Christmas 2014: Adapting to Evolving Consumer Shopping Habits

PART 5: Fulfilment

November 2014
Dear Santa:
What do consumers really want under their trees this Christmas?

What wouldn’t retailers give for a sneaky peak at the millions of letters winging their way to Santa this festive season? Particularly in light of this SAS and Conlumino survey, which found that retailers are more optimistic about consumer spending this Christmas than consumers are themselves. So how can retailers get a better understanding of what consumers want, and deliver a very merry Christmas?

Fortunately there’s no need to steam open Santa’s post; consumers are writing their Christmas lists all year round. In the multi-channel environment, everything from sales transactions to browsing habits and social media posts are constantly giving retailers clues about what consumers want and how much they’ll spend. Retailers can combine this data with external sources – such as weather reports, economic data or competitor activity – and use SAS® Analytics to produce accurate forecasts and design effective seasonal promotions.

But, as the SAS and Conlumino report¹ shows, it’s not just about knowing what consumers want; the rise of the omni-shopper means retailers need to forecast through whichever channel the consumers want to buy it – and even return it. We found that 55% of consumers intend to use click & collect services this Christmas, while half will compare prices and buy gifts online. And, 79% want the option of returning online purchase to a physical store. In the battle to keep everyone happy, retailers will need to constantly know where their stock is and where it needs to be to keep the Christmas shoppers happy.

The good news is that many retailers are taking positive steps to embrace customer data analytics. More than half (55%) constantly measure the impact of promotions on individual products, while 38% say their company often changes promotional strategies based on competitor activity.

However, the bulk of retailers are not using the year-round flow of available data to understand shoppers' Christmas wishes and hone their forecasting. For example, 46.9% of retailers still use manual calculations to measure the impact of different factors on Christmas demand, while 44% use “gut feel” to forecast demand for new products. And, despite two thirds of consumers saying that year-round offers lessen the appeal of seasonal promotions, only 23% of retailers plan to reduce their investment in promotions this Christmas. Plus, just 14% of retailers use data from other companies – such as the weather - to help forecast demand accurately.

This all makes Christmas something of a lucky dip for retailers. Manual processes are slow and prone to human and error, and can only draw on insight from a limited number of data sources. This means forecasts cannot be quickly adapted to include new information as the season progresses - with obvious implications for supply chain management, pricing and promotions, fulfilment and customer satisfaction. So, it’s little surprise that 44% of retailers say their company would benefit from being able to automatically combine and analyse different data sources to measure demand in the run up to Christmas.

Top Trading Tips for Retailers

While carrying out the research, SAS and Conlumino have uncovered 10 tips for retailers to help ensure a way to meet the needs of customers without steaming open their letters to Santa.

Contingency Planning is Key

As we saw with Christmas 2013, adverse weather conditions can throw even the best-laid Christmas plans into turmoil. With this in mind, it is critical to have a robust contingency plan in place. Key to this is working closely with suppliers to ensure that they are on the same wavelength and ready to respond quickly and in a coordinated fashion when problems arise.

Keep Consumers in the Loop

Sometimes delays or cancellations to orders are inevitable, particularly when unforeseen events, such as extreme weather, come into play. What separates successful retailers from the less successful ones is how efficiently these problems are communicated to the consumer. One online grocery retailer managed to uphold its reputation for excellent customer service after its orders fell behind schedule in the testing weather conditions prior to Christmas 2013 by ensuring it sent out prompt notifications, complete with an apology. By contrast, one supermarket chain saw its Facebook page bombarded with complaints after some orders failed to turn up at all.

Be Transparent about Delivery and Cut-Off Points

Having a transparent delivery and returns process, which sets the lead times of different options and is clear about how and when customers can return unwanted products, is crucial. With logistics providers operating at full capacity during this period, there is less room for manoeuvre and well-informed customers will have fewer reasons to complain if things do not go to plan.

Incorporate Weather Planning into Forecasts

While the UK’s unpredictable weather continues to be the bane of many retailers in the run-up to Christmas, the technology is available to incorporate weather planning into forecasting procedures. One supermarket chain, for example, uses information supplied by the Met Office, enabling it to update its forecasts five days in advance. Such information is key to allowing the retailer to adjust stock and instore merchandising should a weather incident arise.
Supply Chain Visibility
Having a clear view of the supply chain is key to ensuring that retailers have the ability to react quickly to unforeseen changes in demand. If retailers are fully aware of where their stock is at all times and have an open line of communication with suppliers and logistics operators, then stock can more easily be rerouted to locations experiencing peak demand.

Learn from the Past
Of course, the best way to plan for unexpected changes in demand or the weather is to learn from past experiences. Retailers should closely analyse incidents from past Christmas events, as these are likely to give the best indication of how demand will be affected should a similar event arise this Christmas.

Targeted Promotions
The heavily promotional nature of the post-recessionary high street has led to a degree of promotion fatigue among consumers, tired of being bombarded with offers from every angle. What is clear, though, is that shoppers still appreciate a bargain, so to maximise the success of promotional activity, retailers must ensure that it is carefully targeted. The wealth of data available to retailers should enable them to personalise promotional offers to reach those consumers who are actually likely to take them up.

Mobile Marketing
With more and more consumers researching products and shopping on mobile devices than ever before, targeted mobile advertising is likely to be a valuable tool to differentiate retailers from their competitors this Christmas. Retailers should invest in mobile display, native and social advertising, along with location-based messaging which can be crucial to bringing nearby consumers into store, especially once the cut-off point for online orders has passed.

Social Media as a Forecasting Tool
Social media presents retailers with a wealth of information on consumer trends. During Christmas 2013, one department store showed how social media can form an integral part of a Christmas promotional campaign, but it should also be used to inform decisions on stock and ranging. An online fashion outlet, for example, uses real-time data sourced from blogs, social media sites, competitor websites and press mentions on a daily basis, which then assists buyers and merchandisers with their ranging and pricing decisions, helping to ensure product lines are trend led and up to the minute. Careful monitoring of data this way can give retailers a key advantage in the highly unpredictable world of Christmas demand.

Smooth out the Customer Journey
With shoppers researching and purchasing on more devices than ever before, it is critical that retailers both optimise their sales platform for each distinct channel and provide a seamless experience that tracks the user’s activity through each channel. This should allow consumers to complete each stage of their purchase through a different channel with as little disruption as possible.
Turning Santa’s Letters into Real Forecasting for Retailers

SAS Perspective

Answering everyone’s Christmas wish is actually relatively simple. The technology is easily available to turn consumer data into letters to Santa: transforming year-round hints into knowledge about the factors that will affect demand. Analytics from SAS enables retailers to quickly analyse all their data to produce accurate forecasts, design effective promotions, and gain an up-to-date view of the supply chain.

By automating analytics, retailers can:

- Better forecast demand and returns by channel, store location or even time of day, to aid availability and fulfilment
- Personalise promotions across channels to reduce consumers’ ‘promo fatigue’.
  - For example, Social Location Mobile (SoLoMo) marketing would enable retailers to target consumers with SMS offers while they are in store – hopefully encouraging them to buy straight away rather than use the internet to shop around for deals
- Use consumer browsing habits to understand which products consumers might be waiting for the sales until purchasing. This is particularly pertinent as almost a third of our respondents resent buying gifts before Christmas when they know they will be reduced in the post-Christmas sales
- Quickly adapt or improve pricing and promotions in-line with changing factors, such as the weather, sales spikes, or competitor activity
- Move from ‘gut feel’ to accurate predictions about demand for new products.

Of course, analytics is not just for Christmas. While the festive season certainly focuses retailers’ need to understand consumers’ wish list, analytics can drive competitive advantage all year round. But, with sleigh bells ringing in the distance, time is of the essence to understand what gifts customers will want under their Christmas tree in 2014. If retailers get this right, it will be a merry Christmas for one and all.

SAS can help maximise stock coverage, minimise costs and improve forecast accuracy by analysing customers’ response to price, promotion, marketing and other activities. Price and promotions will affect demand more than any other single factor. Advanced analytics can help you understand each item’s relationship with other items in the category, and considers “cross-effects” when generating a demand forecast.

To learn more about how SAS’ Analytics is not just for Christmas:  
www.sas.com/en_us/industry/retail/retail-forecasting.html
Fulfilment

Consumer Expectations Rising

Consumer expectations of retailer fulfilment capabilities are rising with each passing year as the top retailers continue to push the boundaries with advanced logistics networks. Almost two-thirds of the retailers we surveyed (and nearly three-quarters of large retailers) said that they felt consumers are increasingly demanding that they offer multichannel services such as click & collect. With 60.9% of consumers choosing to shop at a time of day when it is likely to be less busy, but only 15.1% actually taking time off work to do their Christmas shopping, retailers are increasingly under pressure to offer extended trading hours in the run-up to Christmas. In response to this, the majority (59.4%) of retailers offer longer opening hours for Christmas shopping, with this figure rising to 72.4% among large retailers.

Click & Collect Poses Challenge for Retailers

The exponential growth in click & collect poses a significant challenge for retailers. Almost as many consumers, 55.4%, intend to use click & collect services this Christmas as intend to buy gifts online. Reserve and collect is another very popular method of fulfilment, while a substantial 14.1% of consumers are planning to use dedicated collection points. Faced with coordinating online home and store deliveries, the increasing complexity of the supply chain is causing many retailers a number of problems. One such problem lies in freeing up space in smaller stores, particularly as consumers are gaining confidence when it comes to online purchases and are increasingly willing to order larger items online.

Online Gaining the Edge in Quest for Interesting Products

Over half of consumers (54.7%) agree that online is the best place to find unusual and interesting products, and 48.9% think that the best Christmas bargains are found online. Despite the obvious popularity of online services, 53.2% of consumers still say that they like to actually see a physical product before buying it as a gift. Views on the importance of talking to store staff about products are more mixed though, with 27.9% preferring to visit a store to ask about the products they are buying compared with 28.8% who do not.
Time of the Day Consumers Choose to Shop

Longer trading hours changing shopping habits

Though only about 15.1% of consumers take time off work to go Christmas shopping, the majority (60.9%) choose to shop at a time of day when the shops are less busy; a fact which, according to 61.3% of retailers we surveyed, owes much to the rise of extended trading hours. In fact, 38.3% of consumers actively choose retailers that offer longer opening hours.

<table>
<thead>
<tr>
<th>Retailers:</th>
<th>With the rise of extended trading hours, more and more shoppers are choosing to do their Christmas shopping at a time in the day when they know it won't be as busy</th>
<th>Net agreement: 58.2%</th>
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<thead>
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<th>Consumers:</th>
<th>When I go Christmas shopping I try to choose a time in the day when I know it won't be as busy</th>
<th>Net agreement: 51.4%</th>
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<tbody>
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<td>Agree</td>
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<td>20.6</td>
<td>40.3</td>
<td>29.6</td>
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<tr>
<th></th>
<th>When shopping for Christmas I tend to use retailers that offer longer opening hours</th>
<th>Net agreement: 21.9%</th>
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<td>10.2</td>
<td>28.1</td>
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<th>I usually take some time off work around the Christmas period to fit in some Christmas shopping</th>
<th>Net agreement: -45.6%</th>
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<td>Strongly agree</td>
<td>Agree</td>
</tr>
<tr>
<td>4.5</td>
<td>10.6</td>
<td>24.3</td>
</tr>
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</table>

The net agreement refers to the total percentage of people who say that they agree with the statement minus the total percentage of those who say that they disagree.
Retailer Views

Consumers increasingly demand multichannel services

With click & collect continuing to grow in popularity, more and more consumers are expecting retailers to offer it. Almost two-thirds of the retailers we surveyed (nearly three-quarters of large retailers) said that they felt consumers are increasingly demanding that they offer multichannel services such as click & collect.

The impact of click & collect appears to be mixed though, with over half of large retailers saying it has a negative impact on their company’s smaller stores, while less than a fifth say it is an effective driver of footfall. It is a different story among small companies where a substantial 40% see it as an effective footfall driver.

When it comes to buy and collect services, which of these statements apply to your company?

Figures in chart are percentages

The chart above shows the responses retailers gave when asked: When it comes to buy and collect services, which of these statements apply to your company? The results are also split out for retailers of different sizes. All figures are percentages.
Retailer Response to Growing Expectations

Nearly 60% of retailers offer longer trading hours

In terms of fulfilment, what services does your company offer?

Figures in chart are percentages

The chart above shows what percentage of retailers offer each fulfilment service, split by retailers of different sizes.
Consumer Use of Online and Multichannel

Over half of consumers planning to use click & collect

Over half of consumers (55.7%) say they are likely to purchase gifts online this Christmas, while 49.5% are likely to use the internet as a means of comparing prices across different retailers, and 44.1% expect to use it as a source of inspiration and ideas.

Alongside the rise of online is, of course, the ongoing development of click & collect services as the advantage in the battle for multichannel supremacy swings back in favour of those with a physical presence. Almost as many consumers, 55.4%, intend to use click & collect services this Christmas as intend to buy gifts online. Reserve and collect is another very popular method of fulfilment, while a substantial 14.1% of consumers are planning to use dedicated collection points.

The chart above on likely online activities during Christmas shop shows the percentage of consumers who said they were likely to do each activity online this Christmas. The second chart on multichannel services shows the percentage of consumers who said they were likely to use each multichannel service this Christmas.
Consumer Use of Stores and Online

Majority of consumers still like to see physical product

Over half of consumers (54.7%) agree that online is the best place to find unusual and interesting products, and 48.9% think that the best Christmas bargains are found online.

Despite the obvious popularity of online services, 53.2% of consumers still say that they like to actually see a physical product before buying it as a gift. Views on the importance of talking to store staff about the products are more mixed though, with 27.9% preferring to visit a store to ask about the products they are buying compared with 28.8% who do not.

The net agreement refers to the total percentage of people who say that they agree with the statement minus the total percentage of those who say that they disagree.
Consumer Views on Delivery and Returns

Price is key when consumers choose delivery options

With online and multichannel operators offering later and later cut-off points for delivery, 63.3% of consumers admit to being concerned that orders made near Christmas won’t arrive on time.

In spite of this, just 20.2% would be prepared to pay extra for same-day delivery and for 57.7%, delivery price is the most important consideration when choosing their online delivery method. The importance of interlinking online and instore services is underlined by the fact that almost three-quarters (73.8%) of consumers say that returns should be allowed instore for unwanted Christmas purchases made online.

### Price is key when consumers choose delivery options

#### I worry that my online orders made near Christmas won’t arrive on time

<table>
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<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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Net agreement: 52.6%

#### I would be prepared to pay a premium for same-day delivery

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<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<td>15.7</td>
<td>22.8</td>
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</table>

Net agreement: -38.8%

#### Delivery price is the most important consideration when choosing online delivery method

<table>
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<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
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<tbody>
<tr>
<td>18.4</td>
<td>39.3</td>
<td>29.6</td>
<td>10.2</td>
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Net agreement: 45.0%

#### Retailers should also allow return to store for unwanted Christmas purchases made online

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<tr>
<th>Strongly agree</th>
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<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<td>43.6</td>
<td>23.8</td>
<td>2.1</td>
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Net agreement: 69.4%
SAS
This study was commissioned by SAS UK & Ireland, the leader in business analytics software and services and the largest independent vendor in the business intelligence market. Through innovative solutions, SAS helps customers at more than 70,000 sites improve performance and deliver value by making better decisions faster. Since 1976 SAS has been giving customers around the world THE POWER TO KNOW®.

Conlumino
Conlumino is a retail research agency and consulting firm. Its work focuses on all aspects of retailing and consumer behaviour, which is delivered through bespoke reports, projects and presentations, and its leading edge Intelligence Centre platform. Conlumino works with many of the world’s leading retailers, property firms and those in the financial sector to help them maximize success through developing a thorough understanding of the sector and its likely future performance.

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