

NAB SPECIAL INSIGHT REPORT

THE 'EXPERIENCE ECONOMY'



Which businesses are delivering in the eyes of consumers?

NAB Behavioural & Industry Economics

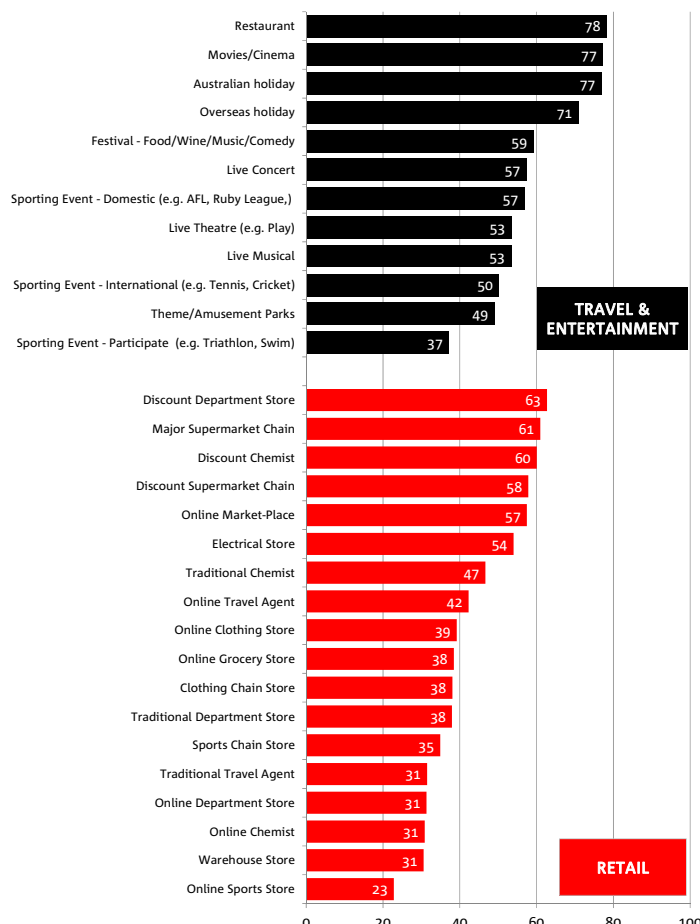
May 2018

More than ever businesses are focussing on delivering a truly great customer experience. The key question that arises is: can the quality of the experience be measured? In this report we asked over 2,000 Australians to tell us about their experiences with a range of businesses - from traditional department stores to online stores, cinemas, restaurants, sporting events and concerts.

Highlights

- The digital age and growing threat of disruption have elevated the importance of delivering a positive customer experience.
- Consumers are spending less on buying things and more on doing things. Social media is supporting this change as consumers share their lives online.
- Entertainment, food and leisure were among the first to benefit from this shift in the economy.
- In the past year, 9 in 10 Australians have visited a restaurant, 8 in 10 have seen a movie, 7 in 10 have been on a local holiday, & 5 in 10 an overseas holiday, attended a sporting event, festival or live concert.
- The 'experience' provided by restaurants, cinemas holidays were rated by consumers most positively.
- Many other businesses, particularly retailers, have also recognised the importance of providing a great experience for the customer.
- How did consumers perceive their experience with retailers? Interestingly, physical stores led the way, particularly discount department stores, major supermarket chains, discount chemists and discount supermarket chains.
- But, there were also some 'shopping' formats that scored less favourably - warehouse stores, traditional travel agents, sport stores, department stores and clothing stores.
- The highest rated online experiences went to online market places (e.g. Amazon, E-Bay).
- What did consumers most value from a physical retail store? Overwhelmingly, 'good value for money', followed by convenient location, friendly and knowledgeable staff, lowest prices and variety.
- Other factors such as entertainment, store layout, bespoke products and personalisation were not valued as highly. Only 5% would prefer to shop online and only 7% wanted an 'omni-channel' experience (i.e. an online as well as physical presence).
- This is not to say these factors are not valued, but it's clear there are certain minimum expectations that consumers value from a shopping experience that must be met first.

HOW POSITIVE WERE OUR EXPERIENCES (net balance)



WHAT IS THE EXPERIENCE ECONOMY?

The term 'experience economy' first appeared in an article in the Harvard Business Review in 1998*. While others had previously written on the topic, this paper went much further, predicting a new economic era post the agrarian (commodity based), industrial (goods based) and the service economy (service based).

In this new experience economy, it was argued that businesses would have to create memorable events for their customers, and that memory itself would become a key part of the offering or the experience. In effect, the commoditisation of goods and services would mean price and quality would no longer be the only differentiators - consumers would also increasingly expect a unique purchasing experience.

Today it's clear that this prediction was quite visionary. Now more than ever, businesses are focussing on delivering a truly great customer.

The digital age and growing threat of disruption in many industries have been critical in elevating the importance of delivering the consumer a great experience. Through technology, consumers are much more educated and are able to search, validate and communicate their preferences in real time. As a result, businesses have come to realise that the marketing promise of their product/service/brand must be fulfilled in the actual experience the customer faces when dealing with them - or risk losing them.

Marketers talk of experiences being 'sticky' as they are emotional and long lasting. They can also be a strong differentiator as often it's the overall experience that customers relate back to a brand. Of course, while fundamentals such as price, features and delivery are still as important as ever, they can potentially be replicated by competitors. It's much more difficult to copy an experience.

There is also a growing body of research that suggests businesses that understand and truly deliver an experience, perform better (in areas such as sales, customer loyalty and brand advocacy) than traditional businesses or those that promise but don't fully deliver.

There are many ways to deliver a great customer experience. But to do so successfully requires a detailed understanding of customer needs and pain points. Only then can a business begin to match the promise to the delivery.

The key question that arises is: can the quality of the experience be measured? Research suggests that customers do recognise customer experience quality and therefore are able to perceive the relative superiority or inferiority of their experiences.

**Pine, B. Joseph II and Gilmore, James, "Welcome to the Experience Economy," Harvard Business Review, July 1, 1998*



WHICH LEISURE & ENTERTAINMENT ACTIVITIES ARE MOST EXPERIENCED?

In many wealthy countries, consumers are spending less on buying things and more on doing things. As IKEA’s Head of Sustainability put it: “In the West, we have probably hit peak stuff.”*

Social media is supporting this change as more consumers share their lives on Facebook, Instagram, Twitter, Snapchat etc. Moreover, posting pictures of something we’ve bought is often deemed to be more distasteful than posting pictures of something we’re doing.

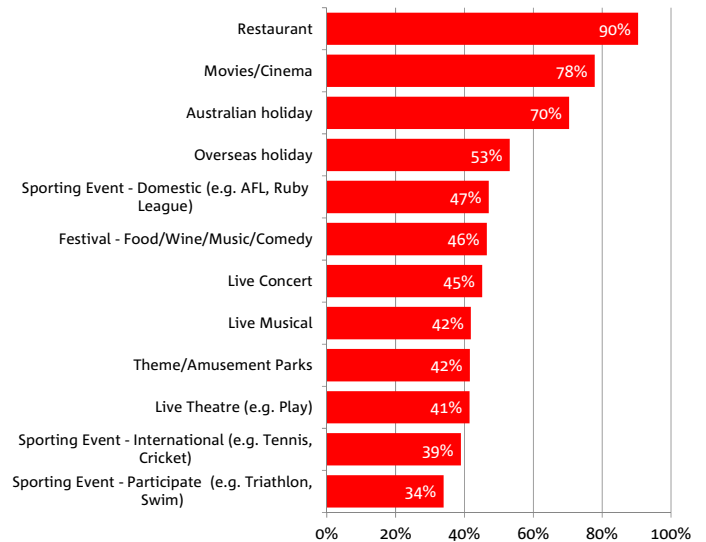
Some of the main beneficiaries of this behavioural shift have been recreational service providers such as those in the entertainment, food and leisure industries. Indeed, NAB’s own data on our customers’ spending patterns supports this shift, showing much faster growth in sectors such as accommodation, food, arts and recreation compared to other areas of consumption, including retail trade.

Australians love of eating out, sport and other entertainment is clearly on display here. Over the past 12 months, around 9 in 10 Australians have visited a restaurant, 8 in 10 have seen a movie and 7 in 10 have been on a local holiday

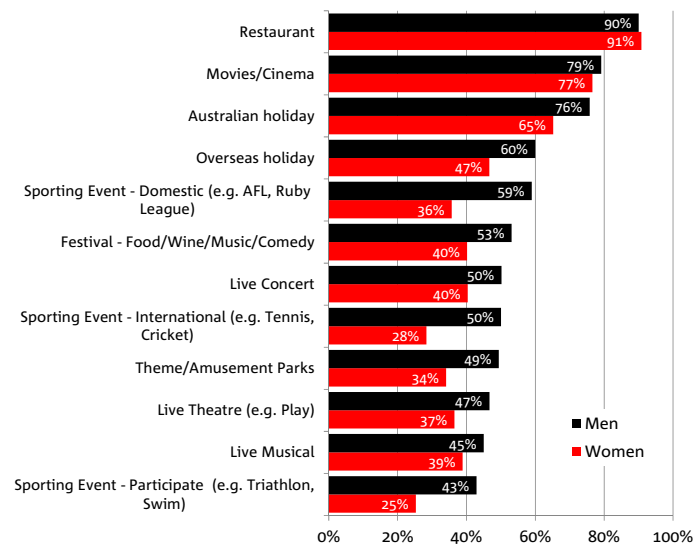
Around 1 in 2 have also enjoyed an overseas holiday, been to a local sporting event, a festival or live concert. And 2 in 5 have seen a live musical, visited a theme/amusement park or watched an international sporting event. Finally, for 3 in 10 Australians our love of sport extends to active participation in a sporting event such as a triathlon or swim.

*Guardian Sustainable Business Event 2016

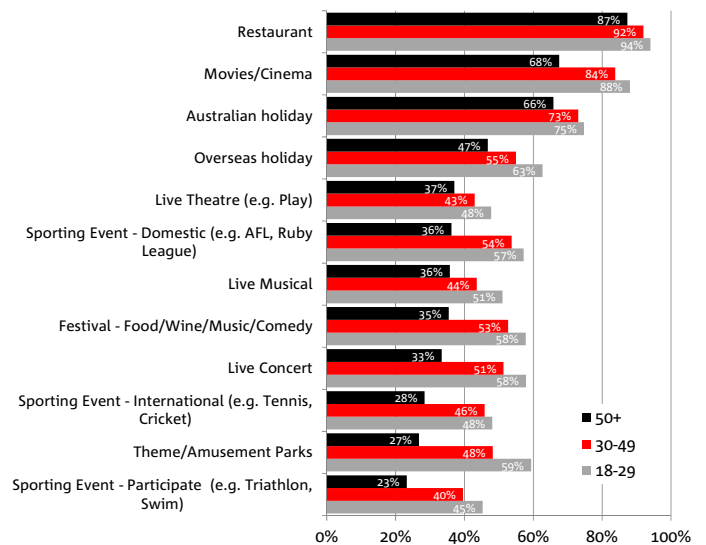
HAVE ATTENDED/EXPERIENCED IN THE PAST 12 MONTHS - ALL (%)



HAVE ATTENDED/EXPERIENCED IN THE PAST 12 MONTHS - GENDER (%)



HAVE ATTENDED/EXPERIENCED IN THE PAST 12 MONTHS - AGE (%)



Although a similar number of men and women have been to a restaurant or movies in the past year, surprisingly, more men have experienced all other activities than women. The biggest differences are apparent for domestic and international sporting events, participating in a sporting event, theme parks and festivals. The shift towards the experience economy has been most supported by millennials and this is borne out in the survey results when split by age. Across all activities, more young Australians participated in all activities and older people (over 50) the least.

HOW AUSTRALIANS RATE THEIR 'EXPERIENCES'

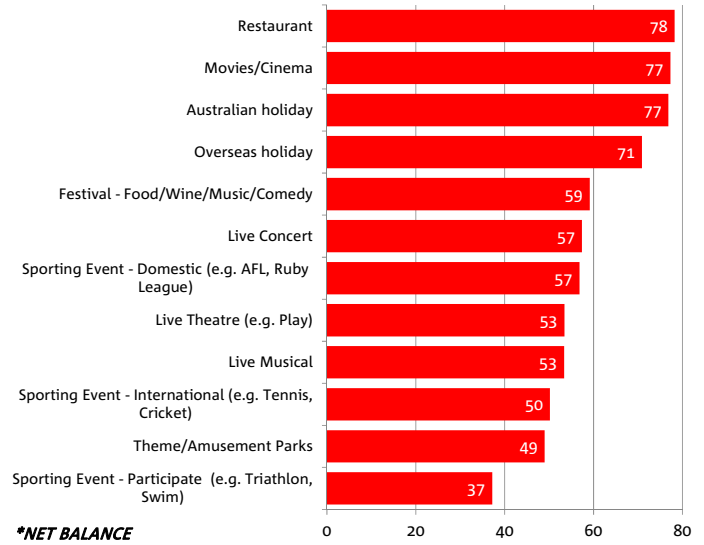
Businesses already dealing in experiences such as those in entertainment, travel and food, are enhancing them to benefit from this shift in the economy.

In this section of the report, we ask consumers to rate their experience across a number of these categories including holidays, live theatre, sporting events and restaurants.

In net terms, more Australian consumers rated the experiences they attended or participated in over the past 12 months positively than did those who rated their experiences negatively. But, while all categories scored positively, some scored much better than others.

Restaurants (+78), movies and cinema (+77), Australian holidays (+77) and overseas holidays (+71) were rated positively by the most Australians. Conversely, participating in a sporting event (+37), theme and amusement parks (+49) and international sporting events (+50) provided a positive experience for the least number of Australians.

HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - OVERALL*

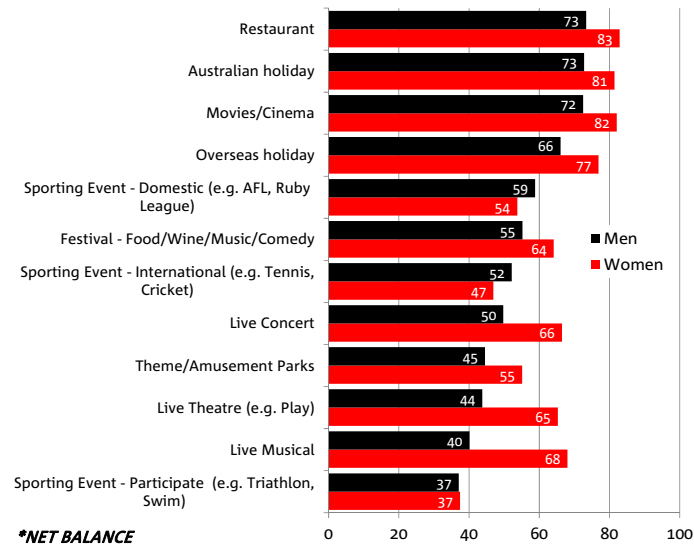


By gender, more women rated their experiences positively than did men across nearly all categories, except for domestic and international sporting events (where men were slightly more positive) and when it came to participating in a sporting event (even). The biggest differences between men and women were most visible when it came to live musicals, live theatre and live concerts, which were rated positively by considerably more women than men.

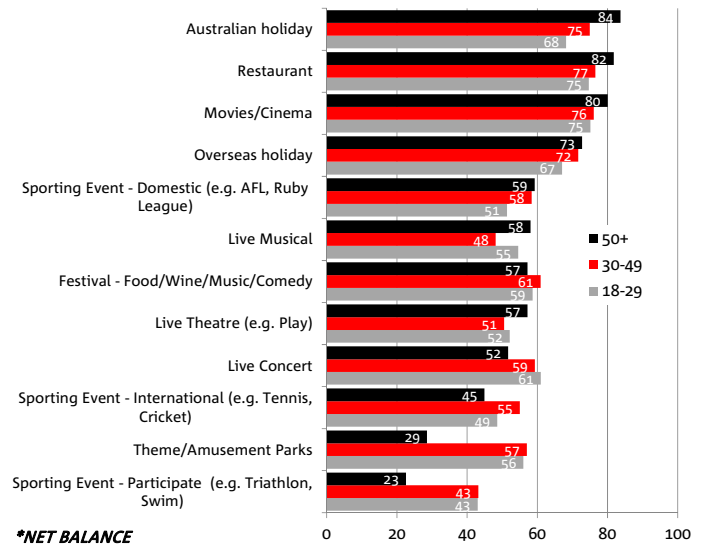
There were also some noticeable differences by age group. Over 50s rated their Australian holiday experiences the highest overall (and well above young Australians). They also led the way when it came to restaurants, movies and cinema, and live theatre. However young and mid-aged Australians were much more positive than over 50s when it came to participating in sporting events, theme and amusement parks, and live concerts.

More mid-aged Australians also rated international sporting events higher than any other age group.

HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - GENDER*



HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - AGE*



Not only are we spending less money on buying things, and more on doing things, we're also more likely to share our experience online afterwards than if we were to buy something.

When asked to rate the extent we share our experiences or events on social media, Australian consumers scored on average 3.7 points (where 10 is completely), significantly higher than sharing purchases of things on social media (2.8 points).

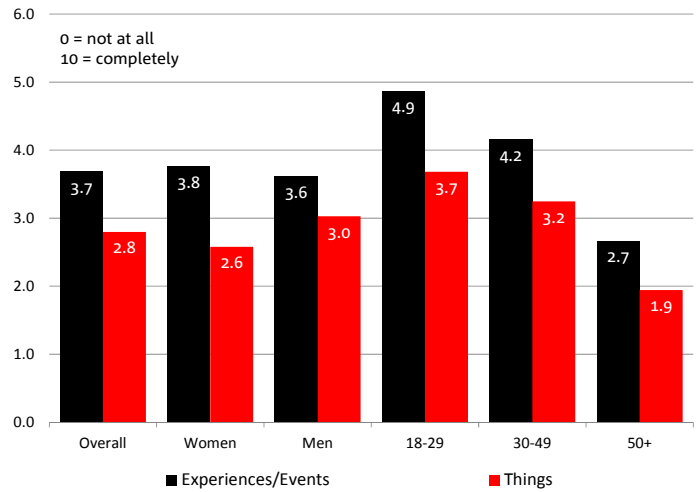
Women and men were more likely to share their experiences online than purchases of things. But women (3.8 points) were a little more inclined to do so than men (3.6 points). Men (3.0 points) were however more likely to share their purchases of things online than women (2.6 points).

By age, 18-29 year olds were by far the most likely group to share their experiences online (4.9 points), and young women (5.2 points) much more likely to do so than young men (4.5 points).

Consequently, social media has also become more influential in helping to shape our purchasing decisions. Unlike pure online, social commerce (also called social shopping) companies enter - and foster - an active relationship with the customer via social media. Marketers have quickly recognised the power of 'friend' recommendations and started proactively recruiting people to sell products.

Some social media platforms are going even further and beginning to sell merchandise inside their own digital store directly or through imbedded shopping links to items shown in displayed images.

EXTENT WE SHARED OUR EXPERIENCES/EVENTS & PURCHASES OF THINGS ON SOCIAL MEDIA



SHOPPING FORMATS MOST VISITED/EXPERIENCED

What about our shopping habits? Which formats do we visit most? While it's not surprising most people said they visited a traditional store in the past year, a relatively large number have also visited an online store.

Almost all of us have visited a major supermarket chain (99%) or a discount department store (94%). A very large number (around 8 in 10) have also visited a traditional chemist, discount supermarket chain or music/electrical store, and 7 in 10 a traditional department store or clothing chain.

Fewer of us have visited a traditional sports store (6 in 10), travel agent or warehouse store (5 in 10).

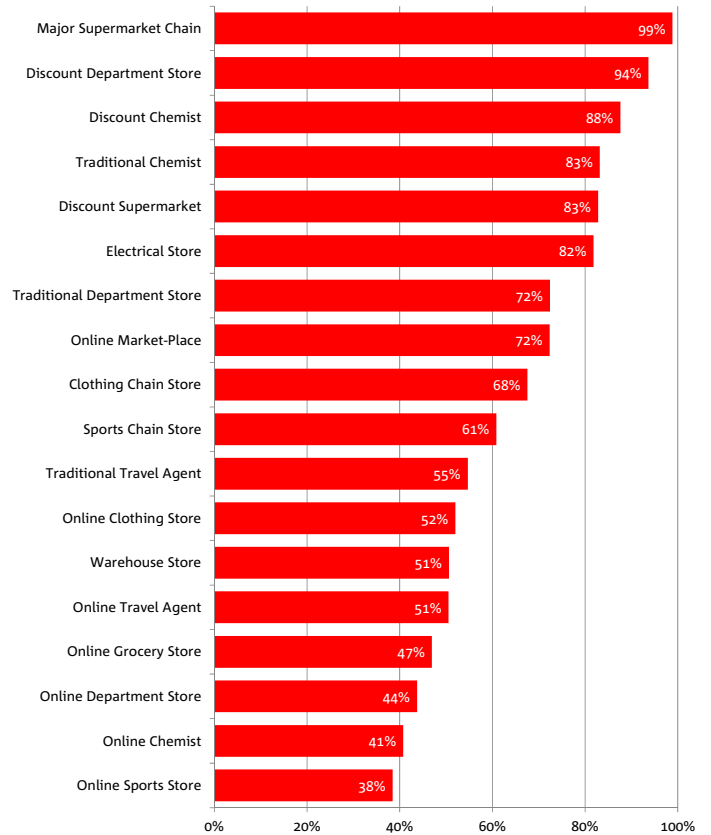
The penetration of newer online formats is also very apparent, particularly among early adopters such as online market places such as Amazon or E-Bay (7 in 10).

While visitation to other online formats is less than their traditional counterparts, they are nonetheless significant with around 1 in 2 Australians visiting an online clothing, travel or grocery store over the past year, and around 4 in 10 an online chemist or sports store.

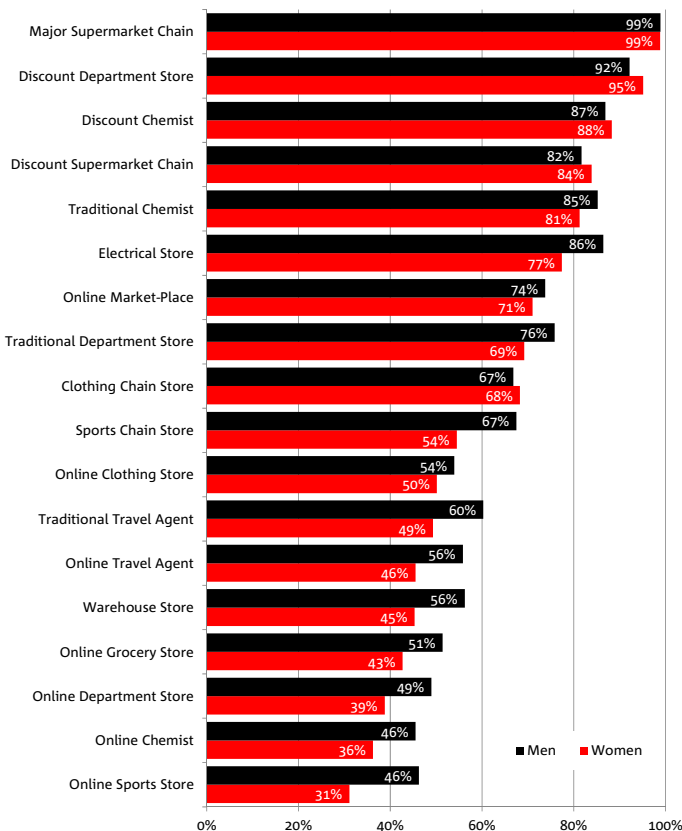
By gender, it was interesting that more men had visited nearly all physical and online retail stores than women, except discount department stores, chemists and supermarket chains.

By age, over 50s were more likely to have visited all types of shopping stores than any other age group and young people typically the least likely.

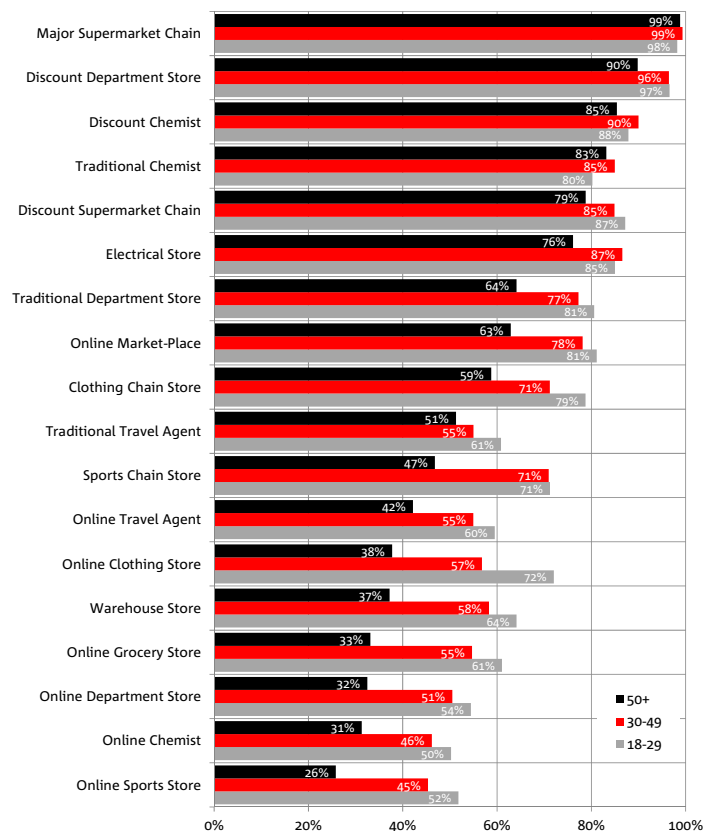
HAVE VISITED IN THE PAST 12 MONTHS - ALL (percentage)



HAVE VISITED IN THE PAST 12 MONTHS - GENDER (percentage)



HAVE VISITED IN THE PAST 12 MONTHS - AGE (percentage)



HOW WE RATE OUR SHOPPING 'EXPERIENCES'

Many other businesses, particularly retailers, have also recognised the importance of providing a great experience for the customer.

In this part of the report, we again ask Australians to rate their experiences across a range of retail formats over the past 12 months.

Physical retail stores (visited in person) led the way, with more consumers rating their experiences positively at discount department stores (+63), major supermarket chains (+61), discount chemists (+60) and supermarket chains (+58) than for all other retail formats.

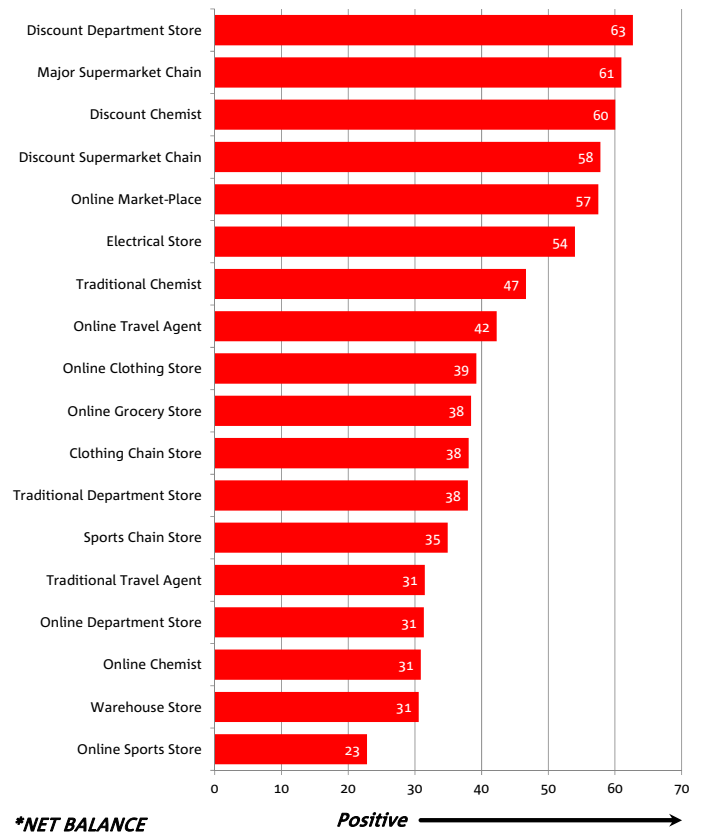
It was noteworthy that the top performers delivered a positive experience for more Australians than did several recreational experiences such as theatres and sporting events.

But, there were also a number of 'shopping' experiences that scored poorly.

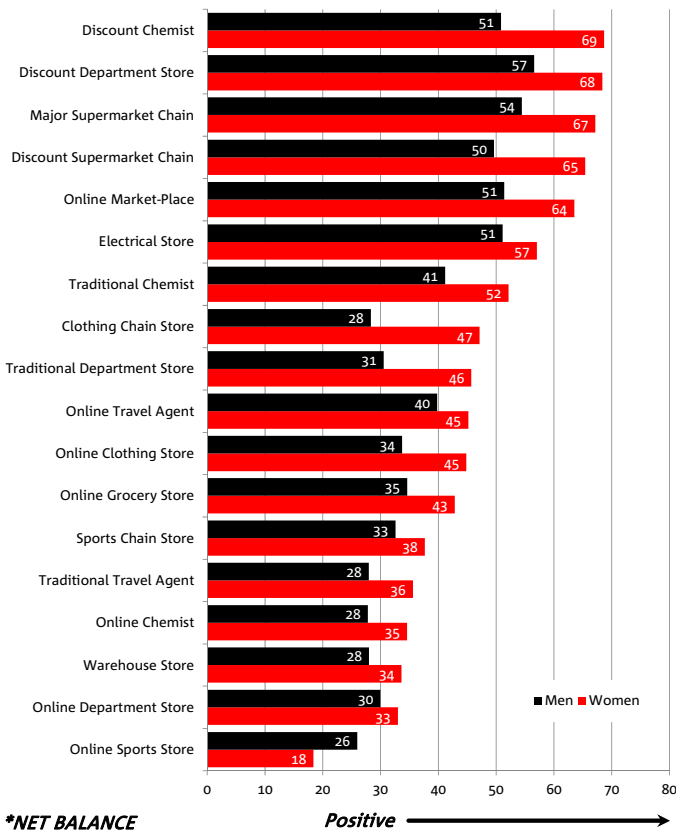
Physical stores that were rated least positively included warehouse stores (+31), traditional travel agents (+31), sport chain stores (+35), department stores (+38) and clothing chain stores (+38).

The highest rated online retail experiences were for online market places like Amazon and E-Bay (+57). Online sports stores (+23), chemists (+31) and department stores (+31) rated the lowest.

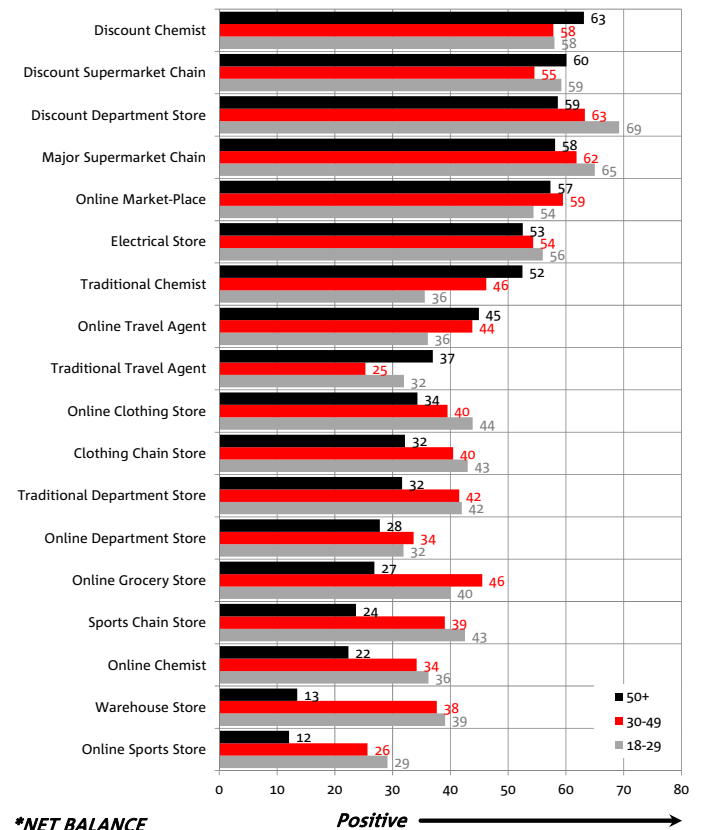
HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - ALL*



HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - GENDER*



HOW POSITIVE WERE OUR EXPERIENCES IN THE PAST 12 MONTHS - AGE*



More women rated their experiences positively than did men across all retail formats, except online sports stores. This was most obvious when it came to clothing chain stores, discount chemists, discount supermarkets and traditional department stores.

Noticeably more 18-29 year olds had a positive retail experience with discount department stores than any other age group. Mid-aged consumers (aged 30-49) were more positive in regards to online grocery stores. Interestingly, while more over 50s were positive about traditional and discount chemists.

While the future of retail stores and more particularly what they should offer customers is still unclear, one thing is sure - physical stores are not dead! Many retail brands are investing heavily in innovation and experimenting with a broad range fresh new physical retail formats to complement their online offering. One thing that these new concepts have in common is their desire to offer an improved customer experience.



WHAT WE VALUE MOST AS A CUSTOMER FROM A PHYSICAL RETAIL STORE

We asked consumers to tell us what they valued the most from a physical retail store. Overwhelmingly, it was 'good value for money' according to more than 1 in 2 (54%). This helps explain why consumers also rated their overall shopping experience highest at discount department stores, major supermarket chains and discount chemist and supermarket chains.

Other factors they value include a convenient location (37%), friendly and knowledgeable staff (33%), lowest prices overall (30%) and a good variety of things (30%).

Interestingly, some the factors often touted as important for today's retail formats - such as entertainment, store layout, bespoke products and personalisation were not valued as highly. Moreover, only 5% said they would prefer to shop online and only 7% wanted an 'omni-channel' experience (i.e. an online as well as physical presence).

This is not to say these factors are not valued, but it's clear there are certain minimum expectations that consumers value from a shopping experience that must be met first.

Value was the key for women and men. They also valued most other drivers similarly, except quality products and easy to get in an out quickly (much more important for men), and a good variety and great sales/promotions (much more important for women). Value was the also the most important factor by age, especially for over 50s. Older consumers also placed much more value on friendly/knowledgeable staff, location/convenience and variety, while more young people valued sales and promotions and having online as well as a physical presence.

WHAT WE VALUE MOST AS A CUSTOMER FROM A PHYSICAL RETAIL STORE - OVERALL (%)*



WHAT WE VALUE MOST AS A CUSTOMER FROM A PHYSICAL RETAIL STORE - GENDER (%)*



WHAT WE VALUE MOST AS A CUSTOMER FROM A PHYSICAL RETAIL STORE - AGE (%)*



When asked to think of examples of retail stores that met their top 3 most valued criteria, the most frequently nominated stores by number of responses were Kmart, Woolworths, Coles, Myer, JB Hi Fi, Target, Aldi, Big W, David Jones, Bunnings, Harvey Norman, Chemist Warehouse and IGA.

This list is particularly noteworthy in that it contains many retailers which still have a strong physical footprint, are not in the discount format, and are more established traditional brands.

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