THE DIGITALLY DEMANDING CONSUMER

2016 CONSUMER TRENDS REPORT

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INTRODUCTION

2016's consumer is a digitally savvy shopper who expects to find and receive the products they want, when they want them. To complicate matters further, they're armed with a slew of digital devices and online resources. As a result, today's consumer carries no qualms about ditching their brand loyalty in exchange for a better deal or faster shipping.

Research by Kibo examining the attitudes of consumers on both sides of the Atlantic found six-in-ten are prepared to leave retailers unable to fulfill their digital needs. Indeed, only five percent of consumers prefer to avoid digital interaction all together.

In light of this rapidly changing landscape, brand manufacturers and retailers need to utilize advanced technology and develop robust omnichannel strategies that cater to 2016's digitally demanding consumer.

The message is clear. In this sink or swim market, it is time for retailers to evolve or perish.

EXECUTIVE SUMMARY

- Today's consumer is digitally sophisticated and keen to use online retail services and channels that cater to their need for convenience

- Of all the fulfillment options available, the majority of consumers in both the UK and the US prefer to buy online and ship-to-home.

- Though many shoppers now expect these services, they're not willing to pay for their use: one-third of consumers expect same-day delivery for free.

- Two-thirds of consumers are less likely to buy from retailers unable to confirm product availability, and one third are less likely to buy from retailers unable to offer in-store pickup and extended payment options.

- During the last year, more than a quarter of US consumers, and 1-in-5 UK consumers, have looked up product availability online for same-day in-store pickup. Half plan to use this service next year if it is available to them.

- For mid-sized retailers trying to compete with the likes of Amazon, it is important to note that more than half of consumers would purchase elsewhere if their preferred method of delivery wasn't available from their regular retailer.

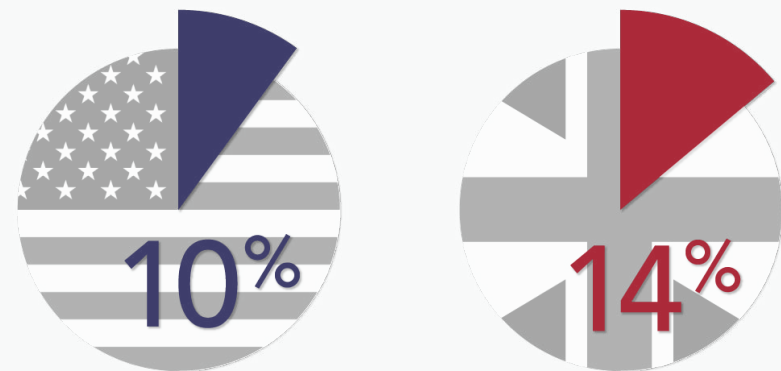# TODAY'S RAPIDLY EVOLVING RETAIL LANDSCAPE

Shopping behaviors have changed more over the last couple of decades than they did in the previous century. Just think back—if you can bear it—to the shopping experience of the mid-1990s. In those days, stores had limited hours and Saturday was the main shopping day of the week. Sunday was pretty much a no-go zone, with most retailers closed or only open for very restricted hours.

As a consumer, your choice was restricted to the inventory of the particular store you were in. Ordering items from the retailer's warehouse was possible, but took several days, if not weeks. When the sales were on, they were a big event; people would queue up for hours or even camp outside to get their hands on discounted items first.

How things have changed. More than 20 years after the launch of Amazon and eBay, the impact of the Internet is still reverberating through the industry and consumers' love of online retail keeps increasing. According to OC&C Strategy Consultants, eCommerce sales in the UK will double in size over the next three years to £645 billion. And it's a similar story in the US. In the last year, online retail sales in the United States grew to an estimated $304 billion in 2015,

up from $177 billion in 2010, according to Forrester Research.

eCommerce represents about 10 percent of the total US retail market. While that may sound like only a small portion of the pie, you have to consider the fact that online sales are growing at a notable compound rate of around 10 percent year over year. Arguably, the United Kingdom is even more digitally advanced. It has the world's largest eCommerce sector as a proportion of its overall retail market, at about 14 percent.

ECOMMERCE SHARE OF THE RETAIL MARKET

THE DIGITALLY DEMANDING CONSUMER

This growth is being fueled by the rapid adoption of mobile devices as consumers have vehemently embraced digital technologies. We are addicted to our devices, our apps and our social media feeds. The majority of us now own a smartphone and on average, we spend between two to four hours online every day.

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This technological change is leading to the omnichannel retail world we know today, in which online and offline channels are merged into a seamless whole. The upshot for retailers is a disparate audience with very different behavior and expectations from even a decade ago. A product ordered online can be picked up in store, for instance, and stores themselves contain more and more technology that enhance the shopping experience, whether that's augmented reality mirrors that let people try on more clothes or tablets used by sales clerks in place of old-fashioned cash registers.

So what are the characteristics of today's consumers, and what do retailers need to understand and respond to? We spoke to more than 3,000 consumers across the United States and United Kingdom to get a better picture. Our research identified three key traits that every retailer must be aware of to be successful in today's omnichannel world.

HIGH DIGITAL DEMANDS

62%

67%

THE MAJORITY OF SHOPPERS DO THEIR RESEARCH ONLINE BEFORE VISITING A STORE

Today's consumer is incredibly digitally sophisticated. Online has become the default setting, especially for younger consumers, with digital technologies being used throughout the shopping experience.
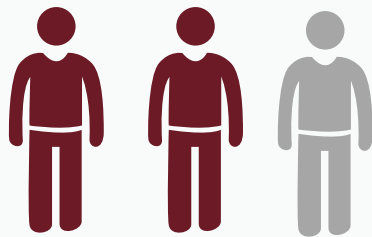
67 percent of Brits and 62 percent of US consumers said they go online to research a product before they visit a store.

That puts a real spotlight on the quality of a retailer's web and mobile experience and its search rankings, as well as its price point.

In fact, only a very small fraction of consumers, less than 5 percent, prefer to avoid digital methods completely, buying in-store and taking their items home straightaway. This overwhelming preference for the convenience online offers shows just how important it is to provide customers with the most accurate and up-to date inventory possible, whether they plan to shop online or in-store.
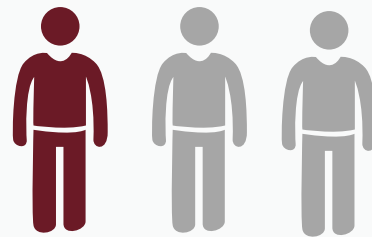
When it comes to actually buying a product, the majority of consumers prefer to do so without leaving the comfort of their own home. Eighty percent of consumers we surveyed, who regularly

80% OF CONSUMERS PREFER TO BUY ONLINE AND HAVE THE ITEMS SHIPPED TO THEIR HOME

2/3

OF CONSUMERS ARE LESS LIKELY TO BUY FROM RETAILERS UNABLE TO CONFIRM PRODUCT AVAILABILITY

1/3

OF CONSUMERS ARE LESS LIKELY TO BUY FROM RETAILERS WITHOUT IN-STORE PICKUP AND EXTENDED PAYMENT OPTIONS

purchase online, prefer to have items shipped to their homes. While this may sound like a threat to brick-and-mortar, that couldn't be further from the truth. In fact, it's a great opportunity for retail stores to maximize sales by offering deliveries to ship-from-store. By leveraging retail storefronts as fulfillment centers, retailers can free up inventory across the entire store and warehouse network to optimize order fulfillment.

The implication is clear: the omnichannel experience—blurring online and offline—is becoming the norm and retailers must

embrace it. Indeed, more and more consumers are actively turned off by retailers who can't provide them with the digitally-led, omnichannel services they expect. Two-thirds are less likely to buy from retailers unable to confirm product availability, while one-third are less likely to buy from retailers unable to offer in-store pickup and extended payment options.

A strong order management system will provide a retailer with the critical capability of real-time inventory visibility. And as a further bonus, brands don't need to miss out on the profits. Product locators are increasingly replacing dealer locators to help customers find the exact branded item them want at a local retail store.

>5%

LESS THAN 5% OF CONSUMERS PREFER TO AVOID DIGITAL METHODS COMPLETELY

RISING EXPECTATIONS

It's fair to say, then, that retailers are scrambling to keep up with shoppers' digital demands. But consumer expectations aren't standing still. The benchmark for what seems "good" to consumers—let alone "outstanding"—keeps rising.

In-store pickup (click-and-collect), for instance, is already perceived as a standard part of the retail experience, even though most retailers only introduced it in the past few years. Our survey found that more than a quarter of British consumers expect in-store pickup next day as standard, while one in 10 US consumers expects in-store pickup within the hour as standard.
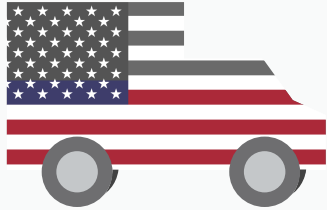
There are no signs that this rise in expectations is slowing down. According to our research, in the past year, more than a quarter of US consumers and nearly a fifth of UK consumers have looked up a product's availability online for same-day in-store pickup. More than half of respondents plan to use this service next year if it's made available to them.

Overall, nearly a third of Brits and a quarter of Americans expect short delivery times of two days or less. As if it wasn't challenging

1 in 10 AMERICANS EXPECT TO PICK-UP THEIR PURCHASE WITHIN AN HOUR

enough for retailers that many consumers now perceive these sorts of services as standard, a large number of consumers don't think they should be charged extra for them either. One-third of consumers we surveyed want to use same-day delivery, for instance, but don't expect to pay for it.

53%

MORE THAN HALF OF U.S. SHOPPERS SPEND LESS THAN $8 A MONTH ON DELIVERY

62%

NEARLY 2/3 OF U.K. SHOPPERS SPEND LESS THAN £5 A MONTH ON DELIVERY

To satisfy these expectations, retailers have to adopt state-of-the-art systems to efficiently manage their supply chains and delivery processes. An enterprise-level order management system provides flexible fulfillment options such as in-store pickup and ship-from-store which cuts delivery times down substantially. Advanced retail technology should also offer robust order routing capabilities, ensuring that each order is fulfilled in the most effective way possible based on customer expectations and what is right for the retailer. Usually this is a local store rather than a central warehouse located miles from a shopper's home.

Similarly, one-third of consumers have used the free delivery options provided by retailers to ensure they didn't pay anything extra for getting their items shipped to them. And even those who do pay for delivery aren't paying very much. Half of the respondents to our survey said they spend under $8 (or £5) on delivery a month, making it very difficult for retailers to cover their delivery costs.

Keeping pace with customer expectations is becoming increasingly difficult, especially as retailers know that if they don't provide these services to keep their shoppers happy, someone else will.

EBBING LOYALTY

60% OF CONSUMERS WILL GO TO ANOTHER RETAILER IF THEIR PREFERRED FULFILLMENT METHOD ISN'T AVAILABLE

Because of the explosion of choice brought about by the Internet, and especially mobile, today's digitally demanding consumers have less of an attachment than ever to specific retail brands.

More than half of the respondents we spoke to (60%) said they would purchase elsewhere if their preferred method of delivery wasn't available from a retailer they felt loyal to. This is a huge wake-up call to mid-sized retailers trying to compete with the likes of Amazon. The stakes have been raised and consumers feel no compunction shifting their loyalties to someone who will serve them better.

This fact also serves as a stark reminder of how important delivery options are to the tech savvy consumer. Shoppers don't care where the product ships from, a warehouse across the country or a closer retail store location, provided it arrives quickly. To address this consumer demand, forward-thinking retailers can use ship-from-store fulfillment as one way to get a consumer their goods very quickly, while simultaneously keeping in-store inventory moving.

Digitally savvy consumers know how to play the system to their advantage and are prepared to do so if it saves them some money. For example, one in seven UK shoppers and one in nine US shoppers admitted they have bought extra items to ensure they qualify for free shipping, and then returned them. Putting it brutally, that's more than 10 percent of shoppers prepared to deliberately con retailers out of money to get a better deal for themselves. This is why advanced capabilities within customer care centers are critical. Using the above situation as an example, the technology in an enterprise-class system can alert a representative that the returned item drops the total purchase below the free shipping qualification.

Additionally, consumers' experience with eCommerce and new methods like in-store pickup has given them a taste for innovation and experimentation. They are more open than ever before to different ways of getting a hold of the products they want, as long as it's quick and easy.

These forward-thinking consumers are already displaying an appetite for innovative new services such as curbside pick-up and purchasing through social media. This is especially the case in the US, where a quarter of consumers say they would use curbside pick-up if it was available, compared to 15 percent of UK consumers, and another quarter say they would make purchases through social media, compared to 20 percent in the UK.

Retailers must take note: the type of fulfillment scenarios customers want to use are going to change rapidly in the near future. Do they have the systems needed to profitably run these new fulfillment methods?

Retailers must take note: the type of fulfillment scenarios customers want to use are going to change rapidly in the near future. Are the systems needed to profitably run these new fulfillment methods in place?

The great news for any retailer on a Cloud-based order management system is that their software vendor likely provides continuous automatic updates, and is developing products that allow a retailer to keep up with current fulfillment trends. When the latest feature or tool is ready, a Cloud-based order management system user simply needs to enable that capability; no extra infrastructure required.

WHERE DO WE GO FROM HERE?

2016's shopper expects more, and that fact should force retailers to rethink how they do business. The speed at which customer expectations are evolving makes engagement with technology a business critical decision for retailers and branded manufacturers. Consumers are creatures of habit and still want to shop at the places they know and love. That is until the service they receive becomes notably poorer in comparison to the rest of the market. It's up to the retailer to ensure they maintain this loyalty by providing the most up-to-date services to meet increasing consumer needs and to ward off switching to better equipped competitors.

With the likes of Amazon and other Internet giants setting the digital benchmark, retailers must also ensure they no longer focus on a single technology, such as click-and-collect. Instead they need to consider how to deploy the 'whole package' with broader delivery options, including ship-from-store and in-store pickup, as well as advanced capabilities like anywhere returns and inventory lookup. As the lines between the online and in-store journey blur for many consumers, using powerful and nimble technology like an enterprise-class order management system will offer the best

possible shopping experience and give loyal customers no reason to look anywhere else.

> retailers in the right frame-of-mind will see this shift in consumer expectations for what it truly is: a time of great opportunity

As the marketplace becomes increasingly crowded, it's a sad truth that the names of those retailers failing to evolve will fade. However, those retailers in the right frame-of-mind will see this shift in consumer expectations for what it truly is: a time of great opportunity. By putting the customer first and building models around them to suit, these retailers will be to able to offer what today's consumer expects: a more compelling, more advanced, more convenient shopping experience. In 2016, this should be standard thinking for retailers of all sizes. Those that seize this opportunity soonest will remain a step ahead with both their omnichannel offering and customer service to not only maintain loyalty, but, crucially, also grow by attracting the next generation of shoppers through their doors.

THREE NEXT STEPS FOR OMNICHANNEL SUCCESS

As our research shows, to secure the loyalty of their customers, retailers need to ensure they remain a step ahead with both their multi-channel offering and customer service.

Sounds like a big job right? Wrong.

Don't fear, deploying an effective omnichannel management system is achievable. The secret is that with a clear process and a flexible, modern solution, any retailer can turn itself into an omnichannel success story. Here are three steps we think retailers and branded manufacturers need to do now to successfully embrace the new age of shopping and give their customers the digital experience they expect, value and deserve.

1. AUDIT CURRENT SYSTEMS AND PROCESSES

As a first step, it's a priority to review the mix of omnichannel technology you currently use and identify areas for improvement. Below is a short list of must-have order management system functionality questions that every retailer and brand should ask themselves to identify their strengths and weaknesses:

- ☐ Can I offer in-store pickup?
- ☐ Can I offer same-day in-store pickup?
- ☐ Can I offer in-home delivery?
- ☐ Can I offer same-day in-home delivery?
- ☐ Can I offer universal returns to any store?
- ☐ Can I offer the ability to ship to store?
- ☐ Can I offer the ability for the customer to select their store of choice for in-store pickup or ship to store?
- ☐ Can I offer product search functionality that allows my local products to be found online in 20 seconds or less?

2. STREAMLINE AND DEPLOY THE RIGHT TECHNOLOGY

Once an area for improvement has been identified, you can focus on seeking out the right omnichannel management system to suit your needs and tighten up current processes to an acceptable standard. Using an effective Cloud-based order management system will eliminate the downtime and costs associated with maintaining an on-premise system. It also makes success in one location simple to scale-up elsewhere.

A good place to start is with inventory pick-up. This allows your customers to see real-time inventory during their shopping experience, and enticing them to local stores where your product is stocked. Getting up and running with inventory lookup requires very little staff training and is fairly simple, making it a great place to start your omnichannel fulfillment strategy. After that, look at addressing other key, yet simple, components such as ship-from-store and click-and-collect.

3. CONSULT THE EXPERTS

Kibo has been enabling retailers and branded manufacturers to embrace digital technology to better serve their customers since the very first days of online retail. We know what it takes to succeed in the omnichannel world to successfully bring their ambitions to reality.

58%   **56%**

MORE THAN HALF OF CONSUMERS WILL NOT PURCHASE IF PRODUCT AVAILABILITY CANNOT BE CONFIRMED ONLINE

KIBO™

SELL EVERYWHERE. FULFILL ANYWHERE.

Kibo is the strategic merger of industry leaders, Marketlive, Shopatron, and Fiverun. With a combined 40 years of innovations, we're joining forces to help retailers and branded manufacturers unify the consumer experience. Kibo is a complete omnichannel commerce platform, delivering the lowest total cost of ownership and the fastest time to market. With predictive technologies and enterprise performance, we can help you achieve increased sales. No matter the challenge, Kibo powers your success.

ECOMMERCE

- Optimized Customer Experience
- Powerful Merchandising and Analytics
- B2C and B2B Solutions

ORDER MANAGEMENT

- Intelligent Order Routing
- Enterprise Available- to- Promise Inventory
- Configurable Fulfillment Workflows

MOBILE POINT OF SALE

- Save the Sale and Endless Aisle
- Retail Associate Platform
- Complete Retail Management System

To find out more about Kibo call 877-350-3866 or visit our website at www.kibocommerce.com