Ten retail and leisure trends for 2021

Has the UK landscape changed forever?

Foreword

David Scott

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For several years the retail and leisure sector has faced on-going pressure from fragile confidence, shifting business models, rising costs and excessive levels of debt. The pandemic has introduced a host of new challenges, with many businesses focused on survival whilst the realities of the future landscape are still emerging.

As we discover the new normal, the importance of purpose, social interaction, community and our responsibilities towards sustainability are becoming increasingly important to consumers, retailers, leisure operators and investors. Brands' actions throughout the pandemic and environmental achievements will be fundamental to their continued success.

Ten key trends

This year's report identifies ten key trends that should drive debate and challenge within organisations, with funding partners, with your consumers. Some changes are permanent and create new opportunity. Others need careful consideration and recognition of our own responsibilities. As the industry recovers, agility and positioning yourself as fit for the future is key, together with the acceptance that recovery will be different across the industry.

The start of 2021 is not what many have wished for, further clouding the way forward with ongoing uncertainty. However, the ability of the sector to adapt and change has, and will, continue to enable success in an ever-disrupted market.

Richard Lim

Richard Lim
CEO
Retail Economics

In a recent interview I was asked to sum up the prospect of 2021 in one word. The immediate answer that sprung to mind was: 'polarisation'. The impact of the pandemic will widen the gap between the most and least affluent households while separating those retailers with the most sophisticated online proposition from those with legacy store-dependent business models. As a result, different parts of the market will recover at different rates, times and magnitudes which will reveal a disparate and uneven landscape emerging in the coming months and years ahead.

Changing propositions

There's no doubt that government support has shielded many retail and hospitality businesses from decline, but these unprecedented measures cannot remain in place forever. As they are withdrawn, it is inevitable that the pace of industry restructuring will accelerate. Independent businesses are likely to be hardest hit.

But despite these seismic challenges, it's not all been doom and gloom. Well, not from my experience. Many businesses have pivoted their proposition to align to a new set of customer expectations and leveraged these opportunities. The impact of digital has been intensified across all parts of the customer journey, leading to a permanent change in shopping habits across the industry.

The way forward

As a new retail paradigm emerges, successful retailers and hospitality businesses will be those that can identify and secure new customers, leverage permanent shifts in consumer behaviour and fill gaps in the market as opportunities arise.

They'll also need to repurpose stores to meet new customer expectations and operate with resilient supply chains. The fallout from the pandemic will cause permanent shifts in consumer behaviour and will reshape the retail and leisure sectors for years to come.

Introduction
The macroeconomic fallout from COVID-19

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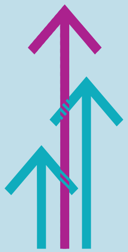
The UK Government has taken unprecedented action to support businesses and protect jobs.



A high degree of uncertainty persists, making it difficult to accurately assess the trajectory of the virus.

The high street is suffering but many businesses are thriving in the digital-first environment.

The world continues to face an extraordinary crisis. The COVID-19 pandemic sent shockwaves throughout the global economy, dislocating international supply chains and reshaping the way consumers live, work, communicate and shop.

Coordinated action from global policymakers and central banks was swift. The UK Government took unprecedented action to support businesses and protect jobs, while the Bank of England cut interest rates to new record lows and kick-started quantitative easing.

These actions helped to cushion the blow by boosting the availability of corporate credit, injecting liquidity, providing assurances with loan guarantees, offering tax breaks, and providing generous employment subsidies.

A shock to the system

Nevertheless, the shock to the UK economy has been severe.

- Retail Economics forecasts UK output to fall by 10.5% in 2020 before bouncing back by 5.3% in 2021.
- While economic output is not expected to return to pre-pandemic levels until 2022, the strength, speed and shape of the recovery will be highly contingent on the effectiveness of the vaccine rollout.
- The hit to the economy will be felt unevenly with unemployment expected to rise to 7.1% in 2021, with retail and leisure being two of the hardest-hit sectors.

Big challenges ahead

The UK economy enters 2021 with fierce challenges ahead. Further national lockdowns cast doubt over the survival of many viable retail and leisure businesses.

Meanwhile, other measures to control the virus continue to disrupt daily life, causing long-term consequences for the economy.

The closure of non-essential retail outlets and leisure venues will make it necessary for households to engage more with online channels, and in some cases cement online behaviour.

The changing high street

The high street will undergo a transformation as we emerge into a new normal. Retailers such as the Arcadia Group, Debenhams, Peacocks, Edinburgh Woollen Mill, Bonmarché and others have already fallen into administration. The reality is that many others will follow. This will likely mean fewer shops across high streets and the purpose of stores changing rapidly.

As the pandemic continues to unfold, many retail and leisure businesses will remain in survival mode. They are cutting costs to preserve working capital and attempting to strengthen balance sheets to weather the storm as effectively as possible.

Further government support in the form of top-up grants will help, but we are heading towards a cliff-edge as the furlough scheme, the business rates holiday and other support measures unwind in April 2021.

Digital-first thrives

Elsewhere, other businesses are thriving in this digital-first environment. They are well positioned to grasp opportunities in emerging markets, retain loyal customers and win new ones as consumers seek alternatives that meet new expectations. However, these changes will be felt unevenly across different sectors, channels and regions as the 'new normal' emerges.

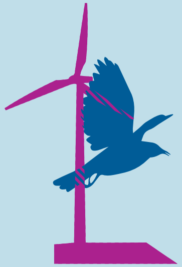
Using nationally representative consumer surveys and engaging with retailers and the leisure industry, this research identifies ten key trends for UK retail and leisure in 2021.

Trend 1
Changes in consumer spending behaviour

Trend 1:
Changes in consumer spending behaviour

The pandemic is changing buying behaviour and households' propensity to spend.

Research identifies four consumer buying behaviour groups and spend behaviours.



Consumers are migrating towards businesses that are better aligned to their values.

Themes that defined 2020 will continue to resonate in the short-term. In an environment of disruption, restructuring and consolidation, new business opportunities will emerge, fuelled by a new set of consumer expectations.

The outlook for consumer spending will be shaped by two underling factors:

1. How the impact of the pandemic continues to influence buying behaviour.
2. How the economic shock impacts personal finances and households' propensity to spend.

This research segments and quantifies households into 'Behavioural Change Quadrants'.

- The first analysis looks at buying behaviour
- The second at consumers' propensity to spend.
- Third, we analyse a combination of the two.

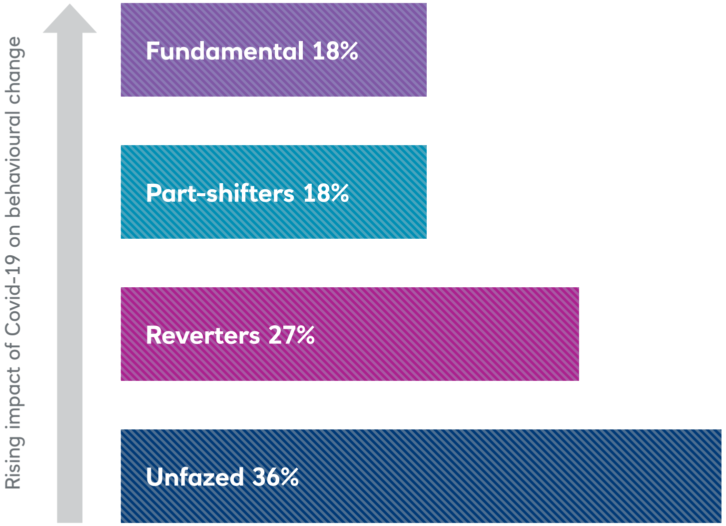
This final segment provides an overall picture to help identify four general consumer archetypes. This in turn allows us to better understand the direction and expected shifts of spending patterns throughout 2021.

Buying behaviour

As the way we live, work, communicate and shop is reshaped by the pandemic, the emerging customer journeys will reflect the path of least resistance to consumer products and services.

Households will continually reshuffle priorities, while reconciling the impact of the crisis on their lifestyles, well-being and personal finances.

Figure 1 Consumer buying behaviour quadrants



Source: Retail Economics

Fundamental
Spending has changed permanently across the majority of shopping.
This group represents consumers whose shopping habits will see the largest change. Just under one in five respondents (18%) say there will be permanent changes in the way they shop for most of their spending.

Part-shifters
Spending has changed permanently for some aspects of their behaviour.
This cohort represents just under one in five consumers (18%), who suggest that the impact of the virus will have a permanent change in their shopping habits across certain categories.

Reverters
Spending habits have been impacted but are expected to revert to pre-COVID-19 behaviour once the threat of the virus recedes.
This segment accounts for over a quarter (27%) of consumers, whose spending habits have been temporarily impacted, but they intend to revert to previous behaviours when 'normality' returns.

Unfazed
Spending behaviour and motivations are unaffected by the impact of COVID-19.
This group represents over a third (36%) of consumers who suggest that their spending habits remain unaffected by the impact of the pandemic.

Buying behaviour groups

The research identifies four consumer buying behaviour groups, the largest of which indicated that their spending behaviour has been unaffected by the impact of the virus, 'unfazed' by the disruption caused.

In part, many of these consumers are from affluent households who, prior to the pandemic, already conducted a high proportion of their spending online. In many instances, these consumers are comprised from more affluent households who have experienced a significant boost in their discretionary income as habitual spending patterns have been disrupted from the impact of the virus.

Reverting habits

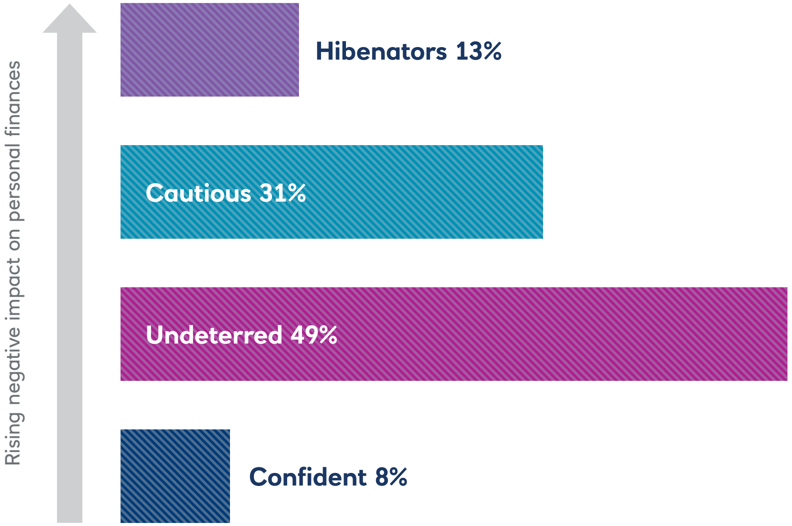
Interestingly, more than a quarter of consumers expect to 'revert' to previous purchasing habits once the impact of the virus recedes. Together, this makes up a majority of households who, after the impact of the pandemic resides, expect to shop in the same way they did previously.

Propensity to spend

Household spending will be shaped by consumers' expectations around personal finances and their propensity to spend.

The research identifies the following four spending behavioural groups:

Figure 2 Consumer propensity to spend behaviour quadrants



Source: Retail Economics
Please note that figures may not sum to 100% because of rounding.

Hibernators

Cutting back on all non-essential purchases.

Just over one in eight consumers say that they will cut back on all non-essential purchases in 2021 as they continue to 'hibernate' until more certainty arises. This consumer segment is likely to come from lower income households, typically aged between 35-55 years old. Fears about their personal finances are correlated with the belief that the impact of the virus will last much longer compared with other consumer segments. Indeed, over a third of hibernators think that their lives will never return to normal.

Cautious

Cut back on some spending while waiting for more normal times.

This group makes up almost a third (31%) of consumers who are looking to cut back on some of their discretionary spending and remain 'cautious'. This group typically comprises younger consumers who are less affluent than the average household. They are more likely to work in parts of the economy that have been negatively affected by the crisis, with a lower proportion able to work remotely.

Undeterred

Spending levels have remained unaffected by the impact of the virus.

This group of consumers constitute the largest proportion, showing that the prevailing customer instinct is to 'keep calm and carry on'. These are typically mature and more affluent consumers, with greater job security and the ability to work from home. Some of these consumers have seen their discretionary income rise through cancelled holidays, fewer evenings out and reduced commuting. As such, their propensity to spend remains largely unaffected.

Confident

Spending levels are expected to rise.

These consumers make up just 8% of households who intend to spend more in 2021 than the previous year. They are typically high-earning, older consumers, but crucially they are much more confident that their lives will return to some semblance of normality sooner than other consumer segments.

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Almost a third (31%) of consumers are looking to cut back on some of their discretionary spending and remain 'cautious'.

Overall consumer behaviour changes

This section looks at combining the previous two behavioural aspects (buying behaviour and propensity to spend) into an overall 'quadrant analysis' to identify four general consumer archetypes.

This approach captures both underlying behavioural shifts and addresses the economic realities in 2021.

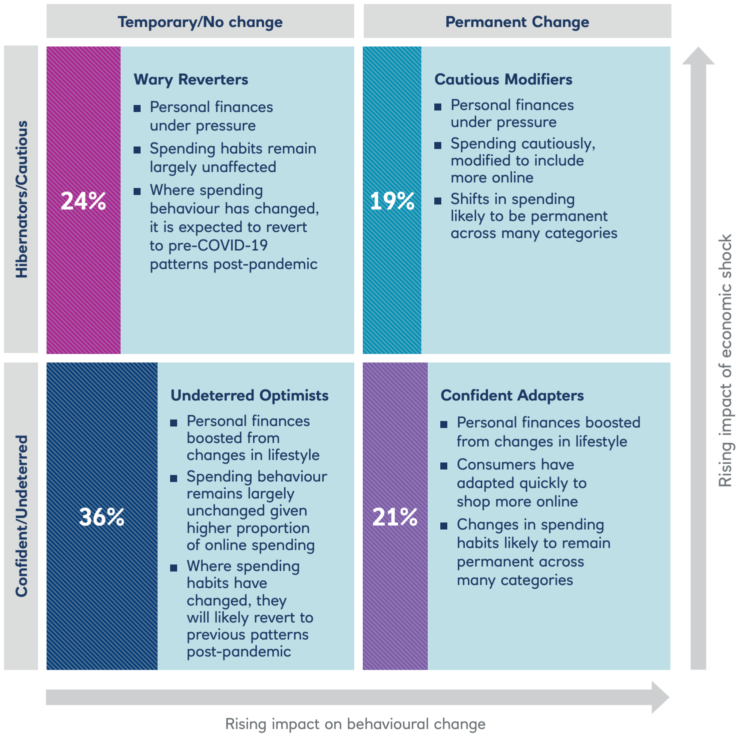
The impact of these consumer behaviour groups will be felt unevenly across the industry depending on a business's core customer base, attitudes to risk, region and many other factors. Also, further disruption throughout 2021 will involve a series of complex societal shifts based on public policy, experiences and emotion.

> Companies who fail to pivot their business models fast enough will be replaced by those with nimbler strategies and new entrants.

A 'shake-out' across retail and leisure has begun, and consumers will continue to migrate towards business models that are better aligned to their new values. Companies who fail to pivot their business models fast enough will be replaced by those with nimbler strategies and new entrants. The pace of change will make for a painful period of adjustment.

Figure 3 Consumer behavioural change quadrants

Proportion of UK households in each quadrant



Source: Retail Economics

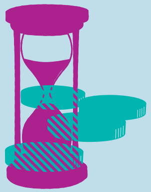
Fixed store costs

It is critical for many businesses to tackle the legacy of hefty, fixed store-based costs in order to become more agile as the virus amplifies the influence of digital technologies. Retailers and hospitality businesses will need to address the burden of rent and other occupancy costs to support the footprint of the future.

Those that emerge 'on the other side' will be more adaptable and resilient to future challenges that lie ahead as a new consumer paradigm emerges.

Trend 2
Consumer confidence

Trend 2:
Consumer confidence



The longer consumers think that the pandemic will last, the less they are likely to spend.

Younger groups are typically less confident about their spending than other generations.

UK households are holding onto over £100 billion of additional savings heading into 2021.

Consumer perceptions about the threat, disruption and duration of the COVID-19 pandemic altered significantly throughout the course of 2020 and this will continue throughout 2021. The initial national lockdown in March 2020 caused a seismic shock to societal norms, uprooting everyday lives in the way people work, socialise, communicate and shop.

Research from Retail Economics showed that during this initial period of lockdown, most consumers envisaged a six-month period of disruption (until around November 2020) before a return to normal. In hindsight, this was a gross underestimate. But as the impact of the pandemic endures, consumers have become more accustomed to living under varying degrees of restrictions and have adapted behaviours accordingly.

Almost two in five consumers (38%) think that their lives will return to normal by June 2021.

Spending cutbacks

Our research shows that consumers who believe that it will take longer than 12 months for their lives to return to normal are significantly more likely to cut back on discretionary spending in 2021.

Younger consumer groups appear more pessimistic about both the duration of the impact of the virus and their propensity to spend. Of course, there are many other factors to consider such as higher youth unemployment rates, the roll-out of the vaccine and the impact on the wider economy.

Confidence linked to spending

Our research reveals a strong correlation between the perceived length of the pandemic and confidence in spending in 2021.

Almost two in five consumers (38%) think that their lives will return to normal by June 2021.

This rises to 55% by September 2021 and 65% by December 2021.

The remaining 35% believe it will take more than a year for their lives to return to normal.

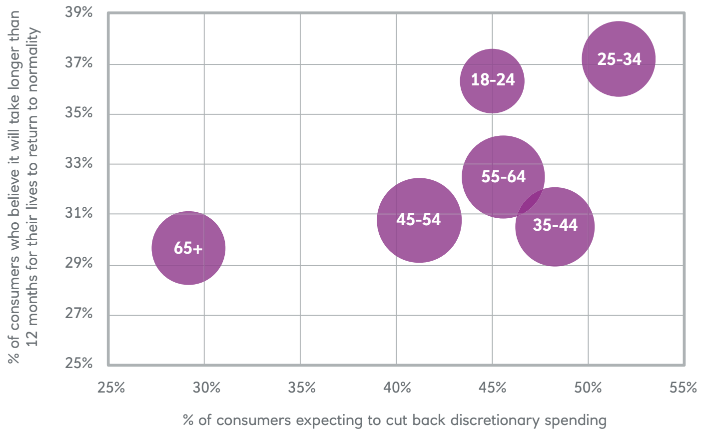
16% of this group believe that things will never return to normal.

Rising savings

Perceptions about the duration of the pandemic's impact is also critical because it influences attitudes towards saving. Many households have boosted savings due to cancelled holidays, commuting less, having fewer evenings out, and purchasing fewer products.

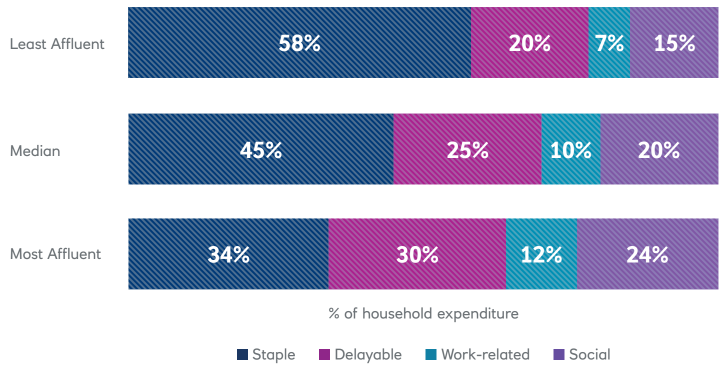
The Bank of England estimate that households in the UK are holding onto over £100 billion of additional savings heading into 2021. Our analysis shows that more than half of household expenditure has been impacted by the effects of the pandemic.

Figure 4 Consumers who believe it will take more than 12 months for their lives to return to normal are significantly more likely to cut back on discretionary spending in 2021



Source: Retail Economics

Figure 5 A comparison of the pandemic impact across household income levels and spending categories



Source: ONS and Retail Economics Analysis

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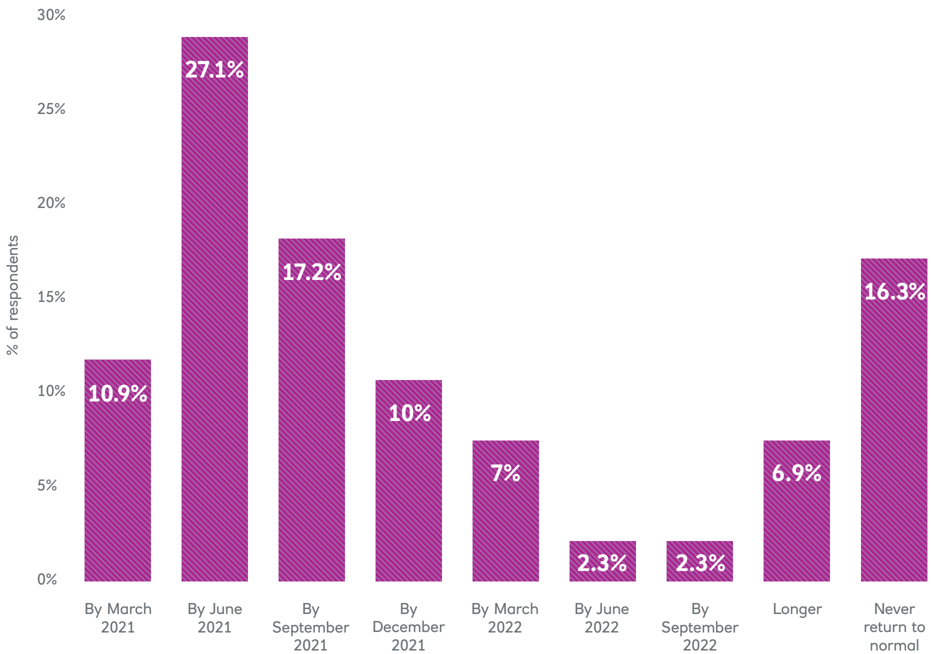
Income discrepancies

However, this masks a significant divergence by household income. Indeed, for the least affluent households c.40% of their spending is delayable (e.g. clothing, recreation and culture), work-related (e.g. travel expenses) or social (e.g. eating out, going on holiday).

This proportion rises to c.65% for households in the highest 10% of earnings which equates to c.£2,895 per month.

Even for the average household, it equates to £1,266 per month, a significant annual 'saving' of c.£15,000. Households' propensity to spend will partially be driven by perceptions around the duration of the virus.

Figure 6 Given the impact of the pandemic throughout 2020, how long do you think it will take before life returns to some semblance of normality for you?



Source: Retail Economics

Trend 3
Continued focus towards online channels

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Continued focus towards online channels

Lockdowns have necessitated a shift to purchasing online away from physical stores.

Consumers are better prepared and switching more easily to 'lockdown buying habits'.

Questions remain in the industry as to whether this shift is temporary or permanent.

The closure of leisure and non-essential retail during periods of national lockdown necessitated a shift towards online. Consumers were faced with an entirely new customer journey, ordering products online that they normally purchase at a physical store.

Our research shows that almost half (46%) of consumers completed a new online purchase that they previously only ever purchased in-store.

This new wave of online shoppers has broken through the typical barriers of setting up online accounts, entering payment details and overcoming issues of trust.

Almost half (46%) of consumers completed a new online purchase that they previously only ever purchased in-store.

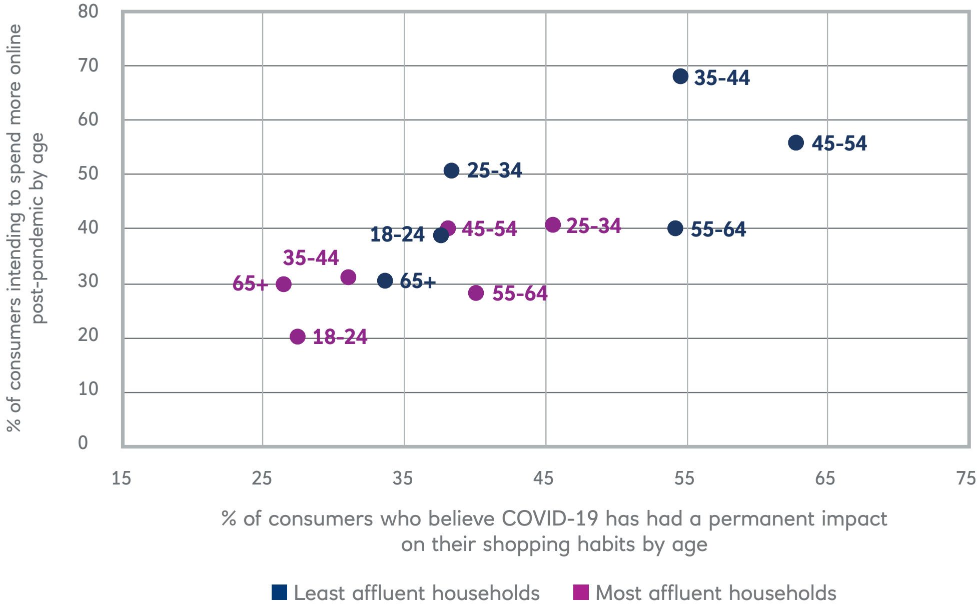
Permanent or temporary?

The crucial question facing many retailers and leisure businesses is 'to what extent are these shifts in consumer behaviour permanent?' and 'will consumers revert to previous habits when more normal times return?'

In reality, changes to spending habits will be diverse, affecting different consumer groups across different product categories as outlined in Trend 1.

Just under a third (32%) of consumers believe their shopping habits will change on a permanent basis as a direct impact of COVID-19.

Figure 7 Consumers who believe that the pandemic's impact will permanently change their shopping habits, intend to spend more online post-pandemic, particularly wealthier households.



Source: Retail Economics

The research shows that:

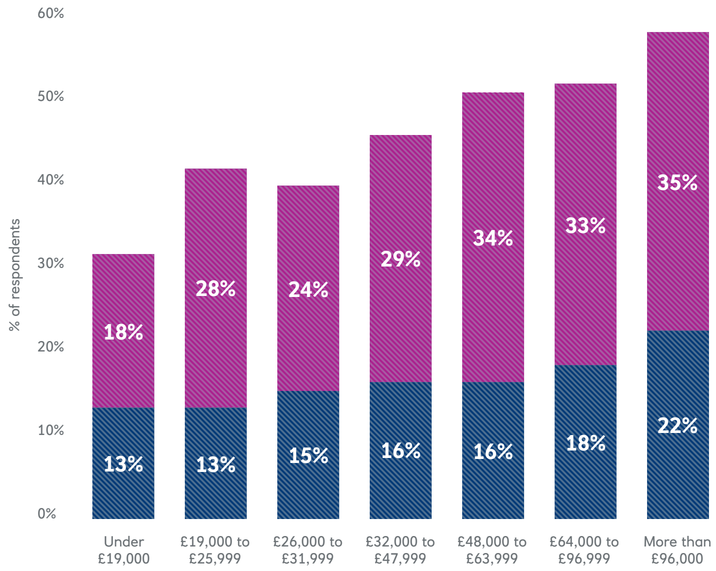
- Just under a third (32%) of consumers believe their shopping habits will change on a permanent basis.
- A higher proportion (40%) of 45-54 year olds believe this to be the case.

There is a positive correlation with income – with wealthier households displaying the greatest propensity for permanent change.

The research also shows a strong positive correlation between those who feel their shopping habits will change permanently and their intentions to spend a greater proportion online – even after the pandemic (Figure 7).

The motivation for a more permanent behavioural shift towards online shopping was strongest for the most affluent households, particularly for those aged between 25 and 44 years old.

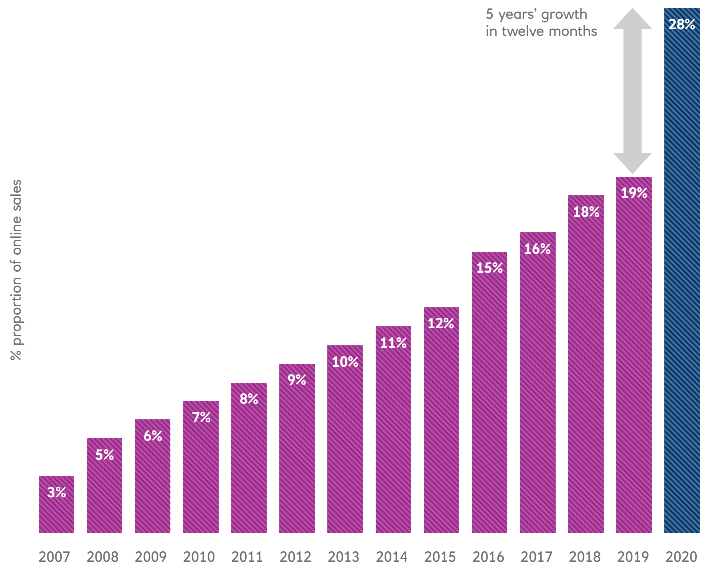
Figure 8 As a result of the COVID-19, I am likely to spend a higher proportion of my spending on retail products online, rather than in physical shops, even after the virus subsides.



Source: Retail Economics

■ Strongly agree ■ Agree

Figure 9 Online sales have accelerated by five years in the space of 12 months



Source: ONS, Retail Economics

Figure 8 shows a clear correlation between households who intend to spend more online and household incomes. The highest income households are almost twice as likely compared with the least affluent households.

Retail Economics estimate that online sales reached 28% of total retail sales in 2020.

Interestingly, based on the trajectory of growth in recent years, the online penetration rate achieved five years' worth of growth in 2020 alone.

However, considerable uncertainty remains over the ongoing impact of the pandemic, the effectiveness of the vaccine and future government measures to try to control the virus.

More disruption ahead

Throughout 2021, further disruption should be expected. However, consumers will be much better prepared from previously learned behaviours and switching more easily to 'lockdown buying habits'. For many, this will mean a greater proportion of their spending will be conducted online, although consumers have altered their distribution of spending within physical channels too.

> Consumers will be much better prepared from previously 'learnt' behaviours and switching more easily to 'lockdown buying habits'.

Shift to retail parks

A noticeable shift towards retail parks has occurred. This is predicated on the convenience of free parking, larger spaces for easier social distancing, and open-air environments which promote confidence for consumers.

Meanwhile, working from home has also encouraged more localised shopping which has supported some local businesses.

Transitioning between 'full lockdown' shopping behaviour, and shopping during 'relaxed restrictions' is becoming normalised, hence consumers will find it easier to switch between modes when required.

Trend 4
Prioritising digital within the customer journey

Trend 4:
Prioritising digital within the customer journey

The influence of digital is accelerating across the entire customer journey.

Changes in the workplace are affecting the way in which consumers shop.

Business that are able to react quickly can capitalise on the new normal.

The impact of the pandemic has completely rewired the customer journey for many parts of retail and leisure. The closure of non-essential retail outlets created an urgent need to engage with the online channel for many households, and the growing influence of digital across the entire customer journey will accelerate.

In recent years, technological advances in online platforms and connected devices has created new consumer groups and more complex interactions.

Retailers are having to reassess and relearn what is driving customer behaviour across digital and physical channels as we transition into a new normal.

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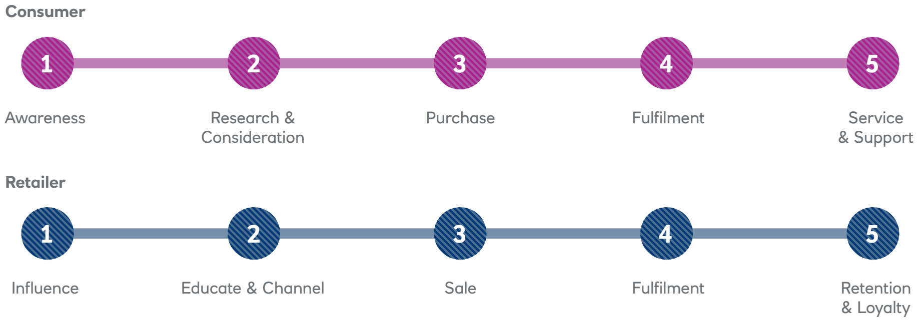
Digital connectivity

Digital connectivity now lies at the epicentre between consumers, retailers and brands. Arguably, the impact of the pandemic has amplified the influence of digital in our lives. Competition for consumer attention (e.g. on social media, online marketplaces or search engines) has become fiercer than ever. The customer journey involves five stages of interaction between consumers and retailers/leisure.

Figure 10 The Retail Economics Customer Journey



Source: ONS, Retail Economics

Stage One: Awareness.
Consumers initially discover retailers/brands and their products and services across different channels.

Stage Two: Research.
Shoppers consider products in more detail (e.g. reading reviews, comparing alternatives, service levels and price).

Stage Three: Purchase.
Consumers make decisions about different payment options, promotions and decide the most appropriate channels to purchase goods.

Stage Four: Fulfilment.
Retailers work to get products into the hands of consumers and shoppers make decisions about how they want to receive their purchases/orders (e.g. direct from in-store, click-and-collect or home delivery).

Stage Five: Service and returns.
Retailers work at the post-sales stage to resolve any issues from the purchase and fulfilment stages (e.g. product enquiries, warrantee issues, refunds, returning unwanted items etc.).

New ways to shop

The pandemic has impacted all stages of the customer journey, from the awareness of products during a shopping trip with friends, to click-and-collect services, where delivery to customers' cars is being used as a new way of fulfilment to reduce social contact.

As consumers embrace new shopping methods and permanent shopping behavioural shifts emerge, retail and leisure providers will need to adopt a digital-first approach to improve the customer journey.

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Takeaways deliver

Consider the takeaway sector for example. The sector has been agile and swift to capitalise on the opportunity afforded to it from diverted spending amid restrictions on socialising.

Restaurants that previously overlooked offering takeaways as a product embraced delivery platforms such as Uber Eats, Deliveroo or Just Eat to explore new ways to market. From a consumer perspective, a widening range of cuisines, more frictionless delivery and ordering options has increased uptake.

Digitising the customer journey

From a retail perspective, the closure of non-essential stores meant that digital platforms were the sole channel to raise awareness of new products and seasonal lines – in addition to traditional media.

For certain sectors, there was a frenzy to adopt a digital spread throughout the entire customer journey as retailers innovatively crafted their online propositions to meet evolving consumer expectations.

A changing working environment

However, structural change in the workplace and the location of many office jobs will also have repercussions on how consumers shop. For retail and leisure, where people work is more important than where they sleep.

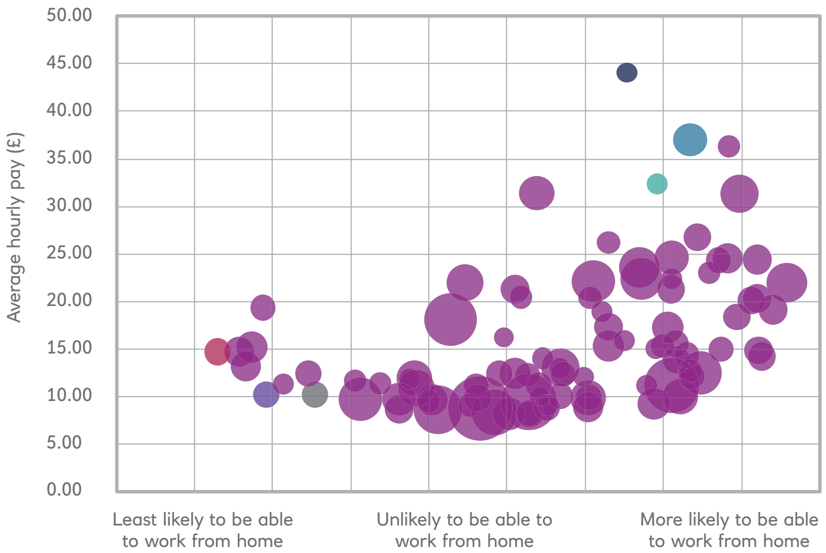
Less time in city centre locations is an obvious factor stunting sales growth in these locations. Likewise, more time spent at home increases the chances of successful online deliveries, the obvious example being groceries. This is a key factor, given that many consumers are unable to receive online orders at their workplace or when they're not at home.

Impacting work, influencing shopping

The research shows that 61% of employed people agree that COVID-19 has impacted the way they work and this has influenced how and where they shop. While there does not appear to be a strong correlation with age corollary, there is a firmer relationship with income group. Indeed, the proportion of consumers who agree that there has been an influence in where they shop rises to 82% for the most affluent households.

In addition, there is also a strong relationship between higher paying jobs and the ability to work from home as shown in Figure 11.

Figure 11 Affluent households are more likely to be able to work remotely which is influencing their spending habits



Source: ONS, Retail Economics analysis

Reactive business models capitalise

Retailers operating nimble and reactive business models have capitalised on these trends, swiftly promoting their products to new cohorts of customers that are working, living and shopping in a different way.

Some launched new digital services (e.g. fitness clothing retailer Sweaty Betty began offering online tutorial classes), while many retailers began to adapt with free delivery services and extended return periods, compensating for limited access to their products.

Our research shows that more than two in five consumers use their smartphone while in a store to browse retail products, check reviews or compare prices. Almost a quarter (24%) of consumers have purchased a retail product while they have been in a store. However, this rises to almost half (47%) for 18-24 year olds. Indeed, these consumers are almost eight times more likely than consumers aged over 65% to have bought something online in a store.

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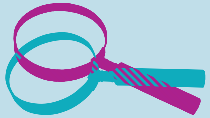
Trend 5
The changing role of physical stores

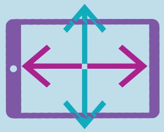
Trend 5:
The changing role of physical stores

There will be a renewed focus on repurposing physical stores to improve customer experiences.

AI will help businesses to generate a single customer view through in-store tracking and analytics.



Retail and leisure providers will need to leverage technology to successfully merge the physical and digital realms.



The continued fusion of physical and digital realms will be a key feature throughout 2021, with a renewed focus on repurposing physical stores in the context of evolving customer journeys. The impact of the pandemic has intensified across each journey stage and the urgency to reflect this across retail estates and leisure operators will become increasingly important.

In reality, this trend is simply an acceleration of what is already unfolding. A physical outlet's value will be measured against new performance metrics incorporating its 'media value'. Inevitably, retail and leisure brands will associate 'physical customer engagement' with 'impressions' that enhance numerous processes within an increasingly complex customer journey.

With AI, businesses can focus on generating a single customer view, where tracking in-store customer journeys will be correlated with online shopping characteristics.

Strategic use of properties

Businesses will need to reassess the value of properties and consider how to use them as powerful media assets, integrating digital strategies, rather than just as distribution hubs. Also, successful retailers and leisure brands will use more sophisticated techniques to assess the quality and value of physical interactions with them.

This will include more wi-fi, video analytics and AI-powered insights. With AI, businesses can focus on generating a single customer view, where tracking in-store customer journeys will be correlated with online shopping characteristics.

Smartphone shopping

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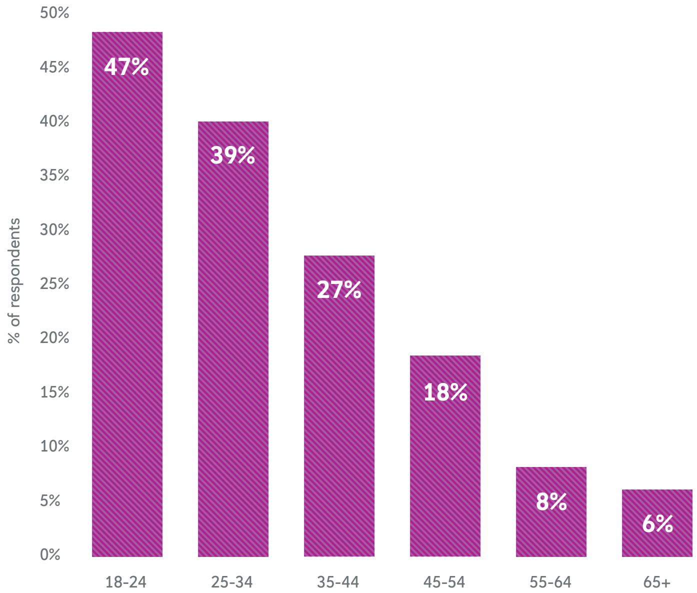
- Almost a quarter (24%) of consumers have purchased a retail product online while they have been in a store.
- This rises to almost half (47%) for 18-24-year olds. Indeed, these consumers are almost eight times more likely than consumers aged over 65% to have bought something online in a store.

Figure 12 Almost half of 18-24 year olds have bought a product online while browsing in a physical store



Source: Retail Economics

Physical channels support digital

Consumers' reliance on digital channels to bring awareness of new products that are supported by physical retail will be critical. Physical channels such as high streets and shopping centres are of comparable value to digital channels – if used in the right way. When done so, they can create a rich and meaningful environment to strengthen brand loyalty and secure lifetime value.

Physical channels such as high streets and shopping centres are of comparable value to digital channels – if used in the right way.

Evolving stores

As the industry transitions to a new normal, the purpose of stores will continue to evolve. Stores can no longer be treated as 'uni-functional' distribution hubs. Retailers will need to leverage technology to successfully merge physical and digital realms. In tandem, the purpose of stores will evolve to offer dazzling consumer experiences that create emotive ties to a brand, acting as effective customer acquisition tools.

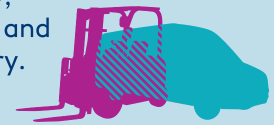
More immediately, the impact of COVID-19 will accelerate the need for retailers to develop the role of their stores as part of a wider marketing strategy.

Trend 6
Brands connecting directly with their consumers

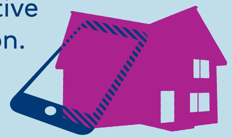
Trend 6:
Brands connecting directly with their consumers

Direct-to-consumer (DTC) models are helping brands increase their digital sales exponentially.

Brands will need to consider the right logistics frameworks to ensure quality, speed and delivery.



Falling rents and flexible leases could make merging physical and digital an attractive proposition.



In 2021, the urgency for consumer brands to establish a more direct relationship with end customers will rise and the impact of the pandemic will accelerate this transition.

Brands such as Nike, adidas, Samsung, Dyson and others have made significant strides in recent years, boosting their online customer proposition while increasing their physical presence, usually with flagship experiential stores.

The seismic shift towards online presents a significant opportunity for brands to embrace customer-facing online channels.

While the long-term motivation is commercial success, the direct-to-consumer (DTC) model allows brands to discover deeper insights about their consumers, gain greater control of the customer experience, and enhance brand differentiation.

Leveraging DTC

Consumers have become more accustomed to purchasing directly from brands. The research shows that over two thirds of consumers either prefer to shop directly with brands or show no preference over shopping directly with retailers. Indeed, the main motivations for consumers to shop directly with consumer brands revolves primarily around price, quality and convenience.

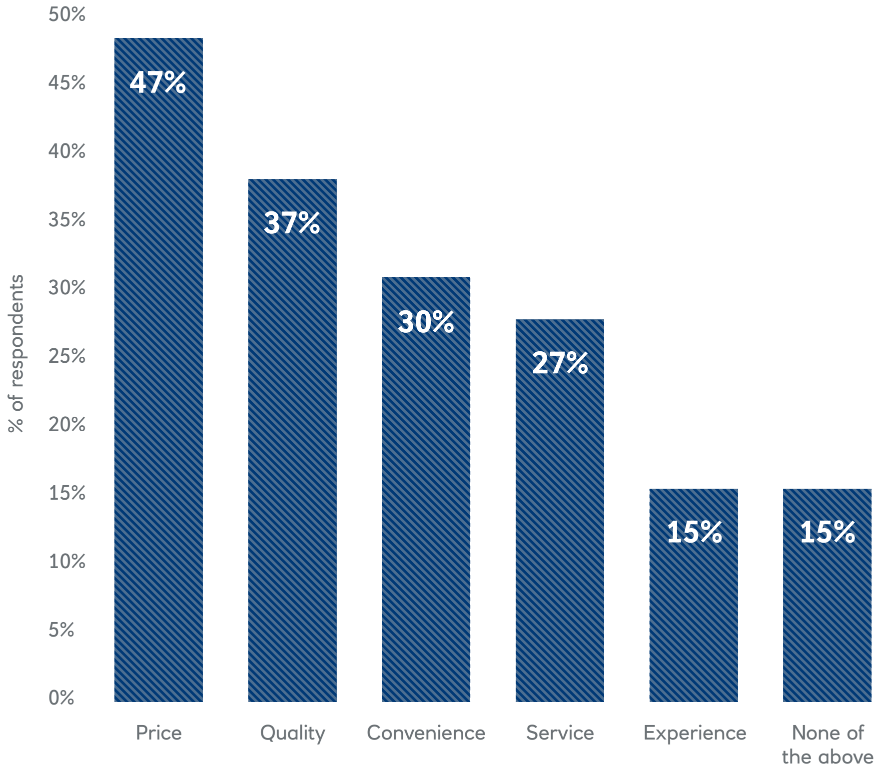
> Over two thirds of consumers either prefer to shop directly with brands or show no preference over shopping directly with retailers.

Connecting through digital

While the vast majority of consumer brands sell through intermediaries (e.g. retailers, online marketplaces, specialised distributors), there are obvious opportunities for brands to connect directly with their customers through digital platforms. However, they will need to adapt their practices to reflect rapidly changing consumer preferences and embrace a more agile operating model.

> Brands will need to adapt their practices to reflect rapidly changing consumer preferences and embrace a more agile operating model.

Figure 13 What is the most important factor influencing your choice to shop with a manufacturer (e.g. Nike, Microsoft) or retailer (Next, Marks & Spencer)? (select all that apply)



Source: Retail Economics

For example, logistics frameworks will differ widely amongst retail supply chains, and consumer brands will need to consider carefully the right partnerships to ensure quality, speed and final mile delivery. Data analytics also requires a whole new range of technical abilities to build, consolidate and provide operational models that automate data mining to derive clearly defined actions.

Rich rewards

But the rewards are rich for brands who can execute DTC strategies well. Nike brand digital sales rose by 84% in the second quarter of 2020, benefiting from their well-established DTC operating model and the underlying shift to online. Meanwhile, companies such as PepsiCo and Kraft Heinz have both launched new DTC models during the pandemic.

For many brands starting out on this journey, digital marketplaces and established platforms can be an effective route to market and an important environment to learn what works for them. More mature online consumer brands will continue to scale their online presence and generate important customer insights.

Merging physical and digital

However, the opportunity to experiment with a physical presence will become attractive as the retail property market undergoes painful readjustments. Falling rents, a shift to flexible lease structures and considerable bargaining power could make the economics of merging a physical and digital presence an attractive proposition.

Nike brand digital sales rose by 84% in the second quarter of 2020, benefiting from their well-established DTC operating model and the underlying shift to online.

Trend 7
Raising Environmental, Social and Governance (ESG) Credentials

Trend 7:
Raising Environmental, Social and Governance (ESG) Credentials

Environmental, Social and Governance (ESG) will play a key role for brands in 2021.

Retail and leisure boards are under pressure to develop their sustainability propositions.

Sustainable consumption and production are an important point of consideration for consumers.

Early in the pandemic, apparent concerns around the Environmental, Social and Governance (ESG) were at risk of being relegated as firms focused on survival.

However, as the initial shock subsided, businesses and governments are considering how to build back better, with sustainability playing a key role.

Three major themes that will see ESG play a more central role throughout 2021 include:

- Supply chains
- ESG-focused investors
- Consumer pressure

Around 22% of global greenhouse gas emissions are attributable to the production and distribution of traded goods consumed abroad.

Shorter supply chains help produce fewer emissions

Around 22% of global greenhouse gas emissions are attributable to the production and distribution of traded goods consumed abroad[1], around a third[2] of which are directly linked to trade-related freight transport. Shortening supply chains could reduce embedded emissions in the transport of goods, encouraging businesses to move supply chains 'closer to home', while a more carbon-efficient local production base could yield significant benefits.

Nonetheless, the potential reduction in carbon emissions is not always clear-cut. For example, more carbon-producing transport methods (e.g. road and rail versus ocean freight) decouple the straightforward relationship between distance and carbon emissions.

[1]CarbonBrief | [2]International Transport Forum

Other factors like the speed of freight is also important. Therefore, increasing scrutiny will be placed on the efficiency of supply chains which will play an important role in future ESG strategies (see Trend 8).

ESG-focused investors

In 2021 and beyond, retail and leisure boards will come under increasing pressure to pitch to investors a powerful sustainability proposition. Currently, disclosures around ESG targets and metrics remain vague, lack comparability, and reporting is often infrequent.

Retailers will be pressured to pursue more actionable outcomes to reduce carbon emissions (amongst other goals) as investors demand greater visibility as corporate financing terms increasingly hinge on the outcome of investors' ESG analysis.

Rising demand for sustainable investment

The influence of ESG rating providers has risen significantly in recent years. There is rising demand for sustainable investment from large pension funds to retail investors. As such, investors are looking to engage with products that 'do good' as well as generate returns.

- More than 360 new ESG-focused funds were launched in 2019.
- This is up 2.5 times on the previous year, generating €120 billion in investments[3].

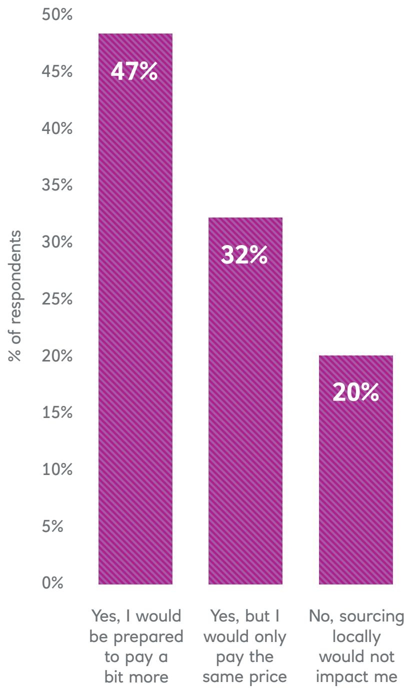
These underlying trends will sharpen the dialogue between borrowers and investors, which will become increasingly dominated by ESG, with supply chains playing a critical role.

Consumer pressure

The sustainable consumption and production of products is now an important point of consideration for consumers. This influences where they shop and what products they buy. Consumer awareness and their expectation of responsible and ethical practices from retail brands, the government and themselves are driving business change.

- Almost half of consumers (45%) believe they are responsible for reducing carbon emissions from the consumption of retail products, more so than the government (36%) or retailers (19%).
- In fact, British consumers appear to be prepared to pay more for locally produced products if they thought it had a positive impact on the environment.

Figure 14 Thinking about sustainability, if a retailer or brand sourced products locally (e.g. from within the UK) would it influence where you shopped?



Source: Retail Economics

[3]Morning Star

Sustainable practices influence consumer choice

Almost half of respondents (48%) suggested that they would be prepared to pay a bit more for locally produced goods, with almost a third (32%) saying that locally sourced goods would influence where they shop, but they would not be prepared to pay more.

However, there appears to be a growing acceptance among consumers to take on more responsibility when it comes to sustainable consumption.

Almost half of respondents (48%) suggested that they would be prepared to pay a bit more for locally produced goods.

Our research showed that:

- in 2019, less than one in five consumers thought that they were most responsible for the sustainable production of retail products, suggesting that retailers and brands (64%) and government (18%) played a more important role;
- while almost eight in ten consumers suggested that they would switch to brands with more ethical credentials, just 39% were willing to pay more for these products.

Other factors at play

Clearly, sustainable practices influence consumer choice, and there are many factors at play including the environmental impact of textile production, food or furniture (including energy consumption), water use, packaging, waste, provenance, chemicals, dyes/finishes and greenhouse gas emissions. It will become increasingly important in the eyes of consumers for retail and hospitality brands to be seen to be 'doing the right thing'.

Older consumers buy local

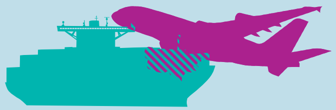
Consumer sentiment around local sourcing is an important factor when choosing products, but considerable differences arise by age. Older consumers are more likely to shop with a particular retail brand that sources products locally, compared with younger consumers.

Indeed, almost nine in ten consumers (89%) aged over 65 years said they would be influenced by local sourcing, compared with two thirds of consumers (67%) aged between 18 and 24 years.

Trend 8
Developing more resilient supply chains

Trend 8:
Developing more resilient supply chains

COVID-19 has exposed weaknesses in many brands' international supply chains.



Strategies such as near-shoring, re-shoring and on-shoring are gathering momentum.

There are clear indications that retailers want to source more locally where possible.

Evidently, the COVID-19 pandemic caused a sudden and severe impact on international trade. As countries grappled with the impact of the virus, factory closures around the world caused a ripple effect throughout an expansive supply chain network, quickly leading to global disruption.

Attention was immediately placed on identifying weaknesses in supply chains. This often highlighted reliance on a single country, too few suppliers, and the risk of 'just-in-time' principles. These vulnerabilities have emerged following decades of cost efficiencies being prioritised over flexibility and responsiveness.

The crisis highlighted that globally dispersed and complex supply chains are only as strong as their weakest link.

The weakest link

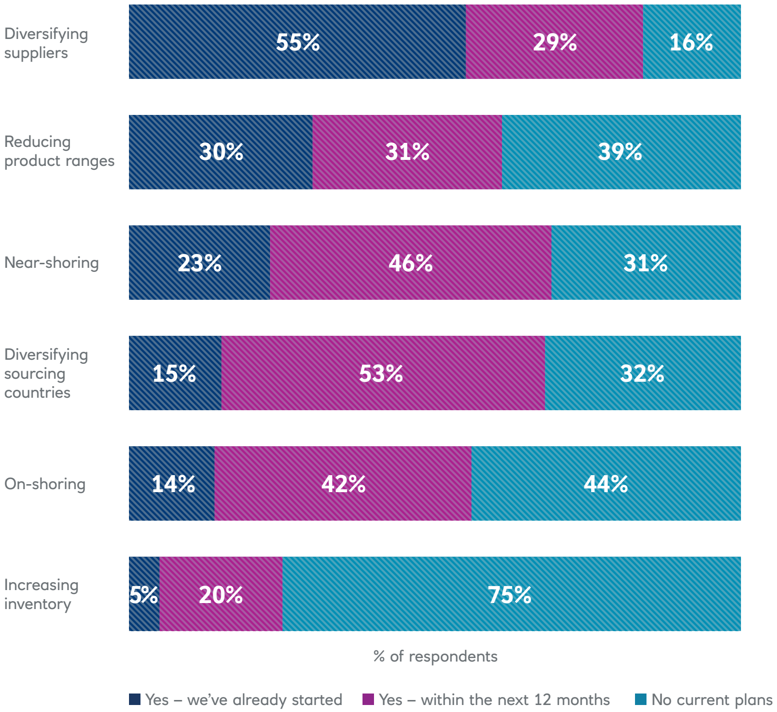
The crisis highlighted that globally dispersed and complex supply chains are only as strong as their weakest link. As businesses assess the impact of the crisis and look to futureproof their operations, new supply chain strategies are emerging as industries adjust to the new normal. Throughout 2021, businesses will continue to grapple with developing smarter, stronger and more diverse supply chains.

Strategies are likely to involve using shorter, more flexible and resilient supply chains that are better equipped to deal with supply shocks. They will also need to address rapid changes in consumer behaviour as witnessed in recent months.

Key themes for developing supply chain strategies include:

- **Simplification:** With shorter supply chains using more on-shoring, near-shoring and re-shoring.
- **Diversification:** More sources of supply, reduced reliance on single countries and single suppliers.
- **Rethinking inventory:** Establishing alternate supply sources to enable fast-tracked volume delivery capability. Adopting better, more agile inventory policies to maintain ‘just-in-time’ strategies with established mitigation.
- **Understanding cost to serve:** Any move to near-shoring will have an impact on margin, due to local cost differences. It’s essential to gain an understanding of these differences to build mitigation options and pricing scenarios. There is a clear trade-off between agility and inventory write-offs.

Figure 15 Are you considering any of the following options since the emergence of the pandemic?



Source: Retail Economics Analysis, Alvarez and Marshal

Near-shoring, re-shoring, on-shoring

As alternative sourcing strategies gather momentum, the manufacturing footprint will evolve significantly over the next decade.

UK retailers and, to an extent, leisure providers, will consider using a combination of near-shoring (using suppliers closer to domestic markets), re-shoring (re-engaging previously used domestic supply chains) and on-shoring (moving supply chains to within domestic economies) operational strategies as economic models are reset.

Shorter and simpler supply chains are likely to be more resilient to future global shocks, given fewer stages in the chain itself that use shorter shipping routes.

Shorter and simpler supply chains are likely to be more resilient to future global shocks, given fewer stages in the chain itself that use shorter shipping routes.

Many businesses have already conducted a thorough impact analysis to understand the effects of such changes. Sectors that are most susceptible to the largest changes will likely include apparel, food ingredients, DIY, home and leisure, to name a few.

70% of retailers surveyed had conducted a review of their supply chains as a direct result of COVID-19.

Limiting future risk

As well as simplifying supply chains, businesses will also act to limit future risk. Successful strategies will address the over-reliance on single suppliers and single-country supply routes, forcing retailers to consider supplier diversification, and even dual-sourcing to ensure supply continuity.

There are clear indications that retailers want to source more locally where possible.

Research from Retail Economics found that 70% of retailers surveyed[4] had conducted a review of their supply chains as a direct result of COVID-19. From detailed conversations with retailers, many were at pains to report the significant work that had already been conducted around Brexit planning, so they were better positioned to deal with the impact of the pandemic.

Nevertheless, the sudden and severe impact of COVID-19 on supply chains forced action. Many retailers have already started the process of diversifying suppliers, reducing product ranges and increasing sourcing from domestic economies.

Varying strategies

As retailers continue to surmount this challenge, their strategies will not be applied equally across all parts of the market. Unique solutions will be deployed, but they depend on the location of retailers, product type, production complexity, seasonality, production costs, quality of materials, level of automation, logistics, profit margins and many other factors. Such complexity means that supply chain strategies will vary widely across sectors, country, and individual retailers, while also being implemented at varying pace.

The commercial viability of sourcing strategies will ultimately drive decision making amongst most firms, but there are clear indications that retailers want to source more locally where possible. However, other challenges will arise that will slow the pace of change, including lack of specialist skills, choice of suppliers and concerns over capacity.

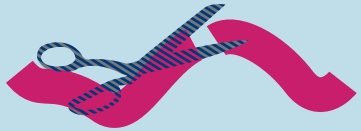
[4]Retailer Survey conducted from 28 September to 7 October 2020, across 30 multinational retailers with a combined turnover of over €600 billion – Retail Economics and Alvarez and Marsal.

Trend 9
Managing the implications of Brexit trade policies

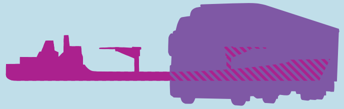
Trend 9:
Managing the implications of Brexit trade policies

Brexit has established a level of certainty for UK retailers and leisure operators sourcing from the EU.

Red tape' at the border and Rules of Origin conditions will have to be addressed.



New international trade negotiations could deliver significant reductions in import costs.



The new United Kingdom/European Union trade agreement provides a much-awaited resolution to the future trading relationship for both parties. It establishes a level of certainty for UK retailers and leisure operators sourcing from the EU, and for retailers selling directly to consumers in the EU via e-commerce.

Nevertheless, companies will now have to effectively manage the implications of the trade agreement if they are to maximise margins.

New tariff costs on trade with the EU have been avoided altogether and the agreement contains provisions that should help minimise the cost of new customs and other regulatory friction emerging at the border. However, some uncertainty remains over how effective and efficient new import systems will be in practice.

Trade negotiations

Overall tariff costs associated with importing from non-EU countries will reduce, although reductions will be marginal in most instances.

In some specific cases (e.g. bicycles from China and horticultural products from around the world), tariff reductions will be material.

Having secured a Free Trade Agreement (FTA) that meets the UK's core objective of tariff-free/quota-free trade, the government should feel confident to move forward trade negotiations with other key partners such as Australia, New Zealand and the US.

Agreements with these countries would constitute a new chapter in the UK's independent trade policy which could deliver significant reductions in import costs for a range of consumer products, especially for food and drink.

No new tariff costs on imports from the EU

The centrepiece of the new UK/EU Trade & Co-operation Agreement is a commitment by both sides to abolish tariffs on all trade in goods, including agricultural goods. Consequently, this makes it the first trade agreement the EU has ever signed that achieves this.

Every other EU FTA includes some exceptions to the principle of total tariff-free trade, even the much-heralded agreement with Canada, which is often referred to as a benchmark. In this sense, the UK/EU Agreement is truly historic. Granted, the two sides started from a position of no tariffs by virtue of the UK's membership of the EU Customs Union.

This particular aspect of the agreement ensures that retail imports to the UK avoid up to £7.0 billion in new tariff costs, including up to £5.3 billion on food alone.

Agreements with Australia, New Zealand and the US could deliver significant reductions in import costs for a range of consumer products, especially for food and drink.

Rules of Origin

However, there are conditions that must be met, principally – Rules of Origin. These rules require that goods are 'wholly obtained', contain a substantial proportion of raw materials, or have been substantially transformed in the UK or the EU.

The precise rules differ from one product to another and are outlined in a long annex to the main agreement[5].

The new UK/EU Trade and Co-operation Agreement is first trade agreement the EU has ever signed that commits to abolishing tariffs on all trade in goods.

As goods arrive in the UK from the EU, a declaration of preferential origin must be submitted in order to qualify for tariff-free treatment, completed by the importer or exporter. While the completion of preferential original declarations undoubtedly adds new administrative costs, the trade agreement allows for single declarations to cover multiple shipments of the same product, thereby simplifying the process.

However, if goods fail to satisfy the relevant preferential Rules of Origin, they will be liable for the full rate of Most Favoured Nation (MFN) duty.

[5]Annex ORIG-2: Product Specific Rules of Origin

Tariffs on imports may still emerge

The UK/EU Agreement allows either side to impose tariffs on trade in the future, but in strictly defined circumstances. These are principally when one side has breached its 'level playing field' commitments[6].

More widely, both sides have retained the right to use WTO-compatible 'trade defence' measures to combat 'unfair' trade from the other party. The two main instruments at their disposal are Anti-dumping tariffs (against 'dumped' imports) and Countervailing tariffs (against unfairly subsidised imports).

In both cases, tariffs may only be applied following a detailed investigation, they must be restricted to the goods that have been dumped or subsidised, and they must be limited in amount to compensate for the level of subsidy or dumping.

New 'red tape' will emerge at the border

All imports from the EU will need to be covered by an import declaration[7]. This import declaration can be submitted by the importer directly, but it is often delegated to a customs agent working on behalf of the importer. Simple declarations can cost as little as £50.

The UK/EU Agreement contains provisions aimed at facilitating trade and keeping the cost of customs paperwork to a minimum. These include simplified forms, periodic submission of import declarations, self-assessment of duties, deferred payment of duties[8] and special procedures for RO-RO traffic[9].

The UK/EU Agreement allows either side to impose tariffs on trade in the future, but in strictly defined circumstances.

[6]For example, if the EU was to lower the level of its environmental protection and that gave its manufacturers a clear economic advantage over UK competitors, the UK could increase tariffs on imports from the EU. Any such measures by the UK would need to be proportionate to the damage it has suffered as a result of the EU's action.
[7]The claim of preferential origin is included as part of the import declaration.
[8]Article CUSTMS.5: Simplified Customs Procedures
[9]Article CUSTMS.18: Facilitation of roll-on, roll-off traffic

Food product safety

Imports of many food products will require extra documentation to demonstrate conformity with Sanitary and Phytosanitary (SPS) requirements which focus on food safety.

The UK/EU Agreement does not impose any new substantive SPS regulation, it simply requires that compliance with SPS rules is demonstrated at the border. This requirement is already in place for imports of food from outside the EU (see Appendix 1 for more detail).

It remains to be seen how these new arrangements will work in practice and what impact they will have on retailers' costs, although it is clear from the Agreement that every effort has been taken to establish rules that will facilitate trade and reduce costs without lowering levels of consumer and product safety.

Provisions on cross-border e-commerce

Cross-border e-commerce is a vital growth channel for UK retailers and it has flourished in the EU Single Market. The development of this trade has been facilitated in part by the fact that all intra-community e-commerce is free of any customs checks or tariffs.

Now outside the EU, e-commerce sales from the UK to anywhere in the EU will become subject to customs procedures, and possibly tariffs if an individual package exceeds a value threshold. This threshold is EUR150.

E-commerce from the UK to the EU will be subject to customs documentation and possibly also tariffs if the value of the package exceeds EUR150. The level of tariff will be determined by the nature of the product and its origin. The threshold for tariffs on e-commerce from the EU to the UK is £135 pounds. In these cases, the specific amount of duty payable will depend upon the actual origin of the product[10].

Next steps for UK trade policy

Now the UK has secured a trade agreement with the EU, it can turn its attention to other trading partners, including negotiations with Australia and New Zealand that were opened in 2020.

Trade negotiations have also been opened with the US which could progress quickly under a new US administration, particularly as the UK has removed the elements of the Internal Market Bill that had caused concern for President-elect Biden. New FTAs with these important supplier countries could lead to a significant reduction in tariff costs on imports of consumer goods, especially for food and drink.

Cross-border e-commerce is a vital growth channel for UK retailers, and it has flourished in the EU Single Market.

[10]For example, a package consigned from the UK containing a wool dress of Chinese origin with a value of 600 euros would attract a rate of duty of 12%. However, if the dress is of UK origin, then the duty rate would be 0%. In order to benefit from preferential tariff treatment, a declaration of preferential origin must accompany the package.

Trend 10
Updating business models

Trend 10:
Updating business models

The pace of change brought on by COVID-19 will not relent in 2021. As businesses continue to adapt to new challenges, their business models will also need to adapt.

New systems will come online, policies will determine what is permissible, and consumer behaviour will respond accordingly to the environmental constraints at the time.

As such, business models will be tested to their limits. Legacy systems within restrictive business models, if left unchecked, will stifle survival efforts, and it will be vital for companies to be ever vigilant for emerging opportunities and threats as the year unfolds.

All businesses need to be fastidious in updating their business models so their operations capitalise on emerging trends.

New business models for emerging trends

Strategies underpinning retail and leisure business models will vary widely when attempting to combat the long-lasting impact of COVID-19, Brexit and other challenges. They depend on many external factors such as location, competitor dynamics and regulation.

However, the common theme for all businesses is the need to be fastidious in updating their business models so their operations capitalise on emerging trends, both in the UK and globally. These include the reality of a more dynamic international trade environment and the ongoing disruptive impact of COVID-19 and related government policies.

The research identifies five key themes that retailers must carefully consider when developing their strategies:

Theme 1:
Identifying new customer cohorts

As identified in Trend 1 (Changes in consumer spending behaviour), the emergence of new customer cohorts (as detailed in the behavioural quadrants) will be influenced by the ongoing impact of COVID-19, economic recession and perceptions about the duration of the virus.

Many of these new groups will have undergone a significant shift in their shopping habits in 2020 and some of these changes will be permanent.

Barriers to online shopping have been broken down and new paths to purchase have been trodden.

Concerning behavioural change, some consumer cohorts will be easier than others to identify, while more nuanced behavioural shifts will be challenging to pinpoint and capitalise on. However, retailers who can effectively identify and pivot their propositions accordingly will emerge as winners.

Implications for retail business models

Data science, artificial intelligence and machine learning will be at the heart of identifying new consumer cohorts and engaging with them in a sophisticated, automated and scalable way. Most retailers do not have the in-house expertise to leverage these new technologies. Here, strategic partnerships will be critical in allowing retailers to leverage the benefits while remaining nimble.

IT and infrastructure will be important areas of development as retailers scale up their online capabilities, while requiring expertise and partnerships in this area. This may be particularly true of the direct-to-consumer (DTC) model where consumer brands need to invest intelligently, move quickly and learn from experimentation to keep abreast of fast-moving consumer trends.

Marketing strategies will have to adapt to new customers and target them across a mix of channels that reflect their interests.

Theme 2:
Leveraging permanent shifts in behaviour

The closure of non-essential retail necessitated an increased focus towards online for many retailers. The proportion of retail sales was expected to hit c.28% in 2020, effectively achieving five years' worth of growth in just 12 months. A key consideration for retailers will be trying to identify which reactionary behaviours will endure and how they will develop in the interim. While it is inevitable that some consumers will revert to their old ways when 'normality' returns, our research shows that 40% of consumers (e.g. 'Cautious Modifiers' and 'Confident Adapters') are likely to have permanently changed some of their shopping habits within certain sectors. Notably, traditional behaviours have become 'unanchored' and consumers are now primed to consider alternative options more readily.

Online vs. physical

These permanent behavioural shifts will not be uniformly expressed across the industry. They will depend on many factors such as online retail capacity, socio-demographics and expectations about the duration of the virus. Even within categories, notable differences arise by age.

Nevertheless, there is a clear statistical bias towards a higher frequency of online shopping at the expense of the physical channels.

> There are enormous challenges for retailers who are suffering from legacy business models that are slow to adapt.

While this presents key opportunities, it also creates enormous challenges for retailers who are suffering from legacy business models that are often slow to adapt, burdened with too many stores, too much space and a poor multichannel proposition.

The industry has already seen an acceleration in the decline of businesses such as the Arcadia Group, Debenhams, Peacocks and others.

Increasing flexibility across channels

The impact on business models will be vast and the implications far-reaching. In a volatile trading environment, successful retailers will be working hard to create novel ways to engage previously 'hard-to-capture' online shoppers to generate value from them.

What's more, retailers will need to accelerate the pace of investment in their digital capabilities, as we head towards a future requiring more flexibility across channels.

The integration of Customer Experience and Relationship Management software (CRM) will be central to ongoing digital transformation initiatives across the retail industry, and this area is likely to see sustained levels of investment.

Priority areas

Priority areas are likely to include adoption of communication platform partners which integrate, facilitate and scale communications with customers across email, text, voice, social media and video channels.

New digital customers will also require different technologies to service them effectively. For example, in some parts of the market, it may mean that offering free but timed delivery slots (preferred by older consumers), might be preferable to same-day paid for delivery services (preferred by younger consumers).

Implications for retail business models

Acquisition and partnerships will become an important strategy at the innovation stage. Some will use M&A or partnerships to achieve scale, such as international grocers, while others will look at forming strategic partnerships.

Scale will be critical in leveraging opportunities within the online channel. Retailers will have to invest heavily in multichannel, data-analytics capabilities and logistics.

Efficiency and cost-cutting will be at the heart of business planning. Following years of margin erosion, further declines due to the impact of COVID-19 can be expected. However, retailers will realise that conventional forms of cost-cutting can only take them so far, and significant investment in new technologies is needed to improve supply management efficiencies and restore profitability. How this is implemented will be key, as partnerships and 'everything as a service' models become more commonplace.

> The integration of Customer Experience and Relationship Management software (CRM) will be central to ongoing digital transformation initiatives across the retail industry.

Theme 3:
Retailer voids

The retail landscape will evolve at a frightening pace in 2021. Many businesses entered 2020 with weak balance sheets and the impact of COVID-19 pushed many into administration, despite unprecedented government support. But as this support dries up (e.g. Job Retention Scheme, business rates holiday) and VAT deferrals and delayed rental payments arrive, the unfortunate reality is that many more will fail.

Industry consolidation

Further industry consolidation can be expected. Retailers that have survived, or even thrived during the pandemic, will seek out opportunistic acquisitions, accelerating restructuring across the industry.

An obvious consequence being a rise in the number of voids, and retailers disposing of unprofitable locations in favour of leaner and more digitally focussed business models.

Retail Economics estimates that there is around 20% overcapacity of retail space that businesses cannot commercially justify. In a post-COVID-19 world, this figure will be higher. Also, the market will self-correct over a shorter time frame.

Implications for retail business models

Direct-to-consumer (DTC) is likely to accelerate as brands leverage online channels to offer solutions to consumers' emerging needs and wants. Brands will have the capacity to accelerate their connection with their customers as they will be operating with larger profit margins, uninhibited by vast store estates.

Specialist retailers will emerge to fill gaps in the market that meet new customer demands. Armed with deep knowledge, flexible supply chains and sophisticated online operations, these retailers will function with leaner and more flexible business models.

Regional expertise will become an important differentiator of choice for consumers. Such retailers offer unique regional propositions that are relevant to their local communities.

Retailers that have survived, or even thrived during the pandemic, will seek out opportunistic acquisitions, accelerating restructuring across the industry.

Theme 4:
Using physical stores more effectively

COVID-19 has acted as a catalyst, forcing companies to assess the effectiveness of physical stores, hence an increased urgency to repurpose physical retail space. With an ever evolving and complex customer journey that encompasses more digital touch points, the question retailers will continue to grapple with is 'how can physical stores work harder and be more effective in the new retail paradigm?'

In many cases, extracting more value from physical stores means leveraging technology to harmonise the digital and physical aspects of the customer journey. As brands attempt to forge more meaningful relationships with their customers, stores will offer new lifestyle services to increase engagement and secure loyalty. Increasing store effectiveness can also mean showcasing sustainable and ethical practices in innovative ways.

Repurposing physical spaces

Landlords will also have to become much more innovative in their use of space and work more collaboratively with retailers. Pop-up shops and white box spaces that create a healthy churn of independent retailers who are relevant to the local communities they serve can help revitalise tired areas.

Elsewhere, oversized or redundant stores could be repurposed to facilitate online fulfilment, city centre hubs for deliveries, convenient click-and-collect points, or drop-off destinations for returns – if rental costs permit viability.

Implications for retail business models

The media mix will include stores as an effective customer acquisition tool that distributes experiences, builds the brand and supports the merging of digital and physical realms. As lease terms become increasingly flexible (and turnover-based in some countries), operating costs become more variable. However, the landlord-retailer relationship is co-dependent. Developing accurate methods to value stores will become more important as the purpose of stores evolve and move away from merely a sales-generating channel.

Dual use of stores as distribution centres will help sweat assets and maximise their value and effectiveness as they become more important in fulfilling online orders. But ultimately, fewer stores will reduce overall fixed costs and create leaner and more flexible business models.

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Theme 5:
Post-Brexit and international trade

The post-Brexit era will demand that retail and leisure businesses devote more resources to a faster-paced international trade environment where opportunities to switch supply chains are likely to become more frequent. Retailers will also need to develop more resilient supply chains and distribution platforms.

Looking forward, as retailers and leisure operators better understand the challenges at hand, new solutions will need to be considered. Highly responsive supply chains will be central to retailers' plans which will need to be flexible as a key criterion.

In some instances, this may require shorter supply chains to maintain faster reaction times for operating models. In other cases, near-shoring may be more commercially viable, but this will not be feasible at scale for many parts of the market.

Diversifying supply chains

Broader diversification of supply chains will help to mitigate some risk and new Free Trade Agreements (FTA) are likely to present this opportunity for those following international trade discussions.

Many fashion retailers already operate agile sourcing models with shorter and more responsive supply chains. Others will be shifting towards similar principles where capacity and profitability allows.

Business model implications

Automation will be critical for retailers to reduce operating costs and improve supply chain resilience. It will allow firms to grow more cost-effectively and enable faster reaction times to demand spikes or labour shortages. The application will go well beyond warehousing to influence sourcing, procurement, warehouse management and logistics.

Digitalisation of supply chains will drive greater transparency and allow for faster and more effective data-driven decision making. Providing a detailed view of stock, sales, orders, deliveries and returns across all channels will enable more accurate demand forecasting, better inventory management and deliver important cost savings.

Near-shoring will allow more agile sourcing that encourages shorter supply chains which would have significant impacts on order cycles, stock rotation and inventory levels.

The post-Brexit era will demand that retail and leisure businesses devote more resources to a faster-paced international trade environment.

Conclusion

Throughout 2021, retailers and leisure businesses will continue to face ongoing challenges presented by the impact of the pandemic and the raft of policy measures deployed to control the spread of the virus. The speed and effectiveness of the vaccine rollout will be critical in restoring confidence for many consumers, while the expected duration of the pandemic will have a direct impact on households' willingness to spend.

Permanent changes within the retail and leisure industry will arise as the way we live, work, communicate and shop is reshaped. Across parts of retail and leisure, the customer journey is being completely rewired and businesses will have to quickly adapt their proposition to reflect new customer realities that are emerging. Each business faces its own unique set of challenges as consumers transition towards a post-COVID-19 era.

Looking ahead

The greatest impact will be felt from the effects of the step change in online sales and the more potent impact of digital technologies across the entire customer journey.

Consumers' attentions and share of spending will be increasingly fought online. The challenge for businesses will be to assess the level of permanence in these shifts.

Significant industry restructuring will continue relentlessly, as retailers and leisure businesses pass through distinct phases which include aspects of survival, consolidation and innovation.

A new paradigm

As a new retail paradigm settles, successful retailers and leisure businesses will be those that can identify and secure new customers, leverage permanent shifts in consumer behaviour and fill gaps in the market as opportunities arise. They'll also need to repurpose stores or venues to meet new customer expectations and operate with resilient supply chains.

While there are high hopes that the vaccine rollout will cause an immediate impact in the spread of the virus, the fallout from the pandemic will cause permanent shifts in consumer behaviour, which will reshape the retail and leisure sector for years to come.

Find out more

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