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Customer Pulse Report 2015

Voice of the Online Customer

Contents

In the UK, online sales in 2014 exceeded £100 billion for the first time; representing a 14% growth for the online retail market.

The forecast for 2015 is similarly strong, with a predicted 12% market growth and £116 billion to be spent online (IMRG CapGemini Retail Index, January 2015).

Introduction

As the online retail market continues to mature, both retailers and consumers alike are adjusting their expectations. For retailers, this means a change in approach as they seek to operate online fulfillment more profitably. For consumers, as the online channel expands and services such as 'Click & Collect' grow in popularity, there are indications that they are becoming less tolerant of fulfillment failures. This year's Customer Pulse Report reveals that almost half of respondents (47%) experienced issues with online orders over the last 12 months; 71% indicated they would be likely to switch to an alternative retailer as a result of a poor online experience.

47% Experienced issues with online orders over the last 12 months.

71% Indicated they would be likely to switch to an alternative retailer as a result of a poor online experience.

Other factors, such as the growing preference amongst customers for more flexibility on the delivery of orders, are placing yet further pressure on retailers' fulfillment capabilities. As online shopping demand continues to increase and customers call for even greater convenience, the complexity of fulfillment will deepen. In order to guarantee the smooth running of their day-to-day fulfillment operations and to minimise the negative impact of events such as Black Friday and Cyber Monday, retailers must ensure their supply chain can meet these challenges.

This year's Customer Pulse Report has also revealed the increasing importance to customers of the ease of returning items purchased online; almost two thirds (63%) of respondents said the ease of being able to return items now factors into which retailers they shop online with. Clearly, the expectations of shoppers when it comes to both purchases and returns are becoming increasingly demanding. Achieving fulfillment and returns excellence will require retailers to operate a flexible and responsive supply chain, while keeping a close eye on profitability.

Surveying 2,093 UK adults aged between 16-64 years the second annual Customer Pulse Report provides an overview of the existing state of online fulfillment and shoppers' expectations when it comes to service excellence both now and in the future.

The research was carried out in April 2015 and was conducted by independent research company, YouGov

Customers Are Becoming Increasingly Intolerant of Delivery Problems
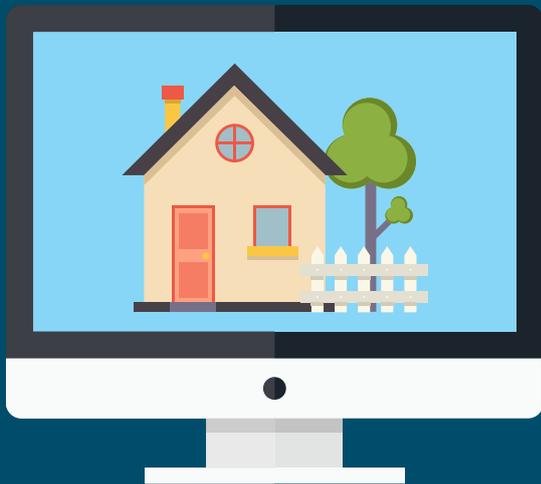
In the last 12 months, almost half (47%) of online UK adults stated they had experienced problems with their online orders.

This represents a huge increase on 2014, when our Customer Pulse study revealed that 1 in 5 (19%) shoppers had experienced an issue.

There are a number of potential reasons behind the increase in unhappy customers.

Firstly

consumers are doing more online shopping than before, so with the greater volume of transactions, the chances of problems occurring also increases.

Secondly

the results indicate that shoppers are becoming more intolerant of poor service and their expectations are getting higher. Consequently, they are more inclined to mark retailer performance more harshly than in previous years.

Over the last 12 months have you experienced a problem with an online order from a retailer?

NO 53%

YES 47%
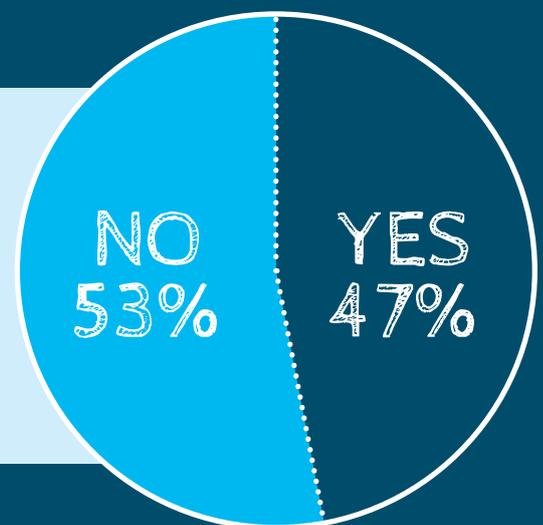
Of those who experienced problems online, almost half (46%) reported late deliveries; 40% stated they had received a missed delivery card despite being at home to receive an order; while 30% never actually received their goods. These issues were closely followed by customers who received damaged items (22%) and those who received the wrong goods (15%). The figures indicate that many online orders are still failing to fulfill customer expectations.

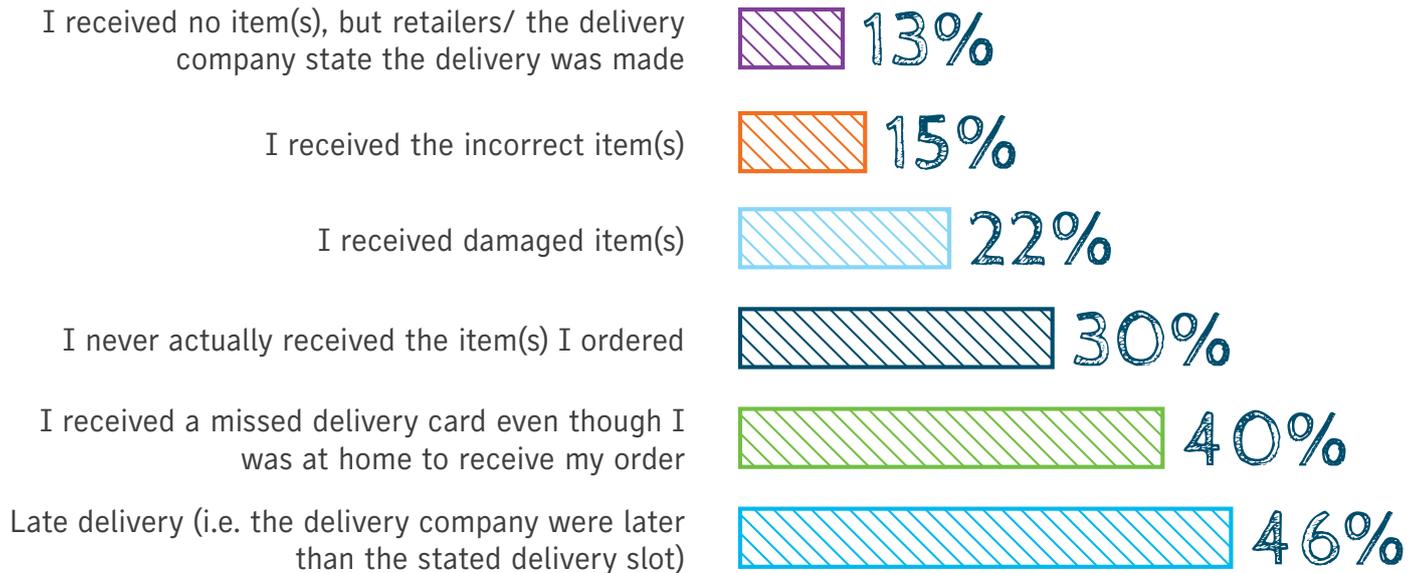## What was the problem/issue you experienced?

I received no item(s), but retailers/ the delivery company state the delivery was made — **13%**

I received the incorrect item(s) — **15%**

I received damaged item(s) — **22%**

I never actually received the item(s) I ordered — **30%**

I received a missed delivery card even though I was at home to receive my order — **40%**

Late delivery (i.e. the delivery company were later than the stated delivery slot) — **46%**

Further evidence of this lack of tolerance can be found in the 71% of respondents who said that as a result of a poor online shopping experience, they would be likely to switch to an alternative retailer when next shopping for products online. In 2014, 61% of customers overall expressed a likelihood for switching retailers, so the increase is notable.

Interestingly, the research shows that the older the demographic, the more likely these consumers are to switch retailers as a result of a poor online experience.

How likely, would you be to switch to an alternative retailer when next shopping for products online?

55+ YEARS

Very likely	Fairly likely	Not Very likely	Not at all likely	Don't know
40%	34%	9%	3%	14%

45-54 YEARS

30%	42%	12%	3%	13%

35-44 YEARS

27%	45%	12%	1%	15%

25-34 YEARS

23%	45%	16%	3%	13%

18-24 YEARS

16%	45%	21%	4%	14%

Overall YEARS

30%	41%	13%	3%	13%

- **Very likely**
- **Fairly likely**
- **Not Very likely**
- **Not at all likely**
- **Don't know**
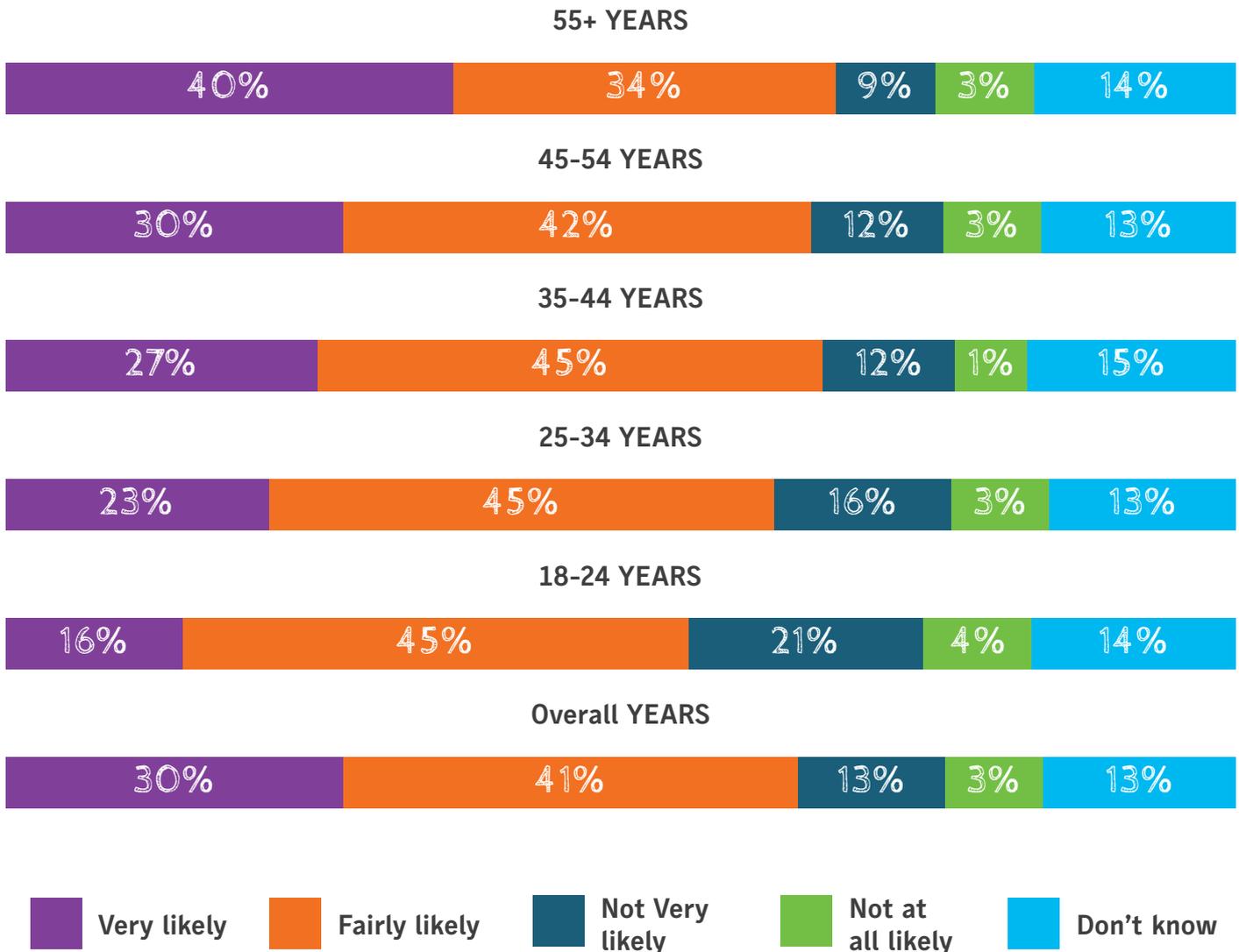
From our experience, we know that the increasing complexity of fulfillment is a challenge for retailers. The key takeaway for retailers is to understand that customers today have no reservations about taking their business elsewhere. The importance of good service as a differentiator, in addition to cost and flexibility factors, cannot be

Peak Times Pile on the Pressure

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
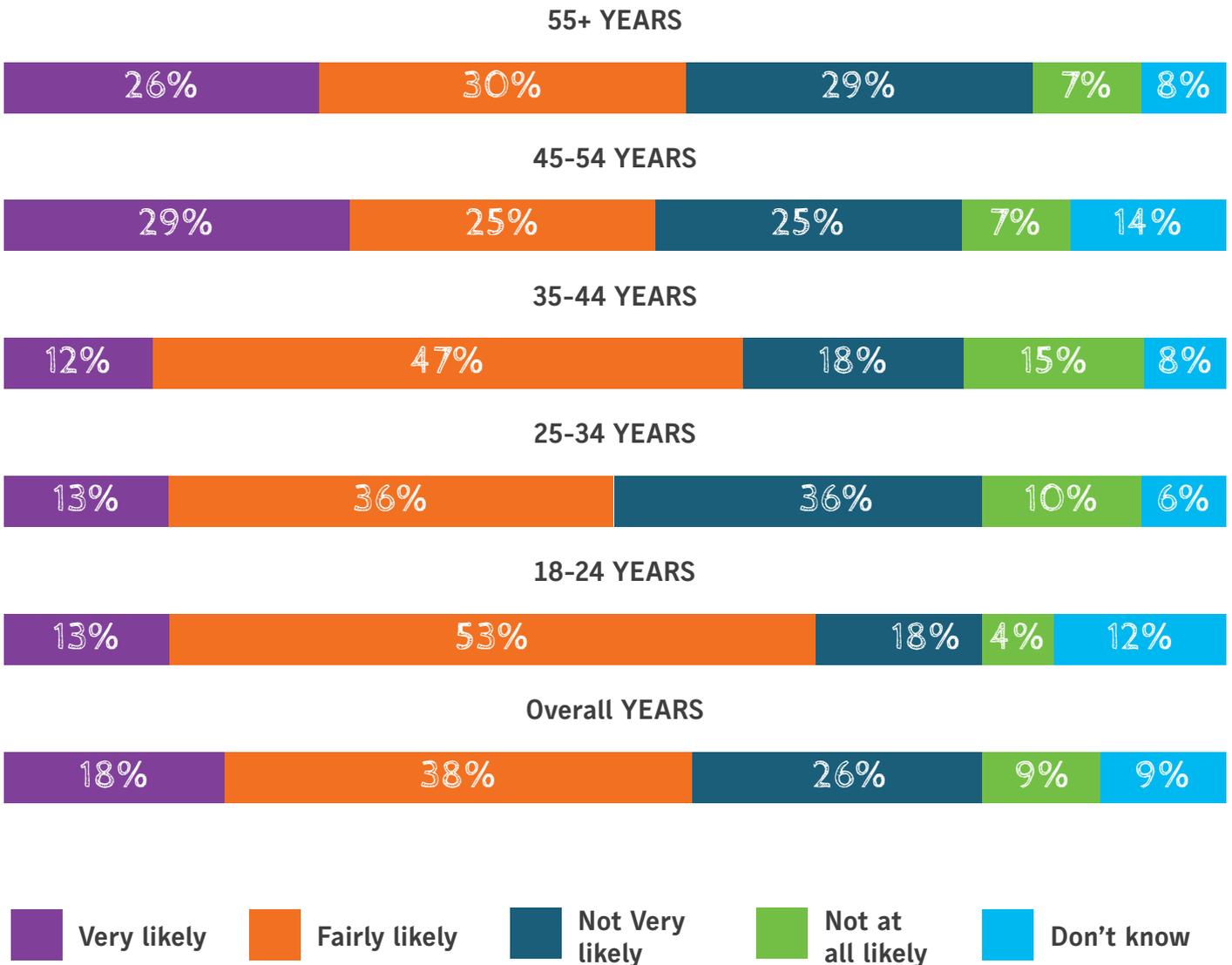
As events like Black Friday and Cyber Monday become commonplace alongside traditionally busy times of the year like Christmas, the pressure from peak shopping times is being felt by retailers.

The crucial point for retailers is that more than half (56%) of those shoppers who experienced an issue during peak times in 2014 are likely to avoid shopping with the same retailer this year.

In general, shoppers across all demographics felt similar, with those aged 18-24 being the most likely to switch as a result of a disappointing experience at peak times.

How likely would you be to not shop with that retailer during peak times this year?

55+ YEARS

| 26% | 30% | 29% | 7% | 8% |

45-54 YEARS

| 29% | 25% | 25% | 7% | 14% |

35-44 YEARS

| 12% | 47% | 18% | 15% | 8% |

25-34 YEARS

| 13% | 36% | 36% | 10% | 6% |

18-24 YEARS

| 13% | 53% | 18% | 4% | 12% |

Overall YEARS

| 18% | 38% | 26% | 9% | 9% |

■ **Very likely**   ■ **Fairly likely**   ■ **Not Very likely**   ■ **Not at all likely**   ■ **Don't know**

This underlines the need for retailers to ensure that customer service excellence is maintained year round, even during testing peak times. There have been several high-profile incidences of retailers failing to meet increased demand for occasions such as Black Friday and Cyber Monday. With these events set to continue feeding the shopping frenzy, retailers must ensure they have the systems and processes in place to cope with the impact of

70% of consumers envisage that online will be their main shopping channel in five years' time

'Click & Collect' Increasingly Attractive to Shoppers

The research revealed that nearly half of respondents who had made online purchases in the last 12 months had used 'Click & Collect' services.

Have you used a retailer's 'Click & Collect' service in the last 12 months?

NO 51%

YES 49%
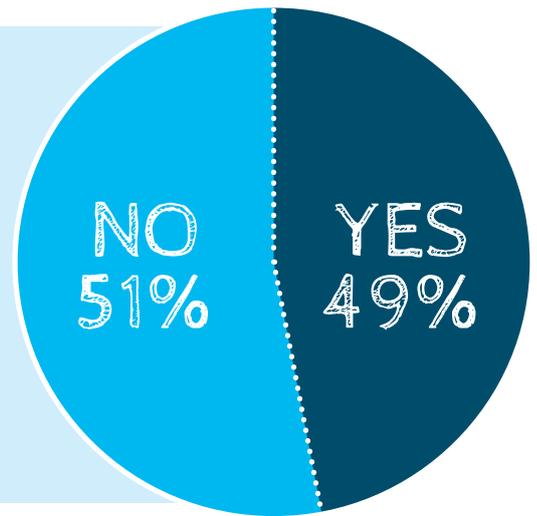
Of those shoppers who had used 'Click & Collect', when asked about their biggest reasons for doing so, avoiding delivery charges (57%) and the fact it was more convenient than home delivery (55%) were by far the most common responses. It appears that the gap between cost and convenience is narrowing, which serves to highlight the increasingly important 'convenience factor' in online shopping.

What was your biggest reason for using 'Click & Collect' services?

I was more confident that I would receive my item(s) than if I had a home delivery
19%

It was more convenient than home delivery
55%

To avoid home delivery charges
57%

47% OF CLICK & COLLECT CUSTOMERS ENCOUNTERED PROBLEMS

Despite the continued adoption of 'Click & Collect', the research did show that almost half (47%) of shoppers opting to use 'Click & Collect' services had encountered situations in store that potentially damaged their customer experience. This is a noticeable increase from last year, highlighting potential growing pains for retailers as they have attempted to scale their 'Click & Collect' operations over the last 12 months.

Amongst those shoppers who experienced issues with 'Click & Collect', the most common problem was long waiting times due to a lack of staff (32%), followed by staff being unable to locate items in store (30%). A lack of a dedicated area in store for 'Click & Collect' purchases (16%); customers only being notified after an order is placed that items are out of stock (15%); and staff unable to source goods on internal systems (15%) were also a frustration for a number of shoppers.

Which of the following issues have you experienced over the past 12 months when it comes to 'Click & Collect'?

| Issue	Percentage
Staff were unable to / take a long time to locate or source goods on internal systems	15%
Item(s) were out of stock at my preferred store, so I had to collect them from an alternative store	15%
Retailer notified me before collection that my item(s) were no longer available, but only after I placed the order	16%
No dedicated area in store for 'Click & Collect' purchases	16%
Staff were unable to / take a long time to locate or source goods in store	30%
Long waiting times due to a lack of in-store staff	32%

This is evidence that consumers' expectations are increasing as retailers continue to scale their 'Click & Collect' operations. As part of this they need to ensure they have complete visibility over inventory supported by effective workforce management capabilities.

Retailers Making Strides with Product Substitutions
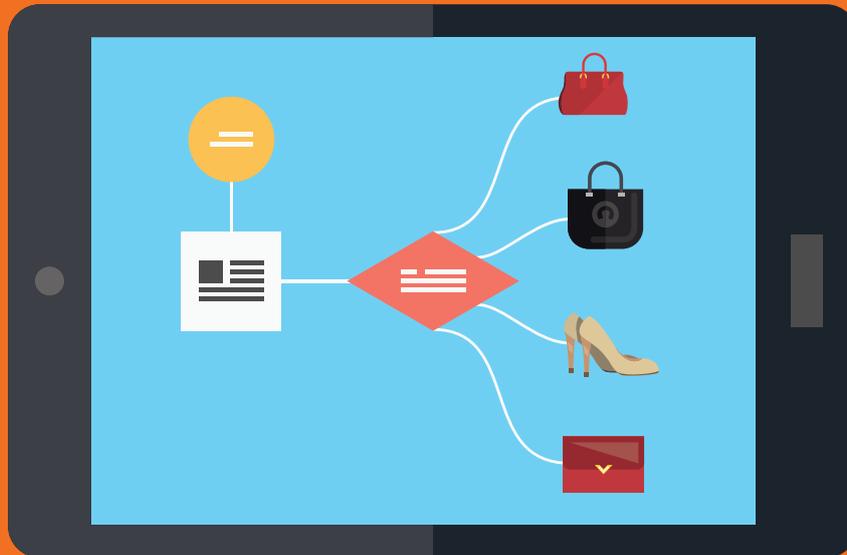
When it comes to product substitutions, 37% of respondents expressed they were a major frustration; this represents a decrease from 55% in 2014. This indicates that supermarkets do appear to be making strides in addressing the issue – for example, some are now allowing shoppers to select which products they would be happy to be substituted, by introducing substitutions on an 'item by item' basis.

Which of the following statements about substitutions do you agree with?

Substitutions have allowed me to find new products that I love — **8%**

Substitutions would make me consider changing which supermarket I shop with — **15%**

Substitutions are really useful — **18%**

Substitutions are a major frustration — **37%**

While 15% of shoppers would 'vote with their feet' and consider shopping with another supermarket as a result of substitutions, others have found substitutions beneficial. 18% of online shoppers found substitutions really useful and 8% found new products they liked.

ADD TO CART

Cost and Convenience remain the most important factors to those who shop online

# Choice and Convenience Rises up the Fulfillment Agenda

While much of the talk from retailers surrounding online home deliveries has concerned the importance of rapid or same-day delivery, the research shows that in fact, cost (50%) and convenience (25%) remain most important to online shoppers, followed by speed (18%).

However, even as cost remains the leading factor, the convenience of delivery options is growing in importance. Nearly half (46%) of respondents who has made an online purchase in the last 12 months said they had chosen a retailer that offered multiple delivery options over one that only offered one option.

Which of the following is most important to you when you order something to be delivered at home?

50%

25%

18%

COST   CONVENIENCE   SPEED
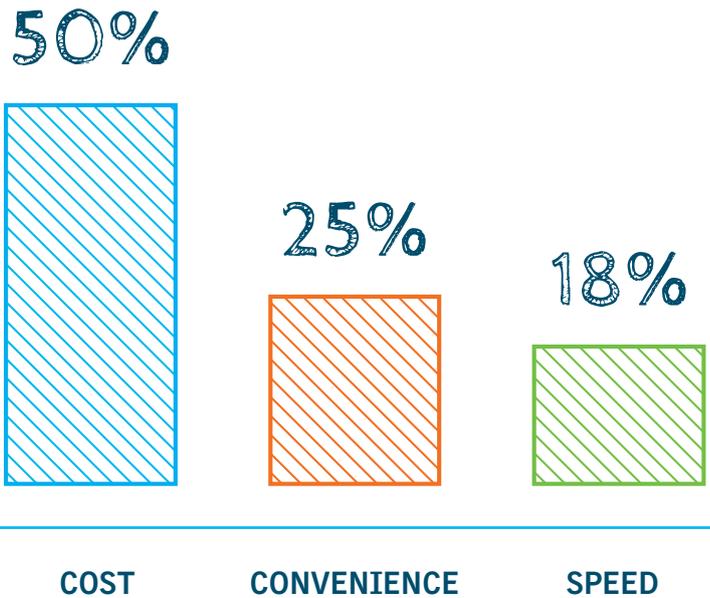
In the last 12 months have you chosen a retailer that offered more than one choice of delivery options (e.g. free standard delivery, specified timeslots, same/next day delivery) over one that only offered one delivery option?

DON'T KNOW 19%

NO 35%

YES 46%
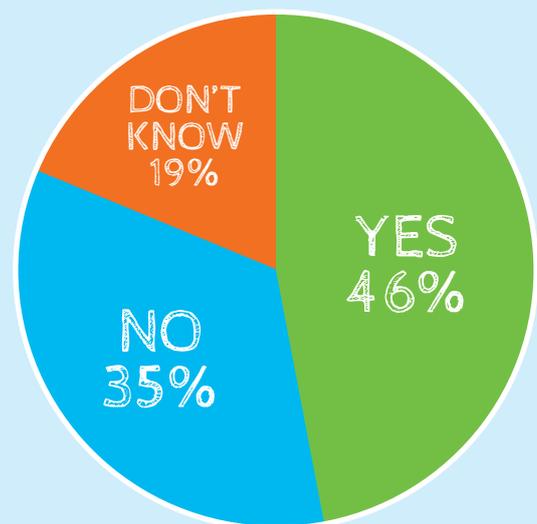
What we can see here is a gradual shift in customer expectations. Customers value having choice and options around delivery of items; speed is not always of the essence. Retailers, therefore, must develop their capability to offer multiple delivery options and increased choice to shoppers.

How likely would you be to choose a retailer that offered a time slot for delivery (at an additional charge) over one that offers free delivery (within 3-5 working days) only?

34%

22%

24%

11%

9%

VERY LIKELY | FAIRLY LIKELY | NOT VERY LIKELY | NOT AT ALL LIKELY | DON'T KNOW
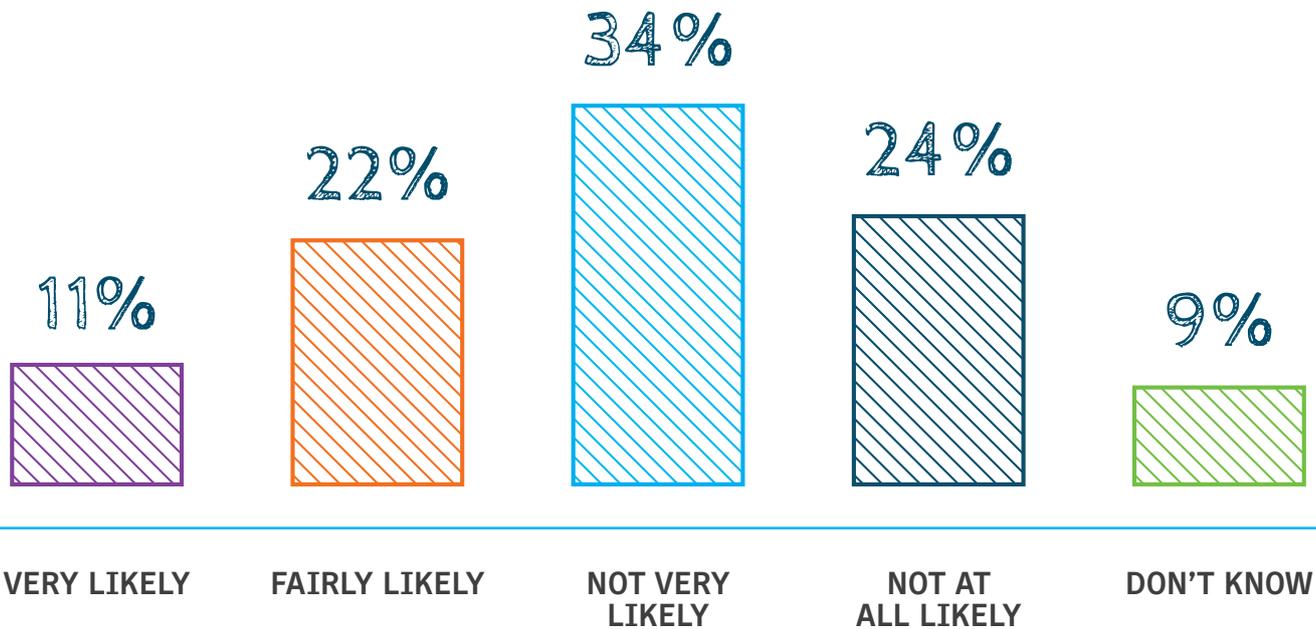
Indeed, a third (33%) of consumers would go as far as picking a retailer specifically on the basis that they can offer a particular slot for delivery at an extra cost, over one which offers just free delivery. Many shoppers would even be prepared to pay a premium specifically for delivery either quickly, or at a time most convenient to the shopper. Of those willing to pay, the most popular item categories they would pay for are electrical and entertainment items (28%), groceries (26%) and clothing & footwear (22%).

Which, if any, of the following types of products do you think you would be prepared to pay a premium for, to either receive them quickly or at a time convenient to you?

ELECTRICALS AND ENTERTAINMENT

28%

GROCERIES
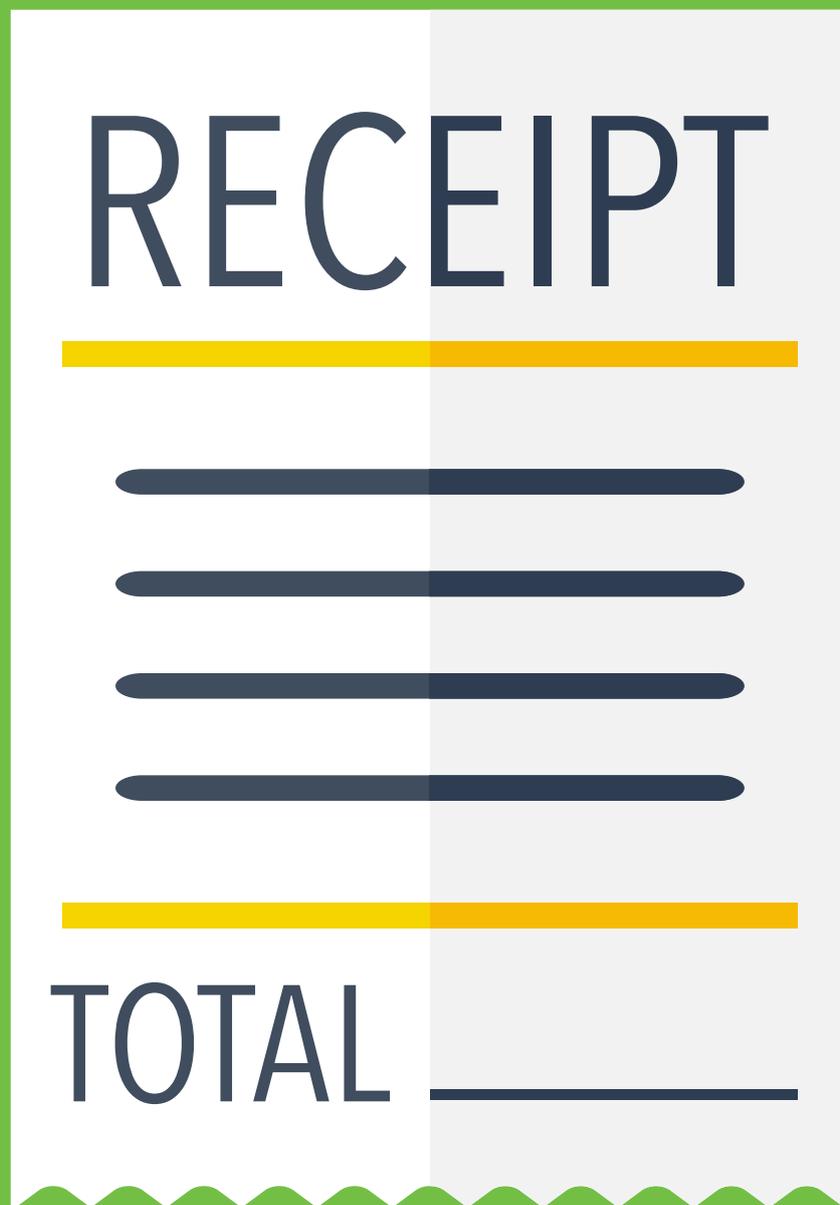
26%

CLOTHING & FOOTWEAR

22%

DIY HOME

13%

HEALTH AND BEAUTY

11%

RETAILERS MUST CONTEND WITH SHIPPING A WIDER VARIETY OF GOODS TO A HUGE NUMBER OF LOCATIONS.

It's interesting to note that even once an order is placed and is being shipped, convenience is still a factor for consumers. Being able to customise how and when they receive delivery notifications (e.g. text, email etc.) was most important to customers who had placed an order online (23%), followed by being able to change the delivery date or timeslot (20%) and being able to enter special delivery instructions (17%).

Today's consumer is not only dictating how and when they would like to receive goods but reserving the right to make adjustments up until the last minute. Retailers must contend with shipping a wider variety of goods to a huge number of locations, and being flexible to adapt to changes in customer preference during the fulfillment and delivery processes.

Which one of the following delivery services is most important to you after your order has shipped?

Being able to customise when and how I receive delivery notifications	23%
Being able to change the delivery date or timeslot	20%
Being able to enter special delivery instructions	17%

Many retailers typically use a number of different carriers for customer deliveries, which can often lead to a disconnect between the shopping and delivery experience. For instance, customers are often redirected to a carrier's website for tracking and delivery status information, rather than being able to access this information directly from the retailer. Increasingly, we are seeing retailers seeking to enhance their delivery management capabilities, to allow them to take greater control over delivery networks with the aim of delivering a better customer experience.

Ultimately, customer demand for greater choice and flexibility around delivery windows and options is growing. Retailers must be prepared to offer maximum convenience to customers and establish how they can do this in an effective and profitable manner.

Returns Playing a Bigger Role in Consumers' Shopping Choices
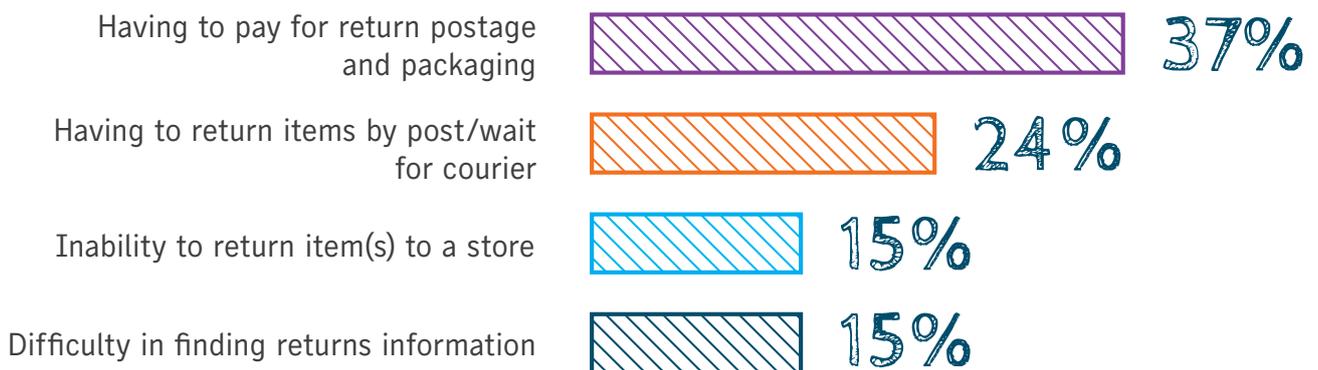
RECEIPT

TOTAL

Increasingly, the convenience of returning items purchased online is influencing where consumers shop. The research revealed a significant number of respondents (63%) said the ease of being able to return items factors into which retailers they shop online with.

To what extent does the ease of being able to return item(s) factor into which retailers you shop online with?

Doesn't factor into my decision at all — 7%

Doesn't factor into my decision a lot — 19%

Factors into my decision a lot — 28%

Factors into my decision a fair amount — 35%
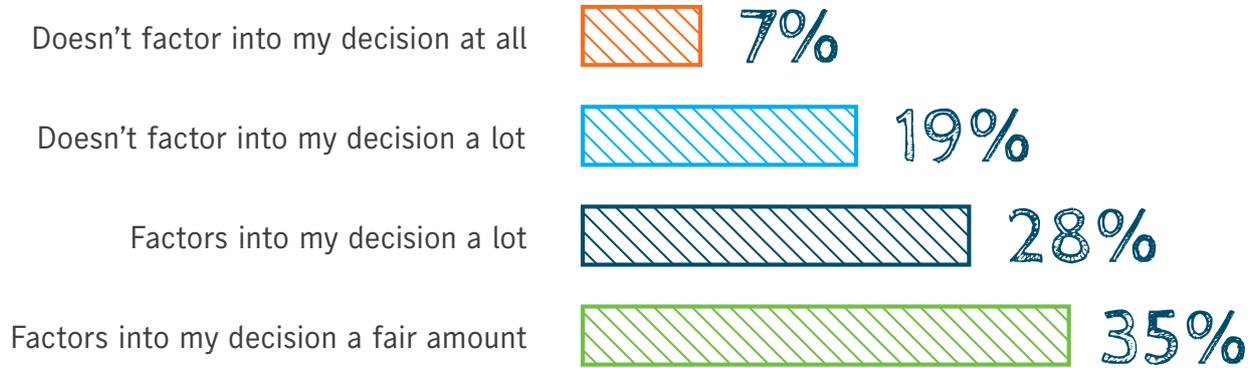
Again, this points to the growing demand amongst online shoppers for choice and convenience, not just when purchasing items but in returning them too.

When it comes to returning items bought online, what are your biggest frustrations?

Having to pay for return postage and packaging — 37%

Having to return items by post/wait for courier — 24%

Inability to return item(s) to a store — 15%

Difficulty in finding returns information — 15%

Of those shoppers who returned goods purchased online, there are several frustrations that customers are experiencing. Having to pay for returns postage and packaging remains by far the biggest issue (37%); followed by having to return items by post or wait for courier (24%), an inability to return goods to a store (15%) and difficulty finding returns information (15%).

22% OF SHOPPERS WERE BUYING MORE THAN ONE SIZE OR COLOUR OF THE SAME ITEM

When it comes to online fashion, the biggest sector for returns, 22% of shoppers were buying more than one size or colour of the same item; this compares to 29% in 2014. The gradual decrease in the number of shoppers buying multiple versions of the same items indicates that retailers may be making some headway in improving sizing information and providing enhanced visual guides to customers, to give them a better feel for what items will look like. In addition, as online shopping becomes the norm for many people, shoppers may be becoming used to the sizing of particular brands.

When shopping online, how many sizes or different colours of the same item, if any, do you usually purchase?

|	
5+	2%
4	2%
3	3%
2	15%
1	44%
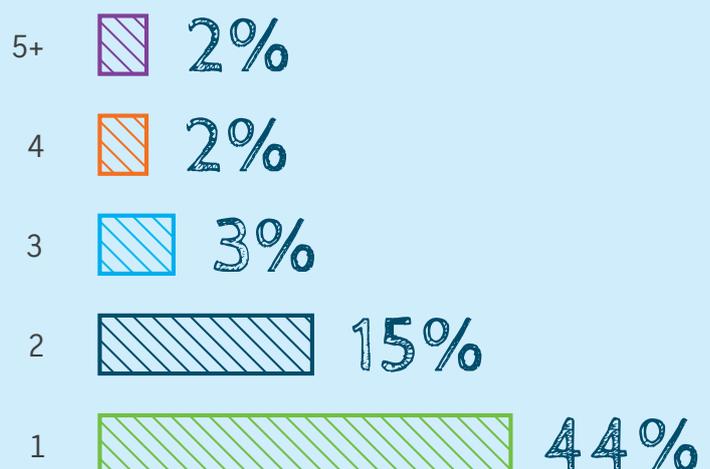
However, more than half of respondents who bought clothes online (55%) were still returning at least one item per year. The majority (28%) are returning 1-2 items per year, with almost a fifth (17%) returning between 3-5 items.

In an average year, approximately how many times, do you return clothing that you have purchased online?

While there are some areas showing improvement, there is still much to be done to reduce the number of returns. Handling returns is the single biggest cost for retailers; a recent study from JDA and PwC revealed 71% of global retail CEOs and 76% of UK retail CEOs said that fulfilling returns from online and store orders was most expensive aspect of omni-channel fulfillment (The Omni-Channel Fulfillment Imperative, Dec 2014). Considering the physical cost of handling returns and the need to markdown returned goods, this is potentially losing UK online fashion retailers up to £3.2billion annually.

While the omni-channel environment that today's modern retailers operate in allows customers to purchase products how, where and when they want to, it's clear that customers are demanding the same flexibility in returning products. This puts additional strain on retailers' supply chains and affects profitability. Retailers must ensure they have the systems in place to manage returns cost-effectively, while simultaneously offering shoppers choice, or risk losing business to competitors.

35%
28%
17%
7%
3%

- 0
- 1 - 2
- 3 - 5
- 6 - 9
- 10+
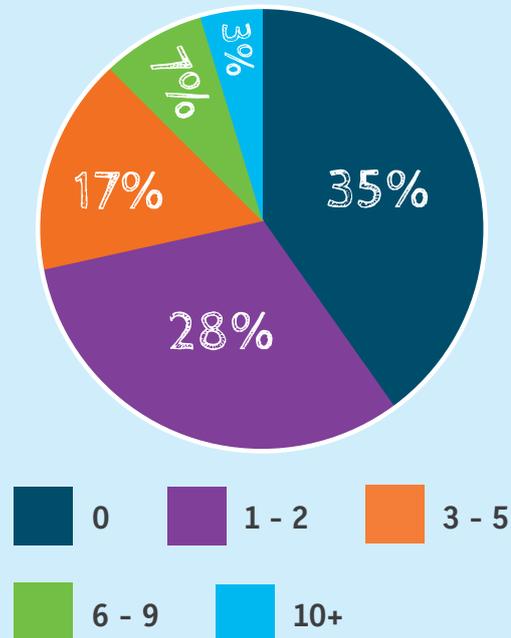
Ensuring Future Fulfillment Success

Which of the following shopping scenarios do you envisage doing predominantly in five years' time?

Online shopping will continue to grow in popularity. Indeed, 70% of consumers envisage that online will be their main shopping channel in five years' time, with order online and home delivery being the most favoured option (49%). The figures also show a slight increase in the number of people willing to collect items from fulfillment points (9%), for example pick-ups from tube stations or Amazon Lockers; indicating that customers are becoming more aware of their value and convenience.

24%
6%
9%
12%
49%

- **Order online and choose home delivery**
- **Order online and pick item(s) up in store (i.e. 'Click & Collect')**
- **Order online and pick item(s) up at a fulfillment point (e.g. train station/convenience store etc.)**
- **Shop in-store and choose home delivery**
- **Shop in-store and pick up my item(s) in store**

The results of this years survey show that convenience and flexibility are now of far more value to customers, both when shopping online and returning items. Expectations are rising and tolerance for poor performance is decreasing. As such, retailers must ensure they have the capability and flexibility built into their supply chains to meet customers expectations. To carry out online fulfillment profitably, retailers must think hard about the configuration of their supply chain; and will need to become much smarter about how they use their key assets of staff, stores and inventory to fulfill customer requests in an intelligent way.

Retail supply chains must handle many more fulfillment locations, increased singles picking for customer orders and must also offer choice and convenience. In addition, they must operate flawlessly through the peaks and troughs of Black Friday, Christmas and the New Year sales. Such complexity represents a disruptive change to those supply chains of yesteryear. This complexity drives additional costs into the supply chain and puts significant pressure on margins and profitability. The scale of online ordering and 'Click & Collect' is now at a level where most retailers can no longer ignore this margin erosion and must find ways to stabilise costs and drive value.

In the future we will see retailers start to manage profitability on a per customer basis. This could be through variable delivery and returns charges, variable stock availability offers and variable price and promotions. The combination of a best-in-class fulfillment operation with deep customer insight and tailored offers will enable retailers to succeed in this new world of profitable customer commerce.

The journey will be a difficult one, requiring a much more sophisticated and complex operation, supported by robust planning and intelligent fulfillment execution. We believe that this will be the key battleground for retailers in the next five years; JDA and Centiro have the solutions and expertise to ensure that retailers' omni-channel journey is a successful one.

Learn more about our solutions at JDA.com and Centiro.com

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Plan to deliver™

At JDA, we're fearless leaders. We're the leading provider of end-to-end, integrated retail and supply chain planning and execution solutions for more than 4,000 customers worldwide. Our unique solutions empower our clients to achieve more by optimising costs, increasing revenue and reducing time to value so they can always deliver on their customer promises. Using JDA, you can plan to deliver.

JDA Intelligent Planning and JDA Intelligent Insights enable Retailers to:-

- Plan the business across all channels seamlessly
- Tailor assortments and offers to local customer needs
- Shape customer demand to drive profitable sales

JDA Intelligent Fulfillment enables Retailers to:-

- Make intelligent and profitable distribution decisions based on real-time visibility into inventory, orders and events
- Improve on-time, in-full customer deliveries
- Create profitable operations and competitive advantage

JDA Intelligent Store enables Retailers to:-

- Make best use of staff, space and inventory in-store
- Efficiently service omni-channel fulfillment operations
- Capitalise on the value of physical stores in an omni-channel customer journey

centiro

People-driven logistics software

Centiro believes in empowering logistics for successful companies. Our cloud-based solution for delivery management is used by finer supply chains in more than 65 countries. With us a retailer can think global, yet offer customers a consistent and personalised experience for first- and last mile delivery and returns to take a brand and shopping experience full circle. It's a plug-and-play setup offering a world-class portfolio of carrier networks. From straightforward shipping labelling solutions and carrier management, through harmonised tracking, event management and cost control – we offer functional features that extend your existing IT-landscape. For further information, please visit www.centiro.com

With Centiro retailers can assert control over their delivery networks and turn it into a strategic advantage. Our cloud-based delivery management solutions enable retailers to quickly and easily on-board new carriers, gain complete visibility into their delivery network and provide their customers with a full-circle brand experience

Retailers today must contend with offering consumers a variety of delivery services with high precision and flexibility. With Centiro, you can reduce the complexity in how delivery services are envisioned, utilised and managed. We make blending delivery alternatives possible and seamless.

Advanced Business Partner **IBM**®
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JDA Software UK Ltd.
3 The Arena | Downshire Way | Bracknell | Berkshire | RG12 1PU | United Kingdom
Telephone: +44 (0)1344 354500 | Email: info.europe@jda.com | Visit jda.com