A GT NEXUS RESEARCH STUDY

2013 Global Consumer Report

Consumers Demand Delivery and Performance as the Retail Landscape Evolves

DECEMBER 2013

GT NEXUS

Executive Summary

Omnichannel has gained immense attention in the retail industry as new technology continues to change consumer behavior. A great deal of technology investment has been made on the "front end" of the experience, with a heavy focus on advanced marketing and merchandising technology. However, consumers also have high expectations on the "back end" of the omnichannel experience, and retailers should not underestimate or underinvest in technologies designed to better coordinate supply chains and inventory flows. In September 2013, GT Nexus conducted a survey to compare and contrast retail consumer buying patterns and product delivery expectations in the context of today's new multichannel retail environment. It found that consumers purchased across an array of channels, trending towards greater variety with younger demographics. And while consumers appreciated the ability to shop across a variety of channels, the retailers' ability to fulfill customer orders was insufficient. The majority of respondents across regions experienced late orders, out-of-stock issues during collection times, or inability to return items in a reliable manner.

Consumers expect retailers to fill orders from any channel efficiently and on time. Omnichannel shopping is a growing global trend, and retailers need to focus on reallocating spend from front-end consumerism to back-end logistics. Retailers will need to create a seamless supply chain process, starting with procurement and ending with delivery to customer, to successfully meet these new expectations.

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Global Key Findings

While the study covered an extensive range of habits, experiences, and preferences by geographic region, there were 5 key findings in the results:

1. **Delivery time expectations vary by country — but speed is essential.** Standard expectations were 2-5 days with differing levels of importance around ability to deliver within a set time frame. Most customers were willing to accept a small level of discount to compensate for late deliveries.
2. **Retailers are rarely capable of ensuring that products get delivered together.** Consumers cite the inclusion of delivery/collection times as being important to them when ordering a product either online or in-store, however 50-70% of consumers have experienced a "push back" on their original estimated time of arrival. In addition, despite ordering "bundled" products (i.e. sports wristband to accompany sneakers), retailers are rarely capable of ensuring the products get delivered together.
3. **Social media has not yet established itself as a viable shopping channel.** Online shopping has quickly become the second largest shopping channel behind in-store purchasing, eclipsing antiquated methods of catalog and telephone ordering. However, despite the dedicated social media spend, no more than 4% of users in any region have purchased using Facebook, Twitter, or other social media tools.

4. **Showrooming, or browsing products in a physical store and then purchasing online, has become a significant part of the buying process across all regions surveyed.** Almost three quarters of global consumers have adopted showrooming to some extent. Almost half of consumers in the US, UK, and France have showroomed at least twice in the last 12 months, with Germany close behind at 31%.
5. **Product source or origin plays a factor in consumer decision making.** France rated the highest with 72% of consumers having this as top-of-mind in purchasing behavior. The UK scored the lowest, with less than half at 47% frequently checking the manufacturer label.

TABLE 1: Regional break-out: Consumers buy and behave differently, depending on where they live

United States	• US respondents were the least likely to expect their shipments to come in less than four days; the majority suggested 5 days with 32% in the 5-6 day categories, compared to other regions with only 5-18% within a 5-6 day time frame. • A whopping 31% of US respondents were informed online that they could purchase a product in-store only to find out the product was out of stock, compared to the UK, France, and Germany where this only occurred for 16%, 11%, and 9% of the respondents respectively.
United Kingdom	• 49% of UK respondents had a fixed 3-day expectation of arrival time for online purchases, compared to other regions which allowed greater variance of 2-5 days. • Only 49% of respondents had received a delivery late compared to European counterparts, of which 66% had received late shipments. • UK respondents had the best bundling experience where less than 33% had received two complementary items arrive separately; the average was 44% in other regions.
Germany	• While all other regions polled at almost 50% for the click-and-collect method (order online and collect in-store), Germans had virtually no presence in this purchasing option. • Delivery/collection time options were either “Not very” or “Not at all” important to 42% of Germans as compared to 9-19% for their regional counterparts. • Germans and French were both 32% more likely than UK/US respondents to have received an item 3-5 days delayed after the original arrival time.
France	• Like their counterparts, around 90% of French respondents were likely to accept a 10% discount in lieu of receiving their product in time; however they were the least likely to wait more than three days for the 10% discount. At such high taxation, 10% does not seem “worth it”, and because items are already likely to get delayed, consumers want to avoid any further setback. • France has the edge on omnichannel systems compared to its US, UK, and German counterparts, encountering less than half the hassle of buying/returning online purchases in-store. French can utilize a “point relay”, which is usually a local business (drycleaner, shoe maker, etc.) that allows consumers to collect/return their purchase there with a minimal delivery fee.

Appendix

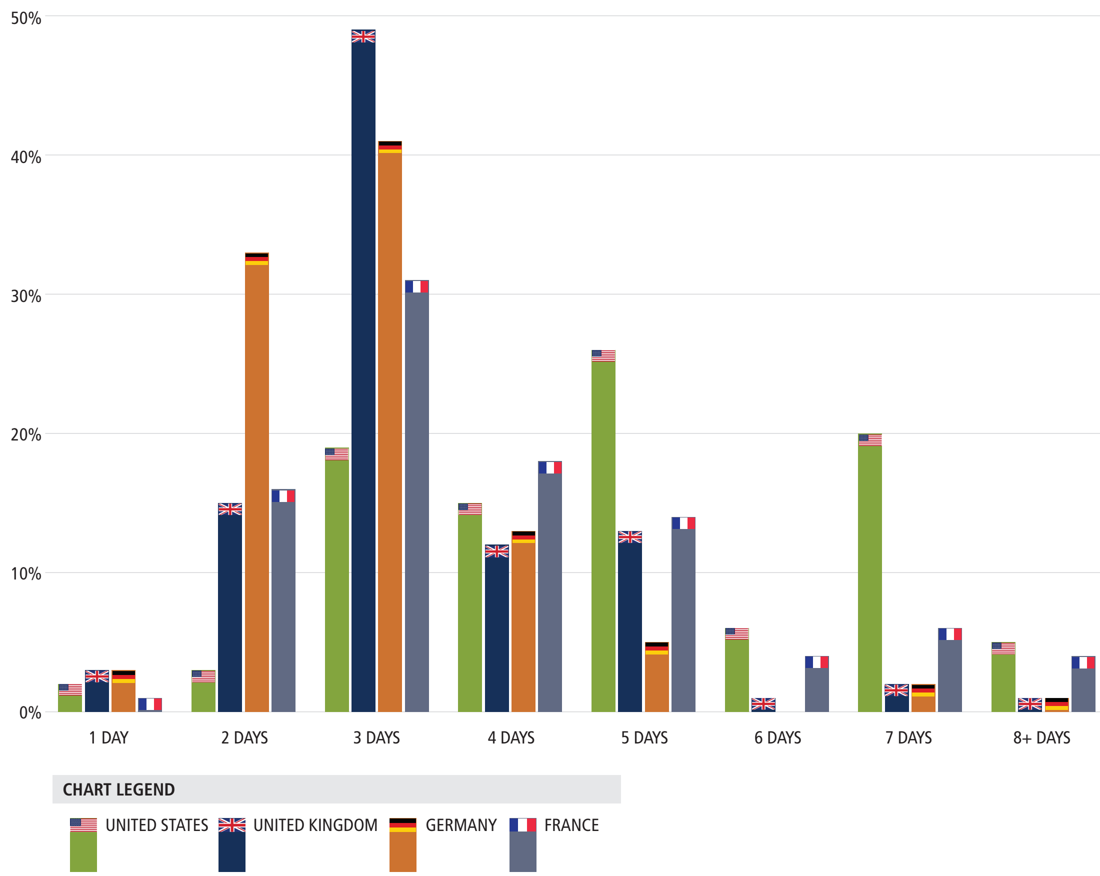
Below is an expansion of key findings with accompanying graphs to illustrate data.

Delivery and Performance Matter Most

1. **Delivery time expectations vary by country — but speed is essential. Standard expectations were 2-5 days with differing levels of importance around ability to deliver within set time frame. Some customers were willing to accept a small level of discount to compensate for late deliveries.**

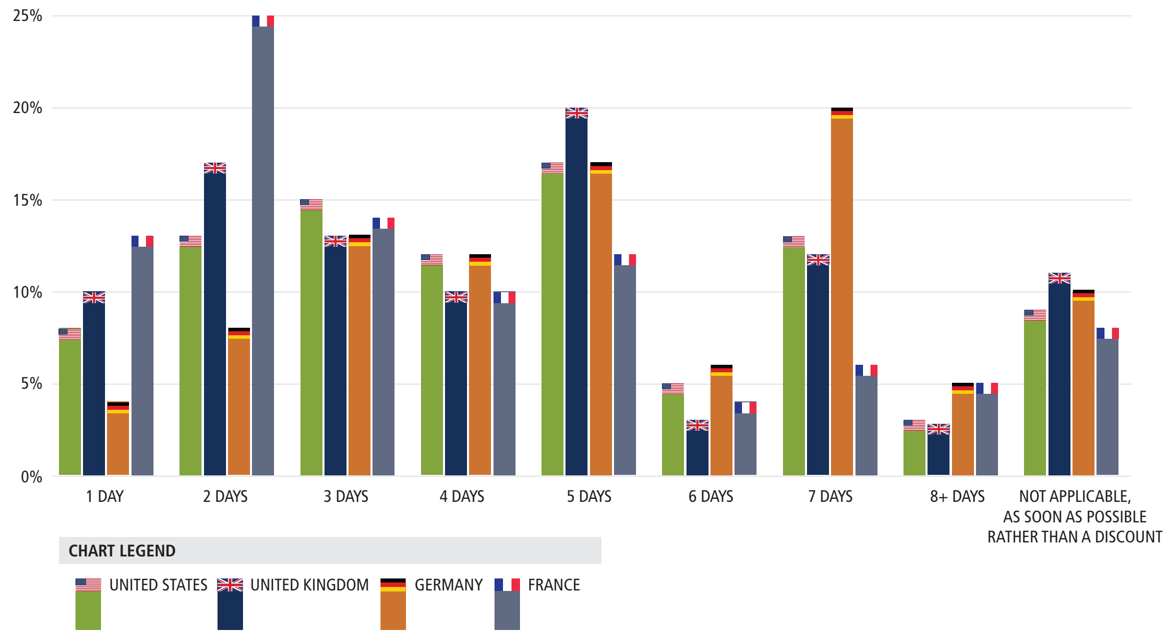
   As the percentage of purchases made online continues to increase, retailers need to ensure they are meeting customer expectations when it comes to delivery times. European consumers expect quicker delivery of purchases made online. Three days or less is the standard expected delivery time in Germany (76%), the UK (68%), and France (49%). In the US, only 24% of consumers expect delivery within three days or less. Consumers in Germany and France reported that they are the most likely to experience a delivery time being pushed back, by the retailer, after they made a purchase, at 64% and 68% respectively. In contrast, less than half of UK consumers have experienced this issue with push back (49%).

FIGURE 1: Days consumers expect a product to arrive after buying a product online



There are mixed reviews regarding consumers' acceptance of slower delivery times in return for discounted prices on their orders. On average, 10% of consumers globally say they would not be prepared to accept a discount in return for an extended delivery time. Only 37% of French consumers would be willing to wait more than a few days in exchange for a 10% discount. Other regions had slightly less sensitivity with 46% of UK, 50% of US and 60% of German consumers saying they would wait more than 3 days to accept their delivery in exchange for a 10% discount.

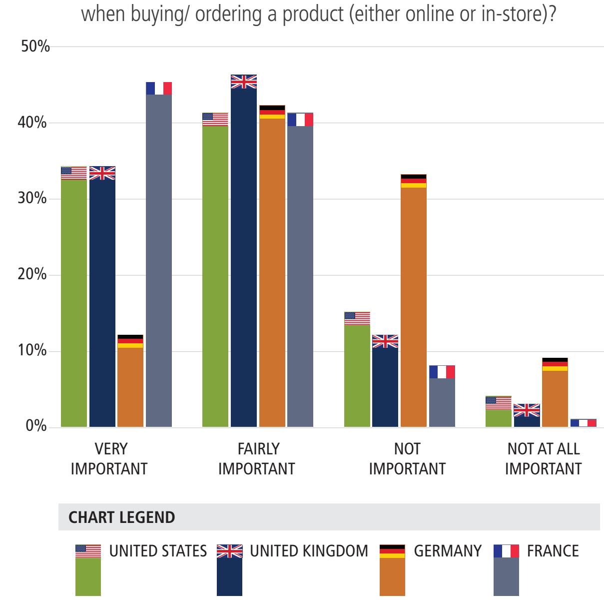
FIGURE 2: Additional days consumers will wait for a 10% discount on purchase with 3 day delivery



2. **Consumers cite the inclusion of delivery/collection times as being important to them when ordering a product either online or in-store, however 50-70% of consumers have experienced delays. In addition, despite selling bundled products (i.e. sports wristband to accompany sneakers), retailers are rarely capable of ensuring the products get delivered together.**

   Consumers rarely experienced a completely seamless buying process, reporting dissatisfaction with either inventory availability, return policies, or deliveries. 86% of French, 80% of UK, 75% of US and 54% of German consumers cited the inclusion of delivery/collection options as being important to them when ordering a product either online or in-store. This indicates a huge gap between consumer expectations and their shopping experiences.

FIGURE 3: How important is the inclusion of delivery/collection options (i.e. picking up at store, next day delivery, standard delivery etc.) when buying/ ordering a product (either online or in-store)?



Despite the widespread use of recommendation engines in online stores, retailers have not cracked down on the issue of delivering bundled products (such as an iPod and headphones, or a bike with a bike helmet), ordered at the same time, together. UK retailers appear to do best at this, although a significant 34% of UK consumers stated that they received bundled items on separate days at least once. Almost half of consumers in the US (46%) and France (45%) say they have experienced this issue at least once.

French consumers seem to have the best omnichannel experiences. Less than 20% report that they bought a product online and had not been able to collect it in-store; in contrast with almost one third of consumers in the US and UK, and half of German consumers. French retailers also seem to do a better job of cross-channel inventory management than their US counterparts: Only 11% of French consumers report that they have queried stock availability in a physical store using online tools, and then found the product out-of-stock when going to the store. By contrast, almost a third, (31%) of US consumers say they have experienced this aggravation.

FIGURE 4: Frequency with which bundled items arrived on separate days from the same retailer

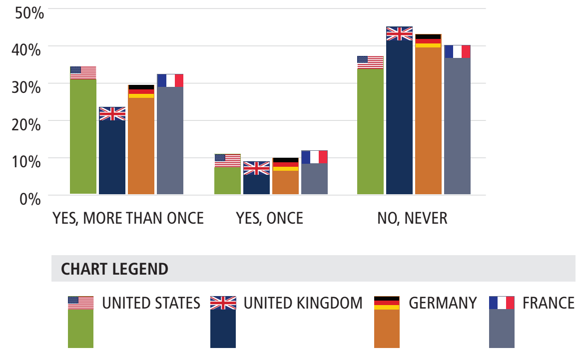
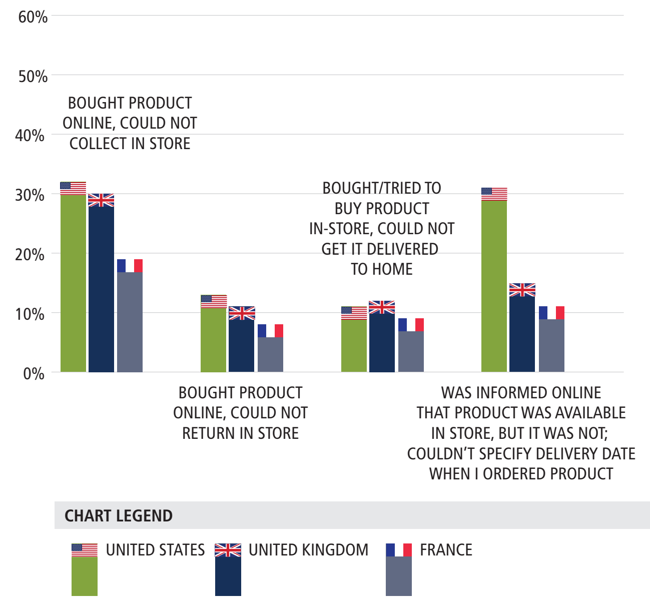


FIGURE 5: Consumer complaints with multichannel shopping



The Fallacy that Online Shopping Rules All

3. **Consumer purchasing options have increased via the introduction of omnichannel. Online shopping has become the second largest shopping channel behind in-store purchasing, eclipsing older methods of catalog and telephone ordering. However, despite the dedicated social media spend, no more than 4% of users in any region have purchased using Facebook, Twitter, or other social media tool**.

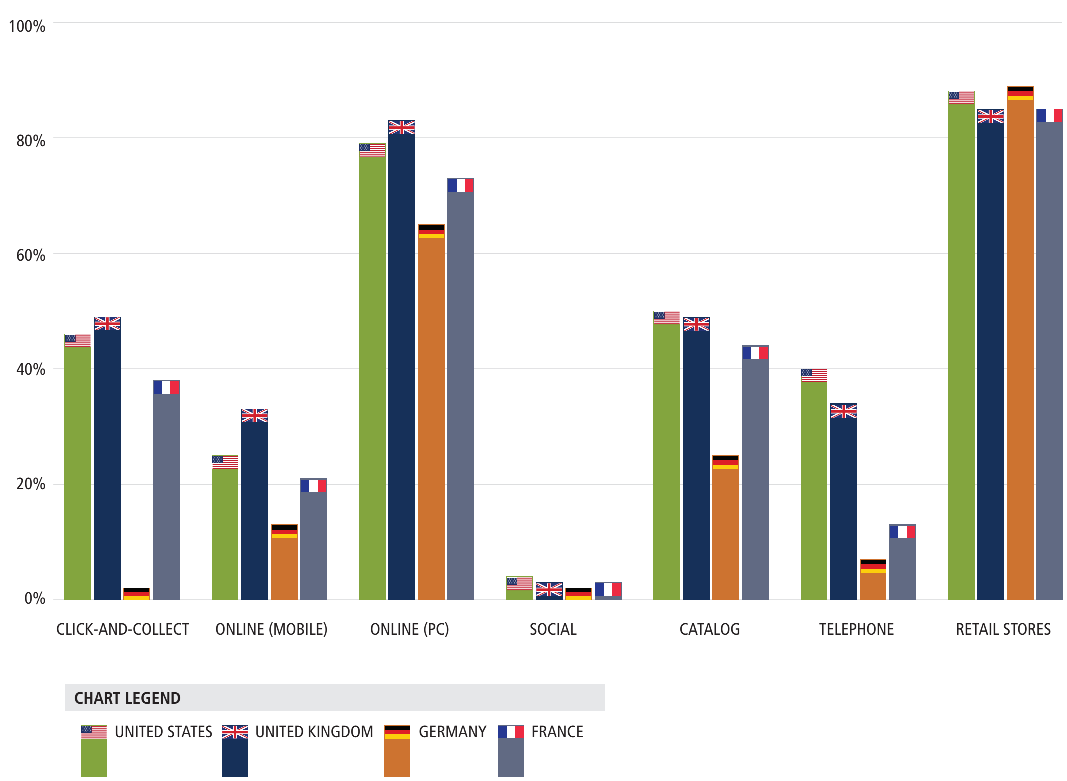
Consumers everywhere have embraced online shopping via laptop or desktop, with 83% of UK consumers, 79% of US consumers, 73% of French consumers, and 65% of German consumers saying they have purchased an item using this channel. Online purchases can be particularly heightened during holidays and gift-giving seasons, when consumers are half as likely to purchase in-store, avoiding the fuss and chaos of navigating crowds. German consumers were the least likely to have made an online purchase using a mobile device (tablet or smartphone) at 13%. As far as global retailers are concerned, Germany represents the greatest remaining opportunity to convert consumers. Consumers in the UK are the most advanced, with mobile device purchases at 33%.

TABLE 2: Percentage of mobile and social purchases by country

	Mobile (% used for purchase)	Social (% used for purchase)
United States	25	4
United Kingdom	33	3
France	21	3
Germany	13	2

While companies have found some success driving traffic through social media, less than 5% of consumers have ever used social media to make direct purchases. Though retailers are shifting their efforts toward social media commerce, the survey indicates that this channel still doesn't have the traction that more traditional mail order, telephone ordering, or click-and-collect have in some markets. UK consumers are most likely to have used click-and-collect at 49%, while only 2% of German consumers use this method due to difficulty with fulfillment.

FIGURE 6: Global consumer purchasing channels



4. **Showrooming, or browsing products in a physical store and then purchasing online, was prevalent across all regions surveyed. Of consumers that have purchased online, almost three quarters of them have used showrooming to some extent. Almost half of consumers in the US, UK, and France have showroomed at least twice in the last 12 months [UK=49%, US=51%, France=48%]. 34% of German consumers report having showroomed at least twice in that time frame.**

   Browsing in store, and purchasing online, is a growing trend — one that retailers are struggling to address. 76% of UK, 72% of French, 71% of US, and 59% of German shoppers say they showroom. More than half of showrooming consumers do so with frequency. Retailers have spent a considerable amount of money focusing on product quality and store aesthetics, however most overlook the actual buying experience that has been complicated by showrooming. Retailers need to recognize the importance of supply chain agility, to ensure customers can purchase inventory irrespective of channel. Joseph Benson, VP of Brand Strategy at Sapient Corp states that "You may have great marketing communications and a superior product, but if the customer has a negative buying experience due to poor fulfillment, you have diluted the equity of your brand."

FIGURE 7: How often, if at all, consumers tested products in-store before purchasing the product online

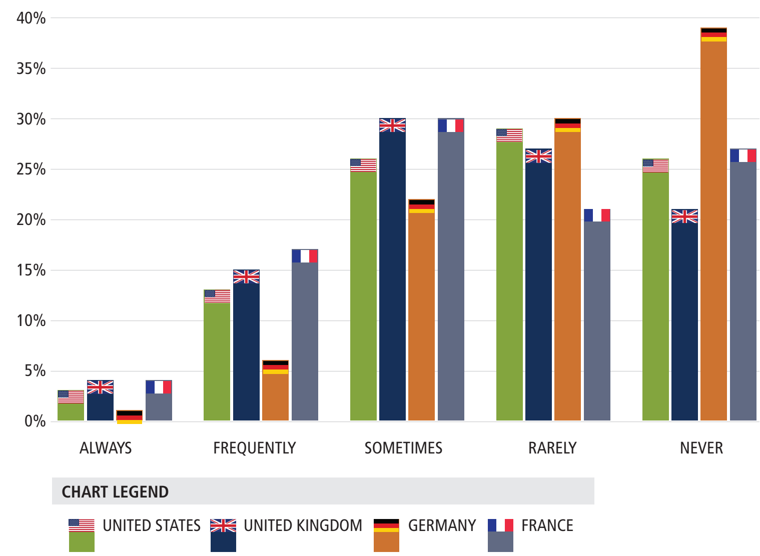


FIGURE 8: Frequency consumers tested a product in-store before then purchasing it online between September 2012 and September 2013

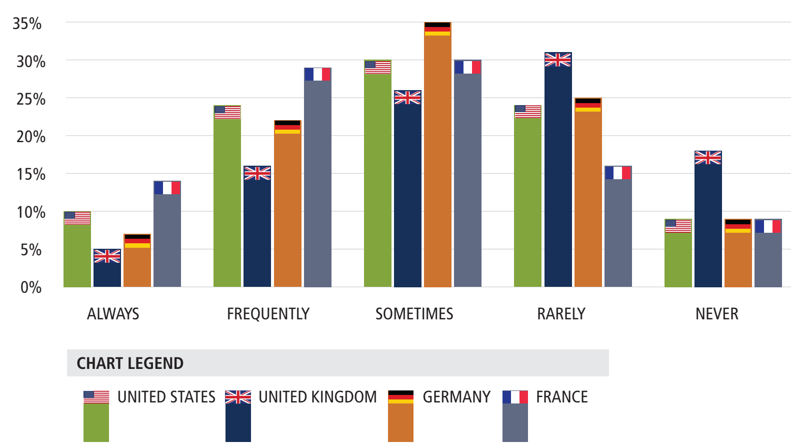
Provenance Holds Dear for Certain Countries

5. Product source or origin plays a factor in consumer decision making. France rated the highest with 72% of consumers having this as top-of-mind in purchasing behavior. The UK scored the lowest, with less than half at 47% frequently checking the manufacturer label.

Given recent events like the Bangladesh factory fire and garment factory collapse, there is a growing concern among consumers over where their products are being sourced and manufactured. Provenance of products will be an important issue for retailers in 2014, particularly in France, Germany, and the United States. 72% of French respondents stated they check manufacturing labels at least sometimes, while a whopping 42% stated they frequently or always checked for labels. Culturally, French shoppers are very sensitive to purchasing high-quality products, as well as products made domestically. Retailers would benefit from calling out domestically produced goods as well as products sourced from well-regulated regions. Germany and the United States tied at 64% consumer interest in knowing where their products are derived. The UK fell far behind at 47%, where the consumer is least likely to emphasize product origin over value or brand name.

While the UK remains dead last in consumer awareness around provenance, there has been a recent wave of campaigns that has become a motivating factor for UK consumers when purchasing products, especially across the food and beverage sector. This is evident in recent campaigns that McDonalds has launched, aggressively promoting that their meat and eggs are from British farms. Costa Coffee deliberately put British flags on their food packaging labels to further reinforce the quality and assurance of their sandwiches and salads. There has been a transition since the Olympics and Queen's Diamond Jubilee to be more patriotic, causing people to seek out "Made in Britain" across the board.

FIGURE 9: How Often Consumers Check Where a Purchased Item was Sourced and Made



Conclusion

The end-to-end shopping experience is transforming, and retailers must provide the flexibility and ease today's consumers expect. Each market has different expectations and preferences — retailers must be able to identify these patterns and adjust their supply chains accordingly. While many consumers are purchasing online and via mobile, a great deal still shop through more traditional channels; many expect the same choices through either. Retailers must balance their investments in social, mobile, and online channels with supply chain infrastructure and technology to ensure the agility needed to service a diverse consumer base.

Global commerce is growing in complexity — companies must give their customers visibility into both online and in-store inventory and allow them to purchase, pick up, or receive deliveries seamlessly from any channel in order to stay relevant. Those that fail to do will lose ground to their competitors, as disappointed customers flock to retailers that have embraced an omnichannel strategy.

Survey Demographics

This survey was conducted using an online interview administered to members of the YouGov plc panel. The survey was distributed to individuals in the UK, US, Germany, and France. Fieldwork was undertaken between September 20-23, 2013. The survey was carried out online. Respondents were represented by equal genders, part-time/full-time workers, students, retirees, and those with and without partners. Age categories were segmented in the following break-outs: 18-24, 24-35, 35-44, 45-54, and 55+. Ten survey questions were administered to each regional group, specifically targeting purchasing channels such as in-store, online, mobile device, as well as consumer experience with fulfillment of orders.

*Survey respondents who answered "Don't know" to any survey questions belong to a small minority and were not visually captured in the figures.

FIGURE 10: Regional breakout of survey respondents