

OAKLIN INSIGHTS

Retail PoV: Through lockdown lenses





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Introduction

In late January, I presented a workshop on the state of the UK Retail Industry for our new intake of Business Analysts. That seems like a lifetime ago now. Having been on lockdown for the past few weeks, and whilst in between Teams meetings, kids' schoolwork, Zoom calls and refereeing said kids, I took the opportunity to review the workshop materials through lockdown lenses.

The 2010s

Looking back over the last decade, it was clear that the UK Retail Industry faced many challenges. Noteworthy amongst these being: the horsemeat scandal in 2013; the rise, demise and resurgence of Tesco as a retail powerhouse; the rise and fall of (in)famous retail tycoons (who shall remain nameless); the meteoric growth of Amazon and the associated import of its Black Friday discounting concept from the US; the growth of eCommerce, accelerated by the proliferation of mobile technology (not simply using our phones to shop, but also to pay (think ApplePay and Google Pay)); the well-publicised demise of the High Street (remember the Portas Review?); and the loss of many famous names, including C&A, BHS, Comet, Staples, Maplin, Phones

4U, JJB Sports, Toys 'R' Us and Blockbuster; the latter where many of us used to rent videos – a concept that now seems so alien.

By the end of the decade the UK Retail Industry divided opinion. Some heralded a leaner industry with more personalised and differentiated in-store experiences, enabled through the effective use of digital technologies to deliver an improved integration of digital and physical shopping experiences. Others characterised UK Retail as an industry in crisis, weighed down by outdated public policy costs and a lack of consumer confidence, typified by accelerating store closures and job losses.

Challenges for the 2020s

As we entered the 2020s, consumer confidence was only just starting to improve in the wake of the ongoing political and economic uncertainty associated with Brexit (anyone remember Brexit?). The UK Retail Industry continued to face rising costs (e.g. business rates, commodity prices and pensions) and an acceleration in the shift from physical to digital channels across many sub-sectors continued. Record levels of discounting occurred in 2019, as retailers continued to grow top line numbers; so too did the levels of store closures, as many retailers continued to “right size” their physical estate. Numerous retailers turned to refinancing measures, typified by increasing levels of CVAs

(Company Voluntary Arrangements) despite criticism that they merely delay the inevitable, based on the experience of high profile retailers such as BHS, Toys 'R' Us and Mothercare which collapsed after launching respective CVAs. And we discussed the concept of being “Amazoned” i.e. *“like the Amazon River itself, Jeff Bezos’s company cuts a powerful, meandering channel through the business landscape, changing every industry it touches.”*¹ Our discussion focused on the impact of Amazon driving up customer expectations, specifically regarding innovation and convenience, something that we concluded most of us took for granted.

¹ Sean Silverthorne (Feb 2018): “Amazoned: Is Any Industry Safe?” – Harvard Business Review



So, what's next for the UK Retail Industry?

The workshop proceeded with a discussion the following 6 themes:

1. Channel Shift and the continued rise in convenience – across optimised supply chain/agile logistics solutions (e.g. same day delivery, convenient collection and return locations), payment solutions, voice search and personal assistants – all underpinned by digital innovation.
2. Right-sizing store estates and increasing concept stores – e.g. WHSmith's reinvention and Tesco's consolidation as examples of the former and John Lewis "Experience Playground" in Southampton and Debenham's new store format in Stevenage for the latter.
3. Growth of Sustainability in Retail – growing trends to reduce plastics, increase plant-based products as replacements or alternatives to meat-based products.
4. Acceleration of Subscription-based eCommerce – Think Nespresso for coffee, Birchbox for beauty and the likes of Gousto and HelloFresh for meals.
5. Increasing influence of social media – customer views, likes, shares and reviews on digital channels. Equally, the influence of programmes such as the Blue Planet (a point that tied in with theme 3 above) and those of social influencers.
6. Acceleration of Disruptive Technologies – where we discussed examples including Artificial Intelligence, Chatbots, the digitally connected Internet of Things (IoT), and Advanced Virtual Reality, each with their specific applications within the Retail Industry.

...And then came COVID-19



Fast forward three months and most of us have first-hand experience of the pressures placed on retail supply chains. Queuing to buy essentials (either online or at physical stores) which may or may not appear on shelves has become the norm. We have radically changed our shopping habits during this unprecedented time.

Forrester's research suggests UK retail sales will plummet £56bn, or 11.4%, on last year's total². Given this forecast, it will, once again, put the UK Retail Industry to the test in terms of its reliance.

Despite such staggering figures, it has been fantastic to see many UK retailers responding, not least by scaling-up essential operations

whilst implementing measures to take care of employees, customers and the most vulnerable in our communities. Like many others, however, I wonder whether this will be enough of a trigger point to change established habits for the longer term? Some pundits are heralding a post COVID-19 nirvana; an alignment of the #BeKind movement; a realisation that the pandemic and climate change are simultaneously linked to our carelessness with the environment, and that lessons learned during lockdown, including online retailing, successful flexible/remote working and reduced travel, will prevail once restrictions are lifted. Are they right?

² Luke Tigby (April 2020) "Coronavirus to wipe £1.7trn off global retail sales" – Retail Week



So, what's next for the UK Retail Industry (reprise)?

Actually, the themes presented above are still as relevant today as we pass the peak of the pandemic in the UK as they were at the beginning of the year.

1. Numerous position papers, articles, statistics and points of view support the continued acceleration of channel shift as digital enablement has helped us to connect during lockdown, particularly helping us to help the most vulnerable in our communities, whilst providing a life-line for non-essential retailers to continue to trade. Digital enablement can also, if implemented well, significantly reduce costs, for example, through optimised supply chains, something that many retailers will be looking to achieve as restrictions are lifted.
2. Right-sizing of retailers' store estates will no doubt continue, albeit at a faster rate, especially when taking into account immediate cash flow and liquidity challenges. This could well have serious impacts, for example if furloughed staff are no longer required in revised business plans and could further compound the well-publicised death of the high street. Right sizing will also have knock on effects for retail landlords, as highlighted by Intu struggling to get its £4.5bn debt under control³.
3. The growth of sustainability is here to stay with analysis suggesting that our increased awareness of the environment, amplified through measures taken in response to the pandemic, including sourcing products and shopping locally and using time whilst at home to create more meals from scratch, will not result in sustainability being regarded as merely a fad. Sustainable, healthy, safe and clean are likely to remain as factors used to regain customers' confidence.

³ Luke Tigby (May 2020) "Intu drafts in restructuring expert David Hargrave in battle for survival" – Retail Week

4. Accordingly, the growth in subscription-based eCommerce experienced pre-COVID-19 will have undoubtedly increased significantly and will continue to do so, not least across health and food as fitness centres and restaurants remain closed.
5. Similarly, the influence of social media will continue. Fraser McKevitt⁴, Head of Retail and Consumer Insight at Kantar suggests that, “We’ve seen lots of baking on social media and in the mainstream press – showcasing people’s desire to be homelier and more comfort-focused, and also the fact that we’ve got the time to do these activities now in some cases.” The provision of free (or significantly reduced-price) programmes of fitness, wellness, entertainment etc. may be here to stay, providing both challenges and opportunities for both established and disruptive brands. For example, Gymshark, has recorded boosted online sales, bolstered by its social media presence on platforms such as TikTok and Instagram as it provides free workouts to its subscribers.
6. And finally, the continued acceleration of disruptive technologies. Retailers that can leverage technology in order to connect to their suppliers and customers in a more efficient, engaging, sustainable and safe manner will undoubtedly put themselves on a better path to recovery as we plan our way out of the current situation.

⁴ Quoted in Retail Week article (April 2020)





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Conclusion

Despite the challenges presented by COVID-19, the UK Retail Industry will survive, and indeed over time, thrive, as it bounces back from current lockdown measures. Undoubtedly there will be long-lasting effects, especially for those that rely heavily on non-digital channels.

However, it appears that the current pandemic has amplified/accelerated trends already in train, rather than introduced additional/new ones. The long-term winners in the post pandemic era will be those that have been planning forwards already, especially those that have been able to connect with, and do the right thing, by their suppliers, employees and customers alike.

Get in touch

Please contact us if you would like to discuss the issues raised in this insight, or how Oaklin could deliver lasting change in your business.

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