

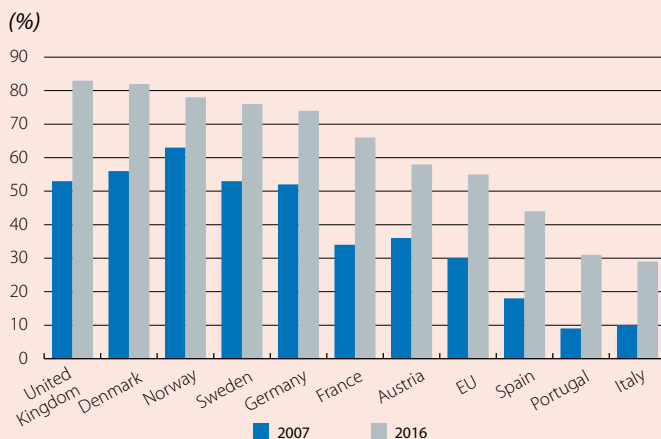
Consumption in the digital era

The proliferation of department stores, supermarkets and then shopping malls in the 20th century significantly changed how we shop. Instead of asking an assistant for what we wanted, who then fetched it from the back of the store, consumers had several products of different categories within reach, all displayed with their respective prices, making their choice much simpler. Thanks to the internet, in the 21st century we are now witnessing a new «revolution» in consumption. Today consumers can shop anywhere and anytime. They can also have their purchase delivered or sent to a nearby pick-up point. This article analyses the current impact of new digital technologies on consumption, consumers and how companies operate.

Widespread internet and smartphone use, faster internet connection speeds and the development of new online payment methods are boosting growth in e-commerce. Some figures help to highlight this. In China, the largest e-commerce market in the world, 17% of retail sales are already carried out online while, in the US, internet sales account for almost 9% of the total.¹

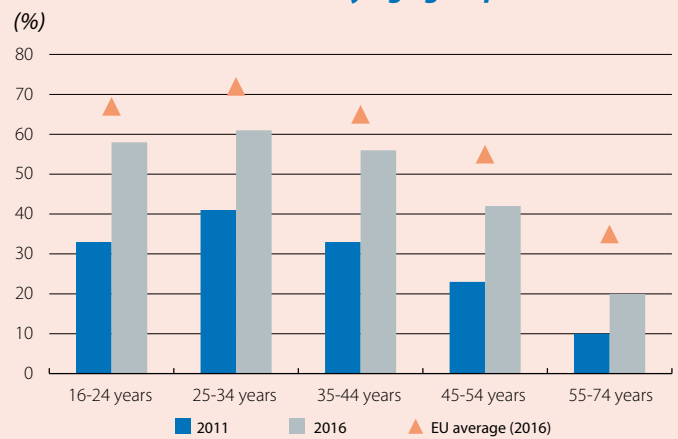
Online shopping has also become very popular in Europe. In 2016, 55% of Europeans bought online compared with 30% in 2007. In some EU countries e-commerce is even more widespread (see the first chart). For instance, over 70% of people shop online in the United Kingdom, Scandinavia and Germany. In other countries, such as Spain, the percentage is below the European average² although the trend is clearly upward and growth is generalised across age groups (see the second chart).³ Since younger generations (16-44 years) are the most «digitalised», we are likely to see exponential growth in e-commerce in the future.

People who purchased online within the last 12 months



Source: CaixaBank Research, based on data from Eurostat.

Spain: people who purchased online within the last 12 months by age group



Source: CaixaBank Research, based on data from Eurostat.

This fast «consumer digitalisation» is transforming all the stages in the traditional buying process (see the diagram). Firstly, because consumers are being given an increasingly bigger role, particularly in the initial purchase stage. Today, consumers have a wider variety of products and services in all categories available to them, offered at different prices. As consumers become more connected, they enjoy greater decision-making power as they can easily compare prices and features offered by suppliers worldwide, know more about the manufacturer or product in question and check the opinion of other consumers before choosing a particular product or service. e-commerce platforms are becoming increasingly important in this context. Through these, consumers can shop anytime and anywhere. Consumers now expect this greater convenience, demanding to be able to buy all the products and services they consume, both online and offline, equally quickly and efficiently. Consumers also increasingly expect to personalise more products and services, and their interactions with the brand to be more relevant.⁴

But changes are also occurring in the post-purchase stage. There are now more options open to consumers to return products they do not want and to be attended at all times (via several channels) when they have a problem or their expectations have not been met. They can also share their experiences regarding a product or service on social media and review platforms, producing content for the initial stage of other consumers.

Besides changes in the different purchasing stages, digitalisation has also led to new consumption patterns becoming popular, such as the growing preference for «accessing goods» instead of «owning them». The development of digital platforms that connect individuals and assets have helped to create online markets for the temporary use of goods and the peer-to-peer provision of services and on-demand services, known as the sharing economy, which undoubtedly represents a new paradigm for consumption.⁵

1. PwC, Total Retail 2017 Survey, «e-Commerce in China - the future is already here» and US Department of Commerce, «Quarterly Retail e-commerce sales, 2nd quarter 2017», Eurostat.

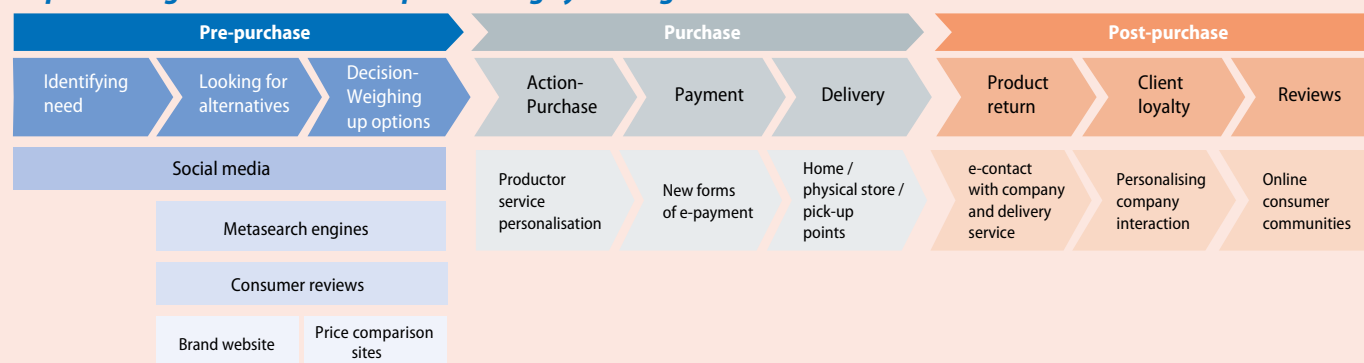
2. The main negative aspects of online shopping cited by Spanish consumers are their preference to see and feel the product first, delivery costs, problems with returning orders and the time taken to deliver a product. See Observatorio Cetelem e-Commerce 2016.

3. World Economic Forum White Paper (2016), «Digital Transformation of Industries (in collaboration with Accenture): Digital consumption».

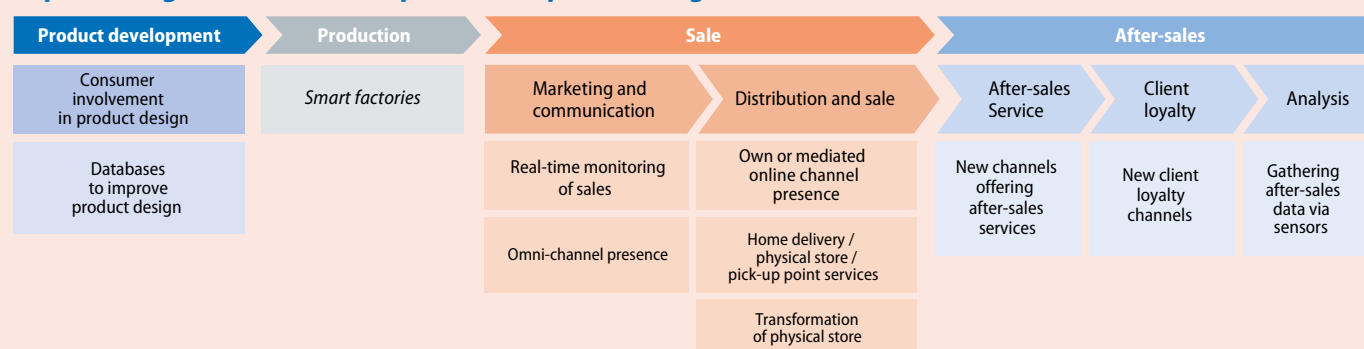
4. In the US alone, it is estimated that 110 million people (34% of the total population) already take part in the sharing economy (WEF, 2016).

5. World Economic Forum and Accenture, 2017. «Shaping the future of retail for consumer industries».

Impact of digitalisation on the purchasing cycle stages



Impact of digitalisation on the production process stages



Source: CaixaBank Research.

New digital technologies are also radically transforming the business environment from a company point of view (supply). Digitalisation has already considerably lowered the barriers to entry in many economic sectors, with a considerable increase in competition. The internet has also encouraged new purely digital companies offering new ways to serve clients and pushing out more traditional business models. Given such changes, established companies have been forced to rethink how they operate and alter their production process to adapt to this new digital environment in order to remain competitive.

For example, in the initial stage of the production process, the consumer is becoming increasingly involved in product design, usually via digital platforms or by sending in suggestions. This helps to differentiate the product and also provides the company with greater insight regarding consumer preferences. Product development is also improved via big data, as it helps companies to detect new market segments and decide their pricing strategy. New digital technologies are also being used to improve production efficiency. For instance, smart factories can adapt the production strategy in real time using information from different points of sale (see the Dossier «Industry 4.0» in MR11/2016).

Client communication strategies have also altered considerably. Nowadays any marketing campaign needs to use communication tools on several channels (particularly online). Moreover, this strategy must be implemented on all channels, for instance by using online channels to attract clients to the physical store (and vice versa). Data analysis can also help companies to differentiate between consumer profiles and adapt advertising to the client's particular interests.

Digitalisation's impact is perhaps even more evident in the sale stage, with traditional firms now offering their products and services also on e-commerce platforms, both their own and intermediaries'. As a result, they constantly need to improve the client experience and make the buying process as user-friendly as possible, offering different payment and delivery options. This represents a huge logistics challenge. Consumers demand faster deliveries and more options to collect and return their orders. Meeting such expectations is increasingly important to keep up with the growing competition. Companies are also working hard to revitalise and improve the buying process in physical stores, especially for products requiring greater interaction and personalisation. They are starting to focus on transforming physical stores from a traditional distribution channel to a place of consumer discovery, experience and interaction. Another strategy employed is to create a shopping experience that unites both online and offline channels. For instance, by giving clients the option to buy online but pick up their purchase at the physical store (click and collect).

In short, new digital technologies are radically changing how we consume. Proof of this is the rapid spread of e-commerce but their impact goes much further. Whether this digital transformation achieves its full potential will depend on how certain challenges are handled, such as the implementation of strategies to guarantee consumers' online security and privacy, adapting the legal framework to a rapidly changing environment and managing the impact of new technologies on employment.

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