

Are Retailers Maximising the COVID-19 Bounce?

Descartes Research Report
European Consumer Online Delivery



Introduction

Consumer shopping behaviour has changed for good. Repeated COVID-19 lockdowns created a captive audience that turned towards online shopping in their droves. But as restrictions are lifted will the quality of the online experience stand up? Competition has increased as retailers across every sector invested heavily in improving websites and optimising the online experience. Many have improved the delivery promise, offering smaller delivery windows and tracking options.

So how do customers – many of whom were new to online retail – now perceive the experience and is it good enough to retain customers as a post-pandemic economy opens up? Will retailers recoup their investment or miss out on the COVID-19 bounce as an increasingly sophisticated consumer base loses tolerance for mistakes and delays?

With delivery costs escalating and the well-publicised challenges created by a shortage of HGV drivers, Descartes commissioned research to understand consumers' online purchasing experiences across Europe and how the quality of the experience affects consumer perception of both retailers and delivery companies.

Sapio Research undertook a series of interviews with consumers across Europe during July 2021 to assess the changes in online buying habits, the quality of the service, the implications of experience on retailer perception, and consumers' expectations and hopes for the future, including retailers' environmental commitments.

Top Level Findings



43% of all purchases are now made online



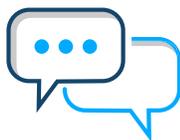
51% of EU customers buy online at least once per fortnight



Just **16%** of UK customers are satisfied with the delivery service every time



68% had an issue with delivery in the last three months



37% of customers share their perception of both delivery company and retailer with friends and family



71% of EU consumers consider the environment when making an online order



31% (27% in UK) are interested in bulking all orders to one weekly delivery

Online Purchases Dominate

The growth in online purchasing over the past 18 months has changed consumer behaviour for good: people are buying more goods online, across a broader range of items, and they are doing so with more frequency.

Since the beginning of the COVID-19 pandemic, the proportion of purchases made online has grown from an average of **32%** to **43%** and is expected to remain at **41%** even as the impact of the pandemic starts to decline. More than half (**51%**) of consumers have increased the number of purchases they make online, and **51%** now make an online purchase at least once a fortnight – almost double the number (**28%**) pre-pandemic.

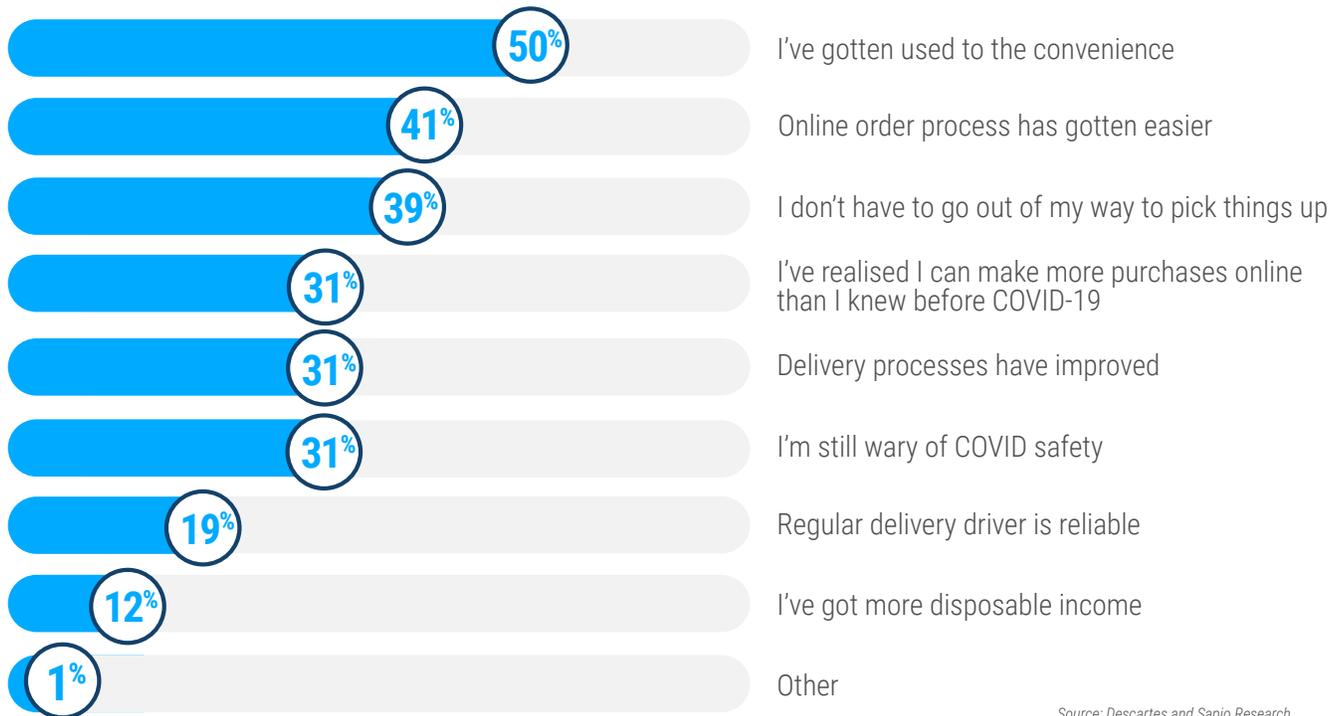
There are demographic distinctions. The growth in online purchasing is far stronger in the UK, where **55%** have increased the number of online purchases, and Germany (**47%**) compared to just **33%** in France. Looking ahead, UK consumers expect to have **50%** of all purchases delivered to home in 12 months' time, compared to **35%** in France. Growth is also higher for women (**49%**) than men (**40%**) and stronger amongst younger consumers, especially amongst the 25 to 34 age group (**48%**).

One of the starkest changes as a result of the pandemic is the growth in essential shopping that now occurs online – across Europe around three in five online shoppers of groceries (**63%**) and clothing and footwear (**59%**) are making these purchases more frequently since COVID-19. Over a third of online grocery shoppers (**37%**) and **15%** of those buying clothing and footwear are doing this for the first time during COVID.



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Why will you receive a higher number of purchases via delivery than you did pre-COVID-19 moving forward?



Source: Descartes and Sapio Research

Convenience is King

It is the convenience (**50%**) of online shopping that has been the primary driver for its increase (**61% for those over 45**) and the main reason people will continue to buy online. In addition, **41%** say the ease of buying online has improved, and **39%** like the fact they don't have to go out of their way to pick things up. The convenience is particularly valued by consumers living outside urban centres, cited by **54%** in suburban and rural environments compared to **45%** in city centres.

While French consumers also recognise the convenience of online shopping, they are less impressed by an easier online buying experience (**36% compared to 41% across Europe**) and the benefit of having goods delivered to the door, rather than having to go out their way (**30% compared to 39% across Europe**). Worries about COVID are a uniquely strong driver of online spending in the UK (**43%— compared to just 23% in Germany**) and for those over 65.

Before retailers become too complacent however, there are signs that problems with the overall online experience are less likely to be tolerated as economies open up after the pandemic. While the primary reason for not buying online in the future is a desire to see a product in person before buying (**42%**), almost half (**48%**) cited several delivery concerns that would affect their online buying decisions – including the fact that deliveries are not environmentally friendly (**19%**), deliveries being unreliable (**18%**), bad delivery experience (**16%**) and dissatisfaction with the delivery process (**14%**).

Delivery Experience Undermines Retailer Perception

Retailers need to sit up and take notice of the potential impact of the delivery experience on repeat purchases and customer loyalty.

Deliveries are failing to achieve complete customer satisfaction, with nearly nine in ten **(87%)** customers not always satisfied with the delivery services received. With satisfaction rates even lower for consumers who have reduced their online buying behaviour during the COVID-19 pandemic, the implications of inadequate delivery experiences cannot be overlooked.

Timing is the biggest issue for home deliveries – with two in three **(68%)** UK consumers reporting a delivery problem in the last three months. While the most frequent problem is late delivery **(23%)**, consumers are also frustrated when items are delivered at a different time than expected **(18%)** and products not arriving at all **(13%)**. Companies offering a delivery time that exceeds their desired schedule for the purchase is also an issue **(14%)**.

The Inefficient Last Mile Model

The efficiency with which the delivery process is managed is, of course, becoming ever more vital as unprecedented consumer demand coincides with an extremely challenging shortage of HGV and van drivers. Retailers are being compelled to offer drivers significant pay rises as well as large sign-on incentives, in a bid to secure staff in a market with an estimated shortage of 100,000 HGV drivers. Combined with rapidly rising fuel prices and the expansion of Clean Air Zones, the cost and complexity of delivery is spiralling, creating new pressures for efficiency within the last mile of delivery.



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The traditional reliance on batch managing orders rather than using intelligent real-time optimisation is hugely inefficient. While late delivery is endemic, at the other end of the scale retailers opt to add excessive contingency which means drivers are often compelled to wait in a lay-by or in a nearby street to avoid arriving at a customer too early. Others feel they have no option but to deliver before the allotted slot – resulting in missed deliveries, items left with neighbours, in bins or on the doorstep because the consumer is not at home. UK consumers have also suffered from items being left in an unsecure location (18%) and experienced damage to packages (17%) – issues that lead to a spike in customer service calls and lost trust in the retailer.

In addition, consumers are proactive in sharing their negative experiences with friends and family: 19% told friends and family to avoid the retailer; and 18% to avoid the delivery company. Negative delivery experiences also inform all future purchases, with 17% also avoiding retailers who use that delivery company and 14% choosing to make fewer online purchases overall.

Given that many consumers were a captive audience during COVID-19 pandemic lockdowns, these delivery problems should raise serious alarm bells for retailers. As individuals start to go back to the office and enjoy re-opened leisure pursuits, a company's ability to meet its delivery promises will become increasingly important to reinforce the quality of customer experience and maximise the chances of customer retention.

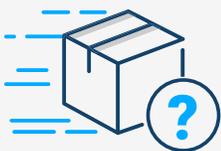
Sophisticated Audience

The rise in customer exposure to online purchasing and online retailers has raised both expectations and awareness of how some retailers are achieving good, end-to-end experiences. They are increasingly sophisticated and know what to look for when buying online. And while retailers have improved the offer, presenting tighter delivery slots and more choice, there is a huge risk associated with raising expectations if these promises cannot be met consistently and cost effectively.

Security of delivery (74%) and cost of delivery (70%) are the most important aspects of the delivery process for UK consumers, closely followed by the ease of ordering and booking the delivery (69%), cost and ease of handling returns (67%) and receiving proof of delivery (64%).

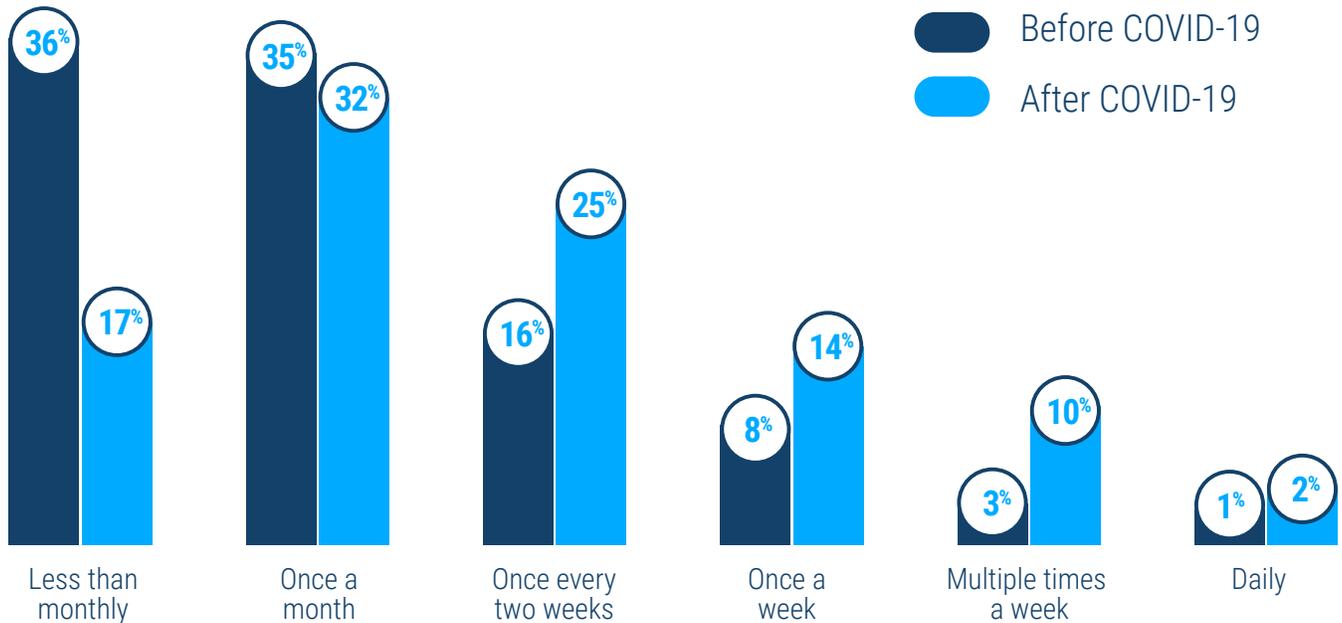
However, cost of delivery, security of delivery and the cost and ease of handling returns are potential problems for retailers. Other underperforming areas from the customer satisfaction ratings include ease of ordering and tracking delivery progress.

It is also interesting to note that consumers have different delivery expectations dependent on product price. For retailers selling more expensive items, proof of delivery, security and delivery tracking are all more important; while for cheaper items, consumers are more concerned about green factors and buying locally. Environmental considerations for cheaper items are particularly important for younger consumers.



Delivery problems radically affect customer perception – and not just of the delivery company. While almost a quarter (24%) lost trust in the delivery company, 24% lost trust in the retailer and 23% did not buy from that retailer again.

How often were you making online purchases on average?



Source: Descartes and Sapio Research

Maximise Opportunity

Retailers have gained access to a new marketplace during the pandemic – but unless the quality and consistency of the delivery experience improves, there is a very real risk that the new customer base will migrate to a more efficient competitor. The entire, end-to-end experience has to be near perfect – and that can only be achieved if retailers take ownership of the delivery process and truly understand what can be provided and how that meets customer needs.

Continuous, real-time optimisation of all orders – whether received online, via telephone or in store – can transform delivery efficiency and performance. Driver time is managed effectively, to improve their working experience and help with driver retention. By constantly comparing delivery capacity and existing commitments with new orders, the retailer can enhance and update the delivery options presented to customers – and customers will gain confidence that the retailer's delivery promises will be met.



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Achieve Competitive Differentiation by Meeting Consumer Expectations

Retailers that take ownership of the entire end-to-end experience and truly optimise the delivery process have the opportunity to transform customer perceptions, drive additional sales and, critically, entice customers from poorer performing competitors.

With a continuously optimised process, a retailer not only gains confidence in and control over the delivery experience but can also start to change buyer behaviour and tap into the additional factors that will sway consumers, especially the younger generation.

When it comes to the quality of the online experience, younger consumers are generally more demanding, with **83%** of over 25s and **83%** of those aged between 25 and 34 reporting an issue with a delivery in the last three months compared to just **41%** of adults aged over 65. They are also more concerned about the environmental implications of home delivery. While **60%** of UK adult consumers think about the environment when making an online order, this rises to **88%** of those aged under 25, and **77%** of those aged between 25 and 34.

UK consumers are lagging the rest of Europe in their environmental concerns. **78%** of German, **76%** French and **73%** Nordics consumers think about the environment when making an online order – compared to **60%** of UK consumers and **67%** in Benelux.



European customers are more committed to the environment than those in the UK

Environmental Performance

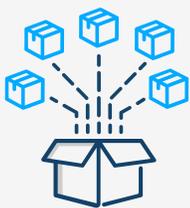
Delivery companies are beginning to move over to Electric Vehicles (EVs) in a bid to improve their environmental credentials and address the growing costs associated with the UK's Clear Air Zones. While the fleet is in transition, companies will need intelligent route management to ensure the right vehicles are deployed to reflect environmental goals as well as matching capacity with demand. Continuous optimisation that automatically takes into account the details of a delivery fleet, including vehicle size and engine type, will be key to improving importance – for example by automatically allocating an EV to deliver in a Clear Air Zone, while smaller vehicles are dispatched to deliver in rural areas with narrow roads.



With access to real-time information about the fleet, capacity and demand, a retailer can start to change buyer behaviour, for example, by offering differential pricing to incentivise different delivery slots that maximise delivery density. This can be presented to customers as a greener delivery, by emphasising the use of EVs or demonstrating the benefits of consolidating deliveries within a small area on a specific day. Companies can also opt to charge more for specific time slots that offer greater convenience – both to further encourage customers to consider the environmental aspect of home delivery and create a premium value service.

The concept of bulking up orders is also one gaining increasing interest from UK consumers, with **27%** interested in bulking all orders into a single weekly delivery and **26%** interested in bulking all orders to a single delivery when there are multiple deliveries in their area. These options are already offered by marketplaces, including Amazon, where consumers can opt for deliveries to be collected and/or delivered whenever the company has a driver in that area.

For smaller organisations there are fewer opportunities to bulk up orders – although there is clearly an opportunity for retailers to work together to optimise the delivery models through fulfilment collaboration. Given the continuing challenges of rising costs and driver shortfalls it will be interesting to see whether third parties step in to leverage real time capacity optimisation solutions to provide a consolidated fulfilment option based on bulk order delivery in the future.



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Conclusion: Take Ownership of the End-to-End Experience

Consumers are not going to return to pre-pandemic shopping habits; online purchasing will continue to dominate. Individuals have become far more confident and sophisticated online over the past 18 months. Expectations have risen, leading retailers to enhance the online experience, but as this research reveals, the quality of the delivery service is undermining the overall customer perception and leading to lost sales.

With just 16% of UK consumers confirming they are totally satisfied with the delivery service, retailers need to take action fast.

One bad delivery experience will have a negative impact on the perception of both retailer and delivery company, not only for the individual but also friends and family. Furthermore, retailers can lose business if they opt for a delivery company that has performed badly for another retailer.

The delivery service is the lasting impression a customer has of the retailer – leading to serious questions.

- How proactively is the retailer tracking delivery performance?
- What is the strategy for managing spiralling delivery costs and optimising driver time?
- What is the strategy for meeting customers' environmental expectations? Can the delivery model support bulk orders and green scheduling? Are the right vehicles being automatically assigned to deliver in Clean Air Zones?

Retailers cannot afford to undervalue the importance of a delivery experience. From the initial delivery offer through tracking and communication, to the safe and timely delivery of the item to the consumer, the next generation of successful online retail will demand total customer satisfaction and, increasingly, more choice to support the environmental aspirations of the younger generations.

Online retailers have enjoyed the COVID-19 bounce; it is now essential to put in place the robust, efficient, end to end online experiences to secure those new customers for the long term.

Methodology

- The survey was conducted among 5034 consumers in 9 markets comprising of 5 regions: UK (1003), Germany (1005), France (1003), NORDICS (1020), Belgium and Netherlands (1003).
- At an overall level results are accurate to $\pm 1.4\%$ at 95% confidence limits assuming a result of 50%.
- The interviews were conducted online by Sapio Research in July 2021 using an email invitation and an online survey.



About Descartes Systems Group

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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