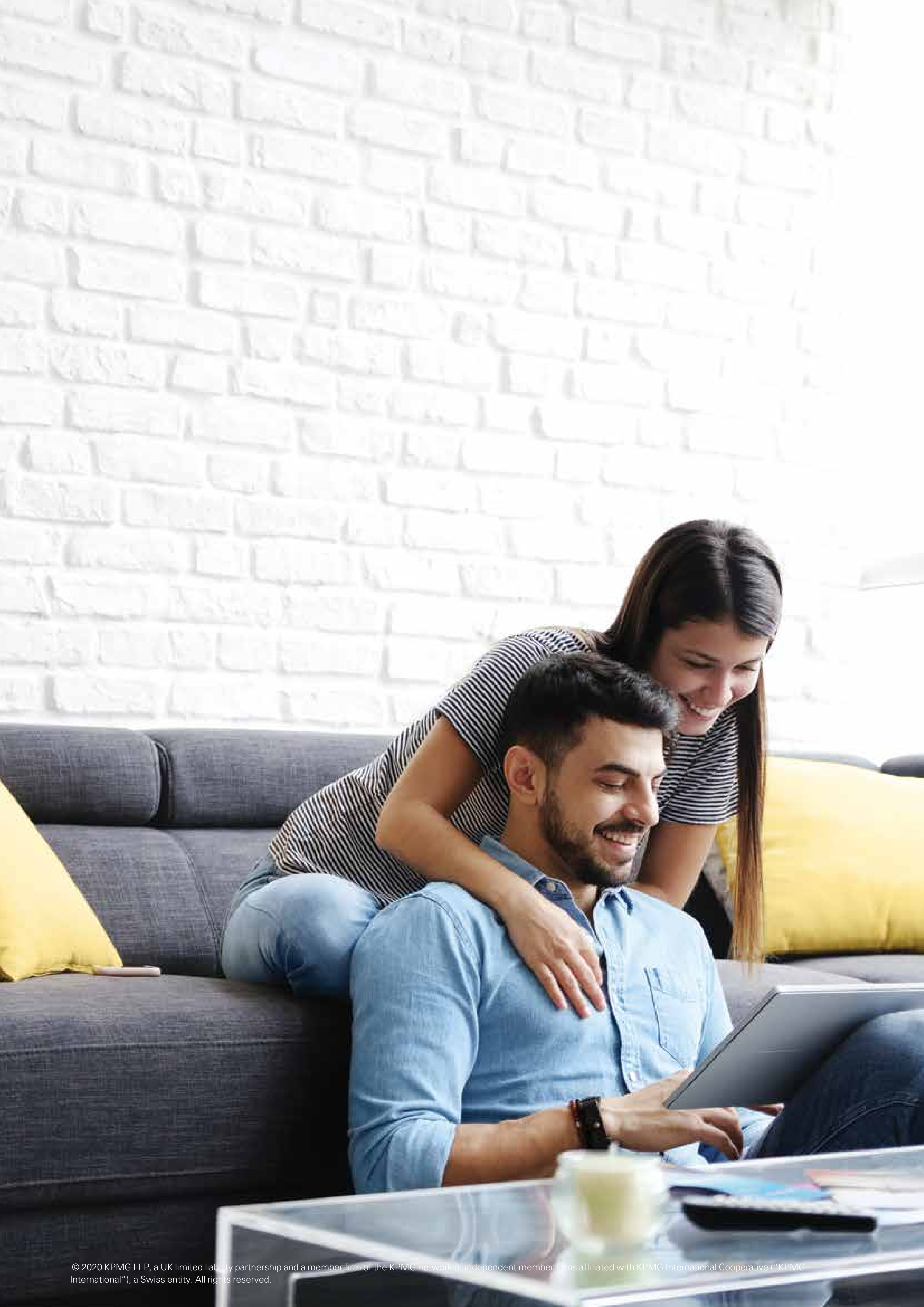
Annual Retail Survey 2020

What UK consumers say about how they shop, where they shop and why they shop

January 2020

kpmg.com/uk/retail



Contents

Introduction

It's been six years since KPMG began charting the ebbs and flows of the UK high street and the fast-moving dynamics of the retailers, distributors and suppliers that underpin it in our Annual Retail Survey. In that time, we've seen a clear progression from instore to online shopping and an expectation for hassle-free delivery and returns. And Black Friday has morphed from a widely disdained American import to carve its place firmly in the diaries and the pockets of UK shoppers.

Our annual survey amongst a sample of over 1,300 KPMG employees gives us a vital lens into the UK retail landscape through the eyes of the consumer. As always, we have travelled with our respondents from Black Friday to the final throes of the Christmas shopping period in order to understand their expectations, experiences and behaviours in the culmination of what has undoubtedly been a testing year.

The findings paint a resounding picture of relief, as weary consumers finally relax their grasp on their wallets in anticipation of this now familiar retail frenzy. And retailers, who have channelled all their efforts into balancing fierce competition, deep discounting and increased consumer expectations, have the prospect of balancing their books. The Black Friday week has increased in importance although its impact has not helped many with delivering increased sales over the entirety of the Christmas trading period. We continue to see a number of casualties that litter high-street Britain although there are also a host of success stories, as canny retailers with a keen eye on their customers have cut through the noise and successfully delivered growth.

The Annual Retail Survey 2020 looks at six core themes that are influencing retail today:

1. **Black Friday:** a firm fixture in retail and consumer diaries. What factors are driving consumers purchase decisions and what are the impacts on the broader Christmas trading period.

2. Are consumers **routes to market** changing and therefore do retailers need to be thinking ahead about how to succeed in trying times.

3. The **political and economic environment** has had an impact on UK retail – what does the current climate mean for UK retail

4. Understanding the all-important end **customer** is increasingly important – what changing factors need to be considered to stay afloat or even to prosper today and tomorrow.

5. Consumers are expecting enhanced service options from retailers with **delivery** options representing a key driver for purchase choice.

6. How do retailers achieve an optimal balance of managing **returns** in light of consumers preferences vs balancing profitability.

Methodology: KPMG tracked consumer spending across 138 retailers and brands within 33 product categories for the Annual Retail Survey 2020. The researched focused on KPMG employees in their capacity as consumers from 25th November to 20th December 2019, using an online survey tool and KPMG's proprietary digital analytics software to collate and analyse the data.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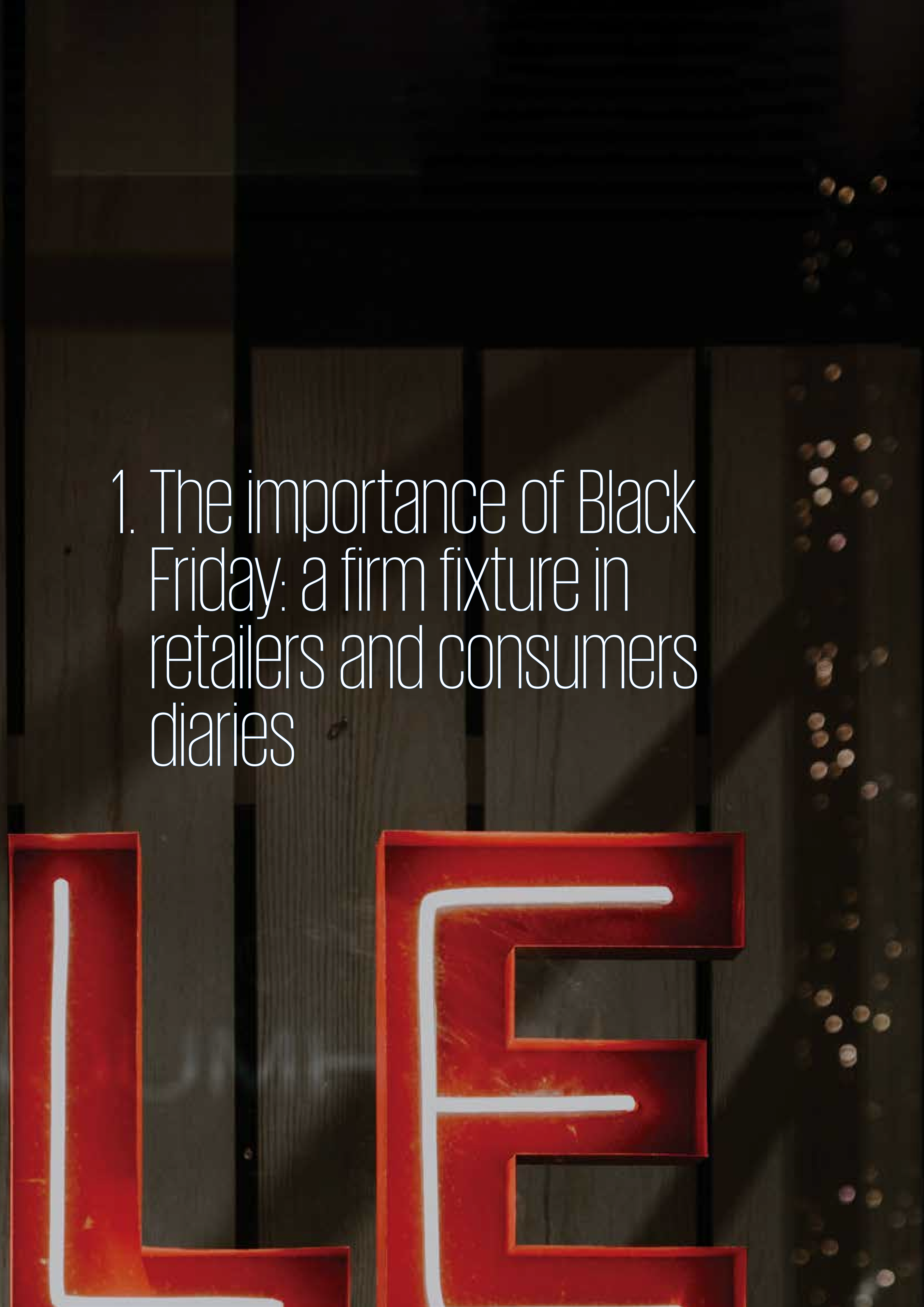
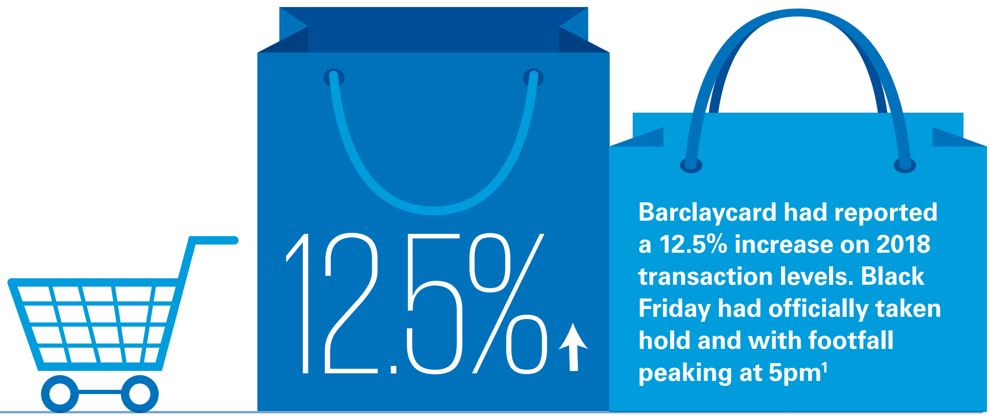
1. The importance of Black Friday: a firm fixture in retailers and consumers diaries



The importance of Black Friday: a firm fixture in retailers and consumers diaries

It’s hard to imagine that less than a decade has passed since the so-called ‘Americanism’ which critics forebode wouldn’t translate well into UK soil first hit our high streets. Fast forward just six years, and it’s safe to say that Black Friday has redefined the way that we shop and the way that UK retail does business. In spite of its later arrival in 2019, this hugely anticipated shopping bonanza did not disappoint. Retailers, who had been nervously eyeing up dwindling sales figures rubbed their hands together as Black Friday kicked off on what was monthly payday for millions of workers around the UK.



Transactions increase despite a slow start to end of year sales.

Black Friday and Cyber Monday fell a week later this year than in 2018, prolonging the agony for retailers around the country who had long been licking the wounds of another tumultuous year. Some forward-thinking retailers had kicked off their pre-Christmas sales in the week leading up to Black Friday, but more than half (52%) of our respondents held off on their purchases until the official discounts were in full force (57% last year). And while this marked just the start of a five-week expanse of promotional activity, we saw a clear deviation from the Boxing Day sales. This is hardly surprising, given the drop in consumers deeming Boxing Day to offer stronger discounts than Black Friday itself (58% versus 61% last year).

And this was plainly obvious when the clocks struck midnight on 29 November, and tell-tale scenes of wraparound queues and crowded stores signalled that the sales had opened with a bang. Shoppers emerged from the sidelines with gusto, and by mid-morning, Barclaycard had reported a 12.5% increase on 2018 transaction levels. Black Friday had officially taken hold and with footfall peaking at 5pm[1], the nation had racked up a 16.5% increase in year-on-year spend over the course of the day[2].

Cautious consumers

Spontaneous spending sprees appear to be a thing of the past for cash-strapped consumers: of the 25% who made a purchase during Black Friday and Cyber Monday, almost three quarters of respondents (74%) cited price as their main motivation (71% last year). And it seems their planning paid off: some 96% were offered a discount on their goods, compared to 93% last year. But as shoppers feel the pinch, they are deliberately spending less. Just one in four (26%) anticipated prior to the sales season that they'd spend more than they did a year previously, while two fifths (42%) said they wouldn't engage in the sales bonanza at all[3].

And it appears that consumers have little allegiance with the brands they buy from, cherry picking retailers based on the end gain. There's been an uptick in consumers buying from third party retailers such as Amazon and Argos (44% versus 43% last year) rather than direct from the brands themselves (56% versus 57% last year). While third-parties such as John Lewis may only be marginally in favour at present, there's a clear shift in time-stretched shoppers' motivations for buying from these multi-brand retailers: 35% cited convenience compared with 22% last year, while 41% said price was a driving factor, compared with 54% last year. Meanwhile, 38% of shoppers who bought direct from brands did so for price (53% last year) and 23% for convenience (15% last year). Brands clearly need to think on their feet to offer the convenience that third parties have become renowned for.

1 Springboard, December 2019
2 Barclaycard, December 2019
3 KPMG and Opinium research conducted amongst 2,003 adults, November 2019

A firm fixture in retailers and consumers diaries

There were no holds barred this Black Friday, with discounted kitchens, theme park tickets and even cruises at bargain-hunters' disposal. But while a wide range of brands and product and service providers threw their hats into the ring, women's clothing (21%), electronics (20%) beauty and personal care (9%) and men's clothing (8%) remained the dominant destinations for the consumer pound, accounting for 58% of all purchases made. Electronics offered the biggest bargains, with up to 40% off, while shoppers bagged up to 30% off women's clothing and 20% off beauty products and men's clothing alike.

As the media plays to the hype surrounding this retail rampage, consumers are more empowered than ever to cash in on its spoils. Online tools and apps such as PriceSpy and CamelCamelCamel have helped consumers find genuine bargains, and as they put pay to industry warnings over bogus on-sale deals, more than half of shoppers are cutting out the middleman: over the entire shopping period, 56% bought directly from a brand compared with 44% who shopped via third party retailers. And of these, one in five (20%) cited price as their main motivation for doing so.

From the other side of the till

As Black Friday has etched its way firmly into the UK shopping calendar, consumers have turned the tables on the retailers themselves. Well versed and well equipped with the tools they need to spot the biggest discounts through the marketing hype, seasoned shoppers have great expectations and in squeezed times, they expect retailers to deliver. And while many slashed their prices earlier in November, retailers faced the unenviable challenge of sustaining their sales activities longer than ever across both sides of the festive period, with scattered payback beyond Black Friday and Cyber Monday.

"Battered and bruised from a testing year on the high street, retailers finally got some respite this Black Friday. But as they found to their peril, a bumper Black Friday far from guarantees a bountiful Christmas. Shoppers increasingly call the shots in retail: with the touch of a button they can cut through marketing hype to the genuine deals, which means they'll part with their cash when they want and only on their terms. Retailers are in the unenviable position of complying with consumer demand for drawn out deep discounts and realising what commercial gain they can in doing so."

Paul Martin

Partner, UK Head of Retail, KPMG

26%

consumers felt they received bigger discounts during the Black Friday period than the previous year (24% a year ago)

58%

believe Boxing Day offers better discounts than Black Friday (61% last year)

52%

participants used Black Friday to do their main Christmas shop

96%

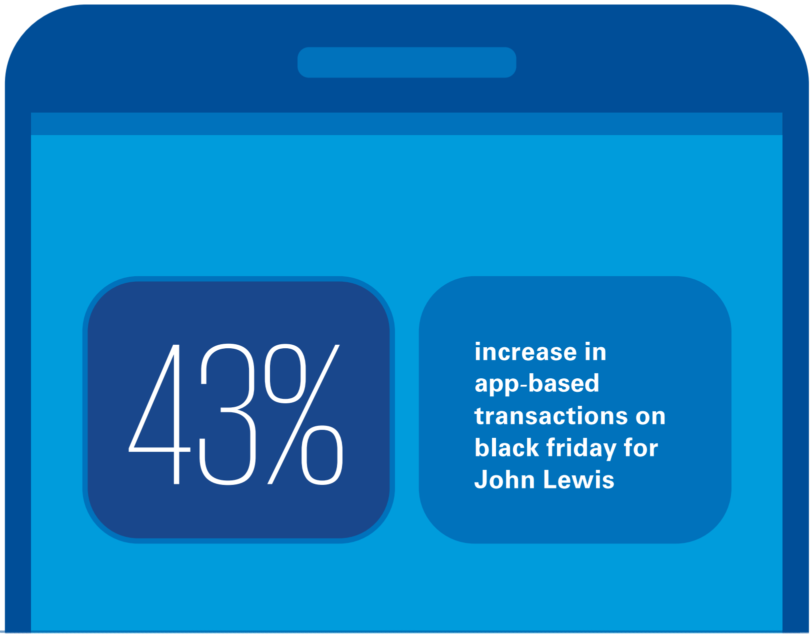
consumers were offered a discount on their Black Friday purchases in 2019

2. Routes to market and how to succeed

Routes to market and how to succeed

It's been a bruising year for British retail, with close to 16,000[4] shops calling time - an alarming 77% uplift on 2018. Rising costs, political and economic uncertainty and changes in the way we shop, have meant that retailers need to think on their feet if they're going to survive for the long term. Encouragingly, we continue to see evidence that suggests forward-thinking players are doing just that.

Some retailers are making increased progress on omni-channel, personalising their approach wherever possible to get even closer to their customers. And we've seen more nimble independents and discount players come out on top, squeezing every drop from their customer insights and repositioning to stay in favour. Black Friday may have aggrandised waning in-store footfall, but retailers are acutely aware that they must offer more than a simple ring of the tills to lure customers over the threshold in the long term.



A "mixed picture" on online behaviour by retailer

72% of all purchases across the festive period were made online, with 25% of these shoppers buying via the internet for convenience alone, compared with just 17% for price. The remaining 28% of shoppers bought their goods instore, 44% of whom did so to try their goods out for size, and 39% to compare items before making a purchase.

So, how are we shopping online? Just under half (45%) UK consumers went mobile over the Black Friday and Cyber Monday weekend, buying via mobile app or internet, with the majority of purchases made during mid-morning work hours (28%) and the evening (34%)[5]. Asked why they shop online, KPMG research[6] found that 52% of consumers believe they'll get better deals, while 21% capitalised on the chance to shop from the office. Just 19% of respondents claimed they bought online because they had limited shops in their vicinity. But this mass consumer migration to online retail is not without thought. Women were more cautious than men, at 61% compared to 50%, while two in three shoppers overall said they'd be able to spot a fraudulent deal if they came across one[7].

Balancing act

There's still a coveted place for the high street in UK shoppers' hearts, and clever marketing campaigns are skewed at deepening consumer affinity for so-called household names in British retail. John Lewis[8], for example, reported a 43% increase in app-based transactions on Black Friday while several of its stores also totted up record sales.

And this works both ways. We see more consumers buy direct from the brands they engage with, these firms are investing in bricks and mortar capabilities to bring their brands to life. Their strategies could well be paying off: one in four (25%) of our respondents said they go in-store to soak up the shopping experience rather than simply purchase their goods. And we see Generation Z and Millennials leading the charge, accounting for a cumulative 27% of this cohort – although their primary focus remains online. Yet as retailers change gear to cash in on the experience economy, we could see fewer physical stores offering a richer brand experience. Those that have a bricks-and-mortar presence are doing what they can to make this work: 58% shoppers noticed in-situ tablets doubling up as feedback and customer service points with 7% reporting bolstered service during the sales period. But with 94% of consumers reporting a better product offering online than instore (vs. 90% a year ago), retailers are all too aware that they must use their space wisely and keep their eye on the ball.

4 City AM, December 2019
5 Bloomreach, December 2019
6 KPMG research conducted by Opinium, November 2019
7 KPMG research conducted by Opinium, December 2019
8 KPMG research conducted by Opinium, December 2019

Knowledge economy

Data has reinvented retail, setting the winners streets ahead of the losers in this fast-moving marketplace. With the majority of survey respondents noting their shopping totting up over £100 worth of goods at the tills, it is identified 19% of these purchases are made on online and 8% in store purchases, it pays to keep customers onside. And many retailers are doing just that: using their insights to understand their customers then redefining their approach to earmark their share of that all-important pound.

A host of forward-thinking players have turned this previously unparalleled customer data to their full advantage, tailoring the full customer journey from marketing, product display and selection to delivery and beyond to chime with shoppers' individual preferences. As deep retail is used more prevalently to generate this hyper-personalisation, consumer expectation will continue to grow. 61% of our shoppers signed up to subscriptions such as Amazon Prime, paying a recurring price for access to an on-going product, delivery or service. Compare this with the 49% of such shoppers in 2018, and getting this right could generate rich pickings indeed.

Social values

They may be making the most of closer proximity to their customers, but the hard work doesn't stop there for retailers. As Instagram's established retail platform goes from strength to strength, other social networking platforms have been quick to follow suit, retailers must do all they can to stay ahead in a fiercely competitive market and appeal to the growing spending power of the so-called 'digital natives'. As 80% of Generation Z and 74% of Millennials[9] claim that their purchases are influenced by social media, brands must invest heavily in cutting-edge digital strategies that make them stand out and indeed deliver profitable conversion metrics.

With half (48%) of younger Millennials[10] stating that a promotional video spurred them to make a purchase and the likes of Snapchat's advertising capability and Instagram's pop-up stores adding even more opportunity to the mix, the good news for retailers is that there's everything to play for - providing they can stay ahead of their customers. And if they can, they will be well rewarded: social shoppers themselves can be a very influential bunch indeed.

From the other side of the till

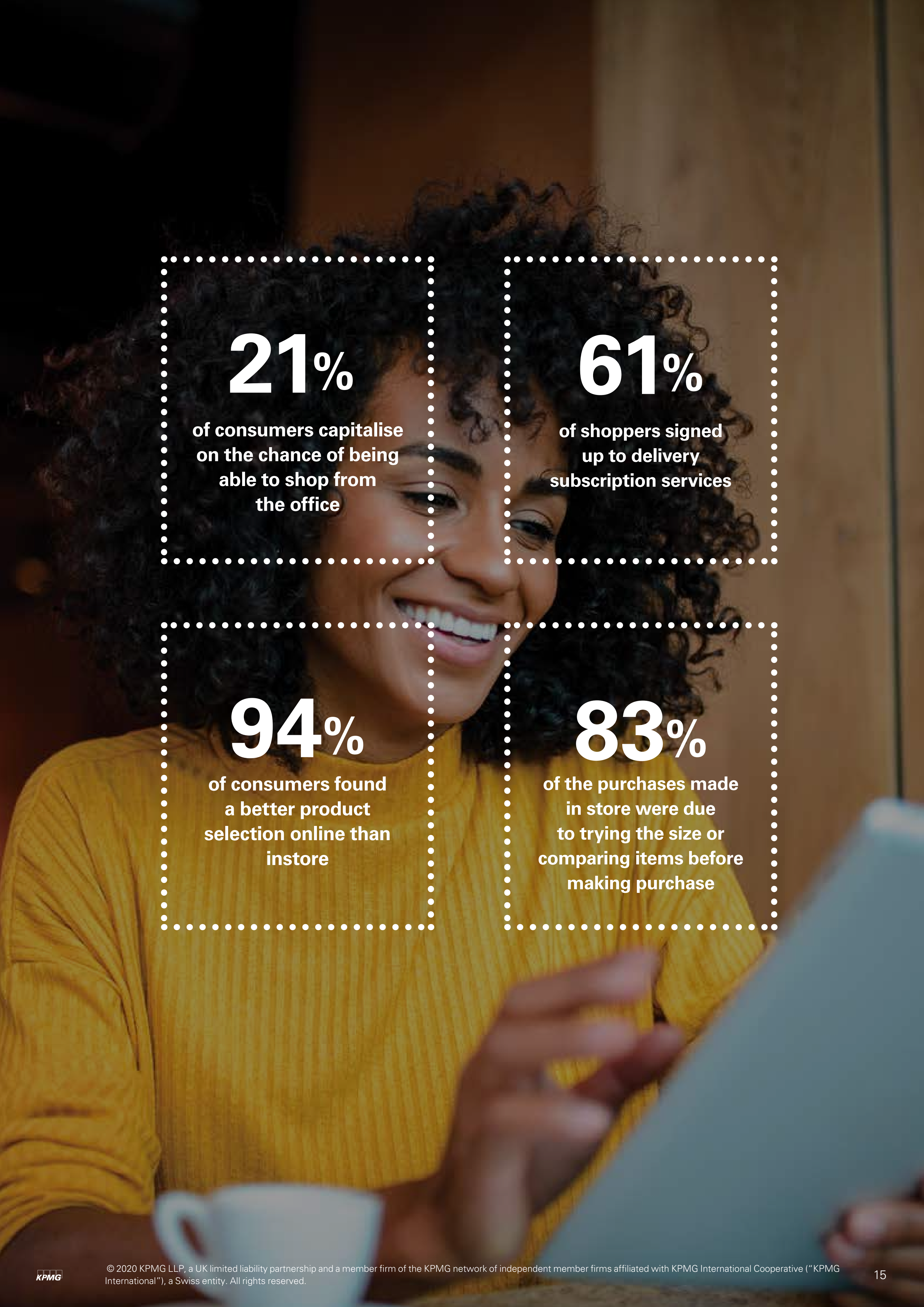
Retailers have had to swallow the rise of increasing overall costs to remain afloat. However, those who are amenable to change have turned it to their clear advantage. The introduction of GDPR may have added additional complexities for brands and retailers in a data-driven market, but this new regulation has enhanced targeted marketing and deepened customer insight in the process. Retailers who combine this newfound proximity to their customers with investment in technology are already reaping the rewards of an enhanced customer experience, and a loyal following to boot.

"Brands and retailers have greater capacity to appeal to their customers across a range of channels. Access to data is empowering consumers with insight to make informed decisions about their purchases whilst, at the same time, enabling retailers to optimise choice and personalisation for their customers through the use of AI and other technological advances. In doing so, however, market players must be careful not to overlook their business fundamentals: ensuring stores are well stocked, customer service is good and products are perceived to be value for money. As we know all too well, digitisation has given customers a powerful voice that can make or break a brand."

Sue Richardson

Partner, North Head of Retail, KPMG

9 Retaildive, July 2017
10 Retaildive, July 2017



21%

of consumers capitalise on the chance of being able to shop from the office

61%

of shoppers signed up to delivery subscription services

94%

of consumers found a better product selection online than instore

83%

of the purchases made in store were due to trying the size or comparing items before making purchase

3. The political and economic environment

The political and economic environment

Change appears to be the new normal for UK retail. If the Brexit Referendum in 2016 signposted a reshaping of the UK social and political landscape, the subsequent slow moving departure negotiations have deferred investment and prolonged the political debate as to what Brexit really meant. Retailers who had hoped a further delay to the January 2020 deadline were hit with further disappointment when a General Election landed right in the heart of the coveted Golden Quarter. The first December General Election since 1923 was not the peak trading backdrop which many retailers had hoped for after a turbulent year.

Consumers though were largely undeterred, embracing Black Friday and giving retailers some much-needed respite in the process. But as the political narrative dialled up, the mood music confirmed that Brexit is just one of many issues that are irking Britain and weighing down the economy at large. And while many of these forces are beyond retailers' control, staying on top of those that are in their reach will be critical as 31 January comes and goes and the nation buckles up for another rocky ride ahead.

Pricing changes?

Retailers are acutely aware that if a deal doesn't prevent them, then tariffs will arrive and hit some products more than others: with food likely to be significantly hit with staggering £6bn bill anticipated from tariffs alone[11]. But retailers are already looking at alternative sourcing to mitigate this impact and avoid passing price increases onto the value focused shopper. Currency fluctuations are also key to the price of imported goods – and if the pound strengthens against the US dollar and euro following a Brexit Deal, then there will be headroom for retailers to protect margins without price increases – even under a tariff environment. There is a concern amongst retailers regarding retail EU labour within the supply chain[12].

Shoppers have long worried that Brexit will ramp up the price they pay instore, but renewed Bank of England optimism both sides of the latest deal attempt may have buoyed consumer sentiment, as the water standing between those who think Brexit could hinder and help the UK's economic growth narrows.

Bigger picture

As alarmist headlines fanned a weary exasperation across the country, it's tempting to lay the blame for retail's struggles at Brexit's door, but there are much greater and more established dynamics at play here. Beyond the short term worries of a change of Government – there were macro-economic challenges impacting on global sourcing, shifting geopolitics and increased compliance. These are long-time fixtures on the boardroom agenda, and retailers are well versed in sector-specific hurdles, from legacy debt, talent constraints, fast-moving consumer dynamics and the over-supply of physical stores. These may have been magnified by the drawn-out Brexit dilemma, but retailers will be wise to tighten their hold on the aces within their gift as external forces play out.

11 Navigating the Road Ahead: Are You Prepared? Retail Economics, 2018
12 How will Brexit impact my supply chain? KPMG 2018

Street wise

This optimism could bode well for the high street: just one in five (17%) consumers expects to tighten their belt after Brexit. What savings we do make will centre on non-essential items, namely women's clothing at 17% and electronic goods at 16%, while the nation's appetite will remain largely intact, with just 4% of consumers planning to eat out less. In the main, shoppers at both ends of the spectrum are unruffled by the prospect of EU independence, with Generation Z (18 and under stating Brexit won't change their shopping habits, compared to the 17% across other demographics who will be taking heed of the political parlay.

Stepping it up

Reduced footfall has been a growing worry for UK retailers, who reported the lowest in-store statistics in October for seven years. Many slashed their prices in a last-ditch bid to boost sales, but some forward-thinking players recognised that this was not a sustainable long-term solution. They're thinking laterally to make things work instead, cashing in on the experience economy to add renewed purpose to their shops and investing in their omni-channel capability to satisfy consumer demand for social search and personal edits. We've seen stores expand their product lines, open concept shops and facilitate 're-commerce' in line with consumer demand. And they are bearing some fruits from their labour: UK spend around the Black Friday period was predicted to outshine anywhere else in Europe, despite the stubborn cloud of uncertainty we have been unable to shake off.

Not wasting a good crisis

While unsettling, the stop-start nature of Brexit has given retailers a chance to pause and consider the implications of a hard outcome as well as how a deal might look for their business should one make it over the line. Some have sought to internationalise their retail sales – creating a natural 'hedge' to a devalued GB Pound, whilst others have invested in improved EU logistics to insure against cross-border product delays. In many cases, the increased engagement with suppliers over sourcing strategies, shipping routes and inventory levels has opened up opportunities for improvement – irrespective of whether the UK and EU can finally 'Get Brexit Done'.

"As the UK's well-documented dither and delay seeped into the New Year, it's been all too easy for retailers to point the finger at Brexit as the root cause of another tricky year behind the tills. But as the nation braces itself for crunch time in this drawn-out debate, there's plenty that can be done to soften the blow for retailers and suppliers alike. We've seen some fast-thinking operators in areas such as consumer electronics and toys restructure to counter for sharpened consumer spend, but fashion players, for example, have been slower to adapt. While unsettling, disruption presents a swathe of opportunities and those retailers who can innovate, edge closer to their customers and invest in their people can look to thrive, rather than simply survive in these unsettled times."

Don Williams

Partner, London Head of Retail, KPMG

36%

of consumers said they would reduce spend on women's clothing and electronics as a result of Brexit

17%

of consumers plan to reduce spend (on non-essential items) as a result of Brexit

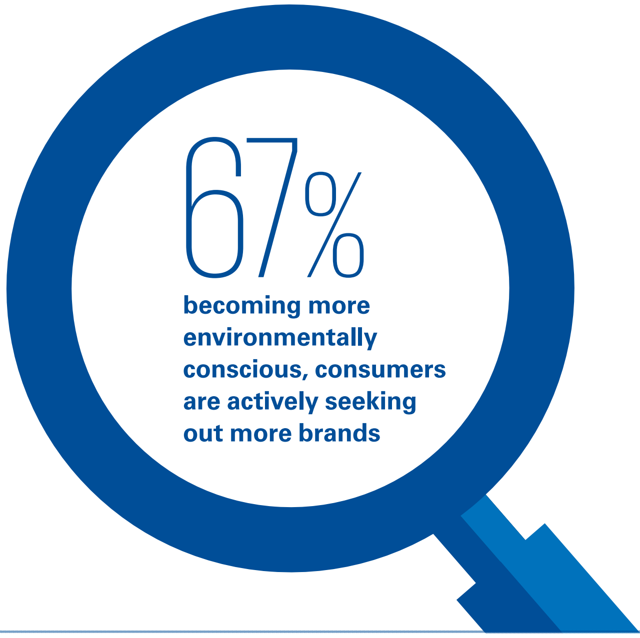

VISA
Signature

4. The customer

The customer

There were more casualties in British business in 2019[13] than at any other point in the last five years and a look at the retailers who've called time shows a clear trend: a failure to evolve with the all-important end customer. As consumers, we are more righteous than ever before. Fuelled by the richness of information available online, shoppers can compare and contrast both product and price. They can select who they want to engage with, judging retailers on their social values and ethical practices - and vocalising their distaste if they don't comply.

Retailers are all too aware of this, and many have morphed their propositions and underlying ethos to appeal. But in a fiercely competitive market, that's not enough: stand-out retailers with sure-fire staying power have nudged closer than ever to their customers and are moving fast to stay ahead of their expectations.



Future thinking

Climate change is a firm fixture in the news today and the boundless efforts of Millennials and Generation Z have injected a pressing sense of urgency into the need to stop global warming in its tracks. And there has been a rapid sea change in consumers' expectations as a result: one in three (37%) consumers today base their buying decisions on brands and retailers' ethical and sustainability policies. Look back just a year when just 6% claimed ethical sourcing influenced their purchases and it's clear that sustainability has become firmly engrained within shoppers' psyches. And this is set to continue: two in three (67%) consumers claim to care more about the environmental impact of the goods they buy today than they did five years ago[14].

But consumers will not fly this flag in isolation and expect their brands to demonstrate equal care of thought across every single rung of the supply chain, from the manufacturing process and the underlying products used, to distribution and their employees' well-being. But there's still room for improvement: close to half (43%) of consumers were frustrated or dissuaded from the purchasing process due to the packaging used, and with a growing expectation for lower-emission delivery and logistics procedures, this is one area in which retailers have no choice but to move with the times.

Up close and personal

Loyalty amongst UK shoppers is fast changing and with the consumer experience stooping to a record low in 2017[15], it seems service providers could be doing more to keep their customers in favour. While this has bounced back somewhat over the last two years, with retail one of the three sectors that is leading the charge, retailers are frantically backpedalling to engender what loyalty they can in today's consumer. In spite of their high operational costs, subscription services are a failsafe for prolonging customer dialogue and mining useful insights. We've seen a hike in consumers signing up to subscriptions such as Amazon Prime's delivery initiative (61% compared to 49% last year). A further 22% of consumers said they are already members of loyalty schemes such as Tesco's Clubcard and Sainsbury's Nectar schemes, with 71% citing loyalty points and promotions as their main driver for joining these. A further 26% were enticed to join via one-off incentives.

But there's more work to be done: some 14% consumers have resisted loyalty schemes altogether, and with 64% admitting they actively seek out new brands[16], even the most compelling programme may not be enough. And as consumers engage with retailers beyond the transactional experience alone, they want them follow suit. 22% of loyalty scheme members value personalisation such as birthday rewards, and with some 15% signing up for repeated orders from their retailers, four in five 80% of whom are Millennials, using first name terms clearly pays off for.

13 The Insolvency Service, November 2019
14 KPMG research, July 2019
15 Global Customer Experience Excellence Report 2019
16 Consumer Brand Loyalty Survey, Criteo, 2019

Individual streak

It's well known that one size doesn't fit all in retail, and this has never been so apparent as it is today, when consumers engage with brands and retailers through a multitude of ways and on their terms. Consumers do, however appear to be united by price: when asked why they shopped during the sales period, all said it was down to cost, aside from the Silent Generation those born mid-to-late 1920s until the early-to-mid 1940s. who saw it as an opportunity to get through the Christmas list early.

Millennials and Generation Z are largely reshaping consumer behaviour. Of the 37% shoppers who claimed to base their decisions on sustainability policies, 73% were Millennials and 21% Generation X. They're engaging differently: with one in three citing social media[17] as the primary means in which they interact with brands and companies. They're consuming differently, too, opting for memory-making experiences instead of the needless 'stuff' that clogs up the planet. And as with the plight for sustainability, experiential retail, or 'retailtainment' is unlikely to be the domain of the younger generation for long: asked how much of their holiday spend they'd earmark for experiences, Millennials said more than half (52%), but older generations were surprisingly close behind, at 39%.

Tomorrow's world

We live in an age of instant gratification. As consumer buying behaviours have been reshaped by the capacity to buy what we want, when we want, at the touch of a button, it was only a matter of time until spending followed suit. Cue Klarna, the instant finance provider which boasts 80 million customers worldwide. Klarna received something of a mixed reception amid concerns of the impulsive and potentially reckless consequences of the 'buy now, pay later' mindset, and with 15% of consumers admitting this credit facility ramps up their own spend, these could well be substantiated.

And the ripples have been felt on both sides of the shop floor. Retailers have reported increased returns at the 30-day mark as consumers face up to the net result of their monthly spend, but they've also cashed in on impulse buyers who would otherwise miss out on pay-day sales and now have funds at the ready, whenever they want them. And with the likes of Marks and Spencer swiftly following suit[18], the buy now, pay later phenomenon is causing something of a stir in British retail.

From the other side of the till

Retailers are scratching their heads over a very emotive ask at present. In a matter of months, the spotlight has switched to sustainability, and in a fiercely competitive market, they have no choice but to shape up or ship out. Alternative packaging is no longer a nice-to-have, and ethical and environmental practices must transcend the full supply chain. As tech-savvy disruptors eye up market opportunities, it's more important than ever to invest in innovations that could transform the customer experience, no matter how costly these may be. And while 'buy now, pay later' has become something of a double-edged sword for the industry itself, consumers demand it – and it is they who call the shots.

"It's been well documented that as consumers change at pace, retail stalwarts have struggled to keep up. But what plays out less frequently in the media are the success stories of the companies who've listened to the tempo and adjusted their own beat in line with customers' changing expectations. As values hold more weight than ever before they must ring true in every stage of the retail experience. Get this wrong, and your customers will let you know about it, but get it right, and there's everything to play for."

Joanna Stringer
Partner, KPMG Nunwood - Customer experience

17 KPMG Global Retail Trends, 2019
18 Which? November 2019

37%

have an opinion on the sustainability practices of a retailer, and will use as part of there decision making

22%

of loyalty scheme members value personalisation such as birthday rewards.

15%

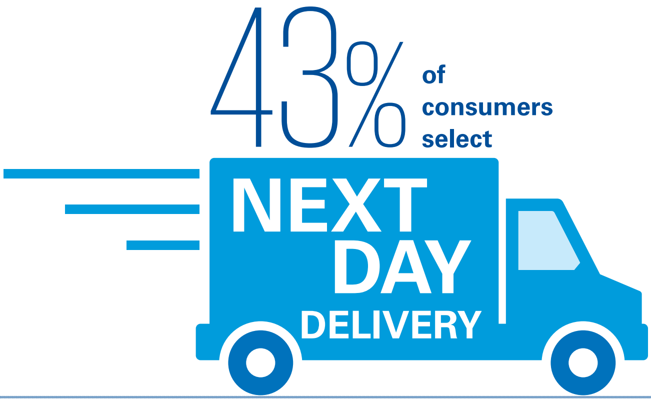
of respondents said that they spend more as a result of ‘Buy Now, Pay Later’ schemes

5. Delivery options

Delivery options

UK consumers are well aware that their money carries more weight than ever for vexed retailers in a testing market. And as their expectations increase, retailers must take heed not to fall down at any stage of the customer journey. Last mile operations are a notorious challenge for retailers who've invested heavily in honing the brand experience, only to lose control as they entrust this final furlong to third party couriers and carriers.

As logistics providers themselves battle with sky-high demand in peak periods, quality control is a tall ask, so retailers must work with them to improve location accuracy, timing, tracking technology and customer service. Only then will the coveted brand experience remain intact.



Great expectations

As consumers expect more from the companies they choose to invest in, delivery has become part and parcel of the entwined brand experience. As shoppers have become accustomed to the ease and instantaneity of ecommerce, they expect retailers to change their own tempo with speedy, hassle-free delivery that completes the sales experience. As a nation of seasoned shoppers, we're looking to get hold of our goods faster than ever, with over a third of consumers (43%) selecting next-day delivery, a 4% rise on last year. And retailers had better take heed: long delivery times are a key culprit in brand abandonment (17%)[19]. Convenience remains key for time-stretched shoppers: two thirds of us (68%) said home delivery was their preferred method.

There was a distinct correlation between location and delivery preference: of those who'd chosen next-day delivery, 24% had their goods sent to a city location, 5% to a rural area and 16% to a town. Canny retailers will take this on board, perhaps limiting those regions to which they offer up next-day options, in favour of less urgent and more cost-effective delivery that eases the pressure on already squeezed networks. And we continue to see ever-expectant Millennials opting for their goods to come to them, with half (80%) stating delivery as their preferred means of taking receipt of their goods – a 4% rise on last year. While the workplace was the preferred destination for just 14% of shoppers, 71% of these were Millennials and 23%, Generation X.

Footing the bill

Consumers may have a clear idea on what constitutes a good home run, but they expect retailers themselves to foot the bill for making this happen. Three in four shoppers (73%) say they would have been dissuaded from a purchase if there had been a delivery charge associated with this, compared to 57% last year; while the duration they're willing to wait for free shipping is also falling steadily, from an average of 5.5 days in 2012 to 4.5 a year ago. And retailers are complying: 84% of shoppers who didn't subscribe to an annual delivery service still received free delivery for their goods.

Before retailers pull out all the stops to provide low-cost, quick-time delivery, however, they must ensure that this does not detract from the customer experience. As more consumers seek out end-to-end service than ever, from after-sales care to in-home product set up, it's clear that the last mile is integral to the wider brand experience. And with 34% noting that they were not aware which courier was behind their most recent delivery, the onus for getting this right remains very much on retailers themselves.

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19 Consumer Brand Loyalty Survey, Criteo, 2019

Clean living

As consumers buy with their hearts as well as their heads, they're looking beyond the transactional experience to the full customer journey, including delivery. Over the past 12 months we have experienced consumers using click and collect services more readily. Once a mechanism for ease and convenience, consumers have wised up to the environmental benefits of 'click and collect', with 23% stating this was their main motivation for selecting this option, compared to 17.6% in 2018. However, the growing number of retailers closing stores and implementing CVAs will reduce the availability of collection points, increasing usage of alternative delivery options[20].

Beyond the headlines of record sales and drastic discounts, Black Friday was beset with protests by climate campaigners chiding shoppers for the environmental impact of their shopping sprees and even the brands behind the stores themselves getting in on the action. We found that nearly two thirds of consumers (61%) tried to mitigate their carbon footprint over the course of the sales period[21]. But regardless of how earnest the drivers that continue to draw consumers in store, Millennial shoppers still expect retailers themselves to carry the can (27%). However, the growing number of retailers closing stores and implementing CVAs will reduce the availability of collection points, increasing usage of alternative delivery options.

Time trials

The margin for error was once notoriously high in the last mile delivery process, but with just 5% of our respondents reporting failed delivery attempts, steps by retailers and logistics providers to address this are clearly paying off, with renewed trust in the delivery providers themselves. This is in part due to the advent of delivery tracking which has significantly alleviated customer concerns: 46% of shoppers claim to use this technology to pinpoint the location of their goods. And again, retailers should look closely at recipients' locations before offering parcel tracking technology: of those who used this option, 26% live in cities, 20% in towns and 6% in rural areas.

Consumer deployment of tracking technology goes deeper than monitoring alone, but while 7% used this facility to change the time or destination of their delivery, usage has declined sharply from last year's 21%. However, this could well be a nod to growing consumer confidence in the home run: we also found that more than two thirds of shoppers (67%) entrusted delivery providers to find an alternative delivery method, such as leaving the goods in a 'safe place' or delivering to a neighbour, a sizable increase on 51% last year.

From the other side of the till

On-demand shopping has pushed customer loyalty to its lowest ever ebb, prompting radical price cuts as retailers do all they can to appeal to the customers in their sights. As consumers have become accustomed to ordering as well as receiving their goods in break-neck speed from the comfort of their homes, it has been at the demise of the bricks-and-mortar store. But while the world wakes up to the environmental implications of ecommerce, click and collect could well hold the key to enticing consumers back instore, enriching the customer experience and culling the steep overheads associated with home delivery.

"The home run is critical for consumers, particularly in ecommerce, where delivery constitutes the only human interaction in the purchasing process. But for too long, couriers have been estranged to the brands they represent, and as retailers have found to their peril, delivery must be delicately incorporated into the full brand experience. Retailers will be well placed to invest in the technology and operational know-how they need to manage drivers, routes and accuracy in order to put the final furlong on a par with the customer experience they've worked so hard to create."

Iain Prince
Associate Partner, Supply Chain and Operations, KPMG

20 Retail Gazette, 2019
21 KPMG research conducted by Opinium, November 2019

68%

shoppers opted for home delivery, compared to 63% in 2018

23%

of the people that opted for click and collect, 25% said it was based on sustainability reasons

67%

of online shoppers entrust delivery providers to find alternative delivery method an increase of 16% on last year

73%

of consumers say they would have been dissuaded from a purchase if there had been a delivery charge associated

6. The returns issue

The returns issue

The flip side of ecommerce is that no matter how experiential brands and retailers succeed in making their online stores, consumers can't try before they buy their goods. And with returns accounting for as much as half of all purchases, this presents retailers with yet another dynamic to get their heads around. Add to this the fact that many consumers are calling their bluff, and returns are a very complex conundrum for retailers to fathom indeed. But with consumers judging companies more acutely than ever on their willingness to take back and reimburse them for unwanted goods, they have little choice but to work this one out.

Feeling the pinch

Consumers' returns cost British stores an eye-watering £7bn last year[22], and with a 12% hike in the number of shoppers intentionally returning their goods (46% compared to 34% last year), this could well increase. Add to this fact, three in ten businesses complain that shoppers have used their items before sending them back, and retailers are in a very tricky position indeed. As fashion retailers will be well aware, returned goods may need kid-glove treatment before they are shop-floor ready again, so it's little wonder that 19% of retailers are taking measures to stop so-called 'serial returners' in their tracks[23]. But with cumbersome returns policies denting consumer affinity with the brands in question[24] and as many as 18% of shoppers claiming to have returned goods bought over the sales period, retailers need to tread very carefully in getting a hold on this vital cog in the sales process.

Return to sender

As retailers scratch their heads over their customers' intentions, shoppers themselves have high expectations as to how they should be able to make returns. Cost is pivotal, with 63% stating that free service was critical when returning goods, compared to 54% last year. And however challenging it may be, retailers are clearly bowing down to their wishes: 87% of consumers had access to free returns this year compared to 84% in 2018. 11% claimed that they paid to return their goods, with the standard fee for doing so ranging between £1 and £10.

Asked how they returned their goods, the majority of consumers (39%) went instore. 28% visited a drop-off point, a sharp rise on 22% last year, while 28% used a postal service. The means by which shoppers return goods is largely consistent across age groups, but Millennials were significantly more likely to entrust their goods to the relatively new drop-off concept (27%) as Baby Boomers (12%) and Generation X (7%).

22 IMRG, 2019
23 Barclaycard research, 2019
24 Consumer Brand Loyalty Survey, Criteo, 2019

Fast track

Convenience is king for consumers when they're looking to return items, or so one in four (25%) of respondents told us. And speed is also of the essence, with 12% citing the length it took for them to be refunded for their goods as very important. Just one in five retailers (21%) are running a sufficiently tight ship through which they can reimburse customers within seven days, and almost one quarter (24%) of shoppers claim they had to wait between 8 and 14 days for companies to pay out.

Almost half (46%) of consumers bought one or more of the same product with the aim of returning them at a later stage compared to 34% in 2018. And as consumers become more tactical in their approach, retailers are having to think on their feet to keep up. Take Klarna's 30-day payment cycle, for example. The credit agreement is strictly between Klarna and the consumer, but should shoppers have second thoughts on their spontaneous spending sprees, retailers had better brace themselves for a deluge of delayed returns in a bid to soften the blow.

Taking control

Sustainability isn't simply the preserve of where and how we shop. Consumers and retailers have wised up to the devastating impact of unused stock on our planet, with 'fast fashion' gaining particular media scrutiny. With 235 million[25] garments sent to landfill in the last year alone, something needs to give, and canny consumers keen to live guilt-free have taken up the mantle. The resale, or 'recommerce' market is set to explode over the next five years[26] as savvy shoppers upgrade their wardrobes courtesy of second-hand and thrift shops, vintage boutiques and retail websites at a snip of the price of buying brand new. Led by the charge of the value-conscious Millennial, resale is fast losing its stigma and pre-loved goods are expected to account for as much as 40% of thrift shoppers' wardrobes by 2022[27]. However recommerce plays out in the UK market, it could well signal a shift in consumers' fondness for returns as they look to adopt more mindful ways to shop.

From the other side of the till

Returns are something of a Pandora's box for retailers: while they must show willing to keep consumers onside, this is the one area where their customers have become accustomed to calling their bluff. And the implications on the sales cycle are immense, for as long as returned goods are in transit, they are unsalable. Then there's the risk that they can't be sold, and with additional complexities posed by the rise of the 'buy now, pay later' mentality, returns are a very costly and complex business indeed. On the plus side, however, some retailers are taking control with clever tactics such as digital receipts, which enable direct communication with receptive customers and circumnavigate the need to hold onto paper proofs of purchase, while evoking transparency and accessibility throughout the returns process.

"The consumer has always been king in retail, and this is no more prevalent than within the returns debacle. As life evolves and penny-pinched shoppers' circumstances change, they want the freedom to revoke their purchasing decisions and reinstate their bank balances. Marred by the antics of serial returners, retailers are trying to take control of the spiralling returns puzzle but they would be wise to do so with caution. Enforcing rules and restrictions can be difficult to do even in the most buoyant of markets, and retailers need to strike the balance between keeping a lid on costs and keeping the customer on side."

Iain Prince
Associate Partner, Supply Chain and Operations, KPMG

25 IMRG, 2019
26 IMRG, 2019
27 The Shelf, 2018

63%

consumers stating that free service was critical when returning goods, compared to 54% 2018

39%

of consumers went instore to return items

46%

of consumers bought one or more of the same product with the aim of returning them at a later stage compared to 34% in 2018

11%

of consumers willingly paid between £1-10 to return an item

7. Outlook for 2020

Outlook for 2020

2019 was something of a stop-start year, with an otherwise starkly divided nation united only in its frustration over the prolonged pain of the Brexit debate. But whatever our political persuasions or our standing on the shop floor, the election bought the year to the close with an unmistakable sense of clarity, cranking the tempo on the high street up a notch in the process.

But while shoppers may have revelled, albeit briefly, in this newfound certainty, we could well see any boost in consumer confidence bought back to size with a bang as the reality of our future trading relationship with the EU transpires. Yet in spite of the seasonally slow start to the year, we expect to see some heightened activity on the high street as 2020 evolves, subject, of course, to wranglings with Brussels, our eventual departure from Europe and the transitional period thereafter. The new government's forthcoming announcement of its spending plans in March's Budget should include significant increases in spending, which alone will drive a partial boost to economic growth.

Devoid of Brexit, we've seen a gradual but unmistakable metamorphosis within retail of late, as the industry gets to grips with new dynamics within the consumer shopping psyche. While value, convenience and experience still factor in shoppers' purchasing decisions, new determinants are emerging: choice, purpose and privacy. A select few have wised up to this and are already reaping rewards. Standout success stories over recent years include retailers who offer an 'unlimited' or curated selection of goods: the middle ground is becoming increasingly costly and complex to manage, and confusing for shoppers to fathom. And as consumers increasingly eye the brands they engage with through a value-driven lens, it pays to have a clear driving purpose, and environmental and social conduct and end-to-end governance will only become more important as the nation looks to shop guilt-free.

Finally, privacy: the flipside of GDPR is a resounding consumer awareness of not just the rights but the value of their data. As we look ahead to the 2020s, this could well be the greatest conundrum facing the industry, and retailers who can entrust consumers to part with their personal data will stand in good stead for the future.

As we embark on a new decade, there's plenty of scope for success. We anticipate at least 1% growth over the course of the year, with nimble independents and smaller retailers shining as they adapt to the changing landscape. Non-food will make a comeback, while the grocery sector will need to think on its feet as discounters appeal to price conscious consumers and on-demand or occasion shopping becomes the norm. As the nation finally squares up to a new chapter in its history, consumers will remain cautious but there will be a sense of progression as the year evolves - and retailers should make the most of the freedom this offers them to thrive.

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:

- Supply chain optimisation
- Data analytics and ecommerce insights
- Insight led operational Performance Improvement
- Cost to serve analytics and multichannel profitability analysis

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

Purpose and Reputation

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 and national living wage
- Pensions
- Right to work

People and Change

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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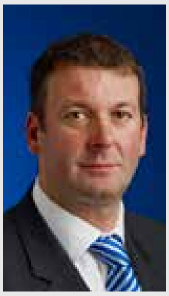

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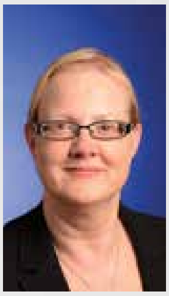

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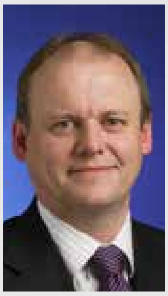

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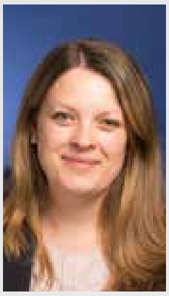

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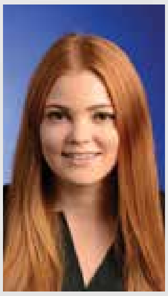

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