisations would be wise to note.

Even HM Revenue & Customs are finding that the certainties of old categories are under threat. Recent mistakes in personal tax have been part-blamed on the tax system's self-employed and employed categorisation and PAYE tax codes failing to keep pace with how 21st century new consumers are now earning. Increasingly, new consumers are self-employed and employed at the same time, and jobs certainly aren't for life – even a good job might not even last out the year.

Buying behaviour patterns are becoming less predictable and consumers are becoming less easy to pigeon-hole. The consumer window is ever wider and, like a stained glass cathedral window, has many different colours within it.

WILL TECHNOLOGY GET UNDER YOUR SKIN?

Technological advance continues to bring about change in the consumer. Even seemingly tech-savvy providers of consumer services can struggle with progress. Consumers will force technological change themselves if they don't see suppliers keeping up.

The latest thing to do with your Oyster card is to cut out the chip and attach it to your watch strap. Rather than hunting for your card at the gates, you merely wave your wrist at the reader and through you go. Transport for London is not amused and has said that 'offenders' will be fined. A spokesperson said: "By travelling with a defaced Oyster card you risk a penalty fare, as passengers need to produce a valid intact ticket when requested. Defacing a card also means that passengers cannot be reimbursed their deposit or any credit left on the card." This might well be technically correct, but it sounds a little desperate to us.

Besides, it's also been reported that the idea of an 'Oyster wristwatch' has already been officially piloted by Transport for London staff who were issued with prototypes last year.

Where might this all end? We are already used to 'chipping' our pets for passports and 'lost and found' identification. A short while ago a piece of light-hearted futurology imagined doing the same to teenagers . . . and then imagined chipping consumers so they could be 'read' automatically as they entered shops and their particular needs more precisely served. As gruesome pictures on the internet already bear witness, some individuals



have already experimented with kitchen table attempts to implant Oystercard chips into their wrists.

LOCATION! VOCATION? VACATION?

In the longer term we also need to think about where consumers actually are – location. For decades the trend has been to move out of cities to live in the suburbs, or at least to take a weekend break in the country. There are signs of change with mixed developments encouraging the repopulation of inner cities.

Economists Bruno Frey and Alois Stutzer, authors of 'Happiness and Economics: How the Economy and Institutions affect Human Well-Being', found that commuters who live an hour away from their work need to earn 40 per cent more to be as satisfied with their lives as non-commuters. City living is known to be much more ecologically efficient than living in a rural idyll, so there are reasons to believe the trend towards mixed environments is here for the longer term.

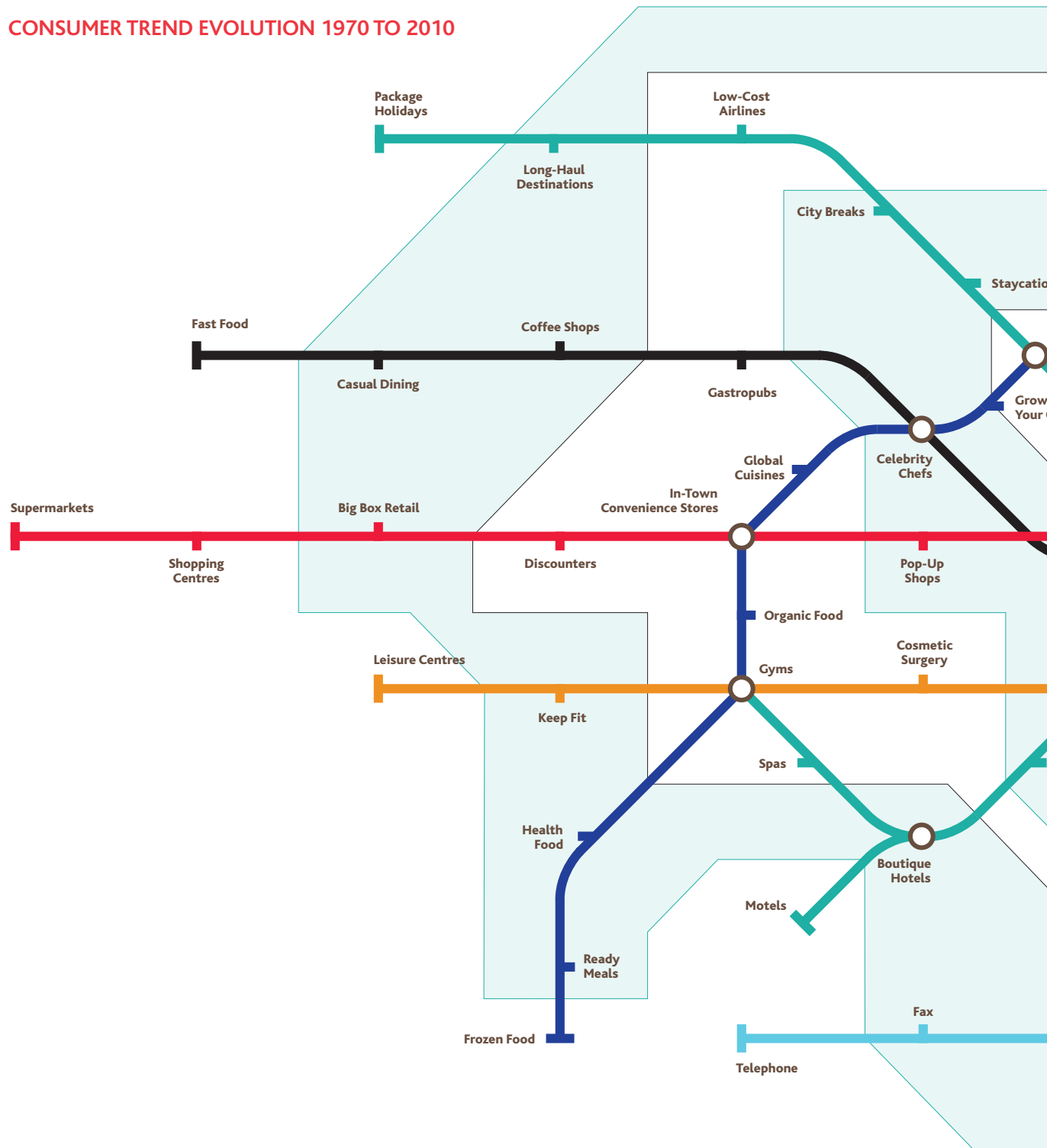
CASE STUDY

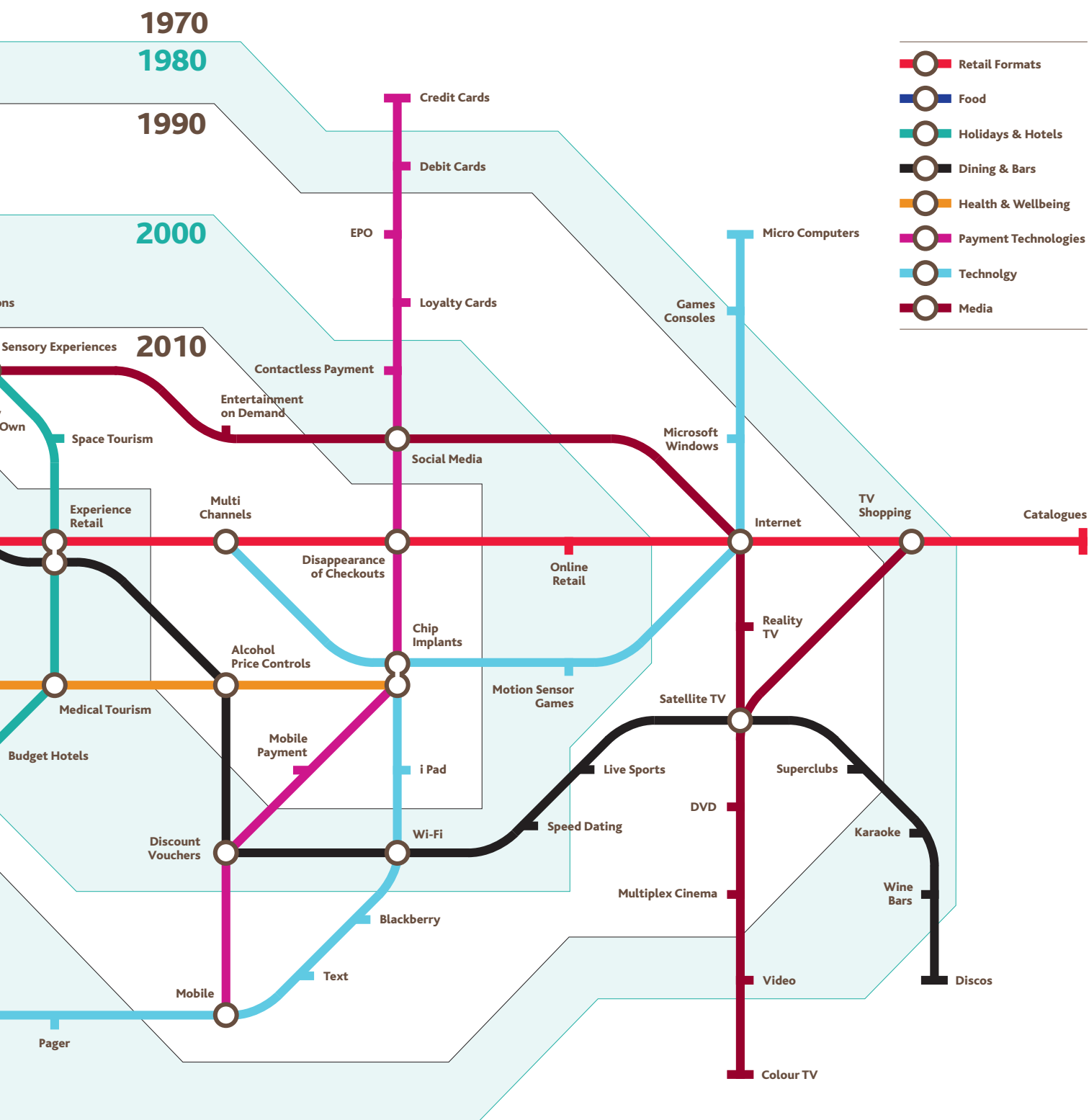
BUSINESS IS A BLUR...

Carluccio's, the Italian eating out chain has found success by blurring the lines between restaurant and retail at a mid-market price point and providing 'all-day' opening. Retail space is tagged onto each restaurant allowing the chain to extend its brand and that space is 'worked hard'.

2

CONSUMER TREND EVOLUTION 1970 TO 2010







IMPLICATIONS FOR BUSINESSES

TIPS FOR BUSINESSES

Businesses serious about the new consumer should;

- Re-visit what great service looks, feels and sounds like
- Develop and invest in channels
- Consider the international dimension
- Continuously review customer spending data and use it to provide a bespoke personal experience
- Explore joint ventures and partnerships across sectors and disciplines
- Maintain product innovation
- Focus on what customers want and need rather than product range variety
- Re-visit customer engagement – including property and channel strategy
- Make fixed costs variable
- Rethink boundaries between shopping, entertainment, socialising
- Re-think who your customers are and who you want them to be
- Embrace training for staff on service and product
- Focus more on fullest margin sales, not just like-for-likes

WHETHER THEY SUPPLY GOODS OR SERVICES, BUSINESSES NEED TO REACT NOW TO THE CHANGES IN THEIR CONSUMERS – BOTH THE SHORT TERM POST-RECESSIONARY EFFECTS AND LONGER TERM TRENDS.

When planning solutions, businesses (and retailers in particular with their long term capital allocation and investment considerations) need to exercise their imaginations as well as their analytical skills. The retail industry as a whole is unlikely this time to be able to grow its way speedily out of trouble or run to an even lower cost provider of product. But a changing market will continue to provide opportunity. Changing consumer trends in part reflect the fact that money will remain tight beyond the short term, even if a double-dip recession is avoided. There are too many shops of the wrong size and shape, many in poorly planned and poorly co-ordinated centres, in towns, malls or out of town. Some retailers continue to find themselves tied into less than advantageous long-term property positions just as flexibility

and innovation is required. One retailer's success may well have to be at the expense of another.

The psychological game between retailers and consumers continues to evolve too. Who is driving whom? Consumers are less respectful of institution and less loyal to brand and thus more difficult to pin down, and more powerful than ever. But is it really true that consumer purchasing decisions drive retailers or does clever targeted marketing on behalf of retailers drive consumer behaviour? The best retailing has always been to persuade someone that they have always wanted something, but until now didn't realise it!

WHERE ARE THE BOUNDARIES NOW?

Several of the directions new consumers are now taking imply a blurring of the boundaries between shopping, entertainment and socialising. Neologisms such as 'edutainment' suggest that even language is struggling to keep up. Businesses ambitious to sell to new consumers need to consider how they define their own boundaries. Apple is an interesting example of an organisation that is working hard to offer consumer/customer/client/audience-members an inter-connected suite of products and services. It isn't the only one. Ambitious organisations with less resources than Apple are looking to partnership and joint venture arrangements to ensure they don't miss the same trend. Gap has partnered with Stella McCartney, US clothing chain Club Monaco has been selling high-end bicycles, the London Chamber Orchestra has partnered with Barnardos.

One of the key rules of retail is location, location and location. But in the new world identifying the right location is becoming more difficult. For some the new consumer is going to the high street for the day-to-day, but driving to the out-of-town centre for the big spend and importantly the all-round info-edu-enter-retail experience. For other consumers, the day-to-day will be delivered to the door, the big spend can be researched if not bought on-line, and the notion of a visit to an out-of-town centre is a nightmare visit to hell.

In a world of blurred consumer boundaries, shopping centres increasingly need to offer much more than shopping. The Trafford Centre in Manchester includes an upmarket foodcourt, a facility for five-a-side football, a Legoland Discovery Centre, a golf range and a twenty-screen multiplex cinema – and some shops. The Head of Asset Management at shopping centre specialist Aberdeen Property Investors doesn't talk about customers or consumers; she talks about 'guests'.

But in a high-tech world new 'guests' don't have to travel to a centre to satisfy their increasingly sophisticated needs. Guy Grainger, head of Retail at Jones Lang LaSalle has noted: "You used to need 150 shops to create a national presence. Now, if you have a great web business you only need 50 shops in the best locations." And not just a web presence. Retailers are circling around social networks for new channels and opportunities. Consumer brands have embraced Facebook and Twitter from Proctor & Gamble to TM Lewin. Research by BDO shows that 81 per cent of consumers want a seamless, multichannel approach.

The pursuit of value has brought value-for-profit businesses and not-for-profit organisations closer together. The notion of the 'social entrepreneur' suggests another blurring of boundaries. Some charities have seen the recession as an opportunity to revitalise their propositions. As mentioned, new consumers are a lot more likely to be seen in charity shops than before.

Blurred boundaries can also heighten competition. There was a recent spat between Oxfam and the second hand book trade, with accusations that Oxfam was taking unfair advantage of its charitable status.

UNDERSTAND THE POWER AND PITFALLS OF TECHNOLOGY

Smart retailers will continue to think hard about the future of technology. Multi-channel now includes the mobile as well as Facebook and eBay. Some of these channels require investment capabilities, but big businesses would be unwise to assume that size will be an advantage in the new consumer's world.

Online peer reviews and price comparison websites can prove humbling for the most powerful businesses. Marriott and others have been reported as taking TripAdvisor reviews seriously and giving upgrades and adjusting their propositions accordingly. The internet has long allowed the small to punch above its weight; besides the new consumer is niche, individualistic, cynical about big business and increasingly wary about succumbing to the black magic of brand.

CASE STUDY

DIVERSIFYING THE BRAND

The successful boutique hotel chain Hotel Du Vin has extended its brand into pubs, opening Pub Du Vins in Brighton and Birmingham. A standalone restaurant chain is being considered.

3

CASE STUDY

SHARING THE PIZZA

Domino's Pizza is at the forefront of multi-channel proliferation. Over a third of its orders are made online. Together with a very effective transactional website, Domino's main Facebook page has more than 36,000 fans, allowing the chain to respond to customer feedback. Such technology also enables the bigger retailer to provide the personal service which was previously the preserve of the small operator.

On the other hand, membership schemes and other sources of customer data provide significant opportunities for retailers to tailor their propositions to their customers. Such technology also enables the bigger retailer to provide the personal service previously the preserve of the small operator.

Technology is an obvious lever as retailers look for more ways of adding value both for themselves and their customers. Marketing magazine recently reported L'Oréal kiosks using EZface technology as a 'Virtual Mirror' to show customers how make-up products might look without having to apply them. L'Oréal will be trialling the kiosks ahead of possible commercial deals with suppliers. Boots has already introduced EZface technology in several of its stores, giving teenagers a chance to experience digital makeovers. Marketing magazine reports sources familiar with the technology commenting that a commercial tie-up between Boots, L'Oréal and EZface could lead to the kiosks being rolled out across the UK. The technology is already used in the United States by Walmart.

Eyeware company Luxottica has announced plans for a concept store in Australia which will have, in addition to interactive mirrors, simulated real life sporting hazards and environments – such as glare and wind. The store's wind tunnel will even come equipped with an exercise bike and treadmill. The rise of the concept store has implications not just for instore technology, but also for the nature of the relationship between clicks and mortar, with customers trying product instore and then purchasing online.

PLASTIC IS NO LONGER FANTASTIC

No sooner have we got used to Chip and PIN than the technology underlying payment processes moves on. How many of us have stood with our boarding cards behind someone at the check-in desk who has waved their mobile phone at the attendant's screen and been allowed on board? Using mobile technology for making payments is already with us.

It is reported that Barclaycard has plans to deploy NFC (near field communication) mobile phones in conjunction with Orange before the end of 2010. NFC is used for payment systems that rely on the user waving the card near to a reader. Small transactions can be approved without a PIN. Apparently, the system is already embedded in millions of plastic cards from Barclaycard. The next step, of course, is putting the same functionality into a mobile phone along with other features such as transaction checking and pre-paid topping up.

Other suppliers and operators are also on the case. Visa is reported to be partnering Bank of America in a trial of a contactless payment system using smartphones and AT&T. There are rumours that Apple's iPhone 5 will have NFC technology. The implications for consumer focused businesses are significant – shorter queues at checkouts, fewer cashiers – and still further opportunities to tailor and target advertising and marketing to individual consumers.

And what next? Using phones to transmit discount vouchers? Real-time sharing of data and views about retailers within customer networks? Facebook is already testing virtual currency. 'Facebook Credits' is likely to allow users to pay for virtual goods such as games, but will eventually let them buy anything, with the network expected to take a cut of all transactions. One thing is for sure: PIN and plastic is already yesterday's technology.

THE FUTURE CONSUMER UNIVERSE

THE CONSUMER

SPENDING MORE BUT MORE DEMANDING



I want to buy things that give me feel-good sensations



EXPERIENCES

I want things that are specifically tailored to my tastes



PERSONALISATION

I actively manage my spending in order to minimise the need to sacrifice discretionary spending



SMARTER BUYING

I like brands especially ones that show empathy with me



BRANDING

I am concerned about sustainability but won't pay a premium for this concern



SUSTAINABILITY

Adding new services that complement core offerings



Targeted offerings to ever smaller niches



Multi-channel proliferation



Collaborations and brand partnerships



Greater control over the supply chain



THE OPERATOR

VOLATILITY IS THE NEW NORMAL

4

ADAPTING TO THE AGE OF PRIMARNI!

SO, THE CONSUMER HAS CHANGED, AND MAY WELL BECOME INCREASINGLY DEMANDING. PERCEIVED 'VALUE FOR MONEY' WILL BE A KEY CRITERIA FOR THE NEW CANNY CONSIDERED CONSUMER – SEARCHING FOR PRODUCTS AND SERVICES WHICH MEET WIDE-RANGING LIFESTYLE CRITERIA, BEFORE THEY ARE PREPARED TO PART WITH THEIR HARD-EARNED CASH.

How will consumer focused businesses combat technology-driven consumer examination of not only their products and services but also their corporate philosophy and public image? How will they compete against ethical consumer purchasing of charity shop 'brand-me downs'. How will they rise to the challenge of ubiquitous consumerism – the 'clicks and mortar' dilemma of 24/7 online demand while offering exceptional personalised service instore?


These are just some of the challenges on the journey that the new consumers and those that serve them may well face over the next few years.

We believe UK operators can and will rise to such challenges – some are already well advanced. To presume that when the

economy booms again, old consumer habits will emerge once again is a folly. To ignore these challenges of change will be fatal.

We believe there is opportunity for those businesses with the appetite to continually review and refresh operating models and market assumptions. The rewards are still there for those businesses that embrace a firm, clear and relentless focus on the consumers that are still out there wanting to be enticed to spend ... because they will continue to spend.

Just like the consumer, UK operators need to become more astute – from website to shopfloor, marketing to staffing, supply costs to customer service.



We believe there is opportunity for those businesses with the appetite to continually review and refresh operating models and market assumptions. The rewards are still there for those businesses that embrace a firm, clear and relentless focus on the consumers that are still out there wanting to be enticed to spend . . . because they will continue to spend.

And we recommend that they start by considering these trends:

GETTING PERSONAL

- 'Knowing your customer' will become more vital. Consider enhancing consumer data capture and analysis that helps activate and reactivate spending and 'keep the conversation going' at an individual customer level. Current exponents: The White Company, Dunhumby and Tesco, Nectar and Sainsburys.
- Website landing and brand communication will need to be ultra-relevant, recognising who the consumer is and what they want. Inaccurate mailing lists and unwanted 'spam' emails will bring derision and quick destruction of brand allegiance.
- New consumer ... old ego? Personal 'street cred' still matters to the new consumer. The era of brand is far from over. Keeping up with fashion, getting a good deal, knowing the right things is still important. Few new consumers will want to be seen as a mindless branded sheep but neither will they want to be viewed as a wild friendless wolf.

RETURN OF THE ARTISAN

- New consumers will need exciting and interesting places to shop – why make the journey otherwise? Current exponents: AllSaints make their shopfittings in their own foundry. Apple have their Genius Bar auditorium and 'play room'.
- Manufacturing knowledge will be brought to bear, facilitating closer collaboration with suppliers to maintain quality and manage cost price. Current exponent: TM Lewin.
- Protracted austerity will encourage a 'make do and mend' practicality. Sales of sewing machines and clothing patterns may rise, but watch the rental sector boom. Current exponent: Specsavers Innovator of the Year award winner, Girl Meets Dress, is an online boutique that allows women to wear the latest but very expensive-to-buy catwalk looks – by hiring them out.
- Local provenance – an extension of the recent supermarket trend for specific reference to where produce originates. This farmers' market localism could be taken into other sectors – clothes or furnishings. Current exponent: Hobbs' Limited Edition Heritage and Artisan lines of womenswear offers garments from raw materials sourced direct – the label names the sheep flock owner who produced the wool.
- Fabrication – the use of technology to create a personalised product from a core design or pattern. Current exponent: Sony VAIO laptops, the Apple photobook.

4

CASE STUDY

LESS IS MORE

Grocers and department stores, such as House of Fraser, are increasingly offering edited ranges rather than numerous brands across the same product category. Edited ranges free-up space for other product categories. Morrisons recently revealed that some of its stores were carrying 16 types of Balsamic vinegar – now pared down to just a handful.

EDITED CHOICE

We believe the KISS principle – ‘keep it simple, stupid’ – will be key to winning over the new consumer.

- Are consumers offered too much choice? Too many businesses continue to bamboozle their customers – as anyone trying to decide between utility providers will know.
- In 2008, Spanish supermarket chain Mercadonia’s sales per square foot were 60 per cent higher than Carrefour’s and twice as high as the average US supermarket. One of its key innovations was to provide fewer product lines than in similar stores, which not only made operations simpler, but also appears to have met a real customer need. Current exponent: House of Fraser no longer carries a bewildering variety of toasters. The focus is to reduce the breadth and increase the depth of product.
- Although the Age of Primarni is here – mixing and matching premium and value brands – the new consumer’s continuing search for individualism at an affordable price will provide ample opportunities for niche markets to develop. ‘Less is more’ will be an acceptable commercial trend, but the niche marketeers will still have to keep their customers extremely satisfied.

THE GLOBAL VILLAGE

- As advances in communications technology make the world ever smaller, consumers will buy from stores worldwide and UK brands will get transported overseas. What price a good e-commerce website? Current exponent: TM Lewin has shirt sales in Australia without a store in the country.
- The language of sales will need to cater for global consumers. With 2012 looming, the London Olympic opportunity is obvious . . . subject to language barriers. Current exponent: Cath Kidston has brand prominence in Japan; London stores have Japanese speakers. The best selling watch salesman in The Wonder Room at Selfridges is the Chinese speaker.

- Property strategy may need reviewing. Maybe fewer, larger stores in key locations can showcase a brand. Supported by ‘pop-up’ brand promotions in new locations (capturing consumer details for future marketing use, of course), a multichannel sales strategy would assist distance purchasing via the internet or even mobiles.

THE ADVANCE OF TECHNOLOGY

- Technology is a key driver but it can also be pervasive and impersonal. Consumers already use technology to research before they buy, but still like to be treated as individuals when purchasing.
- Consumer enticement technology is already developing – from apps to download to pushed communications. Price checking availability will progress to comparative purchasing information. The risk could be consumer overload and backlash.
- Payment and purchasing will change. How long before mobile phones become swipe payment devices? Could body-implanted payment chips ever become an everyday offering of cosmetic surgery?
- Time delay ‘mirrors’ are set to resolve the female shoppers heartfelt query: “Does my bum look big in this?”
- 3D and holographics technology is already allowing simulation shopping experiences so that consumers can check what fashion suits them or which furniture will look right in their home setting.

New consumers will demand respect, trust and integrity from their product and service providers. Maintenance of brand image, corporate reputation and 'on message' marketing will be vital.

TRUST AND INTEGRITY

- New consumers will demand respect, trust and integrity from their product and service providers. Maintenance of brand image, corporate reputation and 'on message' marketing will be vital.
- Brand-linked promotional celebrities will need to be carefully chosen (and publicly ditched should they do a 'Tiger Woods') to protect a company's good name.
- Marketing use of social media will need careful handling. Consumers will lose faith with purchasing comparison websites if big brands compromise impartiality or are seen to 'place' recommendations or reviews.
- Security of purchase, particularly online, could become a major consumer concern if identity theft, e-fraud and mistrust of the financial sector continues. Technological change may be rapid, but its acceptance relies on consumer confidence.
- The ethical and green agenda will resurface, but new consumers will now expect it of their retailers and be less willing to pay more for it. They will also expect the same integrity in the supply chain.

TRAIN TO GAIN

- Service with a smile is back. New consumers will want to be served well by alert, informed and respectful staff and will expect a service tailored to them as individuals. Even computerised online 'service' will need to smile.
- Above average training for staff could bring significant benefits. Better product knowledge will enable specialist advice to customers when requested. Greater corporate awareness enables staff to act as brand ambassadors. Improved skillsets provide greater operational flexibility.

THE FLEXIBILITY CHALLENGE

- Businesses will need to make fixed costs variable in order to respond quicker to rapid and sharp changes in new consumer demand. Supply chain efficiency, staff costs, premises, and importantly delivery options will all require fresh scrutiny.
- Retailers have spent the last decade looking far to the east and seeking lowest unit cost production to support volume sales strategies. As competition increases and stocks become increasingly 'underbought', discussions about quicker, more frequent, more flexible purchasing will emerge. Near east and eastern European production countries may benefit.
- Brand partnerships and collaborative selling may share the risk and reward in future competitive markets, while extending sales channels without the overhead investment. This could also be a strategic response to global village and local provenance trends.

5

CONTRIBUTORS AND KEY SOURCES

OUR RESEARCH AND ANALYSIS HAS BENEFITTED FROM THE KNOWLEDGE OF MANY THIRD PARTY AUTHORS, COMMENTATORS AND ANALYSTS IN BOTH PUBLISHED AND VERBAL FORM, ALL OF WHOM WE HAVE ENDEAVOURED TO ACKNOWLEDGE ABOVE.

We are particularly indebted to the members of the BDO Expert Panel. Their insights and devil's advocacy have been invaluable:

Nicholas Bate, Author & Consultant, Strategic Edge

Ian Brinkley, Programme Director, The Work Foundation

Dr. Robert Davies, Strategy Consultant, Imhotep Consultancy

Tony Dolphin, Senior Economist, IPPR

Peter Hemington, Partner, BDO LLP

Graeme Leach, Chief Economist, IOD

Rupert Merson, London Business School

Ian Pearson, Futurist, Futorizon

Stephen Radley, Chief Economist, EEF

Richard Snook, formerly Senior Economist, cebr

Lai Wah Co, Head of Economic Analysis, CBI

Panel members do not necessarily endorse our thinking nor the conclusions we have reached; neither are they responsible for the views we have expressed.

CONTACT US

If you would like further information about the series of Transitions reports, or the services BDO can offer, please contact your local business centre:

BIRMINGHAM

mark.anslow@bdo.co.uk
0121 352 6200

BRISTOL

simon.watson@bdo.co.uk
0117 930 1500

CAMBRIDGE

martin.kaye@bdo.co.uk
01223 535 000

CHELMSFORD

martin.kaye@bdo.co.uk
01245 264 644

EPSOM

david.eagle@bdo.co.uk
01372 734 300

GATWICK

david.eagle@bdo.co.uk
01293 591 000

GLASGOW

neil.craig@bdo.co.uk
0141 249 5234

HATFIELD

martin.kaye@bdo.co.uk
01707 255 888

LEEDS

ian.beaumont@bdo.co.uk
0113 244 3839

LONDON

simon.michaels@bdo.co.uk
020 7486 5888

MANCHESTER

jeff.jones@bdo.co.uk
0161 817 7528

NORTHERN IRELAND

francis.martin@bdo.co.uk
02890 439 009

READING

simon.watson@bdo.co.uk
0118 925 4408

SOUTHAMPTON

kim.hayward@bdo.co.uk
023 8088 1897

www.bdo.co.uk



'Tax Team of the Year' 2009 and 2008
'Audit Team of the Year' 2008
'Corporate Finance Deal of the Year' 2008

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Services Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

BDO LLP is the Data Controller for any personal data that it holds about you. We may disclose your information, under a confidentiality agreement, to a Data Processor (Shamrock Marketing Ltd). To correct your personal details or if you do not wish us to provide you with information that we believe may be of interest to you, please contact Steve Nelson on 0113 204 1279 or email stephen.nelson@bdo.co.uk

Copyright © October 2010. BDO. All rights reserved.



This document is printed on 9lives 80, a paper containing 80 per cent recycled fibre and 20 per cent virgin Totally Chlorine Free (TCF) fibre sourced from sustainable forests. 9lives 80 is produced by an ISO 14001 accredited supplier.