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Klarna.



Get Set. Grow.

How UK retailers are preparing for the
return of demand

Based on the 2021 UK Retailers Digital Investment Survey commissioned by Visualsoft and Klarna

COVID-19 accelerated a digital love affair

Introduction

COVID-19 has driven the biggest single onboarding boom for online retailers.

It's been stated that eCommerce usage has accelerated 5 years in the last 12 months, smashing forecasts for growth as physical stores have struggled to survive multiple lockdowns.

As merchants switch, pivot and reinforce their digital offerings, there has been an increase in demand for retail digital optimisation. This has led to an explosion of new tech providers and many new choices for retailers.

But whether you're an omnichannel, pureplay or a bricks and mortar brand looking to launch online, how do you know where you should be investing? Which innovations and tech partners are right for your business and will keep you ready for the future?

With the gradual lifting of lockdown, we wanted to discover how the rapid digitisation of shopping had changed retailers' decisions and what impact it would ultimately have on their immediate and long-term investment plans. Do they still believe eCommerce will continue with the current growth trajectory? And what does a bigger digital focus mean for the high street?

To help us find out, we undertook a survey of 200 UK omnichannel retail decision-makers, across multiple segments, to gain an overall insight on their tech-spend, their priorities and challenges. This helped us to understand the biggest gaps in their offering over the past year, what they did to solve them and how this is reshaping investment strategies for 2021 and beyond.



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The findings, which form the basis of this report, reveal:

- + How COVID-19 has impacted tech-investment – In-store and out.
- + Where retailers have put their digital budgets.
- + Which areas of the retail tech stack are taking priority.
- + Which investments have seen the most success.
- + The challenges facing retailers when choosing a vendor.



To help retailers prepare for the future, we have to understand the challenges they face now. Supporting recovery and accelerating growth strategies requires rich insight as well as great solutions. This report is a barometer to help them navigate the road ahead.

Alex Marsh, Head of Klarna UK



Few retailers have been untouched by the COVID pandemic. To bounce back effectively, the industry will need to continue its innovation trajectory. By delivering a deep dive into the underlying trends, this report helps them remove roadblocks and identify areas to fast track change.

David Duke, Digital Director - Visualsoft



But what do retailers really desire: The survey findings

Despite 'doom and gloom' headlines and store closures, we found positive signs that retailers are planning to invest in in-store and hoping to reignite demand through closer digital integration.

It's clear that omnichannel retailers believe there is still value in the in-store experience.

Over half (54%) are confident that physical outlets will always be a key focus for their brand. At the same time, however, **more than two thirds (67%) agree they will be investing in digital in the next 12 months** indicating that we can expect more tech-driven innovation in bricks and mortar locations.

Physical and digital experiences will co-exist for some time to come.

More than half of retailers (55%) agree there should be an even split between online and in-store presence across the industry. And 59% see the high street as remaining a key part of driving a great customer experience. But that doesn't mean stores of the future will look the same as they are today. Consumers want to touch, smell and experience what's on offer – they want to have fun and the freedom to indulge too. To meet this need, more stores are evolving concept areas and cultural spaces that focus on 'play and buy'.

There is still some way to go before webstores can fully recreate the types of tactile, experimental and emotive experiences that can be gained in-store.

More than one in two retailers (56%) believe that eCommerce will 'never' replace the in-store experience. Indeed even eCommerce players recognise this and are looking at recreating their virtual appeal in physical spaces to help them get closer to customers. Prior to COVID-19 we saw pop-up stores and showcase events becoming a regular feature especially for fashion and beauty brands.

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Digital-natives have high expectations when it comes to freedom and choice but are eager to step outside their traditional high-street and online shopping grounds, especially if rewarded with unique products, a great experience and highly-personalised service.

Tanya Brown, Co-Owner & Co-Founder - Hot Futures

More than two thirds
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67%



Technical innovation is fuelling a closer connection between virtual webstores and bricks and mortar environments.

Over half of respondents (56%) feel that today's technology is allowing many customer experiences to be replicated, bringing key elements from in-store to online. With new forms of in-store technology, virtual reality, data analytics, and other rapid digital evolutions, the opportunities for companies to innovate and re-invent the in-store experience have never been greater. From Ralph Lauren's new immersive store, gaming and customisable product experiences to beauty brands like Charlotte Tilbury who lean heavily into VR and avatars to create an in-store experience online.



Online sales grew by 46% in 2020¹, its strongest growth for more than a decade. With the lifting of lockdown, how do retailers see eCommerce in their immediate and future plans? Here's what we found:

During COVID-19 many retailers learned to pivot, using tech to connect channels and enable hybridised sales journeys e.g. click online, collect in-store. In 2021, this trend will continue with even more emphasis on services that allow on and offline operations to work in harmony.

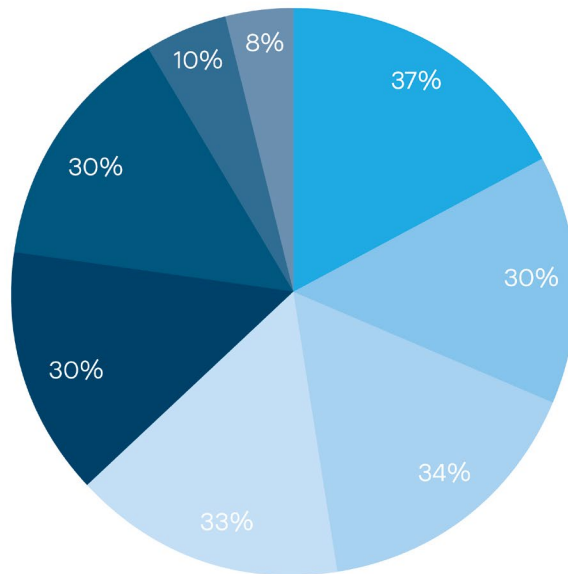
As many as 63% will be looking to hybridise in-store/online in the next 12 months. At the same time, 64% will be using technology investment to bridge current offline and online gaps. For many traditional retailers with legacy systems this can be a tough ask. Most don't have the capital or platforms to deliver fast service transformations. However, there are many small steps they can take to ensure more seamless journeys as stores re-open. This includes being able to offer the same payment choices in-store as online - for example pay later and pay in instalments.

Most retailers are eager to exploit overseas markets but for some Brexit has caused them to put the shutters-down on international growth. Even small retailers have big ambitions.

One of the biggest advantages of being an online retailer is the ability to sell your products in a global marketplace irrespective of your size.

¹ ONS: <https://internetretailing.net/industry/industry/e-commerce-grew-by-46-in-2020---its-strongest-growth-for-more-than-a-decade---but-overall-retail-sales-fell-by-a-record-19-ONS-22603>

Retailers' cross border strategies:



- We sell ad-hoc international orders that come in via our UK site - 37%
- We're developing a cross border strategy as cross-border sales are growing - 30%
- We have an international strategy and technology to support it - 34%
- We sell internationally and are investing further in our capabilities - 33%
- Brexit has caused disruption to our cross border operations - 30%
- We have stopped trading with Europe due to Brexit - 30%
- We don't sell internationally but we're looking into it - 10%
- We have never sold internationally and don't intend to - 8%

Our survey revealed that only 8% of retailers have never sold overseas. Currently one in three have an established international strategy and are planning to invest further in their cross-border operations in 2021. Another third have a growing cross border strategy, while a further third sell internationally but on an adhoc basis and only through their UK site. On the downside, Brexit has had an impact on 60% of retailers with 30% having stopped European trading due to its impact on trade relations and import/export requirements.



Since Brexit both home and international markets have never been more important to aid our growth objectives. It's key to understand the different shopping and delivery trends of international markets. With the instant reach of Google's shopping campaigns, it should not be ignored as part of any growing business's plans.

Steven Hall, Buying Director - Brother2Brother

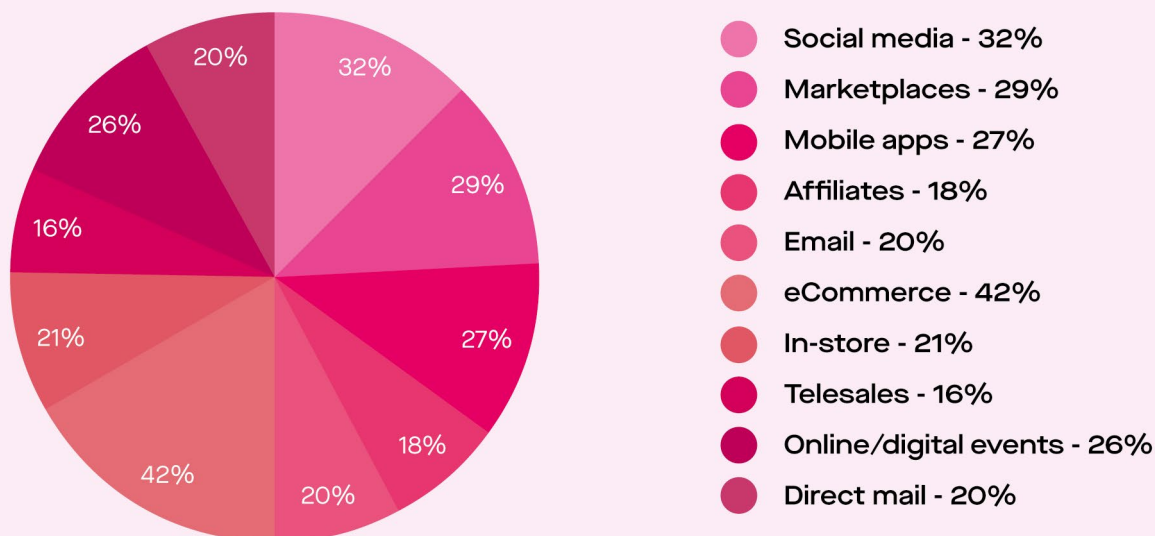


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During the past 12 months, retailers have increasingly relied on digital channels to bolster their sales. For the majority of omnichannel players, eCommerce became their most profitable revenue channel and the focus on investment for the year ahead.

Most profitable sales channels in last 12 months:



According to 42% of respondents, eCommerce was their most profitable channel. This was followed by social media at 32%. For some (21%), in-store remained the most profitable - this could be due to the fact that their digital propositions are relatively new with recent investments not having had enough time to achieve ROI.

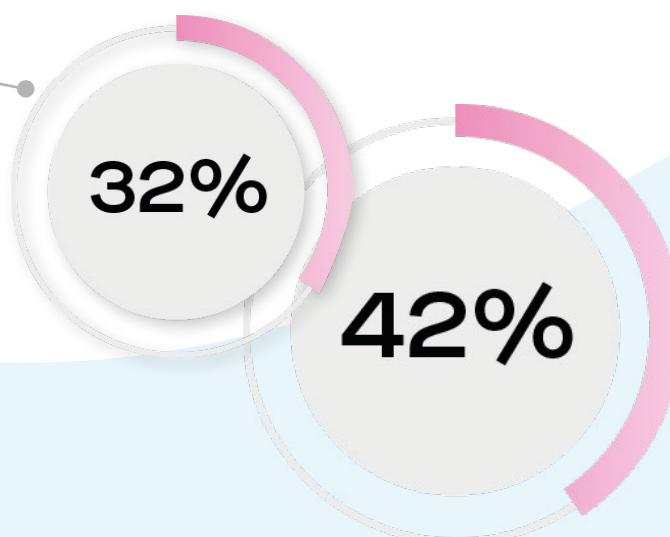
Many digital merchants were able to pivot fast to adjust to the demands of lockdown. The boom in eCommerce especially for out-of-season items like garden furniture, bikes and consumer tech, led many brands to move more of their business online, adapt their product lines or change their inventory altogether.



Throughout COVID-19 we pivoted our strategy and expanded our offering online to continue providing customers with our quality coffee. We also tried new forms of advertising, such as WhatsApp. The growth we've seen through our eCommerce platform is something we hope to continue.

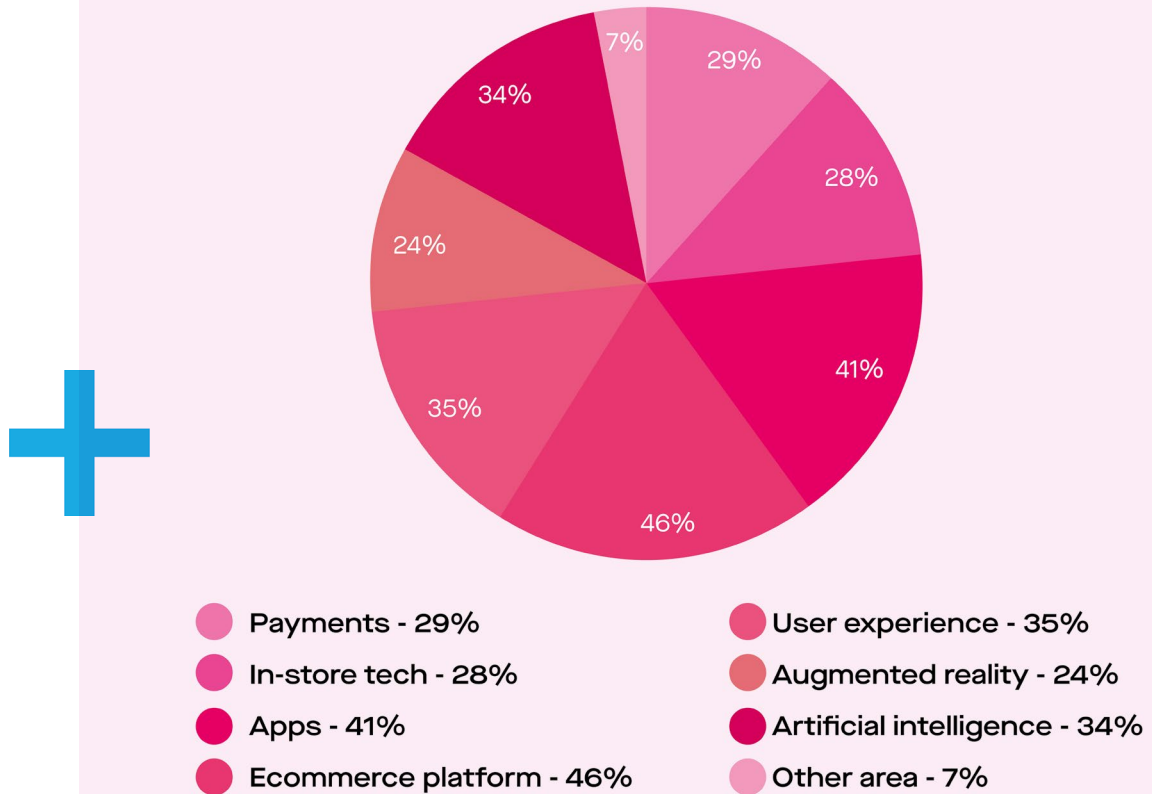
Scott Treasaden, Brand Ops Manager - Coffee Planet

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Investment priorities will be centred on getting the basics right and being able to deliver the best online and mobile experience for customers.

Investment priorities for 2021:



According to our survey, 46% will be focusing on their eCommerce platform and 41% on a mobile app. Enhancing the user experience is the third most popular option with over 35% expecting to invest in this area.

There are still many benefits to be gained from site optimisation. Working with Google's site speed experts, Visualsoft's developers, for example, recently identified a list of site enhancements including sliders, images, fonts, and payments which could reduce site load times by 64% (and in some cases as much as 93%), to greatly enhance the user experience and boost conversion.

Sustainability is becoming more important as environmental concerns influence consumer choice.

A recent study by E.ON found that over a third (36%) of people in the UK are buying products from companies with strong environmental credentials ². A further 80% said they plan to purchase goods from businesses they know have made a concerted effort to be environmentally friendly, with consumers willing to pay a premium for green products.



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² <https://internetretailing.net/sustainability/sustainability/a-third-of-uk-shoppers-demand-greener-products--and-will-pay-more-for-them-22190>

This shift in mindset has become a powerful driving trend for retailers, even more so since COVID-19. The vast majority (96%) of our retail respondents have taken steps to be more sustainable across their operations. Here's what they are doing:



Changing operations and manufacturing

Using recycled and recyclable materials as much as possible (36%), using renewable and recyclable materials in the production of goods (24%) and using fewer resources and materials (24%).



Championing ethical policies

Many retailers also believe that sustainability goes hand in hand with more ethical sourcing of materials and labour. One in four are determined to ensure fair pay and good working conditions and one in five are committed to sourcing products ethically.



Innovating with shipping

By shipping as many items together as possible (29%) and partnering with environmentally friendly delivery companies (24%).



Attracting ethical consumers through partner initiatives

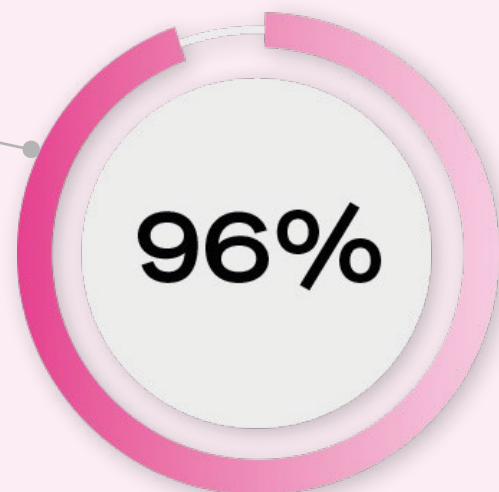
With retailers working hard to improve their green credentials, suppliers and commerce partners are also taking action. Klarna for example is championing ethical spending amongst its 90 million customers and 18 million monthly app users with a combination of initiatives from tracking shoppers' carbon footprints in the Klarna app to 'give backs' that donate a proportion of spend to support worthy environmental causes – all backed by a £10 million green fund.



Rethinking returns

By putting an emphasis on in-store returns (25%), replacing items without forcing customers to return the original product (22%) and wherever possible re-using or refurbishing returned goods (23%). Some (25%) are even using their eCommerce marketplace to resell used merchandise (25%).

The vast majority (96%) of our retail respondents have taken steps to be more sustainable across their operations.



Our sustainability culture – repair, recycle, resell or donate is a major strength but it's also our biggest challenge. Giving our bags a 'second life' definitely sets us apart but, because our products literally last forever, 80% of sales must come from new customers.

Lewis Bowen, Web Manager - Osprey Europe

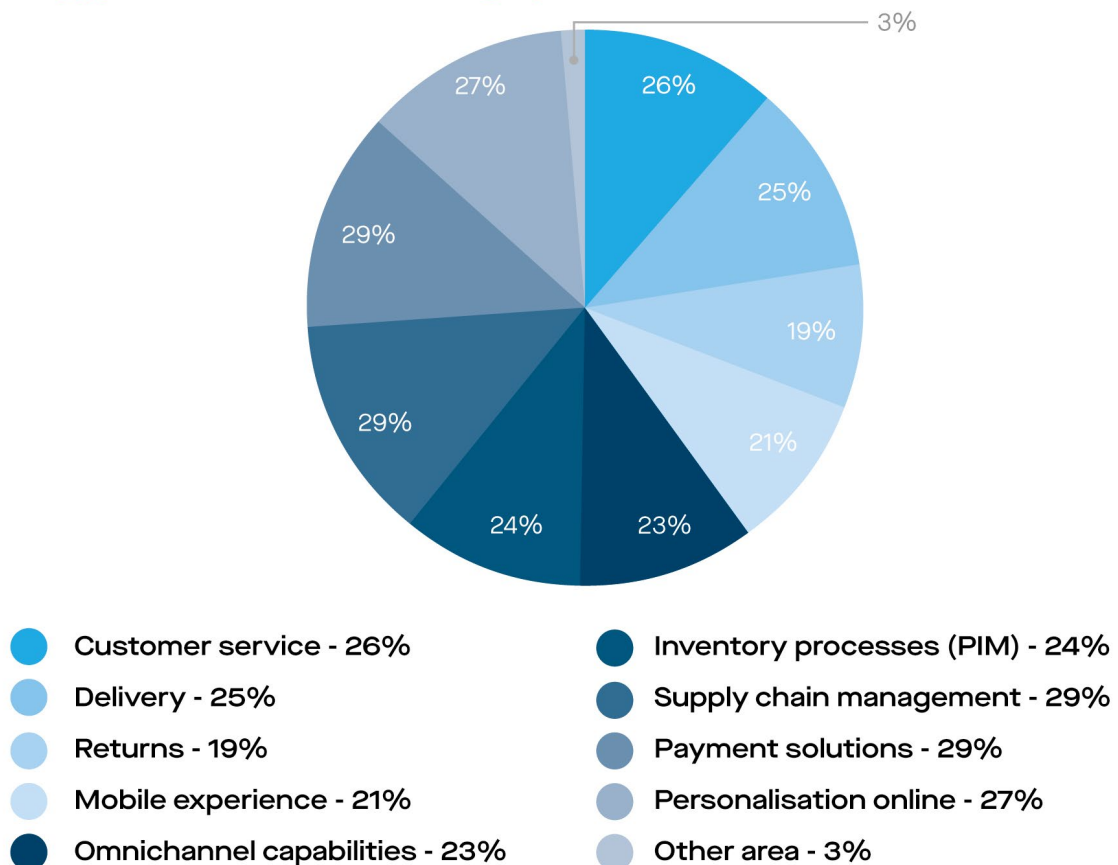
▶ As consumers increasingly flock online, how are omnichannel retailers responding?

Where are the gaps that need to be filled and how are they building more 'connected' and personal customer experiences?



COVID-19 shone the spotlight on major gaps within customer-facing services and also flagged issues with supply chains and support

Biggest eCommerce gaps in the last 12 months:



Within their eCommerce offerings over a quarter of retailers saw gaps in their payments (29%), supply chain (29%) personalisation (27%) and customer services (26%). There are a number of reasons for this including:

- **Payments:** COVID-19 had a major impact on consumer spending, creating a shift from credit based to debit-based spending as shoppers played safe with their cash. To keep themselves secure online, and make smarter use of debit options, many were eager to use alternative payment methods such as pay in 30 days allowing customers to bring the fitting room experience into their living room when online shopping or pay in 3 instalments to spread the cost. For some online retailers including fashion, beauty and lifestyle, having more flexible payment options are now seen as essential.
- **Personalisation:** With more competition for online spend, retailers realised that personalisation (e.g. targeted offers and promotions) was more crucial than ever. But many lacked the technology, automated processes and tools to take full advantage of their customers preferences and behaviours.
- **Supply:** And as customers flocked online there was a surge in demand for inventory, deliveries and returns. Unsurprisingly, almost a third of retailers were caught out with issues relating to supply chain and one in four with customer services delayed with refunds and queries.

Over the next 12 months, the majority of retailers (88%) will continue to take steps to ensure smoother more seamless omnichannel experiences, allowing customers to pick up where they left off on one channel and continue the journey on another.

Top three ways retailers are planning to join-the-dots:

- 1 Striving for brand consistency across touchpoints (mobile, apps, webstores and in-store)- 31%
- 2 Integrating chat technology to link communications with customers in-store and online - 31%
- 3 Ensuring wish lists and baskets are synced to customer accounts - 30%.

Smashing data silos to ensure better customer-facing services is also high on the agenda.

28% of retailers plan to make customer profiles available across all channels including for in-store staff and 27% seeking to link inventory to create endless aisles. Other initiatives include building more responsive websites (27%), in-store signage promoting online-exclusive items (24%), ensuring in-store staff are equipped with mobile point of sale (mPOS) systems (23%), and using QR codes to join the gap between offline and online.

Creating personalised experiences is now a defacto goal for retailers.

Only 10% have not yet implemented any form of personalisation strategy. Almost half (44%) are recommending products based on customer profile and more than a third are personalising product search (36%) and data-driven dynamic content (37%) to target and influence browsers as they shop online. A key part of this is the use of AI (35%) to help identify preferences, trends and marketing automation flows (31%) to turn insight into effective communications and campaigns. Importantly, **retailers are also switching on to the fact that using tech to obtain a single view of the customer (34%) is central to deliver personal experiences seamlessly across channels.**



Offering customers a more personalised online experience is a key objective of ours for Q3 2021. I believe that un-intrusive and natural-feeling product recommendations, serving similarities within product pages and personalised bespoke merchandising are key to retaining, gaining and upselling to the new age consumer.

Steven Hall, Buying Director - Brother2Brother



It's clear that for some retailers COVID-19 has impacted ROI on tech investments. Merchants may have to recalibrate payback timescales to accommodate changes in market demand and rethink measurement criteria moving forward.

Although almost a quarter (23%) of retailers had NOT experienced any issues with tech ROI, the majority (73%) had.

One in four (26%) retailers are eager to get higher ROI from payments. Traditional options are not working hard enough for them. This explains why so many are now eager to explore alternative payment options that can be implemented with minimal disruption and capital expense and where fees can be rapidly offset against tangible returns including conversion and AOV uplift.

To boost ROI, retailers may also have to overcome fear around branding. By moving payment visibility from the checkout to the product page, options such as Klarna act as powerful acquisition magnets, driving new buyers to websites and giving them the confidence to buy when they get there.



Signalling Klarna as a payment option further up the funnel has significantly increased our conversion power. We've found that rather than diluting our brand, Klarna has actually enhanced it. Many customers are actually looking for somewhere to use Klarna when they shop – so why hide it?"

Adam Woodhouse, COO - SPOKE



For around a quarter of respondents, social selling (26%) marketing automation (25%), hosting (23%), and augmented reality (23%), were also failing to deliver the returns they had anticipated. It is hard to ascertain if this is a direct result of COVID-19 impacting measurement criteria such as AOV and frequency or indicative of other issues such as suppliers/vendors over promising, or ROI models and expectations being set too high.

Interestingly, email marketing is still the highest performing for merchants in terms of return with £29 billion of UK retail sales value attributed to email marketing annually.³

³ <https://www.marketingweek.com/four-steps-email-marketing-effective/>

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Klarna has given us a great focus for customer outreach. A recent email blast to our entire database delivered one of the best responses we've had – comparable to a sales launch but with no need for a discount. It's also helping to drive up social media impressions, which is notoriously difficult within our adult-themed segment.

Laura Whitaker, Senior Online and Marketing Manager - Ann Summers



The growth in retail-tech has opened the floodgates to new technology vendors. As retailers are looking to invest in more digital technologies in 2021, they face new challenges when searching for suitable partners.

If you want to create a sustainable, profitable retail business then technology investments are a must to remain competitive and build personalised and convenient experiences. However only a fifth (19%) of retailers rarely or never have a problem choosing a vendor, which means that four out of five (81%) have experienced difficulty. So what are their biggest pain points?



There is a perception that technology is too expensive.

90% feel that this is the case. This may be because vendors are failing to outline the value of their solutions. This is supported with the fact that 90% of respondents also had issues with vendors creating business cases to justify their investment. And 83% have also experienced a poor return on their investment.



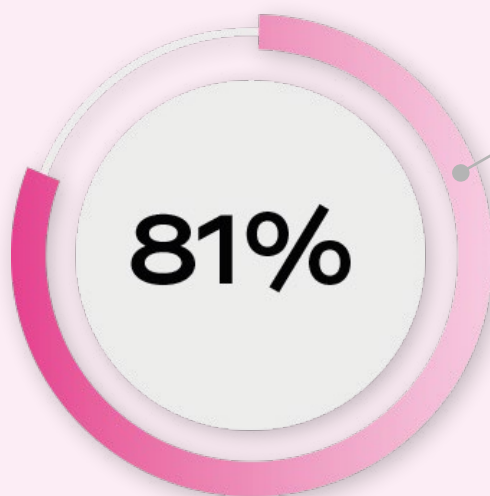
Finding clarity on solutions also remains a challenge.

46% have problems understanding what tech does. Four in five have been overwhelmed by choice (82%) or have experienced overzealous salespeople (83%). But it's not always about having too much info, sometimes they have too little. A staggering 83% have experienced lack of information on a supplier's website.



They wish that technology was smoother

86% see the integration process as too complicated and 83% have issues with legacy compatibility. Aware of these issues many tech-partners are focused on providing new ways to integrate that make it easy for retailers to plug and play. Klarna for example offers a software development kit (SDK) for all leading eCommerce platforms and can be easily integrated at the POS, where the heavy lifting is done by the consumer app.



Four out of five (81%) have experienced difficulty choosing a tech vendor.



Looking ahead, demand will return

Conclusion

There is positivity among retailers that despite the challenges, people will still want to shop – in-store, online or both. And that as soon as COVID-19 eases, lockdowns lift and fear subsides, pent up consumer demand will re-energise sales and drive a period of rapid recovery.

But shopper behaviour has changed forever.

It is clear that we cannot turn the clock back to pre-2020. Emerging from months of lockdown, even entrenched behaviours have changed. We are all digital consumers now - young and old, rich and poor, the tech-savvy and the digital laggards.

The new 'normal' will involve more digital services and a greater focus on immersive experiences both online and off. Individuals will demand faster smoother touchpoints, more mobile apps and integrated services, and financial flexibility and choice. They will expect a closer relationship with their favourite brands and regular communications and offers personalised to habits, preferences and needs.

Build your investment roadmap now.

Throughout all of this, retail-tech will be in the driving seat - ready to innovate and empower shoppers; and to boost acquisition, conversion and loyalty for merchants and brands. To make the most of these new opportunities, retailers must start planning and investing now. From our survey findings, we've put together four key steps to help you get started:

4 Steps to Success:

1. Have a 'connected' vision

Include in-store in your digital strategy – look for new ways to bring the virtual and physical worlds together. For example having the same flexible payment choices in-store as you do online.

2. Be customer-focused

Strive to get more value out of investment by ensuring customer-facing options are more closely aligned to audiences, their behaviours and needs. eCommerce platforms that offer 360-degree marketing and creative support can help plug gaps and ensure AI, marketing automation and personalisation work in harmony.

3. Make experiences great

Find new ways to differentiate your digital offering or risk being left behind by competitors that do. Make sure you get the basics right with fast and responsive platforms, simple frictionless navigation including pre-filled forms and one-click on mobile.

4. Get smarter with partners

Choose partners that power click-through and deliver 'sticky customer-facing technology' that not only helps drive acquisition and conversion but that keeps your customers coming back for more.





To help you chose well, here's a quick checklist of what to look for in a retail-tech and payments vendor:

- ☐ A well-defined value proposition.
- ☐ A solid business case.
- ☐ Full breakdown of costs with KPIs and measurements for success.
- ☐ Realistic ROI that takes into account current market conditions.
- ☐ Clear communication of the direct and in-direct value adds.
- ☐ A full breakdown of what you actually get (including support) and how much it costs.
- ☐ A smooth implementation and integration path using mature SDKs and APIs.
- ☐ A focus on your needs not just before but also during and after deployment.
- ☐ A demonstrable commitment to sustainability and ethical practices.



We're better together

Want to get a head start? Let Klarna and Visualsoft show you how:

About Klarna

We make shopping smooth. With Klarna consumers can buy now and pay later, so they can get what they love today. Klarna's offering to consumers and retailers include payments, social shopping, and personal finances. Over 250,000 retail partners, including H&M, IKEA, Expedia Group, Samsung, ASOS, Peloton, Abercrombie & Fitch, Nike and AliExpress have enabled Klarna's innovative shopping experience online and in-store. Klarna is one of the most highly valued private fintechs globally with a valuation of \$31 billion. Klarna was founded in 2005, has over 4,000 employees and is active in 17 countries. For more information, visit klarna.com.

About Visualsoft

For over two decades Visualsoft has been home to some of the industry's leading online retailers and its team of more than 280 creative visionaries, ahead-of-the-curve developers and expert digital marketers across three UK locations as well as Dubai.

Through consistent R&D and re-investment, it's created a complete eCommerce ecosystem that combines platform, support and service — everything an ambitious business needs to grow, flourish and prosper online.

Its commitment to excellence has earned Visualsoft numerous awards and accolades, reflecting its success within the industry. In 2019, Visualsoft was crowned BusinessCloud's most innovative UK-based eCommerce and retail company, was featured in Econsultancy's Top 100 Digital Agencies, and won a UK eCommerce Award.

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Get ready for retail recovery and make your tech-investment count. Build better, more profitable digital experiences with



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