

# RETAIL 2020

WITH THE UK ON PANDEMIC LOCKDOWN,  
25 RETAIL LEADERS TALK THE PATH AHEAD

# AT A GLANCE

**R**etail 2020 is the ninth edition of this annual flagship report from Retail Week and is designed to set the scene for the year ahead.

It is based on in-depth and off-the-record strategy interviews with the leaders of 25 of the UK's most influential retailers and provides a benchmarking tool for industry decision-makers against which they can measure their own business plans.

At the start of this year, few could have predicted the events that would unfold in just a matter of weeks. On March 11, the World Health Organization (WHO) declared the coronavirus outbreak a pandemic. Although a growing number of countries have begun to ease certain restrictions, life looks set to be far from normal for the foreseeable future and a 'new normal' at best.

The retail sector has, however, weathered many storms through the decades and is working to adjust to this evolving reality.

Uncharted waters and uncertain times call for a delicate balance between agile pragmatism and bold decisions.

Strategic clarity, a deeper understanding of how consumers are shopping, laser-focus on where to invest and when, and a wider transformation that incorporates technology, people and purpose are all going to be required.

To achieve this, businesses must understand the direction of travel within the wider retail ecosystem.

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## METHODOLOGY

Retail Week conducted in-depth and off-the-record interviews with the leaders of 25 of the UK's largest retailers and brands between January 21 and February 17, 2020. In addition to this, Retail Week spoke to a number of those surveyed in the week commencing March 16 to get their reactions to the unfolding coronavirus crisis. Those conversations are quoted within chapter one, but have not been factored into the survey results quoted throughout as not all 25 retailers were available during this busy time.

## RWRC: RETAIL 2020

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# MICROSOFT VIEWPOINT



**LOUISE WATKINS**  
HEAD OF SECTOR FOR RETAIL AND CONSUMER GOODS,  
MICROSOFT UK

**A**s I write this, we have been working closely with our retail customers around the globe as the current situation creates new challenges, as they work to handle drastic shifts in demand (both through restrictions physically in addition to increase in digital demand); manage mandated store closures; and continue to meet evolving customer needs.

We know that, first and foremost, businesses' priorities are around supporting the health and safety of their people and empowering those people to support customers, consumers and suppliers through this difficult time.

We continue to be fully committed to helping our customers to scale and skill up fast in the areas that are most needed through technology, and provide swift and easy communication and training to help them stay up to date and safe in this evolving situation.

While retailers and brands are navigating and adapting to the now, I know they continue to plan for their business post this situation to come out even stronger. There is a real opportunity now to evaluate the shape of the new normal, which we believe will: involve shifts in consumer sentiment and behaviour; focus on digital at the centre of the relationship with consumers (with virtual connections at a premium); ideate how to evolve products and services,

including new business models and partnerships; and prepare and plan for the long-term network implications for stores and/or supply chain.

As a retailer and technology company, we continue to see the importance of our physical stores in building a relationship with both consumers and business customers. We see the need for reinvention across experience and personalisation as a consequence of increasing consumer expectations today. It's important we think about the opportunity we have to innovate, use technology and learn from the data we have at our disposal to disrupt, differentiate and delight our customers. This is especially the case as society looks for ways to engage together in familiar yet exciting activities again.

Never has there been a more important time to act upon the rich data and insights you have to shape the future of retail.

When we think about how digital technology is becoming so central in our lives, our economy and our society, the best place to start learning what it all means is in retail. From a digital perspective, we have seen as much as 400 petabytes of data generated every hour in retail, which can be seen as the demand signal for the world.

While facing the challenges brought about by Covid-19, the opportunity is what retailers are going to be able to achieve with all this data in order to shape retail and the economy moving forward.



**Never has there been a more important time to act upon the rich data you have to shape the future of retail**



## MICROSOFT

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**CHAPTER I**

# **PANDEMIC: INTO THE UNKNOWN**



**T**here were already many question marks hanging over 2020.

When Boris Johnson led the Conservative Party to a decisive victory in the general election on December 12 last year, there was a collective sigh of relief from much of the nation that, no matter which way you voted in the EU membership referendum of 2016, at least the impasse would now be broken and the country could begin forging a path forward.

But that sense of optimism was to be short-lived.

Little could we have known that, by then, the coronavirus outbreak had already begun in China. From the first report to the WHO's Chinese office of "a pneumonia of unknown cause" detected in the city of Wuhan on December 31, through to the central government placing Hubei and neighbouring provinces in quarantine, the virus and the disease it causes – Covid-19 – soon spiralled out of control. Soon there were significant outbreaks in Iran, then Italy, the rest of Europe and the world.

The UK registered its first two cases on January 31 from a family of tourists from China staying in a hotel in York.

Covid-19 was declared a pandemic on March 11 and now almost 200 countries have been affected.

At the time of writing, worldwide there have been 4.18 million confirmed cases. Of those, 1.46 million have recovered and, very tragically, 286,000 have died. In the UK, which currently has the highest number of deaths in Europe, there have been more than 223,000 confirmed cases and 32,065 deaths.

To quote WHO director-general Tedros Adhanom speaking in early March, the world is in "uncharted territory".

There has been a global effort, however, to halt the virus in its tracks: countries have imposed lockdowns and encouraged people to stay home and not meet with others outside their households; temporarily shuttered businesses, including bars, restaurants, sports centres and stores; reduced transport; and requested that people maintain a two-metre distance from each other when out for essential trips.

The restrictions are being felt by businesses great and small. British Airways boss Alex Cruz warned his staff that the airline industry was facing a “crisis of global proportions” and that job cuts could be short or long term, in a memo entitled ‘The survival of British Airways’.

### Protecting staff and customers

With people desperate to avoid infection, retailers have seen demand fall off a cliff. In the UK, Johnson ordered all bricks-and-mortar stores selling non-essential goods to shut on March 23 for the foreseeable future. Some DIY stores have since reopened, but, at the time of writing, the bulk of non-food stores remain closed.

The essential grocery sector, by contrast, boomed as people rushed to stockpile goods. As a result, the sector had to move quickly to ensure that there was enough food to go round.

Aldi was the first UK supermarket to bring in rationing on March 15 and the majority of grocers were quick to introduce dedicated shopping hours for the elderly, the vulnerable and NHS workers.

The measures – which included temporarily restricting the number of some items per customer – helped the sector deal with an unexpected level of demand.

The government has been at pains to prop up the economy, with the kind of state socio-economic interventions not seen in this country since the Second World War.

On March 17, chancellor of the exchequer Rishi Sunak announced that he would be suspending business rate payments for all retail, leisure and hospitality firms for a year.

In what was effectively his second budget in a week, Sunak unveiled a raft of government-backed loans and guarantees worth £330bn, with the promise of more being made available should it be needed in the coming weeks and months.

The chancellor said the UK had “never faced an economic fight like this one”, but added that “we will get through this and we will do whatever it takes”.



### CHIEF EXECUTIVE OF A HOME FURNISHINGS RETAILER

Last week, our sales were actually up 4% on a like-for-like basis.

Organisationally, we will reduce unnecessary travel and, if we are struggling for people, we will relocate colleagues. We can broadly run head office with home working and we are testing that shortly.

The pandemic is not yet affecting our supply chain and we don't anticipate government restricting supply.

This is going to be a short-term hit that will impact cash-constrained businesses. We are not one of those and there will be pent-up demand once we return to normality.



### CO-FOUNDER OF AN ONLINE MARKETPLACE

Many of the retailers that sell internationally across our platform have been hit hard. We know from our conversations with them that, with a reduction in footfall, bricks-and-mortar stores are relying even more on their online sales as a way to keep their businesses afloat. It is offering them a lifeline during this difficult time.

We've had to adapt quickly to the new circumstances, such as making alternative courier pick-up arrangements for those unable to send parcels from their stores. Many of our [clients'] shops in France and Italy are fulfilling their online orders from home.

Provided they fill in a government form, they are still permitted to travel to their shops to collect stock. These deliveries are then collected directly from their residences.

Where shop closures have come into force, we are in regular contact with boutique owners to give them support and provide information to help them continue to trade online. In markets where shops are still open, we are working to prepare them for remaining operational if further restrictions come into place.

With government measures and guidance changing so quickly, we've found that one of the best ways to support our boutiques is to distil and communicate the key points so they can get on with their jobs.

We're encouraging them to make use of any down-time they may have by uploading as many products as they can on to the platform. This gives us the best opportunity to generate additional sales for them. We are also working with them to diversify and protect their supply chain wherever possible.

# THE RETAILER RESPONSE

## WHAT IT MEANS FOR US

When Retail Week was conducting interviews with retail leaders (in late January to early February) for this annual report, the crisis was just beginning to unfold. However, owing to the unprecedented changes to the way we are currently living and the impact on businesses, we went back to our retailers to ask for their reactions to the situation. Despite it being a fraught time for them, we spoke to five (in the week beginning March 16) to find out how they were coping.



### CHIEF EXECUTIVE OF A SNACKS BRAND

We have now downgraded our sales forecast, despite being positive about the year ahead before the outbreak.

We are seeing a huge increase in sales of our product at grocery retailers, which won't come as too much of a surprise, but our 'away from home' sales, in places like train stations or other locations, are massively down.

Sales on Amazon have also really spiked, but it has now introduced essentials deliveries only.

The outlook really depends on how long the pandemic is going to last. Operationally, anyone who can now work from home is doing so in terms of our head office. However, in our factory where we are making things, that is obviously more difficult. It's a real dilemma, so we have taken every step we possibly can to protect the staff there, from face masks to taking people's temperatures as they come into work.

Longer term, I am worried that this will cause some sort of banking crisis, and I do think there will be a consumer recession as a result. Even subtle changes in the market can impact the way consumers shop, so something like this almost certainly will.



### RETAIL DIRECTOR OF A COSMETICS BRAND

How long is a piece of string? The situation is changing so rapidly.

Until yesterday's announcement [on March 16 when the prime minister gave his first daily update on the pandemic, advising people to stop non-essential contact with others], we were holding up not too badly, bolstered by Mother's Day and a buoyant ecommerce business.

We have high/medium/low-impact financial scenarios for next [financial] year's sales plan and think we will lose Q1 and half of Q2, and then will see some recovery in Q3, with business as usual in Q4.

We are a strong tourist brand so have been impacted in London and our outlet business.

We have just instigated our head office working from home and anticipate having to reduce trading hours and shut stores over the coming days and weeks.

In terms of long-term impact, it will make some of the UK stores less profitable, which could lead to more closures. I think it will encourage even more customers to shop online, which isn't great news for our high streets.



### CHIEF EXECUTIVE OF A MAJOR SPECIALITY RETAILER

It is far too early to say what the impact is going to be.

Over the past couple of weeks, like many of the food retailers, we have seen customers filling their cupboards. Our business has responded amazingly well to customer demand and has maintained superb supply chains.

Our focus in the coming weeks and months will include keeping everyone safe, ensuring our customers get the products they need, and being kind and looking after those who most need our help.

It is inevitable that the post-crisis landscape will look very different. Strong, well-run businesses will be best placed to survive it.

I think if one thing has been shown it is the power of omnichannel – retailers able to supply customers in the way they want to be supplied will be the winners.

**CHAPTER 2**

# **THE ROAD TO RECOVERY**





**T**he Office for Budget Responsibility forecast that the UK economy could shrink 35% in the second quarter – but retail has been particularly hard hit. Retail Economics estimates that non-food retailers could suffer a 17% sales decline over 2020, which equates to more than £37bn of lost revenue.

So what steps should retailers take on a tentative road to recovery post-coronavirus?

## I. Short-term measures

### Managing cash flow

Research by Alvarez & Marsal and Retail Economics shows that government measures – including loans, salary subsidy schemes, VAT deferrals and business rate holidays – will help most large retailers see out a three-month lockdown. Beyond that, swathes would face liquidity issues.

Retail Economics analysed 34 non-food retailers listed on the London Stock Exchange, accounting for more than £85bn of sales in 2019/20. A 10% fall in revenues would put two-thirds into immediate negative cash flow. A 20% reduction would capture more than 90% and 30% would plunge all into immediate negative cash flow.

However, Retail Economics expects non-food sales to fall a dramatic 70% during the lockdown period. If lockdown lasted four months, 10% would experience liquidity issues and in six months that rises to 53%.

Alvarez & Marsal head of retail Erin Brookes says retailers should accurately forecast their cash flow and be clear with stakeholders about financing needs.

### Driving short-term demand

For retailers of non-essential items, driving short-term demand means pushing online sales and letting customers know they are open for business.

Partner at OC&C Strategy Consultants Sohini Pramanick suggests retailers focus on products likely to trade well, such as athleisure and health and wellness, with attention-grabbing email marketing and promotions.

For retailers with little existing penetration online, Pramanick recommends partnering with platforms such as Amazon, Asos and Next, which have a wider audience.

Asos boss Nick Beighton says enforced store closures have prompted interest from a raft of brands to sell on its platform, including some who were previously reluctant.

Discounting is expected to be leaned on heavily by retailers, both to stimulate demand and clear stock.

However, some retailers have opted to hold on to inventory, either to sell in other parts of the world or at a later date. Fashion giant Gap, for instance, is holding some current-season stock to sell in 2021 instead. For some retailers selling particularly trend-led products, that may not be possible.

Retailers need to find channels to offload stock and off-price channels look well placed to benefit. Analysts upgraded TK Maxx owner TJX last month, for example.

### **Cutting costs**

With labour costs minimised by furloughing staff, some retailers have resorted to cutting their next biggest operating cost: rent. Superdry, New Look and Debenhams have requested rent holidays, while others, such as Primark, JD Sports and Kingfisher, have withheld payments.

They are not alone. The amount of rent received on or after quarter-day on March 25 was historically low. Landlord Intu received only 29% of rents from retail occupants on payment day, compared with 77% the previous year. Hammerson received just 37%.

Retailers are renegotiating rental arrangements in order to make payments less impactful on cash flow. Some, including Mike Ashley's Frasers Group, are moving to monthly rather than quarterly rents.

Stock is another area in which retailers are trying to minimise costs, addressing future commitments as well as clearing current inventory. With no certainty on when stores will reopen, retailers have been making adjustments to forward orders.

Both New Look and Primark have put a halt on all current and future production. However, Primark has created a fund to cover the wages of factory workers in countries where it has cancelled orders and pledged a raft of payment measures.

McKinsey partner Anita Balchandani says building accurate demand scenarios will be critical to ensure retailers have the right level of inventory going forward.

### **Building a plan-ahead team**

McKinsey also recommends that retailers build a 'plan-ahead team' now to focus on what happens next.

Such a team is charged with collecting forward-looking intelligence and working across many timescales to understand the decisions that need to be made and when the trigger points are to make them.

## **2. Post-coronavirus demand**

With the International Monetary Fund warning that the world will fall into the worst recession since the Great Depression of the 1930s, there is trepidation about retail prospects post-coronavirus.

Where should retailers look for indicators of what comes next?

Two key areas could be what behaviour consumers say they are going to change and the experience of markets such as China.

### **What the consumer says**

UK optimism has been gradually declining as the coronavirus crisis has progressed, according to McKinsey's survey of UK consumer sentiment.

OC&C's Pramanick believes there will be a hit to discretionary spending in the aftermath: "There have been pay cuts and people have been out of jobs. There will be some softening of demand. It won't bounce back like nothing has happened. The more discretionary the spend, the greater the hit."

However, PwC director of retail strategy Kien Tan believes the picture is not as bleak as some might think. "We're not going to replace the spending that would have taken place this season, but it's not a fundamental reset of demand," he says.

### **Lessons from China**

There are some positive signs coming out of China, which has largely emerged from lockdown. The luxury sector, in particular, has recovered well. LVMH, for instance, reported an acceleration in sales in mainland China in April.

LVMH chief financial officer Jean-Jacques Guiony told analysts: "We've seen very substantial growth rates, sometimes in excess of 50%, so it shows the appetite of Chinese people after two months of lockdown to come back to stores and their previous patterns of consumption."

Pramanick says there is clearly "pent-up demand", but that mass-market brands have found trading slower in China.

H&M's Chinese sales plummeted 84% year on year in February. However, in the final week of March, after almost all its stores in the country reopened, the decline moderated to 23%.

Encouragingly, H&M's 23% sales decline at week 10 after lockdown falls in line with the best scenario laid out by Next boss Lord Wolfson in its stress test. In that scenario, sales would decrease 10% over the year.

Online is expected to see a return of demand before stores. Despite ecommerce being the sole route to market for many retailers over the past month, online trade body IMRG reported that overall UK online sales were down 5.1% year on year in March.

However, evidence from other markets suggests that demand will return to near-normal levels as the lockdown continues.

Asos' Beighton says that in Italy, which was two to three weeks ahead of the UK in terms of social restrictions, the retailer experienced an immediate "demand shock", but in the month since lockdown in northern Italy "visits and sales have come back".

### Popular categories

Evidence from China shows that, once social distancing restrictions ease, people will gravitate towards outdoor activities.

Sales data from Chinese ecommerce giant JD.com shows sports shoes and bags revenue surged 73% from March 1 to 17 when compared with a month earlier, and outdoor shoes and clothing jumped 72%. Sporting goods sales jumped 47%, and fishing supplies rocketed 155%.

Car journeys were also back on the agenda. Month-on-month sales of car supplies on JD.com were up by more than 140% compared with a month earlier.

The health and wellness category is also expected to perform strongly in the longer term, as shoppers have a greater focus on both hygiene and skincare after their lockdown experience.

### 3. Reopening stores

How should retailers approach reopening stores when restrictions are lifted?

Pramanick warns there will not simply be a “light-switch moment” when restrictions lift and business goes back to normal. Social distancing requirements are expected to remain for some time. Managing traffic in store and safety measures will be required.

Social distancing measures may also limit ecommerce sales as picking and packing capacity will be curtailed.

Fears over visiting busy shops are expected to dampen footfall in the aftermath. Hong Kong-based OC&C partner Veronica Wang says around 60% of footfall returned to Chinese malls in the weeks after reopening as shoppers remained cautious.

It is likely that UK stores will see a phased reopening, following the example of other countries. UK retail is also likely to face a yo-yo situation, in which restrictions are reintroduced to combat rises in new coronavirus cases.

Retailers will need to build flexibility into their models to move people and stock to where they are needed.

A single view of stock will become more essential and retailers should also build more flexibility into their workforce and upskill staff. That might mean store staff moving to warehouse roles in the event of further store closures.

Microsoft’s Louise Watkins comments: “Acting on your data assets and insights to gain a rich understanding of how business models are performing will inform strategic decisions on stock levels, availability and how best to resource your digital and in-store offering.”

### Discounting

Offering shoppers incentives, such as discounts, to come back to stores might also be necessary. In China, H&M chief executive Helena Helmersson says it needed

to offer some “incentives to shop”. She also maintains it is important to understand how to “welcome people back into store” by offering friendly service as well as promotions.

McKinsey believes discounting will become a stronger feature post-coronavirus as retailers offload stock and vie for custom.

Tan, however, questions whether consumers – who have become more conscious about consumption levels – will be won back this way and suggests it could be an opportunity for retailers to reset their promotional stance.

### 4. Long-term changes

The disruption coronavirus has caused and the acceleration of certain consumer behaviour, such as the shift to online shopping, will require some businesses to rethink their operating models.

### Channel shift

Grocery retail has experienced a dramatic rise in online shopping. According to Nielsen, online grocery spend surged 14% in March. Investment may be required to satisfy a growing online customer base.

The same goes for non-essential retailers, for whom online became the sole channel during lockdown. H&M’s Helmersson believes the pandemic will accelerate the pace of digitalisation in general in fashion.

Covid-19 has put added strain on cash flow and the consumer environment will be challenging in the aftermath. That creates a greater need for the economics of each store to stack up.

Both Clarks and Arcadia have revealed in recent weeks that some stores closed during coronavirus will never reopen.

### Product pivots

Retail’s supply chain also needs to be examined. A likely consequence of that change will be more near-shore production, which will enable stock to arrive in the UK faster and reduce the need to hold stock.

Retailers may also seek a more diversified supply base. Before coronavirus hit in the UK and fashion retailers were forced to close, many were concerned about the prospect of empty shelves as manufacturing came to a standstill in pandemic-hit China.

Primark, which makes around 45% of its stock in China, revealed it was considering moving some manufacturing to countries such as Turkey in February.

Expect to see some retailers pivoting their product offer to cater to changing demand. Tan says: “Certain product categories will have to be dialled up and dialled down as demand is changing. If we’re working from home more often, we won’t need so many suits. Retailers should look to work with suppliers to react to changing demands.”

An underwater photograph of a vibrant coral reef. The scene is filled with various types of coral, including branching and table corals, in shades of green, purple, and orange. Numerous small fish are swimming throughout the water column, and a few larger fish are visible near the reef. Sunlight filters down from the surface, creating a bright, shimmering effect at the top of the frame.

**CHAPTER 3**

**A WIDER  
TRANSFORMATION**



**D**igital transformation has been the buzz-phrase in retail over the past few years, as documented in Retail Week’s annual state of the industry analyses and predecessors to this report – but a more holistic evolution seems set to define the future.

It is very rare for retail surveys to throw up unanimous answers. For every retailer ramping up digital and personalisation strategies, there’s another one intent on international expansion. (Chapter four covers more detail on investment plans.)

However, when it comes to sustainability, all the industry leaders we spoke to are on the same page. Every single one said sustainability had become more important to their business in the past year.

The way retailers are reacting to the sustainability agenda clearly differs by company, and by sector, but there are some common themes throughout the industry.

### **Common sustainability goals**

Attention to environmental impact had arguably been a tick-box exercise for many in the world of commerce until broadcaster and environmentalist Sir David Attenborough’s rallying cry during his *Blue Planet II* series, aired on the BBC in 2017.

The programme showed how plastic was having a devastating effect on the oceans, and his plea to do something about it may go down in history as a moment of public wokeness – certainly in the UK.

With such a groundswell of public emotion, retailers had to respond. The grocery industry, in particular, has made moves to reduce plastic usage through carrier-bag and packaging initiatives, but all sectors have made positive moves and are continuing to ramp up their efforts to address the issues.

Microsoft’s Watkins says: “Sustainability will be a key initiative to prioritise, with a focus on ensuring that decisions are made to provide consumers with confidence that the brands they associate with are delivering measurable and impactful change to the climate threat.”

And customer expectations are playing into this. From our respondents, 32% said they expected consumer demand for more environmentally friendly delivery options to increase in 2020.

The chief executive of a clothing brand said: “Every clothing manufacturer getting orders coming in from suppliers all around the world is bringing them in in plastic. We have taken that plastic out of our supply chain to replace it with a material that will domestically compost.

“We believe it is the way the industry has to go. It is not acceptable to bring all of this single-use plastic in.”

The MD of a general merchandiser said: “For retailers like us that sell lots of plastic bottles, the status quo is unacceptable. So it’s important to introduce things like refill stations in our stores for customers to use and ensure we work with our suppliers. All of our bottled water in the next few months will be in recycled plastic.”

The co-founder of an online marketplace said: “We have to be better at measuring our carbon emissions. We need to understand what our footprint is, and we need to do something about it. The greener option is one stepping stone, but another thing we are doing is looking at our packaging – how we source it, how our partner stores use it and how we can reduce waste.”

Reducing plastic, identifying more sustainable packaging and cutting down on waste in general is evidently a major focus for retailers – at least from what executives are saying from the boardroom.

But adopting a wider purpose in line with some of these environmental improvements is also high up retail leaders’ agendas.

The managing director of a footwear retailer said: “What we found over the past couple of years is that no longer can a business just buy and sell things – you have got to have a purpose.”

And the chief executive of a fast-fashion chain said: “We recognise that we need

to behave as a responsible retailer and a responsible brand.

“That means so many things. It is about the way we do business, about the products we sell, and it is about the communities in which we operate both our stores and our supply chain.”

### **Not that easy being green**

Retailers are clearly aware of the need to undertake more sustainable processes and introduce initiatives that are good for the world around them, but they do so knowing business by its very nature is not green.

Everything leaves a footprint, as Iceland’s managing director Richard Walker has publicly stated in the past, meaning the onus is on retailers to continue to better themselves and make incremental improvements year by year.

Collaborative work with suppliers is going to be essential to driving that, and that is not an easy job.

For the managing director of a discount retailer, improving sustainability across the supply chain will be a step-by-step process.

“We have a number of initiatives in the business and pulling all of that together under a much more strategic approach is what we are doing now.

“When we’ve got that clear, I think the next step is to accelerate the work that we are doing, be really clear in communicating the targets that we set for ourselves. Then we’ll move into the supplier base and our partners, and start deciding who are the people on the right kind of agenda that we align to.”

The CEO of a furniture retailer said: “We are focused on ensuring that all parts of our business – from our colleagues, to our customers, to our suppliers – are aware we are actually taking actions to do our bit.”



# 32%

**OF RETAILERS ARE PLANNING TO INVEST IN  
MORE SUSTAINABLE PRODUCT DEVELOPMENT AND PRACTICES**



## It is disappointing the customer isn't putting their money where their mouth is



CEO OF A FURNITURE RETAILER

But they question whether customers are just talking a good game when it comes to demanding more sustainable products.

The reality, he said, is that price still talked loudest in the purchase decision – consumers don't want to pay more for greener goods, despite what some surveys suggest.

“Sustainability, protecting our planet – what [environmental activist] Greta Thunberg has done is more than Greenpeace has done in the past 30 years because it is being spoken about daily in business,” he added.

“I think the message is getting through. But it is disappointing the customer isn't putting their money where their mouth is. People need to get a little more serious about it.”

To be a successful retailer in the 21st century, organisations must always question whether a decision is good for the environment and good for business. But, until consumers are willing to pay extra for more responsibly sourced and greener product ranges, it won't be easy for retailers to be perfect global citizens.

“Sourcing responsibly must become more efficient and affordable – it can't just be putting the onus on consumers to pay more,” says Microsoft's Watkins.

“Consumer expectation is for big business to take on more responsibility. Those who do will be the brands who are seen as relevant and authentic; those who continue to expect consumers to pay a premium will struggle to find their place with a population focused on the climate.”

It's also important to bear in mind they won't reach a point when the job is done. The shift towards sustainable retailing never stops – it is a case of incremental and consistent improvement. That is the journey ahead in today's industry.



**100%**  
**OF THE SURVEYED  
RETAILERS SAY  
SUSTAINABILITY  
HAS BECOME MORE  
IMPORTANT  
TO THEIR BUSINESS IN  
THE PAST 12 MONTHS**

## CHAPTER 4

# WHERE TO INVEST







**W**ith the grocery sector dealing with crippling demand in March and other retailers battling for survival, focusing on long-term growth might seem like a task few businesses can afford the time and money on right now. But it is precisely circumstances such as this when bold decisions are required.

Weathering the storm the industry faces demands retailers ensure clarity around their investment road-map and where to prioritise – whether that focus is digital, stores, people or processes.

Microsoft's Watkins suggests that there needs to be a balance of investment across all four areas to achieve a sustainable competitive advantage in the market.

Our retailer research, conducted just as the coronavirus outbreak was beginning to unfold, indicated that 2020 was going to be the year in which businesses would invest primarily in back-end systems (52%), customer service and experience (48%), and opening and updating stores (44%).

In chapter two, we analysed the tentative road to recovery that lays ahead of the retail industry. In this chapter, we go into more granular detail on some of the projects set to be brought to the fore once the pandemic subsides and we enter a new age of retail.

### **Single-view headway**

Our *Retail 2018* report suggested that retail executives were obsessed with developing a single view of their inventory and their customers across their various sales channels, with most retailers comfortable they were on top of stock in this way, but not their shoppers.

In last year's report, industry leaders indicated they were still a significant distance away from achieving this holy grail on both fronts. Some 35% said they had a single view of their stock, but not their customer, while a quarter of respondents said they did not have a single view of either.

This time round, an encouraging 25% of leaders interviewed said they now had a single view of both in real time, which suggests some progress has been made in aligning systems accordingly. A further 21% have a single view of stock and customer, but not in real time.

Not all of the executives questioned this year were interviewed for past reports, though, and the fact that 33% from this report acknowledged that they do not have a single view of stock or their customers indicates this issue will continue to challenge businesses.

### The fount of knowledge

Highlighting why there is such an obsession to get this right, one of the European vice-presidents at a global fashion brand said gaining a single view of customer would enable a number of things, including: allowing the brand to react to browsing and sales data to target the customer with relevant products and promotions; forecasting future demand and serving the customer with relevant products at those times; enabling store associates to provide better customer service; and allowing stock to be moved around the business on demand based on where sales data indicates.

The CEO of a national supermarket, who says the business has already achieved a single view of customers and stock, explained: “We want to continue to invest in this space as we recognise we could hold much richer data than we do today.

“We have great visibility of our membership data, of our customer data, but what we want to do is enrich that data with some of the attributes that we know are more helpful and meaningful for future conversations. We have a starting point, but [there is] a lot more opportunity to keep building it out.”

### Bespoke strategies

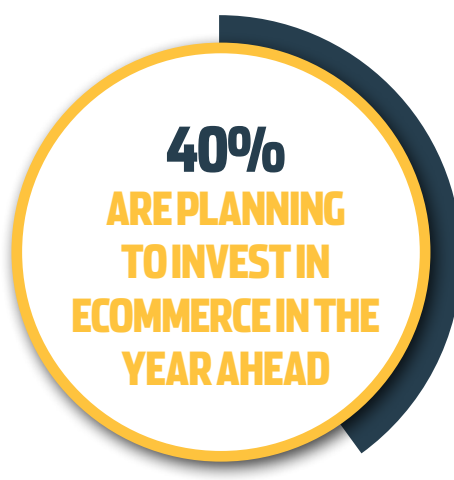
*Retail 2019* showed a relatively diverse spread in terms of investment plans, suggesting businesses were focused on what was necessary for their own organisations, rather than getting caught up in chasing the latest, most fashionable tech.

Encouragingly, that appears to be the case this year, too.

The same percentage (8%) of retailers were planning investment in ecommerce payment solutions as into supply chain and fulfilment. And 4% of retailers said they would be investing in apps, with the same percentage putting money into store technologies and also responsive mobile sites.

### The tech shopping list

Some 40% of retail execs said ecommerce spend was on the cards in the year ahead, with desktop website development (20%) the most popular area of focus online.





# Inclusion and diversity is an area moving really fast... and mental health is going to become so much more important



EUROPE PRESIDENT OF A MULTINATIONAL DISCOUNT DEPARTMENT STORE GROUP

But these decisions are not being made in silos – the best performing retailers will be the ones thinking holistically about their capital expenditure.

Discussing the extent of investment required within individual retailers, the chief executive of a value retailer said: “We are investing in ecommerce through our app for the customer journey, and our loyalty programme.

“We are refreshing our store estate, and we are about halfway through. We will probably open three to five new-format stores. We are testing voice technology and artificial intelligence, and we have a big systems upgrade going on.”

The Europe president of a multinational discount department store group said: “Sustainability, inclusion and diversity, and digital – apart from the day job of running the business – those are the biggest factors impacting the industry at the moment.”

They are basing investment decisions on environmental considerations, for example, because these will be the factors influencing consumers in the future.

“I am looking at when the business is going to be carbon-neutral – I think people won’t buy from brands not doing well in this space,” they said. “Inclusion and diversity is

an area moving really fast, too. I think this and [attention to people’s] mental health is going to become so much more important.”

## Knowing your customer

So, what about the customer? The wealth of data available to retailers should enable them to really know what consumers want and when.

The challenge for most, however, is being able to effectively mine that data to discover value. This has been compounded by a growing number of touchpoints.

Despite the ongoing Covid-19 crisis, all retailers need to keep one eye on the future for when life eventually returns to a new normal, and investment will be key.

This view is shared by Microsoft’s Watkins. “Post-Covid-19, there will be a move towards shopping as entertainment,” she says.

“Retailers who have used their data insights to create an informed view of their customers’ behaviours and a strong brand identity with which to build affinity will capitalise on that.”

Understanding the direction of travel is important, particularly to guide future investments when the current situation eases and retailers get back on their feet.

**CHAPTER 5**

# **BEYOND THESE SHORES**



**T**he turbulence international operations will have experienced because of coronavirus is all too obvious, with the temporary closure of thousands of stores and factories in many countries around the world, as well as the grounding of flights.

China and East Asia first, but then the Middle East, Europe, India, Russia, Australia and the US – all major retail hubs where global businesses often identify great growth opportunities – are among the territories to have taken extreme measures.

Only time will tell whether the pandemic marks a blip in the pace of globalisation among retailers, or if it changes businesses' attitudes to how they operate on a worldwide scale.

Of the retailers we interviewed that had global operations, 88% said international had become more important this year, in terms of share of revenue.

Although 26% of those we surveyed do not class themselves as international retailers, 12% of all respondents listed international expansion in their top three areas of focus for 2020.

### **New horizons**

The pre-pandemic plans for UK retailers showed that, between them, no stone was going to be left unturned when it came to finding new markets.

Europe was a core focus for the majority of the retailers in international expansion mode, with Germany, Spain and Poland common countries cited as opportunities to grab significant market share.

North America appeared to be next in the line of sight, followed by Japan, China, wider Asia and the Middle East.

The route companies planned to take to launch in these markets varied depending on their product range, target audience and respective competition in each region.

“Our three biggest territories are Japan, China and the US,” said the cosmetic brand retail director. “But the cost is vastly different. The property costs in Japan are so much lower.”

39% 

**OF RETAILERS SAID INTERNATIONAL HAD  
BECOME A 'SLIGHTLY GREATER' SHARE  
OF REVENUE IN THE PAST 12 MONTHS**

26% 

**SAID IT WAS A 'MUCH GREATER'  
SHARE OF REVENUE**

The CEO of the premium footwear brand noted: “The Middle East is a huge market for us today and we expect it to grow significantly. We have seen double-digit growth this year on sales, and great margin. We expect that in Saudi, particularly.”

The co-founder and CEO of an accessories and fashion retailer said the US was its biggest focus, and added: “We have been trading there since 2013, and every year we are seeing growth. But to see the growth that I believe is possible, I think it needs a team out there.”

### Change of tactics

The decision of whether to open dedicated local premises or to operate an international arm remotely from the UK is a major question on several retailers' minds.

Three executives we interviewed used the phrase “a bestseller is a bestseller”, suggesting that widespread product differentiation in each territory is not necessarily vital, while also acknowledging operations will be nuanced by market.

“Our store in Kuala Lumpur shouldn't look like a store in London,” explained the MD of the general merchandiser.

They were one of several who suggested it was important to have localised headquarters. Some felt it was necessary to have a head office in every territory.

Commenting on spearheading the right customer experience country by country, the cosmetic brand retail director said: “A lot of it is around the leadership and understanding the local environment. Even for the UK and Ireland, we have a small office in Dublin because I think it makes

sense. The rules are different; we have an Irish head of region.”

To support supply chain efficiency, retailers we interviewed who were serving Asian markets talked positively about manufacturing and holding products in these regions.

“We are about to open a Hong Kong hub for our distribution, which means that all of our Far East and Middle East distribution will just go from source via Hong Kong,” noted the chief executive of the women's high street fashion retailer.



“From a sustainability perspective, it is important,” they added.

The premium footwear brand CEO said: “As we grow our international business, we look for flexibility in our sourcing strategy, we look to hold more stock offshore, we look to work with partners and source so we can deliver direct in international markets.”

### **Back to Brexit**

Retailers cannot consider international retailing without understanding what impact Brexit will have on such endeavours, but trade deal conversations have taken a back seat as the coronavirus situation has consumed government time and resource.

In *Retail 2019*, 53% of retailers said they thought Brexit would have a negative impact on their organisations. For some retailers, cash reserves were extended, currency was hedged, international warehouses were opened and overseas-sourced stock was brought forward in preparation.

This year was supposed to be the year when progress was made on trade deals and the UK’s new international working relationships were forged.

Once the world has regained some control over the spread of Covid-19, trade

talks will become a focus again. Retailers will need to have a clear path ahead and be informed about the new tariffs and rules as they are introduced.

Although the UK’s exit from the European Union took place on the last day of January, businesses remain none the wiser about the impact of it, according to the CEO of the fast-fashion retailer.

“We will only know whether the deal was a good one once we start to see the manifestations of the conversations that the prime minister has around trade deals,” they said. “The biggest factors for us have always been around imports, free movement of goods and free movement of people: those are the things that affect our business.

“I think one thing we all now at least feel positive about is that we have certainty that we are out.

“I hope there is the bandwidth, competency and time to get these new deals in place as I think we all recognise it takes longer than days, weeks or months. The concern is how much the government needs to get done in a very short space of time.”

If the coronavirus crisis has taught us anything, it is that European governments can reshape fiscal policy and entire economic models in a matter of hours.

Perhaps once the health emergency is over, they can act just as responsively when it comes to post-Brexit trade deals to support retailers’ endeavours at home and abroad.



**We will only know whether the deal was a good one once we start to see the manifestations of the trade conversations**



**CEO OF A FAST-FASHION RETAILER**

**CHAPTER 6**

# **A POST-PANDEMIC WORLD**





**A**s discussed in chapter one, the retail industry is known for its agility and has already begun adapting to the evolving reality presented by the coronavirus pandemic.

While a potential vaccine remains up to a year or more away, depending on who you ask, many countries have begun to ease restrictions, from Germany to Denmark, Austria, Spain and Italy. In April, China eased the lockdown in Wuhan, the original epicentre of the virus. The restrictions there appear to have turned the tide, although it should be noted that the country is now dealing with imported cases, with measures to contain them including a new lockdown in Suifenhe, a city in the northernmost Heilongjiang province.

However, once these lockdowns are lifted, with little immunity within global communities as a result, cases are likely to rocket once more. Therefore, until one of the many vaccine trials happening around the world is successful, retailers could find themselves operating under a new way of life for some time.

In chapter one, we heard from some of the leaders we interviewed about what this means for them right now, while in chapter two, we found out what the immediate steps to recovery are. But what does it mean for retail longer term?

To find out what the future might look like, Retail Week subsequently conducted a series of on-the-record interviews about the trends likely to develop or continue as a result of the pandemic.

Will social distancing become the norm? If so, what does this mean for stores? And what does it mean for online retail and the grocery supply chains currently straining under the demand? What about the people that work for retailers? And what does it mean for the kind of products consumers are going to want and the way they should be marketed to ensure that new retail brands are discovered?

It's clear there are many questions still to be answered.

## Rents and landlords

With no customers in their shops, how are retailers supposed to afford rents in the interim? Many are asking landlords for rent holidays.

One senior property source, who works with both retailers and landlords, says its likely to be the big institutional landlords who will suffer the most.

“Smaller landlords are likely going to be OK. They’re likely going to be more helpful, too, more alive to the situation,” he says. “It’s much harder for the bigger landlords.”

## The impact of home working

Former Waitrose managing director Lord Mark Price, who now runs employee engagement company Engaging Works, believes the lasting impact of coronavirus will see home working go “from a trend to a flood”, so retailers will have to adapt to a move away from office-based employment.

Price believes that retailers whose staff have to work at home need to bear in mind three priorities: keeping their people informed, ensuring they don’t feel isolated and providing learning and development opportunities.

Naturally, Price expects the shift in consumers working from home to lead to greater online growth, especially while non-essential bricks-and-mortar stores are closed.

Microsoft’s Watkins thinks the current situation will lead to a change in working practices. “Covid-19 has meant we’ve gone from one extreme to the other in terms of remote working,” she says.

“As the world comes out the other side of these challenges, companies and their people may well go through an adjustment period until a new balance of flexible working is established. This will require clear guidelines, effective training and a focus on maintaining a sense of community across teams.”

Future trends consultancy Trend Bible chief executive Joanna Feeley believes the outbreak will accelerate existing trends that will shape future consumer behaviour: “Behavioural change comes quite quickly off the back of attitudinal change. Attitudes had already shifted, but it wasn’t possible because a lot of companies didn’t allow it.”

The pandemic will also change the way consumers use the space in their home, she says, and therefore what they purchase. “We’re starting to see people segment their space and storage to accommodate workout and home-working equipment. Something like a pandemic is going to accelerate that behaviour,” she says.

It may also influence the kinds of retail brands consumers want to buy into, she adds: “Some brands and retailers are taking this as an opportunity to say something more meaningful about what they stand for. Look at LVMH and its switch overnight into making hand sanitiser. You have to remain relevant and this idea of surprising agility is something retailers will pick up on.”





# Concerns about their financial wellbeing will change the value equation for many consumers in their discretionary spending



PETAH MARIAN, WGSN INSIGHT SENIOR ANALYST

## Changing consumer mindset

WGSN Insight senior analyst Petah Marian believes that “coronavirus is set to drive a significant evolution in consumer beliefs and attitudes”.

In a report from the trend forecasting company on the implications of the outbreak, she identifies trends, such as anxiety, meaningfulness and considerations of how people spend their time, that will increasingly come into play, along with further digitalisation.

“Consumers will not only be fearful on the wellness front, worrying about their health, but concerns around finances will also come to the fore in the midst of the uncertainty that has emerged as businesses are forced to shutter or slow down operations,” she says.

“Concerns about their financial wellbeing will change the value equation for many consumers in their discretionary spending. They’ll be concerned about price, as well as seeking products that reflect their personal values, while also creating a sense of stability.”

Retail brands, she says, will need to ensure they tap into this slower lifestyle and that products reflect a desire for considered consumption, create membership communities and shift into the digital sphere.

## The long-term view

Futurologist Howard Saunders believes that the outbreak of coronavirus has provided the developed world with “the socio-economic reboot we’ve all been yearning for”.

As people have become increasingly aware of the impact of their consumption on both the planet and those around them, society has been steeped in uncertainty about its purpose.

With the closure of thousands of public spaces, such as shops, restaurants, bars, cinemas and venues, Saunders worries that this might be the end for many such businesses. In their place, he predicts a rise of – or return to – old ways of operating.

“Nations will focus on feeding their own, rather than exports, meaning we’ll become accustomed to buying locally produced, seasonal food. We’ll learn how to cook again, bake bread and home-brew.

“We’ll take on more DIY, learn to knit, sew and play instruments. In short, we’ll live much simpler, dare I say more austere, lives.”

A positive outcome, Saunders forecasts, is that consumers will become more content with their lives.

What this means for retail as yet remains unclear, but, as Marian suggests, it is possible that consumers will seek retail brands that do good and help bring meaning to their lives.

**CONCLUSION**

# **RETAIL 2020: WHAT YOU NEED TO KNOW**



**H**ow UK retail will look by the end of the year is difficult to imagine. At the time of writing this report, all UK stores selling non-essential goods have been closed for a temporary but indefinite period owing to the coronavirus.

Many retailers, of course, continue to keep online operations alive during a period when the government's official advice to citizens is to avoid leaving the house for anything other than essential shopping, work or exercise.

For that reason, the fact that more than one third of the retailers we interviewed said ecommerce investment would be a key focus area in 2020 could prove to be a blessing.

### **A year to forge new partnerships**

Covid-19-influenced 2020 is expected to be a year when new online and delivery partnerships are forged, supported by an enforced shift in consumer behaviour and a need for retailers to be innovative to weather an unprecedented storm.

What we know from interviews with retail executives pre-Covid-19 is that there was already a thirst for evolution in their teams to keep pace with changing customer behaviour.

The ability to adapt and refresh is arguably going to be more important than ever in the months ahead.

The CEO of the furniture retailer said: "We are constantly adjusting our structures to break down the barrier between a digital team and a store team, so it just becomes one.

"I wouldn't say we are adding in digital roles, I would say more traditional roles are becoming digital.

"I have a view that the finance function as we knew it won't exist any more; it will become totally digitised and most people will become data analysts."

The chief executive of the major speciality retailer said: "We have created a whole new function, so our data analytics is a board-level position integrated into everything we do."

The co-founder of the online marketplace commented: “There is so much data lying around. Getting a more analytical team will make sure decisions are more data-driven.”

This is a view with which Microsoft’s Watkins agrees: “There needs to be recognition at board level that roles and responsibilities are evolving and the lines are blurring, with technology being a focus point for all members, not just chief information and technology officers.

“This needs to then carry down throughout the organisation at all levels in order for silos to be fully overcome.”

### **Rising to the challenge**

Finding the right people to adapt to new ways of retailing doesn’t come easily, though – a common theme expressed in the *Retail 2018* and *Retail 2019* reports. Several of the executives Retail Week spoke to this year said the same thing.

For instance, the MD of the footwear retailer said: “It’s very fluid in terms of our digital staffing – it is like the gold rush, everyone wants them at the same time.”

Aside from coronavirus fallout, and the need for continued structural evolution of

front- to back-end systems, key questions retailers are asking themselves in 2020 include: what will the impact of Brexit trade deal negotiations be?; how can we become more sustainable?; and how can I understand my customer better?

And they are seeking answers to these against the backdrop of a perennially challenging environment, as the British fashion and lifestyle brand CEO noted when interviewed before the pandemic.

“You either need to have something very special in the market or a brand that everyone is climbing over each other for,” they said. “If you haven’t got that, you are very brave to forecast any retail growth.

“Until something substantial changes – consumer mindset, rents and rates come down, landlords have a fundamental shift, there is government policy change – we are on flat growth.”

Of course, the current pandemic situation has yet to play out, but retail’s guiding fundamentals are likely to be unchanged.

On the following page, we summarise the key themes from *Retail 2020*.



# Getting a more analytical team will make sure decisions are more data-driven



**CEO OF A MAJOR SPECIALITY RETAILER**

# 5 STEPS: HOW RETAILERS CAN WEATHER THE STORM IN 2020



## STEP 1: Keep staff safe and take care of customers

During a global health emergency, a retailer's priorities are to follow the official government medical-supported guidance, play their part in helping consumers get what they need and – where possible – light up shoppers' lives in dark times.



## STEP 2: Respect the world around them

Consumers are increasingly environmentally conscious, and there is evidence to suggest these attitudes are starting to influence purchasing decisions. This year, responsible retailers – those that respect the world around them – will be favoured.



## STEP 3: Delve further into the data

Whether it's to achieve better operational processes, to create more informed marketing messages, or to help steer the business in the way it needs to go, sophisticated data management will be ever more crucial for retailers seeking to achieve a single view of the customer.



## STEP 4: Make voices heard

Retail has shown its importance to society in the coronavirus crisis, from the grocers through to LVMH producing hand sanitiser. Post-pandemic, the industry must ensure it uses its influence to lobby government on issues vital to its future – from Brexit trade deal agreements, to potential business rate restructuring.



## STEP 5: Broaden horizons

Whether it's exploring as yet untested digital platforms, venturing into new international territories, or trying new services and designs in stores and online, it is so important retailers don't stand still as consumer-business relationships continue to evolve.



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