

Small size. Big ambition.

What's in store for
Britain's independent
e-fashion retailers

Klarna.

They may be small in size, but the UK's growing band of SME online fashion retailers pack a powerful punch when it comes to pure-play pulling power.

From heritage brands to funky young start-ups, tens of thousands of independent retailers are now using online and mobile shopfronts, at home and abroad, to bring the latest trends to a new generation of buyers.

Small fashion retailers may have less resource and investment to spare than the big brands, but they're experts at tech-innovation. Particularly if it helps them achieve more with less effort and gets them even closer to their customers.

Here, we take a closer look at their priorities for the next 12 months and how payment innovation is keeping them ahead as competition intensifies. **The following snapshot is based on the findings of the Klarna UK Small Online Fashion Retailers Survey, May 2019.**

With everyone vying to attract, engage and retain 'want-it, get-it' Millennial and Gen Z consumers, the battle is on to create online shopping experiences that not only build loyalty but also inspire users to share and promote the retailer through social contacts and online reviews.

In fact, SME retailers have been among the most successful at exploiting the power of social and online channels. For many in the fashion space, Facebook, Instagram and Influencers are now the most powerful tools in their marketing arsenal, allowing them to reach thousands of niche, fast-fashion and spontaneous lifestyle shoppers. In the online world, it's not size that matters and small businesses riding a hot style-trend, or who gain a celebrity endorsement, can go from zero to hero in a matter of days.

In the social world, size isn't everything

Independent and family-owned retailers are very aware of the competition they face from national and global brands.

54%

cite **competition from national and global brands** as their biggest external challenge

31%

say **competition from other small online retailers** keeps them up at night

34%

are worried about **lower consumer spending**

Tech-investment is seen as key to growth

To help them build the highly personal and frictionless experience necessary to stay on top of the fast-moving online environment, small retailers

are already investing in and prioritising new technology, like flexible payments, faster browsing, data-mining tools and mobile apps.

UK small fashion retailers' tech-priorities:

48%

prioritise **flexible payments** and e-commerce

37%

plan to invest in **marketing tech**

28%

plan to invest in **logistics**

25%

plan to invest in **customer experience** (e.g. augmented reality, catwalk videos, chatbots)

Average spend planned for next 12 months:

£26k

on **e-commerce** capabilities

£34k

on **logistics** (including delivery and supply chain)

£33k

on **customer experience**

£47k

on **tech to scale business internationally**

What's really encouraging, is that much of their spend is earmarked for checkout enhancement and customer experience. But, there are still barriers and concerns which are preventing them from going far enough in their tech-investment programmes – most of this is connected with economic confidence.

Given market uncertainty and fluctuating consumer spend, it's not surprising that some smaller retailers are cautious with their cash. They may be able to react faster to market demands when it comes to style, designs and stock, but they have a smaller financial buffer to bounce back if operational finances get tight. They need to be certain that investment has clear and significant impact on their bottom line.

Barriers to tech-investment:

48%

Brexit

31%

ROI (uncertainty of value)

32%

Size (feel too small to benefit)

Retailers are looking to seize missed opportunities

With so much at stake, they cannot afford to miss revenue opportunities, let sales slip through their fingers, tolerate poor conversion or low-levels of up-selling. And, with margins now thinner than

ever, they definitely can't rely on cost-cutting sales and promotions to drive demand and need to find new ways to generate sales volume throughout the month.

Retailers are losing more customers than they should in the check-out process.

21%
visits result
in a **dropped
basket**

31%
is the
**average
sale**

26%
of potential
**annual
revenues
lost**

Those who have seen a drop in loyalty are trying to increase retention and conversion by:

53%
Offering
**free returns
/ delivery**

31%
Creating a
**physical,
instore
element**

26%
Introducing
**flexible
payment
options**



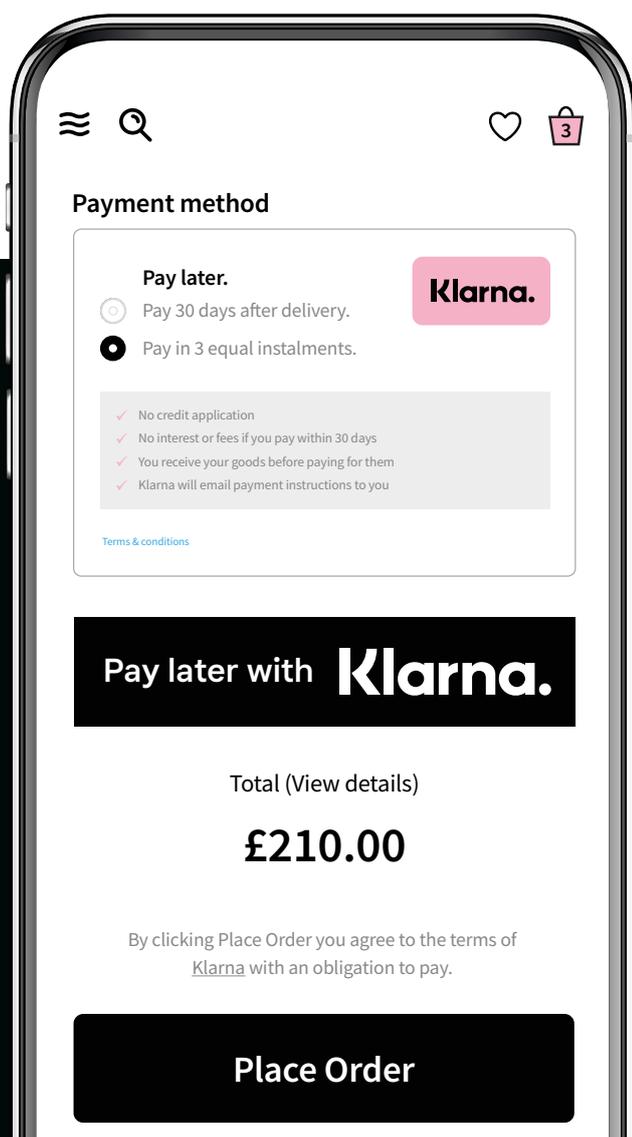
Flexible payments is the new differentiator

With competition in the most niche areas hotting up, the race is on to accelerate growth. With shoppers today demanding a frictionless buying experience, checkout and payment processes need to be as quick and convenient as possible. And online SME retailers are responding with new flexible payment options.

49% plan to invest in flexible payment options in 2019.

Of those that aren't, more than half are worried about cost (53%) and more than a third about the impact on customer returns (37%). However, many of these fears are not born out in reality. For example, retailers using Klarna have shown that a pay later transaction is more cost effective for their business than a card payment (not just in terms of processing fees but by removing costs associated with refunds, chargebacks, customer support, etc). And that pay later, often creates no rise in returns. Even if it does, associated costs are rapidly offset by an uplift in sales volume and value.

For most small retailers the benefits in terms of boosting AOV, sales frequency and volume are clear. The FOMO generation that live online don't want to have to wait until payday to buy an item – and our research shows online retail SMEs understand this. This is shaping payment choice at the checkout as retailers look at new ways to help customers defer payments, try before they buy and shop more easily on their mobiles.



Growing checkout choice:

Pay later

- 32% plan to introduce within a year

Short term instalments

- 26% plan to invest within a year

Consumer finance

- 30% plan to invest within a year

Cards & apps

- 53% currently offer a store card (with online redemption)
- 54% have an app for mobile payments

Klarna helps fashion start-ups and young brands ramp up sales

Increasingly small retailers are turning to Klarna to help them grow their business. They are eager to replicate the success Klarna Pay later has achieved for fast-fashion and specialist brands like:



Pay later allows customers to defer payment by 30 days or to pay by instalment – instantly and with no interest, no-fees and no-complex processes. It lets small fashion retailers deliver the same checkout experience as in-store and big brand rivals. Online customers can try before

they buy, giving them the confidence to buy more – crucial to overcome resistance to small retailers or new fashion brands. At the same time, one-click payments, even on mobile, helps them buy faster, without drama, wherever they are.

Importantly, Pay later also helps small retailers break the ‘discount-cycle’, where they rely on cut-price promotions to lift mid-month sales. Klarna can boost conversion without devaluing premium brands or slicing into their profits. With Klarna customers can defer or spread payments so they can forget about the price tag and buy what they want when they want it.

Fashion shoppers love Klarna because....

- Fashionistas can use their sitting room as a fitting room and try before they buy
- Spontaneous buyers can use one-click even on mobile
- Hesitant shoppers don't have to pay up front without seeing goods
- Luxe buyers can indulge anytime and spread the payment
- Social surfers can find Klarna retailers easily through online channels
- Cash-strapped shoppers don't have to wait 'til pay day
- Trend followers can ditch FOMO and grab new lines before they sell out

Small retailers love Klarna because....

- Same checkout experience as a big brand
- Alternative to cost-cutting and promotions that protects profit margins
- Differentiator that's proven to drive acquisition
- Compelling 'hook' creates a buzz in marketing and social campaigns
- 'Network effect' exposure to 60 million global Klarna users
- A way to boost mid-month spending
- Simple plug and play integration with e-commerce platforms
- No disruption and fast launch
- For use online, via mobile app and in-store (even in pop-ups!)

Bricks and clicks are connecting experiences

Online SME retailers still recognise the importance of an omnichannel presence. 81% believe physical outlets help experience and loyalty and 27% say it is 'extremely' important. With this in mind, many small online businesses are now looking at new ways to expand their customer base through face to face channels and hands-on opportunities.

How Britain's online fashion retailers are getting physical:

- 22% showcasing in department/other brand stores
- 21% at markets, festivals or other trade events
- 19% with standalone pop-up stores
- 12% through their own lifestyle events
- Only 24% have never created a physical customer experience

As the high street continues to change, retailers which bridge the gap between digital and real-world interactions will prosper.

Small online retailers are closer to their customers and are rich in data. Combining their insight and social influencer networks, with the visual glamour of a physical store, they have the power to reimagine the retail experience and pave the way for exciting new 'clicks and bricks' experiences.

Klarna is already helping online fashion and lifestyle brands make the leap on both sides of the Atlantic with immersive, high-profile pop-up stores in London and New York.

About Klarna

It's all about smooth (yes, with 3 000's). Klarna is Europe's leading payments provider and a newly-licensed bank, we want to revolutionise the payment experience for shoppers and retailers alike. Founded in Stockholm, Sweden, in 2005, we're a fintech unicorn that gives online consumers the option to pay now, pay later or over time – offering a trusted, frictionless and smooth checkout experience.

We work with 130,000 retailers, including ASOS, Topshop and JD Sports in the UK, to offer payment solutions to users across Europe and North America. We have over 2,500 employees and are active in 14 countries.

Retailers include:



Source: All statistics are from the Klarna UK Small Online Fashion Retailers Survey, May 2019.

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