The Digital Battlefield within the Omni-Channel

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8th Luxury Summit
Milano – May 26th, 2016

The digital battle: the analogy

The prize 	**Customer satisfaction, revenues growth and inventory optimization**
The battlefield 	**The market-place and customer experience**
The weapons 	**E-commerce & Omni-Channel**
The military operation support 	**Operational models, IT platforms, store network and distribution**
The opponents 	**The worldwide F&L Brands**

The Prize & the Battlefield

Customer satisfaction, revenues growth and inventory optimization

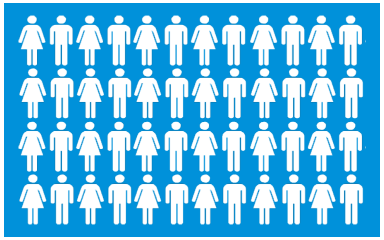
&

The market-place and customer experience

KPMG Omni-Channel Retail Survey 2016

Omni-Channel Customer Experience

We utilised an online survey tool to collect data from KPMG UK employees over an 8 week period from November 27th 2015 (Black Friday) to January 2016 and developed a dynamic dashboard to analyse and interrogate the data



Over
1,600
responses from KPMG UK employees

Over
250
unique retailers and brand organisations

30 categories
including men's clothing, women's clothing, shoes, accessories, furniture, beauty, homeware, electronics, toys, food and beverage, books, etc.

Brands quoted during the survey

Leading brands in Fashion & Luxury, Retail and Furniture quoted by respondents during the survey

Salvatore Ferragamo
CHANEL
JIMMY CHOO
BURBERRY ESTABLISHED 1856
ALEXANDER McQUEEN
GUCCI
PRADA
TIFFANY & Co.
YVES SAINT LAURENT
Paul Smith
HUGO HUGO BOSS
RALPH LAUREN
MICHAEL KORS

LOMBOK
dwell
THE WHITE COMPANY LONDON
mamas & papas
IKEA

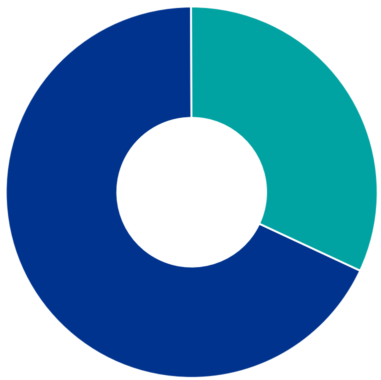
VICTORIA'S SECRET
Calvin Klein
BANANA REPUBLIC
H&M
ZARA
MANGO

Harrods
MARKS & SPENCER
PRIMARK

Survey highlights

32% on the high street

Purchasing channels (*)



68% of purchases were made online

Customers make more **impulse purchases when they are in store as opposed to online**

2 **35%** bought impulse products when shopping in store, compared to **21%** when shopping online

Consumers are **shopping in the evening** and bringing the **fitting room home**.

Customers are valuing convenience over inspecting the product

3 **74%** of customers did not "physically" look at the product or try it on before they purchased online

Black Friday discount week is part of a wider culture of discounting (on-line spending £1.1bn; +36% YoY), in which **customers are increasingly savvy**

1 Only **7%** paid full price

Free returns are driving **extra online purchases** and **additional store traffic.**

Customers are buying duplicate items to try multiple sizes and/or colours at home, with intent to return

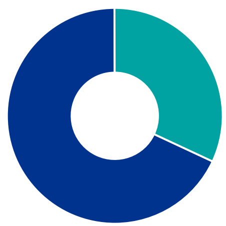
4 **23%** of fashion returns were intentional

i.e. purchased duplicates

(*) over 8 weeks

The Customer Omni-Channel Journey

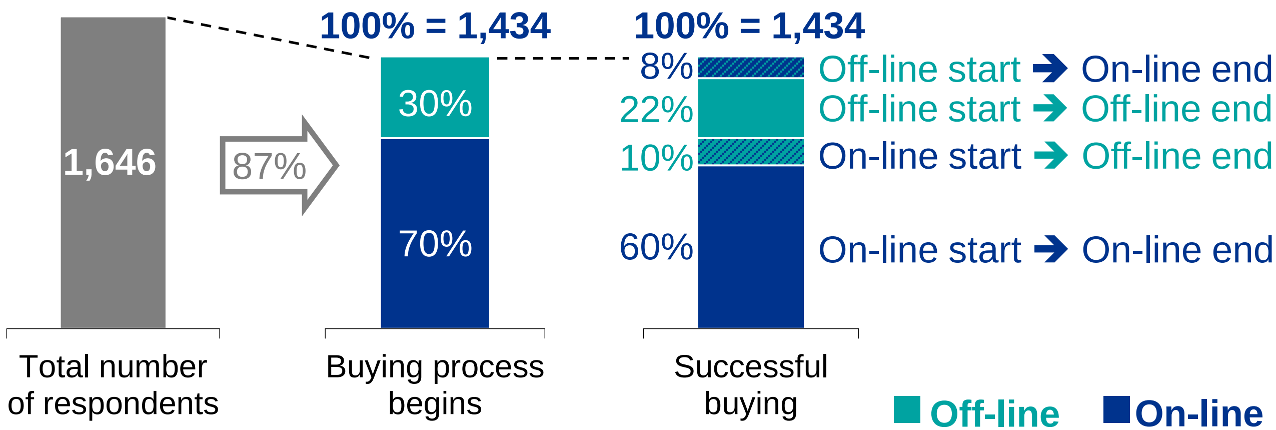
32% on the high street



68% of purchases were made online

Where did your path to purchase start?		Where did your path to purchase end?	
Online	54%	8%	46%
High Street Store	24%	20%	4%
Other brand websites	12%	2%	10%
Mobile app	4%		4%
High Street – Competitor	3%	1%	2%
Recommendation by friend	3%	1%	2%

N. of respondents



70% of the respondents started their purchase online, with a successful **online conversion rate equal to 86%**

How the customers approach the purchase

Average discounts by category of Black Friday purchase

Children's clothing	Furniture	Homewares	Electronics	Men's clothing	Women's clothing
43%	40%	34%	30%	24%	19%

Would you have bought the product anyway at full price?

58%	35%	7%
No	Yes	Paid full price

The average value of items purchased (*) was 43% more on the high street than online

35% of customers would have bought at full price anyway

Customers are still buying more expensive items on the high street

(*) over 8 weeks

Omni-Channel Customer Behaviour

Did you check the product physically before purchase?

No 74%

Yes 14%
in store

Yes 7%
in competitor store

Yes 3%
already own

Yes 2%
family and friends

Customers **do not need to "touch and feel" anymore** the product before buying

It has become much **easier to order online, test the product at home and return it**

This is now possible thanks to:

— **More product information available** online

— **Trust in user reviews**

Were you able to check inventory information before purchase?

84% Yes

Availability of inventory information has doubled vs our 2014 survey

Despite improvements of **stock management**, some participants had some few **issues**:

— Incorrect website stock information

— Impossibility to order items currently listed in stock

— Ordered items not received due to out of stock

A **single view of inventory** (stock visibility and integrity) is a core enabling factor to:

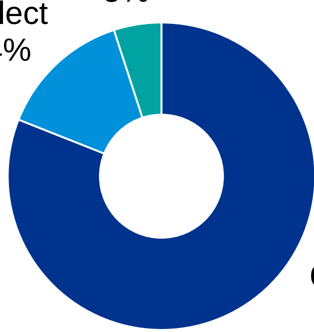
— Finalize the sales

— Meet delivery promises

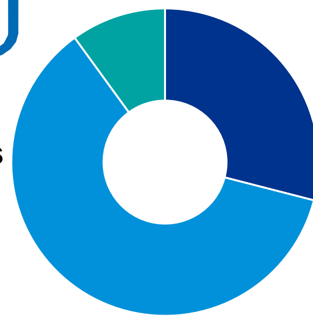
— Reduce out of stock

Omni-Channel Deliveries

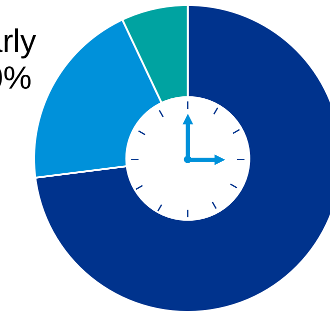
Requested delivery method



Delivery timing



Was the item on time?



Delivery tracking – by retailer

This year: **70% of retailers offered delivery tracking**

Delivery tracking – by customer

49% of customers tracked their orders through the store website
28% did it through a third party
23% were not able to track their order

Does the delivery of product have any impact on your choice of store?

53%Yes

The customer experience is influenced not only by the store but also by the delivery provider

The Weapons

E-commerce & Omni-Channel

Advanced Web Presence - The leaders

	BURBERRY	RALPH LAUREN	LOUIS VUITTON	Ermenegildo Zegna	COACH	GUCCI	PRADA	VALENTINO	BOTTEGA VENETA	ZARA	OVS
E-commerce presence					Only USA & UK						
On-line chat		Only UK		Only AU					Only EU	Only USA	
Online in store product availability	Only UK & USA	Only USA		Only AU	Only USA						
On-line product personalization					Only USA						
Buy On-line & collect in store		Only USA			Only USA		Only Canada				
Buy on-line, exchange/ return in store					Only UK		Only USA & Canada		Only USA		

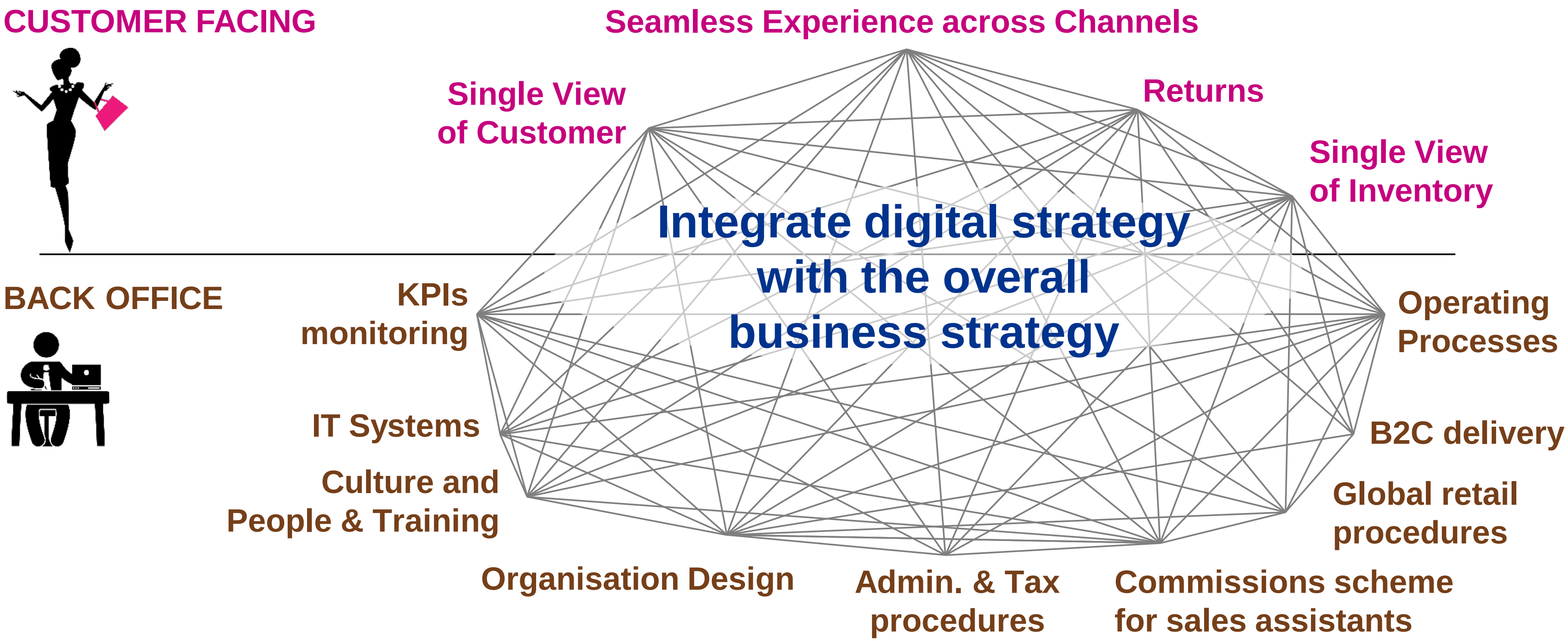
- **All brands has their own e-commerce platforms, either built in-house or powered by an external supplier (e.g.: YNaP)**
- **Not all the brands are able – or willing – to provide the full range of Omni-Channel services across all geographies**
  - **Some of them prefer to provide on-line *"concierge services"* to drive brick & mortar sales**

Note: Analysis performed on April 2016, based on UK, USA and Italian websites

The Military Infrastructure

Operational models, IT platforms, store network and distribution

Connect the dots for winning the Digital Battle



A successful digital strategy aims to provide the same on-line experience as in stores:

- Obtain the widest possible knowledge of individual customers' behaviour
- Build a customer centric organization
- Assign Head of Retail Omni-channel P&L responsibilities
- Avoid functional silos
- Improve coordination among functions
- Review sales assistance compensation schemes
- …

The Big Challenges – KPMG Advice

Seamless structure

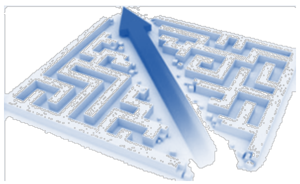
— Delivering a seamless customer experience requires a **seamless organization**
— Old models struggle with the Omni-Channel experience customer expectations and demand
— **People, processes and systems** must all be **customer centric** and aligned around delivering the best possible experience

Stock optimization & Smart distribution

— Getting the products **in the right place at right time** requires businesses to explore new strategies to meet customers' expectations
— While 'Hub and Spoke' distribution model remains the dominant, other **point-to-point B2C strategies** offer more flexibility (e.g.: same day deliveries from DOS):
  - Create **systems** that allow retailers to have a **single view of inventory**
  - **Distribution models must be Country specific (**local retail standard practice and tax compliance)

The IT/Business Partnership

— **Brand new partnership between IT and the business** will link the increased importance of on-line channel and the crucial role of technology
— Both the IT function and the business need to be harmonized with a **singular focus on the customer**



Managing complexity

— Delivering an **'anytime, anywhere, anyhow' customer experience is complex and costs money – despite consumers expect convenience for free:**
  - Let customer make his/her choice without adding excessive costs
  - Use preconfigured service modules to allow customers to move seamlessly across different channels

"The hard part is twofold.

First, **Digital is no longer a gadget, but it's a new industrial standard that requires profound changes of processes, systems and culture.**

Same as for high speed trains that need new rails to run.

Second, **you have to combine the digital approach with people.** In our offices we are digitizing payments and transactions to **devote time to our people to more robust relationships with customers…"**

CEO, Poste Italiane S.p.A.

Francesco Caio

(Corriere della Sera 8 maggio 2016)

Value, convenience

and experience

are the key drivers of consumer

purchasing decisions and

businesses that do not excel in

one or more of these disruptive

trends

will lose the war

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