



P F S

OVERCOMING THE PHYSICAL DISCONNECT

HOW RETAILERS CAN MAINTAIN
CONSUMER LOYALTY IN AN
OMNICHANNEL WORLD

INTRODUCTION

As we head into a new "digital first" retail era, there is a real risk of a physical disconnect between brand and consumer, both at transaction and fulfilment level. Not only have shoppers been forced to explore the eCommerce realm more comprehensively over the past year, but they have subsequently shaped a new level of expectation about what they are and are not willing to tolerate. With more choice than ever before, loyalty amongst younger consumers, in particular, is fragile. Brands must work quickly to analyse, strategise and invest in ways that can maintain consumer connections in the post-pandemic world – whilst being mindful that certain restrictions may continue for some time.

Rather than addressing their online channel and brick-and-mortar stores individually these investments should be targeted towards how the two interact and complement each other. The role of omnichannel acknowledges a potential new role for the UK high street where it will support an online market that **grew 74% year-on-year as of January 2021**. Restrictions over the past year have accelerated and amplified this trajectory, but **previous PFS research** confirms that this trend is much more progressive and sustainable, rather than just COVID-driven.

Digital is set to become the longer-term flagship in retail, but this doesn't spell the end for in-store experiences. Rather, retailers should be looking to leverage the best of both, to optimise fulfilment – a notion that has quickly become a differentiator for many shoppers. Focusing not only on purchase satisfaction, but how and when an item is delivered to that buyer's doorstep presents a huge opportunity for brands to master omnichannel – both for their customers and their own efficiency levels.

Through this research, PFS captured this wave of expectation. The report provides ways that retailers can optimise their online presence, their physical stores and their **vital warehousing operations** that underpin delivery across both. In doing so, brands can continue to make very real physical connections, even in a digitally driven sector.

METHODOLOGY

PFS commissioned research agency, Arlington Research, to survey 2,000 UK consumers about brand loyalty in an increasingly digital era and how this may have evolved throughout the pandemic. They were asked about shopping experiences, what they have been missing and their thoughts on the future relationship between physical and online retail.

Nationally representative interviews were carried out with adults aged 18+, with quotas set on gender and age at a country-wide level. Fieldwork took place between 4–8 March 2021.

Age groups referred to throughout the report are broken down as follows:



Generation Z

Respondents born between 1994 – 2001



Millennials

Respondents born between 1980 – 1993



Generation X

Respondents born between 1965 – 1979



Baby Boomers

Respondents born between 1946 – 1964



Silent Generation

Respondents born before 1946

KEY TAKEAWAYS

- 43% of consumers have missed being able to touch products when shopping online, whilst 41% miss testing products for size, colour, etc as they would do in-store
- In total, 80% revealed they miss at least one aspect of the shopping experience whilst shopping online
- In terms of barriers to the online shopping experience, 21% reported that online customer service is not as good as in-store assistance
- Almost a quarter (23%) report that online stores either don't do enough to engage with them, or that they only want their money and don't care about their satisfaction
- 46% of millennials and 35% of respondents overall admitted that they have had such an unsatisfactory shopping experience with a previously trusted brand this past year, that they have gone on to look elsewhere
- From a fulfilment perspective, slow delivery (18%), lack of available stock (17%) and difficult returns processes (14%) were all listed as potential factors behind reduced interest in using a previously preferred brand
- Strong fulfilment parameters of interest include packaging minimisation (70%), delivery timeframe choice (64%), carbon footprint reduction (52%) and packaging choices (37%).
- Despite this, a net total of 57% still purchase products based on cost as the primary differentiator
- Looking forward, there is still hope for the UK high street despite the proliferation of online shopping over the past year. Almost half (49%) have missed the social aspect of shopping, deeming it a leisure activity. This number rises to 53% of Gen Zs and 50% of millennials
- But this rebound excitement may be short-lived, with more than a third (34%) expecting to return to online shopping after the initial high-street buzz has died down
- Among Gen Z and millennial respondents especially, 49% of each affirm that when lockdown ends, they will continue to do the majority of their shopping online
- This points towards a future where the in-store experience is just that – an 'experience' rather than a primary port of call for purchases. More than half (51%) of Gen Zs expect shops to become more of a space for browsing, before purchasing online

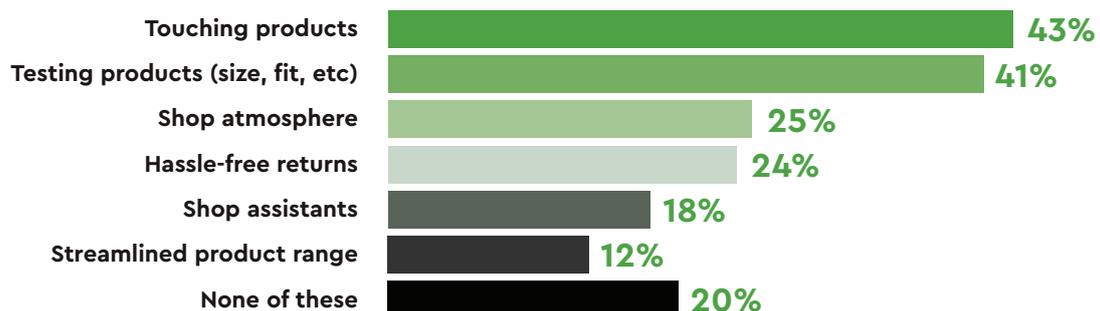


BARRIERS TO BRAND LOYALTY

Just because online has become a primary portal for purchasing over the past year, it doesn't mean that consumers aren't missing aspects of the in-store experience. Some elements just can't be tangibly replicated digitally, leading to 80% of all respondents revealing that they miss at least one aspect of the traditional shopping experience whilst perusing online.

Perhaps inevitably, the most missed facets include being able to physically touch products (**43%**), and to test certain items (**41%**) for suitability across aspects such as size or colour, as they would do in-store. Equally understandable is the finding that older generations, and baby boomers in particular (**64%**), miss this "real" experience more than younger demographics. The shift in "norms" towards eCommerce even prior to the pandemic will have been starker for this age group.

In-store shopping experiences consumers missed while shopping online during the pandemic



Retailers aren't oblivious to these inherent shortfalls, though. To make up for the lack of face-to-face time that online customers get with both people and products, we've seen the rise of tools such as FAQ pages, website chatbots to address customer service needs and augmented reality to bring a sense of tangibility to products such as sunglasses or cosmetics, for example.

But, so far, these attempts to elevate levels of brand loyalty aren't completely hitting their mark. Almost a quarter (**21%**) of respondents reported that online customer service is still not as good as in-store assistance; while a similar figure (**net 23%**) agreed with the assertion that online stores either don't do enough to engage with them, or that they only want their money and don't care about customer satisfaction.

On their own, these statistics might seem quite modest, but collectively over the space of a year, they may well have contributed to **63%** of Gen Z consumers, **46%** of millennials and **35%** of all respondents admitting that they had endured such an unsatisfactory shopping experience with a previously trusted brand, that they have since looked to shop elsewhere. Even if fewer than a quarter believe overall customer experience to be inferior, it still may only take one negative experience to cause long-term loyalty damage.

It may only take one mistake to lose a young consumer. Compared to just **8%** of the older 'silent generation', **63%** of Gen Zs and **46%** of millennials have been so unhappy with a shopping experience over the past year, that they've looked elsewhere from then on.



of respondents reported that online customer service is still not as good as in-store assistance



assert that online stores don't do enough to engage with them

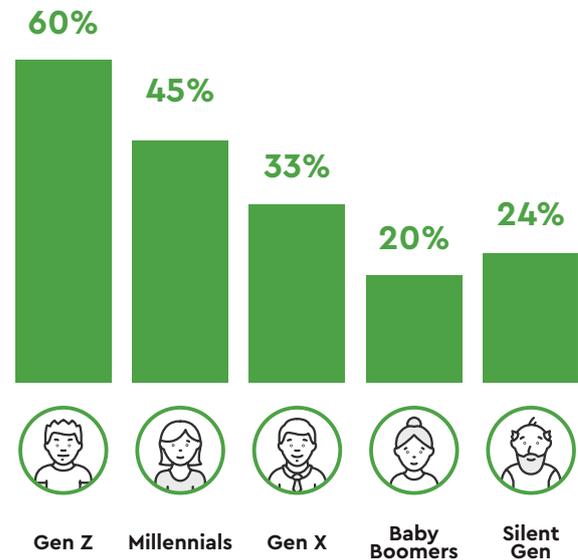
Even if fewer than a quarter believe overall customer experience to be inferior, it still may only take one negative experience to cause long-term loyalty damage.

More perilous still is the fact that poor experience doesn't necessarily just revolve around the point of sale (POS). More and more, the success of a buyer-seller experience revolves around fulfilment. Slow delivery (**18%**), a lack of available stock (**17%**) and difficult returns processes (**14%**) were all listed as potential factors behind reduced interest in using a previously preferred brand. A net total of **88%** reported at least one fulfilment factor that could or already has made such an impact.

There will always be elements of the online experience that can't match brick-and-mortar. For this reason, brands need to take control of what they can, to instil and maintain brand loyalty – and this may well start with fulfilment. From these findings, barriers to brand loyalty are clearly as much to do with a brand's warehouse as their POS. The key to overcoming these barriers is to enable options and flexibility, both for the brand and for the customer.

Facilitating solutions such as ship from store will provide even more agility for a consumer base that seems to be hinging its loyalty on flexible fulfilment.

Has brand loyalty changed since the start of the pandemic?



Percentage of generation reporting any change in brand loyalty since the start of the pandemic

Distributed order management (DOM) systems are a prime example of an inventory-focused investment that would transcend the online shopping experience. And, as the UK high street reopens, facilitating solutions such as ship from store will provide even more agility for a consumer base that seems to be hinging its loyalty on flexible fulfilment.

“ **Brand loyalty becomes more of a fickle concept, the younger the shopper is.** Pointing towards the future of brand connections, only one-third (**33%**) of the youngest Gen Z demographic report the same level of loyalty towards familiar brands as they did prior to the pandemic. This is compared to an overall average of **59%**, and a much more “set in their ways” **76%** of baby boomers whose opinions have remained the same. ”

RECOMMENDATIONS FOR RETAILERS



Christophe Pecoraro

Managing Director at PFS
Europe

Operational excellence

Operational excellence is key, more than ever, to ensure pre- and post-click online activities are performed smoothly.

It's essential for brands to ensure all processes are optimised to avoid little frictions that could damage consumers' perception towards the brand.

Speed, the condition of the product and the overall delivery experience will leave a lasting impression on the customer.

Ensuring the quality of products upon arrival is crucial to encouraging brand loyalty and repeat purchases.



FORMING NEW BRAND CONNECTIONS ONLINE

The idea of a "strong eCommerce offering" has somewhat evolved in recent years. Even on its organic trajectory, consumer expectations around online perks were extending beyond convenience and accessibility. This subsequently affirms the fact that brands need to focus on more than just their website to support a digital flagship.

Then came COVID-19, and online became the entire retail world. People's exposure to startups, scaleups or alternative brands is likely to have skyrocketed over the past 12 months. One negative experience, even with a brand they have trusted for a long time, may be enough to divert their attentions to competition elsewhere.

This is why fulfilment is so vital as a differentiator.

Most retailers will have got their POS to a satisfactory standard, but they are more likely to strike a chord with a consumer based on value-add considerations:

- How quickly can a purchase be delivered?
- Can we give consumers flexibility over delivery timeframes?
- How can our packaging add value to elevate customers' unboxing experience?
- Can our inventory and stock facilitate both online and in-store availability?
- How simple is our returns system?
- How ethical or environmentally conscious is our supply network?

People's exposure to startups, scaleups or alternative brands is likely to have skyrocketed over the past 12 months.

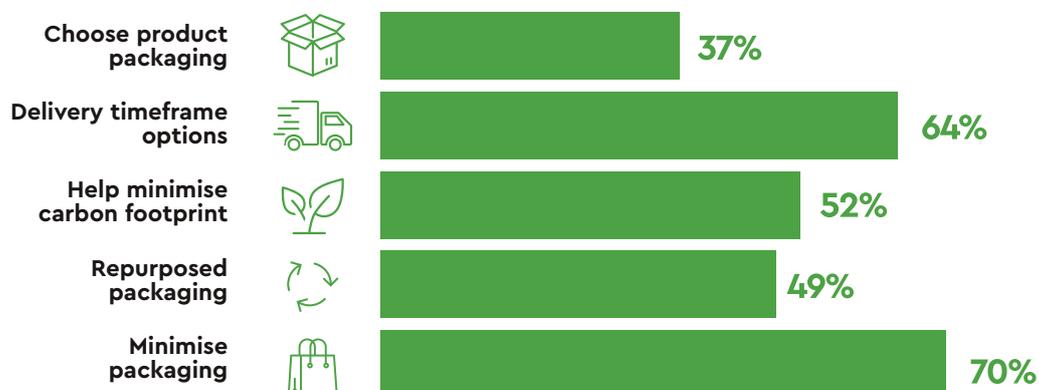
This is what brands need to be asking themselves because, as our findings confirm, it's certainly what some consumers are monitoring too.

In net agreement percentages, more than one-third (**37%**) would prefer to choose how their product is packaged; **64%** would be more loyal to brands who provide them with delivery timeframe options and delivered within the time frame promised; **52%** would prefer to shop with companies that help them to minimise their carbon footprint; **49%** would prefer to shop with a brand that provides packaging that can be repurposed in some way; and **70%** more generally expect online retailers to minimise packaging.

It should be noted that no individual parameter topped cost as an overriding driver, with **57%** agreeing that they still purchase products based on price rather than ethical factors. But as already noted there is no one way that brands can lose a consumer connection in the current environment. And this is an even more pertinent fact among the younger Gen Z and millennial demographics.

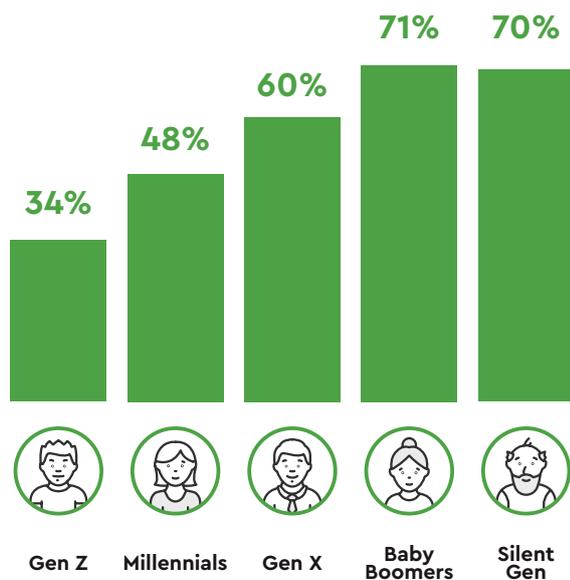
Across almost every metric, the given stats rose among these two age ranges, especially when it came to aspects of choice. Compared to the **37%** figure who would prefer to choose how their product is packaged, **44%** of Gen Zs contributed to the total. The option of buying and returning in-store, or using click and collect when shopping online, was also 6 percentage points more popular for this age group (**43%**) than the overall total of net agreements (**37%**).

Fulfilment differentiators concerning brand loyalty



Expectations among these "future shoppers" are such that they demand it all. A strong POS experience won't offset poor fulfilment options, and vice versa. And neither is likely to mitigate unfavourable price points or costly products. Retailers have to ensure that all of these boxes are being ticked, simultaneously, to guarantee long-term brand connections with such a fickle and option-rich population.

Percentage of generation who believe COVID-19/Brexit is no longer a reasonable excuse for unsatisfactory customer shopping experiences



A strong POS experience won't offset poor fulfilment options

Step one for retailers: make fulfilment operations more streamlined, efficient, reliable and – perhaps most significantly – flexible. The more choice that is made available to consumers, the more likely they are to remember that ease and variety – even subconsciously. The idea of pop-up or multi-node fulfilment options could be a lucrative way to speed up last mile delivery, while also helping to alleviate the pressure of both volume demand and fulfilment expectations.

For any brands thinking that COVID or even Brexit might give them a free pass when it comes to customer loyalty, or as an excuse for delayed investments, they should think again. A solid majority of **56%** affirmed that neither is a reasonable excuse for an unsatisfactory shopping experience. In addition to everything else, retailers must look to mitigate the impacts of both by striving for full inventory visibility and reporting, to minimise any disruptions to the fulfilment process during this period.

“ **Brands should be investing in flexible fulfilment for all ages of consumer.** While some generations prioritise different aspects of fulfilment more highly than others, all parameters of potential choice and added value in the delivery process received net agreements of more than **37%**. Choice (in addition to cost), in particular, is king – **64%** net agree that they feel more loyal to brands who provide delivery timeframe options. ”

RECOMMENDATIONS FOR RETAILERS



Christophe Pecoraro

Managing Director at PFS
Europe

More than ever, the pandemic has accelerated the digitalisation of brands and changed consumers' expectations.

Retailers should rethink their supply chain and look for solutions that can help further elevate the post-click process and make a wider variety of products available to consumers more quickly.

The evolution of the high street holds further potential for high street retailers – in addition to devoting entire stores to distribution, these brands are also beginning to utilise redundant space within their existing stores. This allows online brands to still physically interact with customers, whilst also utilising the space for growing eCommerce demand.

Digitalisation is changing the face of retail rapidly. Cloud-based fulfilment picking solutions can now be quickly deployed in any fulfilment centre, immediately replacing slow manual processes, to eliminate errors and improve productivity. No longer do retailers need to develop their own bespoke solutions – they can plug in and get moving.



AN OMNICHANNEL FUTURE BASED ON EXPERIENTIALISM

But what about the high street?

Given the upshots of pandemic life, retail's traditional hub was tragically barred up and forced to the fringes for more than a year. In the UK, the summer is expected to signal a return to normal public life and as part of that highly anticipated moment, brick-and-mortar may well receive a new lease of life.

At a basic level, there are tangible in-store experiences that people are missing in terms of testing and trying products or interacting with in-store staff. But more broadly, this homecoming will be part of a wider wave of social excitement, and many consumers have associated their high street buzz with this overall enthusiasm around seeing friends and visiting places. Almost half (**49%**) affirmed that they have missed the social aspect of shopping, and that they deem it as a leisure activity. And while there is still some concern over safety (**39%**) and crowd anxiety (**36%**) post-lockdown, as many as **40%** still claim that their loyalty will revert to retail brands that have a high street presence in COVID's aftermath.

For how long, though? Once the dust settles on the high street homecoming, a more sustainable long-term outlook will begin to take shape, and this is where the significance of omnichannel comes into effect. Looking ahead, more than one-third (**34%**) expect to return to online shopping after the initial buzz has died down. At first glance, this is quite a modest figure, but critically it rises to **39%** among millennials, and almost half (**45%**) of the Gen Z population. **49%** of both demographics go on to affirm that when lockdown ends, they will continue to do the majority of their shopping online.

High street consumer shopping outlook post-lockdown



This does not spell the beginning of the end for the high street, however. What we're more likely to see is a challenge to the core functions of physical stores. Following the expectations of the Gen Z contingent, more than one-third (**37%**) expect retailers to offer more of an in-store "experience" than they did before lockdown. This may include hosted events, catwalks, product launches, personalised makeovers, or even more quirky activities such as treasure hunts.

A focus on experientialism will be key for retailers to achieve the new balance that consumers are looking for. **The White Company** is a great example of how the gap can be bridged between the online and physical realms. Customers can "shop live" online by connecting to a one-way video call with in-store experts, and explore products as if they were visiting a store.

John Lewis has also introduced a number of virtual experiences recently to help support consumers' changing lifestyles – from fashion advice for a Zoom date, to creating the perfect wellness wardrobe, as well as virtual sewing and cooking classes.

The role of the physical store is evolving and the browse-and-buy dynamic is becoming outdated, even if brick-and-mortar as a facility, location and hub endures. From an omnichannel perspective, this also alludes to an opportunity to create innovative relationships and synergies between a brand's online presence, their physical status, and the supply chain and fulfilment agility that underpins both.

The role of the physical store is evolving and the browse-and-buy dynamic is becoming outdated

More than half (**51%**) of the influential Gen Z group expect shops to become more of a space for browsing in the future. And despite **48%** overall still stating that they would like to shop both online and in-store with the same brand in the future, this number drops quite significantly to **33%** for Gen Zs – very much pointing towards an omnichannel future based around in-store experientialism, in support of online points of sale.

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Tomorrow's consumer is anticipating a different role for the high street in years to come – while **56%** of baby boomers and **69%** of the silent generation hold on to the idea of shopping both online and in-store, the Gen Z and millennial contingent envisage an alternative outlook. **51%** of Gen Z anticipate stores becoming a place to browse, while only one-third (**33%**) agree that the two channels will remain equal from a POS perspective.

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Brick-and-mortar's evolving role as an enabler of online sales or a promoter of product experience was already being seen to some extent before the pandemic. But, much like the acceleration towards eCommerce, retail brands must be prepared to prioritise and pivot here now too.

Whereas multichannel focused on the idea of online and in-store as two independent options for consumers, omnichannel presents the need to synergise and leverage the best of both. Consumers – especially those dictating future trends and behaviours – aren't just discarding the social enjoyment, the personal assistance and the practical convenience of a physical store. But they are challenging where this facility sits in the wider brand network to ensure optimum availability, purchase and delivery of products.

It is clear that consumers are craving more personal experiences and interactions – both on and offline. Retailers need to be ready for this with a cycle consisting of 'view in-store and ship to home', as consumers favour cost, convenience and experientialism over other needs. These changing priorities may also lead to a shift in the brand loyalty landscape and provide further opportunity for retailers to drive loyalty on a more even playing field.

As a result, we will likely see an increase in the role of functions like buy-online, pick-up in-store (BOPIS), buy online and ship from store; as well as heightened investment into effective order management systems and DOM solutions to better bridge the gap between both channels. Continuing in this hybrid vein, brands should rethink how best to reach their consumer base, at pace. This could mean **doubling up stores** as mini distribution centres to capitalise on that facility as a stock holder – enabling collect in-store, ship from store, shop in store or direct delivery from a single location. Investing in systems that make this infrastructure shift more seamless and that enable **fulfilment options from brick-and-mortar locations** will set a precedent for this new look network.

Almost four in ten (38%) think retail shops are going to become spaces for just browsing products.

RECOMMENDATIONS FOR RETAILERS

Omnichannel investment and operational infrastructure will prove the “make or break” for retailers in 2021.

A hybrid approach to retailing is needed to survive: injecting value back into brick-and-mortar retail but also keeping up in a digital-first era.

Recognising diverse customer preferences, retailers and brands must make investments easy and pleasant to use, whilst balancing the choice element of letting customers choose their channels and methods.

That way, the retailer can always “meet” the customer, even as shopping behaviours change over time.

The COVID-19 pandemic has removed barriers between the various sales channels. More than ever, consumers are not seeing any differences between the online and offline world since they have been forced to use the online channel when stores had to be closed.

Social platforms are gaining considerable momentum and garnering attention to become the new “thing” in the online marketplace.

How this will end up is unknown, but the days of spotting a product on Instagram and then having to Google it are long gone.

The real test for brands competing online overall now is the journey that follows – how quickly the item is delivered, how easy it is to return the item if needed and the level of customer service along the way. As an emerging brand, partnering with distribution providers is often a cost-efficient way of keeping up with the latest customer delivery expectations and ensuring customers get their products quickly.

Key takeaways:

- Retailers that didn't have any omnichannel strategy now have to prioritise this
- Consumers must not become disillusioned by the lack of flexibility between the online and offline world
- A dissatisfied consumer is one that will go and buy from a different retailer and brand
- Social commerce presents retailers and brands with another opportunity to significantly reduce the customer path-to-purchase
- The purchase and fulfilment advantages of each channel need to be uplifted by the functions of the other



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CONCLUSION

FACILITATING AND CONNECTING WITH A FLEXIBLE FUTURE

We've all been forced into a physically disconnected world over the past year, and for many, online shopping will have become a necessity. More than that though, it will have killed time, relieved boredom or facilitated birthday or seasonal gift-giving. On this coerced journey, consumers will have inadvertently been introduced to new apps, new innovations and new brands as a result. And even though the high street is still waiting in the wings for when lockdown ends, there's no getting away from the fact that these changes will have transformed some people's shopping behaviours and preferences long-term.

Simultaneous to this trend, and perhaps an inevitable consequence of eCommerce in general, the future shopper is becoming more demanding and less loyal. The extra choice they are now presented with places additional pressure on retailers' ability to establish a connection on an individual level, and then maintain that person's loyalty. While old classics such as cost and customer service do still go some way to achieving this, more and more consumers are seeing fulfilment capability and fulfilment choice as differentiators. And based on the past year's statistics, retailers may only get one chance to set this tone, make an impression and form a connection.

Omnichannel optimisation is now the way in which retailers should be looking to establish loyalty in the new world. By converting brick-and-mortar stores into places to browse, try, test and experience products, retailers are more likely to meet future demands built around a hybrid offering. The purchase and fulfilment advantages of each channel need to be uplifted by the functions of the other.

Overarching the success of this transition will be an effective fulfilment strategy and intuitive distribution network that can flexibly support the future of retail.

