razorfish

DIGITAL DOPAMINE

2015 GLOBAL DIGITAL MARKETING REPORT
FROM RAZORFISH

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Internet, that endless environment for creation and obsolescence, is a strange place. Ideas that were once dominant now face irrelevance, as new digital developments displace them. This transformation occurs rapidly, and marketers are constantly struggling to keep up. Therefore, in preparation for tomorrow, Razorfish took a deep dive into the qualitative and quantitative data of four international markets (the United States, the United Kingdom, China, Brazil) to examine the ways in which digital technology is shifting traditional brand-consumer relationships. From uncovering global commerce expectations to identifying the effect of digital on our subconscious, this research set out to expose the key trends shaping marketing.

In addition to exclusive market data, this report provides marketers with a blueprint for how to incorporate and adapt to these critical findings in 2015 and beyond.

EXECUTIVE SUMMARY

WE'RE NOT DRAWING BIG ENOUGH DISTINCTIONS BETWEEN GEN XERS AND MILLENNIALS

Though the generation gap is hardly more than a decade old, U.S. Millennials and Gen Xers have hugely different relationships with technology. Ten years is an eternity in Internet time. While the differences between Millennials and Boomers have been copiously explored, there are interesting differences between Millennials and Gen Xers that have yet to be fully uncovered. One of the most important areas of difference is in how they shop: 56% of U.S. Millennials say their phone is their most valuable shopping tool in-store compared to just 28% of U.S. Gen Xers.

In Chapter 1, *A Generational Chasm*, we look at the digital divide between the generations and what this means for how they interact with brands.

YOU BUILD LOYALTY THROUGH USEFUL EXPERIENCES, NOT 30-SECOND TV COMMERCIALS

Over the last few years there have been many loud proclamations, peppered with alarming statistics, surrounding the death of brand loyalty. Only one in four Americans say they are brand loyal according to a recent study by Ernst & Young, something many academics blame on the Internet. As it turns out, loyalty isn't dead, but digital has fundamentally redefined what it means. So, what does this mean? This has profound implications on how you communicate with consumers—and how you spend your advertising budget.

As discussed in Chapter 2, *The Digital Experience Economy*, people are going out of their way to avoid advertising and, instead, are looking to brands to make their lives better, particularly via digital solutions.

CROSS-CHANNEL CONVENIENCE IS THE NEW "OMNI-CHANNEL INTEGRATION"

Today's access-at-our-fingertips culture means that consumers see little difference between online and offline shopping. What matters is cross-channel convenience. And yet, rather than work seamlessly together, online and offline customer journeys are often riddled with easily avoidable dead ends. Cross-channel return policies are one major point of friction: more than two-thirds of consumers in the United States, the United Kingdom and Brazil (71%, 69% and 77%) say they will only purchase products online when there is an option to return them, should they be unsatisfactory.

In Chapter 3, *Seamless Commerce*, we examine the ways in which digital disappointments negatively impact brand loyalty.

GOOD DIGITAL EXPERIENCES KEEP US LOYAL, EVEN IN THE FACE OF INFINITE CHOICE ONLINE

We're spoiled for choice online with an infinite number of e-commerce and entertainment options just a URL away. While you'd think that the abundance of options available to us online would make us fickle in our click-throughs, the overwhelming number of choices means that when we find an experience that works, we're more likely to stay loyal to it.

In Chapter 4, *Digital Conditioning*, we take a look at how digital interactions affect our brand loyalty on a biological and emotional level.

EXECUTIVE SUMMARY

BRAZIL AND CHINA HAVE NOTABLY HIGH EXPECTATIONS OF DIGITAL EXPERIENCES

In Brazil and China, Internet penetration remains relatively low. While you might expect that this would result in a less-demanding connected population, the exact opposite is true. The people who are online in these two countries tend to be more tech-savvy than their respective general populations and, as a result, have heightened expectations of their devices and brands in the digital world. Consumers in Brazil and China, for example, hold e-commerce sites to a higher standard than other markets; 79% and 87% of people in those countries, respectively, believe that most online shopping sites need improvement compared to 52% in the U.S. and 50% in the U.K.

In Chapter 5, *Emerging Markets in the Fast Lane*, we examine how digital experiences have a bigger impact on loyalty in these markets than one might initially believe.

BRAND LOYALTY ISN'T DEAD, BUT DIGITAL HAS FUNDAMENTALLY REDEFINED WHAT IT MEANS. SO, WHAT DOES THIS MEAN?

CHAPTER 1: A GENERATIONAL CHASM

Marketers are underestimating the digital divide between Millennials and Gen Xers in the United States.

KEY INSIGHTS:

1 Mobile dominates the Millennial shopping experience. A Millennial's smartphone is their key to the world. As mobile payment technology grows, mobile is going to become an even more important part of the overall brand and retail experience.

2 Millennials draw no practical distinction between online and offline. Millennials' constantly connected smartphones mean they no longer see a difference between "online" and "offline." Technology has become an integral part of their lives, and it is how they interact with and experience brands, even when in traditionally "offline" environments. They don't use media in silos. Rather, they use all of the tools at their fingertips at any given time, regardless of the device or platform.

3 Millennials are redefining privacy expectations. When compared to Gen X, Millennials are more likely to trust brands to protect their privacy—and less likely to think that mobile targeting is an invasion of privacy.
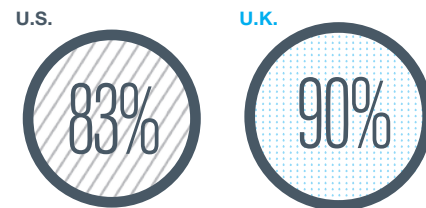
Though the generation gap is hardly more than a decade, Millennials and Gen Xers in the United States exhibit behaviors that are worlds apart. While the differences between Millennials and Boomers have been copiously examined, there are interesting differences between Millennials and Gen Xers that have yet to be fully explored. Nowhere is this more clear than in how they engage with technology, from the way they use the smartphones in their pockets to the data they give to brands. Millennials are far more engaged with the technology around them than their slightly older peers, almost to the point of dependency. Mobile devices, in particular, are essential to how Millennials shop and buy, drawing a clear line in the sand between the generations.

MILLENNIALS ARE CHANGING THE GAME, AS MOBILE DEVICES ARE ESSENTIAL TO HOW THEY SHOP AND BUY

Percentage of Millennials who have a smartphone

U.S.
83%

U.K.
90%

"I am interested in using mobile payment technology"

U.S.	MILLENNIAL	66%
	GEN X	46%
U.K.	MILLENNIAL	60%
	GEN X	50%

"My phone is my most valuable shopping tool when I'm in a store"

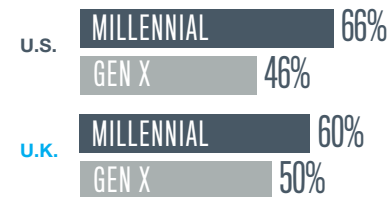|		
U.S.	MILLENNIAL	56%
	GEN X	28%
U.K.	MILLENNIAL	42%
	GEN X	25%

YOUNGER SHOPPERS ARE MORE LIKELY TO BE SMARTPHONE SHOPPERS

Forget helpful salespeople or good old intuition: Millennials rely on that screen in their hands. Fifty-six percent of U.S. Millennials say their phone is their most valuable shopping tool in-store—compared to just 28% of U.S. Gen Xers. Additionally, 59% of U.S. Millennials use their device to check prices while shopping compared to 41% of U.S. Gen Xers. Even a young Gen Xer like Marisol, 34, a New York City-based mother of two, finds such comparison shopping "too time consuming," while Millennials take advantage of the latest tech to make it a breeze. Says Jason, 22, a law student at UCLA, "There's a barcode scanner where you can scan any item and it takes you directly to Google Shopper, and

Google Shopper will find you the cheapest price. And you say 'Hey, I'm paying $50 at Macy's for this comforter. It's on eBay right now, brand new, for 20 bucks. I don't need it right away. I don't mind waiting. I'll purchase it on eBay.'"

U.S. Millennials are also looking forward to whipping their smart-phones out more frequently in the future: 66% of them are interested in mobile payment technology compared to 46% of their older Gen X peers. Millennials like Charlie, 29, U.K., love the convenience of mobile payment, saying, "You don't have to go to a till. You can go to one of these people floating around—and just say I want to buy these head-phones … scan it with your phone, with the camera, and then you've paid for it already. So it's, yeah, a massive plus. Definitely I'd say that

if brands started doing that it would make my shopping experience 10 times better."

MILLENNIALS ARE REDEFINING THEIR PRIVACY EXPECTATIONS IN THE U.S.

These generation gaps are less evident in Brazil, China and the U.K., especially when it comes to privacy concerns. In the U.S., however, Millennials are much less concerned about privacy than their older neighbors. Why? A combination of trust and resignation. Seventy-four percent of U.S. Millennials trust brands to protect their privacy compared to 63% of Gen Xers. Others have simply lost faith in their ability to control privacy and are looking for the silver lining. Millennials like Kamilla, a 33-year-old Londoner working in the fashion industry,
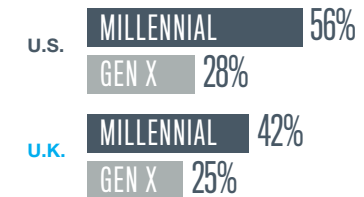
appreciate the two-way benefit of giving a brand their information. "It's helping the brand to actually see what type of customer I am. And again they send me offers to that, but it also helps the shop, which I'm going to buy my shoes from. They're going more personal now, and this is what I like," says Kamilla.

Though the numbers are still high, fewer U.S. Millennials are concerned with mobile privacy. Seventy-five percent feel that brands targeting people on their mobile phones is an invasion of privacy compared to 83% of U.S. Gen Xers.

"It's an invasion of privacy when brands target me on my mobile phone"

MILLENNIAL	75%
GEN X	83%

"I trust most brands to protect my privacy"

MILLENNIAL	74%
GEN X	63%

WE'RE ALL BECOMING DEPENDENT ON TECH, BUT MILLENNIALS HAVE A MORE EMOTIONAL RELATIONSHIP WITH THEIR DIGITAL DEVICES THAN GEN XERS

Sometimes, our interactions with technology border on obsession, no matter what demographic cohort we fall in. Seventy-eight percent of U.S. Millennials and 72% of U.S. Gen Xers admitted to often feeling dependent on technology. Sometimes, it happens because of specific functions on a smartphone. Fifty-three percent of U.S. Millennials say they don't know how they ever lived without certain apps—compared to 41% of U.S. Gen X respondents. "So much of my technology shapes how I go about every single moment of my day," says Ryan, 41, when asked how he would respond to losing access to his current technology. "I would have to find new things to replace them, which is a scary thought."

For younger technology users, it's the endorphin rush that likely creates the tie to tech, along with the promise of connecting with others. Seventy-two percent of U.S. Millennials get excited when they get a text message or notification on their mobile phone. U.S. Gen Xers, at 50%, are a bit more taciturn.

GEN X MANAGERS UNDERESTIMATE THE EMOTIONAL CONNECTION MILLENNIALS HAVE WITH TECHNOLOGY

Millennials outpace their Gen X counterparts in nearly every digital activity on a daily basis, from social networking to streaming media. And they continue to look for more ways to integrate technology into their lives. Sixty-three percent of U.S. Millennials wish they could control their household devices over the Internet compared to half of Gen X respondents in the United States.

Gen X lags behind the younger Millennial cohort both in ownership of smartphones and in how widely they apply technology in their lives. While 83% and 90% of Millennials own smartphones in the U.S. and U.K., only 64% and 82% of Gen X respondents in the same countries own a device. Meanwhile, Millennials are more likely to have apps that touch different industries (80% in U.S., 77% in U.K.) than Gen Xers (64% in both countries). Asked for the perfect way a brand could interact with him, Charlie, 21, pointed to apps: "Definitely have an app. I like the whole idea of notifications coming through, because that's something that doesn't annoy me—I come to look."
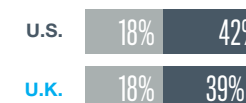
Gen Xers *Millennials*

Use social networking sites

	Gen Xers	Millennials
U.S.	62%	77%
U.K.	61%	77%

Watch short online videos

	Gen Xers	Millennials
U.S.	18%	42%
U.K.	18%	39%

Stream music

	Gen Xers	Millennials
U.S.	20%	36%
U.K.	9%	21%
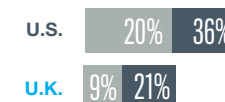
Stream movies or TV shows

	Gen Xers	Millennials
U.S.	10%	30%
U.K.	5%	16%
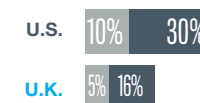
MOBILE APPS ARE PARTICULARLY IMPORTANT TO CONSUMERS WHEN IT COMES TO FINANCIAL SERVICES, AND THE INDUSTRY DELIVERS A RELATIVELY FAVORABLE EXPERIENCE

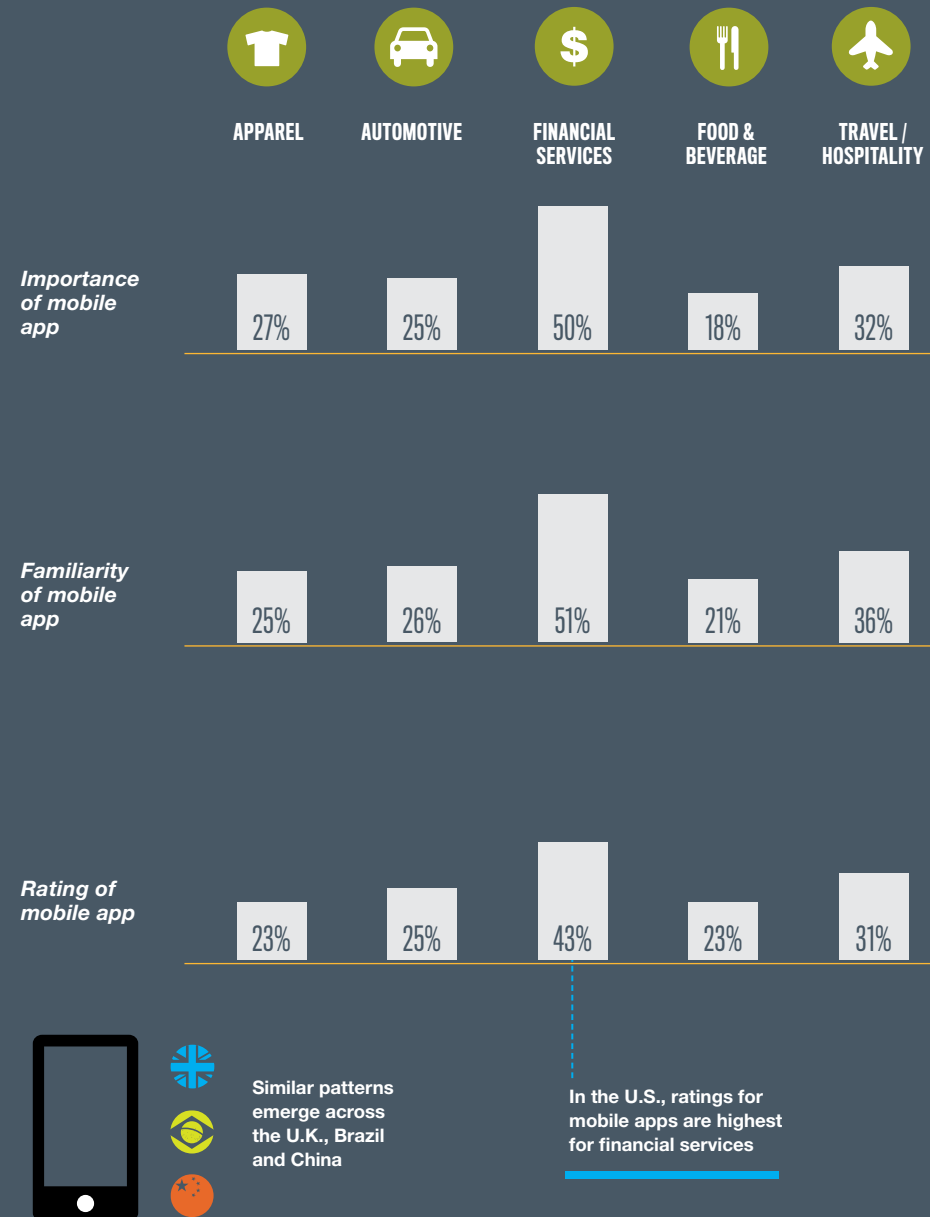|	APPAREL	AUTOMOTIVE	FINANCIAL SERVICES	FOOD & BEVERAGE	TRAVEL / HOSPITALITY
Importance of mobile app	27%	25%	50%	18%	32%
Familiarity of mobile app	25%	26%	51%	21%	36%
Rating of mobile app	23%	25%	43%	23%	31%

Similar patterns emerge across the U.K., Brazil and China

In the U.S., ratings for mobile apps are highest for financial services

Great Eastern Insurance:
Mobile apps to forge a deeper connection

In 2012, Singapore- and Malaysia-based life insurance group Great Eastern launched a free mobile application to help people develop healthy new behaviors and habits, as part of a wider brand strategy review. Based on the insight that it takes 21 days to truly change behaviors or create habits, the Great Eastern 21 Days iPhone application lets users set a goal (such as "go to the gym every day") and then commit to a loved one that they'll reach it. The app then sets daily reminders to keep users motivated and lets them share their goals with friends through Facebook and Twitter.

"Over the last few years there has been a definite shift towards developing tools that help us be more useful," notes Veronique Meffert, Head, Group Digital Marketing, for Great Eastern. "The 21 Days App was initially a sort of test to see what the response to a mobile app that wasn't insurance related from an insurance company would be. We were overwhelmed by the fact that people really liked it; research showed that people found it really useful."

The app is part of a wider strategy by the company to "Use digital to develop new touchpoints and increase engagement with consumers." As Meffert notes: "Normally people only think about insurance at unhappy moments; we want to be there in between the unhappy moments and help you live a happier life." This means talking to your consumers on a more personal level and on the platforms they naturally gravitate to. "We engage differently on different channels with different target groups. YouTube, for example, is targeted more at 20- to 30-year-olds, and has been a very useful way for us to reach a younger consumer group that might typically not want to engage with a 106-year-old insurance company. We created a channel on YouTube called Live Great TV, which addresses topics like dating. It has around 25,000 subscribers, which is a lot for Singapore. Instagram, Facebook and LinkedIn have also become very important touchpoints with very good returns."

APPLIED INSIGHTS

1 Plan for the Gen X / Gen Y digital divide. Millennials lead the pack when it comes to the adoption of technology, outpacing their Gen X counterparts in nearly every digital activity on a daily basis. Gen X-led organizations need to ensure that their brand experiences align with Millennials' tech-led lives and that digital isn't simply an afterthought in the brand planning process.

2 Target carefully and with purpose. Although many U.S. Millennials understand that targeting has become the natural order of things, three-quarters still believe that targeting on their phone is an invasion of privacy. Brands should ensure that the targeting they engage in feels useful and light, so as to avoid being labeled invasive.

Love stats about Millennials? Drop a note to digitaldopamine@razorfish.com for more insights on the generational chasm.
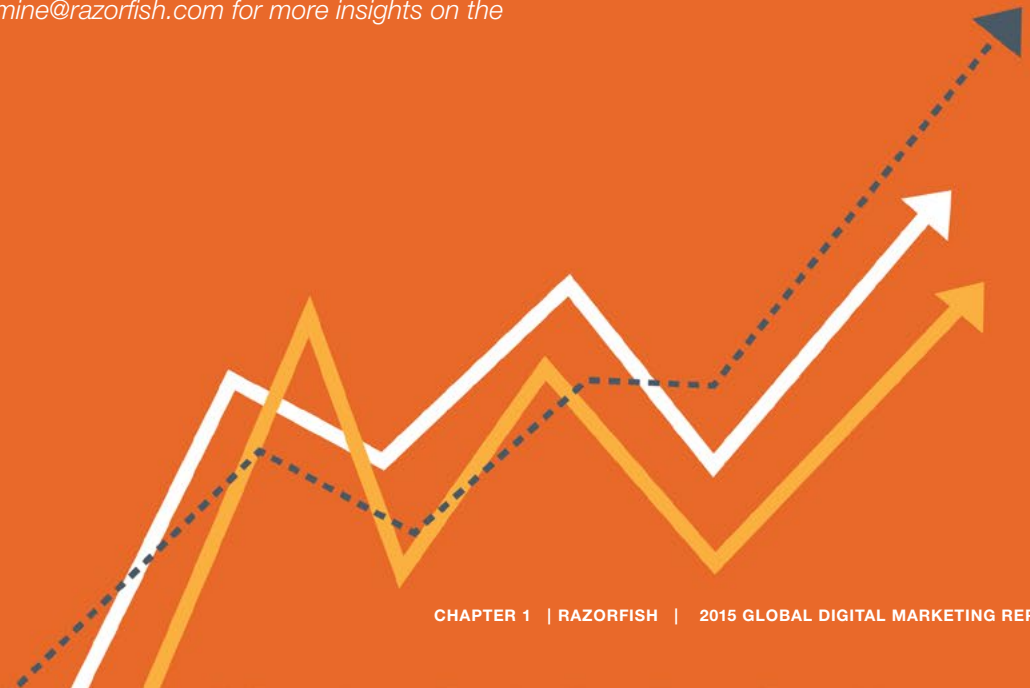
CHAPTER 2: THE DIGITAL EXPERIENCE ECONOMY

Brands need to focus more on being useful than on being interesting.
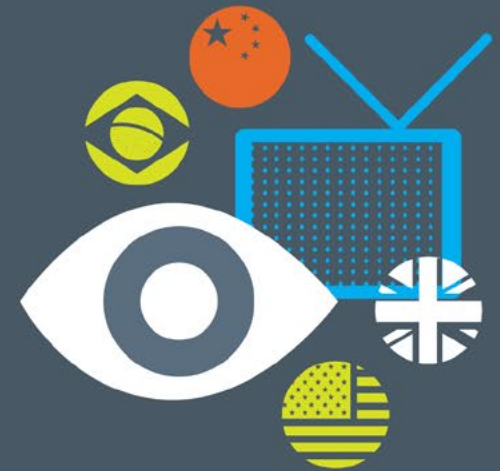
KEY INSIGHTS:

1 Consumers are actively avoiding advertising. Consumers in all four markets (United States, United Kingdom, Brazil, China) report doing anything they can to avoid seeing advertising, and many are utilizing tools like DVRs to help them succeed.

2 Advertising is most effective when it is part of a value exchange. Consumers are now aware of how much their attention is worth to marketers, and they expect to be rewarded for it. They look to be compensated with loyalty programs, free content or useful tools that solve problems.

3 Brazil still has a cultural affinity to traditional advertising. Interestingly, Brazil remains more receptive to advertising than any of the other markets. Fifty-seven percent of Brazilian consumers endorse TV, radio and print ads as the most influential source of advertising. Therefore, it is important to understand that adding value means different things to different cultures.

If there's a consumer motto for advertising, it may be "What have you done for me lately?" It's estimated that consumers are exposed to over 5,000 brand messages a day and don't have the time or energy to care about most of them. And they are increasingly savvy at deflecting disruptive advertising. If you want to get people's attention, then you'd better be giving them something more valuable than a funny commercial or an amusing tweet in return. Eighty-six percent of consumers in the U.S. say they value brands that are useful over brands that are interesting. The most successful brands are those that are becoming truly user-centric and designing services that help make people's lives better.

"I prefer brands that are useful over brands that are interesting"

86% 79% 81% 88%

CONSUMERS ARE GOING OUT OF THEIR WAY TO AVOID ADVERTISING

The importance of being useful rather than simply being interesting is even more pronounced when you look at the extent to which people are going out of their way to avoid advertising. Over half of consumers in the U.S. and U.K. and 69% of consumers in China say they do *anything they can* to avoid seeing ads. What's more, they're actively availing themselves of technology to do so, with a majority of TV lovers using a DVR to skip through ads (U.S.—65%, U.K.—73%, China—81%). Online video watchers, like 39-year-old Stuart, feel the same way about pre-roll advertisements on YouTube, saying, "There's nothing worse … if you want to watch something on YouTube, and an advert comes up. The first thing I do is skip it."

The proliferation of channels has also led to a proliferation of advertisements that is further exasperating people. Over 75% of consumers in all four markets say they hate hearing or seeing ads multiple times on radio, TV or online. As Stuart notes, "You've shown it to me! I've seen it on Facebook. I don't need to see it on Twitter. I don't need to see it on the telly. I don't need to see it in the paper. I've seen it."

While frequency is known to increase brand or product recall, there is a point where it starts to be detrimental to the brand. Negative emotions begin to be associated with the forced repetition.

MAKING LIFE EASIER

☐ *"It is important that brands make my life easier"*

■ *"The best mobile apps are ones that make my life easier"*

81% 89%

77% 87%

95% 92%

80% 96%
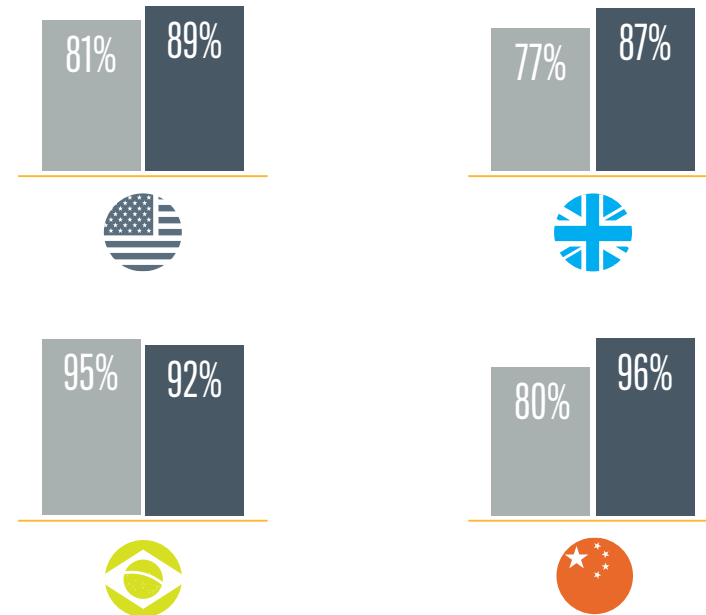
TRADITIONAL ADVERTISING ISN'T JUST IRRITATING—IT'S INCREASINGLY INEFFECTIVE

Word of mouth is the most influential driver of purchase decisions across industries, and regions with consumers rate it more important than traditional advertising. This is particularly noticeable in China, where 79% of consumers described word of mouth as an important source of information—compared to only 20% when it came to traditional advertising (TV, radio, print). Twenty-three-year-old Chinese consumer Irene states, "Advertising doesn't really influence my decisions; I am more likely to rely on my friends."

BRAZIL IS AN OUTLIER WHEN IT COMES TO ADVERTISING TRENDS

While the death knell of traditional advertising appears to be ringing loudly around the world, it should be noted that Brazil remains more receptive to advertising than other markets. Fifty-seven percent of Brazilian consumers endorse TV, radio and print ads as most influential, while consumers from most other markets say third-party endorsements work better than ads.

Further, 83% of Brazilian consumers say ads give them ideas about things they want to buy compared to just 58% of people in the U.K. And only 49% of Brazilians prefer to skip through ads with DVRs versus the 73% in the U.K. and 81% in China.

While Brazil is still more receptive to traditional advertising than other markets, there is a still a move toward brands trying to be useful and provide services. However, it's important that brand-created tools in a market like Brazil retain a sense of fun. Caio Del Manto, Head of Brand Strategy and Creative Excellence for LatAm, Mondelez, says that while "brand-created tools and services will grow a lot in the future, they need to be interesting as well as useful. Usability alone won't be successful in Brazil. People love to consume brand content. They want to have fun. The challenge is to be useful while being fun." Del Manto adds that, ultimately, "It's all about experiences. What kind of relationship do we want to create with people, and how can technology help in this sense? It doesn't matter how exciting the tech is if the experience isn't interesting."

THIRD-PARTY CONSUMER ENDORSEMENTS ARE MORE INFLUENTIAL THAN TRADITIONAL ADVERTISING

Purchase decision influences ranked

	🇺🇸	🇬🇧	🇧🇷	🇨🇳
Word of mouth	1st	1st	1st	1st
Online reviews from other consumers	2nd	2nd	3rd	2nd
Online reviews from industry experts	3rd	3rd	5th	4th
Traditional advertising (TV, radio, print)	4th	4th	2nd	5th
Social media posts from friends/family	5th	5th	4th	3rd

ADVERTISING NEEDS TO BE PART OF A CLEAR VALUE EXCHANGE

People don't mind advertisements if they're part of a clear value exchange. For example, 70% of consumers in the U.S. and U.K. and 77% in China don't mind seeing advertising in order to access free content online.

The nature of this value exchange becomes more important further along in the consumer journey. Seventy-two percent of Americans and 92% of Brazilians say it's important for brands to reward you for being a loyal customer. Consumers like Jason, a 22-year-old from Los Angeles, feel loyalty rewards build their relationship with the brand and motivate them to keep buying the brand's products. He describes his appreciative experience with his favorite car brand, Range Rover. "Even though you're making a deal, you're kind of like friends, you know, in a sense where you say okay, three years ago you bought this Range Rover from me, so you know what? I'm going to talk to my manager and try to get you [money] off this year's model … because you're a loyal customer, and we see that. I like being rewarded for loyalty. That's very important to me."

Those rewards can take various forms, from the purely financial to the more emotional. Ryan, a musician from New York City, explains, "I follow brands on social media more for deals than 'being the first to know' about something." But while financial incentives are important, people are looking for more from brands than simply discounts and coupons. Over 80% of consumers in the U.S. say that it's important that brands make their lives easier—in Brazil that figure is a massive 95%.

ADVERTISING, AS WITH OTHER BRAND TOUCHPOINTS, SHOULD PROVIDE CONSUMERS WITH SOMETHING OF VALUE

"The best mobile apps are ones that make my life easier"

🇺🇸	70%
🇬🇧	70%
Brazil	62%
China	77%
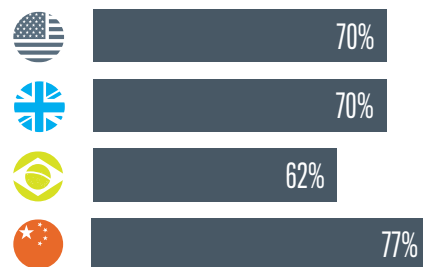
IMPORTANT FOR BRANDS TO…

- **Reward you for being a loyal customer**
- **Have loyalty programs**
- **Have offers and promotions**

	Reward	Loyalty	Offers
🇺🇸	72%	64%	72%
🇬🇧	65%	50%	71%
Brazil	92%	89%	96%
China	71%	54%	75%
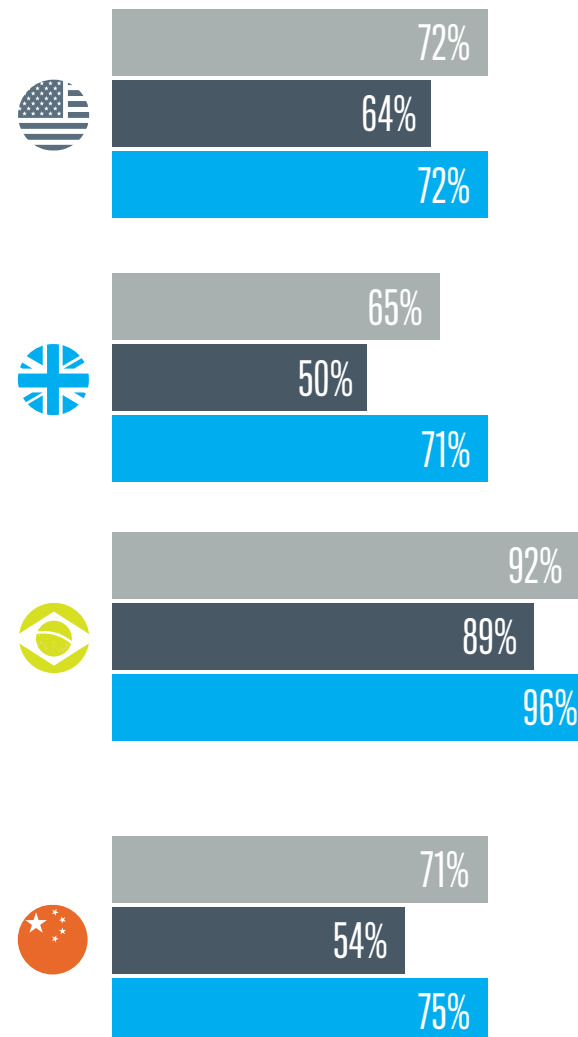
APPLIED INSIGHTS

1   Provide a return on attention. For today's consumers, time can be more valuable than money. If people are going to spend time on a brand, they expect to be rewarded for it. Marketers need to calculate the return on attention their advertising provides. If you can't come up with a decent answer, you may need to reassess your marketing program.

2   Make yourself useful. Brands need to offer their customers services beyond core products and add some real value to peoples' lives, if they are not already. Consumers are more likely to stick with a brand if they feel it makes their lives easier.

3   Reward your loyalists. With more options and transparency than ever before, consumers don't have much reason to stay loyal. Therefore, it is imperative that brands continually incentivize and reward purchases.

Useful > interesting. We've got the stats to prove it. Email digitaldopamine@razorfish.com to learn more about the digital experience economy.

CHAPTER 3: SEAMLESS COMMERCE

Omni-channel customers still encounter a number of friction points as they dip between online and offline platforms in search of cross-channel convenience.

KEY INSIGHTS:

1 Digital is the new storefront. A good e-commerce site is not just a nice-to-have; it has a major impact on your brand. The numbers speak for themselves: 84% of people in Brazil and 92% of people in China say that a bad brand website negatively impacts their opinion of the brand. Seventy-three percent and 79% of people in the U.S. and U.K., respectively, agree.

2 Current e-commerce experiences fall short of expectations. Even with the massive accomplishments made in the evolution of commerce, consumers are still not impressed. Current e-commerce experiences, return policies and shipping options are falling flat in cultivating satisfied customers.

3 Consumer journeys are peppered with dead ends. Although consumers no longer view a distinction between online and offline brand channels, brands are not yet structured to support this outlook. This creates a tension between what consumers want and what brands are providing, forcing consumers to jury-rig solutions.

Consumers see little difference between online and offline shopping. What matters is cross-channel convenience. And yet, rather than work seamlessly together, online and offline customer journeys are often riddled with dead ends, both customer-made and brand-made. While in-store behavior shows consumers distracted by their smartphone—or perhaps using it to make them smarter shoppers—online behaviors show that the stores themselves, and their e-commerce presences, are often the biggest deterrent to conversion.

"Most online shopping sites need improvement"

| 52% | 50% | 79% | 87% |

"Shipping price determines whether or not I will purchase a product online"

| 88% | 85% | 90% | 72% |

"I only buy products online that I have the option to return"

| 71% | 69% | 77% | 61% |
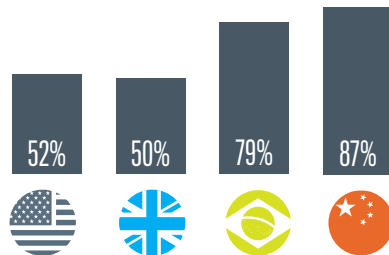
ONLINE RETAIL STILL FALLS SHORT OF CONSUMER EXPECTATIONS, PARTICULARLY IN BRAZIL AND CHINA

Despite having a world of data at their fingertips, online retailers still can't seem to meet, let alone exceed, consumer expectations. A majority of consumers still believe that most online shopping sites need improvement, and people continue to make online purchase decisions cautiously, illuminating pain points throughout the process. As developing nations fully embrace e-commerce, they simultaneously hold online retailers to a higher standard, expecting top-quality experiences on every website they visit—and often are disappointed.

And this is true of every industry we surveyed. Although there is much room for improvement for every category, some industries showed massive gaps in importance and digital rating. Digital experiences for financial services and travel were thought to be of utmost importance, but not many consumers thought they were succeeding.

RETURN POLICIES ARE A SERIOUS FRICTION POINT IN THE CONSUMER JOURNEY

Rigid return policies appear to be a common friction point across both the offline and online consumer journey. Return policies are an example of giving power to the consumer, and a number of digital-first brands, like Amazon and Zappos, have set high expectations by putting shoppers in the driver's seat. When other brands fail to meet these expectations, customers are understandably annoyed. As Alyssa, 21, New York City, notes, return policies rarely seem aligned to her lifestyle: "The thing that is so disappointing is the return policy. You know, I'm busy, I don't have time to return my items within two to three weeks."

An inflexible return policy is also a major reason why many consumers are unwilling to take a leap of faith when buying things online. Chris in Los Angeles, 21, explains that the return policy is an important factor before deciding whether to buy online: "Online you always expect to get things cheaper, but you can't really trust how you see them. So first thing I always look at is like the return policy. If they have a good one, no worries." Chris is far from unusual: more than two-thirds of consumers in the U.S., U.K. and Brazil (71%, 69% and 77%) say they will only purchase products online when there is an option to return them, should they be unsatisfactory. But retailers shouldn't be scared of consumers like Chris, who take advantage of free returns—they could turn out to be your most valuable customers. In fact, Zappos, which offers free 2-way shipping and a 365-day return policy, has publicly claimed that clients buying the more expensive shoes have a 50% return rate, but that the continued loyalty of these customers is worth the initial loss.

In China, where e-commerce has been more widely accepted for a longer time, consumers seem less concerned about making an unsatisfactory purchase. Sixty-one percent of consumers in China say they will purchase products online only when there is an option to return them. However, while customers in China may be
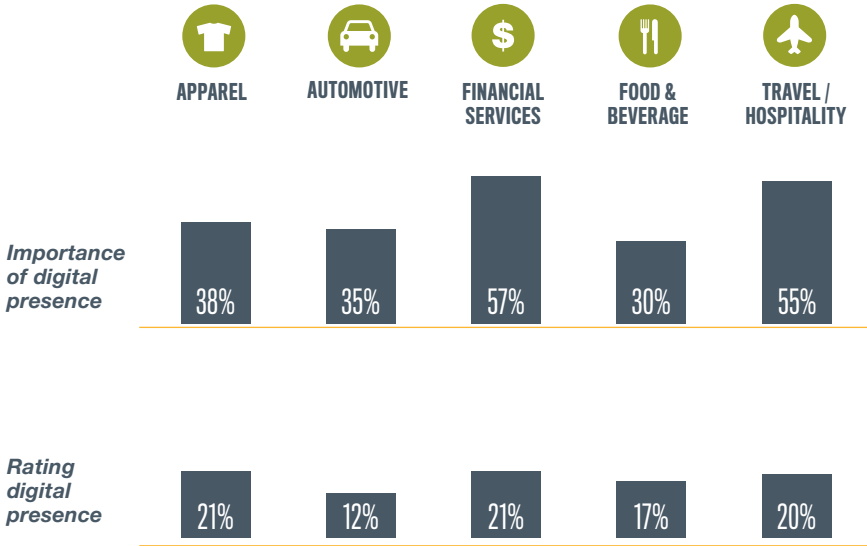
more willing to take the initial risk, retailers should be aware that the return policy still affects future loyalty. China resident Bang, 27, reveals that a company's return policy "directly impacts my second purchase."

A BAD E-COMMERCE SITE SEVERELY IMPACTS CONSUMER PERCEPTIONS OF BRANDS

Consumers in more developed countries have been slower to jump to online shopping outlets. Where only 51% of U.S. and 49% of U.K. citizens say they wish they could make all of their purchases online, that number skyrockets in Brazil and China (74% and 82%, respectively), where formal, in-store retail might not be as plentiful. However, although Brazil and China are more eager to rely exclusively on e-commerce, they are also much harder critics of said Internet

shopping sites. In fact, 84% of people in Brazil and 92% of people in China say that a bad brand website negatively impacts their opinion of the brand. In the U.S. and U.K., the numbers drop to 73% and 79%. Therefore, it is extremely important to consider the message your website sends as we move toward the future of digital shopping. Even very talented brand marketers can undermine all of their efforts and media spend with a poor site experience.

DIGITAL PRESENCE (U.S.)

	APPAREL	AUTOMOTIVE	FINANCIAL SERVICES	FOOD & BEVERAGE	TRAVEL / HOSPITALITY
Importance of digital presence	38%	35%	57%	30%	55%
Rating digital presence	21%	12%	21%	17%	20%

MARKS &
SPENCER

Marks & Spencer:
Addressing omni-channel convenience via an experimental digital lab

In 2013 Marks & Spencer, a major British retailer known colloquially as M&S, opened a Digital Lab to help it develop and exploit technology to create a leading omni-channel offering. The Digital Lab makes use of lean start-up techniques to move quickly: its modus operandi is to build, measure, learn and iterate.

Hemal Kuntawala, product manager of M&S Digital Lab, explains that one big challenge for M&S is its large range of products. The company sells everything from socks to sofas: very different products that are bought by consumers in very different ways but sold via the same one-size-fits-all experience online. "We're not content with the status quo of retail—both the online and offline experience—and we want to evolve it," explains Kuntawala. "We want to make retail very easy for our customers and let them browse in the way they want on whatever device they want."

Digital Lab goes about re-evaluating the retail experience by first identifying its key problems. "We look at customer behavior and speak to customers in order to find out where the pain points are both in-store and online," says Kuntawala. "We spend a lot of time talking to people in the business. Getting insight from everyone

from sales people in-store to the people who manage the website." Big data is an important part of this process, but, as Kuntawala stresses, "big data generally also does need to be coupled with qualitative insights."

After identifying key problems, Digital Lab then goes about trying to solve them by way of different experiments. One of the most recent experiments was around men's formal shirts, a category the team hypothesized was underperforming when it came to online sales because there wasn't a dedicated purchase experience for them. Rather, if you wanted to buy a formal shirt from M&S, you went to the same marksandspencer.com you went to if you wanted to buy some garden furniture. "But if you know your neck size and fit, you should be able to buy formal shirts online very easily. So we thought this would be one area where we would be able to increase conversion," explains Kuntawala. After doing research around how customers bought formal shirts, the team started to think about the sort of shirt-buying experience they'd go about designing if shirts were the only thing M&S sold. The outcome was a domain-specific e-commerce experience that is now outperforming the main e-commerce experience.

M&S Digital Lab considers what it does to be problem-solving rather than "advertising" in the traditional sense of the word. "From my perspective, we're here to solve problems for customers, and that's pretty much it," states Kuntawala. But while the Digital Lab is currently separate from the marketing department, there are growing overlaps between the two groups. Style Board, for example, a social outfitting experience developed by Digital Lab as a tool to help online with discovery and inspiration, ended up later being heavily leveraged by the retailer in its marketing. What's more, Peter Wright, a designer at M&S Digital Lab, explains that Style Board went from being simply a useful product to a "useful product that could change brand expectations. Style Board attracted a slightly younger demographic than our usual customer—which was interesting to see because that is what we were trying to achieve from a marketing point of view."

As digital experiences prove to have an increasingly powerful effect on brand perceptions, they're becoming a more important part of the branding and marketing mix at M&S. "At first, the advertising team would come to the Digital Lab with requests to build tools and apps that veered towards the gimmicky or glitzy rather than tools that solved real problems," notes Wright. "Now, however, they're starting to think a lot harder about how to solve marketing imperatives with services."

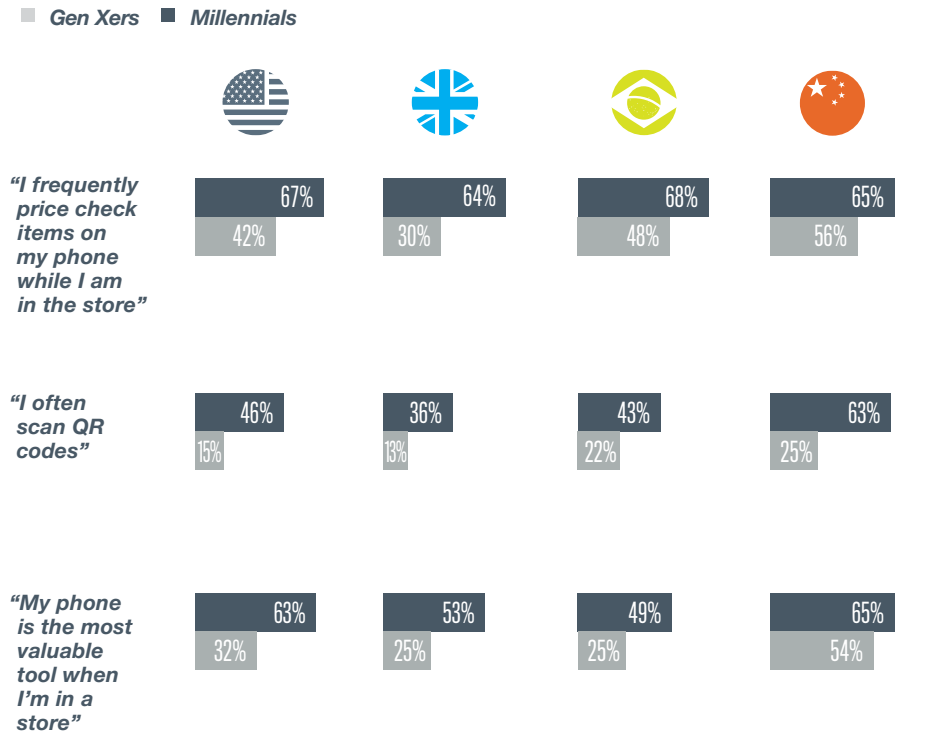## E-COMMERCE DISAPPOINT-MENTS TELL CONSUMERS YOU DON'T WANT THEIR BUSINESS

Perhaps because they expect a good e-commerce experience from every brand, consumers in Brazil and China feel there is room for improvement with most shopping sites. Seventy-nine percent of Brazilian and 87% of Chinese shoppers would prefer better experiences with e-commerce sites. In the U.S. and U.K., however, people seem to be more pleased with what they've got. Only 52% of Americans and 50% of U.K. citizens feel that most shopping sites need improvement.

In the U.S. and the U.K., shoppers prioritize ease of use—both online and when it comes to returns—when judging a website. "Websites should be obvious and clean-cut. Not so many hoops to go through. Clean-cut, to the point, like I'm walking through the store and buying it—that's what e-commerce should be," says U.K. shopper Charlie.

Still, China seems the least satisfied with its e-commerce options. Consumers there rated 88% of all e-commerce experiences below excellent compared to 63% in the U.S. and Brazil and 58% in the U.K. China resident Hoyt, 28, agrees that "most companies' online websites are really rough and behind." The disappointments, wherever they're happening, send a negative message to customers that the brand may not be totally on-board with digital. "Tesco has the most rubbish website. It freezes all the time," says U.K. shopper Rachel. "I feel like Tesco's website doesn't want to be used."

Soon the consumer's mobile device will become the center of the commerce experience, if it hasn't already. As early as 2012 over half of U.S. consumers said they had stopped an in-store purchase as a result of using their mobile phone, according to the Interactive Advertising Bureau. Razorfish's data shows even more reliance on the new first screen.

EARLY ADOPTERS DEPEND HEAVILY ON THEIR PHONE WHEN SHOPPING IN STORE

■ *Gen Xers* ■ *Millennials*

	U.S.	U.K.	Brazil	China
"I frequently price check items on my phone while I am in the store"	67% / 42%	64% / 30%	68% / 48%	65% / 56%
"I often scan QR codes"	46% / 15%	36% / 13%	43% / 22%	63% / 25%
"My phone is the most valuable tool when I'm in a store"	63% / 32%	53% / 25%	49% / 25%	65% / 54%

APPLIED INSIGHTS

1   Empower your customer. Inflexible returns policies, in particular, are a major point of friction in both the online and offline retail experiences. A good return policy is an easy way to differentiate your brand from the competition, build loyalty and earn trust.

2   Design for the digital blur. If consumer journeys criss-cross between online and offline, then your retail experience should reflect this. Map some prospective customer paths through various platforms and devices to understand how shoppers' lives unfold and intersect with your brand, and remember to prioritize mobile throughout this journey.

Seamless commerce matters. Help us help you. Connect with the Razorfish team at digitaldopamine@razorfish.com.

CHAPTER 4: DIGITAL CONDITIONING

While we sometimes focus on the rational benefits of technology, digital interactions affect us on a biological and emotional level.

KEY INSIGHTS:

1   Consumers admit to technology dependence. Over three-quarters of consumers in all four of the markets surveyed admitted to often feeling dependent on technology. Many elements are cited for the development of this dependence, including utility, connectivity and the positive emotions they associate with it.

2   We've been exposed to digital classical conditioning. As proven by Pavlov, repeatedly pairing two cues can elicit a classically conditioned response. This is equally true for many consumers who use smartphones—the light or sound emitted from the device triggers a response of immediate attention.

3   Instant gratification is not always preferred. Remarkably, consumers in all four markets reported more excitement when receiving a purchase in the mail than when buying in the store. This illuminates an interesting aspect of shopping that is specific to e-commerce— the power of pleasurable anticipation and delayed gratification.

A great deal has been written about how technology has given consumers the ability to research products more thoroughly and make better-informed purchase decisions. Certainly, the Internet has made us more sophisticated shoppers: a recent PricewaterhouseCoopers study found that 80% of consumers look at online reviews before making major purchases. In many product categories, like automotive, that number is significantly higher.

Arguably, all of this research leads to buying decisions that are based more on objective information than irrational brand loyalty. While it is true that the Internet has peppered the path to purchase with facts, reviews and data, it would be wrong to think that technology has made us more rational shoppers. Indeed, the neurological aspects of digital interactions are giving rise to new forms of impulse shopping.

"I am more excited when my online purchase arrives than when I buy things in store"

76%   72%   73%   82%
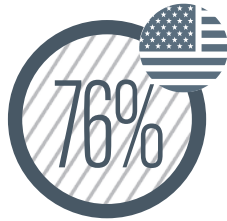
OUR TECH-DEPENDENCY HAS FORGED A NEW SET OF EMOTIONAL CUES

It's hard to overstate just how important technology is to our daily lives. Three-quarters of people in the United Kingdom and the United States say they often feel dependent on technology; in Brazil and China those figures are even higher, at 79% and 87%, respectively. Our tech addiction isn't just about the convenience of having a wealth of information and social connections at your fingertips: there's a highly emotional element to it. Admit it, when your phone goes "ding!" and you see that you've got a new text message, it's hard to stop yourself from reaching for your phone, no matter what else you may be doing. Turns out you're not the only one hooked on digital dopamine. Sixty-two percent of people in the

U.S. and Brazil admit to getting excited when they get a text or notification on their phone, with China and the United Kingdom trailing only slightly behind at 59% and 55%.

ENGINEERING ANTICIPATION IN AN AGE OF INSTANT GRATIFICATION

While it might seem logical to assume that an age of instant gratification means we want what we want immediately, that isn't always the case. Sometimes immediacy isn't enjoyable. While one might presume that waiting for purchases to arrive is a disadvantage for online shopping versus shopping in-store, it appears that people actually enjoy the anticipation involved in waiting for purchases to be delivered. Seventy-six percent of people in

the U.S., 72% in the U.K. and 73% in Brazil say they are more excited when their online purchases arrive in the mail than when they buy things in store. As Raine, 43, Los Angeles, notes, "It's nice to get something fun in the mail because all I get in the mail are bills." The pleasure of anticipation is even more heightened in China, where 82% of people are more excited about online purchases than in-store buys.

ADMIT IT, WHEN YOUR PHONE GOES **"DING!"** AND YOU SEE THAT YOU'VE GOT A NEW TEXT MESSAGE, IT'S HARD TO STOP YOURSELF FROM REACHING FOR YOUR PHONE, NO MATTER WHAT ELSE YOU MAY BE DOING.

Pavlov's Proof Is in Our Pocket

Habits Form Faster Online

Dr. Susan Weinschenk, a psychologist and founder of the Weinschenk Institute, explains that the reason so many of us seem to be at the constant beck and call of our smartphones is because the unpredictable nature of when you might receive a text message, coupled with the visual and/or auditory cue, builds up a classic conditioned response. Basically, we're all Pavlov's dog, except, instead of salivating when we hear a bell ring, we reach for our smartphone: "When you hear that beep, or you see something flash, your arm will start to reach for the phone before you're even consciously aware that you heard it; that's how ingrained it can become." Weinschenk notes that the conditioned response is often coupled with the fact that some, or most, of the messages you receive are rewarding. They are good news or something interesting, which reinforces the whole thing from a neurochemical point of view.

Dr. Weinschenk explains that the reason we get excited when our online purchases arrive is because the parts of the brain that act as a reward system are more active with anticipation than the actual getting of the reward. Just think, for example, of the last vacation you took: wasn't the anticipation of your holiday better than the airport security lines, packing and family squabbles? Indeed, a 2010 Dutch study found that the largest boost in happiness from vacations comes from the simple act of planning it, with the effect of vacation anticipation boosting happiness for eight weeks.

Weinschenk notes, however, that the brick-and-mortar retail experience is largely devoid of anticipation: "There is some anticipation about going to the store, but once you're there and you've picked your item out—there is perhaps a half an hour between when you decide and when you get it—and actually, you've already 'got it' because it's in your hand as you bring it to the checkout. So there is not really an opportunity for the reward system to drive anticipation."

Dr. Susan Weinschenk, founder of the Weinschenk Institute and YouTube's resident "Brain Lady," explains that it's easier to become loyal to an online retailer versus an offline retailer because we can form habits a lot more quickly online. "If I can think, 'I need a new pair of slacks,' and I can go online and click on a button to buy slacks, it's much more likely I'm going to become loyal to, if not a brand then at least a site." She notes that online shopping habits tend to be strongly ingrained. "People have websites they go to when they shop. They have their 'go-to methods' for buying certain categories of things, and getting them out of that habit once it is set is actually pretty tough. It's going to take a lot to get someone to switch once a habit has been established. You can get them to switch, but it is hard when it becomes a ritual."

APPLIED INSIGHTS

1   Design for humans. Consider psychological aspects when creating experiences, factoring in the power of habit and ritual.

2   Engineer anticipation into your brand experience. Find a way to encourage consumers to enjoy the planning, researching and anticipation stages of the purchase process. Remember that instant gratification isn't always the most positive thing for consumers, even in an on-demand world.

3   Use "surprises and delights" to your advantage. Without turning brand communications into a carnival of push notifications and flashing buttons, you can still create pleasurable moments of anticipation around routine events for a brand. Smart marketers will play around with game mechanics in the shopping and purchasing process, while ensuring it doesn't get in the way of simplicity and service.

Emailing digitaldopamine@razorfish.com will provide pleasurable anticipation and instant gratification. Side effects: may condition you to make smart(er) business decisions.
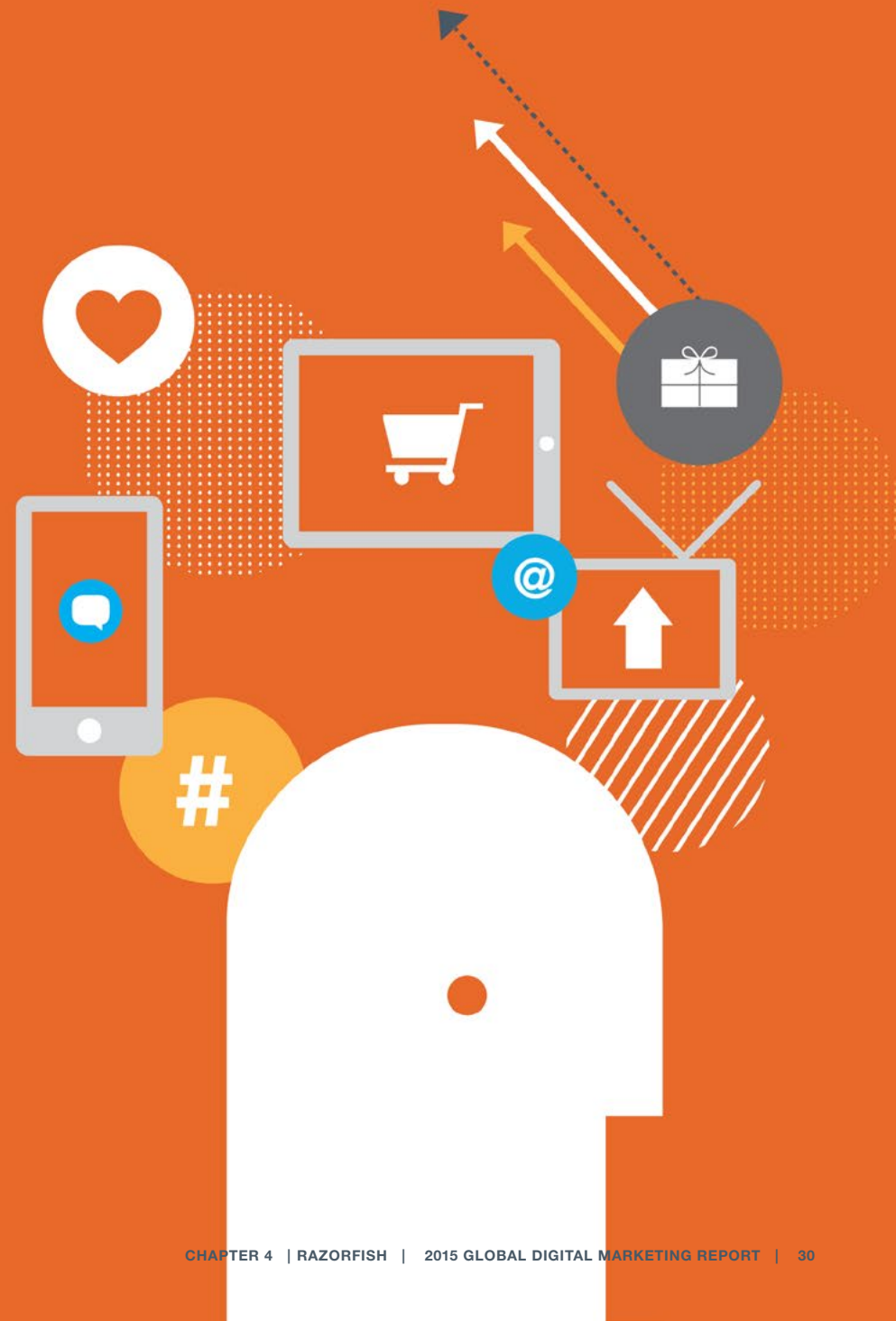
CHAPTER 5: EMERGING MARKETS IN THE FAST LANE

Consumers in Brazil and China have higher expectations of tech-enabled experiences than other regions, making them important markets to watch.

KEY INSIGHTS:

1 Consumers in Brazil and China are tech-hungry early adopters. This data shows that Internet users in these markets rely on technology for every part of their lives and continually look for more ways to integrate it.

2 Consumers in countries with lower Internet penetration may be the most demanding online. There are unexpectedly high expectations for digital services and websites in countries with lower Internet penetration. In particular, there is a very strong desire in Brazil and China for e-commerce to improve.

3 Tech savvy spans all generations. While there is an important digital divide between Millennials and Gen Xers in the United States and United Kingdom, these demographic differences aren't so pronounced in Brazil and China.

In Brazil and China, Internet penetration remains relatively low—46% of China and 53% of Brazil, according to Internet Live 2014. While you might expect that this would result in a less-demanding connected population, the exact opposite is true. These laggards have leapfrogged their more connected peers precisely because Internet is harder to come by. The people who are online in these two countries tend to be more tech savvy than the overall population—and thus show greater facility with advanced technology. As a result, they have heightened expectations of their devices and brands in the digital world. These consumers have essentially skipped over the novelty stage of early connectivity and gone directly to advanced behaviors and expectations.

VERY KEEN GROUP OF EARLY ADOPTERS IN THESE MARKETS

China, in particular, is home to a very keen group of early adopters. Of consumers surveyed, 60% of Chinese respondents considered themselves the first among friends and family to adopt new technologies, compared to 33% in the U.S., 32% in the U.K. and 38% in Brazil. Chinese consumers were around twice as likely to read news websites, stream movies and shows, and read online reviews on a daily basis as their counterparts in the U.S. and U.K. Chinese Millennial Sibly reaffirms, "Technology is reflected in every aspect of my life." Additionally, an overwhelming 87% of Chinese consumers and 79% of Brazilian consumers report often feeling dependent on technology, demonstrating its extreme importance in these markets.

AN EVEN MORE DIGITAL FUTURE

These early adopters show no signs of stopping, expressing desire for technology of all types, and even for devices that are barely available. For example, consumers in Brazil and China expressed considerable interest in controlling all household devices through the Internet (84% in China, 79% in Brazil) and in using mobile payments (90% in China, 80% in Brazil). In the U.S. and U.K. we see desire for a connected household drop to 57% and 52%, and mobile payment interest drop to 57% and 55%, respectively. The convenience of these technologies is cited as an especially appealing aspect. China resident Bang, 27, reveals that he loves mobile payments because "scanning a code to pay is so convenient— and the less work I have to do, the better." Consumers in Brazil and China are also more likely (69% and 71%) than consumers in the U.S. and the U.K. (57% and 56%) to believe that devices like Google Glass will one day become mainstream. Their eagerness for integrating technology in all facets of life paints a picture of a very connected future for consumers in these markets.

Caio Del Manto, Head of Brand Strategy and Creative Excellence for LatAm, Mondelez, notes that social networks have an important effect on the rate of technology adoption in Brazil: "Brazilian consumers like technology but don't necessarily know a lot about it. At the same time they're hugely interested in social networking, first with Orkut then with Facebook. Brazil had these huge digital leaps as a country and leapt straight into social networks. Then we went back to technology and said we need technology to help us. So social networks have really been an entry way into technology, and you could say that they really pushed penetration of smartphones." Smartphones now represent 76% of all phones in Brazil according to recent data compiled by the Brazilian Electrical and Electronics Industry Association.

TECH ADOPTION AND INTEREST IS NOT DEPENDENT ON DEMOGRAPHICS

When it comes to technology, generational differences are minimal in Brazil and China, and in many instances nonexistent, with an overall enthusiasm for digital solutions across the age spectrum. As opposed to the U.S. and U.K., where Millennial consumers exhibit distinct behaviors from their older, less-connected countrymen, consumers in Brazil and China do not have vastly different patterns depending on age. Instead, there is an overall enthusiasm for digital solutions across ages, likely due to the early adopter aspect of Internet users in those countries in general. Del Manto explains: "When it comes to technology, the overall behavior amongst Brazilians is pretty much the same. They love sharing stuff. The main difference isn't around behavior but time—how much time they spend and how accessible technology is for them to do that."

CONSUMERS IN BRAZIL AND CHINA EXPRESS A PARTICULARLY STRONG DESIRE FOR EXCLUSIVELY SHOPPING ONLINE

Online shopping is a more established habit in Brazil and China than in more developed countries like the U.S. and U.K. One demonstration of this is their desire for all shopping experiences to be exclusively online: 82% of China and 74% of Brazil wish that they could make all of their purchases online, numbers that are much more compelling than their American and British counterparts (51% and 49%, respectively).

TECHNOLOGY EXPECTATIONS ARE HIGHER THAN IN OTHER MARKETS

While Internet users in Brazil and China are more likely to consider themselves early adopters and tech enthusiasts, their digital standards are also amplified. Seventy-nine percent of people in China and 87% of people in Brazil believe that most online shopping sites need improvement. Compared to only 52% in the U.S. and 50% in the U.K., that is a lot of unsatisfied consumers. Luiza, a 30-year-old doctor who lives in Brasilia, explains that "the online stores are okay, but I'd like it [the experience] to be more dynamic, more enjoyable. This would make me buy more. Now I find it so boring."

With high standards and multiple options, it is clear that an engaging and intuitive digital experience is key for increasing basket size and fortifying brand perceptions. This is especially true in Brazil and China, where 92% and 84% of consumers, respectively, say a bad brand website negatively impacts their opinion of that brand—a feeling that is more pervasive in these emerging markets than in the U.S. and U.K. (73% and 79%).

Although consumer complaints are often about site experience, some concerns regard factors that brands may not be considering. Thirty-one-year-old Raissa, who lives in Araras, a small town two hours from Sao Paulo, notes that she'd "like to shop more online, but it's always hard to schedule a delivery time, and, as me and my husband are not always at home, the product goes back to the central mail." In this same vein, a whopping 90% of Brazilian consumers cited shipping costs as a determining factor in purchase decisions.

EMERGING DIFFERENCE: BRAZIL IS CURRENTLY MORE RECEPTIVE TO TRADITIONAL ADS THAN CHINA

One key difference between Brazil and China: Brazilian consumers are more receptive to traditional ads than people in the U.S., U.K. and China. In the latter three countries, traditional advertising ranked fourth or fifth in influence, behind word of mouth, online consumer reviews, online industry reviews and, in China, social media posts from friends and family. In Brazil, however, traditional TV, print and radio advertising was ranked second in purchase influence, behind only word-of-mouth. On the other side of the spectrum, 69% of consumers in China declare that they do anything they can to avoid seeing advertising.

APPLIED INSIGHTS

1 Use Brazil and China to bring the future into focus. Consumers in these markets hold the highest expectations of digital experiences and exhibit the most rapid consumption of technology. Consider how these heightened expectations will push the boundaries of commerce and technology tomorrow.

2 Consider Brazil and China as early adopters. Emerging markets like these are exciting places to test new technology. These consumers are not afraid of technology and are actively looking for new ways to use it in their daily lives.

We have more global stats where this came from. Get in touch to learn more about emerging markets: digitaldopamine@razorfish.com.

CONCLUSION

With this research, Razorfish aimed to discover the hidden side of ongoing digital transformation by illuminating the gaps in our knowledge about how people interact with the increasingly connected world around them. We unearthed quite a few interesting findings, including the generational chasm between Millennials and Gen Xers, the importance of providing true value through marketing and the bifurcation of expectation between developed and developing markets, to name a few.

But one finding emerged with ringing certainty: No longer is it sufficient for a brand to promise the world in vague terms without truly delivering upon that promise. Instead, companies must provide real value in the lives of consumers, adapting their practices to fit the high expectations of digital natives around the world. Whether through flexible return policies, customer-first privacy protocols or superior online experiences, brands must expand their vision beyond their product to create moments of value in their customers' journey.

This report and its findings are tools to shape better brand-consumer relationships in tomorrow's digital world, exposing the key trends shaping marketing in 2015 and beyond.

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Interested to learn more about our findings? Contact Razorfish at digitaldopamine@razorfish.com
for industry-specific data analyzing the apparel, automotive, financial services,
food & beverage and travel/hospitality industries.