



Annual Retail Survey 2018

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

January 2018

kpmg.com/uk/retailsurvey2018



Contents

Introduction	03
Chapter 1 Black Friday	04
Chapter 2 Brand values	08
Chapter 3 Brexit and international logistics	12
Chapter 4 Improving the customer experience	16
Chapter 5 Economic fulfilment	20
Chapter 6 Last mile operations	24
A look ahead to 2018	28
Contacts	32

Introduction

Now in its fourth consecutive year, the KPMG Annual Retail Survey looks at the buying, returns and brand experience of over 1,600 KPMG employees in their capacity as consumers. Their insight gives us a clear customer perspective of the UK's shifting retail eco-system throughout Black Friday and the festive shopping period, and their experiences at every stage of the customer journey – whether they chose to buy in-store or online.

Last year, we watched Black Friday continue to extend its reach, with social networking and mobile engagement driving record spending online. A year on and the looming shadow of Brexit, heightened inflation and rising interest rates have steadied growth and pared the sales period, making waves across every rung of the supply chain.

The Annual Retail Survey 2018 looks at six driving themes:

- Black Friday, a bedrock in the UK shopping calendar
- Brand equity and the rise of selling direct to the consumer
- Brexit's impact on the supply chain and international logistics
- The role of retail in driving a better customer experience
- Consumer dynamics: staying ahead while reaping returns
- Last mile operations, the defining point in the sales process

Methodology: This year's survey featured 297 retailers across 30 product categories and looked at the dynamics at every stage of the retail cycle, from purchase and transaction through to collection, delivery and returns. The survey ran for five weeks from 20 November to 22 December 2017. Data was collated through KPMG's digital analytics and visualisation tools.

1. Black Friday



Black Friday: the biggest event in the UK shopping calendar

A firm fixture in the UK consumer calendar, the once day-long Black Friday has rapidly morphed into a three-week shopping spree for UK consumers hungry to bag a bargain.

This year, Black Friday remained a mainstay on the UK shopping agenda. However, with uncertainty around the UK's long-term health at the hand of Brexit and other disruptive factors, it was no surprise that Christmas trading as a whole delivered a meagre 0.6% uptick in like-for-like growth. Online non-food sales for the festive period peaked at the kick-off to Black Friday and on Cyber Monday itself. However, retailers reported that the week prior to Christmas – and beyond Black Friday – were just as important for driving sales¹.

The number of online shoppers has increased this year during the Black Friday period, with 76.7% of all purchases made online. We have seen retailers prolong the discount periods for individual stock, while consumers stand at the ready: monitoring the price and the goods put on offer as Black Friday progresses. But as shoppers' expectations increase, heavy pre-Christmas discounts are taking their toll on retailers' profit margins, as goods that would have previously commanded the full price prior to the January sales are slashed the wrong side of Christmas.

In the bag

Our respondents used Black Friday to their full advantage: 97.5% of all goods bought during this shopping frenzy were discounted, with some 67.5% reduced by as much as 30%. So what were the motives behind these purchases? Price was the key driver for 61.1% of our shoppers, while just 23.2% used Black Friday as an opportunity to bag an early Christmas present.

What did people buy?

We saw more product lines participate in Black Friday than ever before. While retailers' focus was on bigger-ticket items that drive the best returns, consumers had other ideas, opting for lower-margin goods throughout the sales. While electronics were the key products that shoppers researched prior to making a purchase (accounting for 30% of all price comparisons), the volume of electronic goods consumers bought dipped from 25% of all purchases made over Black Friday 2016 compared to 20% over the same period in 2017. Women's clothing accounted for 21% of all purchases (vs. 17% in 2016), whereas jewellery and watches only accounted for 6% of all items bought.

While we observed tentative growth in high street spend, all categories grew online, with health and beauty, shoes and clothing topping the ranks for internet purchases throughout the Christmas period². But as consumers monitor pricing across the board, price variances across channels will continue to increase competition, prompting retailers to discount more heavily – to the detriment of profit.

The Brexit factor

Disruption was the buzzword for British business in 2017, and retail proved far from untouchable. With complex Brexit negotiations, non-food sales have steadily decreased to record lows since January 2011³. While the festive period finally cajoled consumers into reaching for their wallets in the hope that their money would go further, the heat is on for retailers to strike the balance between a competitive offering that cushions their margins – and one that sets them up for another year of tentative spending as their customers wait and see what Brexit means for Britain.

Savvy shoppers

Consumers have wised up to Black Friday and what is in it for them. Many resisted making expensive purchases throughout the year in the hope of nabbing a bargain in the pre-Christmas sales. Our survey revealed that almost nine in ten respondents (87.2%) intentionally purchased during the Black Friday period in order to receive a discount. Heightened media interest coupled with retailers' own marketing campaigns have made shoppers more empowered and strategic than ever: over half (57%) made use of the insight at their fingertips to scope out the options available and compare prices to secure the best deal before making a purchase.

Pricing strategies

The noise and expectation around Black Friday is forcing retailers to discount heavily to stand out and then to clear unsold stock, further squeezing profit and margins. Our survey revealed that consumers bagged an average saving of 26% on their purchases during the Black Friday period. With price comparison sites and apps giving shoppers a bird's eye view of the bargains at their disposal, retailers and their suppliers must stay one step ahead to devise the optimum pricing strategies that will keep them competitive and drive the best returns. Out of 57% of respondents who compared prices on other sites before making their purchase, four in five of these shoppers (81.5%) noticed a price difference across different websites for the same item. Retailers should take heed of pricing variations on branded items across platforms and other retail channels to ensure that they are on a par with the wider market.

Beyond Black Friday

With consumer champions standing on the sidelines and assessing the underlying value of retailers' Black Friday deals compared to their historical sales, retailers need to be as transparent as possible. With almost half (47.2%) of purchases made outside of the Black Friday period still being bought at a discount, consumers have been urged by industry watchdogs to look at price as well as saving. Retailers should factor historical retail patterns as well as the wider competitive landscape into their pricing strategies and marketing messages to avoid negative publicity at the time when it matters most⁴.

“Black Friday continues to have its place firmly etched on the UK shopping calendar. In a year in which retail has been something of a yardstick for the nation’s take on Brexit and wider disruptive forces, all eyes have been on this extended sales period and whether it could bolster performance in a tough sales environment. While the reality was something of a let down, there is no doubt that Black Friday is a significant event for shoppers and retailers alike. We expect spend will continue to stagnate both sides of Black Friday in the future and that we’ll see a continued migration of shoppers from the store to online.”

Paul Martin, Head of Retail, KPMG in the UK

^{1,2}BRC–KPMG Sales Monitor (2017) Online steals the Black Friday show [online]. Available at: <https://home.kpmg.com/uk/en/home/media/press-releases/2017/12/brc-kpmg-retail-sales-monitor-november-2017.html>

³BRC–KPMG Sales Monitor (2017), Record decline for non-food in October [online]. Available at: <https://home.kpmg.com/uk/en/home/media/press-releases/2017/11/brc-kpmg-retail-sales-monitor-october-2017.html>

⁴BBC (2017) Black Friday deals ‘not all they seem’, shoppers warned [online]. Available at: <http://www.bbc.co.uk/news/business-42050642>



97.5%

of purchases made during the Black Friday period were discounted

67.5%

of Black Friday purchases received a discount of up to 30%

76.7%

of Black Friday purchases were made online

61.1%

of shoppers listed price as the main motivation for purchasing during the Black Friday period
(an increase of 12.1% from 2016)



2. Brand values

Brand values: the rise of direct to consumer

The success of third-party multi-retailer platforms such as Amazon and Alibaba has drastically reshaped the dynamic between brand and consumer, and shoppers have never had so much choice. It is no surprise that there is a steady increase in brands setting out their stalls on a multitude of platforms in a bid to stay competitive and, importantly, visible as consumers search for their product of choice.

But brands can spread themselves too thinly. Selling their products across a mix of channels and retailers could result in a drop in direct sales. Many more have struggled with the resultant loss of control in their image and their reputation, and we have seen a steady rise in brands pitching their products directly to customers. Not only are they cutting out the costs of selling through the middleman, but the winning businesses behind the brands are using a mix of carriers and investing in technology and packaging while optimising their shipping strategies. Of the 62.9% of shoppers who did buy directly with the brand, nearly a third (29.5%) of these explained that this was because their item was in stock or that there was a wider product range available. Only 11% of shoppers purchased their item with a third-party retailer for the same reasons.

While the internet has made direct selling something of the norm, applying the data it provides to embrace the possibilities of selling direct to the end user comes more naturally to some businesses than others. The mature business practices and rigid operating models that are typical of the longer-standing brands have slowed their progress in making the cultural and capability shift required to be retail ready.

Done well, the benefits of selling direct are clear: retailers and brands alike have welcomed the reduced need for bricks and mortar investment, pricing consistencies and cost savings. Those that look at the granular impact of direct selling across the supply chain and harness their brand across each stage of the end-to-end customer journey have retained renewed control over their brand perception.

The customer is king

What about the end user? We can expect consumers to stand firmly in their shoes as they demand a better service from the brands with which they are now on first name terms. With 51% using price comparison sites or platforms to inform their purchasing decisions, the larger, lower-margin brands are perfectly placed to reap the rewards of the direct to consumer dynamic. But consumers will continue to call the shots on the winners of this new world, so sellers must implement strong and coherent pricing policies and ensure they have the distribution networks and customer service capabilities needed to deliver and maintain the brand experience.

Top of the shop?

In spite of the continued threat to bricks and mortar retailers, nearly one in four of our respondents (22.7%) said they visited a store before making an online purchase: 12% to try products on, 8.4% to compare products, and 2.3% to access further information from the in-store experts. As we see a shift from third-party sellers, retailers still need to consider the importance of the physical store in creating a robust omni-channel experience. While the store still has a clear role to play, retailers need to ask how long we can expect this to continue and what impact any change could have on their supply chain.

Brand matters

With consumers dictating how they engage with a brand, the retail highway has become noisier and more crowded than ever. As long as shoppers flock to the store, the shop floor needs to exude the brand experience. But as retailers nudge their customers to shop directly through their social media and marketing channels, they in turn expect them to be present online. With 17.5% of millennials' purchasing decisions influenced by Instagram, Facebook and other social media (vs. 2% in 2016),

the merchandisers that can virtually bring the brand to life will benefit from the cost efficiencies of operating online. We see online retailers investing in substitute technology such as virtual and augmented reality, gamification, 3D and 360° photos in order to rival touch experiences and deliver the instant gratification that shoppers seek.

“While Black Friday opens the door to a wide range of products at heavily discounted prices, it is clear that brand and customer experience cannot be underestimated. Shoppers won't be blind sighted by a bargain, so businesses cannot afford to lose sight of the consumer. They must capitalise on the single view of the customer that digital provides to understand what they want, and ensure they receive it, regardless of channel. And as they master the art of direct selling, forward-thinking firms will be feeding their insights direct to suppliers so that they too can innovate and stay ahead of the competition.”

**Nathan Beaver, Partner, Customer & Digital,
KPMG in the UK**



62.9%

of shoppers bought directly with the brand compared to 37.1% who bought via a third-party retailer

29.5%

of purchases made directly with a brand were driven by stock availability and product range

12%

of online shoppers visited a store to try products on before purchasing online

17.5%

of millennials' purchasing decisions were influenced by social media



3. Brexit and international logistics

Brexit and international logistics: the complex supply chain

Notable by their absence in the Government's Brexit planning process, British retail is disengaged and lacks a clear, single voice at the negotiation table. The sector does not know how Britain's exit from Europe will look in the clear light of day, and retailers are bracing themselves for a bumpy road that will be paved with uncertainty. This was clear in the aftermath of the referendum, as we watched UK consumers do what few predicted: they kept on shopping.

18 months on, Brexit has become a reality and a cloud of uncertainty is impacting consumer confidence. But this is just part of a perfect storm for retailers who are grappling with ramped-up inflation driven by the fall in the pound's value and the knock-on effect this could have on interest rates. Regardless of how this plays out, rising business rates, employee costs and the increase in regulation such as the Apprenticeship Levy and the National Minimum Wage all give retailers multiple pressures to wrestle with.

The potential decrease in the talent pool when the UK leaves Europe could leave retail as one of the hardest hit sectors. With every rung

of retailers' end-to-end supply chain staffed by high concentrations of EU nationals, immigration restrictions could have a huge impact on product availability and pricing, and it is estimated that more than one in three retail businesses would cease trading without access to EU workers⁵. If the UK fails in its attempts to carve out a trade agreement, we could default to the World Trade Organisation's rules, which would further hike up costs for the retailer⁶. Regardless of what the future holds, this heady cocktail of factors has already squeezed retailers' margins in what has become a fiercely competitive market.

It is important to remember that the supply chain is critical to the jenga-like retail eco-system. This was clear over the course of Black Friday as both retailers and consumers absorbed costs throughout the supply chain. During the Black Friday period, 62% of consumers received free delivery on their purchases, yet 38.6% said a delivery charge would not have dissuaded their buying decision. At the other end of the spectrum, 12% of Black Friday purchases were returned (vs. 9.3% in 2016), highlighting the retailers' potential to capitalise upon Black Friday logistics charges. Our Top of Mind⁷ survey has confirmed that retailers understand the importance and fragility of the supply chain, and that they know they need to invest time, money and leadership resource to drive sustainable results. However, with investment challenges in businesses across the board, it seems that this is easier said than done.

Source of spending

In line with rising import costs, the survey revealed that consumers are shopping closer to home, with only 5.7% stating that their purchases were shipped from a non-UK location. It was also clear that over a fifth (21.9%) of consumers are unaware of the origin of their products. Consumers may be willing to forgo the efficiencies of buying close to home if overseas online retailers can price the products they want attractively enough, but for now it looks as though they are happy to spend locally. This could also be due to the UK retailer giving consumers access to the goods they want.

A hard pill to swallow

The full supply chain is feeling the impact of these challenging conditions, so it is not surprising that they are expecting the customer to absorb some additional costs. But times are hard for consumers too. Faced with increased inflation, job insecurity and perpetual uncertainty, consumers cite saving money as a key motivation for online shopping⁸, and they are flocking to platforms such as eBay and Facebook Marketplace to make their cash go further.

The retailers' perspective

Brexit has amplified a string of pre-existing challenges for businesses, many of which have long been in need of remedying. The referendum accelerated a process of internationalisation that had been gradually unfolding in the UK, and over half of Britain's online companies now export to four or more overseas countries⁹. But retailers must be strategic and selective, focusing on fewer points to build smarter operations in the markets that will command the best returns. As trade negotiations between the UK and the EU27 continue, many retailers are looking at the significant potential in large untapped pockets of Asia. Closer to home, more retailers are joining forces to preserve their market share and keep costs to a minimum. Increased import costs are resulting in retailers trying to target consumers to purchase on non-UK websites and ship from European Union distribution centres.

“As we enter 2018 retailers are demanding greater clarity on what Brexit negotiations mean for their sector – and are increasingly seeing preparations as a competitive differentiator. Whilst the level of risk varies hugely between different products, the need to meet demanding customer expectations is common across all categories and retail channels. With more fulfilment direct from mainland Europe, those retailers who understand their supply routes, are managing the risks, and have mature contingency plans can look forward to an advantage over those who have delayed action.”

**Brian Connell, Senior Manager,
Advisory - Operations, KPMG in the UK**

⁸Food and Drink Federation (2017) Businesses in 'farm to fork' supply chain reveal workforce concerns in landmark Brexit survey [online]. Available at: <https://www.fdf.org.uk/news.aspx?article=7866>

⁹KPMG (2017) Great British breakfast, with a side of Brexit [online]. Available at: <https://home.kpmg.com/uk/en/home/media/press-releases/2017/07/great-british-breakfast-with-a-side-of-brexit.html>

⁷KPMG (2017) Top of Mind Survey [online]. Available at: <https://home.kpmg.com/xx/en/home/insights/2017/06/top-of-mind-survey-2017.html>

⁸KPMG (2017) The truth about online customers [online]. Available at: <https://home.kpmg.com/xx/en/home/insights/2017/01/the-truth-about-online-consumers.html>

⁹Halliday, Sandra (2017) UK Fashion Network [online]. Available at: http://uk.fashionnetwork.com/news/Fashion-is-key-eBay-growth-sector-says-UK-sales-chief,854779.html#_WhaTEbSFIL8http://uk.fashionnetwork.com/news/Fashion-is-key-eBay-growth-sector-says-UK-sales-chief,854779.html



5.7%

of consumers
received their order
from a non-UK
location

21.9%

of consumers were
completely unaware of
where their purchase
was shipped from



4. Improving the customer experience

Improving the customer experience: are retailers ahead of the pack?

There has been a dramatic shift in the customer psyche over the last year. Consumers want more - and a brand's success is heavily determined by its ability to identify customers' increasing expectations and deliver in line with these. As a handful of brands with outstanding customer experience set the benchmark, retailers are faced with a stark choice: innovate around the consumer and catch up, or get left behind. First-hand customer insight is key to ensuring quality and consistency across the full supply chain – which is crucial as retailers design new journeys and adapt to a rapidly changing market.

KPMG's Customer Experience Excellence Centre identified and examined this growing trend in its eighth annual global study into customer experience (CX)¹⁰. And the findings cannot be ignored: UK customer experience plummeted to record lows in 2017, with our home-grown brands performing on a par with the CX levels delivered by their US counterparts five years ago. We see a growing

void between customers' experiences of the high-performing brands and the rest of the 100-strong index, whose performance has consistently declined. The brands that topped the charts were largely but not exclusively new entrants, free from the shackles of out-dated best practice that stifle the efforts of longer-standing firms to embrace disruption. The good news is that retailers are still scoring highly in comparison to other industries with both grocery and non-grocery retail largely dominating the top 100 index.

Consumers know that the balance of power has shifted and their expectations of transactional experiences are moving faster than most retailers can deliver against. The organisations that have recognised this and shifted their businesses to get closer to the consumer have emerged as the clear winners in this fight for survival. To survive this shift, a clear imperative is emerging to truly understand the customer, the events in their life that trigger wants and needs, and the elements of experience that are valuable and likely to drive loyalty.

Delivering results

Changes in the way that we shop have driven new buying patterns across multiple product groups, causing a ripple effect on fulfilment and the IT investment retailers must stump up to meet customer needs. Customers expect a range of delivery options based on different product groups.

The shoppers we spoke to overwhelmingly chose next day delivery as their preferred option for women's fashion items (48.3% vs. 26.6% in 2016) and expect free returns so that they can try their goods on for size. 67% of shoppers behind women's fashion purchases stated that a free returns service was of most importance (an increase of 5% from 2016). Consumers were a little more relaxed as to when they received other goods such as electronics, homeware, and furniture for which 43.4% opted for next day delivery (vs. 37.3% in 2016) and 20.4% did not mind the delivery timescale. As customers now buy multiple product types when they visit an online store, retailers need to consider the full contents of their shopping basket and adapt their delivery model accordingly.

Upwardly mobile

With more than three in four UK adults owning a smartphone and close to the same proportion regularly tapping into social media¹¹, mobile is fast-becoming the number one sales channel for UK retailers. This was clearly the case for our consumers, 32.9% of whom made their purchase using a mobile device throughout the Black Friday period (vs. 29.9% in 2016). But this is not without issue: as 29.6% said that they experienced some problems when shopping with their phone, giving retailers the message that there is still a lot of work to be done to enhance the mobile experience.

All of this makes a clear case for retailers to invest in their online capabilities and deliver a seamless shopping experience that exudes the look and feel of the brand, regardless of channel. As we see a steady rise in mobile purchases through apps, particularly in heavy trading periods, retailers are investing in single responsive websites that work across devices – driving cost and maintenance efficiencies and better search engine optimisation (SEO) efforts.

Future thinking

Consumer thinking goes far beyond the end product: 19.3% of shoppers were drawn to retailers that they know ethically source their goods. With 17.6% of consumers stating that sustainability factored in their preferred delivery selection, they are doing all they can to stamp out their carbon footprint – and they expect shops and their suppliers to do the same. They are also conscious about how their goods are packaged: more than half of consumers would pay more for a product that came in environmentally-friendly packaging¹².

Businesses are all too aware of this. 27% of manufacturers and retailers interviewed for KPMG's recent Top of Mind¹³ survey listed social and environmental consciousness as one of the most disruptive trends they face today. With several firms battling away reputational disasters last year, the pressure is on to ensure ethical and environmentally-friendly practices transcend retailers' full supply chain. They must scrutinise every aspect of production, supply and delivery for transparency, pollution, its place in the sharing economy and compliance with legislative developments such as the Groceries Supply Code of Practice (GSCOP), and more recently, the Modern Slavery Act.

“We’ve seen a dramatic change in consumer expectations, and a shift in the things that they value. Empowered and connected, shoppers play an undisputable part in reshaping not only the businesses that they interact with, but the wider retail landscape as well. In a fast-changing and fiercely competitive world, retailers have recognised the need to change ahead of these shifting consumer expectations to stay at the front of the pack. The KPMG Nunwood rankings showed that as retail has taken the lead and innovated across all sectors, whether grocery or non-grocery, this has in turn increased consumer expectations across the board. As the customer calls the shots, those organisations with a wholly customer-focused culture that runs across and unites every channel will be the winners in this age of disruption.”

Vicki Joshi, Experience Design Director, KPMG Nunwood



32.9%

of shoppers made their Black Friday purchases by using a mobile device

31.4%

of those who purchased men and women's fashion apparel online intended to return one or more of the same item

17.6%

of shoppers are influenced by sustainability when selecting delivery options and would opt for green options such as Click & Collect

67%

of shoppers said that 'free returns' is the most important factor when returning orders (compared to 62% last year)



5. Economic fulfilment

Economic fulfilment: ensuring orders are delivery ready

With 70% of respondents shopping online during the Black Friday and Christmas period (an increase of 6% compared to last year), retailers need to make sure that their orders are delivery ready. Consumers want to know exactly how, when and where they will take physical receipt of their goods. Free delivery, and more recently, 'click and collect', are key drivers in purchasing decisions but as more retailers offer these options, consumers expect them as standard. We anticipate the same will be the case for same day delivery, which is rising up the checklist of seasoned shoppers determined not to let the internet delay them in taking ownership of their goods.

An increase in consumer demand for free delivery has also resulted in retailers increasing their minimum spend. The risk this poses for retail is a reduced frequency of transactions per head as customers buy larger amounts of goods to reach this threshold. There is also the chance that this will deter them from making ad-hoc purchases, but these factors can be counteracted by a more efficient cost to serve model (CTS). As retailers navigate the logistics of offering both free delivery and in-store collection, they should be aiming to strike a balance between the two, thereby avoiding overuse of either channel, which will pose additional cost challenges. Of our shoppers, 85.8% received free delivery on their purchase – an increase of 5.8% compared to last year.

Free delivery

As retailers flex to meet growing customer expectations, snowballing delivery costs risk squeezing their margins even further. But it seems that if shoppers set their sights on a bargain, they will do what it takes to get it. Nearly half (46.6%) of respondents who qualified for free delivery throughout Black Friday said that a delivery charge would not have put them off their purchase. However, with research pointing to a widespread tendency for consumers to irrationally increase their spending in response to marketing of 'free' goods, retailers have the opportunity to commercialise free delivery¹⁴.

Next day delivery

Equally, as consumers seek instant gratification, it is important that retailers move quickly to supply their goods. It is estimated that nearly three in four of us would spend more if we could receive our purchases on the day we bought them¹⁵. UK retail could be losing as much as £4.9bn a year by not offering this option. Shoppers that opted for next day delivery spent on average £5.52 for this service – a small increase on last year's average next day delivery cost of £5.43 - showing a steady trend in consumers' willingness to spend for a next day service.

The final destination – home, office or collection?

Incessant consumer demand for convenience means that 'click and collect' is becoming more popular. With consumers struggling to predict their whereabouts in order to sign for deliveries, it is no surprise that 24% of shoppers chose to 'click and collect' during Black Friday (compared to 20.6% last year). With more customers passing through stores to collect their orders, retailers with a physical, customer-facing presence should consider offering this service if they have not already. Those who do not can capitalise on the success of local pick-up points to provide another delivery option. While this service poses additional logistical and capacity challenges for retailers, it is in their interests to cash in on the flexibility that makes it appealing to the end customer.

This, however, does not discount the importance of the home as a delivery destination: 66.1% of respondents cited their personal address as their preferred destination for parcel delivery. Of these respondents, 37.5% rated booked timeslots as very important, giving the message to retailers that as well as 'click and collect', their focus should be on narrowing down the delivery windows provided to customers.

Reaping rewards

As their delivery expectations continue to rise, consumers are skilled at playing the system for the best deal. Retailers are trying

to increase profitability in line with these shifting dynamics through loyalty schemes that optimise convenience and drive long-term audience engagement.


Once the preserve of corporate marketing departments, more loyalty programmes are engineered at board level and these are gradually improving profitability. For example, Amazon absorbs delivery costs not covered by Prime subscriptions income through profit generated by increased customer transactions. With 24% of consumers subscribing to an annual delivery service such as ASOS Premier Delivery, it seems the benefits of these are twofold. As consumers get added convenience, brands and multi-category retailers gain control of basket size and transaction frequency through premium subscriptions and the opportunity to offer promotions or exclusive deals. More retailers are starting to put delivery subscription programmes in place, with 23% of survey respondents saying that they were offered an annual delivery subscription when shopping online. This of course increases customer lifetime value and loyalty, while also cutting the cost and dependence on customer acquisition.

“In order to stay ahead, retailers must ensure that they understand the true cost to serve and profitability of order fulfilment.”

**James Tilley, Director, Operational Transformation
KPMG in the UK**

¹⁴Advantec (2017) Ecommerce consumer behavior survey 2017 [online]. Available at: <https://advantec.co.uk/ecommerce-consumer-behaviour-survey-2017/#q9>

¹⁵Ecommerce News (2016) 72% of UK consumers shop more if same-day delivery possible [online]. Available at: <https://ecommercenews.eu/72-uk-consumers-shop-day-delivery-possible/>



22.5%

of online shoppers opted for a Click & Collect, CollectPlus, Reserve & Collect, or Locker delivery option, an increase compared to 20.6% last year

32%

of all shoppers said that a delivery charge would not impact their purchasing decision

5%

of online respondents said that the delivery company would dissuade their purchasing decision

70%

of shoppers made their purchases online during the Black Friday and Christmas shopping period, compared to 64% last year



6. Last mile operations

Last mile operations: parcel technology, tracking and timeslots

As already mentioned, taking physical ownership of goods is the defining point in the sales process, while returning items can make or break the brand experience. The pressure is on as retailers report that increased customer expectations for immediate service has become one of the most disruptive trends they are facing today¹⁶. Once the items are purchased and dispatched, it is important for retailers to consider the finer details of the home run – getting the items from retailer to customer.

Delivering on expectations

Consumers are expecting more from their deliveries. Historically, shoppers have taken advantage of slower, cost-free delivery options (this stood at 50% of respondents in 2016) but they are increasingly happy to pay for next day delivery rather than not getting their item at all – particularly if charges are lower than typical next day rates. It also seems that consumers' expectations of service does not stop with the retailer: 5% of respondents said that the allocated delivery company would influence their

purchasing decision. Furthermore, over a third know who the delivery company was.

Tracking technologies

Internet purchases have become the norm, and it is only right that customers want to know where their goods are. With the majority of retailers outsourcing their delivery services, clear focus needs to be given to the value that third-party carriers provide in their distribution strategies and their impact on the vital 'last mile' experience. Investment from some delivery providers in customer tracking apps is paying off: 37.1% of our online shoppers tracked the whereabouts of their goods – often right down to the last 15 minutes before delivery. Communications have also vastly improved, with a noticeable impact on the end-to-end customer journey. 58% of our shoppers ranked the experience of their parcel tracking as very good, giving confidence that retailers are moving in the right direction when it comes to tracking deliveries.

Small window of opportunity

As consumers face multiple competing demands for their time, they have a clear message for retailers: fit around my schedule, or not at all. Shoppers' growing delivery expectations combined with a fiercely competitive landscape have seen the once standard day-long delivery window shrink drastically, and many retailers now offer hour-long timeslots. 37% of our respondents deemed having the ability to book a defined slot as highly important and with two in five consumers claiming they would go elsewhere if a retailer could not offer a delivery option to suit their needs¹⁷, retailers and parcel carriers have no choice but to catch up. As forward-thinking firms allow customers to change both delivery time and destination, retailers' networks and delivery providers are battling further time and cost squeezes.

Going into 2018 and beyond, we expect to see a rise in emerging 'click and commute' services, with collection points at major train stations, as pioneered by delivery start-up Duddle. 22.5% of consumers currently order items through a 'click and collect' type service and we have seen several e-commerce brands and supermarkets partner with third-party companies to give consumers the convenience they crave and tap into the increased footfall and in-store sales that go hand in hand with customer collection. 42% of consumers purchased items through third-

party retailers due to convenience, while 52.6% of consumers made purchases in store. This was to either try on or compare a product. Of those who bought in store, 27.6% bought other impulse items.

But while the benefits are vast, 'click and collect' has added new complexities to firms' geographical delivery networks, which retailers are fighting to stay on top of.

“The choice and visibility of the last mile operations, as well as the parcel savvy consumer, are changing the way that retailers need to deliver to consumers.”

Iain Prince, Director, Supply Chain, KPMG in the UK

¹⁶KPMG (2017) Top of Mind Survey [online]. Available at: <https://home.kpmg.com/xx/en/home/insights/2017/06/top-of-mind-survey-2017.html>

¹⁷Briggs, Fiona (2016) Retailers can't rely on brand integrity to guarantee seasonal sales, says Shutl [online]. Available at: <http://www.retailtimes.co.uk/retailers-cant-rely-brand-integrity-guarantee-seasonal-sales-says-shutl/>



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)

37.1%

of online shoppers
tracked the delivery
of their goods
through apps

58%

of shoppers ranked
their parcel tracking
experience as
very good

34.1%

of shoppers knew
who their delivery
company was



A look ahead to 2018

A look ahead to 2018

2017 was a rollercoaster of a year for UK consumers, as the weak pound ramped up inflation and falling disposable income contributed to buoyant employment figures. However, with albeit tentative growth in retail spend, it is clear that UK shoppers stood tall, defying on-going income squeezes and unwavering uncertainty around the country's future at the hand of Brexit.

The year ahead will be a combination of ongoing issues for retailers, as well as new challenges. With wage growth low, and continuing fluctuation in inflation, the outlook for the UK is a very different story than the global one.

Reputational risk will be high on the boardroom agenda

With retailers coming under more scrutiny from consumers, regulatory bodies and the media, we can only expect reputational risk to stay high on the corporate agenda. Organisations will have an increased focus on complying with new regulation that has been put in place to protect their customers, and in turn, businesses themselves. With just months until the revised General Data

Protection Regulation (GDPR) comes into force, businesses are still negotiating complex challenges as they rethink how they manage data in an increasingly connected environment. With compliance comes cost, which will add to the headache for retailers that are already fighting the squeeze on margins.

Brexit will remain a threat

As shifting geopolitics show no sign of weakening, disruption will continue. Brexit will remain a threat, with multiple dependencies still unsure of the future for UK retailers. 2018 will see retailers continue to seek clarity around Brexit negotiations and the direct impact to be had on both shoppers, and in turn their businesses.

Business models will be forced to adapt

We are observing an increased number of retailers interested in either building, buying or collaborating with platforms. This is a natural evolution from pure-play and market-place business models, and is likely to supersede the omni-channel business model many retailers are currently striding towards. Retailers have been investing in expensive omni-channel initiatives from a supply chain perspective to increase sales, market share and also improve customer loyalty. There will undoubtedly be winners and losers and as the markets continue to be a challenge, further consolidation is predicted.

Retailers will emerge in spaces where they have not been before

We expect to see retailers embrace new innovation, such as chatbots, that will soon be commonplace for many players. Changing customer behaviour will spur further investment in warehousing, new technologies and capabilities, and retailers will need to drive cultural change to empower employees to adapt to new advances.

Customer-centricity will continue to be king

Consumer spending is weak and this trend is expected to continue throughout 2018. Winning market share will be key for those businesses fighting to stay at the front of the pack. As competition intensifies, so will consumer expectations of product, service and delivery, which will prompt retailers to continuously reinvent the customer experience. With a greater focus on supply chain, retailers will need to ensure they have got the right people and technology in place to deliver at every turn.

The store-based business model is threatened

With online sales now reaching close to 20% penetration of all retail transactions, and 28% in non-food alone¹⁸, it has never been clearer that traditional store based retailing is under threat. While stores are pivotal in providing a sensory experience, their role is set to change. Those retailers that can embrace and stay at the forefront of this evolution will ultimately come out on top.

¹⁸Retail Think Tank (2017) UK retail prospects for 2018 [online]. Available at: <http://www.retailthinktank.co.uk/whitepaper/uk-retail-prospects-2018-get-worse-gets-better/>



How KPMG can help you

**Supply
chain and
inventory**

**Logistics
and network
design**

Procurement

**Decision
support and
analytics**

**Cash and
working
capital**

**Customer
experience**

**Omni-channel
transformation**

Technology

Contacts



Paul Martin
UK Head of Retail

+44 20 73118185
Paul.Martin@KPMG.co.uk



Iain Prince
Supply Chain Lead

+44 117 9054257
Iain.Prince@KPMG.co.uk



Don Williams
Partner, Retail - London

+44 20 73118335
Don.Williams@KPMG.co.uk



Sue Richardson
Partner, Retail - North

+44 113 2313364
Sue.Richardson@KPMG.co.uk



Paula Claisse
Partner, Retail - South

+44 2380 202117
Paula.Claisse@KPMG.co.uk



Simon Purkess
Partner, Retail - Midlands

+44 121 2323033
Simon.Purkess@KPMG.co.uk



Craig Cavin
Director, Retail - Scotland

+44 141 3005726
Craig.Cavin@KPMG.co.uk



Matt Clark
Partner, KPMG Boxwood

+44 20 73118149
Matt.Clark@KPMGBoxwood.co.uk



Craig Ryder
Director, KPMG Nunwood

+44 113 3800347
Craig.Ryder@KPMG-Nunwood.co.uk



James Tilley
Director, Operational Transformation

+44 20 73112115
James.Tilley@KPMG.co.uk



Rob Baxter
Partner – Corporate Finance

+44 20 73118246
Robert.Baxter@KPMG.co.uk



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. Printed in the United Kingdom. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Designed by CREATE | January 2018 | CRT089047A