# Ringing the changes

## UK Retail Proposition Index 2017

OC&C
Strategy consultants

# Summary


As the UK retail industry plots its path through an uncertain trading environment, the battle for supremacy has never been more intense. Against this backdrop, OC&C's 2017 Retail Proposition Index reveals that Amazon has lost its long-held crown as the UK's favourite retailer, falling behind M&S Simply Food (our new champion), John Lewis and Lush.

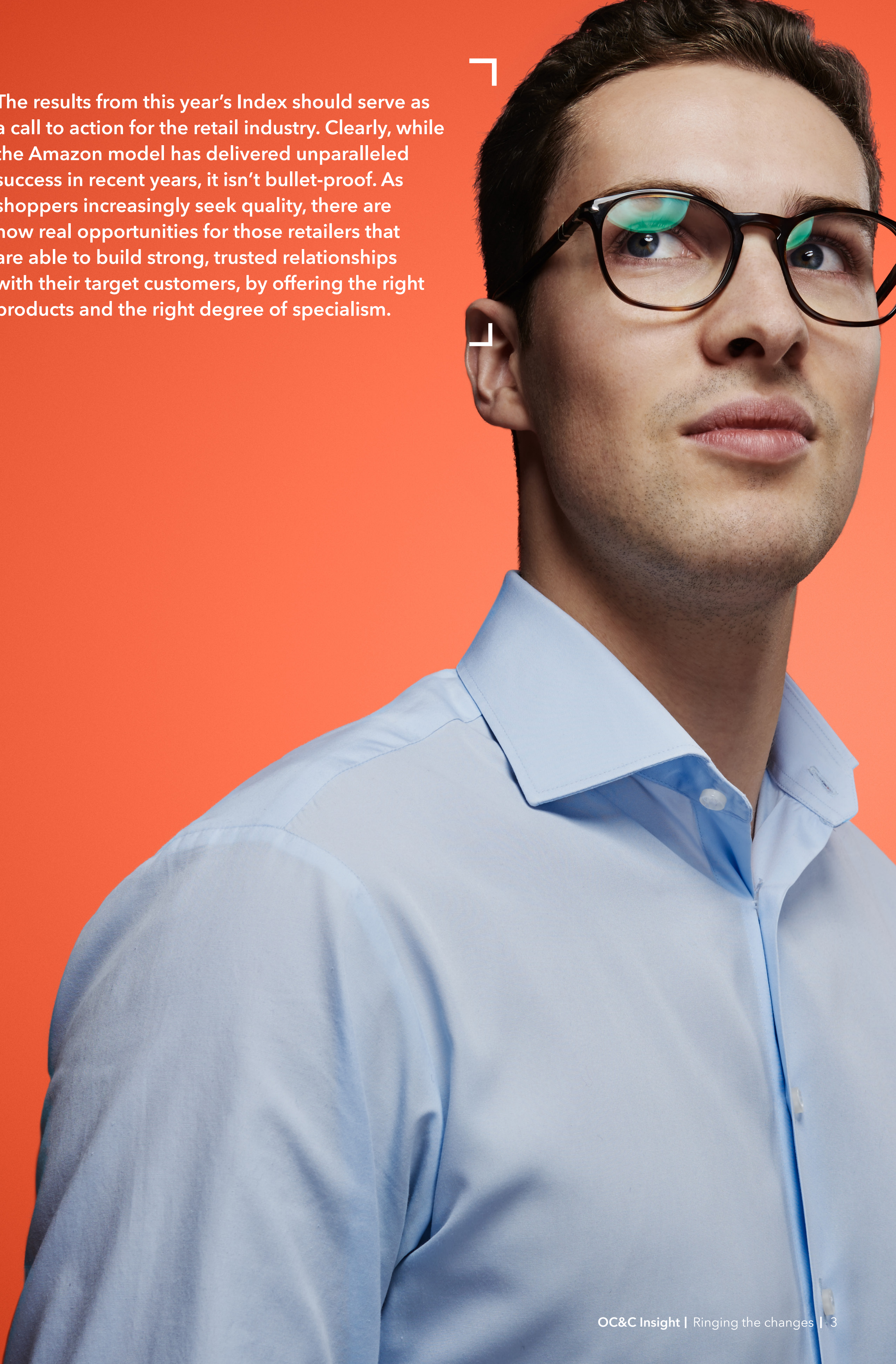
As we unpick this year's ratings, we can identify three important consumer trends that have far-reaching implications for the UK retail industry.

(1) **Price-led propositions are coming under pressure,** as shoppers become increasingly intolerant of compromising on service or quality. This has driven a strong improvement in shoppers' ratings of the best specialist retailers (such as Lush, Boots and Ralph Lauren) and led to polarisation in the discount sector, with clear 'quality winners' emerging.

(2) **Sophistication (and complexity) is a double-edged sword,** with those retailers at the forefront of dynamic ranging, pricing and delivery optimisation seeing pressure on consumer perception of price, service and trust.

(3) **The preferences and habits of different age groups are becoming polarised,** with the over 35s (who represent two-thirds of all UK retail spend) increasingly favouring high quality specialist propositions, while millennials place more weight on low prices.

The results from this year's Index should serve as a call to action for the retail industry. Clearly, while the Amazon model has delivered unparalleled success in recent years, it isn't bullet-proof. As shoppers increasingly seek quality, there are now real opportunities for those retailers that are able to build strong, trusted relationships with their target customers, by offering the right products and the right degree of specialism.



# Changing of the guard

M&S Simply Food, a mainstay of the Top 10, has risen to the top of the charts, driven by improvement in shoppers' perception of its service and range, and reinforcing its strength when it comes to quality. John Lewis holds on to second place, albeit with some weakening in its position as the country's strongest 'all-rounder', and Lush continues its impressive momentum in recent years to take third spot, thanks to excellent product and service.

The Top 10 also sees a stronger showing by more specialist retailers than we have seen in recent years, including Boots (back in the Top 10 after a long period of absence), IKEA and Apple. Indeed, more generally, the most significant 'risers' in this year's rankings have consistently been those retailers winning in a single category and showing greatest improvement in customer ratings of quality, service and trust (e.g. Boots, Jack Wills and Ralph Lauren). Those retailers improving price perception or breadth of choice are not seeing the same translation to overall ratings.

## IN 2017, M&S SIMPLY FOOD TOOK AMAZON'S LONG HELD CROWN AS THE UK's FAVOURITE PLACE TO SHOP

HOW THE UK'S FAVOURITE RETAILERS HAVE CHANGED OVER TIME

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| amazon | amazon | amazon | amazon | amazon | amazon | M&S SIMPLY FOOD |
| M&S SIMPLY FOOD | John Lewis | John Lewis | John Lewis | John Lewis | John Lewis | John Lewis |
| John Lewis | MARKS & SPENCER | Apple | Apple | LUSH FRESH HANDMADE COSMETICS | ao.com | LUSH FRESH HANDMADE COSMETICS |
| PLAY.COM | M&S SIMPLY FOOD | MARKS & SPENCER | LUSH FRESH HANDMADE COSMETICS | Apple | LUSH FRESH HANDMADE COSMETICS | amazon |
| Waitrose | Card Factory | M&S SIMPLY FOOD | M&S SIMPLY FOOD | moonpig | Waitrose | Apple |
| ebay | IKEA | ebay | Waitrose | IKEA | M&S SIMPLY FOOD | MARKS & SPENCER |
| SELFRIDGES&Co | ebay | LAKELAND | LAKELAND | ebay | LAKELAND | ALDI |
| Clarks | Waitrose | IKEA | ebay | home bargains | ebay | Boots |
| MARKS & SPENCER | PLAY.COM | Waterstones | healthspan | Harrods | Apple | RALPH LAUREN |
| wilko | wilko | healthspan | home bargains | M&S SIMPLY FOOD | Card Factory | IKEA |

# M&S SIMPLY FOOD'S LEADERSHIP IS ANCHORED IN QUALITY LEADERSHIP, AND SUPPORTED BY IMPROVEMENT IN SERVICE AND TRUST

## UK PROPOSITION CHAMPIONS

### TRUST

| | Trust | Change vs 2016 |
|---|---|---|
| Lush | 85.9 | 2.6 |
| Boots | 85.4 | 6.1 |
| M&S Simply Food | 84.7 | 1.9 |
| Ralph Lauren | 83.9 | 5.5 |
| Lloyds Pharmacy | 83.8 | 6.5 |
| Argos | 83.2 | 8.2 |
| M&S | 83.1 | 1.8 |
| John Lewis | 82.3 | -5.2 |
| Amazon | 81.7 | 2.7 |
| Jack Wills | 81.3 | 6.4 |

### QUALITY

| | Quality | Change vs 2016 |
|---|---|---|
| M&S Simply Food | 88.7 | 0.2 |
| Lush | 87.7 | 1.8 |
| John Lewis | 86.0 | -1.7 |
| Waitrose | 86.0 | -0.5 |
| Apple | 85.4 | -0.7 |
| Waterstones | 85.4 | 1.1 |
| Lakeland | 84.9 | 1.5 |
| Body Shop | 83.9 | 5.2 |
| Ralph Lauren | 83.1 | 3.1 |
| Hugo Boss | 83.0 | 4.1 |

### SERVICE

| | Service | Change vs 2016 |
|---|---|---|
| Lush | 86.3 | 1.1 |
| Waitrose | 83.0 | 0.4 |
| John Lewis | 83.0 | -1.5 |
| Specsavers | 81.8 | -0.1 |
| M&S Simply Food | 81.6 | 3.0 |
| Screwfix | 80.2 | 3.8 |
| M&S | 79.7 | 1.6 |
| Body Shop | 79.4 | 6.3 |
| Waterstones | 79.2 | 0.3 |
| Mothercare | 78.7 | 4.2 |

### CHOICE

| | Choice | Change vs 2016 |
|---|---|---|
| Amazon | 90.6 | 1.2 |
| eBay | 89.3 | -0.4 |
| Screwfix | 85.8 | 2.5 |
| IKEA | 85.5 | 1.0 |
| Argos | 85.0 | 5.1 |
| Lush | 84.0 | 4.2 |
| N.O.T.H.S | 83.6 | 1.4 |
| The Range | 83.6 | 0.8 |
| Asda | 83.6 | 1.8 |
| Etsy | 83.4 | 3.7 |

### LOW PRICES

| | Low Prices | Change vs 2016 |
|---|---|---|
| 99p stores | 91.5 | 4.3 |
| Card Factory | 87.9 | 0.1 |
| Poundland | 87.7 | 2.4 |
| Primark | 87.6 | 2.0 |
| Home Bargains | 87.4 | 4.5 |
| Poundworld | 86.6 | 1.2 |
| Aldi | 86.2 | 2.4 |
| Lidl | 85.3 | 2.4 |
| Poundstretcher | 85.0 | 4.8 |
| B&M Bargains | 82.6 | 3.9 |

### VALUE FOR MONEY

| | VFM | Change vs 2016 |
|---|---|---|
| Card Factory | 87.7 | 2.2 |
| Home Bargains | 86.5 | 5.6 |
| Aldi | 85.9 | 2.5 |
| Lidl | 85.4 | 3.4 |
| 99p stores | 85.1 | 4.8 |
| Primark | 84.1 | 4.3 |
| Farm Foods | 83.7 | 1.5 |
| Wilko | 82.7 | 3.7 |
| Poundworld | 82.6 | 2.4 |
| Poundstretcher | 82.5 | 5.0 |

### STORE LOOK AND FEEL

| | Store | Change vs 2016 |
|---|---|---|
| Lush | 83.7 | -1.5 |
| John Lewis | 81.4 | -2.9 |
| Selfridges | 81.1 | 2.0 |
| Harrods | 80.9 | -0.5 |
| Body Shop | 80.6 | 5.2 |
| Apple | 80.1 | 0.1 |
| Paperchase | 79.7 | 0.1 |
| Waterstones | 79.1 | -2.6 |
| Mothercare | 79.0 | 2.1 |
| Amazon | 79.0 | -2.8 |

### MOBILE OFFERING

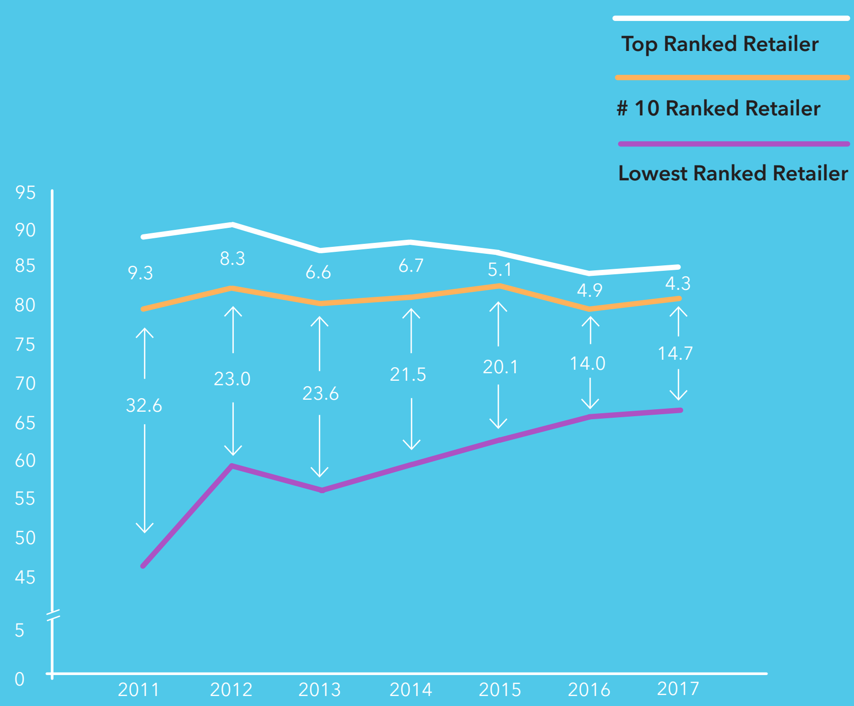
| | Mobile | Change vs 2016 |
|---|---|---|
| N.O.T.H.S | 83.0 | 11.4 |
| Amazon | 82.2 | 2.3 |
| Mothercare | 82.2 | 8.1 |
| Moonpig | 81.8 | 9.7 |
| Jack Wills | 81.0 | 14.3 |
| AO.com | 80.9 | 1.4 |
| eBay | 80.3 | 2.4 |
| Very | 80.3 | 7.3 |
| Asos | 80.2 | 3.0 |
| made | 79.5 | 13.6 |

# Congestion at the top

Another key observation is the growing competitive intensity among the leading retailers, with the Top 10 separated by a narrower range of scores than we have ever seen before, highlighting that those retailers that are able to deliver marginal gains in their propositions will see a significant impact on how they move up shoppers' preference list.

THE BATTLE FOR RETAIL SUPREMACY IS INTENSIFYING; SHOPPERS SEE THE STANDARD OF UK RETAIL IMPROVING, AND THE RATING GAP BETWEEN RETAILERS IS NARROWING

OVERALL RATING SPREAD OVER TIME



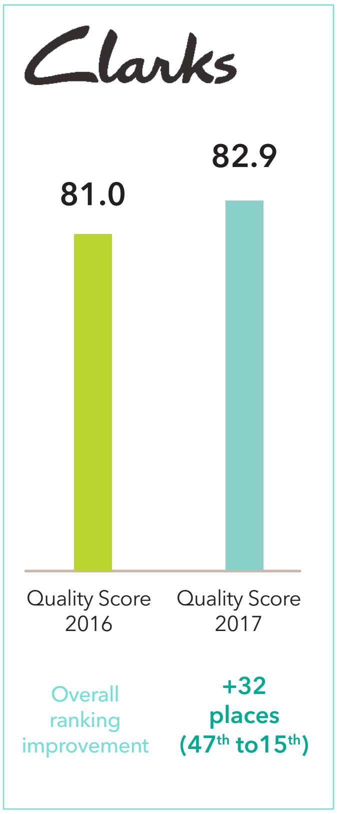
# Quality Street

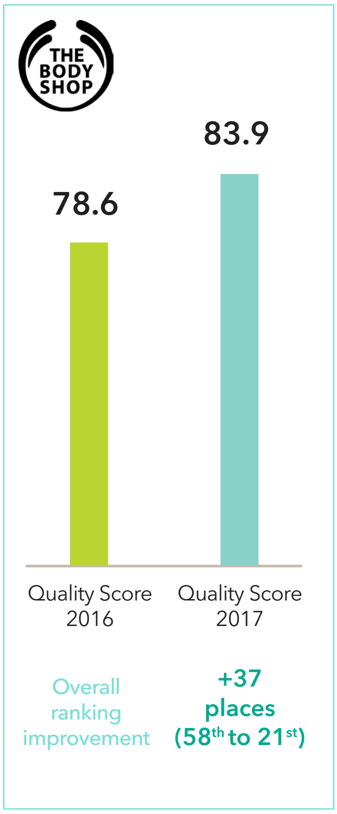
A NUMBER OF RETAILERS HAVE SEEN SIGNIFICANT JUMPS UP THE OVERALL RANKINGS ON THE BASIS OF IMPROVED QUALITY PERCEPTION

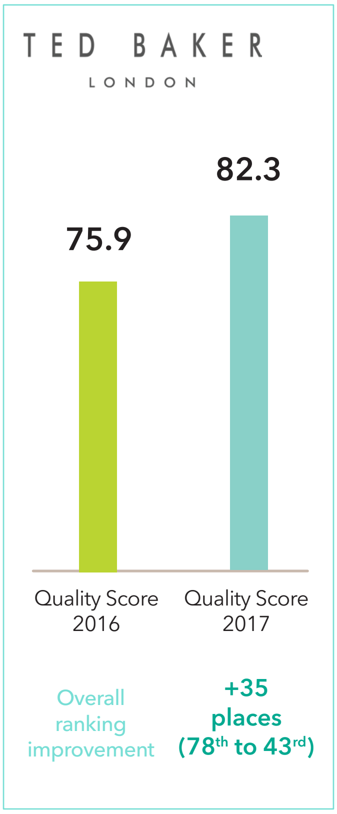
UK shoppers' expectations of product quality continue to rise, and in 2017, quality perception has been the single largest driver of overall retailer rating changes. It is clear that shoppers will no longer compromise on quality, even at low prices. We also see compelling evidence that shoppers do not mark down propositions that are not offering lowest prices, as long as they are able to justify the premium. Indeed, 9 of the Top 10 rated retailers in the UK saw a weakening of their price perception this year, but they have more than offset this through improvements elsewhere.

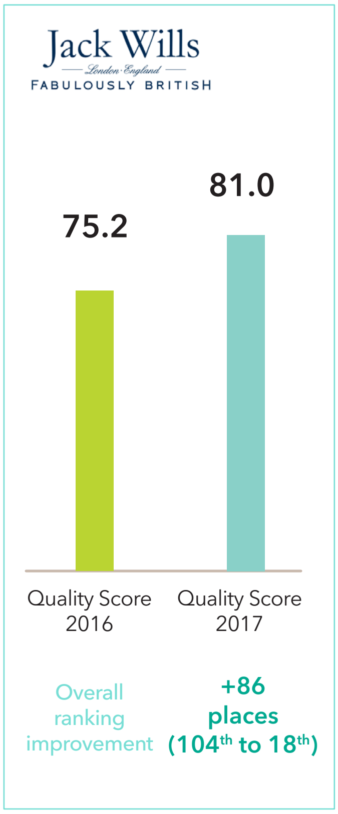
The growing expectation of quality at all price points is most obvious in the discount sector, where there has been a clear divergence of performance in the last 12 months. There have been notable successes among companies that are continuing to improve quality ratings while maintaining leading prices. Aldi's ascent to $7^{th}$ in the overall rankings is founded on it being the $7^{th}$ best rated retailer on price, but with a quality rating that is now on a par with the Big Four grocers. However other discounters, that have retained price leadership, but not been able to deliver the same level of perceived quality to shoppers, have fallen down the rankings. Excellent prices are now turning out to be a less potent weapon.

This is a clear call to action for the discount sector, with the potential for a shake-out as shoppers' expectations continue to rise. The winners will be those retailers that are able to continue to deliver quality to their customers while maintaining competitive pricing.



## QUALITY AND TRUST CHAMPIONS ARE NOW MOST LIKELY TO BE HIGHEST RANKING OVERALL, WITH ALDI THE ONLY PRICE-CHAMPION IN THE TOP 10

UK PROPOSITION CHAMPIONS

Trust and Quality leadership most commonly correlates to strong overall scores

TRUST TOP 10

| | Trust | Overall Rank |
|---|---|---|
| Lush | 1 | 3 |
| Boots | 2 | 8 |
| M&S Simply Food | 3 | 1 |
| Ralph Lauren | 4 | 9 |
| Lloyds Pharmacy | 5 | 19 |
| Argos | 6 | 17 |
| M&S | 7 | 6 |
| John Lewis | 8 | 2 |
| Amazon | 9 | 4 |
| Jack Wills | 10 | 18 |

QUALITY TOP 10

| | Quality | Overall Rank |
|---|---|---|
| M&S Simply Food | 1 | 1 |
| Lush | 2 | 3 |
| John Lewis | 3 | 2 |
| Waitrose | 4 | 11 |
| Apple | 5 | 5 |
| Waterstones | 6 | 12 |
| Lakeland | 7 | 28 |
| Body Shop | 8 | 21 |
| Ralph Lauren | 9 | 9 |
| Hugo Boss | 10 | 22 |

Price and Value leadership less consistently translates to overall rating and indicates that this alone is insufficient to win in today's market

PRICE TOP 10

| | Low Prices | Overall Rank |
|---|---|---|
| 99p stores | 1 | 92 |
| Card Factory | 2 | 36 |
| Poundland | 3 | 85 |
| Primark | 4 | 79 |
| Home Bargains | 5 | 16 |
| Poundworld | 6 | 95 |
| Aldi | 7 | 7 |
| Lidl | 8 | 25 |
| Poundstretcher | 9 | 88 |
| B&M Bargains | 10 | 55 |

VALUE FOR MONEY TOP 10

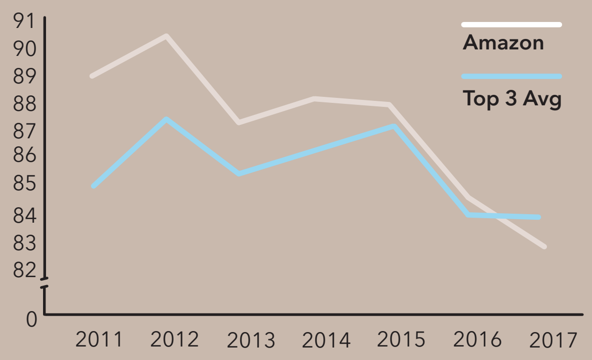
| | VFM | Overall Rank |
|---|---|---|
| Card Factory | 1 | 36 |
| Home Bargains | 2 | 16 |
| Aldi | 3 | 7 |
| Lidl | 4 | 25 |
| 99p store | 5 | 92 |
| Primark | 6 | 79 |
| Farm Foods | 7 | 72 |
| Wilko | 8 | 13 |
| Poundworld | 9 | 95 |
| Poundstretcher | 10 | 88 |

# A balancing act

There is much to admire about the development of dynamic retail models in recent years, allowing retailers to flexibly adjust price, range and delivery options in order to optimise their economics and offer customers a superior experience. However, we see some signs that not all of these models are translating effectively into positive ratings, and indeed that they can damage perceptions of service and trust, which are among the strongest barometers of long-term retailer health.

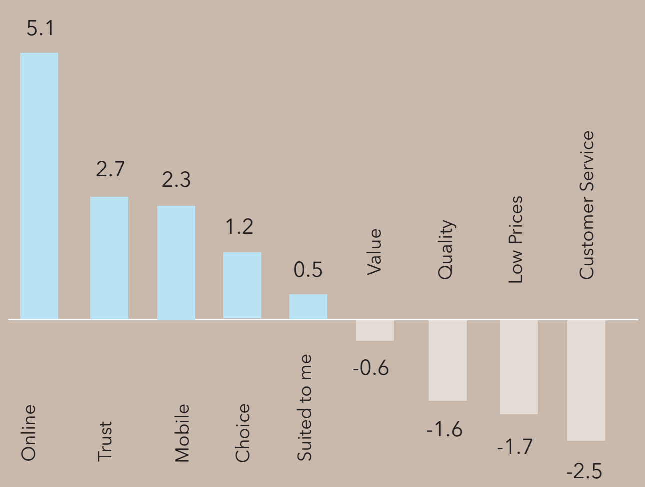
AMAZON'S FALL FROM THE TOP OF THE RANKINGS COMES AFTER PROGRESSIVE EROSION OF ITS LEADERSHIP POSITION OVER THE LAST 5 YEARS...

AMAZON RATING OVER TIME



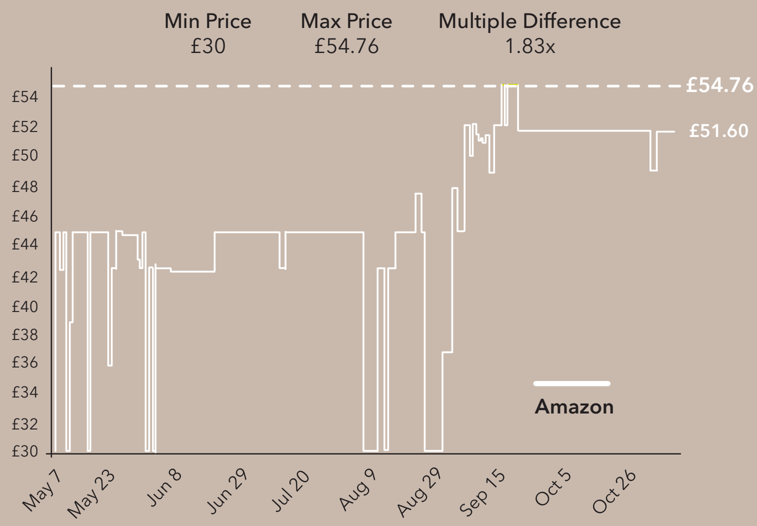

... WITH ITS FALL THIS YEAR DRIVEN PARTICULARLY BY WEAKENING OF ITS PRICE AND SERVICE SCORES

**AMAZON RATINGS CHANGE, 2016-17**




AMAZON'S DYNAMIC RETAIL MODEL AND GREATER PRICING COMPLEXITY HAS LIKELY IMPACTED ITS VALUE PERCEPTION - DROPPING FROM 2ND IN 2014 TO 16TH IN 2017

**AMAZON.CO.UK, TEFAL ESSENTIAL COOKWARE SET PRICE OVER PAST 6 MONTHS**




Over the last 2 years, Amazon has driven improvement in quality of online offer and convenience, but seen weakening of its price and service perception

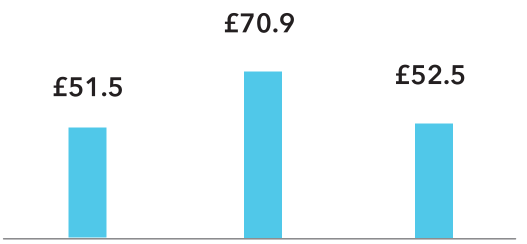
Customers are increasingly aware of the variability of prices for the same items ('dynamic pricing') which can impact price perception. What's more, for players like Amazon, the increasing complexity of delivery options and service offers – such as Prime and Prime Now – is having a significant impact on perceptions that it is a value leader (ranked 16th in 2017, down from 2nd in 2014).

While we are strong advocates of retailers continuing to harness dynamic models, we see this reaction by shoppers as a 'warning shot' that these models need to be delivered in a sensitive and consistent way that is intuitive for shoppers and does not damage the long-term trust and strength of customer relationships.

# The generation game

OVER-35s, WHO ACCOUNT FOR c.70% OF RETAIL SPEND, PRIORITISE QUALITY AND SERVICE

NON-FOOD RETAILER SPEND BY GROUP (£BN)




| MOST IMPORANT CRITERIA | Millennials (18-34) | Generation X (35-54) | Baby Boomers (55+) |
|---|---|---|---|
| 1 | TRUST | TRUST | TRUST |
| 2 | PRODUCT SUITABILITY | QUALITY | SERVICE |
| 3 | SERVICE | SERVICE | QUALITY |

Source: Conlumino; Hammerson

While we refer to the 'shopper of 2017', it is clear from this year's research that this comprises a wide range of preferences and behaviours across generations. In particular we see growing differences in the retailers that 'win' for the under-35s ('Generation Z' and 'Millennials'; c.30% of total retail spend) versus those that appeal to the over-35s (both 'Generation X' and 'Baby Boomers'; c.70% of total retail spend).

In short, we see the trend towards growing expectations of quality and a greater desire for specialist service most strongly exhibited by the over-35s. This has led them to increasingly favour specialist propositions and place less emphasis on price as a driver of differentiation. Illustrating this, for Generation X (35-54 year olds) the overall ratings given to service-led specialists (e.g. Waterstones, Clarks and Boots) have risen, while Amazon (historically their favourite retailer) has dropped to 7th place. Other value players (e.g. eBay, Card Factory and B&M Bargains) have also dropped in the rankings. Millennials, meanwhile, continue to rate Amazon as their favourite retailer, scoring it high on choice of products and trust.

TOP 10 RETAILERS BY GENERATION

| | Millennials (18-34) | Generational X (35- 54) | Baby Boomers (55+) |
|---|---|---|---|
| 1 | amazon | Ralph Lauren | M&S SIMPLY FOOD |
| 2 | LUSH FRESH HANDMADE COSMETICS | M&S SIMPLY FOOD | LUSH FRESH HANDMADE COSMETICS |
| 3 | M&S SIMPLY FOOD | John Lewis | John Lewis |
| 4 | IKEA | SELFRIDGES&CO | Waitrose |
| 5 | Paperchase | Apple | healthspan |
| 6 | Boots | Boots | MARKS & SPENCER |
| 7 | Apple | amazon | Apple |
| 8 | home bargains | ALDI | ALDI |
| 9 | ALDI | Clarks | amazon |
| 10 | ASDA | HOUSE OF FRASER SINCE 1849 | Jack Wills FABULOUSLY BRITISH |

**WINNING THROUGH FOCUS ON SPECIFIC AGE GROUPS**

Winning proposition is driven by clear focus on specific age group

Waitrose, Ralph Lauren, healthspan, Paperchase

**WINNING THROUGH MASS APPEAL**

Winning proposition across all age groups

M&S SIMPLY FOOD, John Lewis, amazon, Apple

# Four reflections for retailers

As we interpret these findings, we see that the changing consumer landscape presents clear opportunities for retailers. In particular, we urge retailers to think about four trends that will have a major impact on determining who will be the industry winners.

### 1. THINK CAREFULLY ABOUT HOW MUCH YOU INVEST IN PRICE VERSUS QUALITY AND SERVICE

While the winning retailers will need to be within an acceptable distance of lowest price players, they will probably not be the formats that are fixated on price to the detriment of quality. Shoppers are prepared to pay a premium for excellence, and retailers face a challenge of striking this balance effectively and picking the right battles.

### 2. FIND WAYS TO HARNESS SOPHISTICATION, WHILE PROTECTING CUSTOMER TRUST AND ADVOCACY

Dynamic retail models have a key part to play and, with the growing sophistication of data, systems and processes, they can enhance retailer economics and proposition delivery. However, implementing these tools needs to be counterbalanced by a clear focus on customers and long-term relationships to ensure that they don't add confusing complexity or damage trust.

### 3. BE UNRELENTING IN SERVING THE SPECIFIC NEEDS OF YOUR CORE TARGET CUSTOMERS

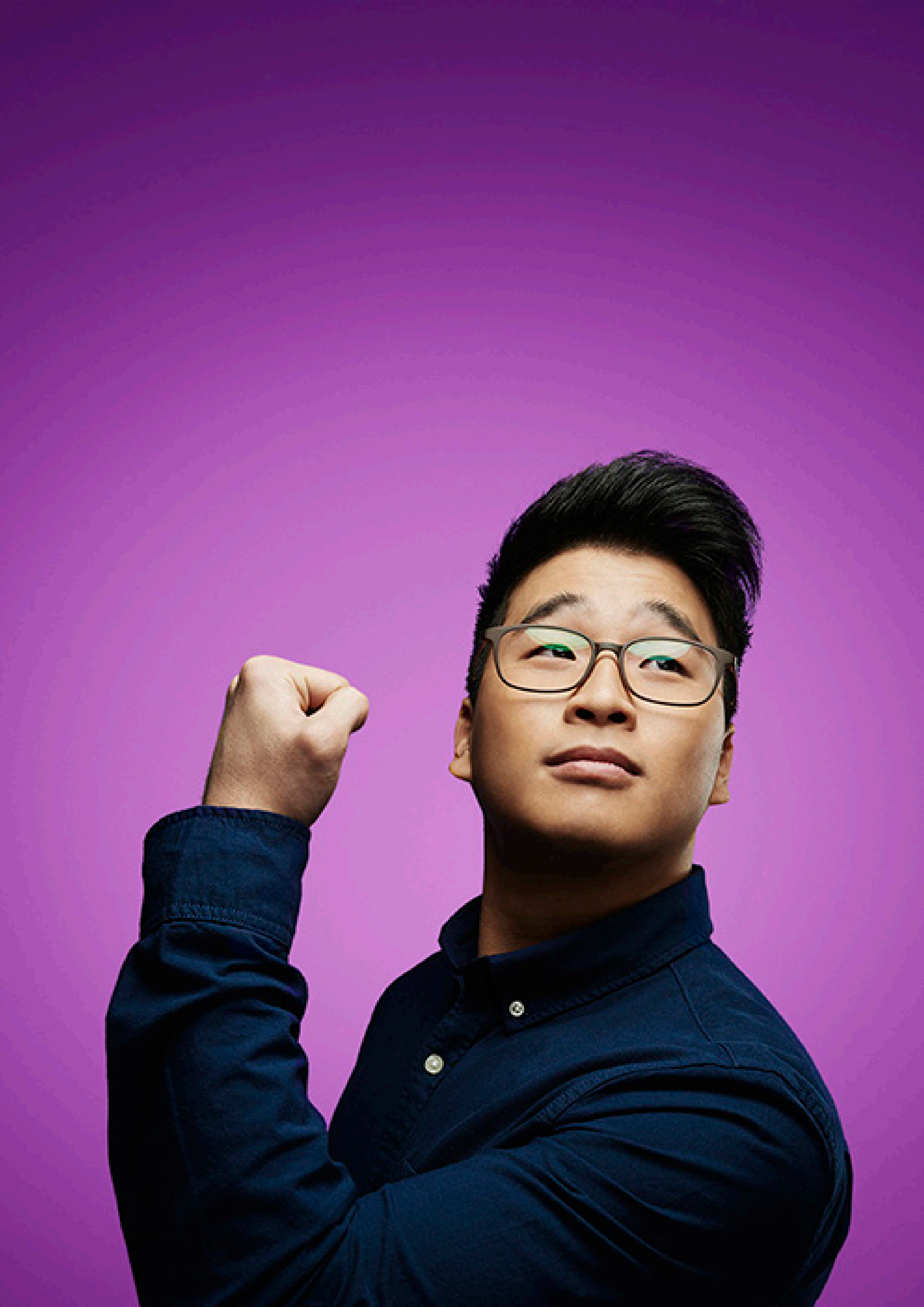
Customer-centric thinking is increasingly critical, as the needs and preferences of different generations continue to polarise. In this environment, it is increasingly unlikely that retailers can win across the entire market. The winners will be those retailers that have a clear idea of who their target customers are and ensure that they are dedicated to serving their needs.

### 4. MULTI-CATEGORY RETAILERS NEED TO BEHAVE LIKE SPECIALISTS TO COMPETE

As shoppers consider quality and expert service to be increasingly important when selecting retailers, there is a risk that multi-category players that compromise on expertise and specialism in categories will be excluded from consideration. It is critical that retailers adopt the right internal structure and capabilities needed to win, by offering a mult-category destination, while demonstrating genuine specialism in each category.

# UK top 30 retailer table

| | Retailer | Overall Score |
|---|---|---|
| 1 | M&S Simply Food | 85.0 |
| 2 | John Lewis | 83.3 |
| 3 | Lush | 83.1 |
| 4 | Amazon | 82.7 |
| 5 | Apple | 82.4 |
| 6 | M&S | 81.7 |
| 7 | Aldi | 81.6 |
| 8 | Boots | 81.3 |
| 9 | Ralph Lauren | 80.9 |
| 10 | IKEA | 80.7 |
| 11 | Waitrose | 80.6 |
| 12 | Waterstones | 80.2 |
| 13 | Wilko | 80.2 |
| 14 | Selfridges | 80.0 |
| 15 | Clarks | 79.9 |
| 16 | Home Bargains | 79.5 |
| 17 | Argos | 79.4 |
| 18 | Jack Wills | 79.2 |
| 19 | Lloyds Pharmacy | 79.2 |
| 20 | Greggs | 79.2 |
| 21 | Body Shop | 79.2 |
| 22 | Hugo Boss | 79.1 |
| 23 | Next | 79.0 |
| 24 | Mothercare | 78.8 |
| 25 | Lidl | 78.8 |
| 26 | Screwfix | 78.8 |
| 27 | Sainsbury's | 78.7 |
| 28 | Lakeland | 78.6 |
| 29 | Debenhams | 78.6 |
| 30 | Iceland | 78.5 |



## About us

www.occstrategy.com

OC&C is a global Strategy Consulting firm that was founded in 1987, with 14 offices worldwide and more than 75 partners. Our clients include some of the largest corporations and the most innovative challengers across the Consumer, TMT, Business Services and Industrial Products sectors.

The OC&C Proposition Index is a major piece of international consumer research that measures shoppers' perceptions about and attitudes to the world's leading retailers. Around 50,000 consumers are asked to rate the retailers they have shopped with 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 Proposition Index was first launched in 2010, we have interviewed 240,000 consumers and analysed 24 million ratings. Now in its eighth year, the Index is a powerful tool that can be used to understand how shoppers' opinions and priorities have changed over time, and to identify the key long-run trends that are driving shifts in the retail landscape.

## Offices

Belo Horizonte

Düsseldorf

Hamburg

Hong Kong

Istanbul

London

Mumbai

New Delhi

New York

Paris

Rotterdam

São Paulo

Shanghai

Warsaw

**To explore these issues further, please contact us.**

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