US
Retail
HOLIDAY
REPORT
2017

OVERVIEW

The 2017 holiday season has begun on a positive note for the U.S. retail industry. Consumer sentiment has not been dampened by the spate of hurricanes or other major calamities. For an industry warily looking at what media outlets termed the 'Retail Apocalypse,' this comes as a silver lining in a cloudy year. WNS DecisionPoint™ conducted its annual holiday survey covering consumers across the U.S. and has developed a proprietary methodology called Consumer Decision Trees. This analytical approach provides companies insights into the customer journey across various formats in specific product categories. Based on this analysis, companies can identify the most effective format for each category and accordingly target customers.

While e-commerce continues to dominate the retail landscape, our survey shows that the consumer journey is now more omni-channel than ever. Here are a few more interesting insights from the holiday survey:

- Macroeconomic tailwinds have a put a positive spin on consumer spending
- Though the sway of e-commerce remains unmitigated, in the webrooming vs. showrooming debate, the former's hold will be less than what it was in 2016
- Subscription-based paid delivery such as Amazon Prime is now more popular
- In-store technology deployments such as endless aisles, self-service kiosks and mobile payments will be of paramount importance to address long queues, slow checkout and unavailability of merchandise
- Manufacturers are eliminating middlemen and selling directly to consumers
- Personalization will enable retailers to gain a competitive edge

This year, more consumers (64 percent compared to ~60 percent in 2016) will begin shopping before Thanksgiving. This augurs well for the retail industry which can capitalize on increased spending to move into a better position for the year ahead.

National Retail Federation (NRF) predicts that 2016 retail holiday sales will increase by 3.6 percent to USD 655.6 Billion, driven by 7 to 10 percent growth in non-store sales. More than 154 Million onsumers will shop over Thanksgiving weekend, up from 151 Million shoppers in 2015.
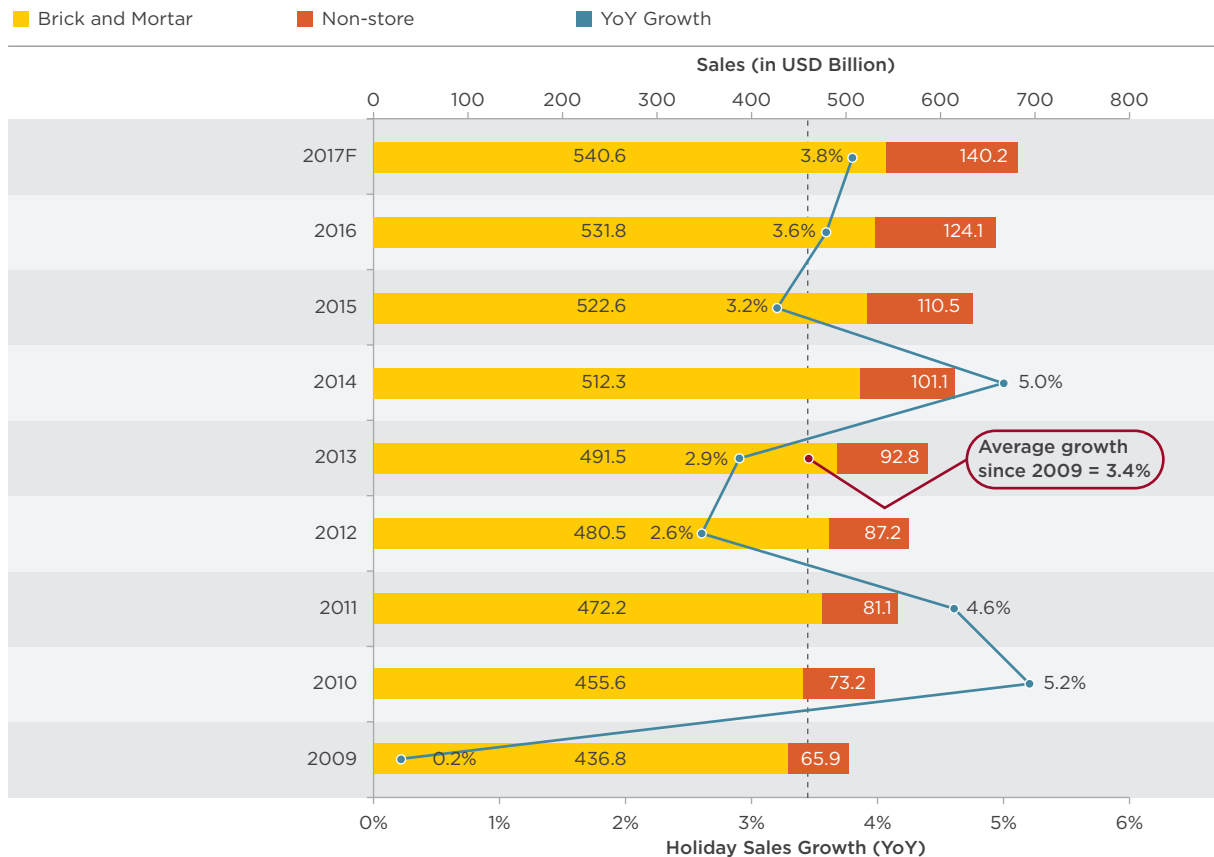
DECISION POINT™
— by WNS

INTRODUCTION

The retail industry in the United States (U.S.) is forecasted to experience a robust growth between 3.6 to 4.0 percent for the upcoming holiday season as per National Retail Federation (NRF).[i] This excludes automotive, gasoline, and restaurant sales. Based on the historical data from the U.S. Census Bureau, we predict net retail sales to rise anywhere between USD 679.4 Billion to 682.0 Billion, from USD 655.8 Billion in 2016 (Exhibit 1). As per our analysis, this is significantly higher than the 2.5 percent average growth for the last 10 years, and greater than the 3.4 percent growth seen since 2009. E-commerce continues to break ground as the major driving force for this growth, indicated by non-store sales growth between 11 and 15 percent. We see non-store sales growing to USD 140.2 Billion, based on the mid-point of this estimate at 13.0 percent (Exhibit 1).[ii] Our analysis reveals that consumer sentiment, measured by the University of Michigan's Consumer Confidence Index, has surged to its highest levels since 2004.[iii]

Exhibit 1

Growth in Holiday Sales (2009-2017F)

Legend: Brick and Mortar / Non-store / YoY Growth

Sales (in USD Billion)

Year	Brick and Mortar	Non-store	YoY Growth
2017F	540.6	140.2	3.8%
2016	531.8	124.1	3.6%
2015	522.6	110.5	3.2%
2014	512.3	101.1	5.0%
2013	491.5	92.8	2.9%
2012	480.5	87.2	2.6%
2011	472.2	81.1	4.6%
2010	455.6	73.2	5.2%
2009	436.8	65.9	0.2%

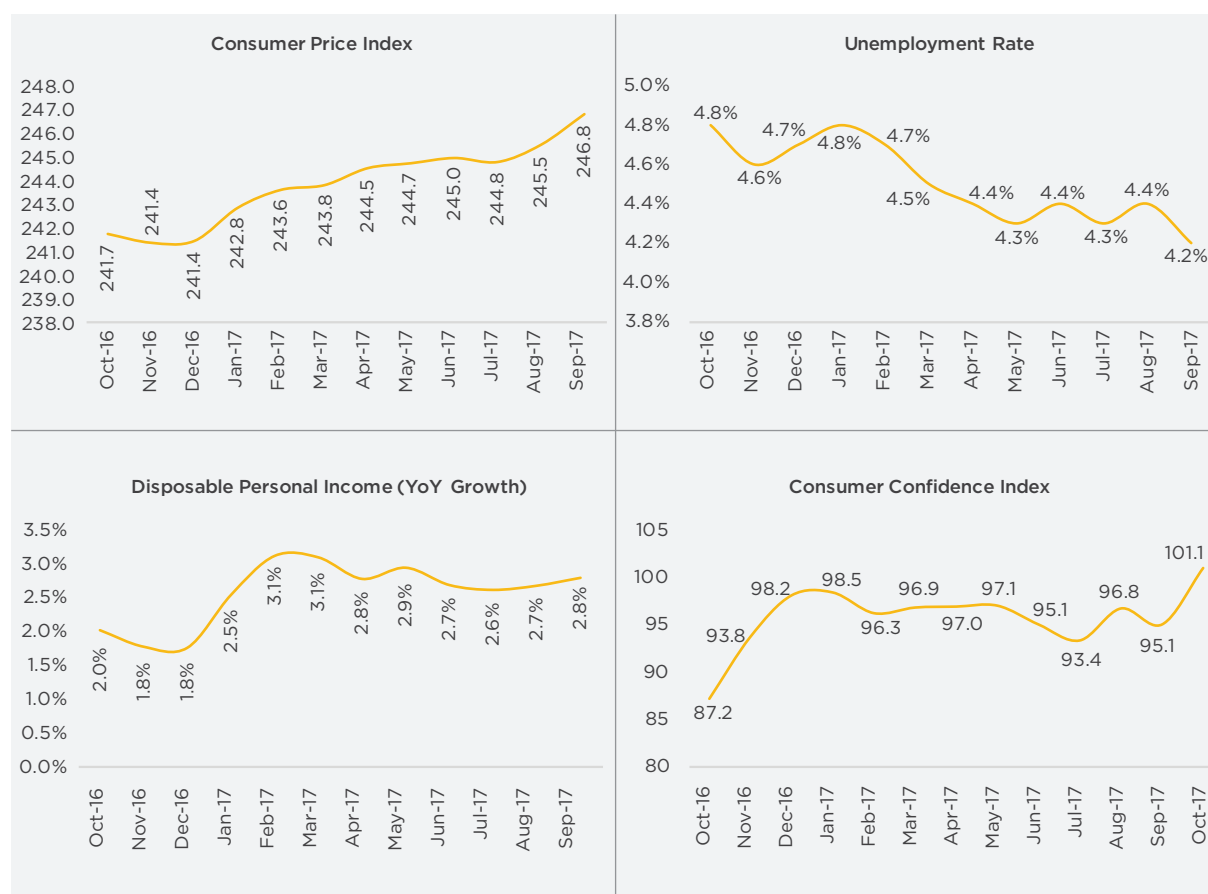Average growth since 2009 = 3.4%

Holiday Sales Growth (YoY)

Source: US Census Bureau, NRF, WNS DecisionPoint™ Analysis
Note: Census data undergoes revision in April every year.

Exhibit 2

Gradual Decline in Unemployment Rate has Led to Positive Consumer Sentiment, as Disposable Income Growth Remains Steady Despite Rising Inflation

Consumer Price Index

248.0	
247.0	
246.0	
245.0	
244.0	
243.0	
242.0	
241.0	
240.0	
239.0	
238.0	

241.7 241.4 241.4 242.8 243.6 243.8 244.5 244.7 245.0 244.8 245.5 246.8

Oct-16 Nov-16 Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17

Unemployment Rate

5.0%
4.8%
4.6%
4.4%
4.2%
4.0%
3.8%

4.8% 4.7% 4.8% 4.7% 4.6% 4.5% 4.4% 4.4% 4.4% 4.3% 4.3% 4.2%

Oct-16 Nov-16 Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17

Disposable Personal Income (YoY Growth)

3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%

2.0% 1.8% 1.8% 2.5% 3.1% 3.1% 2.8% 2.9% 2.7% 2.6% 2.7% 2.8%

Oct-16 Nov-16 Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17

Consumer Confidence Index

105
100
95
90
85
80

87.2 93.8 98.2 98.5 96.3 96.9 97.0 97.1 95.1 93.4 96.8 95.1 101.1

Oct-16 Nov-16 Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17 Oct-17

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, University of Michigan (for Consumer Confidence Index)
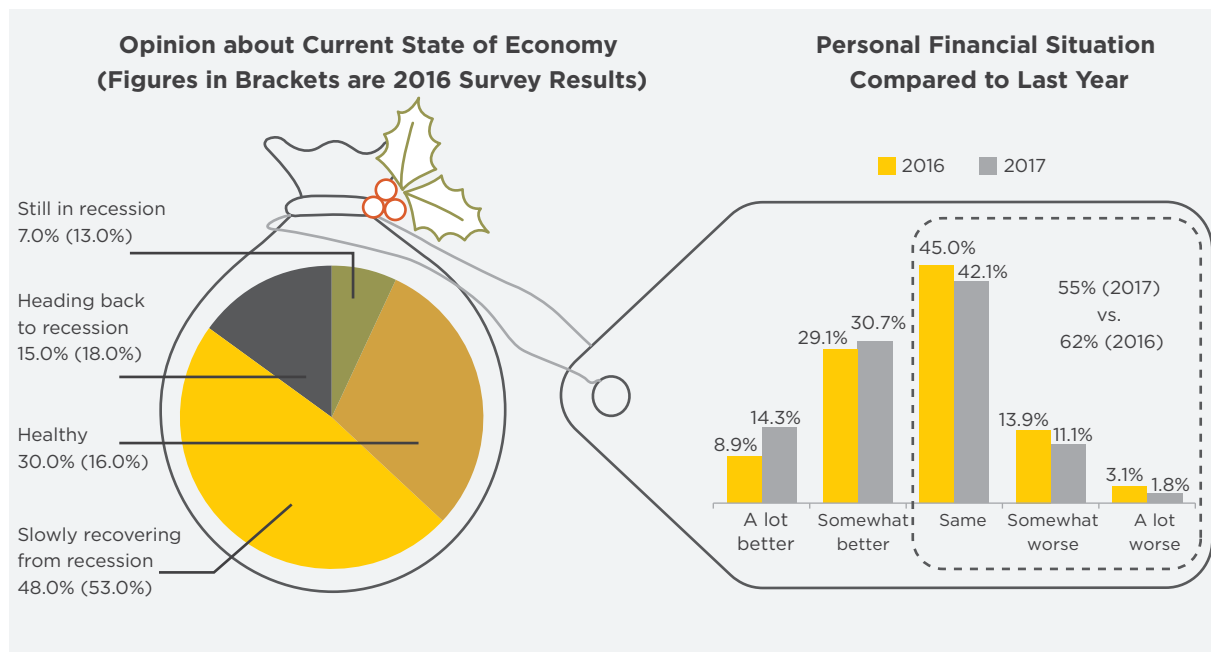**Note:** Seasonally non-adjusted values used for indices.

As seen in Exhibit 2, U.S. national unemployment rate has declined to 4.2 percent, a 16-year low. Hence, disposable personal income levels have shown significant growth despite rise in inflation as indicated by the Consumer Price Index. In spite of being hit by hurricanes Irma and Harvey, U.S. economic fundamentals as well as consumer sentiment have remained robust. Post-storm recovery efforts and decline in gasoline prices seem to reinforce consumer sentiment. The optimism evident from the above-mentioned macroeconomic indicators is also reflected in our survey results. The proportion of respondents who feel the U.S. economy is in a healthy state has nearly doubled, 30 percent in 2017 vis-à-vis 16 percent in 2016. Given these tailwinds, what we have observed is that a significant majority of respondents are comparatively more optimistic about both the economy and their personal financial situation compared to last year.

Exhibit 3

Consumers Perception of Current State of Economy and Personal Financial Situation

Opinion about Current State of Economy (Figures in Brackets are 2016 Survey Results)

Still in recession
7.0% (13.0%)

Heading back
to recession
15.0% (18.0%)

Healthy
30.0% (16.0%)

Slowly recovering
from recession
48.0% (53.0%)

Personal Financial Situation Compared to Last Year

■ 2016   ■ 2017

	A lot better	Somewhat better	Same	Somewhat worse	A lot worse
2016	8.9%	29.1%	45.0%	13.9%	3.1%
2017	14.3%	30.7%	42.1%	11.1%	1.8%

55% (2017) vs. 62% (2016)

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Total respondent size, n=3006

This optimism shows up in consumers' expectations regarding their income prospects in the coming months, as a comparatively lower - 55 percent of respondents (62 percent in 2016) - think their financial situation is either the same or worse than last year. However, consumers are still being somewhat apprehensive when it comes to their spending intentions. While, 20.3 percent (14 percent in 2016) mentioned that they will spend more this holiday season as compared to last season,

60.9 percent of respondents (61.9 percent in 2016) expect their spending to be the same as that in the last holiday season. The lower income groups, i.e. <$30,000 and $30,000-$49,999 continue to be the most cautious - 38 percent and 24 percent of respondents respectively plan to spend less for the upcoming holiday season (Exhibit 4).
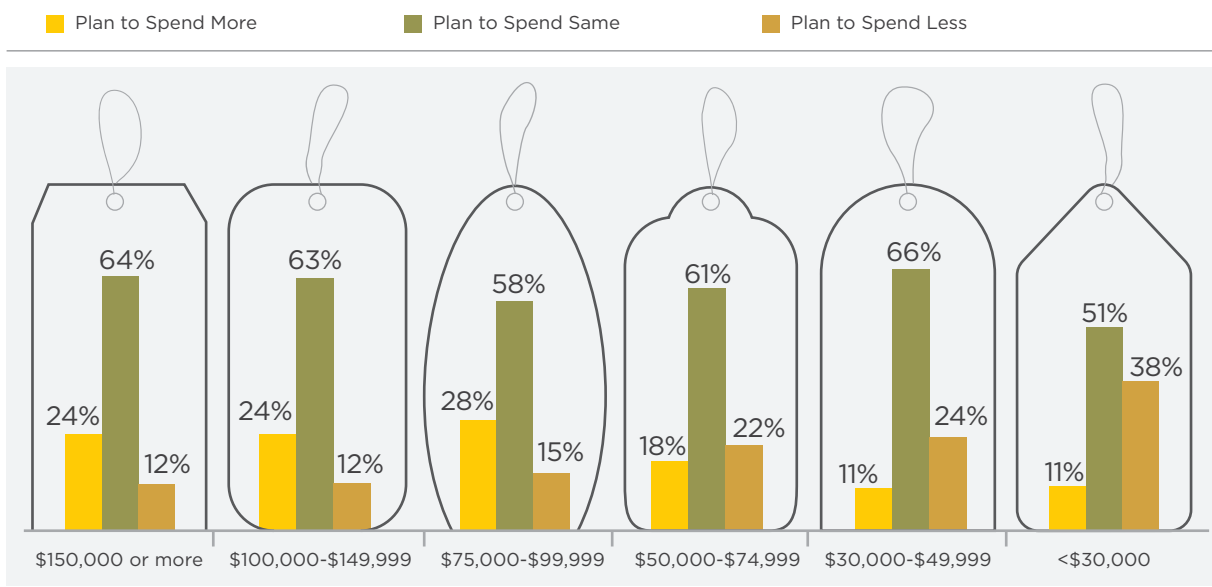
Since most consumers are still in a dilemma regarding their spending, retailers that align themselves with

customer expectations will be able to generate incremental spending from undecided consumers. In this scenario, it is imperative for retailers to understand consumer behaviors and purchase patterns during the vital holiday season. This WNS DecisionPoint™ Holiday Report is designed to assist retailers as they gear themselves up for the annual extravaganza.

Exhibit 4

Spending Intentions by Income Bracket

■ Plan to Spend More   ■ Plan to Spend Same   ■ Plan to Spend Less

	$150,000 or more	$100,000-$149,999	$75,000-$99,999	$50,000-$74,999	$30,000-$49,999	<$30,000
Plan to Spend More	24%	24%	28%	18%	11%	11%
Plan to Spend Same	64%	63%	58%	61%	66%	51%
Plan to Spend Less	12%	12%	15%	22%	24%	38%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Total respondent size, n=3006

CATEGORY, CHANNEL PREFERENCES, AND DEVICE USAGE

Category and Channel Preferences

Overall, consumers plan to spend on an average USD 1213 on holiday shopping this year (Exhibit 5), a significant increase of 21.5 percent. Our analysis reveals this spending is variable across the generational cohorts, both overall as well as category-wise. Millennials continue to spend the least (USD 870) despite a 14.8 percent Year-on-Year (YoY) increase in planned spend. A combination of debt incurred on education loans and savings for future housing purchases continues to weigh on their disposable income.[iv] The impact of this shift is to an extent that they intend to spend 3.2 percent (Exhibit 6) less on travel and leisure, a category traditionally driven by them.

Exhibit 5

Category Spending Intentions (Overall and by Age Groups)

	Overall	Millennials	Gen X	Baby Boomers	Seniors
Gifts	$ 666	$ 423	$ 772	$ 636	$ 832
Travel & leisure	$ 156	$ 129	$ 255	$ 96	$ 154
Entertainment at home (food, liquor, etc.)	$ 147	$ 110	$ 235	$ 114	$ 115
Apparel purchases for family and self	$ 110	$ 99	$ 189	$ 65	$ 83
Home furnishings during holiday	$ 69	$ 59	$ 140	$ 34	$ 45
Holiday related spending not covered	$ 64	$ 50	$ 98	$ 47	$ 51
Total	**$ 1213**	**$ 870**	**$ 1688**	**$ 992**	**$ 1280**

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Values represent average planned spending across categories, overall as well as by age groups; Total respondent size, n=3006

On the contrary, Gen X's net spending across all categories has risen by a significant 47.6 percent YoY, driven by peaking income levels. Specifically, they are replacing the Millennials as the driving generational cohort with respect to experiential spending. YoY planned spend for the two experiential categories, i.e. travel and leisure, and entertainment at home has seen a 25.6 percent and 70.1 percent increase respectively.

The two elderly cohorts, i.e. Baby Boomers and Seniors have very differing plans for their upcoming holiday season. Our analysis identifies that Boomers plan to spend 6.7 percent less than last year. Declines are observed across all categories except gifts, which sees a modest increase of 2.1 percent. A key cause for this drop is the large number of retirements witnessed by this cohort, affecting their confidence

to spend. As a result, their discretionary spending is seeing a significant drop.[v] By contrast, Seniors are positive and will spend 18.1 percent more in the 2017 holiday season, with an unusual increase in experiential spending even though the overall numbers are still low.

Exhibit 6

YoY Change in Spending by Categories (2016 vs. 2017)

⬆ Increase: >15%   ⬇ Decrease   ➡ Increase: 0-15%

	Overall	Millennials	Gen X	Baby Boomers	Seniors
Gifts	⬆ 24.9%	⬆ 21.2%	⬆ 55.9%	➡ 2.1%	➡ 13.0%
Travel & leisure	➡ 6.4%	⬇ -3.2%	⬆ 25.6%	⬇ -28.7%	⬆ 34.7%
Entertainment at home (food, liquor, etc.)	⬆ 27.6%	➡ 3.4%	⬆ 70.1%	⬇ -5.7%	⬆ 26.6%
Apparel purchases for family and self	⬆ 18.7%	⬆ 41.7%	⬆ 38.0%	⬇ -28.1%	➡ 10.9%
Home furnishings during holiday	➡ 8.0%	⬇ -11.7%	⬆ 27.4%	⬇ -25.0%	⬆ 72.3%
Holiday related spending not covered	⬆ 39.8%	⬆ 52.9%	⬆ 60.5%	⬇ -2.95%	⬆ 21.9%
Total	**21.5%**	**14.8%**	**47.6%**	**-6.7%**	**18.1%**

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Total respondent size, n=3006

Although in-store sales will continue to be the largest channel, our findings suggest that Americans plan to allocate 46.2 percent (vs. 43 percent last year) of their spending to online channels (Exhibit 7). Our analysis of channel preferences by generational cohorts suggests Millennials are the most digital
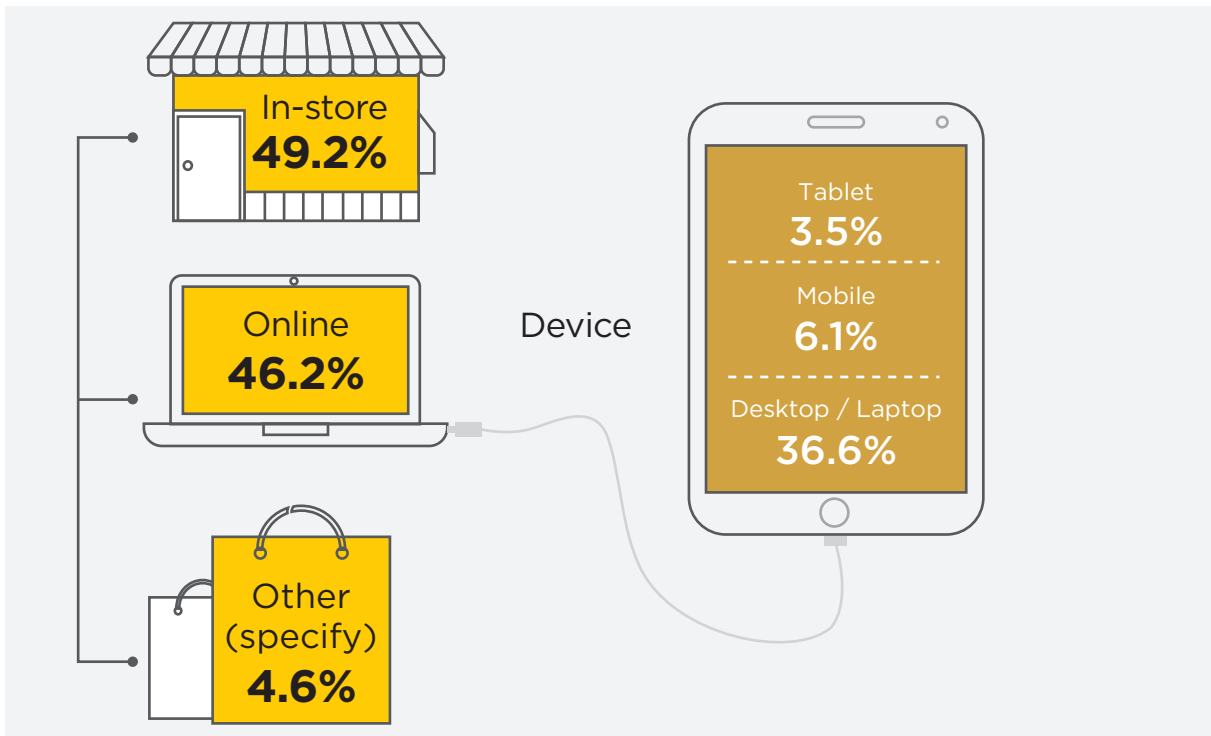
savvy and allocate more than half of their intended holiday spending (54.8 percent) to online channels, closely followed by Gen X at 52.3 percent. Both Baby Boomers and Seniors, on the other hand, indicate a lower level of preference for shopping in-store and allocate only 38.6 percent and 31.2 percent respectively to online shopping.

However, both these older generational cohorts differ in their preference for in-store channels. While Baby Boomers mainly prefer conventional in-store channels as per our analysis, Seniors exhibit significantly higher preference for miscellaneous channels driven by catalogue retail.

Exhibit 7

Channel Preferences for Shopping: Online Closing the Gap on In-store Led by Desktops / Laptops

In-store
49.2%

Online
46.2%

Other (specify)
4.6%

Device

Tablet
3.5%

Mobile
6.1%

Desktop / Laptop
36.6%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Total respondent size, n=3006

Device Usage and Preferences

As per our survey findings, 87.8 percent (N=2638) of respondents allocate some part of their planned spending to online channels, as against 84.5 percent last year. This indicates an increasing preference for online channels, particularly among Baby Boomers and Seniors. While consumers continue to use their smartphones to research content online prior to purchases, low conversion rates mean desktop/laptop remain the most preferable channel, driving 79.1 percent of online sales (36.6 percent of overall).[vi,vii] As seen in Exhibit 7, mobiles (13.1 percent) continue to be

preferred over tablets (7.8 percent). The WNS 2016 Holiday Report had highlighted the fact that tablets had lost their position of pre-eminence as larger smartphone screen sizes allowed shoppers to navigate easily on their mobile devices.[viii] Considering the various devices consumers use and the new 'omnichannel normal', retailers need to provide a seamless experience as part of their broader digital strategy. To do so, they need to identify the behavioral preferences of consumers. Crucially, retailers need to differentiate between usage patterns for smartphones and

tablets. While consumers tend to use tablets for more detailed and tedious tasks primarily because of the large screen size, smartphones are used for more simple and transient activities. This is true for both online and in-store touchpoints. Smartphone use is skewed towards searching for product information and availability, identifying specific locations of a retailer, and receiving discount offers and deals (Exhibit 8). Consumers rely on smartphones as an important research and discovery tool that aids in the buying decision.[ix]

Exhibit 8

Top 5 Consumer Actions with Respect to Devices

Rank

	Mobile Phone	Rank	Tablet	
	Check retailer locations; 62.4%	**1**	Search product information & reviews 55.3%	
	Get / use discounts, coupons, sale, and price information; 58.4%	**2**	Make an online purchase; 52.9%	
	Check / compare prices and look for additional information; 54.8%	**3**	Check product availability in a store or on website; 48.7%	
	Check product availability in a store or on website; 54.1%	**4**	Check product availability in a store or on website; 45.8%	
	Get text based exclusive deals; 53.1%	**5**	Get / use discounts, coupons, sale, and price information; 39.5%	

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Number indicates percentage of respondents. Respondents who do not use a given device have been excluded
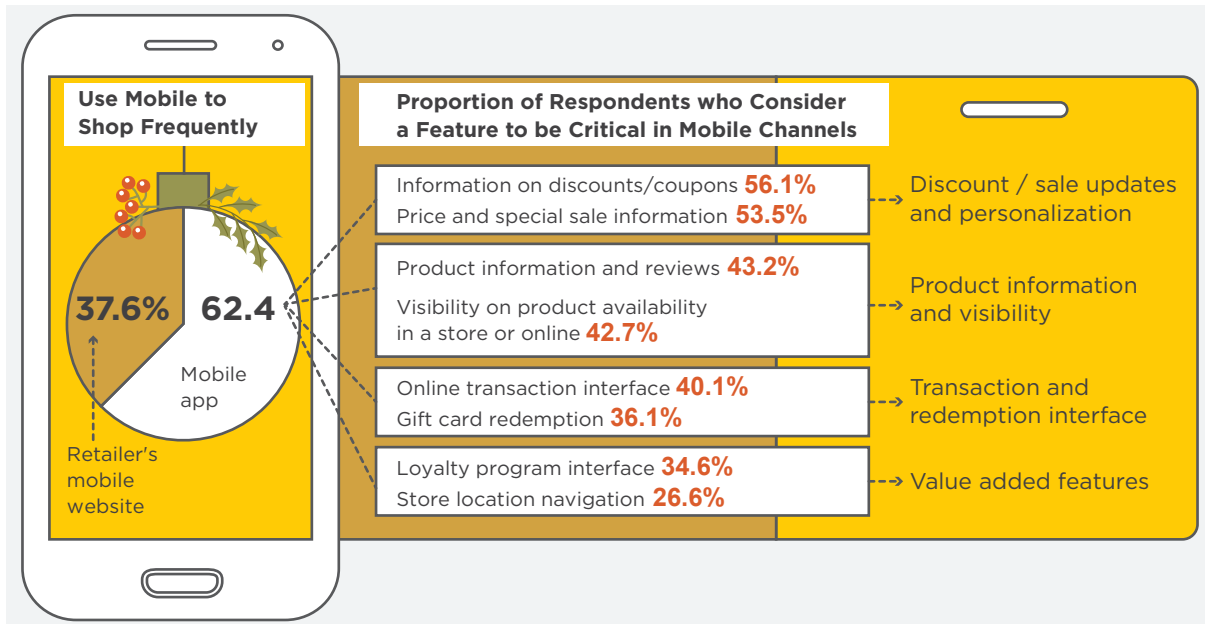
As per our survey, 40.9 percent of respondents indicated they use mobile phones for shopping. Improvements in screen and data specification have transformed smartphones beyond being just a research tool. This trend of using smartphones to make actual purchases will only accelerate further. Our analysis of preferred medium of shopping through mobile channels reveals mobile apps (62.4 percent) are favored over mobile optimized websites (37.6 percent). More importantly, apps have a much higher level of stickiness compared to websites.

An average adult in the U.S. spends nearly seven times the time on a mobile app than website.[x] Considering these above facts, it is imperative for retailers to enhance the functionality of their apps as consumer dissatisfaction with various aspects of mobile app functionality has often been highlighted.[xi] We have identified key features with respect to mobile app functionality and the proportion of respondents who consider it to be critical. These features have been grouped based on their characteristics, and graded based on their importance

(Exhibit 9). Information on discounts/coupons (56.1 percent) and price/special sale information (53.5 percent) are the two most critical features with respect to mobile apps. Consumers not only expect retailers to provide them notification on discounts and special sales but also expect a degree of personalization regarding the same. Our survey validates these consumer expectations. These should be seriously considered by retailers if they want increased customer engagement levels with their mobile apps.

Exhibit 9

Mobile App Usage and Preference for Specific Functionalities

Use Mobile to Shop Frequently

37.6% | **62.4**

Mobile app

Retailer's mobile website

Proportion of Respondents who Consider a Feature to be Critical in Mobile Channels

Information on discounts/coupons **56.1%**
Price and special sale information **53.5%**

Product information and reviews **43.2%**
Visibility on product availability in a store or online **42.7%**

Online transaction interface **40.1%**
Gift card redemption **36.1%**

Loyalty program interface **34.6%**
Store location navigation **26.6%**

Discount / sale updates and personalization

Product information and visibility

Transaction and redemption interface

Value added features

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Number of respondents who utilize the mobile phone for shopping, n=1230

SHOPPER CADENCE

There has been a decline in Black Friday sales in recent holiday seasons. The key factors responsible for this shift are – ease and wider adoption of online shopping combined with early 'Black Friday' type discounts by retailers. The retailers have further accentuated this by making a push for increased online promotions.[xii] As a result, consumers are spreading out their shopping over the entire holiday season across channels. A culmination of these factors implies that consumers are spreading out their expenses over two months, with many consumers indicating that they may avoid going to stores on Black Friday weekend.[xiii]

To gain more granular insights into this shopping cadence, WNS DecisionPoint™ analyzed the purchase patterns of consumers. We have gauged the shopping patterns of consumers, specifically their timeline for shopping from start to finish. We broke down the timeline into three phases - beginning, completion of more than half and final purchase. Our analysis reveals that nearly two-thirds of consumers in our survey (64 percent) will begin their purchase before Thanksgiving (~60 percent in 2016), and 30 percent will prefer the week of November, just before Thanksgiving. We have developed decision plots based on

subsequent timeline for completion of Majority of Purchase and Final Purchase (Exhibit 10). In our analysis, we have included shoppers who begin their holiday purchases on Black Friday, which accounted for 75 percent of respondents. As per our survey results, early November is preferred by a significant percentage (30 percent) of respondents to start their holiday shopping. Hence, while the importance of Black Friday with respect to overall holiday sales will decline, consumers won't spread their spending uniformly.

Exhibit 10

Consumers have Spread out their Holiday Purchases over the Entire Duration of Holiday Season

Start Purchase

22% BO	13% BO
12% O	13% O
30% EN	33% EN
11% BF	14% BF

2017 | 2016

Majority of Purchase

29% LD	20% BO
32% LD	24% N
51% LD	16% N
48% LD	20% BF

2017

Final Purchase

42% LD	17% ED
43% LD	17% ED
63% LD	14% ED
63% LD	15% ED

2017

BO – Before October | O – October | N – November, before Thanksgiving | BF – Black Friday | CM – Cyber Monday | ED – Early December | LD – Late December | J – January
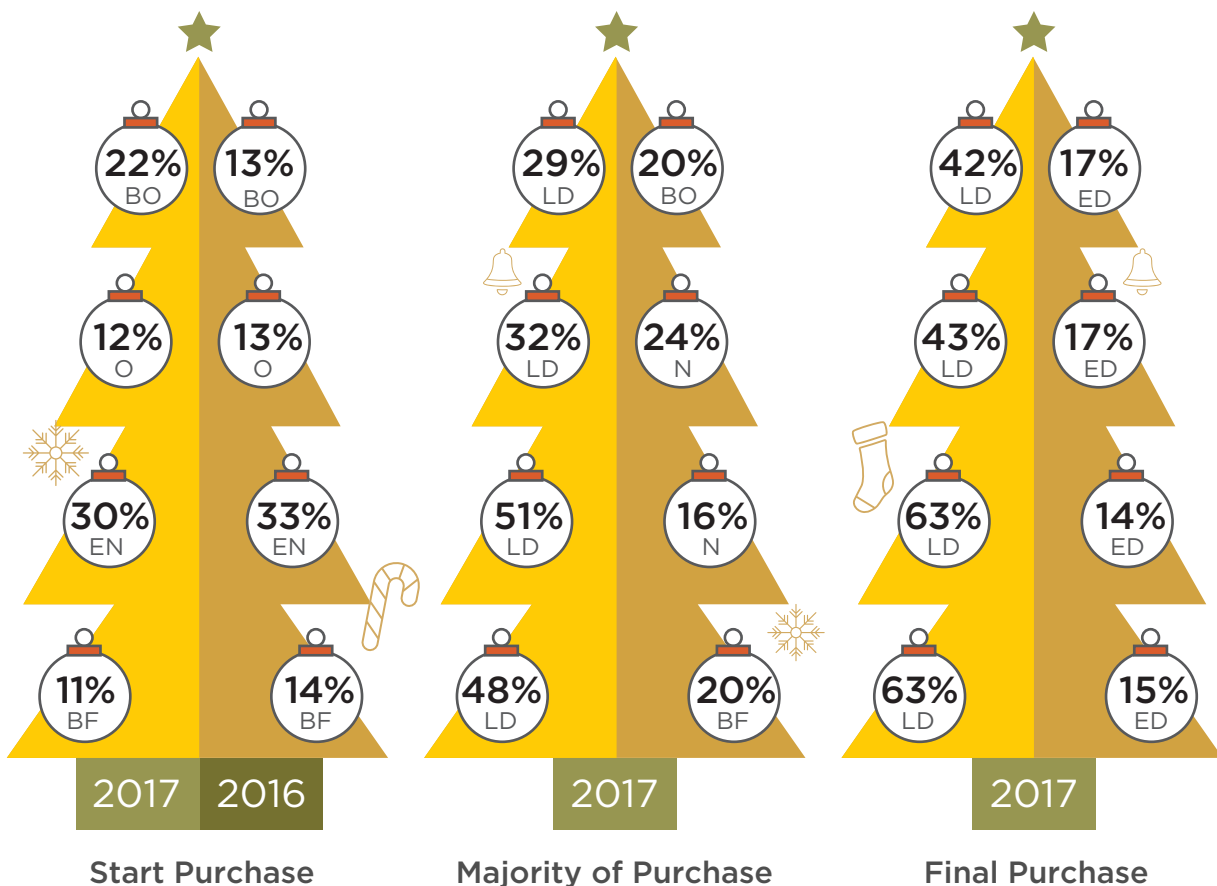
Source: WNS DecisionPoint™ Analysis.
Note: Percentage bubbles under start purchase are proportional to total respondent set. For 'majority of purchase' & 'final purchase', percentage bubbles represent proportion of sample under 'start purchase' header. n=3006

To illustrate this shift, WNS DecisionPoint™ has developed shopper purchase curves which plot the most probable points for the three phases of purchase journey. As seen in Exhibit 11, an average American shopper will complete all the three steps in their holiday purchase journey much earlier this year compared to last year. Consequently, this season we foresee a smaller proportion of last-minute shoppers unlike last season when consumers held back their spending initially due to uncertainty over Presidential elections in early November.[xiv]

Of the 75 percent respondents, 60 percent have indicated they will accomplish majority of their holiday shopping by early December. Post-Christmas shopping activity will be mostly muted as indicated by 85.3 percent respondents who said they do not intend to shop at all after December 25.

Exhibit 11

Shopper Purchase Curves Demonstrate a Forward Shift
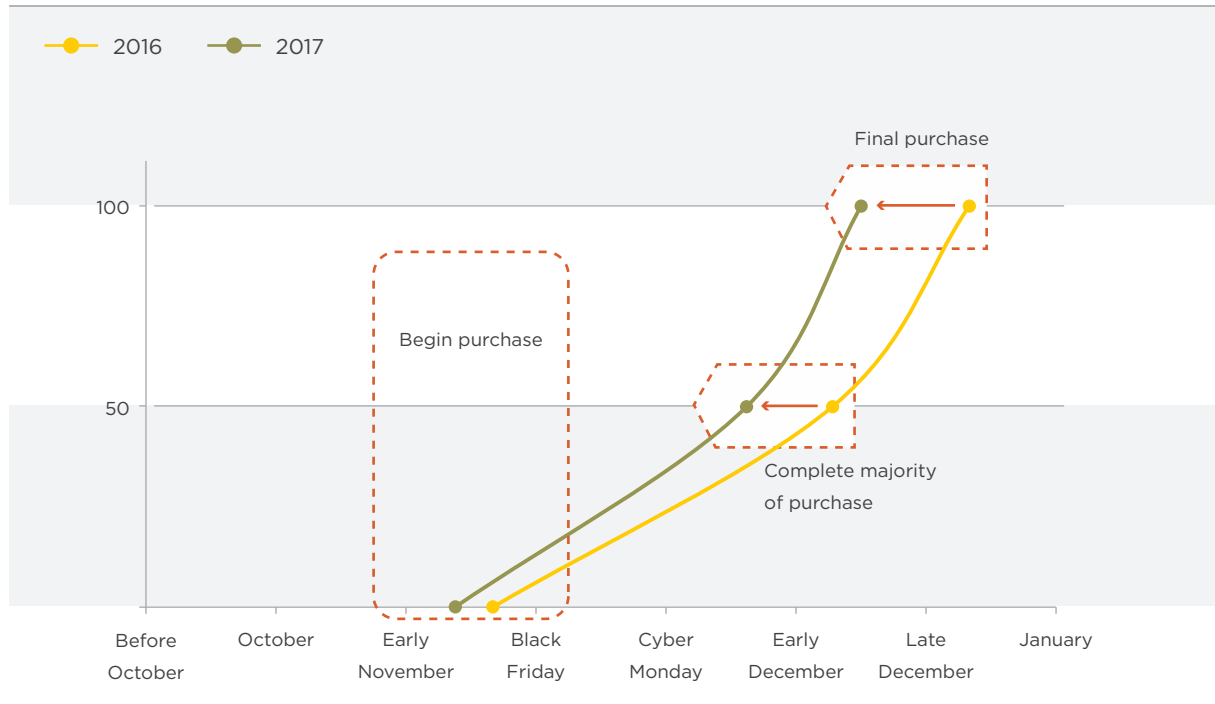
Source: WNS DecisionPoint™ Analysis
Note: WNS Holiday Survey, n=3006

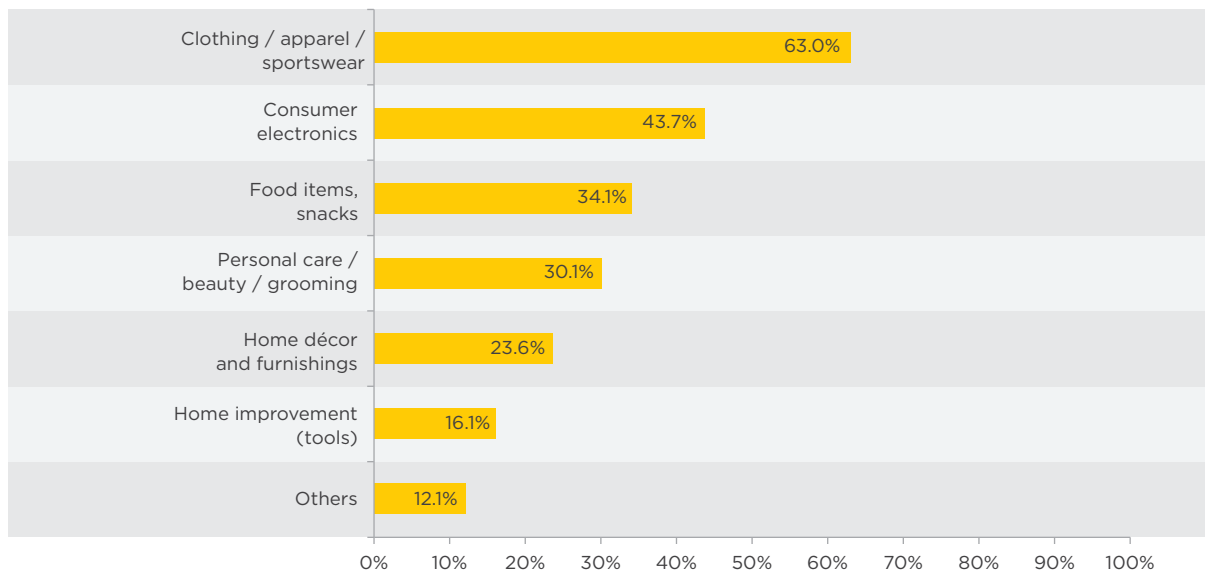# FORMAT PREFERENCE AND PATHWAY

According to our survey, consumers are most likely to purchase clothing/apparel/ sportswear and consumer electronics products this holiday season. However, consumers will likely move across different retail formats to accomplish their purchase for a given product category. Based on this insight, WNS DecisionPoint™ has developed 'Consumer Decision Trees' which simulate a consumer's journey across different retail formats for a given product category (Exhibit 13). Based on analytical techniques such as association rules, we have developed customer journeys which retailers as well as manufacturers of Consumer-Packaged Goods (CPG) can leverage albeit with differing approaches. For retailers, we suggest they benchmark their category assortment with other retail formats with respect to both stock keeping units (SKUs) and price. This will allow them to cover for gaps in categories that made consumers move to another retail format. CPG manufacturers should leverage the insights of this analysis to identify the most effective retail formats and make appropriate alterations to their fulfillment strategy. Based on our findings, we have identified the following broad as well as specific themes related to preference for categories.

Exhibit 12

Most Preferred Product Categories

Category	Percentage
Clothing / apparel / sportswear	63.0%
Consumer electronics	43.7%
Food items, snacks	34.1%
Personal care / beauty / grooming	30.1%
Home décor and furnishings	23.6%
Home improvement (tools)	16.1%
Others	12.1%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Numbers represent percentage of total respondent set, n=3006

E-commerce in General, Particularly Amazon, at the Cusp of Dominance

Our analysis throws up a recurring theme across product categories - e-commerce retail formats are increasingly becoming first preference for consumers. Consumers in four of the six retail formats, i.e. clothing/apparel/sportswear, consumer electronics, personal care/beauty/grooming, and home décor prefer e-commerce websites such 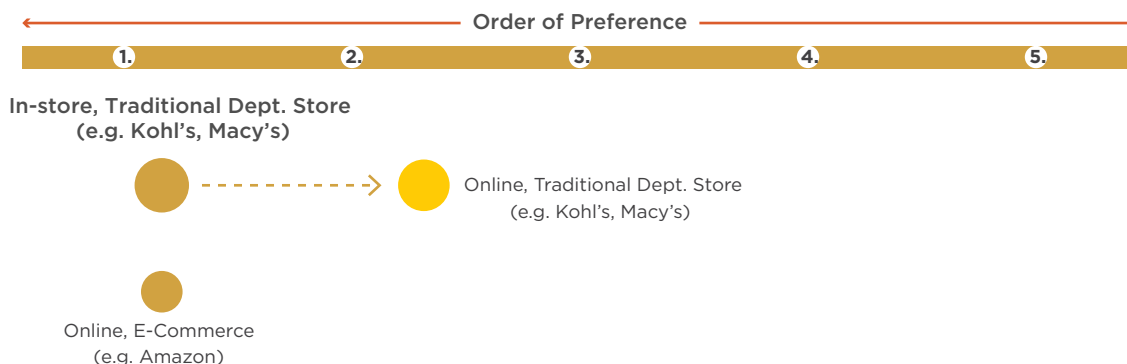as amazon.com. This indicates an overwhelming preference for pureplay e-commerce websites such as Amazon, even as omnichannel retailers make efforts to provide consumers with a seamless experience across channels. The forthcoming holiday season is expected to be a record setting year with online sales projected to hit USD 107 Billion.[xv] Particularly of note is the dominance of e-commerce in consumer electronics category. As seen in Exhibit 13, preference for e-commerce is more than twice that of consumer electronics retailers such as Best Buy. Part of this dominance is explained by the shift in consumer spending towards online channels for consumer electronics purchases. Growth in sales of Amazon's store brands in this category, i.e. Fire TV and Echo, have contributed to this. Best Buy itself has entered into a partnership with Amazon for selling products such as Alexa.[xvi]
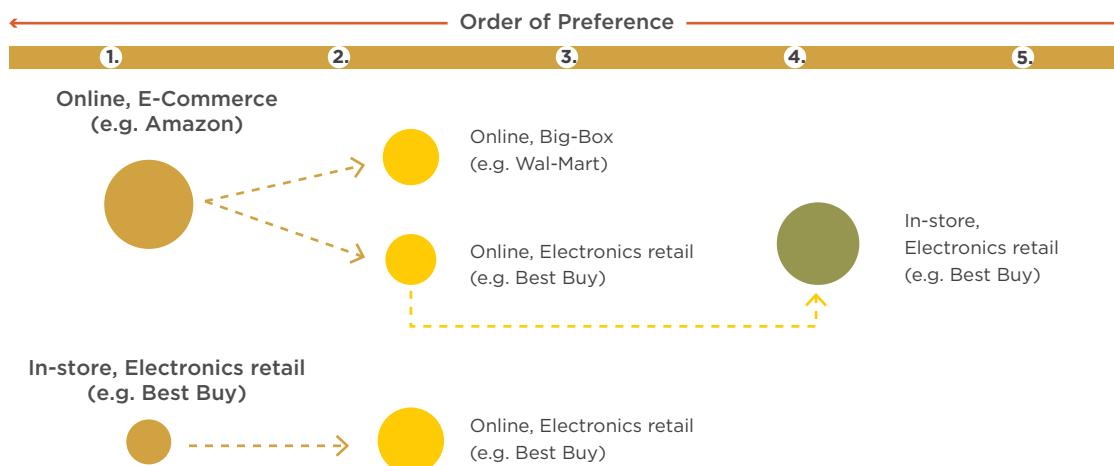
Exhibit 13

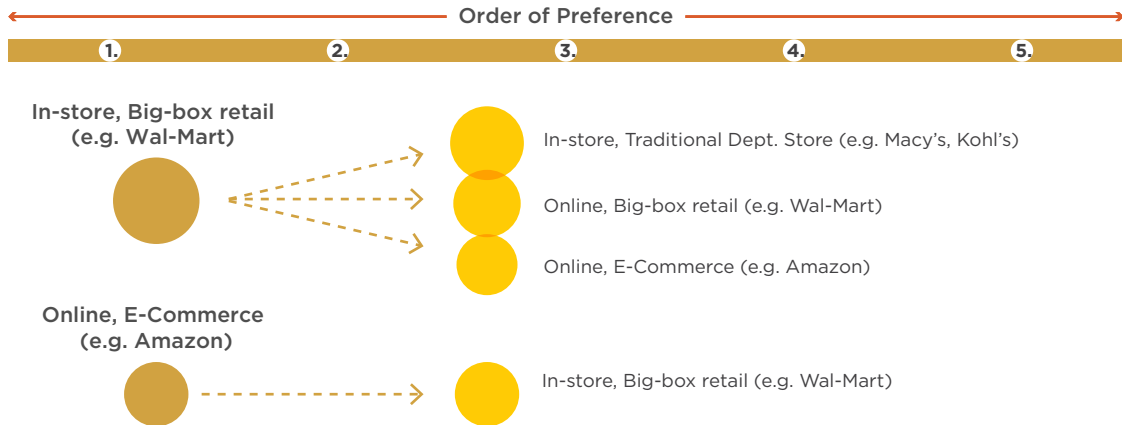## Consumer Decision Tree for Format Preference, Category Wise
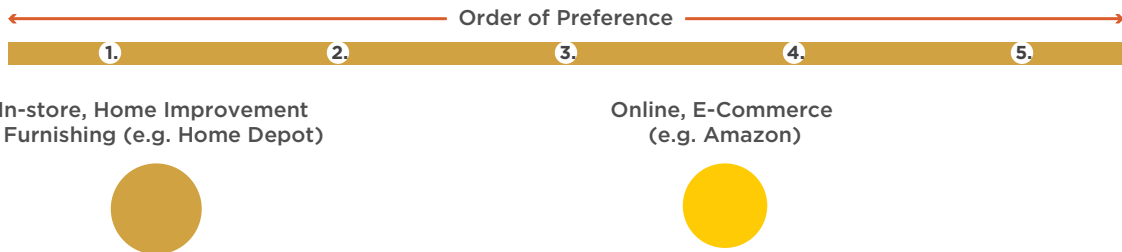
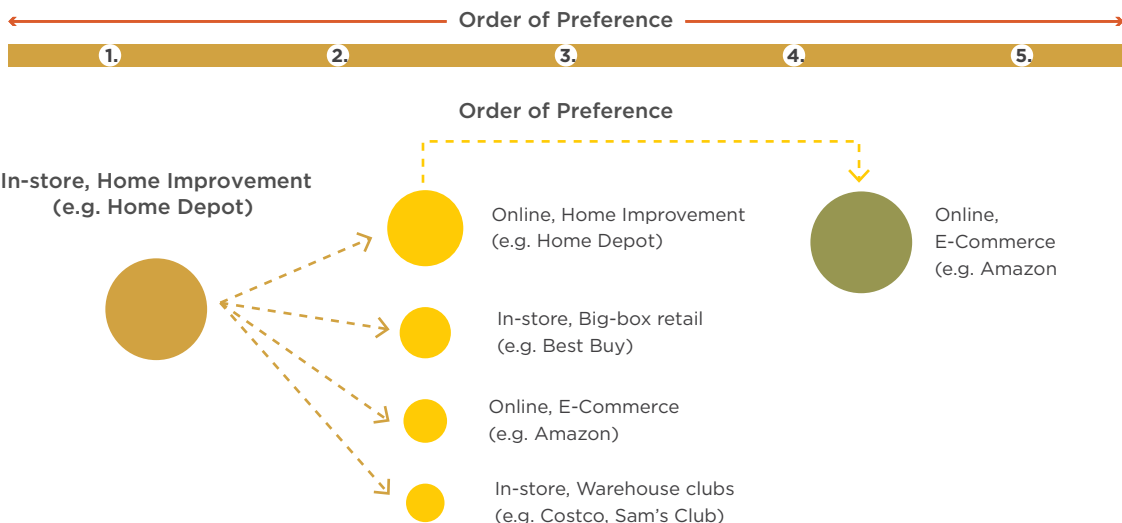### Clothing / Apparel / Sportswear

Consumer Electronics

Personal Care / Beauty / Grooming

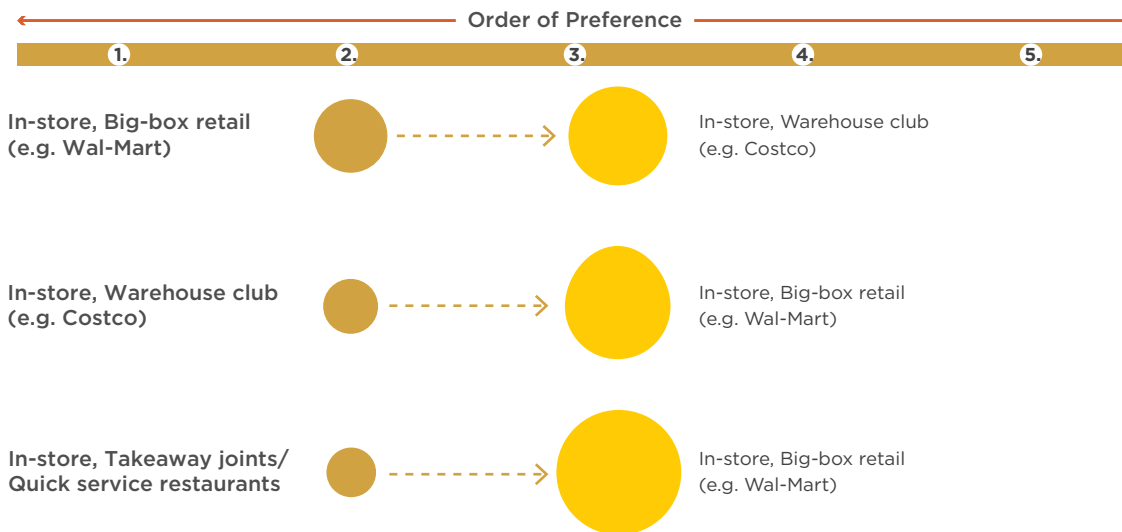Order of Preference

1.   2.   3.   4.   5.

**In-store, Big-box retail
(e.g. Wal-Mart)**

In-store, Traditional Dept. Store (e.g. Macy's, Kohl's)

Online, Big-box retail (e.g. Wal-Mart)

Online, E-Commerce (e.g. Amazon)

**Online, E-Commerce
(e.g. Amazon)**

In-store, Big-box retail (e.g. Wal-Mart)

Home Décor and Furnishing

Order of Preference

1.   2.   3.   4.   5.

**In-store, Home Improvement
& Furnishing (e.g. Home Depot)**

**Online, E-Commerce
(e.g. Amazon)**

Home Improvement

Order of Preference

1.   2.   3.   4.   5.

Order of Preference

**In-store, Home Improvement
(e.g. Home Depot)**

Online, Home Improvement
(e.g. Home Depot)

Online,
E-Commerce
(e.g. Amazon

In-store, Big-box retail
(e.g. Best Buy)

Online, E-Commerce
(e.g. Amazon)

In-store, Warehouse clubs
(e.g. Costco, Sam's Club)

Food Items / Snacks / Non-alcoholic beverages

Order of Preference

1.　　　2.　　　3.　　　4.　　　5.

In-store, Big-box retail (e.g. Wal-Mart) → In-store, Warehouse club (e.g. Costco)

In-store, Warehouse club (e.g. Costco) → In-store, Big-box retail (e.g. Wal-Mart)

In-store, Takeaway joints/ Quick service restaurants → In-store, Big-box retail (e.g. Wal-Mart)

Source: WNS DecisionPoint™ Analysis, 2017
Note: Size of the bubble is indicative of preference for a retail format when they purchase products of a particular category at first preference point. For second and third preference points, size of bubble is indicative of the given format's 'conditional' preference having chosen the previous format.

Apparel Retail Continues to Face Merchandising Bottlenecks

Consumers indicate a low level of preference for specialty and upscale apparel retailers. Consumer decision trees for clothing/apparel/sportswear category indicate consumers mainly prefer to initiate their purchase in-store at either traditional department stores or online at e-commerce websites such as Amazon. A visit at Amazon is either converted or they subsequently visit a myriad of different retail formats such as specialty apparel, fast-fashion amongst others, with no clear trend emerging. However, a significant proportion of consumers who indicate a preference to purchase in-store at traditional department stores often go online at a department store website. This is primarily due to either stock-outs or their preferred product being unavailable. A significant cause for concern as per our insights is that nearly half of these individuals indicate they will go to the website of another traditional department store retailer. To counter this, retailers are deploying endless aisles where consumers can get a comprehensive view of products not available in-store and order the same online. However, despite such initiatives, risk remains of consumers making the purchase at another retailer. Given these challenges combined with Amazon's ambition to increase penetration in apparel, the implication for retailers is clear.[xvii] All retail formats selling apparel or sportswear need to streamline their merchandising and ensure their assortments are curated in line with consumer preferences.

Consumer Journey is Omnichannel, with an Online Emphasis

The decision-making journey of the consumer now is dominated by online channels. Our analysis reveals that the majority of product research prior to purchase happens in the online channel and this trend is growing. For every one consumer, preferring print media for product search, nearly three individuals look up online as they begin their purchase process. Consumers need to have access to product information on-the-go, in line with the realities of the physical world. The implications are clear for retailers: they need to ensure that their consumers have the right information at their fingertips, anytime, anywhere, across different channels as well as devices.

Exhibit 14

Consumer Preference for Channels with respect to Specific Activities

■ Offline channels ■ Online / Non In-store channels
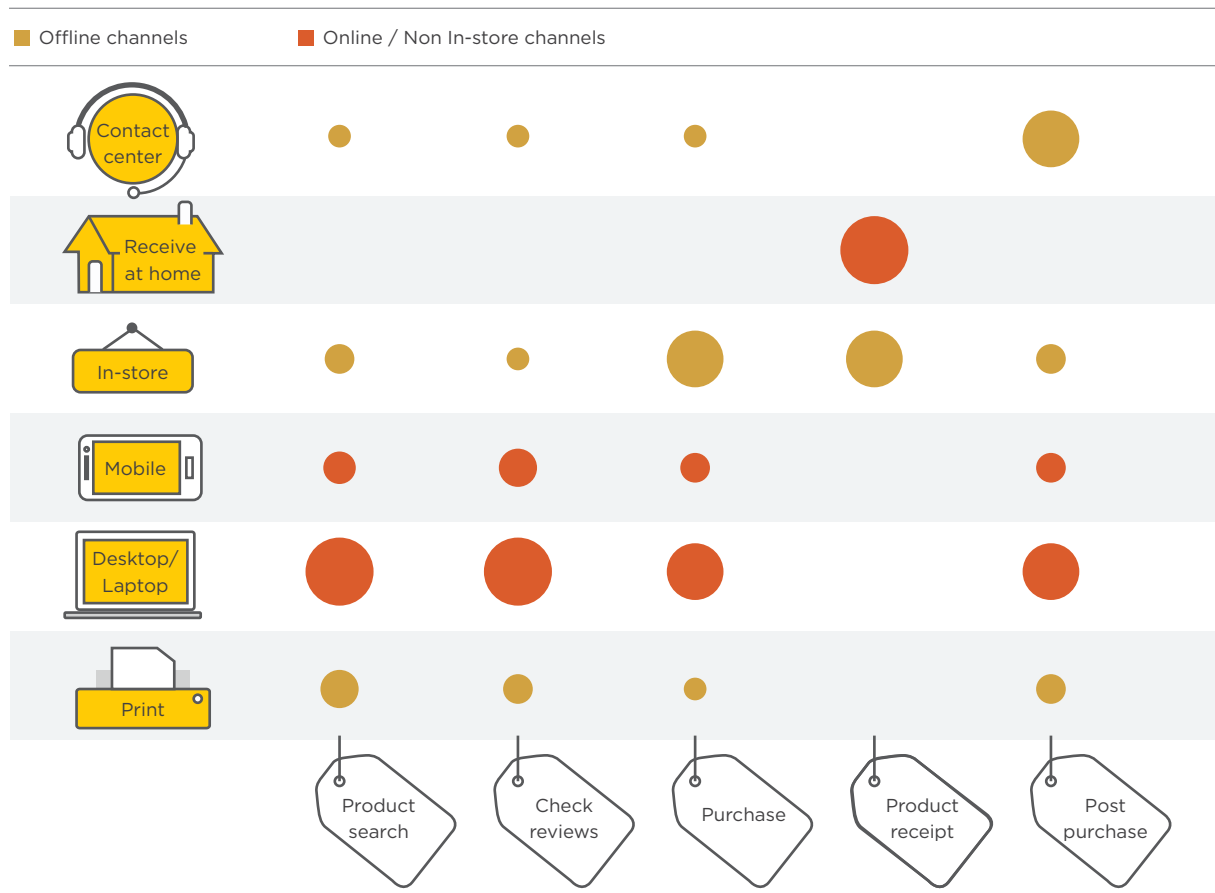
Source: WNS DecisionPoint™ Analysis, WNS DecisionPoint™ Holiday Survey 2017
Note: n=3006

Webrooming Trumps Showrooming, but Less than Last Year

Brick-and-mortar retailers may feel a false sense of reassurance that more consumers will treat the store as the final point of purchase after doing research online. While consumers have indicated a higher propensity of 'webroom' – i.e., looking at products online, but purchasing them in a physical store, this proportion has declined from 74 percent last year to 72.8 percent this year. Respondents -- 60.8 percent -- have expressed an intention to 'showroom' or look for products in a physical store and eventually make the purchase online, compared to 56 percent last year.

IN-STORE SHOPPING

Considering the headwinds for brick-and-mortar retail, WNS DecisionPoint™ utilized its proprietary **Shopping Inhibitor Index** to identify the degree of influence of an in-store shopping inhibitor on a customer. Our index looks at the relative importance of these inhibitors in conjunction with the proportion of the customer

base considering an inhibitor to be a major deterrent for in-store shopping. The top three in-store shopping inhibitors remain the same as last year – long waiting queues, slow checkouts, and unavailability of the desired merchandise (Exhibit 15). We see movement in the values of all six pre-existing inhibitors indicating

the heightened challenge retailers face with respect to in-store customer experience. Based on these insights, we have looked at a few broad themes which form an integral part of a retailer's journey to deliver a seamless in-store experience and overcome these challenges.

Exhibit 15

Store Shopping Inhibitor Index for Top Inhibitors

Inhibitor	2016	2017
Long waiting queues	0.83	0.88
Slow speed of checkout	0.98	0.99
Merchandise not available	0.71	0.71
Too much traffic	0.47	0.50
Lack of specific SKUd	0.47	0.57
Lesser discounts compared to online (new)		0.44
Inconvenient locations	0.30	0.42

0.00   0.25   0.50   0.75   1.00
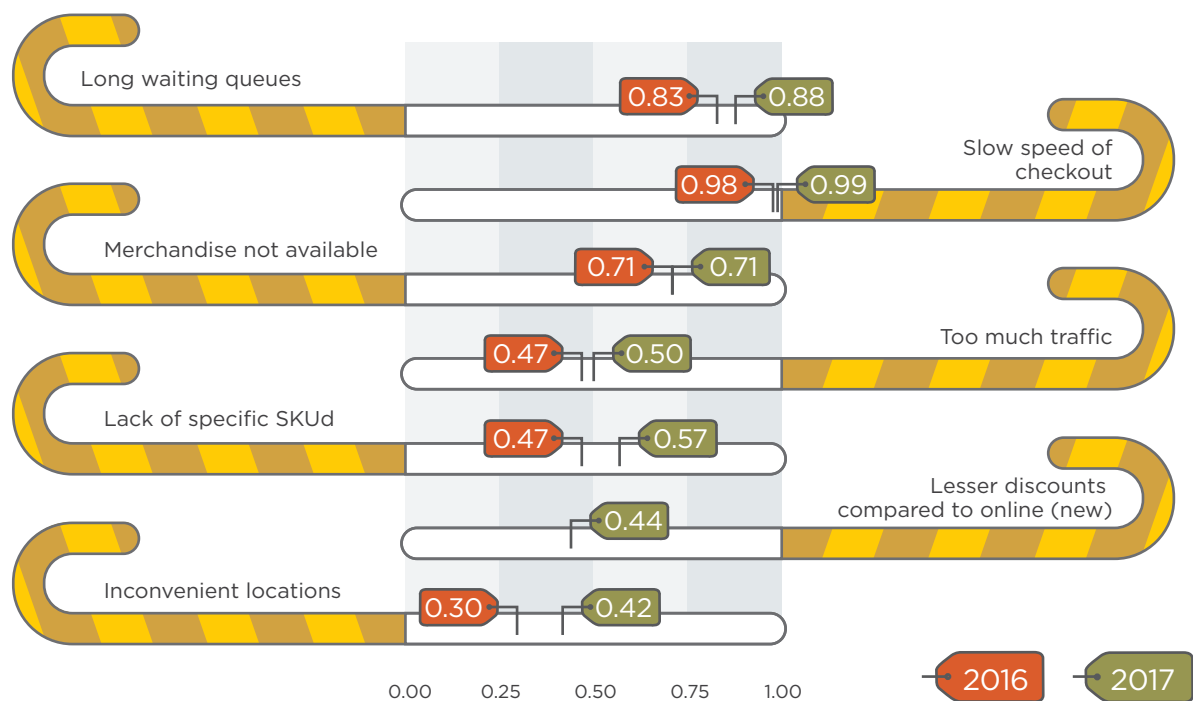
Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Only top seven inhibitors are considered for analysis, n=3006

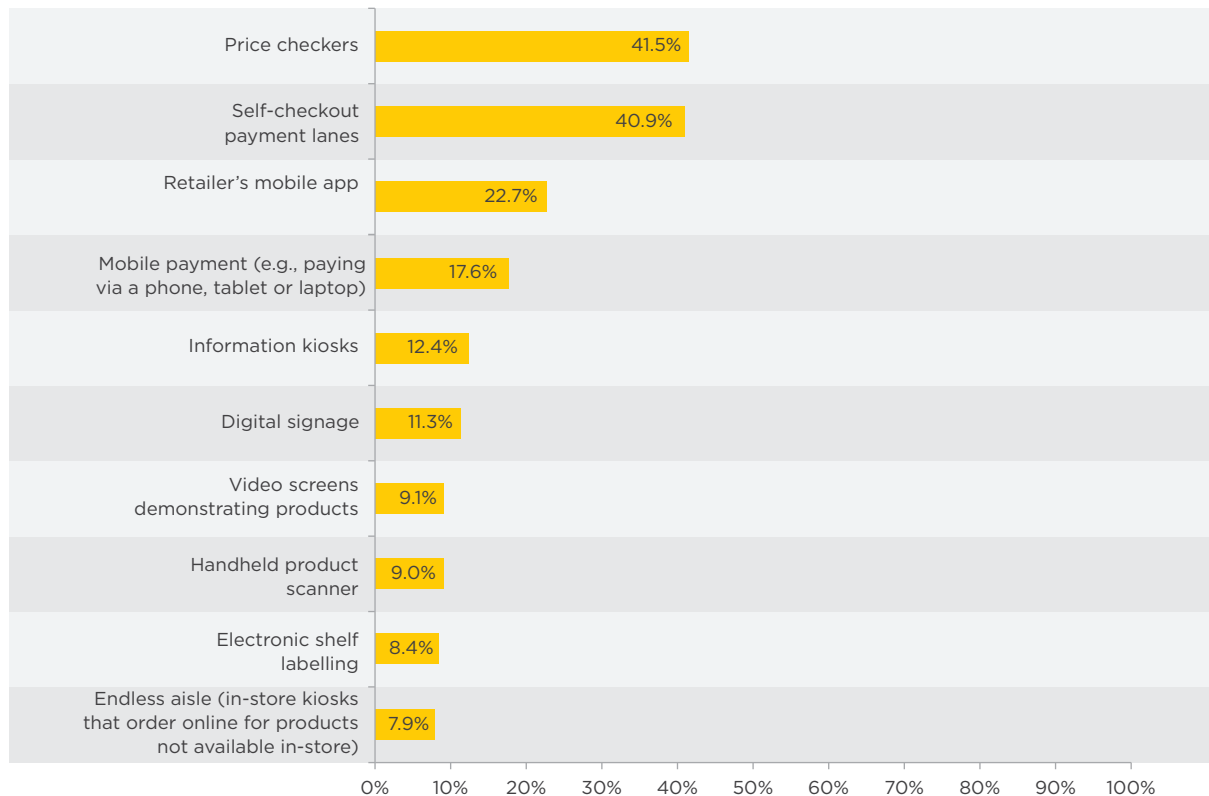## Price Checkers, Self-service Kiosks Remain Important

Consumer preference for self-help technologies is closely aligned to the most important in-store shopping inhibitors as per our analysis. Price checkers (41.5 percent) and self-checkout payment lanes (40.9 percent) are consumers' most preferred self-help technologies for use inside stores for holiday shopping

(Exhibit 16). Price checkers allow customers to scan prices and multiple discount offers across channels to ensure price transparency. Similarly, self-service kiosks can be placed anywhere inside the store independent of the point of sale. This enables retailers to maintain control of the in-store traffic particularly with respect to

checkout queues while empowering consumers to manage significant aspects of their shopping experience themselves.[xviii] However, retailers need to address pilferage and store layout challenges before implementation to mitigate risk.[xix]

Exhibit 16

Self-help Technology Preference for In-store Shopping

Technology	Percentage
Price checkers	41.5%
Self-checkout payment lanes	40.9%
Retailer's mobile app	22.7%
Mobile payment (e.g., paying via a phone, tablet or laptop)	17.6%
Information kiosks	12.4%
Digital signage	11.3%
Video screens demonstrating products	9.1%
Handheld product scanner	9.0%
Electronic shelf labelling	8.4%
Endless aisle (in-store kiosks that order online for products not available in-store)	7.9%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Numbers represent percentage of total respondent set, n=3006

Mobile Payments will be an Increasingly Important Enabler

Preference for mobile payments as a self-help technology to enhance the in-store shopping experience was indicated by 17.6 percent respondents. This represents a jump of 6.3 percentage points from 11.3 percent in 2016. Given the two major inhibitors of in-store shopping, i.e. long waiting queues and slow speed of checkout, mobile payments will go a long way to enhance customers' in-store shopping experience.[xx] Hence, retailers would be well served to double down on their investment as well as strategy with respect to mobile payments given the mismatch between efforts made by them till now and consumers' expectations regarding the same.[xxi]

Store Associates must be Knowledgeable and Coupons/Offers Personalized

While knowledgeable store associates are the most significant enabler of storefront conversion, personalized offers/coupon notifications on smartphones is at the cusp of displacing them (Exhibit 17). As consumers' expectations for in-store experience increases, so do the demands placed on the skillsets of store associates. Research by the NRF reveals, that sales associates who are well versed with the product they are selling can make more relevant recommendations to consumers and drive higher sales.[xxii] However, the increasingly omnichannel shopper demands
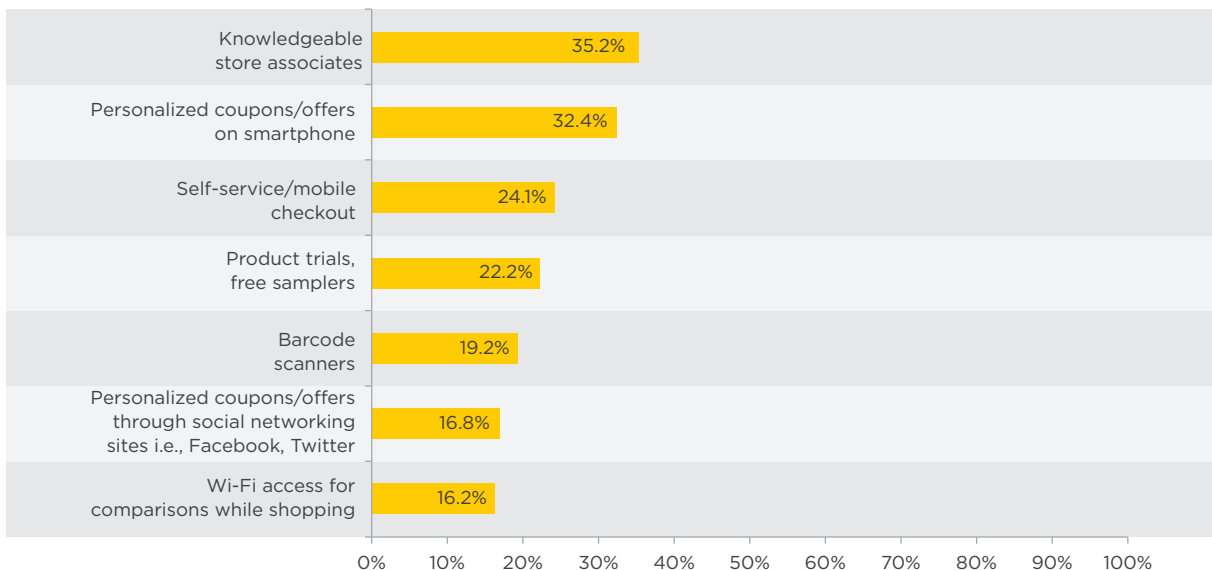
personalization to complete the purchase at the storefront and also wants to feel incentivized. Our survey has found that 32.4 percent of respondents are more likely to complete an in-store purchase provided they receive personalized coupons/offers on the smartphone. Thus, retailers willing to personalize various aspects of a consumer's in-store experience will be best positioned to drive higher sales and engender loyalty with the consumer in the long run.

Exhibit 17

Enablers of In-store Shopping

Enabler	Percentage
Knowledgeable store associates	35.2%
Personalized coupons/offers on smartphone	32.4%
Self-service/mobile checkout	24.1%
Product trials, free samplers	22.2%
Barcode scanners	19.2%
Personalized coupons/offers through social networking sites i.e., Facebook, Twitter	16.8%
Wi-Fi access for comparisons while shopping	16.2%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Numbers represent percentage of total respondent set, n=3006

IMPLICATIONS FOR EXTENDED ECOSYSTEM

Digital disruption in retail has implications not only for retailers but for the extended ecosystem consisting of CPG firms and logistics partners. At WNS

DecisionPoint™, we have tried to uncover insights on key areas of concern for firms in the extended ecosystem. Firms can leverage insights from our analysis to

identify their preparedness with respect to the various threats/opportunities that will define their performance in the near to medium term.

Consumer Packaged Goods Industry

The Store Brand Threat is Evident

Store brands (private labels) are flooding the marketplace, driven primarily by retailers belonging to discount and off-price categories as they strive to improve their margins. Costco plans to drive the sales contribution of its store brands, Kirkland and Kirkland Signature, from 25 percent currently to 37 percent in the near term. Similarly, deep discounters, Aldi and Lidl, plan to gain market

share post entry into the U.S. and make store brands the central tenet of their strategy. However, the most significant threat for CPG firms in this regard comes from online channels.[xxiii] Amazon's private label sales are expected to be more than USD 4 Billion. This growth is primarily driven by growth in consumer electronics, apparel categories and its recent acquisition of Whole Foods,

which alone is expected to contribute USD 700 Million in store brand sales.[xxiv] While consumers' preference for store brands is still tied to their value for money proposition (73.1 percent), a significant majority of respondents (69.5 percent) in our survey find them to be as good as national brands (Exhibit 18).

Exhibit 18

Reasons for Preferring Store Brands
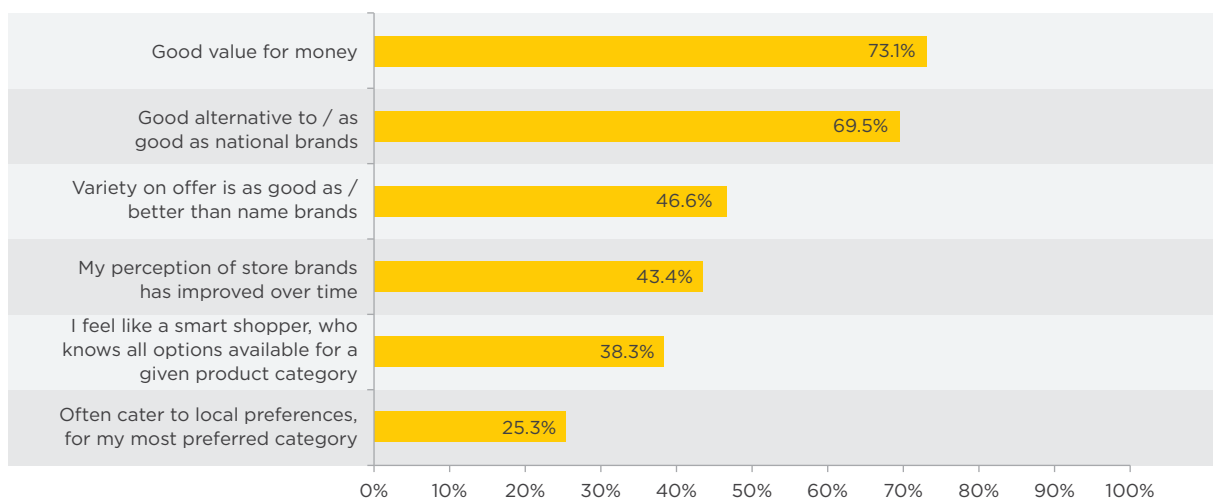
Reason	Percentage
Good value for money	73.1%
Good alternative to / as good as national brands	69.5%
Variety on offer is as good as / better than name brands	46.6%
My perception of store brands has improved over time	43.4%
I feel like a smart shopper, who knows all options available for a given product category	38.3%
Often cater to local preferences, for my most preferred category	25.3%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Numbers represent percentage of total respondent set, n=3006

CPG Firms can Leverage Direct-to-Consumer Channels, but for Specific Categories

In response to the rise of store brands, CPG firms are experimenting with direct-to-consumer (DTC) business models. Most DTC initiatives of CPG firms are e-commerce driven whereby they reach out to consumers using an online platform. The perceived benefits behind these initiatives are multipronged and encompass the following broad areas:

i. By cutting out middlemen, i.e. retailers, CPG firms can ensure balance between better prices for the consumers and higher margins for themselves compared to the retail channel.
ii. Create a medium for better relationship management with their end consumers.

iii. Collect consumer data through direct sales.[xxv]

While the jury is out on the success of these initiatives, one thing is certain - respondents' propensity for DTC is varied across categories (Exhibit 19). Our analysis indicates consumers prefer purchasing directly for personal care/beauty/grooming products (35.4 percent, e.g. dollarshaveclub.com), consumer electronics (32.6 percent, e.g. apple.com, sony.com), and sportswear & apparel (28.8 percent, e.g. shop.adidas.com, nike.com). For other categories, as seen in Exhibit 19, consumers' preference to purchase through DTC channels is markedly lower.

CPG firms, in categories with higher propensity for direct purchase, i.e. clothing/apparel/ sportswear, consumer electronics, and personal care/beauty/ grooming, should drive higher consumer convenience. Our analysis suggests that this perception of convenience is driven by greater assortment and variety, better offers and discounts, and faster shipping as compared to retailers. CPG firms operating DTC initiatives in the high propensity categories need to address the bottlenecks associated with these areas. Those that don't do so will struggle to maximize value and realize the true potential of their DTC initiatives.

Exhibit 19

Proportion of Respondents Purchasing from Direct-to-Consumer Channels for their Preferred Product Category

28.8% Clothing / apparel / sportswear

32.6% Consumer electronics

35.4% Personal care / beauty /grooming

16.5% Home décor and furnishings

19.6% Home improvement (tools)

11.2% Food items, snacks
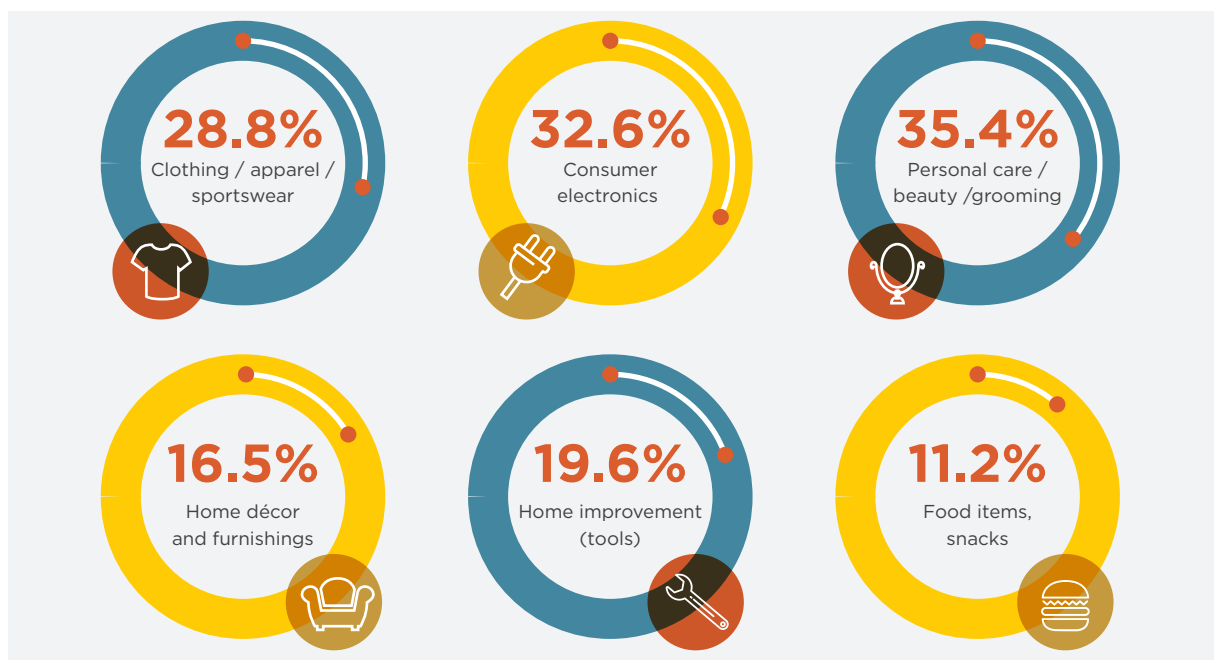
Source: WNS DecisionPoint™ Holiday Survey 2017
Note: Proportion of respondents indicating very often + often for direct channel purchases, n=3006

Logistics Partners

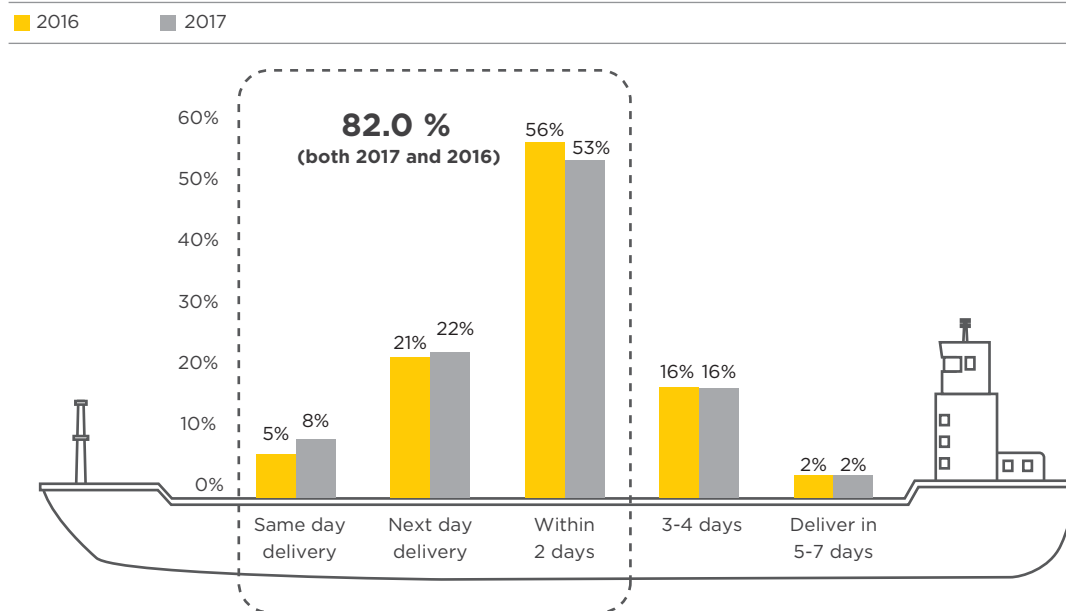## Shipping Expectations of Consumers are Higher than Ever

Compared to 93 percent last year, 92 percent of respondents indicated preference for free shipping as against fast shipping which is paid. While the importance of free shipping as a qualifying criterion is well established, retailers unable to provide the same risk cart abandonment from their prospective customers.[xxvi] And if retailers do intend to charge consumers for their shipments, they need to ensure delivery within two days. Respondents in our survey (82 percent) assume fast shipping to imply delivery within two days (Exhibit 16). While this figure is the same as last year, it masks the higher probability of customer dissatisfaction. Thirty percent of respondents indicate delivery within one day for faster, paid shipping compared to 26 percent last year.

Exhibit 20

Consumers Perception of Fast Shipping

Legend: ■ 2016 ■ 2017

82.0 % (both 2017 and 2016)

Category	2016	2017
Same day delivery	5%	8%
Next day delivery	21%	22%
Within 2 days	56%	53%
3-4 days	16%	16%
Deliver in 5-7 days	2%	2%

Source: WNS DecisionPoint™ Holiday Survey 2017
Note: 82 percent figure represents total of two days or less

New Horizon for Subscription-based Paid Shipping Models

We see a paradigm change with respect to paid shipping. Provided customers are willing to pay for shipping costs, we asked respondents how they would prefer the delivery charges to be calculated. Subscription-based paid delivery emerged as the most preferred choice for 29 percent of respondents (Exhibit 21). WNS DecisionPoint™ sees this as a major inflection point in consumer perception regarding delivery charges levied by retailers. Consumers are beginning to see the value of these subscription-based models. They increasingly feel that the annual fee is justified given that they continue to shop throughout the year. Similarly, retailers can leverage the lock-in effect of the annual subscription fee and ensure margins are protected as repeat purchases make up for the cost of delivery. Recent research shows Amazon now has 80 Million Prime customers which translates to 63.6 percent of all U.S. households, signaling the popularity of the subscription-based model.[xxvii]

Exhibit 21

Comparison of Consumer Preference for Calculation of Delivery Charges in case of Paid Shipping

2016

1. Fixed courier charges **(32%)**
2. Delivery charges based on product dimensions or weight **(27%)**
3. Subscription based paid delivery **(26%)**
4. Delivery charges as a percentage or product price **(11%)**

2017

1. Subscription based paid delivery **(29%)**
2. Delivery charges based on product dimensions or weight **(27%)**
3. Fixed courier charges **(27%)**
4. Delivery charges as a percentage or product price **(14%)**
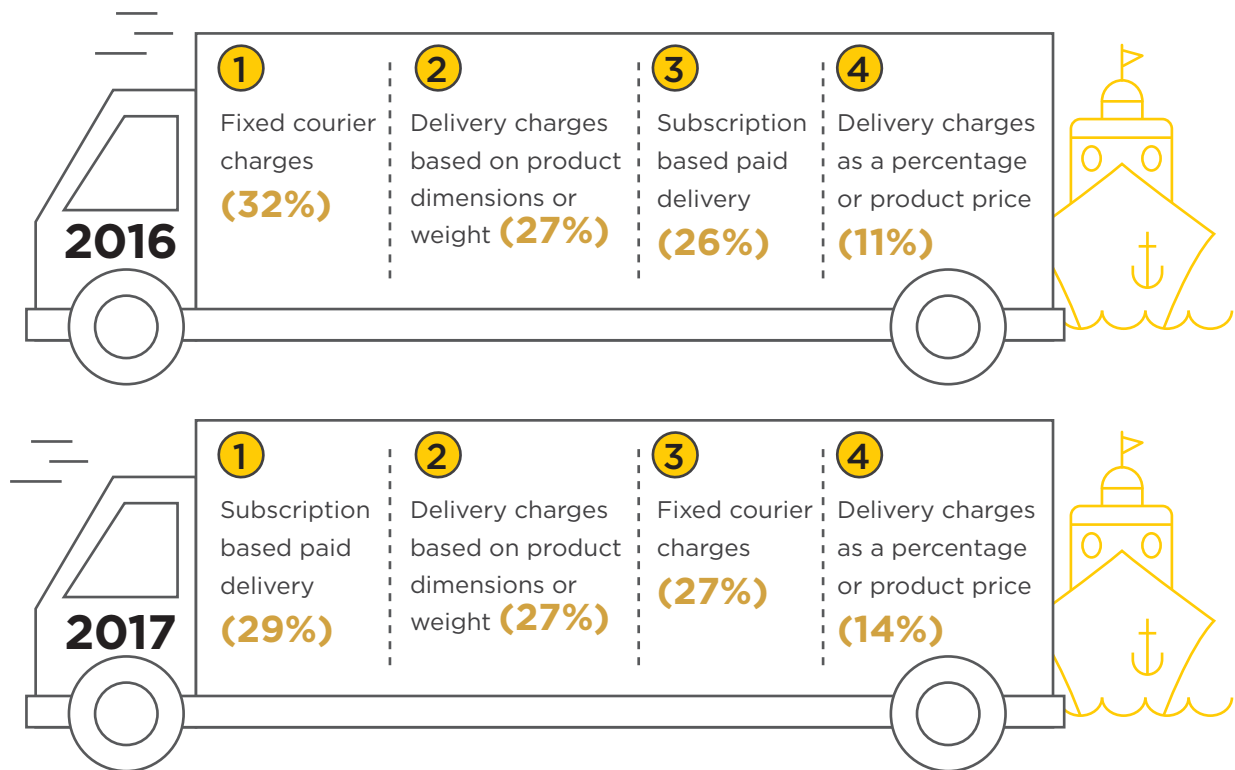
Source: WNS DecisionPoint™ Holiday Survey 2017
Note: n=3006

Consumers are Dissatisfied with the Returns Process, with somewhat Irrational Expectations

As e-commerce sales reaches new heights, retailers who make the returns process seamless stand to gain the maximum. Given the inability to touch, feel or try a product prior to buying, rate of product returns is much higher in e-commerce.[xxviii] The competitive retail as well as e-commerce landscape means that retailers have no option but to provide consumers with the option to return products. However, majority of consumers perceive the returns process to be cumbersome.[xxix]

To make it convenient, consumers expect retailers to not charge 're-stocking fee' (36 percent), provide flexibility to return the purchase irrespective of purchase location (20.4 percent), and introduce more refund options beyond store credit (19.7 percent). Given the current omnichannel ecosystem, retailers should be able to ensure single view of inventory that also includes returns without much difficulty. Therefore, retailers should be able provide consumers flexibility with respect to any store to make a return.

However, the same cannot be said of re-stocking fee. Re-stocking fee helps retailers to absorb costs associated with returns, i.e. labor costs, repackaging charges, and merchandise markdowns amongst others. Therefore, complete withdrawal of re-stocking fee is not always practically feasible and may lead to erosion of margins. Hence, retailers should consider unit economics of the returns process to ensure balance between customer service and protecting their margins.

DIFFERENCES THAT MATTER: HETEROGENEITY OF BEHAVIORAL TRIGGERS

No two holiday shoppers are identical and customer journey as well as thought process for the same is unique for each person. To identify the broad differences within segments, WNS DecisionPoint™ analyzed the role of specific triggers in consumer shopping. We then applied segmentation techniques to classify the respondent set into five

different segments, as seen in Exhibit 22. The degree of importance assigned to these triggers varies. In addition, we analyzed the segments based on their generational mix, spending patterns, behavioral traits, and preference for channels. Based on the aggregation of outcomes, we have assigned shopper archetypes to each segment. Retailers should

realize that consumer perceptions and hence, behavioral triggers are never static. As a result, while the shopper archetype "omnichannel extravagant" and "periodic deal hunters" are same as the previous year's report, we have seen the emergence of three new archetypes for this holiday season.

Exhibit 22

Behavioural Triggers are Varied for the Specific Shopper Archetypes

○ Strongly Disagree ● Strongly Agree

	Mid-life savers	Omnichannel extravagant	Online deal hunters	Periodic deal hunter	Convenience seeking seniors
Products on discounts					
Shopping on specific days					
Free returns on online purchases					
Use smartphones for shopping related activities					
Privacy concerns for PII access					
Store associates improve experience					
Seamless omnichannel experience					
Shorter queues in-store are preferable					
Read reviews prior online purchase					
Buy online pickup in-store (BOPUS)					
Retailers should keep information secure					

Source: WNS DecisionPoint™ Analysis, Holiday Survey 2017
Note: Total respondent size, n=3006

Mid-life savers consist primarily of younger Baby Boomers and older members of Gen X, constituting 60 percent of this cohort. This segment considers discounts on products as a qualifying criterion for their purchase, and won't restrict their shopping to specific days. We see the behavioral traits of this segment as a function of their average age (47.1 years); they feel they need to double down on their savings as they prepare for their impending retirement. Additionally, this cohort suggests that coupons and promotions will influence 48 percent of their holiday season purchases. The planned holiday spending, at USD 942 is the second lowest across all cohorts.

Omnichannel extravagants consist mainly of older Millennials and younger Gen X (82.6 percent). Their average planned spending for the holiday season is USD 1,722, ~ 80 percent higher than that of other cohorts. For an omnichannel extravagant, seamless experience across channels is an absolute must, as they interact with a retailer using a variety of devices and touchpoints. The Exhibit shows they assign a significant level of importance to almost all the behavioral triggers, indicative of their demanding nature. Given their omnichannel orientation, members of this segment are ambivalent with respect to channel preference (51.2 percent for online vs. 47.2 percent for in-store). As a result, they consider free returns to be a very important criterion of

shopping, while also assigning a reasonably high degree of importance to all the other triggers. Retailers should aim to gain this segment's share of wallet, given their high propensity to spend and the fact that they are reaching the peak of their earning potential. However, this is easier said than done. Retailers will have to provide the best experience across channels and perform well on comprehensive aspects of their service to satisfy this demanding segment.

Online deal hunters have their preference skewed towards the online channel (56.3 percent versus 41.3 percent in-store). Hence, this segment will shop throughout the holiday season and attach great importance to free returns. This segment conducts a comprehensive search for offers and 61 percent of their purchases are influenced by prior research, the highest across all segments. This explains the reasons for heavy smartphone usage for shopping related activities.

Periodic deal hunters emphasize the role of discounts as a trigger for purchase. However, despite this discount driven mindset, 56.2 percent of holiday purchases will come from in-store channels for this segment (70.6 percent of whom are Baby Boomers or Seniors). Given their aversion to online channels, shopping is focused around specific days such as Black Friday, Cyber Monday, and Christmas week. This segment is

not concerned about other behavioral triggers. To obtain the best deals, they are willing to wait in queues and focus on economy shopping. As a result, average cart value is the lowest amongst all segments (USD 821).

Convenience seeking seniors. This holiday season, we are seeing the rise of a wider adoption of digital channels by older generations. A significant proportion of Seniors and Baby Boomers, who make up 76.5 percent of this segment, are gradually becoming more comfortable shopping online. We see 'convenience seeking seniors' as being representative of this change. Despite the fact that this is the oldest segment with an average age of 60.6 years, they are equally willing to shop online (45.6 percent) and in-store (44.9 percent). With an average planned spending of USD 956, they do not mind spending outside conventional channels. They allocate, on an average, 10 percent of purchases on channels such as mail order catalogues and subscription-based home delivery retailers. However, while they perceive free returns and a seamless omnichannel experience to be crucial, they are unsure whether retailers would be able to safeguard their data. While retailers may want to woo them by providing an excellent customer experience, gaining their share of wallet will require retailers to demonstrate understanding of the segment's concerns with respect to information security.

CONCLUSION

Given the positive consumer sentiment, this holiday season presents an excellent opportunity to retailers to drive higher sales. However, on account of the pervasive presence of e-commerce, retailers in various categories need to look at themselves as being part of a broader competitive ecosystem where physical and digital channels blend.

The fact that consumers' decision journeys are complex due to the proliferation of digital channels and their rising expectations with respect to personalization, it may help retailers to consider the following:

- Look for other retail formats that compete with them for a product category and a comparative assessment of the assortment.
- Identify the drivers that lead to a consumer not completing the purchase. Develop an understanding of the effectiveness of interventions such as endless aisles, in-store kiosks to ensure the consumer does not attrite.
- Leverage the 'Store Shopping Inhibitor Index' to identify bottlenecks associated with the most preferred store attributes as well as action steps to resolve them.

Given the multitude of rapid changes in retail, retailers will need to have a firm grasp of their consumer's pulse. Those that stay ahead of the curve will be best positioned to offer a differentiated experience to shoppers and stay relevant and thrive.

METHODOLOGY

WNS commissioned a Holiday Survey from October 1-9, 2017. The survey represents a national sample of 3006 consumers, representing the four geographic regions of the United States of America adequately. The margin of error for the entire sample is +/-1 percentage point.

References

i.   NRF Forecasts Holiday Sales to Increase Between 3.6 And 4 Percent, NRF, October, 2017.

ii.   NRF Projects Non-Store Holiday Sales to Increase up to 15%, Internet Retailer, October, 2017.

iii.   Consumer Sentiment in U.S. Unexpectedly Surges to 13-Year High, Bloomberg Markets, October, 2017.

iv.   In U.S., Young Adults Report Spending Less than in the Past, Gallup, August, 2017.

v.   Where did Baby Boomers go Wrong? This Generation isn't Financially Prepared for Retirement, October, 2017.

vi.   Report: Mobile E-Commerce Sales to Hit $250 Billion by 2020, Chain Store Age, September, 2017.

vii.   Mobile Conversion Rates: How Does Your Site Compare, E-Consultancy, June, 2017.

viii.   2016 US Retail Holiday Season Report, WNS DecisionPoint, November, 2016.

ix.   UPS Pulse of the Online Shopper, UPS, June, 2017.

x.   The 2017 U.S. Mobile App Report, comScore, August, 2017.

xi.   Enabling Effective Loyalty Engagement in Retail, WNS DecisionPoint, August, 2017.

xii.   Is Black Friday Still Relevant? Depends on Who You Ask, eMarketer, November, 2017.

xiii.   Shoppers Expected to Forego Black Friday Lines This Year, Chain Store Age, October, 2017.

xiv.   A Holiday First – Procrastination Dwindles as More Shoppers Plan to Start Thanksgiving Weekend, Chain Store Age, October, 2017.

xv.   US Online Sales will Hit a Record $107 Billion This Holiday Season, Internet Retailer, November, 2017.

xvi.   Consumer Electronics Giant Partners with Amazon, Google, June, 2017.

xvii.   Amazon Scales up Its Ambitions for Fashion Sales, eMarketer, April, 2017.

xviii.   The Point of Sale is Evolving and Retailers Need to Keep Up, Total Retail, October, 2017.

xix.   Self-Service Checkouts can Turn Customers into Shoplifters, Study Say, Total Retail, August, 2016.

xx.   The Digital Transformation of the C-store, Convenience Store News, November, 2017.

xxi.   Retailers Failing to Fix Customers' Payment Pain Points, Research Finds, Internet Retailing, October, 2017.

xxii.   How the Retail Sales Associate Role has Changed over the Last Decade, NRF, October, 2017.

xxiii.   Private Label 2017: Key Trends, IRI Worldwide, October, 2017.

xxiv.   Amazon's Private Label Business is Booming Thanks to Device Sales, Expanded Fashion Lines, Tech Crunch, August, 2017.

xxv.   Are FMCG Brands Struggling to Realize the Promise of Direct Selling, Marketing Week, September, 2017.

xxvi.   Consumers' Shipping Expectations Higher than Ever, Chain Store Age, June, 2017.

xxvii.   Amazon Prime Members Number 80 Million in the US, Up 38% Year Over Year, Internet Retailer, April, 2017.

xxviii.   Easing the Returns Burden on U.S. Retailers, JLL, April, 2017.

xxix.   Study: E-Commerce Returns Experience Critical to Shopping Journey, Chain Store Age, June, 2017.

About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation, WNS aims to arm you with decision support frameworks based on 'points of fact.' Drawing on our experience from working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners including Knowledge@Wharton, each research asset comes up with actionable insights with the goal of bringing the future forward.

DECISION POINT™

— by **WNS**

A credible insights hub for companies looking to transform their strategies and operations by aligning with today's realities and tomorrow's disruptions.

Email: **perspectives**@wnsdecisionpoint.com
Website: wnsdecisionpoint.com