OC&C RETAIL PROPOSITION INDEX 2018

Winning hearts and minds

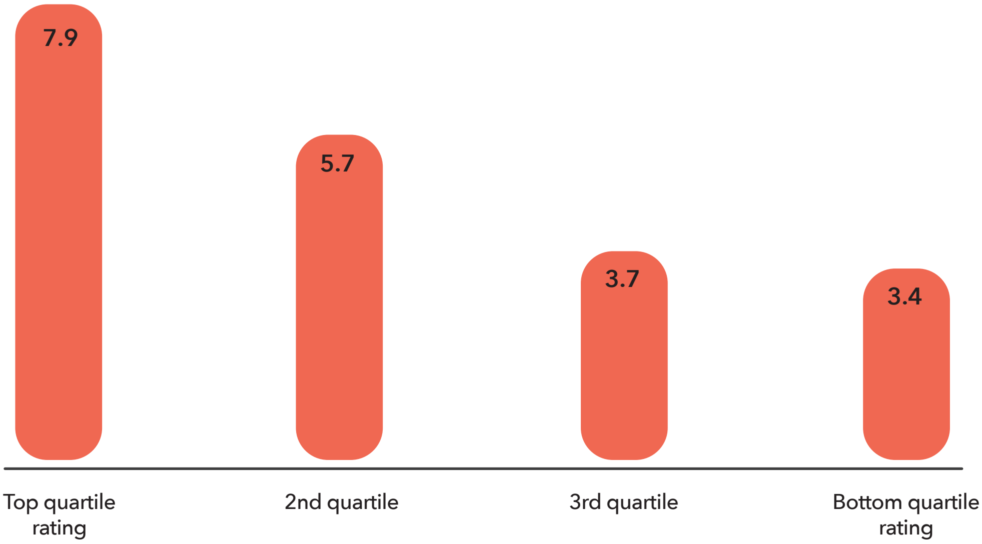
The importance of emotional balance in retail

OC&C Strategy consultants

uncommon sense

THERE IS A STRONG CORRELATION BETWEEN THE RETAILERS THAT UK SHOPPERS SCORE MOST STRONGLY, AND THOSE SHOWING THE HIGHEST RATE OF GROWTH

% REVENUE GROWTH BY OVERALL RATING QUARTILE, 2014-18



Executive summary

The retail industry is not for the faint-hearted. Retailers continue to feel the heat from pressure on consumer spending and new and disruptive competitive models.

At the same time, the costs of staying ahead (or even just 'in the game') are growing, and many retailers are having to consider material investments. This said, it isn't all doom and gloom. The very best retailers continue to thrive and grow, anchored in strong and enduring customer advocacy.

OC&C's Retail Proposition Index 2018, our 9th annual global study of how shoppers rate their retailers, shines a light on what it takes to win. It highlights that retailers should be fixated on their 'Emotional Balance' and understand clearly how they are serving both the functional and emotional needs of their customers.

In particular, we would alert retailers to three important truths…

Shoppers are looking for an emotional boost: A strong functional proposition is essential, but no longer enough. Appealing to a shopper's rational side is proving less effective than ever in delivering winning ratings and performance improvement. Retailers must consider how they can create and foster a more emotional, and lasting, connection through every element of their product, channel and brand offer. The business case is also clear; emotional appeal is driving retailer ratings, and higher ratings lead directly to stronger financial performance. We see particular opportunity for specialists to harness their more emotional side.

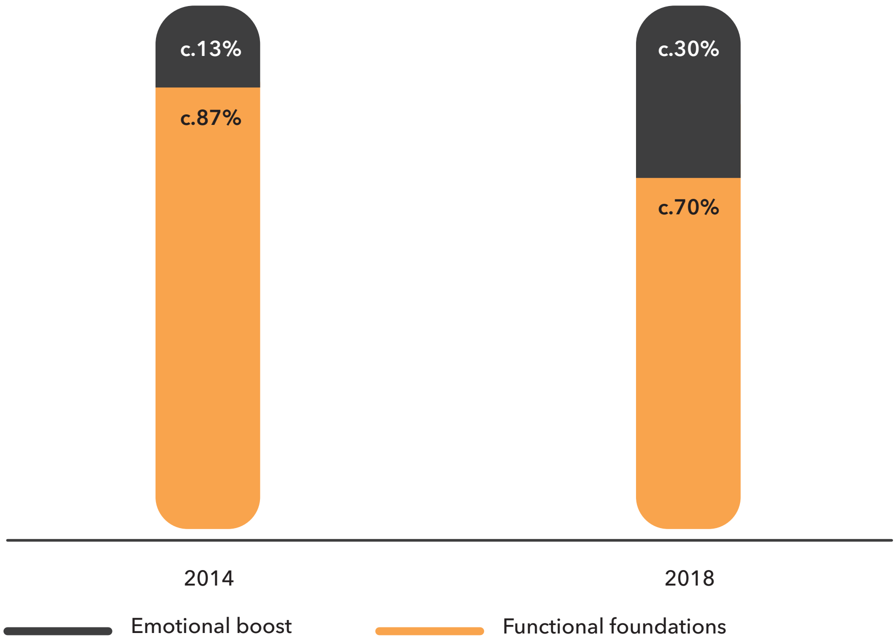
Find your range: A strong product offering is critical to retailer success. The battleground has moved beyond providing widest choice and is now more focussed on offering exclusive and tailored selections. This shift has caused a revolution in the role of private label, which for the most successful retailers is no longer viewed as a cheap alternative to brands, but instead a pivotal driver of quality and central to building brand allegiance and trust. 8 of the 10 highest ranked UK retailers on quality perception primarily sell their own product, as are all of the top-5 highest climbers in the rankings. For retailers, this raises the need to fundamentally review their product strategies, and assess the relationship and role played by 3rd party brands.

Trust is a must: Affection for retailers continues to be most heavily influenced by trust. Probing deeper, it is increasingly important to shoppers that retailers are seen to be doing the right thing by them, i.e. rectifying their problems and delivering on expectations. Trust is created over a long-time horizon, and retailers must think carefully about how to protect and nurture this, and ensure it isn't compromised by short term actions, e.g. excessive promotional activity or labour cost savings.

The OC&C Retail Proposition Index 2018 sheds light on shoppers' perspectives of over 650 of the world's leading retailers. We'd be delighted to share our findings in more detail, and discuss the implications for your brand.

IT IS INCREASINGLY DIFFICULT TO PREDICT OVERALL RATING USING THE SUM OF THE PARTS

DRIVERS OF OVERALL RATING, 2014 VS 2018



The heart of the matter

Retailers should be wary of over-investing for marginal gains in price and range rating. The big swing factor for shoppers comes from generating emotional warmth, brand allegiance and the enduring trust that they'll be well looked after.

For the last decade, price, range and digital experience have been cited by most retailers as their key battlegrounds. Essentially, "how do I offer great prices on authoritative choice across store and online channels?"

As retailers have invested ever more behind this goal, the ability to differentiate against it has progressively eroded. For many retailers, squeezing out the next 1% price investment, or 5% range extension will be less effective. Indeed most of the 130 UK retailers in this year's index who saw improvement in price, range and service scores failed to see a reciprocal improvement in their overall rating.

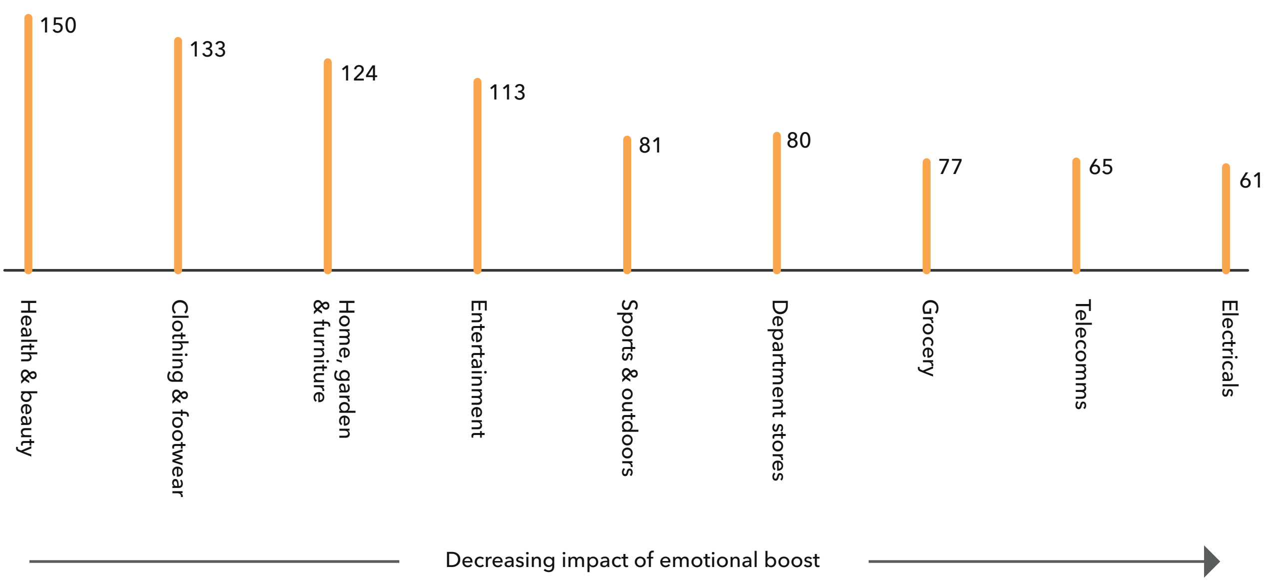
In its place, shoppers are increasingly relying on something more subjective when choosing their favourite retailers, with this now responsible for nearly a third of a retailers overall rating (up from 13% in 2014).

Unsurprisingly, apparel retailers receive some of the biggest emotional boosts to their overall ratings, given their ability to inspire customers and to communicate with personality and emotion. Having a knack in product storytelling also helps, something that Burberry and Ralph Lauren (both high in the ranks) do well.

The need for emotional connection between shopper and retailer should fundamentally reshape how retailers prioritise investment in their offer. Amazon is an interesting example. It leads on 3 of the 8 key functional criteria, and in 2018 saw continued improvement against all three of these areas. Despite this, it has seen a reduction in its overall rating; driven by a fall in the proportion of the brand's customers that see it as 'Excellent', and a low emotional 'boost'. How Amazon, and others in its position, build stronger emotional engagement with their customers is key, and could be a strong unlock for the next wave of their growth.

THE IMPORTANCE OF GENERATING EMOTIONAL BOOST VARIES BY CATEGORY

IMPORTANCE OF EMOTIONAL BOOST BY CATEGORY, 2018, AVERAGE = 100



That special feeling

There has been further evidence this year that the UK consumer really values great specialist offers.

Most of the biggest risers in this year's rankings are single category specialists, with IKEA, Lush, Ralph Lauren and Waterstones all occupying top spots.

Waterstones' continued rise (rising for the 4th year in a row, from 37th position in 2014 to 2nd position this year) has been driven by increases across quality, service, value for money and store experience ratings, as well as a notable increase in the brand's emotional appeal. It has created a position as the 'book lover's go-to destination' and simultaneously improved its trading performance.

Lush once again holds a top 5 position, with its strength of appeal particularly notable amongst Millennial and Generation Z consumers, and underpinned by superior ratings on quality and service.

Paperchase is a notable mover, rising 9 places this year, driven almost entirely by a significant boost in the brand's emotional appeal. This increase in the brands subjective rating might well be a result of the curated and inspiring range of product, fun merchandising and colloquial tone of voice, leading to it being the most favoured retailer amongst Generation Z shoppers. The brands recent top-line performance has followed suit.

TOP RETAILERS BY OVERALL RATING

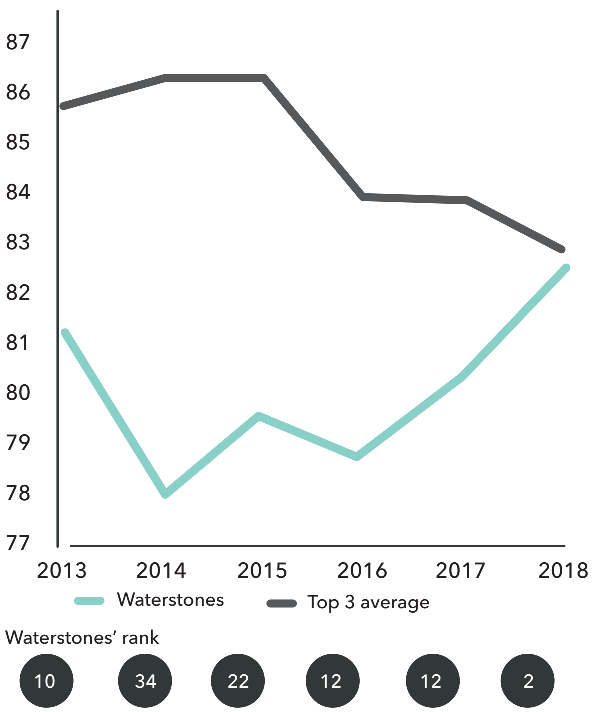
	2011	2012	2013	2014	2015	2016	2017	2018
1	amazon	amazon	amazon	amazon	amazon	amazon	M&S Simply Food	John Lewis
2	M&S Simply Food	John Lewis	John Lewis	John Lewis	John Lewis	John Lewis	John Lewis	Waterstones
3	John Lewis	Marks & Spencer	Apple	Apple	LUSH	ao.com	LUSH	M&S Simply Food
4	play.com	M&S Simply Food	Marks & Spencer	LUSH	Apple	LUSH	amazon	amazon
5	Waitrose	Card Factory	M&S Simply Food	M&S Simply Food	moonpig	Waitrose	Apple	LUSH
6	ebay	IKEA	ebay	Waitrose	IKEA	M&S Simply Food	Marks & Spencer	Marks & Spencer
7	Selfridges&Co	ebay	Lakeland	Lakeland	ebay	Lakeland	ALDI	ALDI
8	Clarks	Waitrose	IKEA	ebay	home bargains	ebay	Boots	Ralph Lauren
9	Marks & Spencer	play.com	Waterstones	healthspan	Harrods	Apple	Ralph Lauren	Waitrose
10	wilko	wilko	healthspan	home bargains	M&S Simply Food	Card Factory	IKEA	IKEA

CASE STUDY

Waterstones

Waterstones strikes a clear emotional balance. Its consistent increase in rank is testament to its renewed focus on providing a superb service and product offer to its shoppers. Its improvement across functional factors is perfectly complemented by an increase in customer's emotional connection with the brand, and in combination these elements have propelled it into 2nd position

WATERSTONES' RATING OVER TIME



CHANGE IN WATERSTONES' RATINGS, 2014-18

The virtuous circle of trust

As we unpick what is driving emotional brand attachment, trust remains absolutely crucial.

Shopper ratings continue to point to trust as being the primary driver of underlying brand appeal and brands such as Boots and Sainsbury's strongly benefit from superior trustworthiness in the eyes of their customers.

When fostering trust it is clear that retailers should focus on the most high impact areas. As we decode trust further we can see that these are anchored in (i) the integrity of products, (ii) the brand's ability to consistently rectify problems well and quickly and (iii) consistently delivering on promise. These are areas where brands such as IKEA and John Lewis excel.

Retailers must think hard about delivering greater trust efficiently - particularly about the expectations they set with shoppers and the promise that they are aiming to deliver to. Retailers such as Aldi and IKEA don't promise the world. They are quite clear with shoppers about the trade-offs being made when choosing to shop with them (be that a much more limited range in the case of Aldi, or a do-it-yourself service model in the case of IKEA), and customers reward them for this honesty. The retailer / shopper relationship becomes a more trusting one when both parties know where they stand.

SAFE AND RELIABLE PRODUCTS AND QUICKLY RECTIFYING CUSTOMERS' PROBLEMS ARE KEY TO TRUST

Increasingly important driver of trust

	IMPORTANCE AS A DRIVER OF TRUST
Their products are reliable and safe	★★★★★★★★
I trust them to rectify any problems quickly and to my satisfaction	★★★★★★★
They consistently deliver on their promises	★★★★★★
They've been around for a long time - and will likely be here for years to come	★★★★★
I trust them to store and use my personal data with integrity	★★★★
They are fair and ethical with their suppliers	★★★
They treat their employees fairly	★★★
They're taking actions to benefit the community and wider world	★★
Their prices are fair and consistant	★

In an ever-challenging industry, placing greater emphasis on the softer side of winning is critical for retailers. It would be wrong to dismiss this as fluffy. There are tangible, sustained and practical actions retailers can take, and the business case stacks-up. The economic value of emotional appeal is significant

Harnessing product power

The changing role of product in driving brand appeal is notable in this year's survey.

Breadth of choice is no longer driving favour. Instead, the biggest gains are being made by retailers who are investing in exclusive and innovative own-brand concepts. Indeed, the myth that private label is primarily a cheap alternative to brands is firmly busted. Private label-led retailers capture 8 of the highest 10 quality ratings, whilst Aldi has overtaken the Big-4 grocers on quality perception this year.

This challenges the historic rules of range construction. We believe retailers need to fundamentally review their ranges to:

(1) Confirm the role of third party brands, and identify where changing the balance and nature of the relationship can create a 'win win' of better customer offering and superior economics

(2) Review their private label innovation agenda, and ensure it is strong enough and targeted where it adds customer value

(3) Critically assess range breadth, and the extent to which simplification and rationalisation will aid shopper selection and support greater investment where it really counts

(4) Optimise the price architecture, and ensure the range makes economic sense i.e. ensure high margin SKUs are not being cannibalised by low margin SKUs

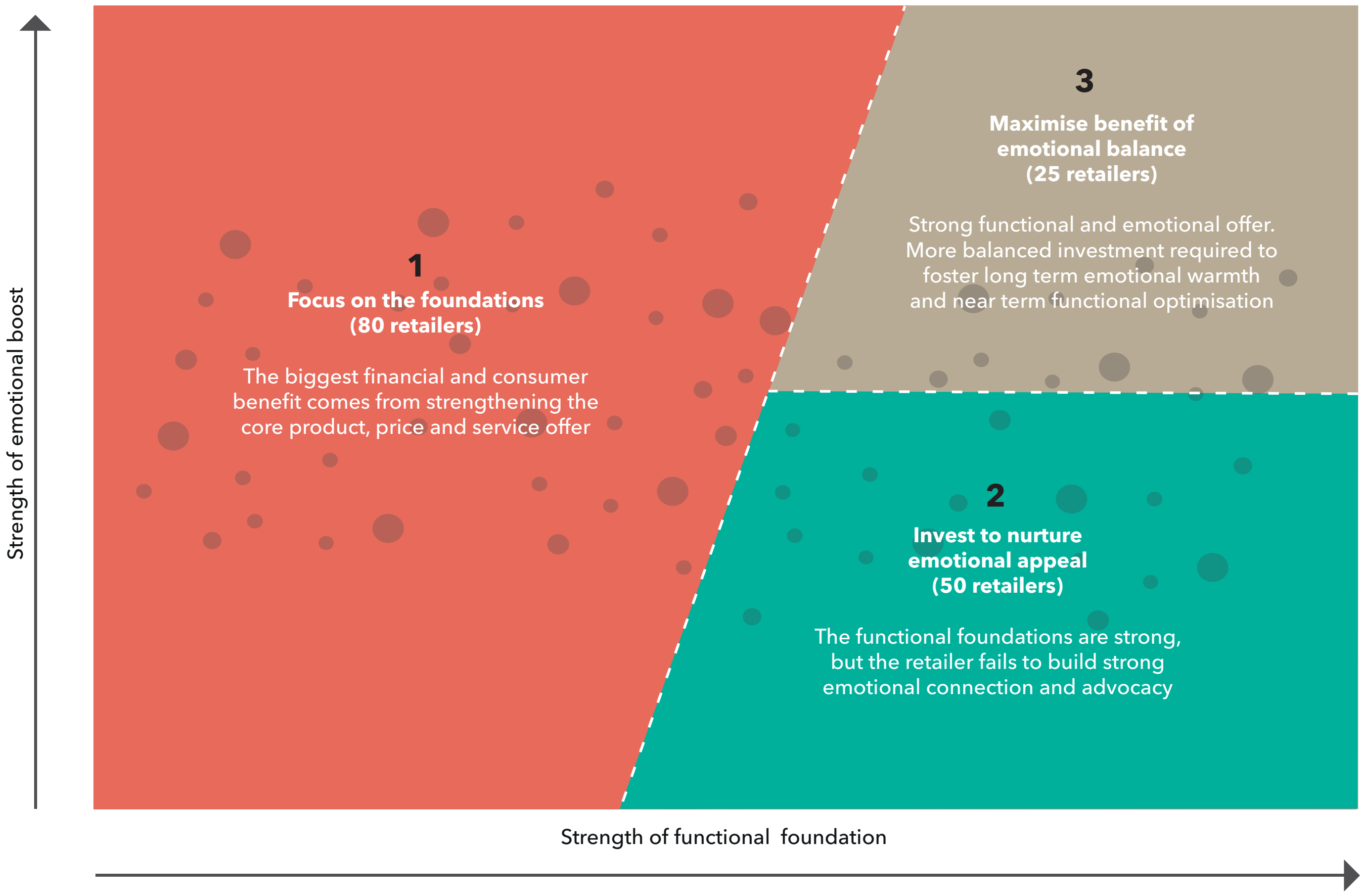
Making sparks fly

The call to action for retailers

As we think about the implications of these findings, it is critical for each retailer to understand what their 'Emotional Balance' is today, and what this means for the right sequencing of effort.

Retailers must actively use this information to focus their attention and investment where it drives most direct benefit. This will likely require balancing some tensions, particularly between short-term activity, which will increasingly be required to support trading in a toughening market landscape versus long term sustained investment in building consistency, trust and emotional equity with customers.

RETAILER PRIORITIES WILL VARY SUBSTANTIALLY BASED ON CURRENT CONSUMER RATING OF THEIR FUNCTIONAL AND EMOTIONAL PROPOSITION



NEXT YEAR'S WINNERS WILL BE THOSE THAT HAVE THE CLEAREST ANSWERS TO THE FOLLOWING 10 CRITICAL QUESTIONS, AND USE THIS TO STRIKE THE RIGHT EMOTIONAL BALANCE.

1 What is my current 'emotional balance'?

2 How important is emotional boost to winning in my category?

Strengthen functional foundations in the near term

3 Is my approach to price and promotions battle-ready for a toughening market landscape?

4 Am I clear on the right range authority to be offering across my business?

5 What role does third party branded versus private label product play?

6 Am I sufficiently easy to shop for all the needs my customers have?

Maximise the long term value of emotional boost

7 Is my customer promise clear? How do I embed a reputation for consistently meeting it?

8 How do I best invest to build engagement and trust through innovation, exclusivity and technical calibre of my own product?

9 Is my marketing, brand and communication investment effectively building strong equity with my target customers?

10 Where do I get strongest benefit from investment in shopping experience?

UK RETAILERS INCLUDED IN THE OC&C PROPOSITION INDEX 2018

3	Edinburgh Woollen Mill
Accessorize	EE
Aldi	Ernest Jones
AliExpress	Etsy.com
All Saints	Evans
Amazon	Farm Foods
AO.com	Fat face
Apple	Feelunique
Argos	French Connection
Asda	funkypigeon.com
Asos	Furniture Village
B&M Bargains	Game
B&Q	Gant
Barbour	Gap
Blacks	Go Outdoors
Boden	Goldsmiths
Body Shop	Greggs
Boohoo.com	H&M
Boots	H. Samuel
Boots Opticians	Halfords
Brantano	Harrods
Burberry	Healthspan
Card Factory	HMV
Carpetright	Hobbs
Carphone Warehouse	Hobbycraft
Cath Kidston	Holland & Barrett
ChainReactionCycles.com (CRC)	Home Bargains
Charles Tyrwhitt	Hotter Shoes
Claire's Accessories	House of Fraser
Clarks	Hugo Boss
Clinton Cards	Iceland
Coast	IKEA
Co-op	Jack Wills
Cotswold Outdoors	JD Sports
Currys	Jigsaw
Debenhams	John Lewis
DFS	Jones the Bootmaker
Dorothy Perkins	Karen Millen
Dreams	Kurt Geiger
Dunelm Mill	Lakeland
eBay	Lidl

UK RETAILERS INCLUDED IN THE OC&C PROPOSITION INDEX 2018

Littlewoods / ShopDirect	Ralph Lauren
LK Bennet	Reiss
Lloyds Pharmacy	River Island
Lookfantastic	Robert Dyas
Lush	Ryman
M&M Direct	Sainsbury's
M&S	Schuh
M&S Simply Food	Screwfix.com
made.com	Selfridges
Magnet	Shoezone
Majestic Wine	Snow & Rock
Mango	Space NK
Maplin	Specsavers
Matalan	Sports Direct
Monsoon	Superdrug
Moonpig	Superdry
Morrison	Ted Baker
Moss Bros	Tesco
Mothercare	The Range
Mountain Warehouse	The White Company
Mulberry	TK Maxx
MyProtein	TM Lewin
Net-a-porter	Topshop
New Look	Uniqlo
Next	Very
Not On The High Street	Vision Express
O2	Waitrose
Oasis	Warehouse
Ocado	Waterstones
Office	WH Smith
Oliver Bonas	Whistles
Original Factory Shop	White Stuff
Paperchase	Wickes
Peacocks	Wiggle.co.uk
Pets at Home	Wilko
Phase Eight	Wyevale
Photobox	Zalando
Poundland	Zara
Poundstretcher	
Poundworld	
Primark	

For a full list of the 650+ international retailers included in this year's Index, please get in touch.

The OC&C UK Retail Proposition Index is a major piece of international consumer research measuring shopper attitudes and perceptions towards the world's leading retailers. 50,000 consumers globally are asked to rate the retailers they have shopped on the strength of their overall proposition, and then to score the key elements of that proposition (Price, Range, Service, etc). These results are then used to compile a ranking of over 650 retailers from across the globe.

Since the Retail Proposition Index was first launched in 2010, we have interviewed 290,000 consumers and analysed 27m ratings. Now in its ninth year, the index is a powerful tool to understand how shopper opinions and priorities have changed over time, and to identify the key long-run trends driving shifts in the retail landscape.

Want to find out more about your Emotional Balance?

Or understand what best practice retailers are doing to deliver winning ratings?

We'd be delighted to share more.

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