

# The Catalogue is Dead. Long Live the Catalogue.

The evolving multi-channel marketplace  
2008 – 2011

A white paper by

**490** 

# Adapt or die – embracing multi-channel opportunities

## Introduction: why this report, why now?

Between 1996 and 2006, retail's market share of total consumer spending eroded by 3.4% points, from 38.4% to 35%. Had 2006 maintained 1996's level of market share, retailers would have seen an additional £26.1 billion in revenue. By 2011, the retail market will lose out on a further £32.6 billion.<sup>1</sup>

To survive, retailers will need to invest in different initiatives and strategies simply to maintain their current market share. To grow their share, they will have to do even more. This report examines the current market and projections for the future, and outlines the advantages of multi-channels to drive additional sales while reaching a broader target audience. As evidenced by the current climate, a strong multi-channel offer is becoming crucial to the retailer's proposition.

## A look behind the numbers

The loss of £26.1 billion in revenue is reflected in consumers' growing weariness. With the stress of working the longest average week in the EU, they have opted to spend more on leisure and entertainment, such as overseas holidays and cable and satellite subscriptions. Also, the increase in inflation is forcing them to spend more on energy and other household bills, yet more outlays that come at the expense of retail shopping.

Add to this a slow housing market and lenders' credit crunch, despite a recent rate decrease against the cost of borrowing, and consumers are left feeling cautious.

By 2011, retailers' share of consumer spending is predicted to reach £312.8 billion, equating to £41.1 billion more than in 2006. While this reflects a growth of 15.1%, it's actually a further decline in market share for retailers. The retail market can expect consumer spending to fall 3.3% points down to 31.7% which represents an estimated loss of £32.6 billion.<sup>2</sup> This will not be due entirely to uncertainty in the housing market, as inflationary pressures in the wider economy are expected to subside. However, the opposite will apply to retail with moderating price deflation. For instance, supermarkets are spearheading deflationary pressures by expanding their presence across non-food product categories, giving mainstream and specialist retailers serious competition.

This £32.6 billion revenue loss further enhances the retail Darwinism that the market is already experiencing. With less money to spend, consumers are becoming more discriminating. Yet it's not only their bank accounts that are being squeezed, but also their time. Consumers are demanding that retailers provide them with what they want, when they want, wherever they want.

## Key considerations in the market

Competition has grown rapidly in the last decade with the entry of supermarkets into non-food retailing and department stores offering a wider variety of goods and price points. In response, a multi-channel strategy is increasingly being employed by mainstream retailers who previously held a more specialist position.

Consumers now expect retailers to know them. They want the ability to return a product to a store, even if it was purchased through a catalogue or online. They want to see consistent offers, pricing and product ranging and use loyalty cards and gift vouchers, not just in store, but across all channels.

With time at a premium, consumers are finding it quicker and easier to select products from the comfort of home, via catalogues or the internet, and then place the order online, in-store or by phone. Not surprisingly, footfall into stores has steadily been decreasing.

However, store-based sales will still account for the bulk of retail spending in 2011, with an 88.9% share of total retail sales, equivalent to £278 billion. Britons are enthusiastic home shoppers, with the highest per capita spend in Europe at £251. In 2011, home shopping will carve out 11.1% of total non-food retail sales, a gain in retail market share of 4.2% points over 2006. This equates to £34.8 billion. Of this figure, internet sales are forecasted to make up £30.3 billion, while pure catalogue-only retailers will count for £2.5 billion, or 7.2% of home-shopping share.<sup>3</sup>

All of this is good news for retailers already engaging with multi-channel offers. But they must go a step further and actively guide customers to the right channels by offering incentives. They need to identify the key role each channel plays in the customer experience, as this will help avoid over-investing or paying the high costs that come with trying to be all things to all people. Finally, retailers must not underestimate the importance of providing customers with a seamless service experience by improving demand planning and distribution; the consequences could mean lost business due to fulfilment issues.

The winners in the retail market will be those that provide a multi-channel offer with cross-channel benefits. They will design and deliver unique propositions in terms of convenience and information, for example, providing consumers with the ability to check an item's availability prior to visiting the store. In short, the winners will adapt their offer to the ever changing needs of consumers – and they will succeed at the expense of retailers who do not.

## The advantages of multi-channel

Consistent customer focus and investment during a slow economy is one of the most effective ways to protect a brand. It also fuels faster growth when the market recovers. By adding additional categories to the core store offer through catalogues and the internet, retailers get the benefit of a potentially cost-effective way of delivering incremental business, along with providing customers more choice, convenience and more functionality to shopping – paramount to today's shoppers.

In a price-driven environment led by value retailers and grocers, coupled with inflationary costs, retailers need to keep their sales volume up to maintain margins. Printed catalogues, leaflets, seasonal promotional campaigns and the internet help reach a wider audience without the expense of expanding the store portfolio.

From the perspective of consumers, multi-channel retailing puts them in charge and offers the freedom to shop by their preferred channel. Already, nearly 75% of UK adults have shopped from home. Their favourite route is the catalogue, with 60% using books to select products before deciding how to order, compared to 43% who select or order online.<sup>4</sup>

Looking solely at home shoppers, who account for 75% of UK adults:

- The use of catalogues rises to 80%, in combination with other channels
- 42% are catalogue-only users
- 16% opt to use online only
- 40% use two or more channels<sup>5</sup>

More than £12 billion of home shopping is determined by catalogues. Catalogues have been around for over 100 years, a format understood by young and old, male and female and people from all socio-economic backgrounds. Browsing catalogues is popular among consumers, giving them the chance to view, compare and choose items anywhere they like, whenever they want. It's a convenient way to shop, enhancing the overall experience of the retailer's brand.

Catalogues serve several functions for the retailer. They provide an excellent vehicle to showcase bulky items or extended product ranges to customers 24/7 in their own homes or at in-store kiosks. Catalogues support the brand as a marketing communication tool, vital during an economic downturn. They drive footfall to stores and generate traffic to the internet; 24% of those who selected their purchases from catalogues bought in-store, while 22% of shoppers who chose their purchases from catalogues ordered online.<sup>6</sup>

The popularity of catalogues is growing through all sectors of society, including affluent groups (ABC1s), 25+ age groups and households with children. 50% of men now also use catalogues to aid product selection.<sup>7</sup>

Overall, catalogues have proven highly effective at selling product. They support customer acquisition strategies while retaining current customers and tapping into mail-order and internet-only markets. E-commerce is another driving force behind the demand for multi-channel; as internet usage grows, so will the demand. Currently, 62% of households have internet access, of which 82% is broadband, allowing consumers to connect and shop quickly.<sup>8</sup>

In addition to generating revenue, websites and catalogues act as a form of advertising for the physical store channel. Yet internet retailers have challenges to overcome; in order to compete against the strong brand presence that high-street retailers enjoy through their shops, internet businesses are evolving into multi-channel providers.

For example, online fashion store ASOS.com recognised that they faced rising competition from high street retailers who developed and improved their own online and catalogue offers. ASOS.com introduced a monthly fashion/celebrity magazine featuring their products to help raise brand awareness. It's working, as ASOS.com readers spend 69% or more than those who do not read the magazine.<sup>9</sup>

ASOS.com are increasing their credentials as a vibrant and stylish fashion retailer. When the magazine launched in September 2006, at 68 pages (now 100 pages), they mailed to 100,000 customers who ordered online. Today the magazine sells for £1 through the website and has a print run of 450,000,<sup>10</sup> with third parties paying to advertise in its pages, thereby reducing production costs. Online retailers who introduce catalogues and supplements to support their offer and proposition will increasingly become a threat to single-channel retailers, both online and offline.

## Winners and losers

To gain a competitive edge, retailers must introduce new mechanisms to broaden customer reach. They need an element of home shopping in their proposition to engage and influence shoppers, as nearly three quarters of adults shop from home. Retailers who have already integrated multiple channels are successfully driving incremental sales.

Tesco Direct, for example, now provides customers with an e-commerce platform and a catalogue. The addition of these two channels produced sales of £1.2 billion last year, up 29.2% on 2006.<sup>11</sup> With a combination of bricks and now clicks and flicks, they have delivered strong brand penetration and high levels of visibility so much so that their catalogue penetration already exceeds that of many established mail-order retailers. More than that, by offering multiple channels, Tesco Direct has built trust and loyalty with consumers and enhanced its appeal with more affluent shoppers.

Overall, consumers view retailers with multiple channels as offering better value, choice and convenience. They are more loyal to those retailers they perceive as understanding them, which is especially beneficial during an economic downturn. IKEA, for example, has already reported their multi-channel shoppers as spending up to five times more than single-channel shoppers.<sup>12</sup>

With multi-channel shopping, retailers are able to:

- Build and strengthen their existing customer base
- Widen their customer base by tapping into other markets
- Drive new customer acquisition
- Improve sale and customer profitability
- Open doors to new or niche markets

The demand for convenience, choice, control and the ability to move seamlessly between channels is not a new concept. Supermarkets' entry into the non-food retail market has created a multi-channel, multi-format proposition that satisfies customer demand on every level.

Retailers who have responded in kind include John Lewis, whose home shopping division reaches customers with an e-commerce platform and multiple specialist catalogues. Last year, these channels accounted for £185 million worth of sales, up 64% from 2006. Next, perhaps the UK's leading multi-channel clothing retailer saw sales reach £774 million last year through non-store channels. In 2007, their home-shopping revenue grew by 13.2% on the previous year, making non-store purchases 25.6% of all sales.<sup>13</sup>

Argos has the widest multi-channel reach with the strongest catalogue-to-store and web ratios. Their multi-channel approach has increased non-store sales by 45%, to £666 million in 2007.<sup>14</sup> They are pursuing a strategy to broaden their appeal to ABs. It is important that they do not underestimate the threat from supermarkets' non-food multi channel proposition.

Those who have exited the scene include established store-based retailers. C&A, Alders and Littlewoods stores are examples of what happens when retailers fail to update their proposition, losing their customers in the process.

Most traditional mail order houses have seen a dramatic fall in sales. This is mainly due to their failure to update or adopt a more relevant offer for their customers, and to compete effectively with the internet, high street retailers and grocers. N Brown is one notable exception. Their niche catalogue titles and frequency are a core part of their overall proposition, as their online sales dipped when they tested the impact of reducing paper communications.

Retailers debate that while additional channels do bring in extra sales, they are likely to cannibalise sales from stores. Yet leading multi-channel retailers disagree, claiming cannibalism does not exist.<sup>15</sup> According to IKEA, a multi-channel approach categorically works and has made their business more profitable.<sup>16</sup> But cannibalism, if it does exist, is nothing to fear. If a retailer does not offer the channels customers want, a competitor certainly will. From that perspective alone, companies who ignore the multi-channel route will find it almost impossible to survive in the future.

## The successful multi-channel offer, today and tomorrow

Multi-channel retailing is contributing to increased competition in the UK market, from both domestic and international players of all sizes, e.g., Aldi, Netto, ILVA, JYSK and Abercrombie & Fitch, etc. So it's crucial that retailers constantly think ahead to stay competitive.

For a multi-channel offer to work, retailers must not abandon their core values, and just as importantly, those perceived by the customer. Now more than ever, they need to stay abreast of trends and consider work-life balance and emotional connectivity to their customers.

The language barriers between catalogues, online and store environments have the potential to create inconsistencies between the different channels, ultimately affecting the customer experience and eroding the retailer's brand. Retailers should integrate all channels and create a consistent offer to capture the value of the customer. Retailers need to aim for a seamless offer from sales and service through to delivery, as customers who "channel hop" will expose any discrepancies a retailer may have. This is important as customers do not see themselves doing business with a variety of channels, but one business.

Retailers also need to stay up to date on shifting demographics and adjust accordingly. ABC1s are growing, with a 5.7% rise by 2011 for ABs, bringing them to 13.5million. C1s are forecasted to increase by 4.9% during that time, to 15.1million.<sup>17</sup> While this represents a slow growth, it is still gloomy news for single-channel retailers, as ABC1s (40% of whom have families) are strong multi-channel shoppers, preferring to use both catalogues and the internet.

Multi-channel retail is constantly evolving, and will continue to do so. Reserve and collect services are predicted to grow, though measures to track channel performance and customer preference need to be better implemented. This will give retailers insight into customers' behaviour and how they link channels to select their purchases and choose a method of delivery.

Also on the radar: the Marketing Sherpa Report, 2007, reveals that 84% of consumers prefer the opinion of other consumers to that of experts. As shoppers are relying on social content to aid in their purchase decisions, retailers need to consider solutions that incorporate the "voice of the consumer" in order to gain a competitive edge, e.g., the reader reviews on amazon.co.uk.

Social content is already moving beyond product pages to other channels: mobiles, kiosk, catalogues and other printed collateral and social networking sites such as Facebook and MySpace.

## Be prepared

More consumers will expect to access social content across all channels to help in their purchase decisions. Retailers who provide multi-channel access to social content will benefit from having a competitive advantage in the retail market by attracting more customers. According to the clothing and footwear retailer, Boden, allowing customers to comment on and rate its products will increase trust in its brand and allow other shoppers to make more informed purchasing decisions.<sup>18</sup>

Retailers will also need to offer catalogues to keep their brand in front of consumers, and to drive traffic to websites and footfall to stores. Catalogues will continue to become smaller, more frequent and target niche audiences, resembling magazines to capture consumers' interest. N Brown, ASOS and Boden have followed this route, with sales going from strength to strength, not declining.

The bottom line is, multi-channel retailing is here to stay in ever-changing forms.

## Conclusion

As retail's market share of consumer spend continues to evaporate, retailers must find a competitive advantage. Not surprisingly, retailers who come out on top are those that focus on knowing the customer and providing a positive customer experience. The most successful brands are taking advantage of the growth in home shopping by adopting a multi-channel approach; they're incorporating online and catalogue routes alongside their physical stores. Consumers are demanding access to these channels and reward retailers who deliver, by spending higher amounts and returning more often to shop than single-channel shoppers.

Going forward, to be complacent is suicide. Retailers must constantly review and re-evaluate their proposition and structure for their multi-channel offer to be successful. If a customer does not like a service today, and a retailer fails to identify the gap quickly enough and act, the customer will simply shop elsewhere.

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