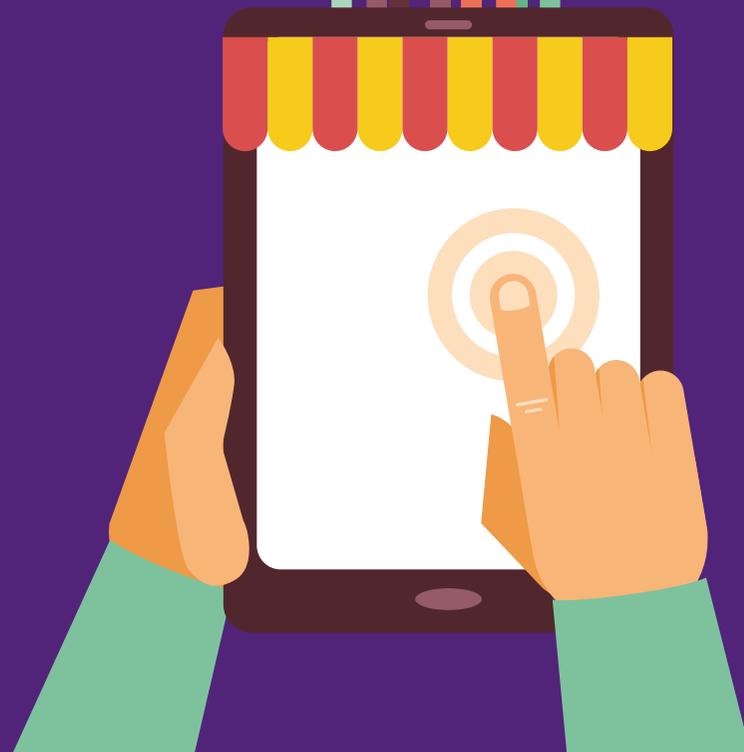




BRITISH BUSINESS IN THE DIGITAL AGE



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A report into the current and future state of digital commerce in Britain



Neil Stewart
CEO
Salmon

“The aim of this study is to explore the most important aspects of digital commerce in Britain and how companies across five key sectors (manufacturing, retail-grocery, retail-non-grocery, retail-luxury and wholesale) rate their performance in digital channels.

The report also looks at the current and future revenue impact of digital channels across the industries and explores the role of new and emerging digital channels and the buzz around the Internet of Things (IoT)*.

Our research surveyed 150 ecommerce decision-makers from companies with a minimum 500 employees, and was carried out by independent research company Vanson Bourne.

Digital commerce** has seen a huge surge, particularly in the various retail sectors. At a time of austerity, when consumer confidence and spending hit all-time lows, digital commerce provided a new avenue for revenue and many businesses were quick to invest. The world - business and consumer - has gone digital with the average UK adult spending over 20 hours online per week.

Our goal at Salmon is to enable our customers, current and prospective, to understand why digital is now such an important part of their business, and to highlight some of the emerging trends in digital technology.

This report sets out to help UK businesses to map their own place on the digital curve and compare their successes and challenges to their peers. What lies ahead for them? What trends are their peers likely to invest in and which are they ignoring?

How can they maximise the success of their own online channels and ensure they can compete in the Internet of Things?

I would encourage readers of this report to take on board the findings and consider their own businesses and industries. Digital isn't the future. It's here now, and those companies that understand its power and consequences will be the ones that succeed in the future.”

* A computing concept that describes a future where every-day physical objects will be connected to the Internet and be able to identify themselves to other devices (Technopedia)

** The use of the Internet, mobile networks and commerce infrastructure to execute transactions with consumers or businesses (Gartner)

On the road to digital domination

Digital commerce has already made its mark on the industries surveyed in this study - manufacturing, retail-grocery, retail-non grocery, retail-luxury and wholesale. Of course, the level of adoption varies but across all verticals, 73% of respondents believe that digital commerce is important to their industry now and even more so in the future, with an average of 30% of total revenue coming from digital channels. In fact, over one quarter (27%) go as far as to agree to some extent with the statement “Over the next five years, my organisation will be 100% digital with no face-to-face branch or store.”

Yet despite this, digital commerce faces some significant challenges if it is to become the core revenue generator it has the potential to be. Assessing this across all verticals, the three most common challenges are: integrating ecommerce with traditional sales channels (41%), handling customer service (37%), and managing distribution of products when selling to customers (35%).

Channel integration is a theme which pops up throughout this study, especially as we move to focus solely on mcommerce. Similarly, education, skills and responsibility also resonated throughout conversations with the digital commerce decision-makers questioned. Currently, only a third of digital commerce business is led by a dedicated team, and over half (51%) agree that their organisation “does not have the skills to maximise the potential of innovative digital technologies”.

The growth in the use of mobile technology, particularly smartphones (now owned by 35 million people in the UK), has made mcommerce a core digital channel, with mobile accounting for 29% of UK ecommerce revenue according to emarketer*. Almost half (49%) of the respondents already have an mcommerce strategy in place, in that they are using a mobile-optimised website and/or a mobile app for online sales*.

It should be noted here that across retail, where the opportunity for mcommerce sales has so far been clearest, the adoption rates are much higher. For example, almost all (96%) luxury retailers use mcommerce. Of those which have a mobile sales channel, 89% agree that their organisation has experienced benefits as a result. Apart from the obvious benefit of mobile’s influence as a sales channel, over two-thirds (69%) of respondents highlighted the ability to collect customer data and target customers more accurately as a key benefit.

Looking at the hurdles that businesses must overcome before mobile becomes an even more important sales channel, integration with traditional sales channels is the main challenge highlighted by 23% of those surveyed. This mirrors the response given by 41% when asked to pinpoint the challenges of digital commerce as a whole.

The emergence of new digital channels

As mobile has become more mainstream for the majority of businesses, particularly those in the retail sector, the natural inclination is to look ahead at what the future brings, for example where and how do wearables fit within your digital strategy

and exactly what devices should be considered as part of the Internet of Things?

This study explores the current and potential impact of these technologies on the various sectors, seeking to understand if the trends have yet taken hold, whether they are likely to and what concerns businesses may have.

The results were somewhat surprising, with 14% of respondents already investing in the IoT. Almost half of all organisations (49%), whilst not yet investing, plan to do so within the next five years, with the main roadblocks to more investment being unproven technology (31%) and lack of control (26%).

Digital commerce is becoming more important for B2B

Almost two-thirds (63%) of respondents to this study stated that digital commerce is more relevant to B2C than B2B.

But the research itself goes against this in many ways. While retail has so far been the dominant sector when it comes to mobile adoption, digital commerce is being utilised in B2B-led sectors. For example, 90% of manufacturing businesses currently embrace digital channels, resulting in 17% of total sales.

Despite this, there is clearly some work to be done, with 59% of respondents stating that B2B organisations have not yet realised the potential of digital commerce.

*<http://www.emarketer.com/article/mobile-shopping-drives-uk-retail-ecommerce-sales/1010945>

Perhaps justifying the digital investment in B2B, 66% of respondents believe ecommerce will drive the most sales for their organisation in B2B markets over the next five years. Similarly, almost three-quarters (73%) agree that digital commerce is a growing force in B2B.

Clearly, B2B organisations sense great promise in digital commerce and are willing to put their investment where they are seeing the best use cases, with tablet (48%), smartphone (57%) and IoT sales (25%), identified as the technologies that will be the biggest sales generators over the next five years.

Icon classification

The research was undertaken with 150 key decision-makers across five key sectors. Throughout this report we have included findings relating to each sector. For reference, the following icons are used to describe each sector.



Manufacturing



Retail-Grocery



Retail-Non Grocery



Retail-Luxury



Wholesale

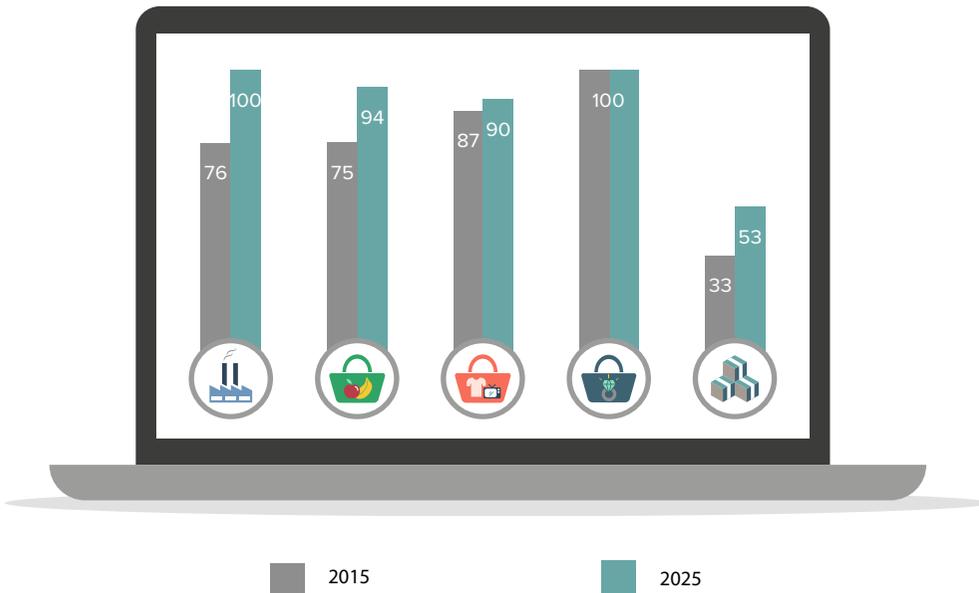
Section 1 - British business has embraced digital

1.1 - The importance of digital commerce

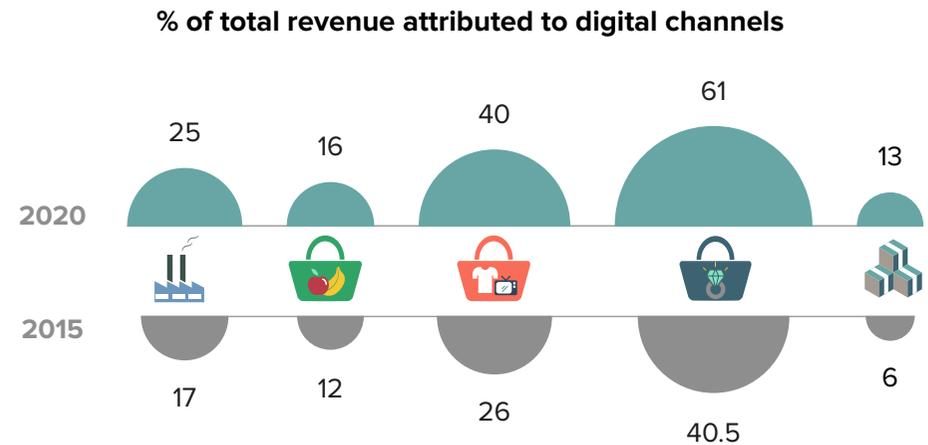
There is little doubt that in the world of digital commerce in Britain there is plenty to celebrate at the moment – increased year-on-year spend, technologies providing the next cutting-edge development and improved customer engagement with complex online and offline non-linear channels.

British business is certainly grasping this opportunity, with nearly three-quarters (73%) of respondents believing that digital commerce is important to their industry. And it is the retail-non grocery sector that has benefited most, with an average of 87% agreeing with this, whilst the wholesale sector is lagging behind with only 33% stating its importance. On the flipside, 100% of luxury retailers were in agreement.

Importance of digital commerce to British business
(% stating very important or somewhat important)



Respondents stated that 19% of their total revenue currently comes via digital channels (desktop, mobile and social). Again, retail leads the way, with the luxury sector having the highest average percentage at 40.5% and wholesale attributing only 6% of total sales to digital channels.



The main benefits cited by respondents - other than as a sales channel - are increased brand awareness (18%), improved customer experiences (19%) and expansion of the product portfolio (14%).

1.2 - The future of digital channels

Overall, the future for digital as a channel is positive, with an expected rise in average percentage of total revenue from 19% to 30%. The biggest adopter of digital as a sales channel will be the luxury sector. This sector expects an average of 61% of total sales to be attributed to digital channels by 2020, followed by the retail-non grocery sector, with a projected rise from 26% to 40% of total sales. It could be surprising that the retail-grocery sector may seem to be lagging behind, but these projections exclude offline store sales, which are vitally important to this sector.

1.3 - Most significant challenges to digital commerce growth

Survey respondents were asked about challenges in developing ecommerce for their business. Looking across all sectors, the three most common challenges are: integrating ecommerce with traditional sales channels (41%), handling customer service (37%) and managing distribution of products when selling to customers (35%).

Challenges in implementing an ecommerce strategy (All sectors)	Total
The work associated with integrating ecommerce with traditional sales	41%
Handling customer service	37%
Managing the distribution of products when selling to consumers	35%
Customer concerns about data security	33%
Lack of internal knowledge/skills about ecommerce	33%
Lack of board/senior management buy-in	32%
The pressures of having to deal with numerous technologies and suppliers	31%
Risk of upsetting existing client relationships	23%
The competitive landscape – being unable to compete against pure-play channels such as Amazon	18%

Integration seems to be the main issue, with companies pointing to difficulties in joining up the technology with other software and databases. However, the results of this research show that there are considerable differences across industries beyond the integration issue. For B2B businesses it is lack of board/senior management buy-in that is cited by respondents as the main barrier. In contrast, more operational issues come to the top in sectors that already have senior-level buy-in. For example, the ability to handle customer service is cited by 58% of executives in retail-grocery - and challenges with product distribution in the retail-grocery sector (47%). For the retail non-grocery sector, competitive challenges are mentioned as the main barrier to growth.

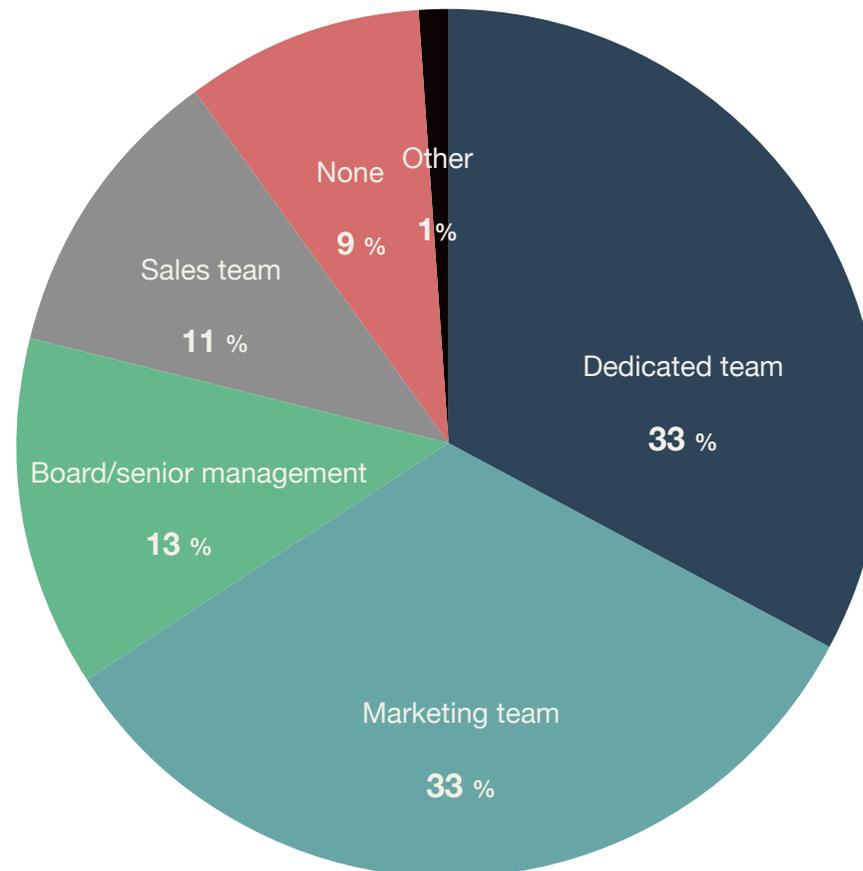
Sector	Main challenge
Manufacturing	Lack of board/senior management buy-in (44%)
Retail-Grocery	Challenges with product distribution (47%)
Retail-Non Grocery	Competition with pure-plays such as Amazon (50%)
Retail-Luxury	Handling customer service (58%)
Wholesale	Lack of board/senior management buy-in (46%)

1.4 - Ownership of the digital commerce function

Whilst the level of digital readiness is strong across businesses, there is still a conflicting view as to what department should be tasked with driving ecommerce growth. Currently, 33% of ecommerce business is led by a dedicated team (with that number rising to 56% for retail-luxury), and a further 33% is managed by the marketing department.

The wholesale sector is lagging behind in its organisational readiness, with one third of businesses in this sector with no department having responsibility for ecommerce. It is also interesting to note that organisations are struggling with the pace of change. When asked if they agreed with the statement: “As an organisation, we do not have the skills to maximise the potential of innovative digital technologies such as wearables”, over half of respondents (51%) agreed to some extent, with only 31% disagreeing.

Who has ultimate responsibility for digital commerce within your organisation?



1.5 - The role of mcommerce in overall digital commerce strategy

Consumers are presented with all of the world's content in the palm of their hand every day. In a world where everyone can become a content curator, the main challenge for retailers and brands seems to be relevancy. We are currently well past the tipping point as to whether mobile is important to a digital strategy. The challenge is how to leverage the potential of mobile not only for direct sales but also to understand and influence customer behaviour.

Almost half of respondents (49%) already have an mcommerce strategy in place either operating a mobile-optimised website and/or a mobile app. Retail-luxury leads the way with almost 100% adoption of mobile as a sales channel, however, the wholesale sector is lagging behind, with only 10% of businesses citing mobile as a sales channel.

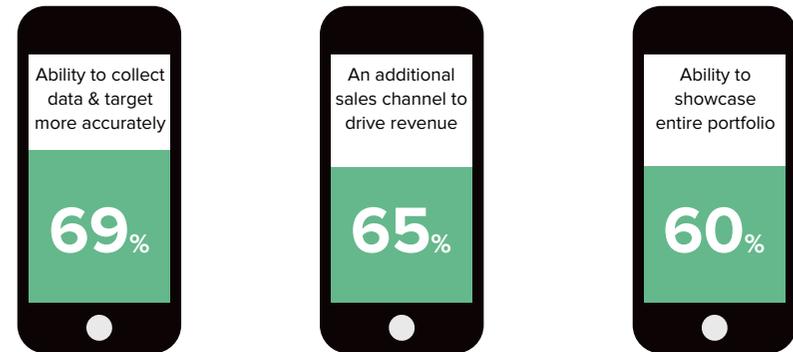
% of respondents using a mobile channel for sales



1.6 - Key benefits of a mobile strategy

Respondents agree (89%) that their organisations have experienced benefits as a result of mcommerce. Getting closer to the customer is cited as the main benefit, with the ability to collect data and target customers more accurately mentioned by 69% of respondents.

Top 3 benefits of an mcommerce strategy



Challenges exist too. The majority of respondents (67%) agree they have faced problems in making mobile a more central sales channel. The main challenges have been integrating mobile with other sales channels (23%), lack of in-house knowledge (19%) and lack of interest or investment from the board (18%).

Top 3 challenges in implementing an mcommerce strategy



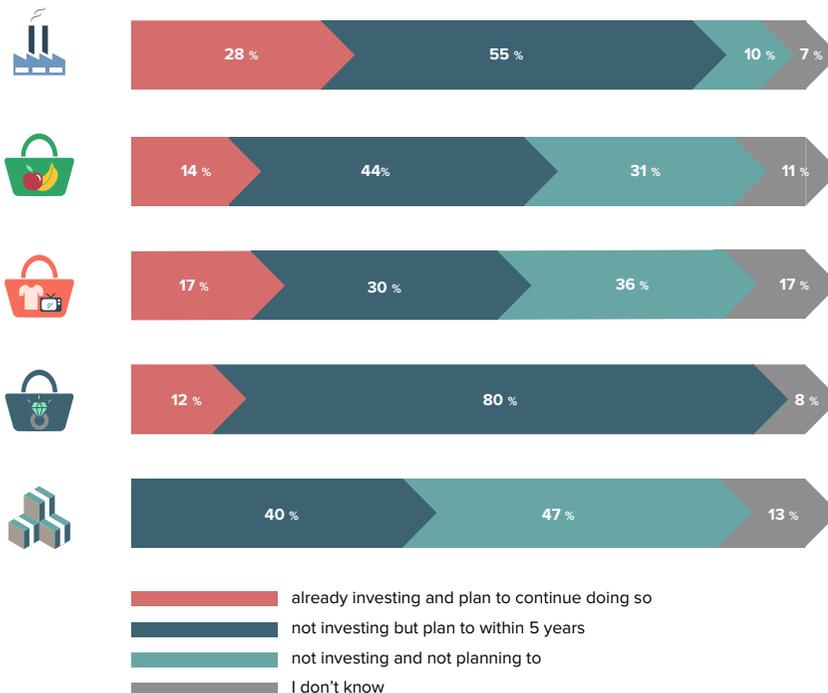
Section 2 - The emergence of new digital channels

2.1 - Future channels for digital commerce

As the mobile channel has become mainstream, the focus is now turning to future channels for digital commerce. In this report we examined two of these: the Internet of Things (IoT) and wearables.

New digital channels are becoming increasingly attractive to businesses that are looking to improve their mcommerce strategy. Despite the Internet of Things being a relatively recent trend, 14% of respondents are already investing in this technology, with the manufacturing sector leading the way. Almost half of the remaining organisations (49%), whilst not yet investing, plan to do so within the next five years, led by the retail-luxury sector, where 80% are intending to invest in the IoT.

Does your organisation plan to invest in the Internet of Things over the next 5 years?



A quarter of respondents believe that the Internet of Things will be the biggest sales generator for their organisation over the next five years with 15% mentioning wearables.

The main challenges holding back future investment in these new technologies largely relate to the fact that they are unproven.

Challenges toward investment in the Internet of Things



The challenges seem to be particularly prevalent with wearables, with over half (53%) of respondents disagreeing that “wearable technology is the future of mcommerce”.

Section 3 - The importance of digital commerce for the B2B sector

Up until this point, digital commerce has been predominantly led by consumer-facing industries and organisations. Indeed, almost two-thirds (63%) of respondents in this study stated their belief that digital commerce is more relevant to B2C than B2B.

The research contradicts this belief, certainly with regards to the manufacturing sector, with 90% of respondents stating they use desktop ecommerce as a sales channel. In addition, 79% of respondents in this sector agree that the digital boom has had a positive impact on their business.

Respondents in the wholesale sector are less positive, with only one third utilising desktop ecommerce as a sales channel. In addition, 60% of respondents disagreed that the digital boom has positively impacted their organisation.

% using desktop ecommerce as a digital sales channel



The main benefits of digital technology for the B2B sector are in:

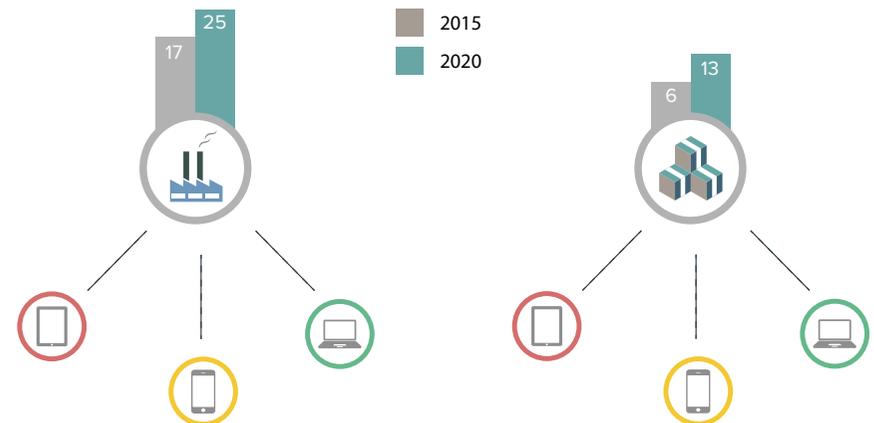
- Manufacturing – access to international sales (26%) and improved customer experience (22%)
- Wholesale – improvement in reputation (30%) and ability to provide discounts and special offers (20%)

Three in five respondents (59%) feel that B2B organisations have not yet realised the potential of digital commerce. However, the results of this study forecast a change on the horizon. When looking at the impact of digital on B2B, 66% of respondents believe ecommerce will drive the most sales for their organisation in B2B markets over the next five years.

Digital commerce is very much on the agenda in the manufacturing sector, with 76% of respondents stating that it is important to their industry. This figure reduces to 33% for the wholesale sector but is set to rise to 53% in 2020.

Overall, the B2B sector expects an uplift in total sales attributed to digital channels from 17% to 25% (manufacturing) and 6% to 13% (wholesale) over the next five years. Whilst these percentages may appear low, they do not include the influence of indirect sales.

% of total sales directly attributed to digital channels 2015-2020



Section 4 - Conclusion

It is evident from this survey that British retailers, manufacturers and wholesalers understand the value of digital channels for commerce, but are at different levels of maturity depending on sector.

The future is exciting with all sectors ready to exploit the full opportunity of digital channels especially mobile, with more than a quarter (27%) of respondents agreeing to some extent with the statement “Over the next five years, my organisation will be 100% digital with no face-to-face branch or store”.

With digital channels now increasingly mainstream, leaders need to become more considered in how they use these channels in a multichannel approach. They also need to recognise the impact on the wider organisation, and to establish structures and teams that maximise their potential. The survey indicates that there is no clear team responsible for digital commerce in the organisations researched. This needs to change if digital’s impact is to be realised.

The role of technology leaders and consultancies such as Salmon must be to educate businesses on the role digital can play in their organisations and take them on a journey to realising that potential. The revenue shift into more digital channels won’t happen overnight. It must be implemented to suit the exact needs and preferences of the customers in question.

Integration is core to this and is a challenge highlighted consistently throughout this study. Digital commerce, whether that’s a mobile website or a smart watch, is not an extra channel to be run separately to physical business space. It must be part of it, run alongside it and complement all face-to-face services.

Back-end infrastructure, such as integrated supply chain management and logistics and fulfilment planning, must be in place and ready to work smoothly with businesses’ digital commerce front-end.

Technology leaders and the organisations they serve must combine brainpower and ensure the expertise needed to make wearables and the IoT revenue-generating channels is imparted to the businesses using the technology.

Only then will digital commerce really stake its claim as the leading sales channel.

Methodology

This survey was commissioned by global commerce service consultancy Salmon Ltd.

The primary research was undertaken by the research agency Vanson Bourne during the first half of 2015 with 150 ecommerce decision-makers from UK-based organisations with employee numbers of upwards of 500.

For more information on this survey please contact info@salmon.com and for more information on Salmon Ltd. view our website at www.salmon.com.

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Salmon is a global digital commerce consultancy that defines and delivers market-changing solutions and customer journeys for the world's leading brands.

Established in 1989, with operations in London, New York, Sydney and Beijing, Salmon clients include AkzoNobel, Argos, Audi UK, DFS, Halfords, GAME, Premier Farnell, Sainsbury's and Selfridges.

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