Consumer and retail sector overview

UK Customer Experience
Excellence report
2024/25

Inflation's lingering impact

The UK consumer and retail sector continues to shift significantly as it navigates the tail end of the high inflation economic cycle. While the underlying factors causing inflation, including geopolitics and supply chain challenges, continue to influence the industry, there are emerging opportunities for growth that suggest cautious optimism for the future. The focus for many will be balancing profitability with customer experience. The winners will be leveraging data effectively and navigating new consumer expectations, maintaining a focus on sustainability and resilience, and of course, delivering on consumer demand for quality and value.

Inflation has been a dominant theme in recent years, with rising costs squeezing retailers and restricting consumer spending. In 2024, inflation returned to its target, and whilst it may be rising slightly again, it is not expected to reach these same high levels. However, consumer spending remains subdued even as disposable incomes gradually increase. It is not clear what will trigger significant changes in spending habits.

More broadly, the consumer mindset has evolved into one of caution. Shoppers are now more thoughtful about what they buy, prioritising value over volume. This means that a competitive price point, combined with a strong customer experience, is more important than ever. Retailers must focus on providing both if they want to capture this cautious yet value-driven consumer.
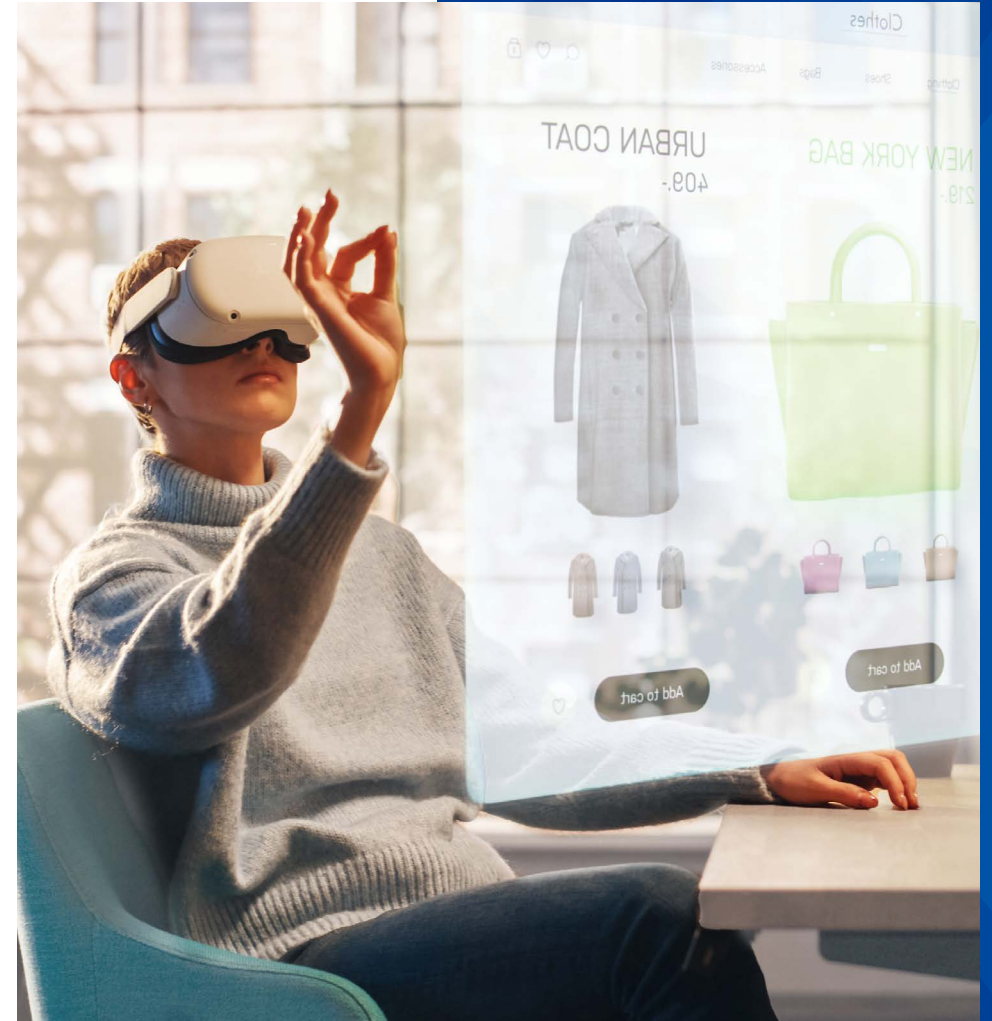
The rise of social commerce

Social commerce continues to gain traction as consumers not only discover products on social platforms, but increasingly complete their purchases within these same channels. This shift is pushing retailers to rethink the customer journey and how they can deliver a seamless commerce experience whilst also delivering on margins.

Returns continue to be a challenge for non-food retail. As a result, new charges are being implemented across the sector. Delivery charges, once rare, have become standard. Likewise, many retailers are introducing returns charges as a response to the practice of over-ordering multiple items, such as different sizes of the same garment, and returning what doesn't fit.

Managing these returns comes with difficulty managing stock and high logistical costs, which retailers are now passing on to consumers.

These new charges have the potential to create friction with customers. In response, some retailers are employing technology to reduce the likelihood of returns. For example, Artificial Intelligence (AI)-driven sizing tools and detailed fitting assessments are being integrated into the shopping experience. Specialist shoe retailers, for example, are using scanning technology to measure feet, ensuring an accurate fit the first time, aiming to reduce return rates while improving customer satisfaction.

[1] https://www.bbc.co.uk/news/articles/ce9zlrmp2y7o#:~:text=Such%20customers%20will%20now%20have,the%20majority%20of%20its%20customers.

> **With evolution of digital and AI and a new era of seamless commerce, consumers' frames of reference are constantly shifting and increasing their expectations of what good experience looks like. This year's winners are those leveraging their data effectively to understand and meet those expectations throughout the customer journey.**
>
> Linda Ellett, Partner,
> Head of Consumer, Retail & Leisure

The challenge of omnichannel and seamless customer journeys

For traditional retailers, the ongoing challenge is to create a seamless, easy-to-navigate customer journey across both physical and digital channels, while still maintaining profitability.

Deliveroo offers a prime example of innovation in this area. Known for its rapid food delivery infrastructure, the company has expanded its service to partner with retailers like Screwfix, delivering higher-margin products and altering the value exchange.[2] This model demonstrates how businesses can leverage existing infrastructure to enter new markets and capture additional value.

At the heart of omnichannel success is data. Retailers are striving to unify their data models, managing the complex interplay between physical stores and online platforms. This involves gathering data from all touchpoints and using it to develop a detailed understanding of customer behaviour — everything from their shopping mission to their preferred channel.

Sephora, for instance, has developed a system where customers can add items to their online cart and then purchase them via their phone when they enter a physical store, creating a smooth online-to-offline transition. In addition, the app now comes with an AI feature called Virtual Artist, which uses facial recognition technology to allow customers to virtually try on makeup products. The app can then either direct customers to purchase the products online or tell them where they can be found in a store. All of this provides useful marketing data, enabling Sephora to build relationships and improve profitability.

However, retailers are finding data unification a major challenge. Conflicting key performance indicators (KPIs), such as competing targets for store sales versus online sales, often create internal tensions. So, whilst technology offers potential solutions, improper implementation can lead to additional friction in the customer journey. For instance, self-checkout systems were initially introduced to reduce labour costs, but many retailers are now reversing this with a promise that staff are available for traditional checkout options for customers who do not like self-service.

[2] https://www.retailgazette.co.uk/blog/2024/03/deliveroo-screwfix-locations/

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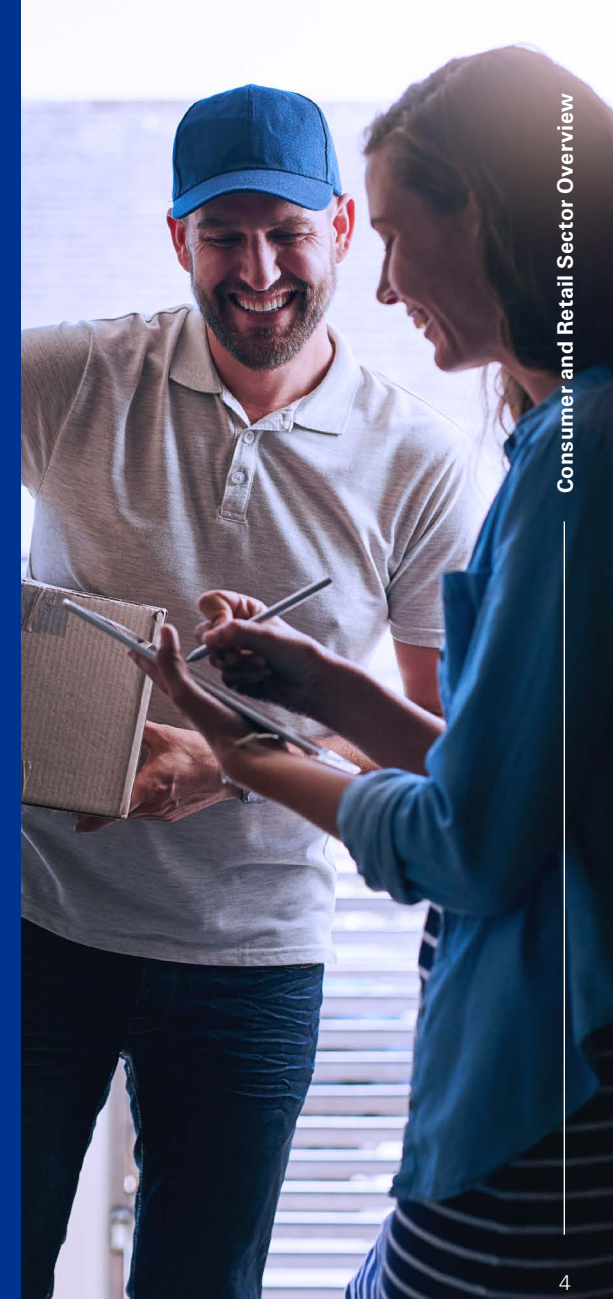
Technology-based security and the rise of retail crime

One of the most challenging areas in consumer and retail in the UK is retail crime. Ranging from blatant theft to assaults on staff, it not only hurts margins, but damages the customer experience and makes colleagues feel insecure.

Retailers are investing in AI-powered surveillance and analytics to detect and reduce theft. These measures aim to protect both physical and digital assets, with data breaches and cybercrime also posing significant risks.

Many retailers have had to put high-value items in locked cabinets or restricted access. For customers, this creates more friction, leading to poorer sales. Technology solutions are starting to come, for example with automated units in stores.

Marketplaces and B2B2C models

Another trend that has gained momentum is the rise of marketplaces. Retailers such as Tesco or B&W have created online platforms where they can extend their product offerings by partnering with a network of third-party suppliers. This business-to-business-to-consumer (B2B2C) approach enables retailers to offer a wider range of products without the financial and operational burden of holding inventory.

The customer experience of the one-stop-shop can be very positive, focusing on the consumer desire for convenience. For the marketplace providers, the insight into customers beyond their own product set offers huge value, but ensuring their customer experience promise is maintained across the marketplace is not straightforward.

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Growth of the repair and second-hand markets

Sustainability continues to be a driving force in retail, and this is reflected in the growth of repair services and the second-hand market. Retailer John Lewis is offering repair services, while Primark is offering workshops on durability, tapping into a growing consumer desire to extend the life of products, whether that is to save money, reduce waste, or both.

The circular economy is becoming increasingly important, with retailers looking to monetise it by offering repair, refurbishment, and resale services. This not only aligns with consumer demand for more sustainable options, but also helps retailers tap into a new revenue stream at a time when margins are being squeezed in traditional retail.

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Top 10 retailers in the Customer Experience Excellence Report 2024/25

1. Ocado
2. John Lewis & Partners
3. Lush
4. QVC UK
5. M&S
6. Apple Store
7. Lakeland
8. Richer Sounds
9. ao.com
10. M&S Food