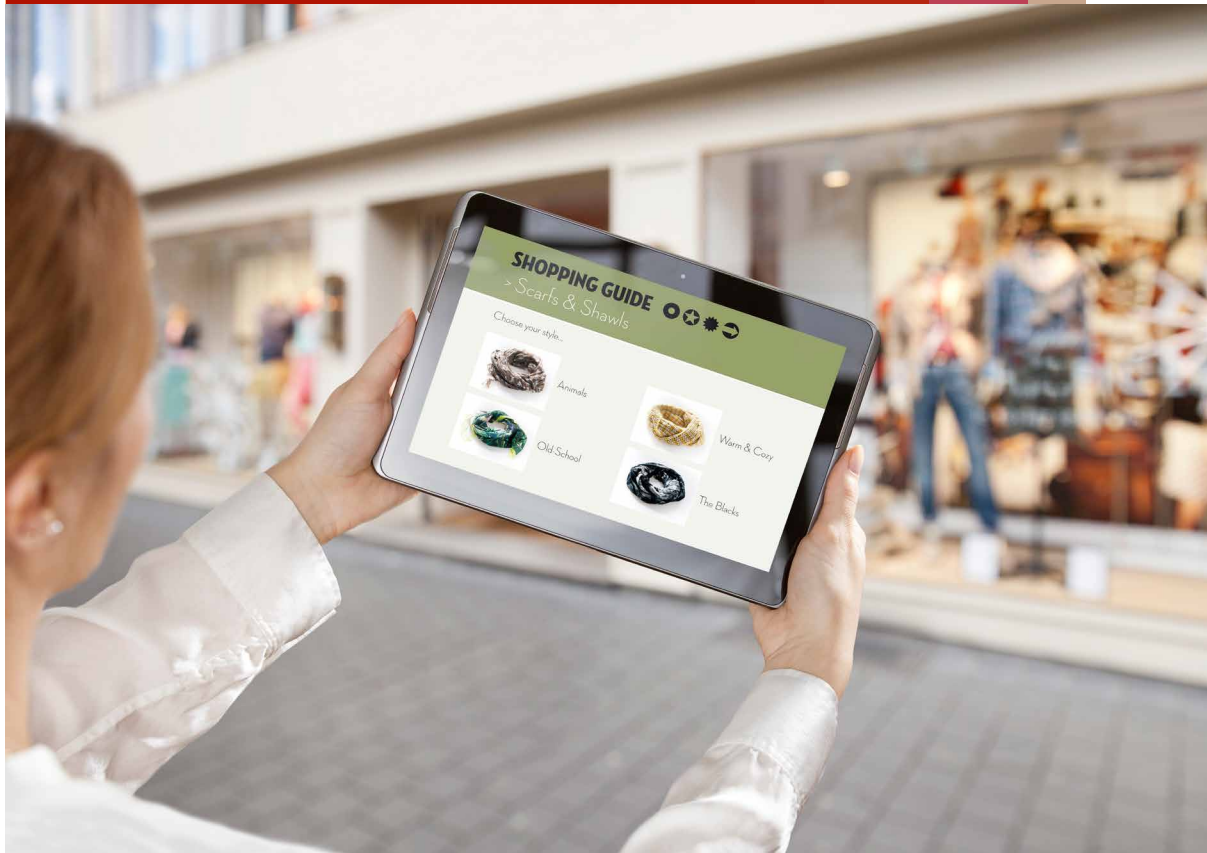


Total Retail 2015: *Retailers and the Age of Disruption*

PwC's Annual
Global Total Retail
Consumer Survey

February 2015



As online shopping continues to grow at the expense of store visits, the premium in the future will be on creating unique, brand-defining experiences that keep customers coming back—whatever the channel.

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Retailers and the Age of Disruption

In last year's Total Retail report, I referred to the high bar that participants in PwC's global online shopper survey had set for retailers worldwide. In the 12 months since, that bar has been raised higher still—but customer expectations are really just part of the story for retailers in 2015.

In fact, the environment for retailers has never been more complex. In this year's report, we have reinforced our consumer research with interviews of retailers around the world. Our analysis, both of our survey data and interviews, keeps bringing us back to four waves of disruption facing every retailer, regardless of where they operate: the evolving role of the store, the proliferation of social networks, mobile phone technology, and global demographic shifts.

An expanded and deepened survey

Our global consumer survey now covers more than 19,000 respondents in 19 territories on six continents. The more we expand and deepen this annual assessment, the more effective it becomes in analyzing and evaluating the international retail landscape.

Some of the results from this year's survey echo a fundamental principle from last year: namely, that achieving "total retail" demands thinking beyond channels. The more shoppers we canvass in country after country—and the more thoroughly we poll them about their consumer habits, preferences, and expectations for a better shopping experience—the more obvious it is that consumers are developing their own approach to researching and purchasing, both online and in-store. They want their shopping needs met in a way that minimizes uncertainty and inflexibility and maximizes efficiency, convenience, and pleasure.

Four disruptive forces

This year's report expands on this total retail discussion and delves into four retail disruptors. Our first disruptor, the evolution of the store, can be thought of more as a business model evolution. Our second and third disruptors—mobile technology and social networks—are technological. A fourth—demographic shifts—is more socio-economic.

Our first disruptor is centered on an institution as old as modern shopping itself: the store. It's certainly true that the physical store remains the retail touch point with the highest frequency. More than one in three (36%) of our global sample goes to a physical store at least weekly. That is a significant difference compared to how often they shop weekly online via PC (20%), online via tablet (10%), and online via mobile phone (11%).

But as online shopping continues to grow at the expense of store visits, the premium in the future will be on creating unique, brand-defining (be it offering sheer convenience or an offer that excites and engages) that keep customers coming back.

A case in point is Turkey's Migros, a leading supermarket chain. The company's CEO, O. Ozgur Tort, explained to PwC in an interview how Migros's inventive channel approach uses kiosks to sell online to customers in-store. According to Tort, "The aim is to push e-commerce sales to customers who are already physically shopping in the store, by making them offers for products that are not in the physical inventory of the store."

As my PwC colleague and the leader of our U.S. Retail & Consumer Practice, Steve Barr, puts it: "From in-store design studios and personal shopping assistants to coffee and tea ateliers, retailers are offering a comprehensive experience, evolving into something sleeker, more customized and increasingly attuned to shoppers' expectations of what the in-store experience should be."

It is still very early days for the transformative effects that both mobile and social networks will have on retail. This year's Thanksgiving shopping weekend was profoundly altered by mobile phones. The *Financial Times* reported in December that mobile sales on Cyber Monday following Thanksgiving 2014 "increased by a whopping 29.3 percent, to account for one in five transactions" online. A few days earlier, the *New York Times*, citing IBM data, had also reported significant spikes in purchases by mobile phone on Thanksgiving Day and Black Friday: "Sales from mobile devices jumped over 25 percent on both days.... People logging onto shopping sites from their smartphones or tablets accounted for over half of all online traffic on Thursday, and almost half of traffic on Friday."¹



A similar mobile phenomenon was evident in Single's Day in China, which is the biggest one-day shopping event on the planet. The volume of Alibaba's sales, for example, made via mobile on Single's Day in 2014 totaled 43% of the company's \$9.3 billion in sales.²

While those increases are impressive and no doubt noteworthy, mobile is still a very small piece of the pie in terms of overall retail sales. But mobile phones are increasingly a critical factor in setting the stage for a purchase. As Matt Hyde, the CEO of West Marine, a major California-based retailer of boat supplies, told PwC: "The importance of mobile is not how many transactions are completed on a mobile phone. The importance is how the consumer is interacting, making decisions, checking information, checking stock, finding your stores, communicating with you through the smart phone. That's what's different."

In other words, the mobile phone is rapidly becoming a crucial shopping agent as shoppers demand more personalization. New York-based social media company Stylinity is focused on smart phone technology that makes it easy for consumers to tag apparel in their "selfies," and then share those photos with friends via social media. "Everyone knows that consumers are increasingly using mobile phones in store," says Stylinity CEO Tadd Spring. "They are checking prices and getting product information, yes, but also seeking out trusted advice from friends. Ultimately, shopping on a mobile device will be distinct from any other shopping experience."

Social media as a phenomenon is still in its infancy, and its bottom-line effect on retailing is just starting to be felt. This year's data suggests that social media's impact on retail may evolve along two tracks: one for the developing world in which social media becomes more and more part of the daily fabric of shopping, represented most robustly by China, and a separate one for the developed economies, where social media continues to be more of a communications tool rather than a shopping tool.

Our fourth and final disruptor is grounded in demographics. In this year's survey data, we see very different consumer behaviors when we compare the behaviors of "digital natives," the 18-24 age cohort that is the first group of adults to have grown up with the Internet, with the shopping behaviors of the rest of our sample. When we looked at their mobile phone shopping frequency against the rest of our survey respondents, for example, our digital natives shopped via phone more than the rest of our sample in every category: daily, weekly, monthly, a few times a year, and once a year. Moreover, just 39% of our digital natives said they never shop via their smart phone, while 56% of other age groups said they never shop via their smart phone.

Another aspect of demographic disruption critical to retailers is global aging patterns. Large swaths of the world, including China, Japan, and many countries in Europe, contain rapidly aging societies. In some cases, such as that of Japan, an aging society can exacerbate the effects of recession. The good news, however, is that many aging populations are healthier than previous generations of senior citizens, and much more prosperous. Suddenly, retailers can count on a large segment of global consumers with a long track record of spending, and intending to spend into the foreseeable future.

At the same time, India and the nations of Africa continue to get younger, a polar opposite demographic disruption, but also one with positive ramifications for global retailers and consumer goods companies. As GDP growth continues to be robust in these regions (albeit from a small base), millions more consumers will join the middle class every year.

For example, according to the World Bank, Africa's middle class consumes will grow from approximately 355 million people in 2013 (34 percent of Africa's population) to 1.1 billion (42 percent of the population) over the next three decades.³

I believe that our 2015 Total Retail survey research—coupled with our interviews with retailers—provides a distinctive perspective on the current state of retail. The breadth of this year's analysis, covering as it does so many countries in every corner of the globe, provides critical data for almost every retailer, regardless of market or base of operations. As always, I hope you enjoy this report and thanks so much for reading.

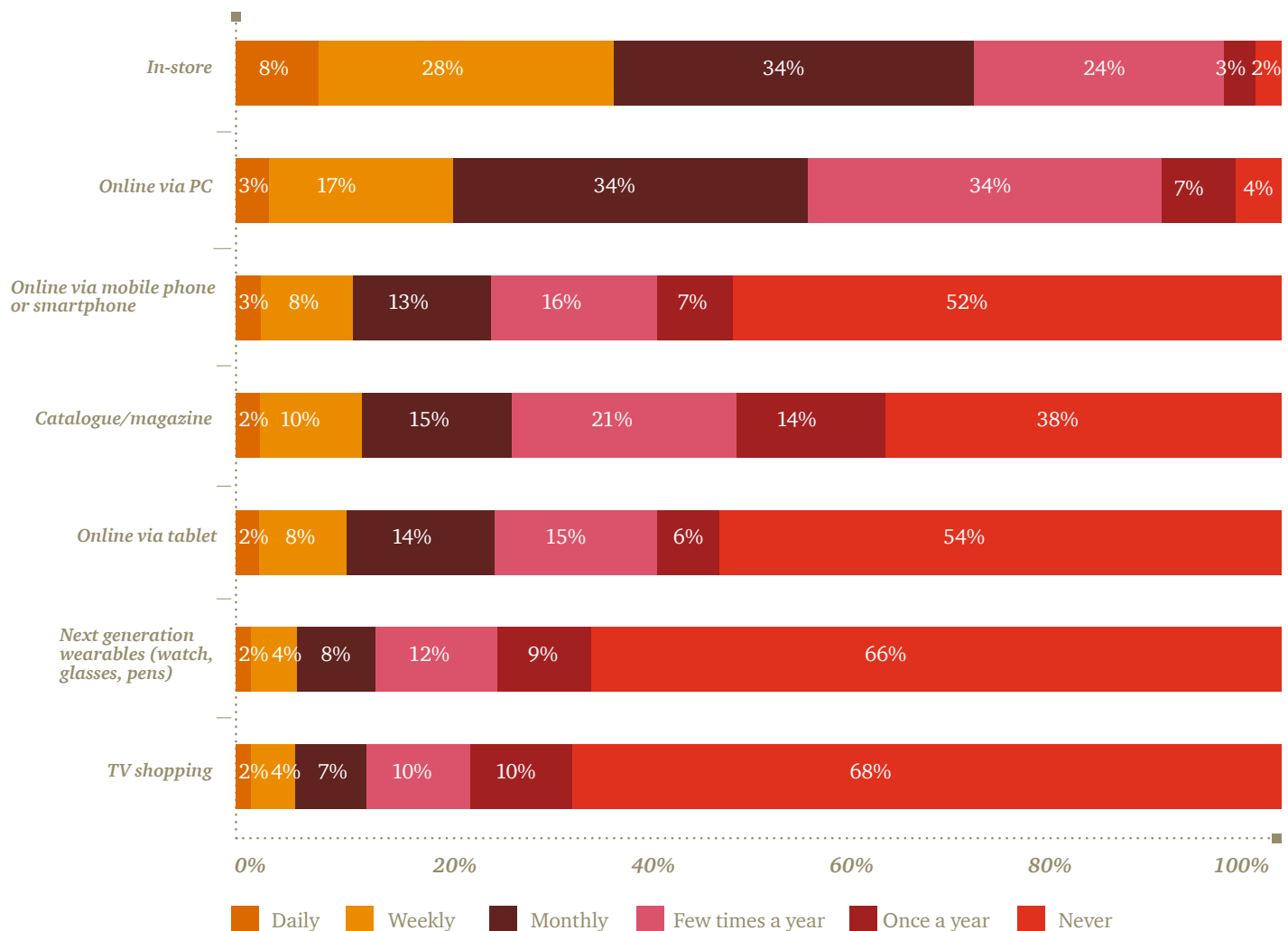
John G. Maxwell



Global Retail and Consumer Leader

Figure 1: The physical store remains the primary retail touch point for consumers

Q: How often do you buy products using the following shopping channels?





Disruption 1

The changing role of the store

A characteristic feature of the technological revolution of the last generation has been the haste with which some analysts have rushed to declare the “imminent” demise of various activities. From paperless offices to bookless readers to storeless retail, people have rushed to anticipate the “end” of one era and the dawn of another, more technologically enlightened one. But that’s not always how technology works. It’s true that one technology will often succeed another, but it’s also true that older technologies will just as often coexist in perfect harmony, and continuing profit, with their successors.

The purchase journey—still centered on the store

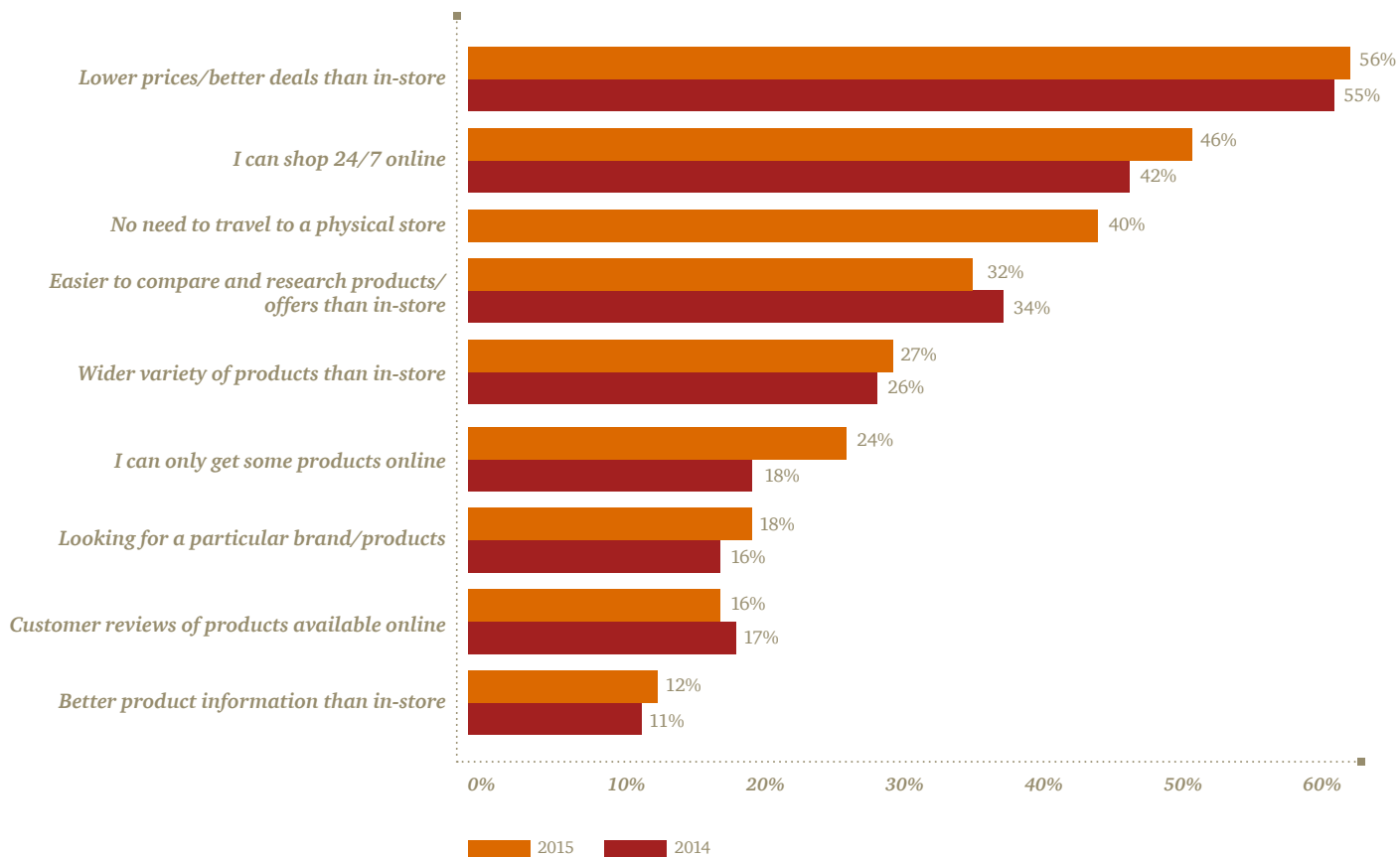
If there was ever an institution that has proven historically “powerful, long-lived and adaptable,”⁴ it is the store. As shopkeepers and shops have been around for centuries, it’s a pretty safe bet, mobile apps or not, that stores will still be around in very familiar forms for at least the next few decades. This year’s Total Retail survey data strongly backs that up; in fact, in some areas we’ve found a strong bounce-back for the store from previous surveys. A few highlights:

- When examining the reasons consumers shop online (see figure 2 on the following page) just two reasons are exclusive for online shops and not replicable by physical stores (“I can shop 24/7 online” and “No need to travel to a physical store”). All other factors can be achieved by a physical store, as well.
- On the other hand, the top three reasons for shopping in-store (see figure 3), depend on factors that are often exclusive to physical stores (“I’m able to see, touch and try merchandise,” “To get the product immediately,” and “I’m more certain about fit/suitability of the product”). These factors generally cannot be achieved by online shops, although that could be changing if start-ups like the Russian fashion retailer Lamoda find success co-opting some of the advantages of the physical store. Lamoda delivers to customers’ homes, then allows them 15 minutes to try on their choices. Shoppers pay only for what they want to keep, and the rest is promptly taken back to the store or warehouse.
- Even in categories where consumers predominantly buy online (e.g., consumer electronics, books), some consumers still research online and buy in-store—25% for consumer electronics and 13% for books.
- In a similar vein, consumers purchasing in those categories that have become synonymous with online shopping are still not using the online shops exclusively, as 39% of consumers have made only “a few purchases” online for consumer electronics.
- The online sites of brick-and-mortar retailers are still perceived as “non-physical” branches, not entities unto themselves. One of the most important return options chosen by our survey respondents, in fact, is “online purchase returns available in-store” (67%).

Russian fashion retailer Lamoda delivers to homes, allows customers to try on clothes, and then takes away what they don’t want.

Figure 2: Shoppers buy online due to price and convenience

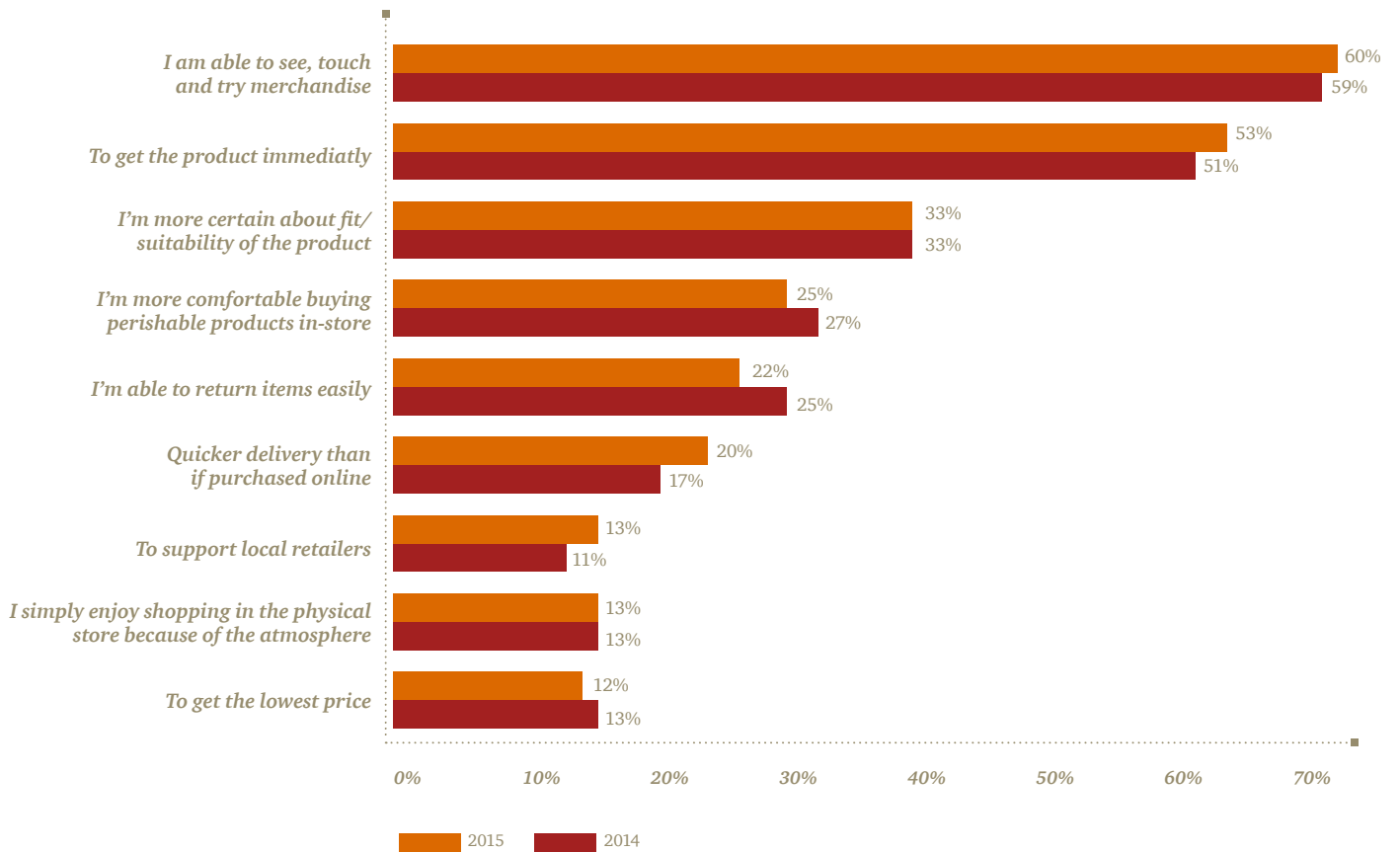
Q: Why do you buy products online instead of in stores?



Source: Global PwC 2015 Total Retail Survey
Base: 19,067

Figure 3: Shoppers buy in-store for reasons often exclusive to the physical store

Q: Why do you buy products in-store instead of online?



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

Challenges facing the physical store

Yet, the retail store faces challenges. Deckers Brands is renowned for such footwear brands as Ugg® and Teva®. According to John Kalinich, SVP of omnichannel operations and e-commerce, one major challenge of the physical store is that technologically enabled and empowered consumers simply don't need to browse as much at the store. That loss of foot traffic means fewer opportunities for impulse buys.

"Digital has really disrupted this business tremendously as shoppers are more purposeful than ever with less impulsive purchasing," Kalinich told PwC in an interview. "They do not go out to just window shop because smart phones have enabled them to find exactly what they are looking to purchase. Gone are the days of window shopping discovery that resulted in impulse buys."

In addition, it's generally agreed that the US, in particular, has too many stores. According to West Marine's Matt Hyde, the US "has seven times the retail square footage per capita of the next leading country." In fact, there are approximately 100,000 stores in the country with the sole purpose of selling apparel and accessories.⁵

In an interview with PwC, Cushman & Wakefield senior vice president Jason Speckman pointed to how the increase in e-commerce has slowed in U.S. retail foot traffic. According to company statistics, in 2009 there were 35 billion visits, plus or minus. But by 2010, that figure had fallen to about 25 billion visits. By 2012, that number was even lower, to the low 20s billions of visits. In 2013, it had fallen to 17 billion.

The result is that retailers are left with stores that were built to handle a certain amount of traffic, even while many consumers have chosen—and will continue to choose in the years ahead—to make many of their purchases online.

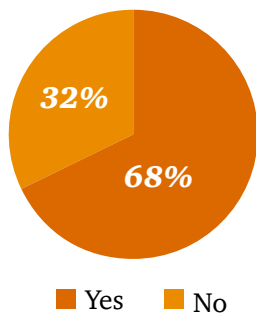
In turn, retailers make lower margins as in-house prices need to align with online prices, not to mention that increased price transparency further drives down prices among competitors. So not only is there less revenue per square foot of store space, but less margin on that revenue, adversely affecting profitability and making the need to optimize store footprints and develop new formats all the more critical.

"There's no doubt about it; the retail store is changing," says Byron Carlock, the head of PwC's real estate practice in the U.S. "Formats are changing, the mix of tenants is changing. Retail stores are becoming an experiential venue for both online and non-online purchase. People go to a retail store to see, touch and feel. It's a place to buy, a place to stimulate, and a place to create new possibilities in the eyes of the shopper."

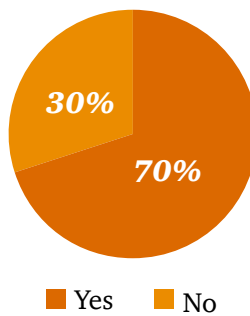
Two company examples give a sense of the future of stores. An executive from a large African retailer told PwC that the company, whose core market comprises 16-24-year-olds, is seeing online traffic significantly driving offline sales, with "big growth in market share since launching our online store." This reality, in fact, parallels the findings in our research about "showrooming" and "reverse showrooming."

Figure 4: "Web-rooming" is just as important as "showrooming"

Have you ever intentionally browsed products at a store but, decided to buy them online?



Have you ever intentionally browsed products online, but decided to buy them in-store?



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

The narrative around showrooming—defined as using the physical store as a showroom, so one can touch and feel the product, and then buying online—for the past several years was that the store would be relegated to just that, a place to display items for online purchase. But, in reality, that's not the case, according to our survey. While 68% of our global sample say that they have browsed products at a store but decided to purchase them online, 70% of our global sample said that they have done just the opposite; that is, browsed products online but decided to purchase them in-store—"reverse showrooming" or "web-rooming." So while the store may well be a showroom to touch and feel for later online purchase, the online shop is also a showroom of sorts, one where shoppers research and compare prices for later in-store purchase.

Indeed, one of the biggest downsides to shopping online in today's connected age seems to be that it's actually not fast enough, at least when compared to getting a product immediately upon purchase in-store. When we asked our global sample why they shop in-store instead of online, the second most frequent response—a weighty 53%—was, "To get the product immediately."

"We wanted to be open for all devices to be able to connect into us, because it's really an extension of the store."

—Adam Pellegrini, Vice President, Digital Health, Walgreens

At Walgreens, a ground-breaking app built on a retail footprint

One vision of the future of the physical store is the one that Walgreens has created, in which its huge retail footprint forms the bedrock of an omnichannel experience combining retail, pharmacy and healthcare services

Adam Pellegrini, Walgreens's vice president for digital health, told PwC that "about 75% of America lives within five miles of a Walgreens. Everyone comes into our stores at one point in time for something. We want people to come in and do more than just pick up their prescription or some milk, but really have part of their healthcare experience within that location."

To guarantee a seamless experience with Walgreens, the company realized it couldn't just rely on its store network. Traveling to a specific location might not always be convenient, especially if a customer was feeling sick. "We know that sometimes someone may not want to get out of bed because they're not feeling well," Pellegrini says. "So part of our digital health approach is to focus on delivering that experience on customers' terms. They should, for example, be able to pick up their smart phone, open up the Walgreen's mobile app, and talk to a local provider via our telemedicine experience. That's the ultimate convenience."

With that level of convenience in mind, the company created functionality with its mobile app to provide a mobile version of its Balance Rewards for healthy choices program, which essentially rewards customers with points for practicing healthy behaviors. Walgreens customers can track everything from their fitness regime to weight management to blood pressure. The program has a social aspect to it, as well, in which customers can come together to chat, share recipes, and fitness tips.

The company was adamant that the Balance Rewards for healthy choices be open to the full range of customers' favorite devices. "We wanted to be open for all devices to be able to connect into us, because it's really an extension of the store," Pellegrini says. "We sell devices in our store as a partner, so we should be virtually connected to our partners and really win together." Today the Balance Rewards program has an astounding 82 million members, proof that the historical goodwill created through years of operating physical stores can be parlayed into digital success.

What's next for Walgreens? For one, connected devices for monitoring and telemedicine. "We want to make sure that not only are we focused on fitness and wellness, but also on chronic disease and illness," Pellegrini says. "So, Walgreens will be a member of our customers' virtual care team." Oh, and customers will still be able to go into their neighborhood Walgreens and pick up that quart of milk—it's a store, after all.

Forging a connection through the brand

But there are other ways of appealing to customers. For instance, Bass Pro Shops, the highly specialized retailer for the sports-minded, has appealed to its customer base in a manner that goes well beyond the four walls of the physical store. The company has taken a leadership role in the conservation movement, prominently displaying on its Web site and social media presence its support of conservation partners such as the National Fish and Wildlife Foundation, The Nature Conservancy, the National Wild Turkey Federation, and the International Game Fish Association. But the real innovation happens when Bass Pro Shops puts its partnerships to work on behalf of both its customers and its conservation efforts.

In a specialty card program, the company contributes a percentage of each Bass Pro Shops credit card purchase to specific conservation projects, including a fishery habitat initiative known as the “More Fish Campaign.”

As for Nike, it has long straddled the grey area between manufacturer and retail. For its retail stores, it has marketed them as oases for athletes, where everyone from rock climbers to basketball players will perceive that the equipment and apparel will be the equal of their dedication. Its Niketown megastores have become known as “a sort of museum to athletes, a place where they can be honored and their achievements celebrated.”⁶

And then there’s IKEA, which has revolutionized home furnishings all over the world. Its role was best described several years ago by the then-director of the Cooper-Hewitt Museum as the purveyor of a “global functional minimalism.”⁷ As for its layout, it has become famous for the way it leads a customer from one department to another in a kind of guided purchase journey.

There is probably no more successful example of the transformation of the customer purchase journey than that undertaken by Shop Direct, the UK’s leading multibrand digital retailer. What began as, and was for many decades, a catalogue business is now 85% online. Indeed, according to Mark McMenemy, a Senior Advisor at Shop Direct, the greatest “disruptor” for the company has been the “embracing of personalised aspects of online retailing, which forced everyone to rethink the customer relationship and management strategy and has been at the forefront of Shop Direct’s investment focus.”⁸

Disruption 2

Mobile and related technologies

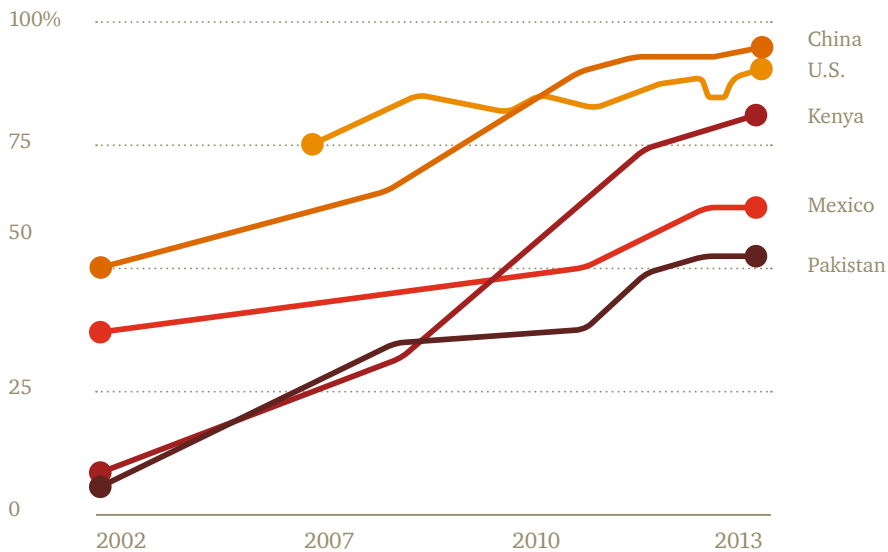
According to a 2014 report from the Pew Research Center, parts of the developing world are quickly reaching—or, in the case of China, have surpassed—US rates of mobile-phone adoption. Our Total Retail data indicates that shortly after consumers gain access to mobile technology, they experiment with shopping. Indeed, two years ago our research found that 30% of survey respondents had used a mobile phone or smart phone to make a purchase; this year's data shows that 47% have.⁹

Yet, just 29% of our survey respondents overall currently envision using their smart phone as their “main tool” for purchasing (see figure 8 on page 16) and, despite the extraordinary global penetration of mobile phones and devices shown in figure 5 below, only 3% of our respondents chose them as their “preferred” payment method. Moreover, more than half of our 19,000-plus respondents have never used a mobile phone or tablet to shop (52% and 54%, respectively).

But set aside for a moment the specific debate over mobile purchasing, and another facet of the story emerges: Mobile devices are an unusually robust and multifaceted medium of pre-payment consumer activity, such as comparing prices or locating stores.

Thirty percent of our global respondents have located stores, and a quarter have used coupons they received by mobile phone. In addition, at least 10% have accessed loyalty programs, scanned QR codes, and received either recommendations based on prior purchases or offers because of proximity to a store. The upshot is that today the smart phone is more an instrument for getting to the point of buying a product, rather than a tool for the actual purchase.

Figure 5: China has surpassed the U.S. in mobile phone adoption (percentage of adults who own a cell phone)



Source: Pew Research Center

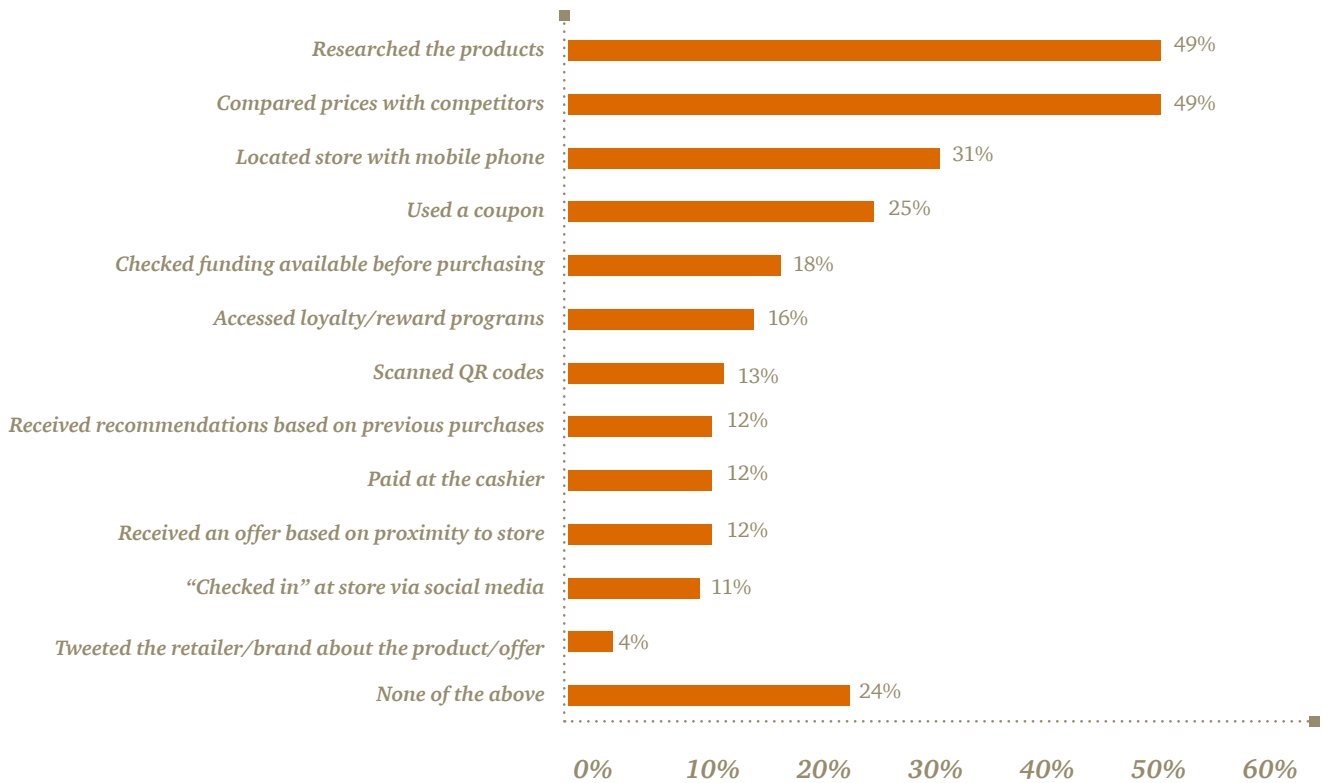
And retailers have to adapt. Over the course of just a few years, this disruptor has allowed consumers to fully research, search for, and be updated on the entirety of a retailer's range of products. On top of that, the smart phone is also a permanent connection between retailer and consumer that allows continual exchange and feedback from one to the other.

By now, the fact that companies and governments analyze trends by sifting through sets of "big data" is old news. But today's consumers can access their own versions of big data on their smart phones, and we're just scratching the surface of that capability. "These days, everyone has the whole world right in their pockets," says Thom Blischok, chief retail strategist for PwC/Strategy&. Blischok points to coming improvements in data storage, near-field and GPS technologies,

and retailers' abilities to recognize shoppers' preferences as game-changers for consumers. "The smart phone is being transformed from something that consumers can call or search with, to something that searches on behalf of them," he says. "I might have a series of things I want to buy, and that device will constantly search for the cheapest price, the greatest value, the most unique product."

Figure 6: Mobile devices have become critical for pre-payment activities

Q: Which of the following have you done using your mobile/smartphone/tablet/PC?



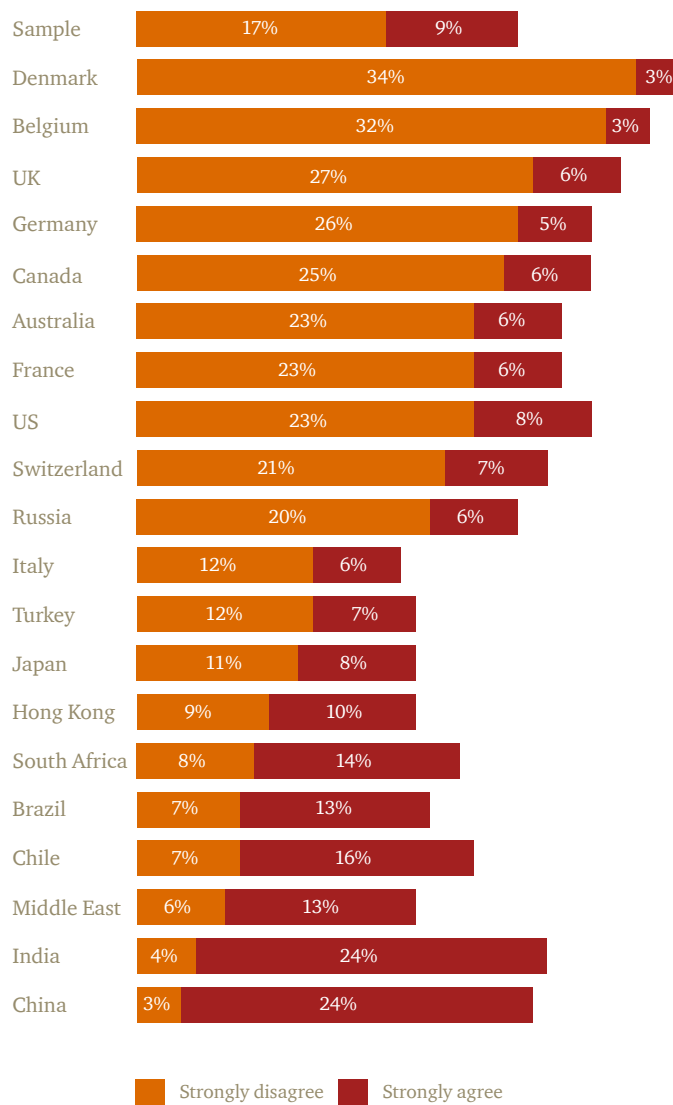
Source: Global PwC 2015 Total Retail Survey
Base: 19,068

Agreeing with this assessment of mobile is Stephen Scheeler, head of retail, automotive and QSR at Facebook Australia. Scheeler told PwC that he views the current transition to mobile as one of the fastest adoptions of technology in global history. But for retailers to keep up with consumer adaption, they may need to transform their legacy systems. “This is a pivotal change for retail in terms of customer engagement,” Scheeler says “In fact, we’ve undertaken our own transformation internally as to how to engage with users via mobile.”

Just as one example of how retailers may need to prepare their mobile strategy, Scheeler pointed to the natural confluence between mobile and video. Scheeler said that Facebook in Australia expects short-form video to explode in the next five years, so mobile platforms need to be optimized to support the hundreds of thousands of views that a popular video can expect to garner. “Given the nature of their business, retailers have many stories to tell, and telling them on video requires moving from a traditional marketing mindset to one of real-time creativity,” says Scheeler.

Figure 7: Mobile adoption for payment varies widely

Q: My mobile phone will become my main tool for which to purchase



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

At West Marine, it's not the transaction—it's the interaction

According to Matt Hyde, CEO of West Marine, a retailer of boating-related products and services, mobile technology is the major new factor in retail today. In fact, Hyde thinks that mobile is the biggest retail disruptor he'll see in his lifetime. "The mobile phone is redefining retail," Hyde told PwC in an interview. "It is taking out the friction from the retail transaction and giving the consumer unbelievable power. As consumers, we have every product in the entire world available to us at all times."

The rapid pace of change is affecting retailers as much as shoppers. Adapting to the "three-inch screen," as Hyde likes to refer to the mobile phone, means recreating the West Marine customer experience in miniature—what the stores look like and feel like, how the products are displayed, and what the current best deals are. In other words, communicating the brand.

More and more, the mobile phone is the link between consumers and social media. Boaters, like any community, are using social media to share their interests, whether it's navigating the Long Island Sound on a power boat or sailing off the coast of Central California, as Hyde himself does. But instead of trying to control that conversation and guide it towards West Marine's products, Hyde believes that when it comes to social media, companies simply have to put their best foot forward and then let consumers take care of the rest. The only thing that a retailer can control on social media, Hyde asserts, is "how consistent and powerful and engaging your brand is across these devices, and then it's up to the customer."

For a certain kind of customer need, though, there will always be the physical store. At West Marine, the current strategy is to position itself with a few large stores that provide an entertaining, informative experience for customers, whether it's for electronic gear or new sheets (that's "sails" for landlubbers).

"Sometimes you have to talk to someone, try something on, touch and feel and make sure that it is the right product," Hyde says. The idea, as Hyde sees it, is to start from a customer satisfaction viewpoint, not to pigeon-hole certain products as "online" items or "brick-and-mortar" items. "Online shopping applies to every single product category," Hyde says. "The real question is: What kind of experience does the customer want on the way to getting it?"





While mobile is already big business for the South African online retailer Kalahari.com, CEO Caren Genthner-Kappesz cautions that it's a connected, consistent, and customized experience across devices—the omnichannel experience—that customers want. “How I see it, it's not really mobile versus other types of technology,” Genthner-Kappesz says. “You have to design a user or customer experience that fits with however the customer wants to access our services. For a particular feature, we design it across all technologies and across all screens that we know customers will want to use. So in that sense it is not a separate thing; it's one part of the portfolio we are offering.”

A look at mobile challenges

The future may be mobile, but it's instructive to take a look at just what the current obstacles are to a more large-scale adoption of mobile for payment or researching products. As figure 8 on the following page shows, 66% of our global sample is concerned about having their personal credit information hacked while using a mobile phone. In addition, 41% say they either strongly disagree or disagree with the notion that they are willing to

load their credit information onto their mobile phone to pay for products. Yet, the fact that most people no longer hesitate to use their credit cards online suggests that the security issues with mobile phones will also diminish sooner rather than later, especially as the security technology involved is continually being improved, enhanced, and reinforced. Mobile phones became popular, after all—indeed, were quickly perceived and adopted as a personal necessity—long before anybody thought about paying bills through them.

George Gallate runs the retail search and social media firm Merkle/RKG, and has been working in various capacities with clients on the Web since the mid-1990s. “Consumers are certainly concerned about their online security, particularly as it relates to commerce on a phone,” Gallate says. “But go back to when the commercial Web started. The majority of us did not think that commerce would happen there. More recently, people were not comfortable putting their credit card on the Web. Almost all of us do. The same thing is going to happen with mobile. The issue with mobile is the form factor, the size. It's not as easy to transact on a phone yet, but the advances that are being made

with one touch shopping are going to make a world of difference for a retailer.” As Gallate points out, screen size is a major issue with smart phone usability as a shopping device, virtually tied with security as the primary obstacle. There is also considerable concern over Website navigability and limited capacity. While companies such as Apple, which has developed the Apple Watch, are trying to crack the code of elegantly designing an Internet interface over a small surface area, the jury is still out on which of these ambitious efforts will succeed—if any.

“It's not as easy to transact on a phone yet, but the advances that are being made with one touch shopping are going to make the world of difference for a retailer.”

— George Gallate, CEO, Merkle/RKG

Another challenge for mobile is that the technological reality at most retailers has not caught up to the promise of location-based offers and coupons that mobile offers.

“Based on the location of use, the purpose can change,” Decker’s Kalinich told PwC. “We need to develop an awareness of a customer’s location to optimize the best connection with the customer. So if

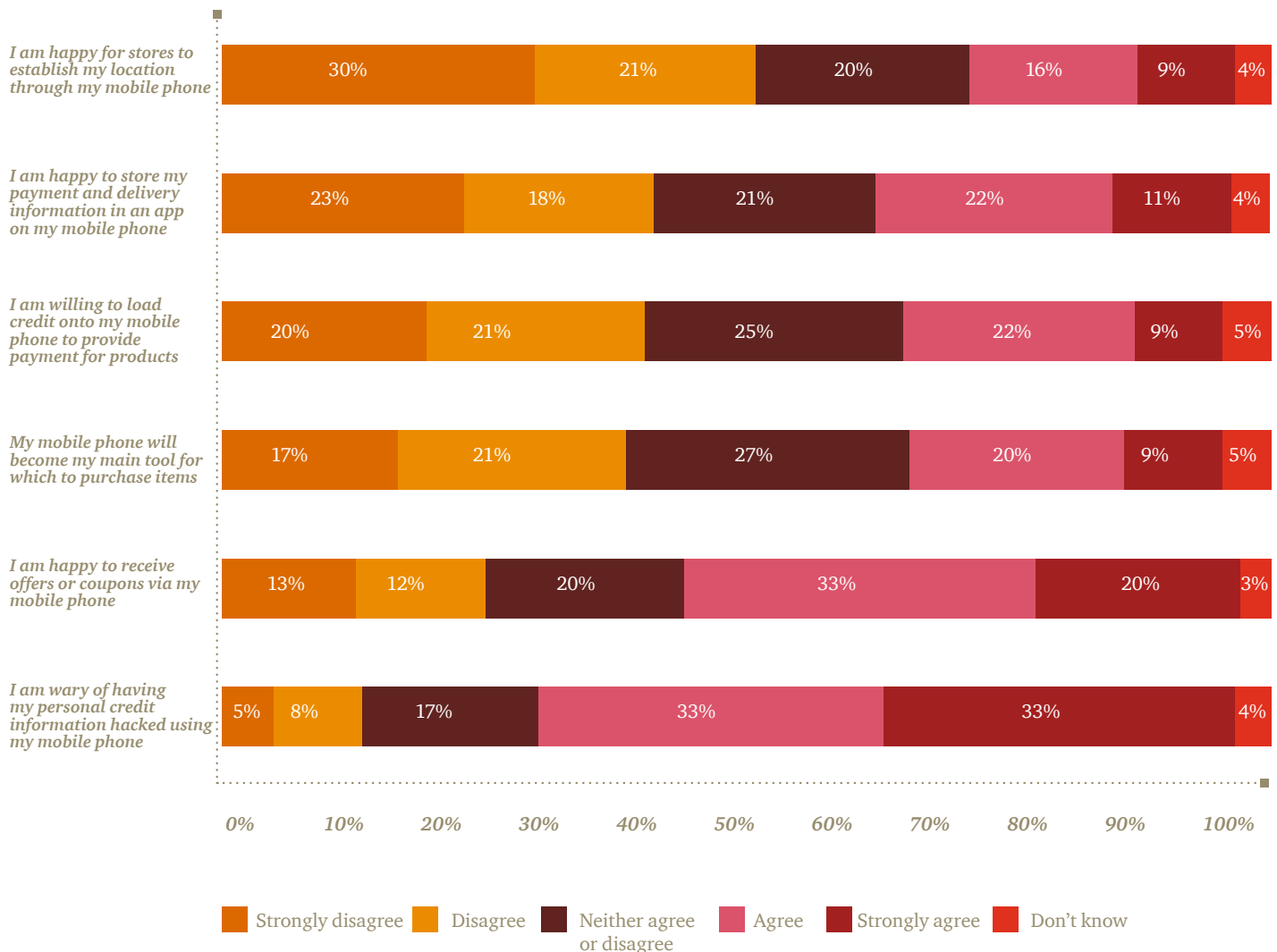
a customer searches UGG® while in New York City on the smart phone, you have a paid search campaign that would show nearest the store. On the other hand, if the customer is in an airport, the search should direct the customer to the mobile optimized website.”

Plastic still rules in payment

So how do people want to pay, if most are not yet ready to pay by their mobile? Ninety-four percent of our global sample continued this year to opt for the most traditional, pre-digital modes of payment to complete their shopping. Credit cards (40%), debit cards (28%), cash (20%), and even payment by invoice (6%) all beat out mobile phones (3%) as the preferred method of payment to conclude a purchase.

Figure 8: When it comes to consumer confidence, the mobile phone still has a long way to go

Q: How strongly do you agree or disagree with the following statements



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

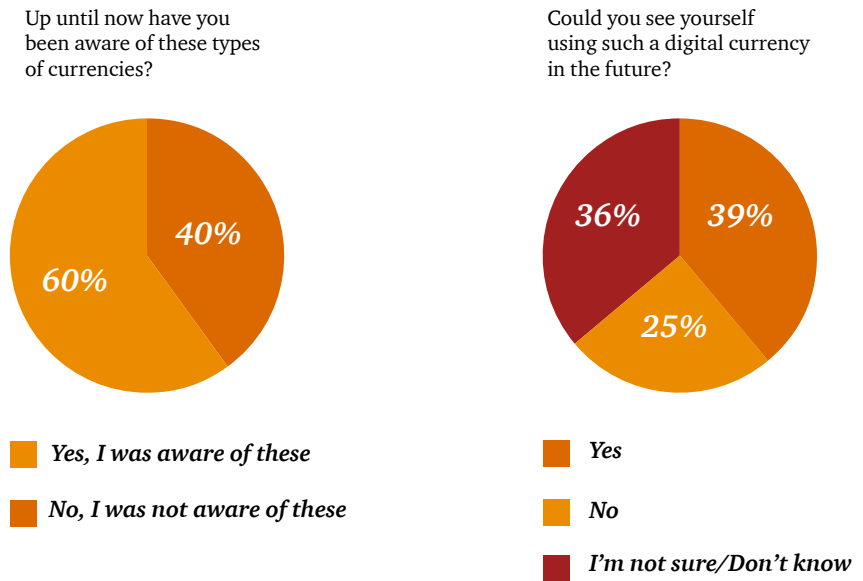
Looking ahead to other forms of payment

The experience with mobile phones is probably a good indicator of the future of other online payment systems—such as the more than 70 “digital” currencies, including Bitcoin. If anything, digital currencies could face far greater obstacles of trust and ease of use than mobile phones, which are exceedingly easy to use, familiar, and globally available. Indeed, many people around the world have a distrust even of their own currencies, displayed repeatedly during the last few years across a range of regions, from Argentina to the Eurozone. As *The New York Times’s* Sydney Ember has written, “Without government regulation, many are reluctant to use the virtual currency.”¹⁰

And yet, our survey respondents’ answers to questions about Bitcoin and other digital currencies—the first time in our survey history we have posed them—display a strong interest. In fact, 39% of our respondents state that they can envisage “using a digital currency in the future.” Another 36% said they weren’t sure, leaving just 25% of our global sample that firmly ruled out using a digital currency. One of the reasons behind this willingness could be that consumers have begun to see digital currencies being used in other sectors, one of which is the entertainment industry.

For example, according to a February 2014 PwC white paper on Bitcoin, social gaming company Zynga added Bitcoin as a payment method for its most popular games early in 2014. Besides the added option for its users, the company generated thousands of media mentions over its decision, according to the white paper. Other well-known organizations that made the jump to accepting Bitcoin in 2014 according to the PwC white paper, include the Sacramento Kings NBA franchise and Overstock.com, which reported 840 orders on its first day of accepting the currency.

Figure 9: So called “digital” or “virtual” currencies such as Bitcoin could enable users to pay for products and services electronically without using the local currency



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

Mobile: the glue that binds

When a company is voted best department store in the world three times in five years, it must be doing a lot of things right. Simon Forster is executive director for multichannel, marketing and supply chain for UK-based Selfridge's, which has been awarded that title by Global Department Store Summits in 2010, 2012, and 2014.

With online sales surging at the company—cyber sales were up 300% in 2014 from the previous year on Black Friday (which has now become a major shopping day in the UK as well as the US)—Forster cites mobile as one of the company's biggest opportunities, and challenges, in the next few years. Says Forster: "We have a customer base that wants to use mobile, so our job is to make it a good experience for them. More specifically, a third of our customers use the iPhone, so we have to make sure we design for this platform."

Like any good marketer, Forster believes that Selfridge's needs to align itself with how customers perceive it. And that means an omnichannel experience based on products and brands, not siloed paths to purchase. "We should be using technology to 'glue things together', as mobile is the glue between the digital and in-store experience. We are working on how to weave mobile into customer journeys in ways that add value," Forster says. Possible applications might include providing more product information or guidance in store as customers browse, or alerting personal shopping clients about the latest arrivals that suit their taste. "It's up to us to make mobile good enough for customers to want to use it," he says.



Disruption 3

The proliferation of social networks

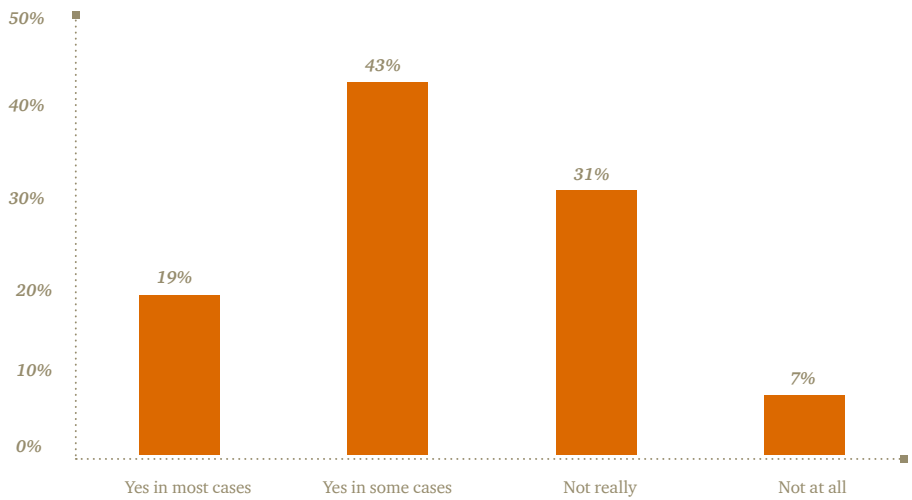
The ubiquity of social media—in individuals’ interactions with family and friends, as well as in politics, journalism, and marketing—has for some time led many to assume that social media platforms must be highly robust vehicles for shopping, or at least for communication between retailers and consumers. Since PwC’s first online global shopper survey five years ago, our findings have not quite borne this out—until now.

As shown in figure 10, when asked if their interactions on social media had led them to buy more, a total of 62% of our respondents answered either “Yes in most cases” (19%), or “Yes in some cases” (43%).

As figure 11 below shows, an overwhelming majority (68%) of consumers in our study have exhibited one or more of the behaviors shown in the chart, meaning that they have some relationship with their favorite brands on social media.

Figure 10: Retailers can now make the link between social media investment and consumer purchasing

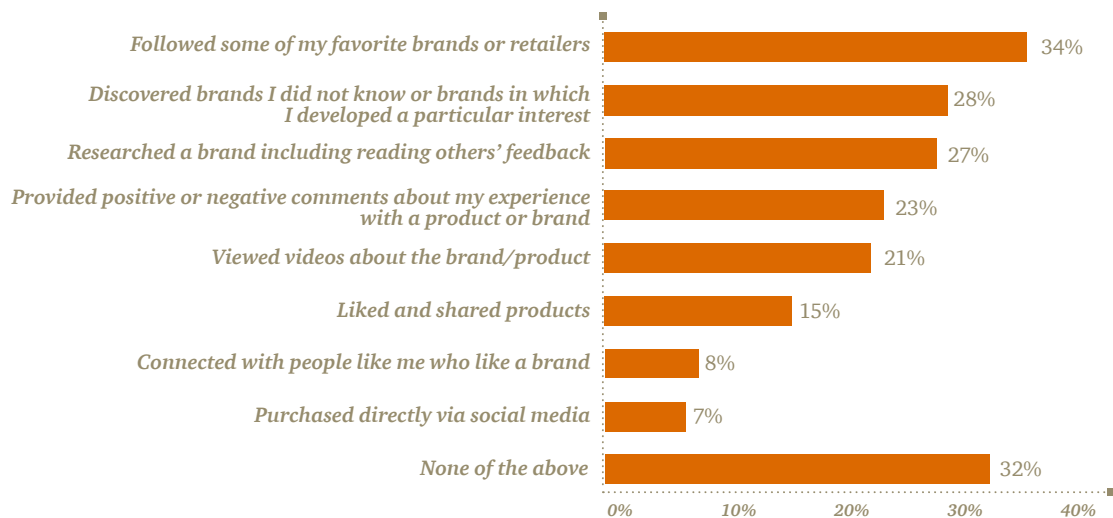
Q: Has any interaction you have had with your favorite brands on social media driven you to buy more?



Source: Global PwC 2015 Total Retail Survey
Base: 13,009

Figure 11: Social media is a crucial link between shoppers and retail brands

Q: Which of the following have you done using social media...?



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

An increase in social media engagement

This year, virtually all of our consumer and retailer social media engagement has seen an increase from our previous studies. As shown in figure 11, about a third (34%) of consumers followed their favorite brands or retailers on social media. A little more than a quarter found brands they didn't know or in which they'd developed an interest (28%) or researched a brand using others' feedback (27%). Less than a quarter of respondents provided any comments about their experiences with products or brands (23%) or viewed videos about them (21%), but again these figures indicate a marked increase from previous years.

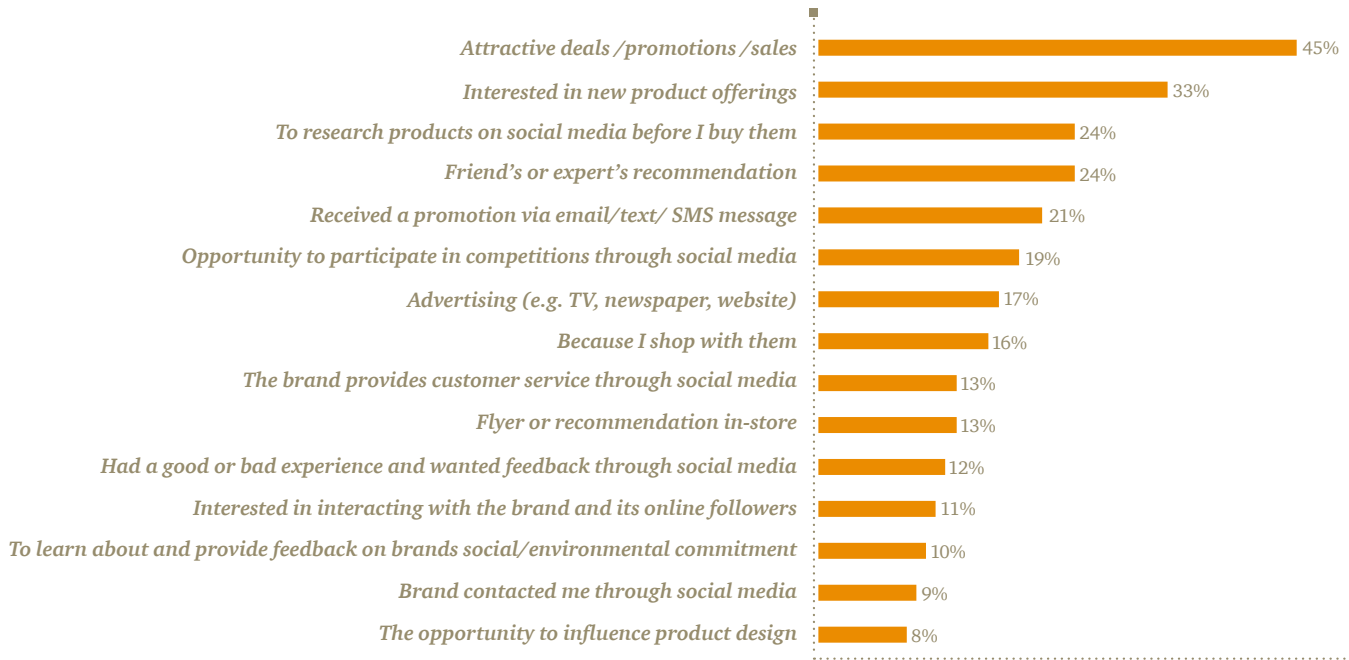
On the other hand, given that the function of social media is to connect people, it is interesting to note that only 15% of respondents worldwide either "liked" products or shared them with others and only 8% connected with people who liked the same product they did.

As shown in figure 12, when asked what attracted consumers to a particular brand's social-media page, the top response by a significant margin (45%) was "attractive deals/promotions/sales." The second largest group (33%) was interested in new products, while less than a fifth of respondents pointed to factors specific to social media, including opportunities to compete in competitions (19%), customer service (13%), providing feedback for particular experiences (12%), interaction with the brand and its online followers (11%), or consumer contact (9%).

It is striking that the response that came in dead last (8%) was, "The opportunity to influence product design." While collaboration between consumers, designers, and producers is in the spotlight in the debate about retailing's future, it appears to be early days for such collaboration, given that fewer than one in 10 of our respondents are using social media in this way.

Figure 12: The financial "bottom line" is what brings shoppers to a particular social media page

Q: What attracts you to visit a particular social media page (e.g. Facebook)?



Source: Global PwC 2015 Total Retail Survey
Base: 17,944



How to innovate

Given the upward trajectory of consumer engagement with retailers via social media, Merkle/RKG's Gallate views social as a disruptor on the level of mobile, and he's convinced there is only one way for retailers to prosper in what has become a mercilessly competitive—and now thoroughly global—environment. And that is through social media innovation.

“Innovate or die,” Gallate declares. “Without pushing the envelope, without continuously testing what might work in a social environment, a retailer is going to go backwards. Informed risk is the only option.”

That risk might center on optimizing the mobile Web presence, investing to improve search engine rankings, or hiring experienced people who can revamp an entire approach to social media. Too often, however, retailers make one-off investments in social or mobile, without integrating the initiative into the greater corporate strategy. Why does this happen? Gallate believes that such missteps are grounded in a lack of appreciation of the nuances of different platforms.

“When a retailer is configuring their digital programs, they need to think of what the various platforms offer,” Gallate says. For example, social media platforms are ideally suited for creating or supporting a brand, as they provide the space to generate genuine word-of-mouth and viral buzz. Digital and display ads, on the other hand, reinforce consumer interest. Search platforms indicate “pure customer intent” according to Gallate and, therefore, point to a strong desire to complete an actual transaction. In our survey results this year, 56% of participants said the first thing they do when researching a purchase is to go to a search engine. So a retailer that really wants to improve its viability as a purchase destination should probably invest in search engine optimization.

Another approach would be to try to invest in brand equity to increase “direct traffic,” in which consumers go straight to a retailer's online assets instead of searching for generic products via a search engine. In last year's Total Retail report, “Achieving Total Retail: Consumer Expectations Driving the Next Business Model,” we wrote about how retailers typically underperform in terms of brand value. For example, in Interbrand's 2013 “Best Global Brands” list, only two retailers—Louis Vuitton and Amazon.com—registered

in the top 20 based on brand value. That compares with eight technology companies, four automotive companies, and four consumer companies. The direct traffic that a retailer experiences is one of the best indicators of a significant amount of brand equity.

At the Turkish apparel company Mavi Jeans, CEO Cüneyt Yavuz told PwC that his company reaches out over digital channels to build its brand directly with Mavi's young customers, with the expectation that “digital natives” will engage directly with the company via its social media properties. So far so good, as Mavi is one of the top three jean brands in Turkey in terms of social media followers, interacting with more than 2.4 million customers each day. Mavi's social media activities include premieres of TV ad campaigns on suitable digital media channels. “We are using social media not only for promotion and sales,” says Yavuz. “Our first goal is to start a dialogue with customers and create ‘word of mouth.’ So we are interacting with customers through all social media channels.”

Around the world with social media

Our global survey confirms that when it comes to shopping, Facebook is the primary social network of the majority of our global sample. More than half of our global sample (52%) said that they regularly use Facebook as part of their shopping experience.

When drilling down into the individual national results, however, the use of social media varies significantly and becomes considerably more distinctive.

China, for example, may be the most socially connected country in the world, but the landscape is very different than the West. Blocked access to Facebook means that only 2% of our global sample uses it, while their preferred social media platforms are WeChat/Weixin, as well as that country's primary Internet search provider, Baidu (57%). In Russia, 24% use Facebook, as the Russian social-networking site VKontakte comes in first with 48%. In Japan, however, while only 26% use Facebook, it is not far behind #1 Yahoo (31%)—although the second-highest response among the Japanese to the question of social-media use is “None of the above” (29%).

As for Europe, Italy is the only country in which a healthy majority uses Facebook to help them shop (64%). While Facebook ranks first in consumer preference in every other European country we surveyed (Belgium, Denmark, France, Germany, Switzerland, and the UK), it doesn't break the 50% threshold, spanning a low of 38% in Denmark and a high of 47% in Belgium. In the US, Facebook is used by 50% of respondents, while those numbers rise to 69% in South Africa and 80% in the Middle East.

Two paths for social media?

In China, when PwC presented eight options to survey participants and asked, “Which of the following have you done using social media,” only 12% responded, “None of the above.” Moreover, only 5% of Chinese stated that they did not use any social medium at all, illustrating how integral social media is to the fabric of shopping in China.

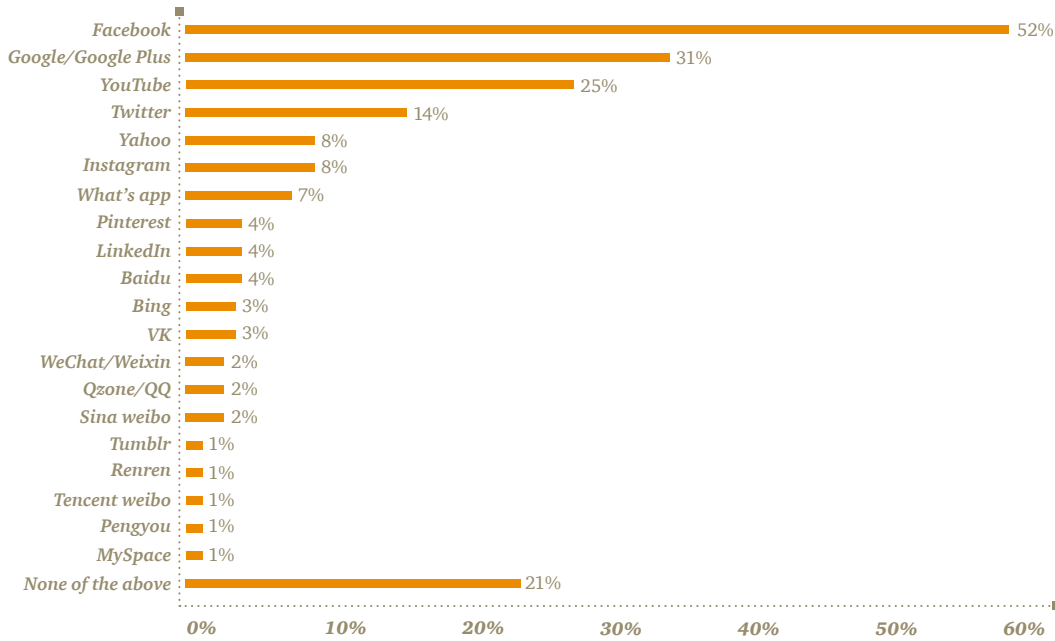
Conversely, in regard to social media use in European countries, the vast plurality of respondents in France, Switzerland, Denmark, Germany and the UK answered “None of the above” when asked to pick any of eight options presented to them. These are all extremely knowledgeable, tech-savvy and affluent societies, whose populations contain many highly enthusiastic early adopters of technology.

It is conceivable, therefore, that our results point to two possible transnational models of the future when it comes to social media. One is the massively networked Chinese model (which is also the case for developing nations such as Brazil, India, and Turkey), which can help create such phenomena as Single's Day, which had humble origins at Nanjing University just over 20 years ago and has now exploded into the largest 24-hour shopping event in the world. Another is the more traditional European model (shared also by Japan), which transcends technological networking for a more traditional or “laid-back” appreciation of shopping.

56% of survey participants said the first thing they do when researching a purchase is to use a search engine.

Figure 13: There is a “Big Three” when it comes to shopping and social media*

Q: Which social media do you regularly use as part of your shopping experience?



Source: Global PwC 2015 Total Retail Survey

Base: 19,068

*Use caution when making comparisons, as some social media options are not used globally.



Disruption 4

Demographic shifts

As the oldest millennials (most definitions define the millennial generation as being born between 1985 and 2004) approach their prime working decades, we decided to break out a smaller subset of millennials who have come of age during the era of the Internet. The goal was to see how the shopping behaviors of these “digital natives”—the 18-24 year-old set of survey participants—compared with those of the rest of our sample, and to understand how those behaviors may disrupt retailer business models.

It perhaps comes as no surprise that the biggest difference between the generation that has grown up texting and sharing photos, and the other generations represented in our survey, is use of social media. When we asked “Which of the following have you done using social media,” digital natives had, in every way listed, interacted with retailers via social media far more than our global average. They followed brands in greater numbers

(43% compared to 31%), discovered new brands in higher numbers (38% to 26%), researched brands in higher numbers (30% to 26%), and viewed video about brands/products in greater numbers (24% to 21%).

Perhaps most important for retailers, however, is that interactions with favorite brands tend to make digital natives spend more on products, relative to the rest of our global sample. Sixty-six percent of our digital native cohort said that interacting with a favorite brand had led them to buy more in either most cases or some cases.

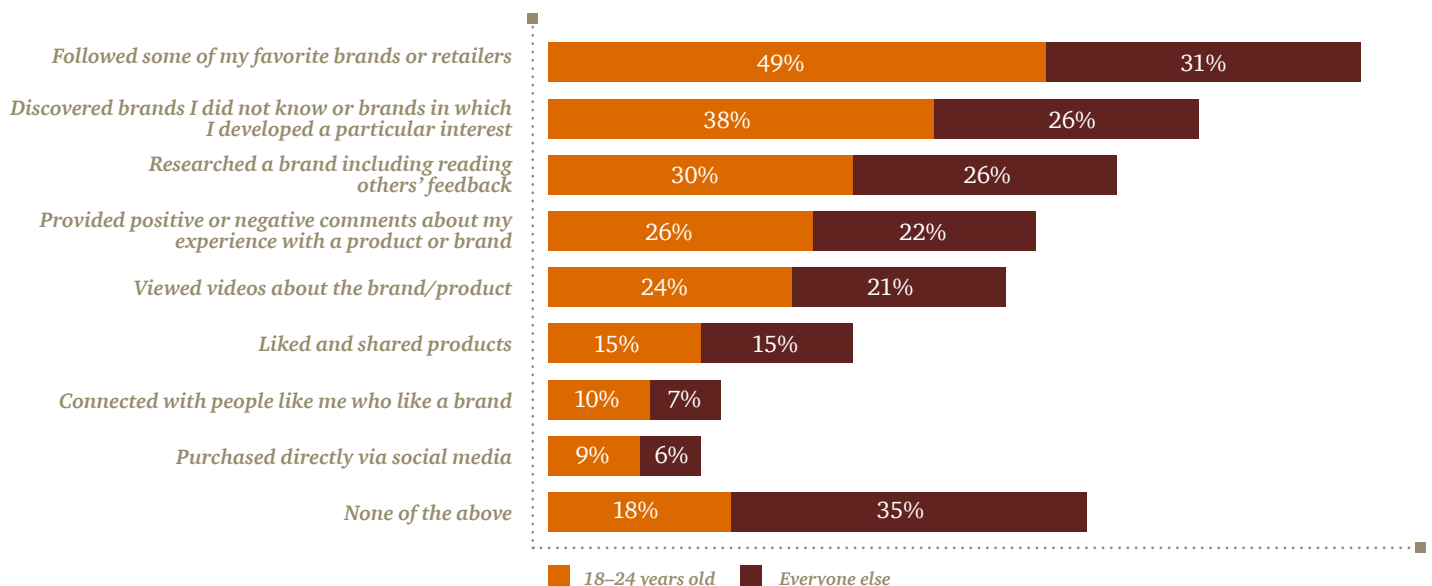
Migros’s CEO, O. Ozgur Tort, agrees that social presence helps increase customer awareness. However, because grocery customers are still more accustomed to traditional channels such as newspapers, grabbing their attention takes special effort.

millennials are a particular case in point. He explains, “For a retailer to appeal to millennials, the retailer has to catch the moment...And it has to catch it in an engaging and fun way. If a retailer can do that, millennials become active digital ambassadors.”

The second major area of difference between digital natives and the rest of our sample comes in the use of mobile technology. In our survey we asked whether or not respondents had engaged in a range of different behaviors with their mobile device. Again, in almost every category the digital native cohort engaged in the behavior more often. A higher percentage of digital natives had paid at the cashier (16% to 11%), scanned QR codes (16% to 13%), located a store (40% to 29%), received an offer based on proximity to store (15% to 11%), and “checked in” at a store via social media (14% to 9%).

Figure 14: Digital natives stand ready to interact with retailers via social media

Q: Which of the following have you done using social media?



Source: Global PwC 2015 Total Retail Survey
Base: 19,068

A final area of generational difference is worth mentioning because the future of the store is in such flux. When it comes to selecting favorite in-store technologies, our digital native cohort favored in-store Wi-Fi (31% to 22%) and selected “none of the above” at just a 9% rate, compared to a 16% average of the other age groups. This suggested digital natives have a much greater desire for in-store technology.

Now that we know that digital natives view shopping in a different way than their predecessors, a bigger question looms: will the first generation of digital natives, together with the next wave of young, digitally-savvy shoppers, have the economic clout in the next few years to force retailers’ hands in how they view their business model?

The generational income gap

The median age of almost all societies around the world is rising rapidly, with the exception of India and Sub-Saharan Africa.

The research on the topic suggests that the oldest parts of national populations are also among the wealthiest. Earlier this year, the *Economist* reported that “the average wealth of French 80-year-olds is 134% that of 50–to 59-year-olds” and that, in the US, “the share of male earnings going to those aged 60-74 has risen from 7.3% to 12.7% since 2000.”¹⁹ Further, a study by the Pew Research Center in 2011 showed the median net worth of households headed by those 65 or older to be almost 47 times that of a household led by someone 35 year old or younger (as opposed to just over 10 times in 1984).¹¹

The spending capacity of older consumers is also strong in the emerging economies. As an executive from a major African retailer told PwC: “Interestingly, most of our customers under age 24 are just browsers. The vast amount of transactions come from people above that age group, they’re the ones with the money. So the data tells us that the younger generation is made up of browsers and the older generations are transacting.”

In China, an e-commerce market poised for growth

In China, young urban dwellers are driving the consumption economy and e-commerce business.

John Lo, CFO of Tencent, a leading provider of comprehensive Internet services in China, told PwC that the e-commerce market in China has a lot of room to grow, coupled with the fact that there are online-to-offline initiatives and mobile payments. “I think most important for e-commerce is that customers do an e-commerce transaction once,” Lo says. “Once they have registered and once they have paid, they trust in e-commerce and they will use it more often.”

To capture the growth of the market, the offering needs to be compelling, so Tencent’s philosophy focuses on enhancing user experience. The key, according to Lo, is offering a single route to the many different services their customers want, as well as giving customers the ability to use those services anytime, anywhere. “One of the ways to enhance user experience,” Lo says, “is to offer one-stop solutions through our PC and mobile, through various platforms and different verticals including news, entertainment, online to offline, and leveraging our payment platforms—all through one log-in.”

The company invested early on in mobile, and that investment has paid off. “In 2012 there were fewer than 100 million smart phones,” Lo says. “We started investing, and now we are seeing a lot of people moving to low-cost smart phones. Another evolution is that there are more and more people watching video on their mobile phones, so we have invested aggressively in video content and bandwidth.”

Our digital natives—ages 18–24—interacted with retailers via social media at a rate far more than our global average.

Conclusion

Miracle on 34th Street, Oxford Street, and the rue de Sèvres

All the digital prophets have been right about one thing: the new technology, from smart phones to social networks, has fractured the once-cozy world of retail, and particularly of the physical store. Indeed, the personalization of shopping means precisely that: the fracturing of the shopping experience into a virtually infinite number of discrete shoppers with singular needs, demands, and consumer desires.

But the consumer has been here before. The first time involved the actual creation of the “fabulous department stores.”¹² Macy’s opened at its current address in 1902, Selfridges in 1909, and Bon Marché well before either one of them, in 1869. During the last few years, the American non-profit public broadcaster PBS has even premiered two British series based on

these mythical establishments. Certainly one reason is a clear nostalgia for a time when shopping meant more than endless shopping “seasons,” crushing crowds, and perennial discounts, but also personal service, attention to detail, and, above all, self-fulfilling visions of the good life. The technological revolution in retail may allow the recreation of that time—now lost—when shopping was a genuine pleasure and an extraordinary gratification, instead of a burden, a problem. It’s a point that Simon Forster, Selfridge’s executive director of multichannel, marketing and supply chain, understands completely.

“Mobile and digital are not gimmicks, but about solving problems and adding value to the customer; otherwise it’s just not worth the investment,” he told PwC. “We

should be using technology to understand who our customers are and using the customer data we have to enhance people’s shopping experience.” This is plainly a message, and a strategy, that holds true for every type of retailer, big or small, now and well into the future.



Endnotes

¹ See Lee Rainie and Jacob Poushter, “Emerging nations catching up to U.S. on technology adoption, especially mobile and social media use,” FactTank, Pew Research Center, February 13, 2014, at <http://www.pewresearch.org/fact-tank/2014/02/13/emerging-nations-catching-up-to-u-s-on-technology-adoption-especially-mobile-and-social-media-use>.

² <http://techcrunch.com/2014/11/10/alibaba-makes-strong-start-to-singles-day-shopping-bonanza-with-2b-of-goods-sold-in-first-hour/>

³ <http://blogs.worldbank.org/futuredevelopment/making-middle-class-africa>

⁴ See Ben Sisario, “U.S. Music Sales Drop 5%, As Habits Shift Online,” *The New York Times*, September 25, 2014. For the number of LPs sold in 2009 and 2014, see Trevor Anderson, “Albums Suffer as CD Sales Decline,” *The Wall Street Journal*, July 15, 2014, at <http://blogs.wsj.com/numbers/albums-suffer-as-cd-sales-decline-1569>.

⁵ Matt Hyde interview with PwC.

⁶ For the quotes regarding Bass Pro Shops, see “The Story: Step Inside the Great Outdoors!” at its Website at <http://www.basspro.com/webapp/wcs/stores/servlet/CFPageC?storeId=10151&catalogId=10051&langId=-1&appId=659>. Regarding Nike, see “A History of Nike Retail” at its Website at http://www.nike.com/us/en_us/sl/store-locator.

⁷ The quote is from Bill Moggridge, cited in Lauren Collins, “House Perfect,” *The New Yorker*, October 3, 2011.

⁸ All quotes from Mark McMenemy from interview with PwC, December 15, 2014

⁹ See Lee Rainie and Jacob Poushter, “Emerging nations catching up to U.S. on technology adoption, especially mobile and social media use,” FactTank, Pew Research Center, February 13, 2014, at <http://www.pewresearch.org/fact-tank/2014/02/13/emerging-nations-catching-up-to-u-s-on-technology-adoption-especially-mobile-and-social-media-use>.

¹⁰ Sydney Ember, “For Merchants, Bitcoin Shows More Pop Than Potential,” August 14, 2014, DealBook, *The New York Times*.

¹¹ See Richard Fry, D’Vera Cohn, Gretchen Livingston, and Paul Taylor, *The Rising Age Gap in Economic Well-Being: The Old Prosper Relative to the Young*, “Overview,” Pew Research Center, Social and Demographic Trends, November 7, 2011, pp. 1-2.

¹² The quote is from Columbia historian Victoria de Grazia; see her *Irresistible Empire: America’s Advance Through Twentieth-Century Europe*, The Belknap Press of Harvard University Press, 2005, p. 10.



林鎮顯醫館

洪拳林鎮顯跌打

天地分時
統理跌打骨科

King Sing Street
8 景星街
燕跌打

紅白禁止通行標誌
林鎮顯醫館

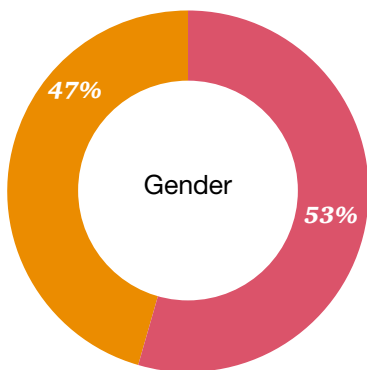
Blue House Movie Night
Blue House Evening Concert
Blue House Community Centre
Blue House Youth Centre
Blue House Senior Centre
Blue House Family Centre
Blue House Children's Centre
Blue House Adult Education Centre
Blue House Sports Centre
Blue House Arts Centre
Blue House Music Centre
Blue House Dance Centre
Blue House Theatre Centre
Blue House Library Centre
Blue House Computer Centre
Blue House Internet Centre
Blue House Language Centre
Blue House Career Centre
Blue House Health Centre
Blue House Fitness Centre
Blue House Yoga Centre
Blue House Tai Chi Centre
Blue House Martial Arts Centre
Blue House Calligraphy Centre
Blue House Painting Centre
Blue House Pottery Centre
Blue House Gardening Centre
Blue House Birdwatching Centre
Blue House Fishing Centre
Blue House Hiking Centre
Blue House Cycling Centre
Blue House Swimming Centre
Blue House Tennis Centre
Blue House Badminton Centre
Blue House Table Tennis Centre
Blue House Chess Centre
Blue House Bridge Centre
Blue House Backgammon Centre
Blue House Go Centre
Blue House Shogi Centre
Blue House Mahjong Centre
Blue House Poker Centre
Blue House Roulette Centre
Blue House Casino Centre
Blue House Gambling Centre
Blue House Lottery Centre
Blue House Raffle Centre
Blue House Auction Centre
Blue House Charity Centre
Blue House Fundraising Centre
Blue House Fundraising Event Centre
Blue House Fundraising Campaign Centre
Blue House Fundraising Committee Centre
Blue House Fundraising Office Centre
Blue House Fundraising Department Centre
Blue House Fundraising Division Centre
Blue House Fundraising Section Centre
Blue House Fundraising Unit Centre
Blue House Fundraising Team Centre
Blue House Fundraising Group Centre
Blue House Fundraising Club Centre
Blue House Fundraising Society Centre
Blue House Fundraising Association Centre
Blue House Fundraising Federation Centre
Blue House Fundraising Confederation Centre
Blue House Fundraising League Centre
Blue House Fundraising Confederacy Centre
Blue House Fundraising Council Centre
Blue House Fundraising Commission Centre
Blue House Fundraising Authority Centre
Blue House Fundraising Commission Centre
Blue House Fundraising Authority Centre

Survey methodology

PwC administered a global survey to understand and compare consumer shopping behaviors and the use of different retail channels across 19 territories: Australia, Belgium, Brazil, Canada, China, Chile, Denmark, Hong Kong, Germany, India, Italy, Japan, Middle East, Russia, South Africa, Switzerland, Turkey, UK and the US. PwC conducted 19,068 online interviews during August and September 2014.

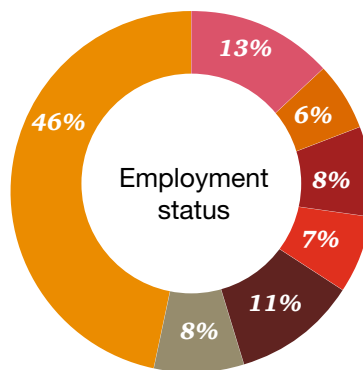
We also interviewed numerous retail executives, as well as executives from other industries, for inclusion in this report. Special thanks to Simon Forster, George Gallate, Caren Genthner-Kappesz, Matt Hyde, John Kalinich, John Lo, Mark McMenemy, Adam Pellegrini, Steven Scheeler, Jason Speckman, Tadd Spering, O.Ozgur Tort and Cüneyt Yavuz.

Survey panel demographics



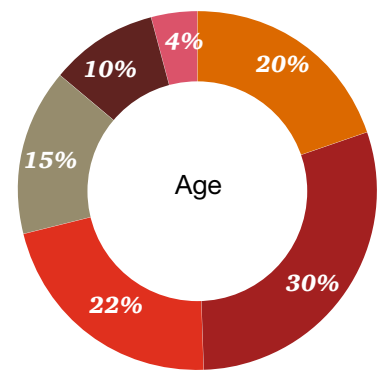
- Male
- Female

Base: 19,068



- Employed full time
- Employed part time
- Retired
- Self employed
- Unemployed
- Student
- Husband/housewife

Base: 17,060



- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65+

Base: 19,068

For more information

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