Love and convenience in relationships between consumers and retailers

Consumer behaviour research
June 2021

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Ukrainian consumers: who are they?

Almost 1,000 respondents of various ages and from different parts of Ukraine participated in our online survey. They are a representative sample of consumers. However, it is sometimes challenging to see real people with their habits and experiences behind graphs and percentages.

Therefore, based on the data, we created consumer personas. They are our survey participants. There are many people like them in Ukraine. In this report, we explore their shopping experiences.

Nastya | Student

21 years old
No children
No permanent earnings

Nastya visits brick-and-mortar stores offline more frequently than buys through a smartphone. However, in 2020, she began ordering products online significantly more frequently than before. She is saving money, so considers the price. In addition to food, she spends money on clothes and electronics. So far, she is not interested in home improvement goods and household appliances. She is likely to travel Ukraine in 2021.

Tetyana | Mother

34 years old
Has children

Tetyana makes purchases through a smartphone more and more frequently, this is especially true for clothes and shoes. However, she still prefers in-store shopping. For groceries, she would rather go to the corner store. And for medicine – to the drug store, as you can get advice from a pharmacist there.

Oleh | Manager

44 years old
High income,
lives in a big city

Oleh buys something online at least once a month. In 2020 he was buying clothes online more frequently than before. Despite the pandemic, works mainly outside home, and in 2021 plans to visit office even more often. He is likely to spend the next vacation in a hotel abroad.

Mykola | Workman

55 years old
Unskilled job, low income,
lives in a small town

During the pandemic period, he did not start buying more online because shopping in regular store is much more convenient to him. Rarely works from home. He spends time with friends mostly away from home as well. He is unlikely to travel in 2021.

Tamara Vasylivna | Pensioner

65 years old
Lives in a small town

She mostly buys goods offline. Goes to the store for bread almost every day. She also buys medicine and household goods exclusively offline. However, sometimes she can purchase clothes or household appliances online. Can get along with both computer and smartphone. Saves money and looks for cheaper goods.

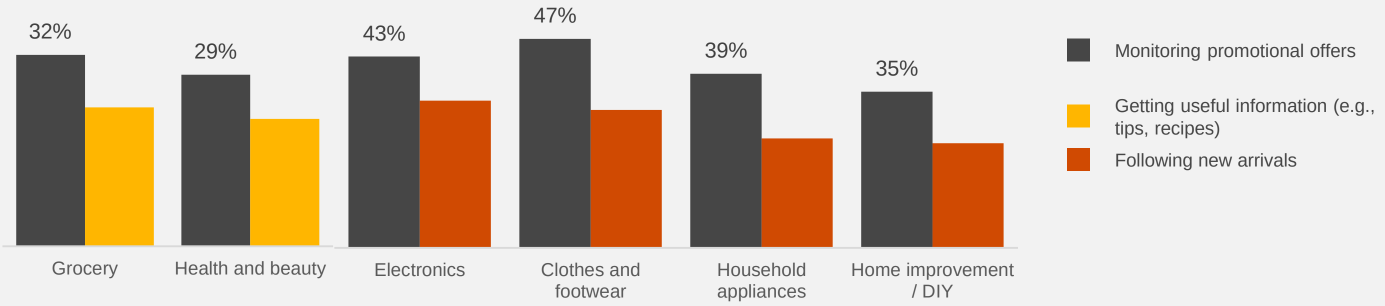
Trend 1 Looking for bargains

56% of consumers prefer to buy from retailers who offer goods at reduced prices

Among consumers with low-income this figure is 62%. And this is easy to explain. On the one hand, for many Ukrainians 2020 became a test on financial stability. Losing a job, declining income or concerns about the future caused people to reconsider spendings and look for opportunities to save. On the other hand, the launch / development of online sales by brands and retailers made it easier for consumers to “hunt for discounts”.

For many consumers even interaction with brands on social networks is primarily a way to monitor promotional offers.

Why do Ukrainians follow brands on social networks?



66% of consumers say that they pay more attention to promotions and offers on the internet than in regular stores.

How does business react?

- Retailers continue to actively develop private labels, appealing to the “value for money” attribute
- The online platform for orders from supermarkets Zakaz.ua has a separate section “Discount items” in each product category
- In 2020, many retailers extended Black Friday discounts for a week due to the need for additional sales promotion
- Retailers are looking for new reasons to attract customers with bargains, such as World Shopping Day on November 11 (in China – it is “Singles’ Day”)

How to ensure the growth of the company?

> Aggressive promotional policy (both in frequency and depth) aimed at customer conversion is likely to be challenging from the financial health perspective.
>
> **Maciej Kroenke**
> Head of Revenue Management in CEE, PwC

- Rethink pricing and promotional strategy with two assumptions: be honest with consumers and rational in terms of value for business

Expert opinion

Successful innovations

How can companies avoid the “vicious circle” of permanent discounts and maintain an acceptable level of profitability?

Whether in restaurants or other service areas, the popularity of promotional offers has been growing for several years in a row. Ukrainian consumers are becoming more sensitive to prices for goods and services, especially when it comes to leisure (visiting a restaurant, spa, barbershop, entertainment centres). After all, the lion's share of family income has to be spent on the most necessary things.

For example in the restaurant sector, players can be divided into two groups: those who consider promotional events an effective way to achieve business goals and those who categorically do not accept this format of attracting guests.

The first group includes long-term projects that implement promotional offers on an ongoing basis (such as Eurasia, SoloPizza, Mister Cat, Dominos) and those who experiment with such tactics from time to time (Pesto Cafe).

Most often, restaurants that are strongly against promotions as a way to attract attention and increase the traffic, are those that have a higher average check and unique positioning or family chain businesses, which put priorities towards a high level of service to create a “lovemark”.

There is a number of typical situations when business decides to launch promotional offers:

- At the launch stage (to attract attention)
- When updating the menu / rebranding
- When the revenues are declining (to increase average check, turnover and emergently rise revenues)
- To stimulate low traffic days of the week or time slots (to increase the traffic at specific times)

In order to understand what types of promotional offers bring the greatest value to the business, it is necessary to conduct a detailed analysis of the target audience to determine the sensitive points of consumers, the peculiarities of their behaviour. And then compare the information with the goals and objectives relevant to business at this point of time. Next, build a few hypotheses and start testing them. This process should be supported with detailed collection and analysis of indicators.

The main goal of marketing specialist in this situation is to find one or more optimal solutions for promotional activities that help with specific tasks and do not drag profitability to the bottom. It requires a budget, time for experiments and detailed work with numbers.

Iryna Matveienko,
Head of Marketing, WOUCH! application, UNIT.City resident

UNIT.City

Trend 2

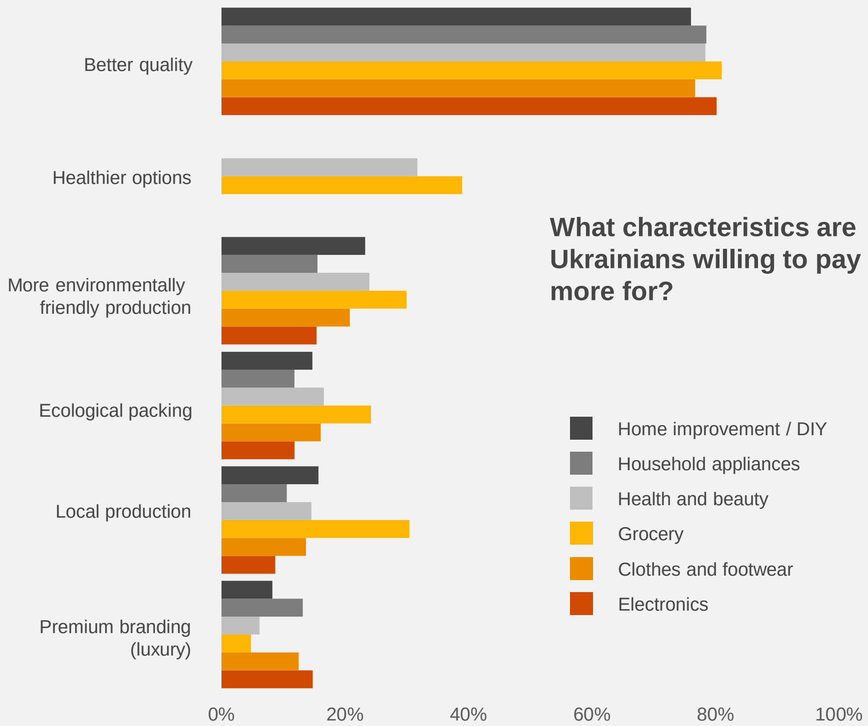
Willing to pay more for the better quality

On average,

92%

of consumers are willing to pay more for product characteristics that are important to them

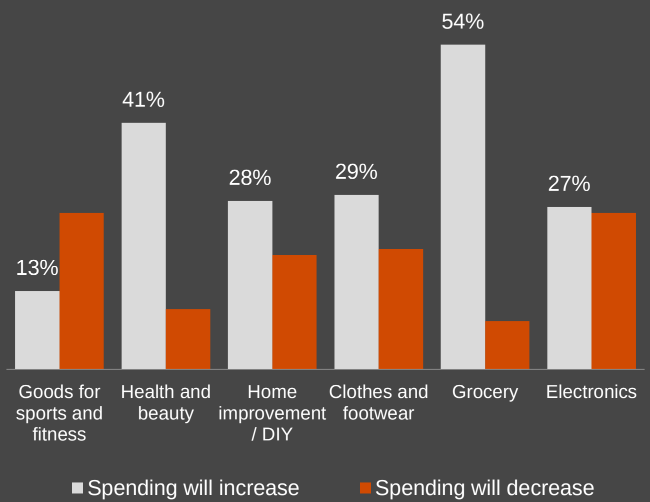
What characteristics are Ukrainians willing to pay more for?



About **80%** of Ukrainian consumers are willing to pay extra for the better quality of goods in all categories. This seems obvious, but according to PwC Global Consumer Insights Survey there are far fewer such consumers in the world – **30-50%** on average. However, the latter are more willing than Ukrainians to pay for environmental friendliness, premium status and locality.

According to consumers, the price increase for additional characteristics of products in Ukraine works best in the category “grocery". In fact, **54%** expect increase in spending in this category in the first half of 2021. While people spend a lot of time at home, high quality food remains one of the priorities and an affordable "joy of life."

How consumers expect to spend money in the first half of 2021



How to ensure the growth of the company?

- Use existing or develop new tools to analyse product sales quickly
- Monitor changes in sales trends mostly in terms of assortment items and price categories
- Improve or implement a loyalty program to provide customer-level analytics, personalisation-driven sales activation, and more effective direct communication with consumers
- Focus on measures that improve customer experience and explore price perceptions with an understanding of rising price sensitivity

Expert opinion

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How do brands attract new customers in the face of fierce price competition?

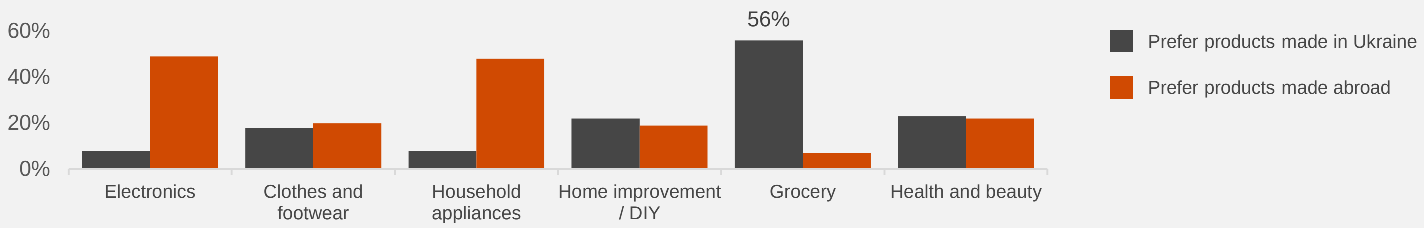
Price is always a relative indicator. The customer does not compare Ferrari and Volkswagen at price, but rather is guided by value and quality according to one's own perceptions. That is, the customer assesses whether the product meets certain expectations. Therefore, constantly evaluate your product fairly. Make sure you clearly translate why at equal competitive price your product is better than others.

Gavin Conway,
Head of Marketing, Growth Shop

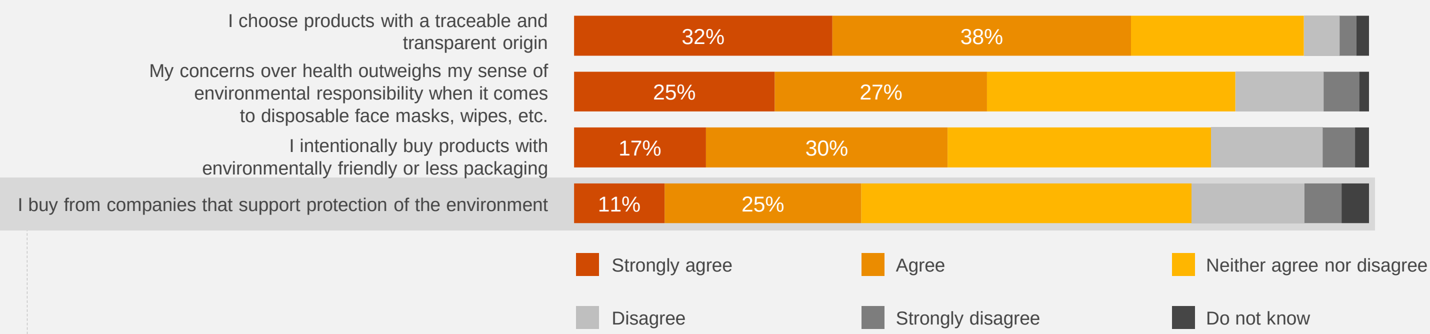
Trend 3 Do not appreciate locality too much, but care about the environment

The global trend to favour and support local producers and sellers is relatively weak in Ukraine. Only **25%** of consumers confirmed that they buy goods from local independent retailers. And **29%** purposefully support local entrepreneurs in social networks (for example, share information). Whereas in the world, such patterns of behaviour are demonstrated by **45%** of consumers.

Ukrainians prefer domestic producers when shopping for groceries and foreign ones when choosing appliances or electronics. In other categories, the number of supporters of foreign and local products is almost equal.



55% of consumers shop in large supermarkets and well-known national chain stores. Given the low demand for the locality, it is difficult for independent retailers to compete with them. And big players use opportunities and develop networks, using the franchise model among others.



This is the main trend in the world. In Ukraine, such behaviour is more common among young consumers. However, in general, the trend is not decisive. Consumers are more likely to analyse the environmental component of goods by themselves than to trust brands' communications about environmental activities.

How does business react?

- National corner stores chains actively grow and successfully compete with small independent "no-name" stores
- Retailers choose environmental consciousness as a differentiation point and develop on a national level – "Eko-Lavka", "Moloko vid fermera", "Lavka Tradycij" in Silpo.

How to ensure the growth of the company?

> Locality in terms of short supply chains and environmental friendliness is not just a matter of consumer choice priorities. Buying local products, choosing healthier options, reducing waste (including plastic packaging) is a model of behaviour that progressive countries / cities are already promoting and implementing within the concept of a circular economy. And we will definitely continue to move in this direction, regardless of who will be the driver of trends – consumers, companies or government.

Ksenia Vardzelova,
Customer Experience Senior Consultant, PwC Ukraine

Expert opinion

Successful innovations

From the point of view of the circular economy, what new habits in consumption and lifestyle in general, will become widespread among Ukrainians in the next 5-10 years?

I would highlight the following trends:

- The share of people who will care about the origin of the product will increase. However, this does not mean that they will necessarily choose the local ones.
- Sharing will increase in different areas: working spaces, cars or household tools. New options for shared use will appear.
- Mobility and electrification. This is a trend that we are already witnessing. And this is an example of a case that became possible due to incentives and regulation by the state. If the excise duty and VAT on the import of electric cars are returned, the trend will likely be interrupted.
- Preference to companies that support the environment. I am confident that this global trend will become relevant for Ukraine as well. Although greenwashing by businesses is still the case, companies and their consumers are evolving rapidly. In 5-10 years, it will be necessary to disclose supply chains, ethical and social components of businesses. Moreover, consumers play an essential role here, especially Generation Z, who understands that the circular economy is about design and systematic approach.
- Reducing plastic consumption. However, this will hardly happen due to consumer eco-consciousness but rather due to certain regulatory changes. By the way, there is a study according to which the eco-packaging is the least important decision factor for a consumer when there is a price difference.

Therefore, I am not sure that this trend will become widespread in Ukraine in the next 5-10 years. However, when the market for recycling materials is formed, circular design principles and new business models are introduced, we will consume less plastic.

When it comes to innovation in the circular economy context, it is essential to say that genuine innovations are not robots or drones but changes in the systems, processes and behaviour of people who drive the changes.

Roman Puchko,
Co-Founder, ReThink NGO

We should keep in mind that urban and rural population is characterized by different trends. If we talk about the urban population, I would add the following trends:

- Fast logistics. The locality is not as critical to the city dwellers as the ability to quickly get ready meals, the necessary range of goods etc. However, the consumption of local products is typical for rural residents.
- Sharing. Currently, there are shared service models in the apparel industry, household appliances, children's goods, and this trend will intensify. As for transport, this applies not only to cars but also bicycles and scooters.
- There is a request for information on conscious consumption, and people are ready to change their lifestyle accordingly. For example, they are willing to sort waste if we explain that their efforts will not be offset further in the waste management chain. They are ready to use electric cars if there are charging stations available. Besides, they will give up plastic bags if there are alternatives and such habits are promoted.

As for the Unit Home project, we are already considering how our residents will live here in 5 years. First of all, we studied the scenarios for further development of environmental initiatives at the city infrastructure level and provided options to implement them in our project in future.

Olena Tsymbaliuk,
Architect, UNIT.City

Trend 4 Not concerned too much about COVID-19

In 2020 almost half of consumers worldwide were buying in-store less frequently but in larger quantities mostly because of shopping safety concerns during the pandemic. In Ukraine only **25%** of consumers confirmed this trend.

Even among those who buy food online, only about **18%** do so for health safety reasons.

In general, consumers do not require retailers to take extreme measures to counter the spread of COVID-19. More than half of respondents listed the following measures in order of priority:

- Disinfection of baskets, carts and equipment
- Employees must wear masks
- Customers must wear masks
- Availability of sanitizers
- Better ventilation in premises
- Food products (e.g., bread, pastries) in individual packaging
- Require social distancing (e.g., stickers on the floor)
- Restrict the number of customers who are in the store at the same time

The vast majority plan to visit shopping malls, despite the still difficult situation with COVID-19.

How likely are you to visit shopping mall in the next six months?

How does business react?

- From the very beginning of the quarantine, retailers promptly introduced basic enhanced safety measures
- Due to the rapid growth of demand for online orders, retailers have launched / improved the delivery of goods through their own services or in cooperation with partners
- Retailers began to use self-checkouts more actively

How to ensure the growth of the company?

The following three key areas remain in the focus of retailers during the pandemic:

Successful retailers must adapt to rapid change and potential future "bioshocks", be prepared for the constant war on traffic and at the same time ensure business continuity.

Expert opinion

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How can brands maintain a balance in communication during a pandemic, showing care for consumers on the one hand, and encouraging them to interact offline (if other channels are currently inefficient)?

Effective communication is honest communication. It is really a challenging path to tell the truth to consumers and not loose them, but on the contrary, win respect (tone of voice, messages and many other factors play a significant role here). Yes, there are risks and many “buts” along the way. However, right now we all so much lack honesty and “authenticity” in a turbulent and unstable “pandemic” media.

Therefore, care equals honesty. It is ok to admit if the brand is going through a crisis, as we all are in more or less same circumstances right now.

Do not be ashamed to admit a mistake – it is a shame to pretend that no one but you sees this mistake.

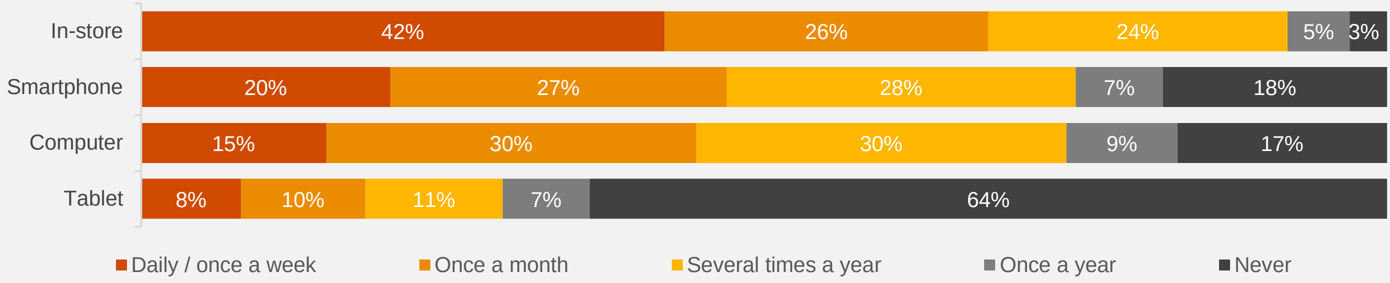
If you want to stimulate your customers, talk to them about their needs, ask how you can meet these needs, how you can be helpful. Explain what is important to you (for example, social initiatives), and suggest doing something together (through interactive activities). Don’t push to sell, but build relationships to gain customers – seek for quality, not quantity.

Nataliia Kryvytska,
Marketing Specialist, PwC Ukraine,
UNIT.City e-resident

UNIT.City

Trend 5 Choose experience not the channel

How do Ukrainians shop?



Ukrainian consumers buy goods in-store more frequently than online when it comes to routine shopping for daily living needs. Except FMCG, for other goods there is almost no difference in the ways of shopping – in-store, smartphone and computer. The least common devices for online shopping are digital accessories and smart home devices. More than 75% of the population have never made purchases this way.

Grocery is traditionally the strongest category for offline shopping. **39%** of Ukrainians buy food exclusively in-store. By the way, in the world, grocery is also a top offline category, but the share of such consumers is twice smaller – **17%**

31% of consumers now buy **clothes and footwear** online more frequently than before, whereas **8%** shop exclusively online. Both in Ukraine and the world fashion is the main category that saw additional consumer traffic to the online channel during the pandemic.

It is cheaper on the internet. It is more convenient in-store.

These are the main reasons why consumers choose online or offline shopping channel, respectively.

Consumers say that for most goods **quality and service** are the advantages of offline shopping. Whilst **wide range and availability in stock** are the strengths of online.

We assume that quality is to a large extent a matter of perception because most products of the same quality can be found both online and offline. But when consumers choose in-store shopping because of better service (relates to all goods except grocery) we think the reason is sometimes immature digital channels and extra efforts needed to make a purchase. Besides, it is very important for people to be able to get advice from a consultant in-store if necessary (**60%** of consumers agree with this statement).

Which of the following is important for Ukrainian consumers?

Online

- Availability of online customer reviews
- Fast / reliable delivery
- User-friendly website
- Availability of the required goods in stock

Offline

- Ability to try on or check how goods look like in reality

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How to create seamless online experience for consumers? Where to start from? How to ensure continuity in the long-term and get feedback from consumers?

Businesses usually start with interviewing customers, deriving and compiling insights: What stops customers from buying? What is the problem? In other words: when it is challenging to decide on colour / options / size ... – what to choose? Empowered with this information, you can develop a strategy and improvement plan. After implementing these improvements, you can verify if they work by conducting further research / user interviews or analysing data, for example, such as add-to-cart rate.

Give customers the opportunity to pay for goods in reliable and convenient ways – PayPal, Apple Pay, Google Pay, as well as local payment systems. After such changes, double-check your numbers and analyse whether the share of orders is increasing and how customers use the introduced services.

Gavin Conway,
Head of Marketing, Growth Shop

UNIT.City

Trend 5 Choose experience not the channel

Retailers are developing omnichannel and reducing the distance to consumers. In-store retailers set-up online orders pick up point, and natively online players go offline with the concept of showrooms.

45% **of consumers are ready to return to shopping malls after the end of the pandemic for picking up online orders, in addition to traditional shopping.**

Players such as Amazon, FedEx and DHL in the US are already occupying spaces in shopping malls, that have faced a sharp drop in consumer traffic, and converting them into their own fulfilment centres.

Brands team up and experiment with formats to get consumer traffic – Sephora opens pop-up stores in Kohl's and Apple collaborates with Target.

Retail becomes more customer-centric. It is not the sales channel that is important, but the experience the customer gets from interaction.

The store of the future will organically combine physical and digital worlds. Technology will rapidly change trade. Consumers will expect interaction without frictions and extra efforts. Traditional channels will continue to blur as sellers and producers develop direct interaction models with consumers (D2C – direct to consumer).

Customer experience will be the main measure for brand evaluation. Stores will give consumers an opportunity to try out and experience the best that the brand has to offer, and technologies such as virtual and augmented reality tools will help with this.

How does business react?

- Rozetka develops a network of online orders pick-up points combined with offline stores equipped with fitting rooms
- Nova Poshta places parcel machines in shopping malls and residential buildings
- Auchan, Novus, Varus experiment with formats and open small corner stores
- Online retailer Make up opened the first offline store with showroom concept
- Karavan shopping centre acquired LeBoutique marketplace and offers tenants to join the platform
- TSUM develops online store and strives to offer the same range of goods online and offline

How to ensure the growth of the company?

"Capture the preferences of your customers to ensure relevance of your business model in the long run. You need to collect and use as much structured and unstructured data about your customers as possible. Understanding their needs will help you grow.

Dmytro Nechytailo
Advisory Leader, PwC Ukraine

As omnichannel develops, be prepared for future supply chain challenges:
- Managing profitability
- Improving volume flexibility
- Increasing supply chain visibility and traceability

Expert opinion

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How can retailers benefit from the digitalization of supply chain today, and is it possible that supply chain will work almost autonomously and on the principles of self-regulation in the future?

Warehouse inventory accounting for offline and online channels is different. For the offline format, the goods are stored on store shelves, for online – in the warehouse. As long as this is the case, the channels will not be able to blur completely but rather will complement each other. In order for offline and online to become a single channel, it is necessary to change the technology of inventory accounting completely.

As for the digitalization of the supply chain, first of all, we are talking about digitization. Everything that was in paper form should be digitized and translated into electronic format. Thus, we get rid of manual operations, make the process transparent. This is the first step of digitalization, which will allow to start data collection. In Ukraine, we are just climbing this first step. Of course, some leaders are already there. But most companies are just starting to think about digitizing processes.

In addition to digitization, artificial intelligence technologies are needed to move further towards supply chain autonomy and self-management. So far, these technologies are not yet developed enough to solve problems of this level. In addition, the digital supply chain involves robotics, which in our conditions is difficult to imagine due to the low cost of labour in the warehouse.

So, in theory – yes, we can come to an autonomous supply chain, but in practice, this is unlikely to happen in the coming decades. There is simply no demand from business for this yet.

The most progressive companies in Ukraine, which have already taken the first step and digitized the processes, are moving to the gathering of logistics data – warehouse and delivery data. As a result, they will receive measurable processes in terms of time and money, which will enable them to assess the margin of the Stock Keeping Unit and, based on available data, manage this indicator.

Starting the process of digitalizing the supply chain is not about quick wins. This is a big job with a long-term perspective, which required overcoming resistance inside the company.

I would advise to start the process of automation of logistics in the company from the warehouse because it is often the root of the problems for the whole chain. In addition, attention should be paid to yard management – control of everything between leaving the warehouse (ramp) and leaving the territory of the enterprise. Oddly enough, but this area is often a gap in the supply chain. The purpose of automation of this zone is to normalize the queues in the warehouse, and for many businesses – to avoid fraud, in fact, theft of goods.

Problems in the warehouse can directly affect the end customer. From the outside, everything can look very convenient – website, receiving orders, online payment. The problem arises when it turns out that the company can not effectively manage orders in the warehouse. Accordingly, the consumer will receive it with a long delay, if receives all. Very often, the problems that may seem last-mile issues in reality are the shortcomings of inventory accounting.

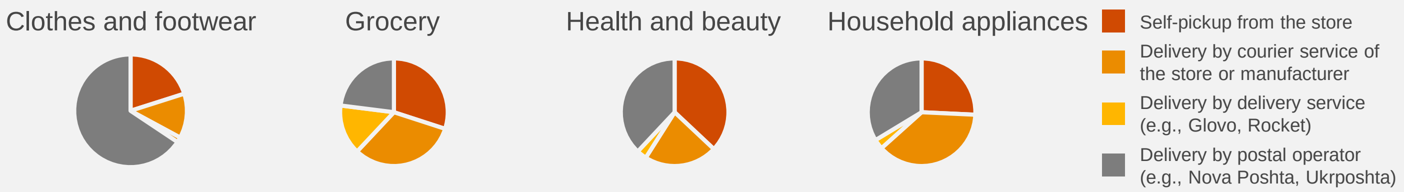
Olena Berestetska
Business Development Manager, Tocan Solutions, UNIT.City resident

UNIT.City

Trend 6 Getting used to deliveries

Ordering online and delivery have become an integral part of Ukrainians' lifes. Among the methods of delivery for most product categories, delivery by postal operators predominates. The greatest variety of delivery methods is typical for the category "grocery". Also such delivery services as Glovo, Rocket, Bolt and others are more popular in "grocery" than in other product categories.

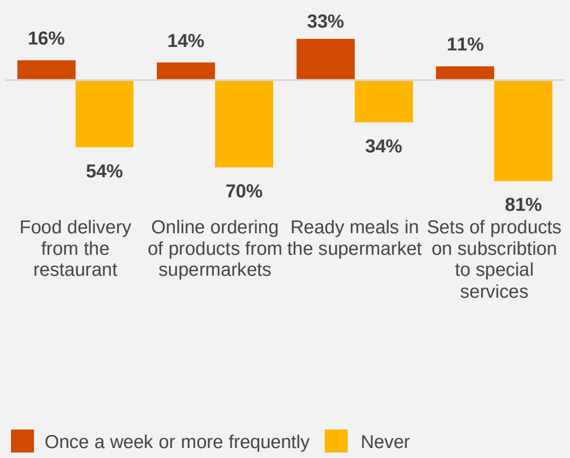
Which delivery method do you use most often?



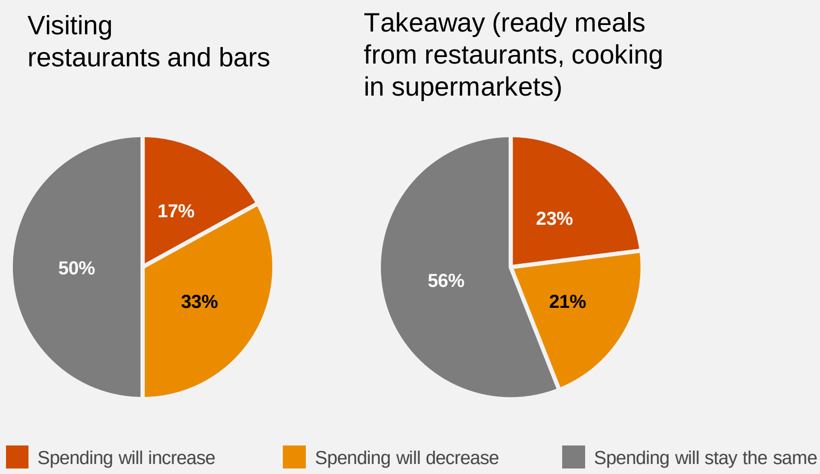
Food delivery, in particular from restaurants, is more popular in large cities. We already got used to couriers with colourful backpacks, and the potential for further market development remains significant. In fact, these services are gradually becoming more than purely delivery services. They are becoming a part of the food service sector in two dimensions:

- they accumulate traffic of the traditional audience of the restaurant sector, especially in the context of pandemics and lockdowns;
- they develop their own and exclusive offers from restaurateurs – in the dark kitchen format.

How often do you buy food in the following ways?



How consumers expect to spend money in the first half of 2021



How does business react?

- Silpo promptly launched its own delivery service
- The number of orders from supermarkets through Zakaz.ua platform increased by 2.5 times in 2020
- Cooker, a noticeable player, has entered the market, promising to deliver products in 30 minutes
- Retailers deliver online orders to pick-up points at filling stations and Nova Poshta branches

How to ensure the growth of the company?

" Consumer requirements for delivery services are growing. To be successful, you need to improve the following characteristics:

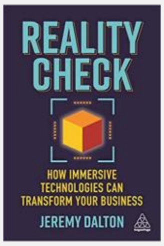
- The range of goods available for ordering
- Accuracy and completeness of orders and delivery
- Delivery time
- Competitive price for all users (both end-users and commission for business)

Mariia Volkovska,
Customer Experience Manager,
PwC Ukraine

Further readings

In the research, we outline five trends that are already shaping the future of consumer markets and offer a plan to overcome the uncertainties and challenges that will help you make the most of new opportunities.

Our Global Consumer Insights Survey results show that many trends in consumer behaviour have strengthened during the pandemic. In particular, there are four essential fault lines developing that are creating distinct groups of global consumers.



The book “Reality Check” dispels the common misconceptions of AR and VR, such as them being too expensive or not easily scalable, and details how business leaders can integrate them into their business to deliver more efficient, cost-sensitive and exciting business solutions.

What strategies do CEOs from around the world use in 2021 to stimulate business growth? Our CEO survey answers this question.

“Strategy + business” – is an award-winning management magazine for decision makers in businesses and organizations around the world. Our purpose is to illuminate the complex choices that leaders face – in strategy, marketing, operations, human capital, governance, and other domains – and the impact of their decisions.