



Annual Retail Survey 2019

**What consumers are telling
us about how they shop**

January 2019

kpmg.com/uk/retail





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Introduction

For the last five years, KPMG's Annual Retail Survey has tracked consumer Christmas spending and monitored Black Friday's rise from a US-inspired shopping bonanza to one of the most anticipated events in the UK retail calendar. Based on insights into the shopping patterns of over 1,400 KPMG employees across the UK, the survey looks beyond the shop floor to the full dynamics of the UK retail ecosystem.

Eight years since Black Friday first catapulted onto British soil, consumers are clutching their wallets more tightly as they size up the opportunities in their sights. They're spending less, as lower wage growth, rising inflation and interest rates have dampened consumer confidence and curtailed retail sales across the board. The power of the UK consumer pound cannot be underestimated in this fiercely competitive market. Retailers, already grappling with rising import costs, squeezed margins and changing customer expectations, are having to think differently to claim what they can of the consumer wallet.

This year's survey looks at six key themes:

- **Black Friday** has continued to extend from a one-day event to a five week shopping fixture. But savvy shoppers haven't forgotten about the Boxing Day sales, and retailers must now account for both events.
- The **power of the brand** is becoming more pronounced as consumers bypass intermediaries and shop direct.
- **Buying British** could become a more popular choice for consumers if the UK's separation from the EU results in inflated price tags on imported goods.
- The **delivered experience** means retailers who invest in a seamless end-to-end customer experience are leading the pack.
- The **best of both worlds** is what consumers have come to expect, with brands needing both a strong physical and online presence to drive sales.
- Retailers must manage both **delivery and returns on demand**, as a number of products delivered boomerang straight back into the supply chain creating logistical challenges in both directions.

Methodology: The Annual Retail Survey 2019 looked at approximately 300 retailers and brands spanning 32 product categories. The survey examines the driving forces within UK retail, from brand experience, customer insights and the purchasing process to the supply chain, operations and the crucial last mile delivery and returns. The survey ran from 19 November to 21 December 2018. Data was collated through an online surveying tool, and analysed using KPMG's leading edge digital analytics tools.



1. Black Friday



Black Friday

Christmas seems to arrive a little earlier every year, and so does Black Friday. But the opportunity to bag a bargain is no longer restricted to a single day: in 2018 we saw at least five weeks of highly-publicised, heavy discounting with retailers fighting to be noticed by consumers. Boxing Day has reaffirmed its standing in the sales dynamic - the public holiday accounted for a significant portion of shoppers' spend as consumers took some respite from festivities to bag a bargain online. Retailers that had once shunned Black Friday were forced to slash their prices whilst others adopted new tactics and ramped up promotional activities. But this did little to boost consumer spending, as like-for-like sales for November stood at 0.5%⁽¹⁾ less than in the same period in 2017.

A mixed bag

As 2018 drew to a close and UK consumers displayed continued concern over uncertainty posed by Brexit, retailers did what they could to persuade them to part with their cash. Squeezed margins and dampened consumer sentiment prompted many high street retailers to discount deeply throughout the Black Friday and Christmas shopping period. 84% of retailers dropped their prices. Retailers who had previously refrained from the pre-Christmas sales embraced the opportunity to get involved, with Jigsaw, Whistles, Asda and Homebase participating in some Black Friday discounting. However, not everyone wanted in: Marks & Spencer continued to opt-out in favour of “offering all-year-round great value²”.

Savvy shoppers

Consumers have become even savvier to the bargains that they can get their hands on. 57% of shoppers who bought during Black Friday claimed that they intentionally delayed making their desired purchases until the sales period to avoid paying full price. Their patience appears to have paid off: 93% of respondents reported that they had received a discount by doing so. E-commerce proved itself the more popular channel to secure a discount: 79% of purchases made during the Black Friday shopping period took place online versus in-store, and 82% searched for voucher codes to bring their costs down further when purchasing online.

However, not all consumers were convinced of the savings that were to be made. YouGov³ also reported a slowdown in consumer engagement for the first time in 2017. As consumers wise up to the tactics retailers deploy in their pricing strategies at this time of year, it's clear that businesses need to do more to fuel the UK's enthusiasm for both the Black Friday and Boxing Day sales periods, rather focusing on either in isolation.

¹https://home.kpmg/uk/en/home/media/press-releases/2018/12/brc-kpmg-retail-sales-monitor-for-the-month-of-november-2018.html?cq_ck=1543843123834

²<http://home.bt.com/news/uk-news/black-friday-online-shopping-dominance-keeps-high-streets-quiet-11364312643875>

³<https://yougov.co.uk/topics/politics/articles-reports/2018/04/20/what-retailers-can-learn-last-years-black-friday-s>

Boxing Day

Boxing Day sales were etched into the UK shopping calendar well before Black Friday made an appearance; and while these festive discounts continue apace, retailers are marking goods down early. While 64% of those who shopped during the Black Friday promotional period saw this as the opportune time to buy Christmas presents at lower prices, 61% of survey respondents perceived Boxing Day to offer a greater depth of discount compared to Black Friday. While shoppers may remain split between these two sales pinnacles, retailers must sustain promotional activity around both events, and prepare for two heavy discounting periods spread either side of Christmas.

The retailers' perspective

Black Friday's extended presence has intensified the pre-Christmas headache that retailers are accustomed to. As they bow to sector-wide pressures to extend the breadth of their competitive discounting periods, margin pressures grow deeper. Retailers across the board are scratching their heads as decade-long sales strategies lose their impetus and they are forced to come to terms with a renewed buying cycle that centres on stock availability in November and December, rather than end-of-line goods that previously awaited markdown in the New Year.

"Black Friday has changed beyond recognition since the UK first 'borrowed' this US celebration of all things retail nearly a decade ago. Whilst its expansion has presented increased opportunities for retailers to reach an expectant consumer audience, the resultant shopping cycle has changed retail as we know it. Retailers must account for two major discounting periods, Black Friday and Boxing Day sales, as promotional activity is now diluted across the two events. As retailers get to grips with this, they must also remain aware of the consumer impact of these shifting dynamics. The Bank of England's observation of weakened consumer sentiment coupled with economic uncertainty⁴ suggest this shopping spree might not be sustainable for the consumer, let alone the retailer."

Paula Claisse

Director, Head of Retail - South Region, KPMG

⁴<https://www.ft.com/content/4b566c36-0521-11e9-9d01-cd4d49afb3e3>



84%

of retailers offered discounts over the Black Friday period

79%

of purchases made as part of the Black Friday promotional period were made online

93%

of shoppers received a discount on the recommended retail price (RRP) during the 2018 Black Friday promotional period

61%

of survey respondents perceived Boxing Day to offer a greater depth of discount compared to Black Friday

2. Brand equity



Brand equity

In an age where reputation is critical to success, consumer-facing businesses have woken up to the fragility, as well as the potential power of their brands. Shoppers are cutting their ties with third-party retailers in favour of shopping directly with brands online.

However, selling direct has opened up a Pandora's box of new challenges for some brands, with many finding that the brand equity they've invested so heavily in can just as easily be crushed by a disjointed experience further down the supply chain. As the last mile delivery and returns heavily shapes consumers' perceptions of the brand experience, the heat is on for these businesses to run their full logistical operations, control quality if they are outsourcing these, and reimburse consumers quickly after they've returned any items.

Get connected

As the lines between B2B and B2C diminish, manufacturers from sectors spanning food and drink, household goods and beauty products are all experimenting with 'direct'. This is set to rise by 5% per year over the next five years as some 48% of manufacturers plan to build direct-to-consumer capabilities⁵. Some of whom have turned to social media to influence consumer purchasing decisions, with Instagram (53%) and Facebook (24%) revealed as the most popular channels, and Twitter not so popular at 5%.

"The use of influencers was more quickly adopted by younger brands focused on millennials and has proven to be a real accelerator, particularly in the fast fashion and cosmetics market..." explains Robert Baxter, Partner at KPMG in the UK, **"...the growing costs associated with paid online advertising has, in part, also driven growing use of influencers. Consequently, with large brands seeking to gain greater control of their online routes-to-market and a more accessible market for younger brands, the online B2C market looks set to continue to grow."**

Nothing quite beats the personal touch; and selling direct presents brands with a robust route to getting to know their customers. Done well, this can be a two-way street, with brands testing and refining their propositions based on customer feedback, bringing the customer even closer into the fold and building sustainable relationships.

Spoilt for choice

Product range and availability was another key factor that motivated consumers to buy goods directly from a brand rather than a mainstream retailer during the Black Friday shopping period. But this hasn't been without its challenges. Brands have had to move quickly to ensure they have the right level of stock in place to meet the spike in demand and prevent consumers looking for alternative stockists. To compete with large mainstream retail platforms who often also have broader access to consumers, increasingly we're seeing brands develop limited buy lines which are exclusively available to order directly from them to stay at the front of consumers' minds.

⁵<https://www.cips.org/en-GB/supply-management/analysis/2017/december/cutting-out-the-middle-man-does-the-direct-to-consumer-sales-model-work/>

Rising expectations

57% of shoppers bought direct from brands during the Black Friday and Christmas shopping period, with many consumers receiving a discount on the recommended retail price. But brands shouldn't become complacent at the point of sale. Delivery expectations are growing and can taint a customer's perception of the brand if they're not met, whether brands provide their own delivery capabilities or outsource these to an external parcel carrier. This is easier said than done: of the 57% of consumers who bought direct, 84% rated the delivery experience as excellent or good. This was only marginally less than the 43% of consumers who shopped with mainstream retailers, of whom 88% deemed the brand experience to be excellent or good. This suggests brands have some way to go if they are going to catch up. However, we have seen many collaborations between brands and parcel shops resulting in smoother online returns options than the restricted store-based or online-only models typically provided by the industry giants. This is where the direct-to-consumer model comes into its own.

“Direct to consumer is becoming increasingly important within the UK retail sector. While this model provides undoubted benefits to consumers and brands alike, there are bumps in the road that brands must navigate before they position themselves directly in front of the customers they’ve worked so hard to gain loyalty from. Careful consideration should be given to devising a seamless customer experience with an agile and responsive operating model underpinning it. Brands should make the most of this new proximity they have to their customers – it will be vital for their long-term future.”

Paul Gilhooly

Director, KPMG Boxwood



57%

of consumers bought
direct from brands
rather than mainstream
retailers

32%

of consumers that
bought directly
with the brand were
motivated by price

37%

of shoppers cited
convenience as
their motivation for
buying through a
mainstream retailer

27%

of shoppers reported
that social media
influenced their
buying decisions



3. Made and delivered in Britain

Made and delivered in Britain

While consumers defied many predictions and kept on shopping in the months after the referendum, Brexit uncertainty is now affecting consumer behaviour. As the rising cost of imports seeps onto the UK high street, consumer confidence is weakening and this is adding to an already difficult trading environment. At the same time, UK retailers have raised concerns over the impact that immigration restrictions could have on their businesses which collectively employ over 300,000 EU workers⁶ - and over the last year these have played out, with the number of EU citizens moving to the UK falling to the lowest level since 2012⁷.

While the Brexit debate gripped much of the nation during the Christmas period, retailers resorted to discounting to achieve the sales they needed to keep them afloat and get cash-strapped consumers through the demands of the festive season. But as we look beyond Brexit, retailers may explore sourcing opportunities from within their home market in the UK in a response to rising input costs that may ensue given unfavourable exchange rates, potential tariff increases and logistical challenges.

Pinching their pockets

The spending power of UK shoppers has taken a hit, with the pound reaching an 18-month low in December 2018. Add to this sluggish wage growth which has fallen below inflation levels and the first interest-rate rise in a decade, and it is not surprising that consumers are being more frugal than normal. We could see British shoppers tightening their belts even further: a KPMG consumer survey by Hanbury Strategy Polling⁸ found that 70% of UK consumers expect prices will rise in the event of a 'no deal' Brexit and 69% believe this would impact their shopping behaviours.

But for many consumers, the price reductions offered by Black Friday and the extended Christmas sales may have only alleviated some pressure on their pockets for a short while. With nearly two in three (57%) respondents sitting tight until Black Friday was in full swing, it appears they did what they could to make the most of the savings available to them.

Looking local

Immediately after the referendum, it was the bigger ticket items that took the hit for retail, as shares in furniture and motor retailers fell most steeply. But the reality paints a different picture: when asked more recently, 37% of UK consumers said they would reel in their spending on non-food items if food prices ramp up after Brexit, with women's clothing, electronics, and audio and video products the most selected product categories they'd spend less on.

If retailers are unable to keep on top of elevated import and tariff costs, passing these onto their already stretched customers will negatively impact their profit, demand and goodwill – which in an already testing market, could have damaging repercussions, especially for retailers who are already struggling. It may accelerate the disruption we are seeing on the high street.

But looking locally may provide struggling retailers with something of a new life line: it seems that consumers may turn closer to home if goods from across the Channel can't meet their budgets. Coupled with the possibility of a pivot to 'Buy British' and we could see smaller, local retailers cashing in on this shift, if they can satisfy a renewed demand for British produce.

⁸https://www.fticonsulting-emea.com/~/_media/Files/emea-files/insights/articles/impacts-brexit-retail-industry.pdf

⁷<https://www.theguardian.com/uk-news/2018/aug/23/net-migration-from-eu-to-uk-at-lowest-level-since-december-2012>

⁸KPMG consumer poll by Hanburg Strategy Polling (August 2018)

Overseas operations

Post-Brexit, retailers who are selling to the EU must still comply with EU standards, wider trade policies and regulations. UK firms are eyeing up Europe-based distribution centres to counteract some of these challenges and avoid delays at the point of transition. Several EU firms are doing the same on UK soil. Breaking away from Europe could also present UK retailers with added compliance costs. Retailers must continue to brace themselves for a tough fight to retain their competitive edge, here and overseas.

The show must go on

The future remains far from clear. In summer 2018, the British Retail Consortium (BRC)⁹ warned that a cliff-edge scenario with new border controls and non-tariff barriers would result in gaps on shelves and food rotting at ports. This would mean a dramatic impact on shoppers and potential “devastation” for small retailers. But retailers can stay a step ahead of the game by doing their homework on what Brexit means for their business, the implications on their prices and finances and by putting contingency plans in place should the UK leave Europe without a trade deal.

Objective scenario planning may mark the difference between retailers who falter and those who are left standing in good stead following Brexit.

For example, we’ve seen some retailers increase their stock to have a buffer in place to cover a period of disruption if required. Others are prioritising cash flow and lines of credit. Some have also reconsidered key product lifecycle and launch dates around the end of the first quarter of 2019. Many retailers will also need to reassure staff, especially given the extent of EU nationals employed in supply chain and delivery functions, and on the shop floor, to retain top talent within the UK.

“The pressure is on for UK retailers to hold their own as the nation awaits clarity on what the future will look like post-Brexit. While Westminster considers the short-term implications, the industry continues to struggle with challenges that pre-date the referendum, and may be impacted by its outcome. Against a backdrop of heavy discounting over the 2018 Golden Quarter, retailers must remember that promising sales figures don’t always equate to profitability. Instead, a clear focus on margins, costs and their long-term strategies for growth is essential, regardless of what Brexit transpires to mean for Britain.”

Don Williams

Partner, Head of Retail – London Region, KPMG

⁹<https://www.bbc.co.uk/news/business-44891784>



37%

of UK consumers said that they would reel in their spending on non-food items if food prices ramp up after Brexit

85%

suggested they'd spend less on more than one product category if prices increased post-Brexit

18%

of respondents said they would not reduce spending on non-food items after Brexit at all



4. The delivered experience

The delivered experience

Successful retailers have one thing in common: they've invested in building a strong customer experience end to end, regardless of the channels they use. Customer service is a major driver in consumers' buying decisions and a compelling experience must run through every aspect of the retail journey, from purchase to delivery and returns. However, even with the best processes and procedures in place, things can go wrong, and much can be said for those retailers who've turned a poor experience into a great one - and then learned from these shortcomings to prevent them reoccurring with other customers.

As long as sales growth is underpinned by deep discounting during the Christmas shopping period, profitability is far from guaranteed, so retailers and brands themselves must do all they can to stand out from the wider market. They must work harder than ever to entice shoppers – and this goes beyond the point of transaction: consistent customer service is vital in gaining consumer confidence and long-term loyalty.

Insight through data

Data is becoming crucial in shaping retailers' understanding of their customers. But businesses often have too much, rather than too little data to deal with, so it's what they do with it that counts. Industry sources estimate that as much as £14 billion every year is squandered on research that is not acted on¹⁰ and only 11% of decisions that impact customers are backed with customer insight¹¹.

Of the 100 UK brands KPMG Nunwood reviewed in its 'Connecting insight to action - 2018 UK Customer Experience Excellence Analysis' report¹², the leading firms were those who understood how to create mutually valuable relationships with their customers. A combination of superior insights, tech-enabled solutions and a freedom from legacy constraints can secure a sustainable competitive advantage. But in a fast-moving market, the challenge is not just translating these insights into action, but doing this quickly.

Sticking point

The ready supply of data has turned the concept of the loyalty cards that were concocted to bring brands closer to their customers on its head, and it seems both brands and their customers are ready for a change. While some retailers have tired of the steep overheads associated with points-based loyalty schemes, just 5% of consumers say they would switch brands if the firm in question pulled the plug on its card programme¹³. Many businesses have reinvented their schemes with a focus on adding value in a market where their customers need it most. But is this paying off? 21% of our survey respondents are members of a loyalty scheme which, although promising, indicates more work may need to be done to improve consumer loyalty and stickiness.

For a growing number of consumers, meaningful value comes in the form of the delivery or return of goods. 52% of shoppers are members of an annual delivery subscription scheme, while just 35% of loyalty scheme members cited promotions as their primary motivation for signing up.

¹⁰<https://cxm.co.uk/uk-businesses-waste-14-billion-a-year-on-poor-market-research/>

^{11,12}<https://nunwood.com/excellence-centre/publications/uk-cee-analysis/2018-uk-cee-analysis/>

¹³<https://www.tccglobal.com/wp-assets/uploads/2018/06/Loyalty-Reimagined.pdf>

Out for delivery

Online shopping has propelled consumers into a world of instant gratification. Consumers want immediate access to the goods at their disposal – and this is often expected at little or no extra cost. Only 43% of shoppers are willing to pay a delivery charge, but of these, 48% deemed the capacity to reserve a specific delivery time as highly important, or at 8+/10 - a rise on the 37% a year ago.

But while consumers expect brands to flex around their busy lives, they have less faith in the third-party delivery companies that are enlisted to do this: just 41% claim that they trusted the delivery company to find a reasonable alternative method of delivery for their goods if required (such as leaving their item in a safe place, for example). These growing expectations pose new challenges for retailers, who must work with their parcel carriers to improve tracking technology, timing capabilities and customer service – and compete with those who have the scale and commercial means to meet consumer demand.

Level playing field

Logistics suppliers are widely regarded as the weakest link in the retail universe, and this is mirrored in KPMG Nunwood's 2018 Customer Experience Excellence Analysis report, which tracked the customer journeys at the hand of a series of UK brands. Sector by sector, grocery retail came out on top, with a +4% year-on-year improvement, closely followed by non-grocery retail, at +3%. Logistics emerged in the penultimate spot with a -7% reduction in performance¹⁴. This should chime with brands that are considering direct selling, and who should think carefully as to how they can preserve their reputation from association with underperforming delivery firms. While 9% of respondents claim to have had at least one failed delivery attempt over the festive shopping period, 35% rated their delivery experience as 'good', and 50% as 'fair'; which could suggest this accountability is driving industry standards up.

Aggregated feedback on parcel courier companies also provides insight for time-stretched Christmas shoppers with a small window of opportunity. 8% are using this to their advantage, suggesting that their purchasing decisions were influenced by their retailer's nominated courier.

The conscious consumer

2018 saw a noticeable increase in media attention on sustainability and the plastics agenda, but has the nation's renewed appetite to safeguard the planet had an influence on our purchasing decisions? Apparently not: just 6% of consumers said they bought their goods from a specific retailer because they sold ethical produce, a sizeable decline on 19.3% last year. The industry plays a vital role in shifting behaviours, so retailers and brands alike must be more transparent and aware of the ethical sourcing practices across every chink of their supply chain.

“UK consumers are aware that their pounds are important in today's retail market, and in turn, expect their spend to go further. As a nation, we're becoming increasingly time poor, and retailers need to consider this if they want to stay ahead. Social media, loyalty schemes and good customer relations are critical in building our understanding of today's customers, and as the industry flexes its supply and delivery capabilities to accommodate their increased expectations, it's more important than ever that retailers use these insights and don't deviate from the experience that drew customers to them in the first place.”

Paul Martin

Partner, UK Head of Retail, KPMG

¹⁴<https://nunwood.com/excellence-centre/publications/uk-cee-analysis/2018-uk-cee-analysis/>



52%

of consumers have
an annual delivery
subscription

46%

of consumers
consider specified
delivery time slots to
be very important
(8+/10 rating)

43%

of shoppers are
willing to pay a
delivery charge

54%

of consumers said
a 'free service' was
the most important
factor when returning
an item

A white ceramic cup filled with light brown coffee sits on a circular cork coaster. To the right, a tablet with a white bezel and a wooden handle is partially visible, its screen showing a solid black color. The background is a plain, light gray surface.

5. The best of both worlds

The best of both worlds

It's no secret that the high street is a tough place to be right now. A number of retailers closed their doors to business last year, with some well-known brands among them. The industry faces a harsh reality – there is too much physical retail space that fails to meet the needs of the modern consumer; as customers evolve, so too must retailers if they are going to survive. Whilst pure e-commerce may seem like the solution, it's vital that retailers have a compelling proposition across all sales channels in order to thrive.

The industry is taking note. We've seen traditional high street retailers and online superpowers start to reinvent the way they do business so that they can offer their customers the best of both worlds: a physical and a digital presence.

Internet shopping

It wasn't too long ago when e-commerce was viewed as a bargain-hunter's paradise that was rich with heavily discounted pickings. However, this year some 79% of Black Friday purchases were made online, making it clear that the most lucrative brands on the market have recognised the potential posed by digital. The benefits are two-fold: 61% of these shoppers scooped a discount by buying online rather than visiting a retail outlet.

Almost half (48%) of all internet purchases were made via a desktop browser, and 52% made on a mobile device. The modern consumer is quick to take advantage of the benefits of shopping online, from greater stock availability, wider or exclusive product ranges and hefty savings – and with customer service also extending beyond the point of sale, this is only set to continue.



Bricks and mortar

By contrast, UK stores are opening at their lowest rate in eight years, BBC figures revealed in April 2018¹⁵. With year-on-year footfall dipping by -3.2% in November 2018¹⁶, they must do all they can to squeeze every ounce of opportunity out of shoppers when they do make it in store. As retail becomes more digital, high street participants have little choice but to morph their shops from functional units to experiential locations. With the increase in technology deployed by stores to improve the customer experience, whether through tablet ordering or self-checkout facilities, it's clear that some have taken note of this. That said, pressures on profitability for many retailers have meant cost cutting in stores when it could be argued they should be investing in more staff to enhance the customer experience.

However, the high street still has an important role to play: some 30% made their Black Friday and Christmas shopping purchases instore. Convenience was the most cited reason (27%), perhaps enhanced by readily-available parking, or click and collect facilities. 18% of shoppers ventured instore to try products on for size, with 25% later re-visiting to return items. A significant proportion of shoppers (17%) also visited stores to compare products in-person, giving rise to the popularity of brand 'showrooms' that display goods and make for informed purchasing decisions.

The future of bricks and clicks

The internet has transformed the way in which consumers interact with retailers and shop for their goods. Looking ahead, the fast pace of collaboration between traditional bricks-and-mortar retailers and online players will continue to reshape the market, driven largely by retailers bowing to consumer demand in order to stay relevant and fresh. But omni-channel retailers face a significant challenge: to master the balance between digital and physical presence to create a seamless shopping experience between the two.


“UK shoppers are multi-faceted and engage with retail in a variety of ways. As a nation, we flit between viewing our options online and trying them out instore, and we expect retailers to follow suit. The transition of pure-play bricks-and-mortar or e-commerce retailers to omni-channel models must be executed carefully, with retailers and brands looking to the consumer as well as fast-growing disruptors in the sector to get the balance of choice, product availability, price and customer experience just right – and that’s no easy feat.”

Sue Richardson

Director, Head of Retail – North Region, KPMG

¹⁵<https://www.bbc.co.uk/news/business-43709812>

¹⁶<https://brc.org.uk/retail-insight-analytics/other-kpis/footfall-and-vacancies-monitor/reports>



79%

of goods purchased
throughout
Black Friday were
made online

48%

of internet purchases
were made via a
desktop browser
versus 52% on
mobile devices

27%

of shoppers cited convenience
as their reason for visiting
a store, followed by trying
products on (18%), checking
availability (17%) and
comparing products (17%)

95%

of consumers received
post-purchase customer
service communications
activities within the
last year

6. Delivery and returns on demand

Delivery and returns on demand

One of the biggest tests to the shopping experience is the process of deliveries and returns, which presents retailers with the delicate task of balancing heavy logistics costs and rising consumer expectations. It seems from our research that convenience is more important than ever for customers who are sizing up the options that are available to them.

Once a logistical nightmare for consumers themselves, delivery is no longer restricted to the home - and with click and collect added to the mix, UK shoppers have substantial choice when it comes to where, when and how they take receipt of their goods. They are taking full advantage of social media to share their less impressive last mile experiences, whether spurred by missing parcels, poor delivery tracking applications or the rigidity of timings or location once goods are in-flight – retailers who fail to get this right will pay a hefty price. A fully integrated last mile and returns process is the holy grail to a profitable multi-channel business.

Delivering on expectations

Speed is of the essence for hungry consumers eager to buy a product and take receipt of this quickly. During the Black Friday shopping period, 3% of shoppers opted for same-day delivery or collection, and 35% for next-day delivery or collection. Growing consumer expectations have put a squeeze on logistics providers and retailers themselves, who must think quickly to offset the ballooning delivery costs posed by the peak in demand during the festive season. This is intensified as the larger online pioneers continuously set the agenda as to what consumers can expect from delivery providers – and their smaller counterparts, who are peddling hard to keep up, must do all they can to preserve their brand experience at this crucial point in the process.

Picking up the tab

Consumers aren't quite so keen to foot the bill for their rising expectations. Free delivery and returns have become the new normal in online retail and 76% of shoppers admitted to intentionally spending over the minimum purchase value threshold to qualify for these; while 66% also said that a delivery charge would dissuade their purchasing decision altogether. Retailers could perhaps be forgiven for breathing a sigh of relief as 18% of online purchases were delivered via click and collect rather than other typically more expensive delivery alternatives.

77% of all purchases were collected straight from store, and 23% of orders received via parcel shops and locker collection. Consumers who collected their goods instore were generally happy to wait longer for their stock to arrive at these collection points, with 39% willing to sit tight for two or three days rather than taking receipt of their goods on the same or next day following their purchase.

Does one-size-fit-all?

Product categories played a clear part in consumers' delivery and returns preferences. Shoppers buying women's clothing, for example, were more likely to use click and collect, whereas those who bought electronics opted largely for home delivery – and 86% of those respondents who specifically said they had bought large and bulky items online had done so due to ease of delivery. This variation gives retailers an opportunity to taper their delivery and pricing strategies in line with the product category, which will not only ease the burden on less urgent bundles of goods, but meet heightened expectations for others. Delivery subscriptions and loyalty schemes may also help make this more commercially viable, while providing retailers with the insights they need to build consumer purchasing profiles according to product and customer demographic.

In the driving seat

New technologies have bridged the gap between customers, retailers and logistics suppliers once goods have been dispatched. While the onus is on retailers and brands to oversee the service their allocated delivery driver administers on their behalf, both they and their customers can have greater transparency thanks to delivery apps and in-flight tracking technology. 78% of consumers surveyed reported that they had access to parcel tracking technology, and over half (53%) took advantage of the live information available to monitor exactly when their orders would arrive. However, 79% of consumers drew the line at paying over the odds for the luxury of changing their end location or timeslot after their goods had left the warehouse, and only a small proportion (4%) took retailers up on this service - whether cost-free or not.

Receive and return

The delivery of goods does not always signify the end of the customer journey. We found that 34% of consumers often bought multiple variants of the same item, with the intention of later returning some of them, free delivery often intact; an increase on the previous year at 31.4%. Coupled with 'try before you buy' services, retailers are left with the challenge of weighing up the most efficient means of processing high volumes of returns. Fashion and beauty were the most popular product categories for return. 35% of shoppers who purchased women's clothing later returned an item, compared to 21% of consumers who bought cosmetics, and 16% who bought men's clothing.

While over one-third (34%) of consumers returned their items in-store, 29% used a postage service, and 22% revisited a collection point to return their items. Just 7% arranged to have a courier company pick these up on their behalf.

With free returns a major consideration for more than half (54%) of respondents, retailers must have the reverse logistics they need in place to facilitate these and divert stock back into the supply chain. Refunds are also a critical part of the process for eagle-eyed consumers who are watching their spend: over half (53%) say they received their money back within a week, 30% between 8-14 days, and some 8% between three and four weeks after their items were returned.

“The retail journey is far from over when the customer submits their payment, and the last mile delivery could make or break their perception of the retailer in question. Convenience of delivery options can sometimes supersede product cost in driving customers' buying decisions, and retailers will be judged heavily on their capacity to come up with the goods, on time. Parcel couriers, meanwhile, are doing what they can to positively influence the last mile experience by investing heavily in tracking technologies. We're also seeing somewhat of a boomerang demand. Consumers may be ordering products in troves but many items are also being sent back and for the majority of consumers, a free service is the most important factor when returning goods. A concerted effort by both retailers and their logistics providers in both directions of the supply chain could revolutionise the delivery and returns experience for customers, and slot the final piece of the retail puzzle firmly into place.”

Iain Prince

Director, Operational Transformation, KPMG



37%

of shoppers deemed
the ability to book a
defined delivery slot as
highly important

(i.e. next day, 3 day, or 3-5 day delivery)

42%

of online shoppers
tracked the delivery
of their goods
through apps

34%

of consumers often
bought multiple variants
of the same item, with
the intention of later
returning some of them
an increase on 31.4% the year prior

34%

of consumers
returned purchases
in-store

A pair of tortoiseshell glasses with black temples is positioned on the right side of the image, resting on a light-colored wooden surface. To the left of the glasses is a white cloth, possibly a napkin, which has a rectangular white pocket or tag attached to it. The background is a light-colored wooden surface with a visible grain.

7. A look ahead to 2019

A look ahead

2018 was an inarguably challenging year for UK retailers, whose efforts to stay ahead of rising business rates, growing wages and digital competition were met with the worst festive trading performance in a decade. It goes without saying that retailers need to tread very carefully into 2019.

It is easy to point the finger at Brexit as the root cause of retail's woes, but the reality is that multiple forces of change have combined. These have been long in the making - whether macro-economic, geopolitical and regulatory changes or the over-supply of stores, legacy debt and talent challenges. These will continue to redefine retail as we know it, and retailers have little choice but to stay proactive. We also saw a number of retail businesses enter into administration in 2018: a stark reminder that there's little room for complacency in today's retail world- and we expect to see more businesses fall as 2019 takes shape.

But there's much to celebrate, and plenty to build on as we look to the future. The UK retail sector accounts for approximately £390 billion every year and, boosted by the consistent performance of the health and beauty, and food categories the sector in its entirety continued to grow by approximately 2% in 2018¹⁷. We saw stellar results from some organisations, who adapted quickly to the fast-changing consumer tide. Timely developments such as revised business models and prospective mergers between large industry players have also set the scene for the year ahead.

The future should not just be about the fight for survival. While many developments will be beyond a retailer's grasp, the industry must do what it can to control the controllable.

¹⁷<http://www.retailthinktank.co.uk/>

How KPMG can help you

Growth

In a market where consumer spending is muted and shifting and competition is intense, growth (both top line and margin) is increasingly hard to come by, yet drives huge value if secured.

Key solutions:

- Data, analytics and insight
- International expansion strategy
- M&A and transaction support (financial, legal and commercial)
- Operational transformation
- Public and private equity
- Restructuring and working capital improvement

Cost and efficiency

The scale and speed of profit erosion being faced by many businesses is unprecedented. Organisations need to act now as their people, suppliers and competitors will be expecting action. The retailers that are proactive will exploit this opportunity and not 'waste the crisis'.

Key solutions:

- Data, analytics and insight
- Debt advisory
- Finance transformation
- Insight-led performance improvement
- Microsoft Power BI (Business Intelligence)
- Supply chain optimisation
- Thriving in adversity

Customer

Becoming a customer centric organisation is of critical importance and is increasingly directly linked with the financial performance of retail businesses.

Key solutions:

- Customer and employee experience mapping
- Customer insight and benchmarking (KPMG Nunwood)
- Customer strategy
- Technology implementation



People and culture

Aligning people, capability and culture to deliver your strategy is increasingly important.

Key solutions:

- Aligning people capability and culture
- Brexit and the labour market
- Employment and legal services
- Gender pay gap reporting
- National minimum wage & national living wage
- Pensions
- Right to work

Business resilience

The regulatory landscape is changing quickly and retail businesses need to demonstrate compliance to protect both their brand and reputation.

Key solutions:

- Accounting advisory services
- Audit and internal audit
- Business risk assessment
- Cyber security
- Tax compliance
- Third party risk management



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