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EXECUTIVE SUMMARY

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RETAIL BRIEFING 2020

The outlook for the year ahead – from the potential for growth to the evolving consumer

RETAIL BRIEFING 2020

There's no doubt 2019 was a tumultuous year for retail, but what will the next 12 months bring? Gemma Goldfingle highlights the key trends likely to dominate the sector

Last year brought a slowdown in most major economies around the world, but PwC chief economist John Hawksworth believes that global growth could stabilise in 2020 as the effects of past monetary policy easing feed through, assuming that the US-China trade truce holds.

But there are still many uncertainties around this outlook, not least the potential impact of coronavirus.

In the UK, PwC's main scenario is for real growth of just over 1% in 2020 for both GDP and consumer spending, assuming global growth stabilises and there is progress on reaching a free-trade agreement with the EU.

This is supported by recent evidence of continued UK jobs growth and a stronger housing market in early 2020, although risks remain in relation to global factors and the outcome of EU negotiations.

Real wages are rising

A number of factors will impact consumer spending. Unemployment remained at a 45-year low of 3.8% between September and November 2019, according to the Office for National Statistics, and real wages – which grew 1.2% last year – are predicted to rise once again.

As inflation has slowed over the past two years, consumers will have more money in their pockets. PwC believes all

of this will lead to moderate consumer spending growth of around 1.2% in 2020.

The 2020 consumer

The consumer is evolving. Last year, PwC described them as cautious. This cautiousness inevitably hit the retail sector. In fact, the BRC said 2019 was the worst year in history for retail, with total sales falling 0.1%.

In better news, this wariness is subsiding in 2020. Consumer sentiment jumped from -7 in September 2019 to +3 in December, in PwC's Consumer Sentiment Survey, with improvements across all demographics and regions.

Despite having more money to spend, though, consumers will be more considered about what to spend on.

PwC leader of consumer markets Lisa Hooker says: "There is no reason why they shouldn't spend – unemployment is low, real wages are rising and there's political certainty – but they won't spend for the sake of it."

Where and how will they spend?

Spending priorities are beginning to change, and there are signs that shoppers are prepared to resume spending on major purchases over the year.

Food remains the only category that the shoppers surveyed by PwC expect to spend more money on this year – although a net 3% expect to spend more, compared with 11% last year.

However, holidays is the next top-performing category for spending. Similarly, home improvement is an area of positivity. Consumer uncertainty and a

stagnant housing market has suppressed spending on home improvement, but, as PwC director for retail strategy Kien Tan says: "There's a limit on how long people can put off big-ticket purchases."

The housing market is now improving, though, with prices rising at their fastest annual rate for nearly two years last month, according to Halifax, and estate agent Savills reported an increase in house sales following the December general election. This could persuade people to invest in their homes to prepare them for sale.

But it's not just big home improvements people are spending on. Over Christmas, consumers spent more on items such as cushions, candles and home decorations. Dunelm like-for-likes surged over Christmas, against tough comparatives the previous year, in light of this trend.

A conscientious consumer

Consumers may be more considered in their spending for the year ahead, but they are also becoming more conscientious in their shopping behaviours.

This is not necessarily driven by the sustainability agenda. In fact, PwC research found that this Christmas the majority of shoppers – 52% – did not think about sustainability at all. However, there was evidence of conservatism in shopping behaviours this Christmas.

M&S chief executive Steve Rowe commented: "What people give at Christmas is changing. People are being more conservative with the volume of things that they're buying... People are moving away from low-price gifts to something that has longevity and value." ↗



There is no reason why consumers shouldn't spend – but they won't spend for the sake of it

LISA HOOKER, PwC



THE BREXIT EFFECT

Despite the certainty of the UK officially leaving the EU, Brexit continues to impact how some people spend, with a third of consumers noting it has had an impact on their current or future shopping and saving habits. In PwC's Consumer Sentiment Survey carried out in December, 28% of consumers said Brexit had changed how they spent over the past 12 months – the highest level for more than a year. An additional 8% expect their spending or saving to be impacted by the UK's European divorce over the next 12 months.

THE YEAR AHEAD

How will the world of retail look in 2020?

PwC predicts

1.2%
consumer
spending
growth in 2020



Consumer sentiment grew from



Brexit is or will
be impacting
spending for

35%
of people

The consumer will move from being

CAUTIOUS TO CONSIDERED TO CONSCIENTIOUS

TOP SPENDING CATEGORIES IN 2020

1 **GROCERY SHOPPING**



2 **HOLIDAYS**



3 **HOME IMPROVEMENTS**



Retail winners will focus on the five Cs:

Channel



Curation



Credit



Convenience



Communication



52%

of people did not think
about sustainability when
Christmas shopping



However, the fact that 48% did make more sustainable choices shows the direction of travel. Sustainability concerns are more important for younger shoppers.

PwC predicts the pace of change will accelerate and ethical will go mainstream in the medium term, helped by hashtag activism – widespread support for ethical causes on social media. Ethical considerations are likely to go beyond just buying clean, green and vegan products.

PwC also predicts a rise in consumers opting to access products rather than own them – there is already a slew of clothing rental services, with mainstream retailers such as H&M and Urban Outfitters trialling this initiative.

Grocery trends

It was the toughest Christmas for grocery in five years. With the BRC reporting flat like-for-like grocery sales in the golden quarter, yet inflation rising 1.5%, the maths would suggest like-for-like volumes must have fallen.

PwC's Consumer Sentiment Survey backs this assertion. Almost a third of grocery shoppers said they were committed to wasting less, while 22% said they intend to buy fewer groceries.

More choice

Grocery shoppers also intend to shop around more – 29% listed it as a priority for 2020. And it's easier to do so as they have more choice than ever before.

Discounters Aldi and Lidl have been on store expansion drives, but the competition doesn't end there. Value retailers such as B&M, Home Bargains and Poundland have a growing food offer, on-the-go options such as Pret and Greggs are increasingly popular, and home delivery services Deliveroo and Just Eat are also fighting for share of stomach.

Recipe kits such as Hello Fresh and Gousto are also emerging threats, while pub and restaurant sales remain resilient.

Trading up and down

Trading down is a growing trend, with special offers and own-label products sought by shoppers. This was evident during Christmas 2019 when shoppers, who traditionally trade up during the festive period, sought value from the big four.

Morrisons chief executive David Potts said retailers had to respond to a tough consumer environment “with more activities to get whatever spending is available”.

The grocer's “Christmas basket” of 400 items was £20 cheaper than last year, while at Tesco a basket of 21 “typical” festive products was £2.28 cheaper year on year as a result of promotions.

However, shoppers were evidently happy to trade up at lower-priced grocers with sales of Aldi's Specially Selected ranges growing almost 8% over the Christmas period.

Separating winners from losers

To win the battle for share of wallet from this spoilt-for-choice consumer, retailers need to stand out.

PwC's Hooker says: “It's not good enough to do what you've always done and offer options to trade up. You've got to give people a reason to shop with you.” That means investing in four main areas: price, product innovation, stores and staff.

This approach helped M&S food sales and volumes grow over Christmas. The retailer said its “sharper value and more relevant innovation” attracted shoppers, while its new food store format, which it is in the process of rolling out, is giving another reason to visit its stores.

Clothing trends

The fashion market was stagnant in 2019 and, with a third of shoppers planning to buy fewer clothes this year, it is expected to remain tough.

More competition and promotions

There is more competition in fashion from entrants such as H&M's new fascias & Other Stories and Arket, discounters such as Poundland rolling out clothing and new ecommerce players.

Online and social is creating easier routes to market for direct-to-consumer millennial brands – in fact, the big fashion winners of Christmas 2019 were relatively new online businesses such as Pretty Little Thing, Nasty Gal and Boohoo.

The fashion market is also increasingly promotional. On Black Friday 2019, for example, half of fashion retailers offered blanket promotions and many retailers

were on Sale throughout the Christmas trading period.

Sustainability impact

Are sustainability concerns quelling demand? Hooker is dubious. “Although there is a lot of chat about sustainability, over 75% of young people do not want to be photographed in the same outfit,” she highlights.

However, she believes sustainability will become mainstream over time with both sustainable products, such as H&M's Conscious collection, and alternative models, such as rental, set to take off.

Winners vs losers

There is real polarisation in the winners in apparel, with online fast fashion retailers in one camp and premium department stores in the other.

But, according to Hooker, these winners have all focused on the five Cs: “Channel (online and social continue to drive growth); convenience (speedy delivery and collection); curation (helping shoppers find what they're looking for); communication; and credit (buy-now, pay-later options have become ubiquitous in young fashion retail and are making purchases more accessible)”.

More than ever, retailers need to know their customers, understand what it is they want and what price they're willing to pay, and get stock levels right so they do not have to resort to discounting.

A lack of newness

Another factor that held fashion retailers back last year was a lack of new trends. Styles were relatively static year on year, with animal print still reigning supreme in womenswear. This gave shoppers fewer reasons to update their wardrobe.

Hooker says: “People are being less frivolous and asking themselves ‘Do we really need it?’ If the answer is no, they simply won't buy.”

From fashion to food, the way consumers buy will change in 2020 and beyond. To win spend from a more considered consumer, who is increasingly asking ‘Do I really need this?’ when making purchases, retailers need to offer compelling product at competitive prices and enable them to shop, and receive goods, on their own terms.

For more insight and predictions for 2020, click here