

RetailWeek 

RETAIL **HORIZON**

2022

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THE FACTORS SHAPING CHANGE



SOCIETY

- Balancing more flexible lifestyles
- Time to reflect
- The great resignation
- Gen Z influencing change
- Fragmented society



TECHNOLOGY

- Autonomous retail solutions
- Smarter, faster supply chains
- AI powering progress
- Digital payments, NFTs and cryptocurrency
- Technology as a service
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- Risks to costs and inflation
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INDUSTRY

- Lean machines
- Big and small driving growth
- Focused, strategic alliances
- Stepping beyond channels
- Physical space evolution



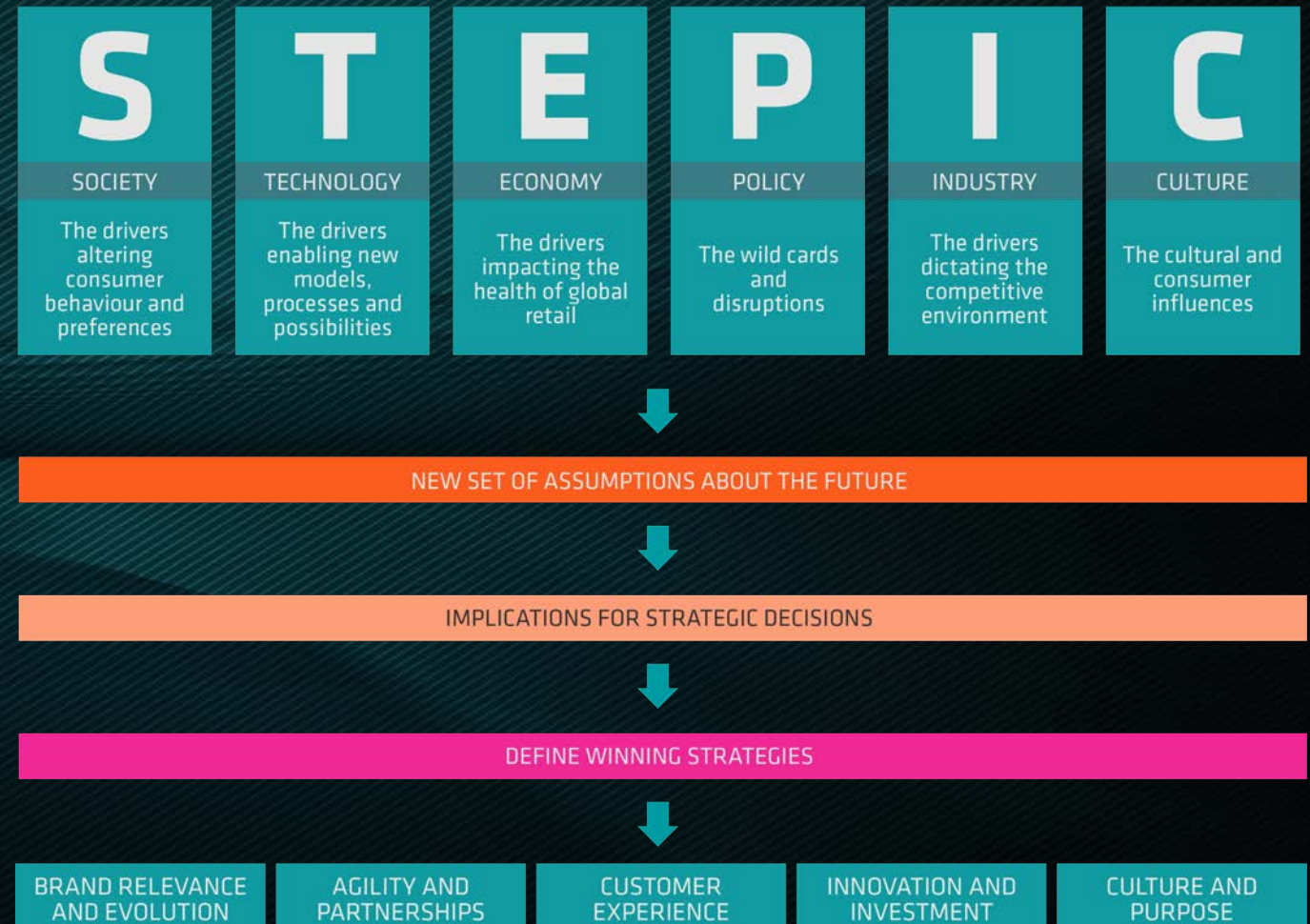
CULTURE

- Actions not words
- Frictionless sustainability
- Progressing the D&I agenda

RETAIL WEEK'S STEPIC APPROACH IDENTIFIES CHANGE THAT WILL DISRUPT YOUR BUSINESS

- Our STEPIC approach is rooted in a fundamental bottom-up assessment of the variables that could impact our future world. Combined with Retail Week's data, industry knowledge and analyst insights, this will support you in adapting and growing your business.
- We use STEPIC as a focal lens to form a view on how our future might unfold, with emphasis on consumer mindsets and market trends.
- With this set of assumptions about the future world, we analyse potential implications on decisions for brands and retailers, and therefore the winning strategies for you to invest in as you make decisions about markets, customers, resources and talent to remain relevant.

We use STEPIC as a focal lens to form a view on how the future world might evolve. From this, we have established five winning strategies to embrace.





WINNING STRATEGIES

Brand relevance and evolution

The retail landscape is evolving like never before. The pandemic accelerated many of the trends impacting the industry. Consumer needs and behaviours shifted rapidly with some changes temporary and others here to stay.

Brands and retailers demonstrated great flexibility in adapting to and anticipating the constantly evolving consumer behaviours and trends, but this relentless pace of change and need for agility is ongoing.

With increasing economic, cost and competitive pressures, the focus is on staying lean: investing, divesting and rationalising to maximise opportunity.

At the same time, ruthless investment for the long-term is needed and a constant eye on global competitor activity.

Staying one step ahead and innovating for customers often requires changes to the planning and decision-making process.

The speed of strategy overhaul and the creation of new business structures remains key to success.



Related STEPIC drivers

- Balancing more flexible lifestyles
- Gen Z influencing change
- Consumer confidence returning but fragile
- Fast and slow retail
- Frictionless sustainability

What it takes to win

- ✓ Target customers where they are
- ✓ Digital-first consistency across channels
- ✓ Rapid fulfilment
- ✓ Clear brand positioning
- ✓ Make sustainable purchase decisions easy

Agility and partnerships

Brands and retailers must focus on agility and partnerships if they want to succeed at meeting the rapidly evolving needs of today's consumer.

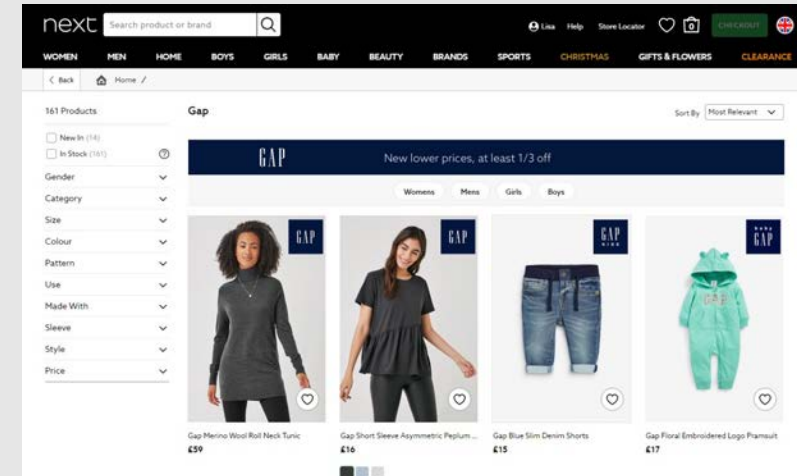
Partnerships are at the heart of growth strategies, driving innovation and allowing companies to do more than they could achieve on their own.

As this trend evolves, these alliances are becoming increasingly strategic and value-added for retailers. Strong partnerships are complementary, allowing both parties to achieve and learn from one another.

As the pace of change accelerates, retailers must remain agile and focus on operational efficiency to survive. This means shaking off the weight of legacy technologies, supply chains and ways of thinking.

By understanding new technology and planning partnerships, retailers can stay one step ahead of disruptors by innovating and transforming business models for maximum return on investment.

Next is rapidly forming a fashion ecosystem that even Amazon can envy. In September, it took a 51% stake in the UK business of rival chain Gap, allowing it to maintain a high street and online presence via Next's stores and Total Platform.



Related STEPIC drivers

- Focused, strategic alliances
- Technology as a service
- Autonomous retail solutions
- Smarter, faster supply chains
- Fast and slow retail

What it takes to win

- ✓ Mutually beneficial partnerships
- ✓ Tech and knowledge sharing
- ✓ Speeding up the supply chain
- ✓ Investment in technology with purpose
- ✓ Innovating for customers

Customer experience

Consumers are now channel-agnostic, so brands must develop a single view of the customer and deliver on great customer experience however they choose to shop.

Following a period of 'Covid forgiveness' during the crisis, shoppers are no longer willing to accept drop offs in availability and service. Retaining loyalty requires exceeding customers' renewed expectations of excellence. Many brands deepened online engagement during the pandemic, and this must now be built on with closer integration across channels.

Businesses must also convince discerning consumers of the value for money spent and deepen relationships to identify where opportunity and growth lie.

Brands that deliver on CX will build emotional engagement with their customers, leading to stronger brand loyalty.

A seamless, frictionless and personalised experience is essential but an emotional connection can also be achieved by those brands that go the extra mile.



Related STEPIC drivers

- Hybrid retail and shape shifters
- Augmented and virtual reality
- Physical space evolution
- Fast and slow retail
- Data privacy and protection

What it takes to win

- ✓ Clear brand positioning
- ✓ Delivering on service
- ✓ Converting digital engagement into loyalty
- ✓ Rapid fulfilment
- ✓ Physical retail innovation
- ✓ Personalised rewards and interactions

Innovation and investment

As businesses future-proof for the long term they must be agile at adapting to rapid changes in consumer needs and external disruption.

The Amazon and Ocado effect on the market has put pressure on retailers to deliver more, to become better tech partners and shape shifters.

Investment for long-term growth and profit rather than short-term gain is the key to sustainable growth.

Retailers that invest with purpose to accelerate ecommerce, upgrade legacy systems, speed up the supply chain and reduce costs will continue to win and outperform their peers.

Supply chain excellence will make or break retailers in 2022.

With increased digital engagement, retailers must view themselves as brands and rethink the traditional concept of retail, innovating and investing to stay one step ahead of consumer behaviour.



Amazon invests more than 15% of total revenue back into its business

Related STEPIC drivers

- Smarter, faster supply chains
- AI powering progress
- The great resignation
- Autonomous retail solutions
- Big getting bigger

What it takes to win

- ✓ Analytics to respond early to changing trends
- ✓ Prioritising investment to compete and innovate
- ✓ Supply chain agility
- ✓ Operational excellence
- ✓ Trials and partnerships

Culture and purpose

Culture and purpose is a key consideration for businesses, governments and consumers and there has been a strong shift in momentum in ESG as the environmental crisis becomes more urgent.

All eyes are on brands and retailers to lead on change and demonstrate and measure ways in which they are caring for the planet and its people.

It is time for actions, not words. Now leaders must clearly commit to change, define the organisation's goals and purpose and communicate and measure it – ensuring that it is aligned internally and with customers.

At the same time, business needs to demonstrate kind leadership, take action and make commitments to caring for its workers and treating them fairly – from the boardroom to suppliers and manufacturers.

The culture and purpose agenda is now at the heart of everything and intrinsically linked to innovation, talent acquisition and workforce productivity.

Brands that lead with purpose, integrity and a clear proposition are rewarded by loyalty from their customers.



Related STEPIC drivers

- Actions not words
- ESG at the heart of strategy
- Progressing the D&I agenda
- Frictionless sustainability
- Green economy

What it takes to win

- ✓ Inclusivity at board level
- ✓ Define your purpose and commitments
- ✓ Be open, specific and report on progress
- ✓ Make customer decisions easy by caring for people and the planet



SOCIETY

THE FACTORS SHAPING CHANGE

Balancing more flexible lifestyles

With workers having proven their ability to work remotely throughout the pandemic, they are justifiably demanding the opportunity for more flexible working patterns.

ONS figures found that the percentage of those working from home increased to 37% in 2020, from 27% a year earlier. Of those working from home, 85% expected to use a flexible or hybrid approach to work in future.

Microsoft surveyed 30,000 people in 31 countries: 70% of workers want flexible remote options while 65% crave more in-person time with their teams.

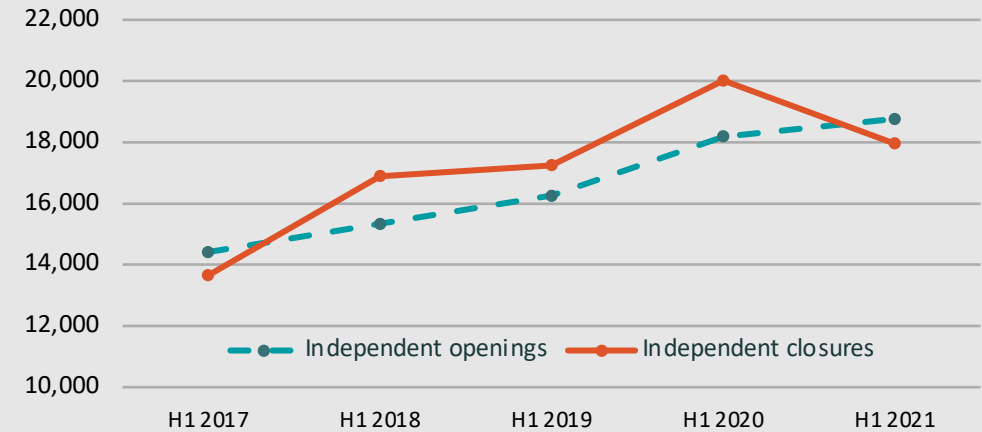
Flexible working is leading to a work week that looks very different, as office staff divide their time between home and the city, enjoying the best of both worlds. Some are even welcoming the opportunity to 'work from anywhere'.

Forward-thinking companies are expected to support this increased focus on work / life balance and wellbeing. Footfall patterns and shopping habits will vary, depending on shopper missions and where consumers are located.

Local high streets and the online channel will continue to benefit from home working trends.

*Source: Homeworking hours, rewards and opportunities in the UK: 2011 to 2020, Office for National Statistics, April 2021
 Microsoft Work Trend Index, March 2021*

INDEPENDENT RETAIL OPENINGS AND CLOSURES
 2017-2021



Source: The Local Data Company, September 2021

Store openings for independent retailers are now exceeding closures for the first time since 2017 as local high streets support our more flexible lifestyles.



Flexible lifestyles: Strategic implications for retail

- Retail stores in town and city centres must maximise shopper visits on midweek days when more workers are in the office
- At weekends experiential retail is needed to draw shoppers in for entertainment and social occasions
- Local / hyperlocal and online retail will remain key to serving more home-based consumers
- Rapid delivery trends will continue to support more flexible lifestyle patterns
- Shoppers will become even more channel agnostic
- Agility is key as shopper missions will swing between the desire for in-person experiences and rapid convenience
- Within their own organisations, brands and retailers must consider the need to support growing demand for flexible working patterns



Pret

With the majority of its outlets in and around London, Pret was hit hard during the pandemic and foodservice sales in the city centre remain impacted.

Footfall trends to its stores have changed significantly with hybrid working patterns. Wednesday is now the strongest trading day, followed by Tuesday and Thursday. The start and end of the week are typically far quieter.

On the other hand, Pret has seen an increase in visits to local high streets, particularly at weekends.

Pret has taken a number of steps to address these changing consumer needs. It partnered with Tesco to sell a range of frozen croissants in 700 stores and began selling its most popular coffee beans on Amazon. In May it trialed its first-ever forecourt store in partnership with petrol-station operator Motor Fuel Group (MFG).

In August the group announced plans to open 200 new Pret locations in regional centres to reduce its reliance on London. This will be a 50:50 mix of franchises and its own stores.



Time to reflect

Being forced to change habits over recent months has given consumers time to think about what is most important.

Many are adapting their lifestyles – whether to spend more time with friends and family, to move house, or change career.

For some consumers, the pandemic gave them the opportunity to reduce debt, save money and re-evaluate their spending. Now many are prioritising spend on experiences such as socialising, hospitality, events and travel, rather than buying items such as fashion and general merchandise.

Concerned by extreme weather and the environmental issues facing the world, many are looking to lead more sustainable lifestyles and sensing that we should not go back to pre-pandemic habits.

Footfall trends continue to reflect consumers that are spending more time closer to home and their family.

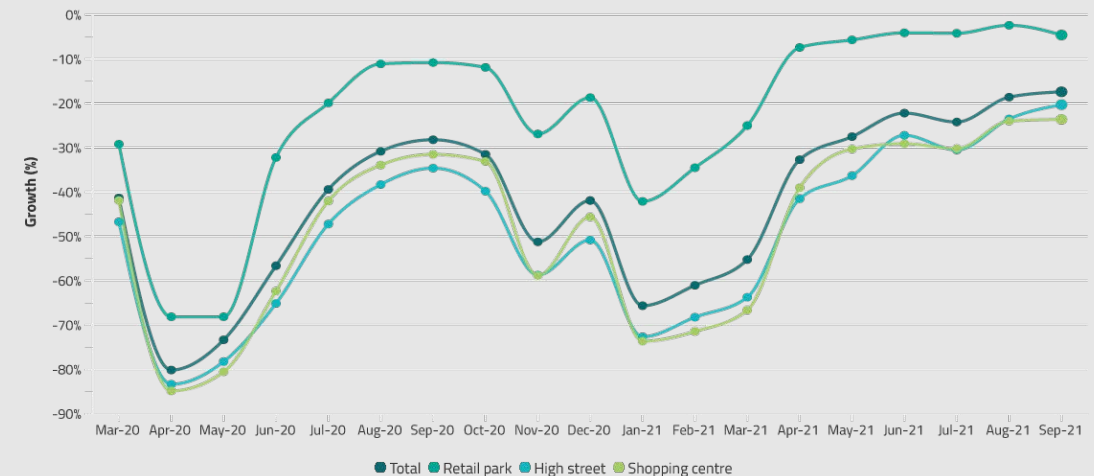
RETAIL WEEK CONSUMER SPENDING RESEARCH AUGUST 2021



Source: Retail Week Consumer Week Survey, August 2021

Footfall growth by location

(2021 is compared with 2019 from March onwards)



SPRINGBOARD.

Source: Springboard



Time to reflect:

Strategic implications for retail

- Retailers will need to review store portfolios and footfall trends to consider how to meet the changing priorities and shopping missions of their customers
- Expect consumers to make some changes permanent, others will be temporary
- As environmental issues rise up the agenda, retailers should contemplate the potential impact of consumers reaching 'peak stuff'
- Brands and retailers will need to develop emotional connections with customers and convince them of their shared values
- Consumers are likely to shy away from big spending commitments as they try to save more money
- Test and learn will be critical for businesses as they develop to serve these changing needs



Sook

Innovative start-up Sook is taking advantage of empty retail space to open digitally customisable pop-up spaces that can be rented by the hour.

Sook describes its format as “adaptive retail spaces” ranging in size from 375 sq ft to 800 sq ft. With digital display panels on every wall, adjustable shelving and lighting, the locations can be customised by the business renting the space, using a simple design tool.

In uncertain times, this modern format provides an opportunity on leading high streets and in shopping centres for businesses to organise events, trials and pop-up stores without the commitment of taking out a lease.

It is ideally suited to new formats and concepts, online to offline brands and independent retailers.

By the end of the year Sook expects to have eight locations in London, Cambridge, Gateshead, Edinburgh, Oxford and Liverpool. By 2025 it is targeting 86.

Sook provides its tenants with data on KPIs such as footfall and customer engagement.



The great resignation

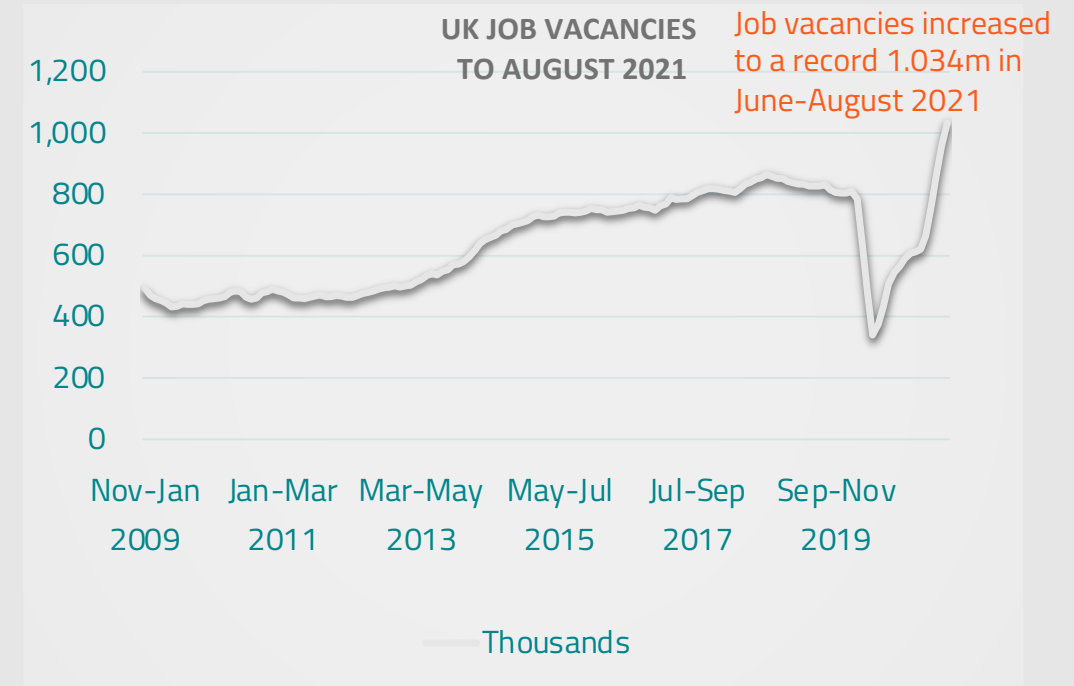
In recent months, workers have been drafting resignation emails, handing in their notice and leaving work in their droves. The great resignation is a global trend, and the impact has been keenly felt in the UK.

With limited ability to change our lives during the pandemic, the one thing people did have control to change was their job. Some workers used furlough as an opportunity to change vocation; many more have embarked upon new career paths or chosen to take time off.

The mass departure is happening at all levels of work, and is especially evident in service, hospitality and retail jobs, where high productivity often masks an exhausted workforce.

Employees are in the driving seat and are able to pick and choose the most attractive roles.

This puts enormous pressure onto companies, and many are finding that they are not receiving applicants to fill job vacancies.



Source: ONS, September 2021

75% of job seekers are considering changing industry following Covid-19

Research by Total Jobs, October 2021



The great resignation:

Strategic implications for retail

- With employees in the driving seat, companies will be competing with one another for a smaller pool of applicants
- Businesses should identify at-risk roles and consider how to incentivise new applicants and retain critical staff
- Business leaders must engage with employees to foster a culture of common purpose, emotional connection, recognition and communication
- Companies will need to take a holistic approach to nurturing staff in order to retain them – burnout is a critical risk, particularly when workloads remain so high
- Gen Z was heavily impacted by the pandemic; many are now building resilience through blended careers
- Small business and entrepreneurship opportunities will grow
- Diversity and inclusion remains more critical now than ever



Amazon

As it recruits additional seasonal workers during the critical golden quarter, Amazon offered £1,000 signing-on bonuses to attract temporary staff to work in its warehouses.

The company's profits were impacted in the quarter to September 2021 as it managed through labour supply shortages, increased wage costs and global supply chain issues.



The Body Shop

The Body Shop worked with Movement to Work to introduce an open hiring programme to bring down barriers to employment.

The initiative eliminates background checks, screening and education requirements, to ask just three questions: whether applicants are legally authorised to work in the UK; whether they can lift up to 11kg; and whether they can work for up to eight hours in one shift.

The approach aims to encourage people who frequently face barriers such as those who have been homeless, young carers and the "racially minoritised" to apply for open roles.



Gen Z influencing change

Our last report highlighted the growing influence of Gen Z, and this cohort now accounts for almost 20% of the UK population.

More ethnically diverse than previous generations, Gen Z are digital natives and care deeply about issues such as equality, sustainability and the environment.

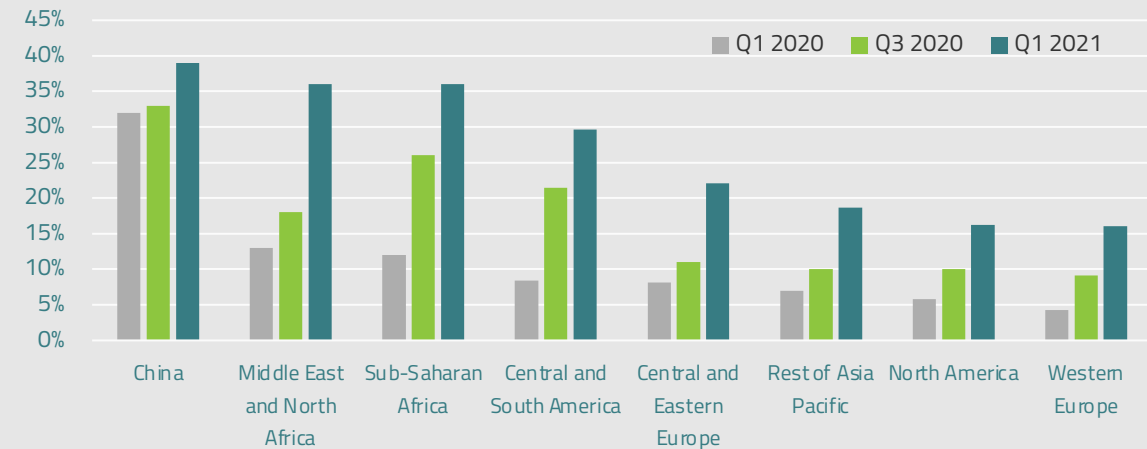
With social media key to influencing Gen Z, Instagram, Facebook, YouTube and TikTok are all investing heavily to monetise their ecosystems, with shopfronts and / or shoppable links. This presents new opportunities for brands, which can also appeal to the younger audience by teaming up with influencers.

To future-proof their organisation and drive change, businesses are increasingly bringing in more young people and consulting them on key issues.

“The future generations are absolutely aware of these [environmental] issues. If you really want them to be your future customers, which we do, then you’re going to have to tackle this”

Steve Rowe, Marks & Spencer

GLOBAL TIKTOK USERS 2020-21
 USED IN PAST MONTH, % RESPONDENTS



Source WARC, Ampere



TikTok’s new storefront launched in August:
 88% of users discover new content on TikTok
 91% take some sort of action
 25% have researched or purchased the product they saw advertised.
 73% give product recommendations to family and friends

Source WARC

TikTok reached one billion monthly users worldwide in September



Gen Z influencing change: Strategic implications for retail

- Digital first remains crucial to attracting and engaging with younger shoppers
- Brands must leverage purpose-driven social marketing and build meaningful connections
- The power balance between brands and brand ambassadors is shifting and these should be selected with care
- Integrity, relevance, value for money and purpose are priorities to reach more conscious Gen Z consumers
- Pre-loved marketplaces and peer-to-peer commerce platforms such as Depop, Vinted and Etsy are favoured channels for younger shoppers and can expect accelerated growth
- Finding ways to help Gen Z embrace the circular economy and lessen their environmental impact will win loyalty
- Agile brands should also keep Gen Alpha (those born after 2010) on their horizon



LVMH

Luxury retailer LVMH plans to recruit 25,000 people under the age of 30 by the end of 2022 in a “Craft the future” action plan to diversify its workforce and develop new talent.

To support this ambition, the group is opening up access to its online educational platform for all young people around the world, regardless of their background or training, to learn more about the various luxury trades and prepare for roles in the industry.

PrettyLittleThing

Boohoo owned brand PrettyLittleThing appointed former Love Island contestant and influencer Molly-Mae Hague as creative director in August.

For 12 months she will oversee campaigns and sign new brand ambassadors. The 22 year-old said that accepting the position was the “biggest move in her career”.



Aldi

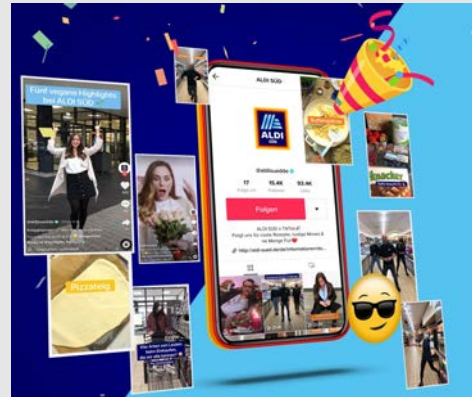
Aldi is targeting younger consumers in a number of ways, including the launch of a TikTok channel in Germany, where it aims to capture the attention of a Gen Z and Millennial audience with short, interactive video content.

The discounter is forming long-term partnerships with influencers, who will post weekly videos on its TikTok channel from Aldi stores, as well as share product-related content. The first campaign focused on the launch of Aldi's new 'Engie' drink brand, which was developed in partnership with influencers.

Separately, Aldi has created excitement around its Aldi Mania range of Aldi-branded hoodies, sliders and trainers, which sold out instantly online and have seen resale values rocket on marketplaces such as eBay.

"TikTok represents a highly attractive platform for us and we see it as essential for interaction with the younger target audience. On TikTok we can be shorter, faster and active outside of our classic brand messaging"

Christoph Hauser, Director Customer Interaction, Aldi Sud



Depop

Re-sale platform Depop encapsulates the Gen Z spirit, with its focus on helping consumers to stay stylish sustainably.

The platform has doubled its user base to now reach 30m users across 150 markets. For Gen Z 'Prosumers' (part producer, part consumer) Depop serves as an ever-changing sustainable wardrobe, with 75% of sellers also purchasing from the app.

Depop was acquired by Etsy in June 2021 for \$1.6bn and is well positioned to scale and accelerate growth. In 2020 it generated gross merchandise volume of \$650m and revenue doubled to \$70m.

In a survey of 2,000 Depop users, 90% admit to making lifestyle changes to be more sustainable. 75% of participants said they turn to Depop to reduce consumption, while 55% say they do so to access one-of-a-kind pieces. A further 35% use Depop because it's cool.



Fragmented society

Our enforced isolation during the pandemic has increased reliance on media websites and social media and led to a polarisation of world views.

Whether it's political allegiances, Brexit, religion, Covid vaccines, attitudes towards exercise, the environment or veganism, society's views and priorities have been fragmenting into smaller groups.

Following a period of insecurity, it is natural for us to seek out others that share our views. Social media algorithms make this much easier, which leads to increased fragmentation.

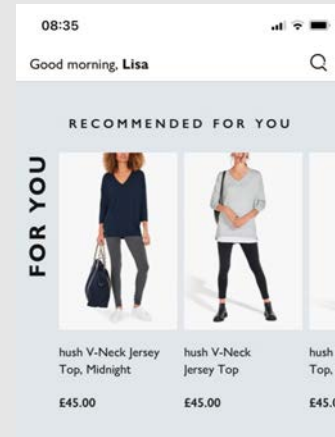
From shielders to socialisers, Brexiters to Remainers, spiritualists, hedonists, vegans and environmentalists, the number of fragmented groups is accelerating.

The challenge is identifying a common purpose and need among these many diverse groups, finding people where they hang out and ensuring that no one feels isolated.



Fragmented society: Strategic implications for retail

- As society becomes more fragmented, it is even more important for retailers and brands to know their core audience and to be present where they are
- With a polarisation of world views and fragmentation of consumer priorities, brands may need to consider new platforms and personalised messaging to reach their varied audiences
- Demand will increase for fashion, food and home items that help us make a statement about our beliefs and who we are
- Conversely, products and messaging that unite people will relieve tension and create a sense of belonging among diverse groups
- Fashion and furniture rentals will suit consumers that seek short-term enjoyment over long-term commitments



John Lewis

John Lewis has worked to build on the emotional connections it has established with its customers. During the pandemic it invited loyalty members to a series of free online virtual events, including beauty masterclasses, mindfulness and yoga.

The John Lewis app, which already included a store locator and barcode scanner to bring the store and online closer together, recently added personalisation that greets customers by name and makes tailored suggestions and recommendations, showing customers how well they are 'known' by the retailer.

The VeganKind

Riding the wave of growth for veganism and flexitarianism in the UK, The VeganKind is the first online vegan grocer.

Initially founded as a vegan subscription-box service in 2013, it grew rapidly from 2016 when it launched as an ecommerce supermarket. Revenue was up 58% to £5.6m last year and the company is raising new funds for future investment.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Integrate changes for flexible working into business strategies, assessing the impact on customers, stores and employees
- Consider how to navigate a society in which customers have reached 'peak stuff' and want to save money
- Engage with Gen Z and their digital-first mindset
- Increase shopper loyalty with an ethical, purpose-driven strategy
- Understand your key customer groups and where to find them





TECHNOLOGY

THE FACTORS SHAPING CHANGE

Autonomous retail solutions

Autonomous retail and cashierless stores are not new, but crucially customer acceptance and expectations have progressed and technology is becoming smarter.

During the pandemic, contactless and frictionless shopping experiences were highly valued by consumers. Digital and mobile payments also accelerated.

With customers returning to higher frequency shopping missions and with Amazon as a catalyst, grocers will accelerate investment in frictionless store technology, as they aim to remain relevant in a market where delivery intermediaries can serve online customers in 15-20 minutes.

Where the grocers lead, other sectors including health & beauty, general merchandise and fashion can be expected to follow.

Innovative autonomous solutions will continue to evolve and build momentum, including cashierless stores; robot deliveries; smart trolleys; self-driving vehicles; sustainability solutions.

Conversely, where retailers wish to increase dwell time in larger, experiential stores, new technology will focus on discoverability and personalisation.



Tesco GetGo opened in Holborn in October 2021



Decathlon launched Scan & Go in the Netherlands and Germany



Autonomous retail solutions: Strategic implications for retail

- Customer expectations are growing, putting pressure on retailers to invest in autonomous solutions, particularly in high traffic convenience locations
- Some barriers still require workarounds e.g. the ability to sell produce by weight and the space and cost needed for technology (cameras, servers etc)
- Lightweight solutions e.g. smart trolleys or scan and go technology can provide cost-effective alternatives to fully automated stores
- Autonomous trials will expand to new sectors beyond grocery and foodservice to keep up with customer demand
- Similarly, investment into self-driving and robot delivery technology will accelerate
- Stores where retailers want customers to linger will benefit from technology such as in-store mode to drive discoverability
- Retailers should prioritise investment and partnerships to ensure they keep pace with changing consumer demands and do not get left behind



Amazon

Amazon is setting the bar high for tech-enabled physical retail, with the opening of six autonomous Amazon Fresh stores in the UK in 2021 as well as a technology-enhanced hair salon.

In the US, Amazon introduced Just Walk Out shopping to a full-range supermarket for the first time, at its Whole Foods store in Factoria, Washington. Customers can now do a full range shop and exit the store by using Just Walk Out, Amazon One palm scanning or by inserting a payment card linked to their Amazon account.

In October 2021 Amazon opened its first 4-Star store outside of the US, at Bluewater shopping centre in the UK, curating an assortment of its most popular books, electronics and homewares. The store is not automated, but instead encourages shoppers to scan QR codes to discover product information and reviews to enhance the instore experience.

Amazon is rumoured to be developing a new department store format in the US that could revolutionise shopping for fashion. The Wall Street Journal suggests Amazon will allow shoppers to scan QR codes to identify items that they wish to try and potentially use robots to deliver items to customers in new, cutting-edge dressing rooms.



Co-op

Co-op recently extended its partnership with Starship Technologies, the delivery robot company launched by the co-founders of Skype.

Using the robots, Co-op is able to deliver groceries in as little as 20 minutes, with a dramatic reduction in carbon emissions. The convenience retailer will increase the number of autonomous vehicles operating and delivering Co-op groceries from 200 to 500 by the end of this year, bringing them to five new towns and cities, including Cambridgeshire, and extending the service into the North of England. Shoppers using the service will be able to choose from 3,000 grocery items.

Working together since mid-2018, Co-op and Starship continue to learn from the partnership. Chris Conway, digital director, told Retail Week: "Co-op and Starship have managed to refine the robots and we have improved from around 70% autonomous to 99.2% autonomous deliveries."

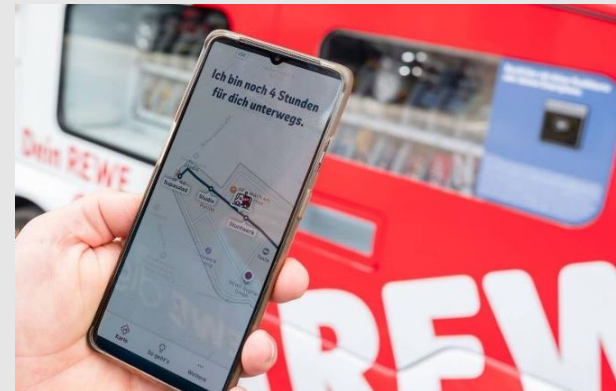


Rewe

Rewe Group recently launched Europe's first self-driving kiosk in Germany in partnership with Vodafone.

The 'Snack Mobil' offers snacks and drinks to pedestrians via an app. It travels at a maximum speed of 6 km per hour to predefined stops and its progress is viewable on the app, with pedestrians also able to flag it down, select items and make a contactless purchase.

Developed by Rewe's digital team, the solution has the potential to cut down significantly on labour, making the last mile more economically viable.



Smarter, faster supply chains

The acceleration of digital transformation and improvement of supply chain visibility are equipping retailers with essential tools to navigate disruption caused by factors outside of their control – such as the pandemic, Brexit, driver shortages and the blockage of the Suez canal.

A record 50.5m sq ft of new warehouse space was leased in 2020 and analysis by data and software company PitchBook shows that supply chain tech is enabling a shift to connected networks where “a central hub helps orchestrate and co-ordinate data related to supply, demand, inventory and capacity”.

From micro-fulfilment sites closer to the end consumer to ship from store stock management systems, forward-thinking retailers are overhauling supply chains and assessing the various options to reduce last-mile overheads and cater for soaring online demand.

At the same time, companies are investing in first-mile automation, integrating technology to drive faster picking, packing and processing.

70% of Europe's largest 30 retailers conducted a review of their supply chains because of Covid-19

Alvarez & Marsal and Retail Economics



The Very Group went live with its first highly automated warehouse in the East Midlands last year, supported by robots collecting products for dispatch or integrating returned items back into stock. The business can now accept and dispatch an order in as little as 18 minutes.



Smarter, faster supply chains: Strategic implications for retail

- Supply chain differentiation will make or break retailers in 2022 – those that can maintain stock levels and delivery promises will win
- With the spotlight clearly focused on supply chain weaknesses, retailers must prioritise technology and automation to fix these
- Micro-fulfilment solutions will increase efficiency and can be located within existing stores
- Warehouse automation, ship from store, port-centric warehousing and other investments should be considered to overhaul the first mile
- Alternative warehouse options, a diversified supplier base and better optimisation of space are a necessity for all retail supply chains
- Legacy technology and infrastructure that leads to missed insights, delayed reporting and multiple versions of the truth are no longer acceptable



"Without our full stock integration, we would not have been able to have this significant online sales growth"

Pablo Isla, Chairman and CEO, Inditex

Inditex

Zara's vertically integrated supply chain is the envy of many fashion rivals, with the ability to get product from design into store in just three weeks.

New designs are produced in small batches and can arrive in-store within two weeks. The small production run, combined with its incredibly quick production and delivery times, enables it to back its winners and disregard unpopular items.

Inditex has invested in recent years in the rapid rollout of an integrated stock management system, which gives a single view of inventory in almost 6,000 stores across 89 markets. The system helped during the pandemic, as Inditex was able to fulfil 46 million orders worth €1.16bn from its shuttered stores and grew online revenue by 70% to €6.6m.

Now the company is investing €2.7bn to digitalise and incorporate the new technology across its entire store estate. In parallel, its brands will deepen the digital integration of stores and online. Future store openings will now create what the company describes as "a high-quality digital, eco-efficient store and online platform", as physical locations "play a stronger role in the development of online sales".



Ocado

Ocado's state-of-the-art customer fulfilment centres (CFCs) are highly efficient, picking orders using an AI-powered system known as Dash and a network of robots. However, large CFCs are costly to build and operate, and need to be run at capacity for efficiency. Ocado's flagship CFC at Erith is 573,000 sq ft and processes around 150,000 orders per week.

For better operational efficiency, Ocado has begun opening mini CFCs in smaller catchments. With a 150,000 sq ft footprint, a mini CFC can process around 30,000 orders per week. In February 2021, the first mini-CFC opened in Bristol, with a second to follow in Bicester in H1 2022. Over time, 10-12 mini CFCs are anticipated.

Another step in Ocado's automation journey is the integration of autonomous vehicles, to lower the cost of last-mile delivery. Ocado invested £10m in Oxbotica in April and plans to integrate its autonomy software platform into a variety of vehicles.

In October Ocado invested £10m in Wayve, which provides deep learning and camera-first technology to "accelerate the development of autonomous grocery deliveries in complex urban environments". The tech will be trialled on Ocado delivery vans on urban routes for the next 12 months.



Alibaba

Chinese ecommerce giant Alibaba is working towards its goal of delivering goods anywhere in the world within 72 hours.

This is a potential threat to domestic retailers, as the company is able to offer cheap prices and has direct access to Chinese manufacturers.

Alibaba has 800 robots fulfilling daily operations at its largest automated Cainiao warehouse in Wuxi. Through digitisation of its processes, Alibaba Express has been able to reduce the time taken to process customs declarations from one month to just a few minutes.

In China, Alibaba plans to deploy 1,000 delivery robots this year to deliver packages faster and more cheaply at university campuses and in urban communities.

The company will now work with its logistics subsidiary Cainiao to develop self-driving trucks. It has already invested to fund self-driving start-up AutoX and electric vehicle manufacturer Xpeng.



AI powering progress

Artificial intelligence (AI) continues to reinvent the retail landscape, using high-quality data and algorithms to help retailers predict demand and better serve their customers. From using computer vision to tailor the customer experience in real-time to applying machine learning for inventory management, the combination of data and AI builds innovation, resilience and adaptability into retailer operating models.

By using AI, retailers can respond quickly – maybe even automatically or entirely autonomously – to changing customer needs or any new threat or opportunity.

With the shift online, retailers can gather more data from consumers and leverage new technology to power AI and convert data into insights.

AI leads to better collaboration and operational improvement. The process is becoming simpler and more accessible through APIs and webservicees.

Some ways AI can make retailers more effective and competitive include:

- Accurately forecasting demand
- Optimising supply chains and fulfilment
- Designing new products that shoppers want to buy
- Curating assortments to local demographics
- Targeting CRM campaigns to specific audiences
- Creating personalised and frictionless in-store experiences
- Optimising efficiencies across the entire organisation



Kshitij Kumar, chief data officer at Farfetch, told Retail Week Live how AI and tech-driven retail will be the future.

Describing Farfetch's own journey, he recommended the following steps for retailers: identify the customer lifecycle; generate high-quality data that can be converted into actionable insight; decide how to go beyond the physical or online experience; clearly state the business challenges and feed them into highly skilled data teams; and break boundaries with the help of human experience, tech and data.



AI : Strategic implications for retail

- Operational efficiency in all areas can be increased by data and AI, giving retailers an advantage in these rapidly changing times
- AI can reimagine the way companies interact with consumers and conduct their business
- Data-driven intelligence can rapidly identify new solutions online, in the supply chain and in-store
- For greater effectiveness and transparency of data, businesses should increase data sharing among their ecosystem of partners to improve overall visibility
- The way businesses use AI and data must be transparent and trustworthy. Consumers will place higher trust in sharing data when the data exchange and AI interactions are open and ethical



Walmart

Walmart created an AI technology solution for its personal online shoppers to help them identify the next best substitute item for customers if their chosen product is out of stock.

The tech uses deep learning AI to consider hundreds of variables — size, type, brand, price, aggregate shopper data, individual customer preference, current inventory and more – in real time to determine the best next available item.

It pre-emptively asked the customer to approve or reject the substituted item, and fed this information back into the learning algorithms. After deploying the solution, Walmart reported that customer acceptance of substitutions increased to over 95%.

Target

In the US, retailers Target and Walmart have leveraged AI-driven returns logic in the online channel.

By using AI engines to understand the cost associated with a return, the retailer can automatically decide whether it makes financial and logistical sense to return the item or to simply issue a refund and allow the customer to keep it.



Digital payments, NFTs and cryptocurrency

Payment technology is evolving to provide consumers with more frictionless transactions, particularly since the online shift during the pandemic.

More than two thirds of consumers now use their mobile phone to make payments, and newer digital solutions such as AliPay are increasingly being accepted by retailers.

In September, Bitcoin was adopted as legal currency in El Salvador, sparking a debate around the opportunities and dangers of cryptocurrency as all citizens received \$30 (£22) each to spend when downloading the government's digital wallet.

Across Europe, 25% of retailers and brands offer crypto payment options and this is expected to increase to 49% in the next 18 months. Lush is among those accepting crypto and it is also being considered by eBay.

Brands are also embracing new opportunities in the metaverse. A trend that originated in Asia, non-fungible tokens (NFTs) are being used to create limited-edition virtual products and generate brand excitement within the gaming community.

Burberry, Dolce & Gabbana and Louis Vuitton have all partnered with gaming platforms to introduce limited-edition virtual product drops.

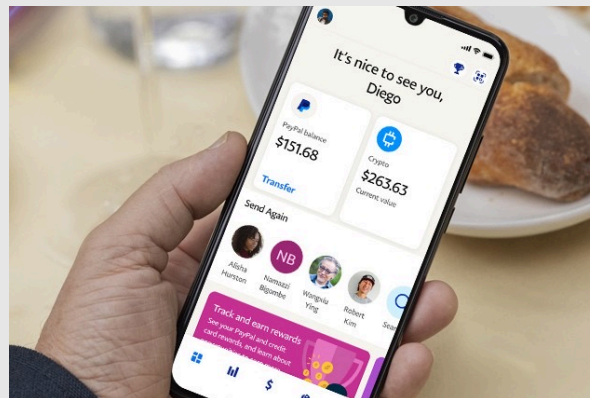


Burberry partnered with Mythical Games to launch an NFT collection in their flagship multiplayer party game, Blankos Block Party. Its digital vinyl toys known as Blankos live on a blockchain, providing players with proof of verified ownership and authenticity.



NFTs and cryptocurrency: Strategic implications for retail

- Digital payments will continue to evolve and become smarter
- Positive payment experiences give retailers competitive advantage
- Retailers should consider accepting new payment methods in line with growing consumer demand
- Buy now pay later, biometric payments, open banking and cryptocurrencies are all growing in popularity
- The metaverse presents endless opportunities to engage customers with unique and authentic digital products
- Blockchain-powered sustainability initiatives will accelerate



PayPal

Payment provider PayPal recently launched a new “super app” with features including access to high yield savings, in-app shopping tools, deals and rewards, peer-to-peer payments and cryptocurrency trading.

PayPal estimates that the number of consumers using digital wallets will double to 4.4 billion globally by 2025. Its new finance tab gives users access to cryptocurrency trading, including Bitcoin, Bitcoin Cash, Ethereum and Litecoin.



Costa

Costa is using NFTs to support its sustainability strategy by trialling a new blockchain-powered reusable cup scheme. BURT – which stands for ‘Borrow, Use, Reuse, Take Back’ – seeks to shift consumer behaviour with a six month trial launched across 14 stores in Glasgow.

To participate, customers scan a QR code to set up an account, and make a one-off £5 payment. After that they scan the QR code on the base of a BURT cup, which links to their account via blockchain, and purchase a drink as normal.

The cup can be returned to a participating Costa store at any convenient time, where it is scanned back in.



Technology as a service

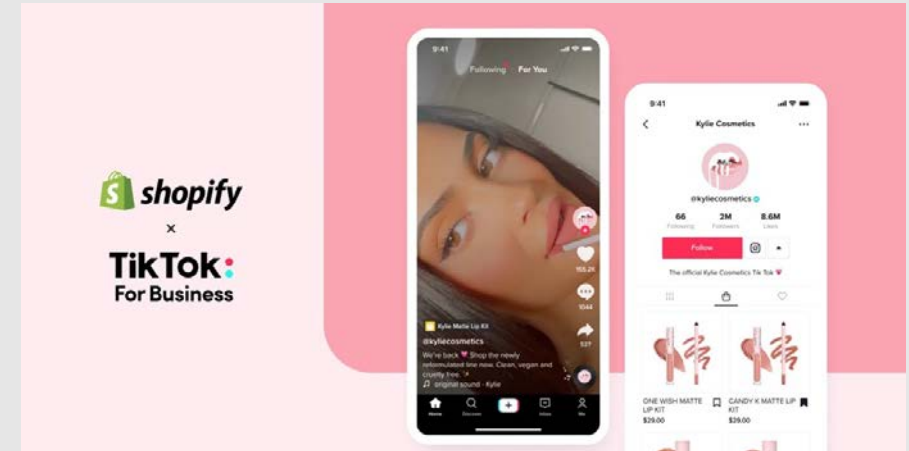
Shaking off the weight of legacy technology is essential for retailers to become more agile. Yet the investment required to do so can be prohibitive for many, presenting opportunities for larger companies to license their expertise to others.

Amazon was the first company to sell its proprietary technology to other businesses and AWS generates more than \$13.5bn annually, making up 12% of Amazon's total revenue.

Other retailers such as Ocado and The Hut Group are now doing the same, planning partnerships and sharing their platforms and expertise to generate additional income and build ecosystems. This makes business sense for both parties, as smaller businesses gain access to agile, more powerful platforms and large retailers offset some of the huge investment needed to run that technology.

With such a huge focus on operational efficiency, technology is powering businesses to become leaner, smarter and more agile.

We expect to see more partnerships developing in the coming year and more businesses opening up their platforms to others.



Partnerships between larger retailers are essential to compete against agile platforms such as Shopify, which supports small businesses and D2C brands. Shopify overtook eBay for the first time last year for gross merchandise volume.



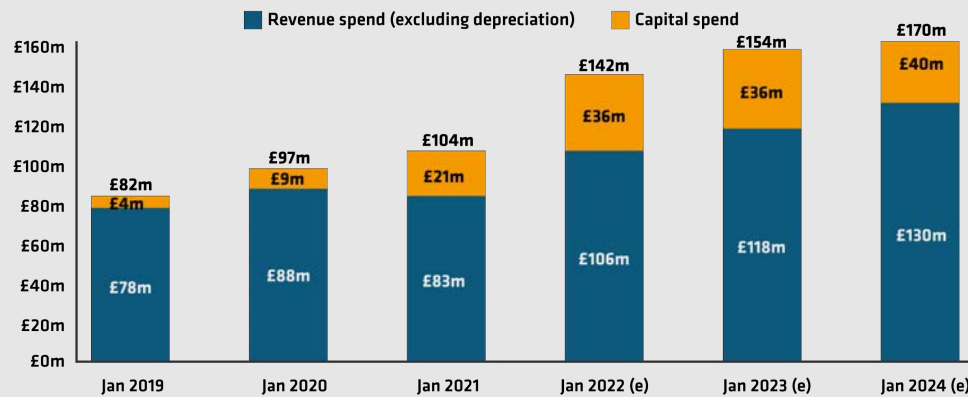
Tech as a service:

Strategic implications for retail

- Large retailer ecosystems will dominate as they leverage the opportunity to grow service revenue
- Smaller businesses can benefit through these partnerships
- A combination of tech and knowledge-sharing will drive more meaningful partnerships
- Investment in IT and supply chain systems remains the highest priority for retailers as they target agility and operational efficiency



Next Technology Expenditure



Next

Next has adopted an in-house first approach to building its retail applications which it believes has given it a competitive advantage to deliver better systems, faster and at less cost.

This year Next plans to increase capex on technology to £36m as part of a four year plan to modernise all eight of its system domains.

As it continues to invest in IT, Next is now able to begin the deployment of these systems through its Total Platform for the benefit of other brands.

For instance, having recently acquired a 51% stake in Gap's UK and Ireland business, Next will operate Gap's ecommerce site through Total Platform, on a dedicated 'light' site, to be hosted on a gap.next.co.uk website.

Similarly, from February 2022, Reiss will transfer its online operations to Next's Total platform and also move to shared warehousing and distribution services.



Walmart

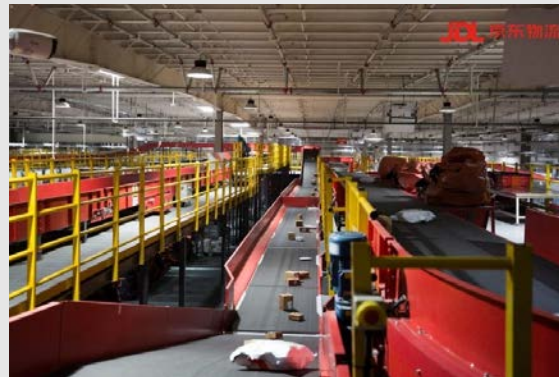
In a bid to emulate rival Amazon, Walmart announced in July that it plans to begin selling its technology and logistics capabilities to smaller retailers as it seeks out fresh revenue streams.

The US giant has partnered with software provider Adobe to offer retail customers access to its cloud-based services, enabling them to integrate Walmart's fulfilment and pick-up technology into their own stores.

Small and medium-sized retailers can also add their products quickly and easily to Walmart's online marketplace, and tap into the giant's fulfilment network which offers online delivery to customers anywhere in the US within two days.

"We've built new capabilities to serve the evolving needs of our customers, and we have the unique opportunity to use our experience to help other businesses do the same," said Walmart US chief executive John Furner. "Commercialising our technology and capabilities helps us sustainably reinvest back into our customer value proposition."

Adobe estimates the scale of the opportunity for retail giants like Walmart and Amazon in third party tech sales could be as much as \$44bn.



JD.com

Chinese technology giant JD.com recorded a 37% jump in income last year as it 'continued its strategic transformation into a supply chain-based technology and service company with increasingly diversified sources of revenues'.

The ecommerce titan said its top line was boosted by the addition of "multiple" fashion and luxury brands launching flagship online stores on JD.com.

New partners included Vivienne Westwood, Italian luxury brand Stefano Ricci, Hermès Group's shoe brand John Lobb and Japanese streetwear label White Mountaineering.

JD.com also started working with its retail partners on more "omnichannel" initiatives. Pilots with Prada and Miu Miu allow shoppers on JD.com's platforms to access a wider range of the brands' products, including items from their physical stores.



Augmented and virtual reality

The development of augmented and virtual reality accelerated as we were forced to stay at home. Many of the virtual experiences on offer really enhanced the customer journey and going forward we expect brands and retailers to keep the best of these.

From live streaming to virtual collaboration and tools to help shoppers select and try products before buying, these solutions enhance customer experience and drive loyalty and conversion.

Augmented reality features in Amazon's new London hair salon, where customers can experiment with different hair colours and styles using an augmented reality colour bar and scan QR codes to purchase products.

AR can greatly enhance the customer experience when buying large, considered purchases such as furniture and IKEA, one of the first to trial AR, overhauled its app to create Ikea Studio, which enables customers to design entire rooms.

Virtual reality events are also here to stay, as necessity inspired businesses to come up with creative ways to engage attendees online and to extend invites to more people regardless of location.



Amazon's hair salon in London's Spitalfields offer customers the chance to experiment with different hair colours and styles using an augmented reality colour bar



AR and VR:

Strategic implications for retail

- Livestreaming remains a growing trend, allowing retailers to target and assist online shoppers
- Whilst the physical experience remains really important for new customers to see, feel and touch products, AR and VR offers an enhanced experience to support times when it is not desirable / possible to be present in person
- As augmented and virtual reality improve, consumer trust in these new ways of shopping could lead to increased online engagement and fewer stores
- Virtual collaboration between retailers and suppliers can reduce the environmental impact of travel and deliver faster solutions
- The inclusivity, convenience and lower cost of virtual experiences provides an attractive way to reach new audiences

I think [virtual spaces] could be an important element of the future, although I don't want to cancel the physical experience

Diesel CEO Massimo Piombini (Cannes Lions June 2021)



Diesel

Diesel took a step forward in its digital acceleration with the launch of an entirely digital showroom, designed to allow the emotional experience of viewing – and ordering – high-end collections online.

Products are presented in a new, hyper real dimension, allowing buyers to take a 'sensory journey' through virtual spaces and to be guided through remote buying sessions.

Born out of necessity, the digital showroom project turned into a real opportunity to digitise the fashion industry and present a more sustainable B2B alternative to travel, reducing carbon footprint. High quality 360 degree images, videos and 2D close-ups make the showroom visit as close to reality as possible.

Sephora

Sephora announced the return of its biggest and most inclusive event of the year in September, SEPHORiA: Virtual House of Beauty. Previously held in 2018 and 2019 as a live and ticketed event, this year's event was held virtually and free to attend.

The virtual event featured a 3D game-like environment with an interactive beauty "house" that had multiple rooms to explore – a home theatre, family room, loft, sunroom and backyard, each with different topics, themes and masterclasses.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- **Consider autonomous solutions to improve the customer experience**
- **Invest to future-proof supply chains**
- **Leverage data-driven AI for agility and competitive advantage**
- **Find ways to strengthen your own ecosystem or become part of one**
- **Deploy AR and VR to improve collaboration with suppliers and increase engagement for customers**





ECONOMY

THE FACTORS SHAPING CHANGE

Risks to costs and inflation

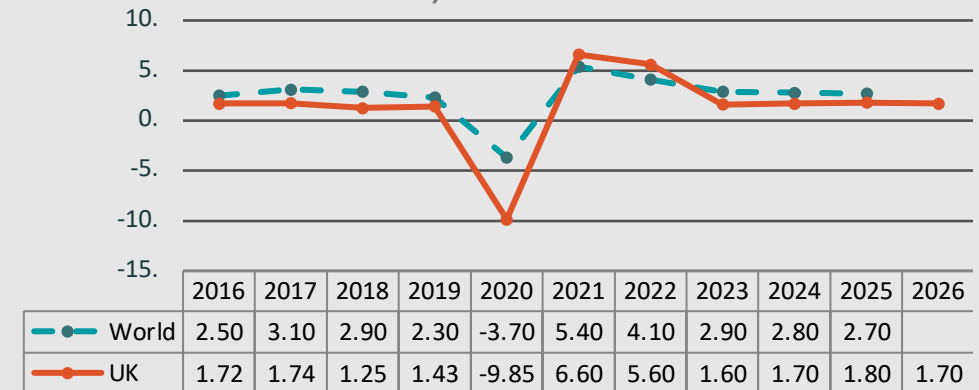
The Covid-19 pandemic sent the global economy into deep recession in 2020, with global GDP contracting by 3.7% – the worst fall since the 1930s. In the UK this impact has been further compounded by Brexit.

Despite the strengthening of consumer confidence in the second half of 2021, there remain significant threats and challenges:

- Wholesale energy prices are soaring, because of shortages of the supply of natural gas from Norway and Russia
- Higher energy prices lead to higher bills and account for around 10% of inflation, so will lead to a spike in inflation in coming months
- Despite a rebound in global trade volumes this year, ongoing disruption to transport links has sent freight rates to record high
- Panic buying is a likely consequence of shortages, as seen during the UK fuel crisis
- Should inflation remain high, there is a risk that central banks might respond by tightening monetary policy
- Tourism flows are not expected to return to pre-2019 levels before late 2023 or early 2024

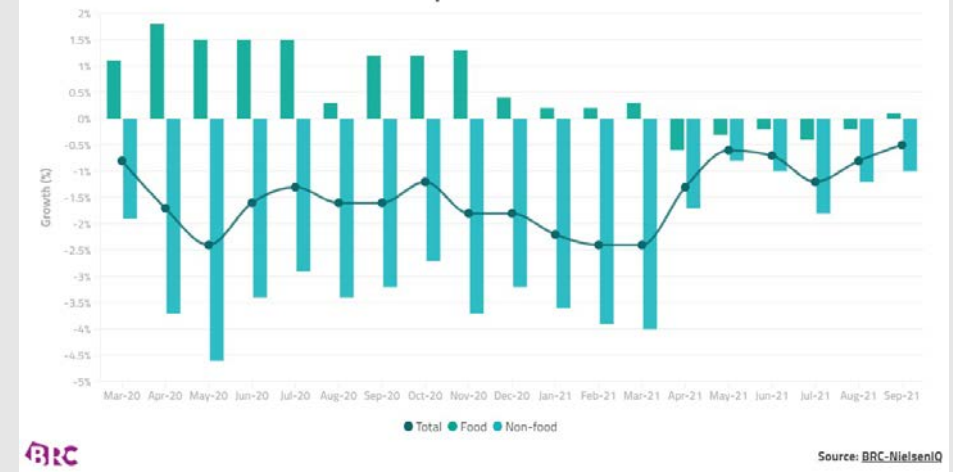
GDP GROWTH FORECASTS

UK, WORLD 2016-2026



Source: Economist Intelligence Unit, October 2021

Shop Price Index



BRC Nielsen figures show that food prices rose in September 2021



Costs and inflation:

Strategic implications for retail

- Rising costs and inflation will lead to higher costs for businesses, which will in turn need to decide whether to pass these on to consumers
- Brexit has increased the cost and time to onboard and retain key workers in retail and supply chains
- Spikes in demand will add further disruption to already strained supply chains
- Retailers and brands should continue to implement best practices learned during the pandemic to address supply challenges and ensure stock levels of essential items
- Businesses should prepare contingency for disruption and incentivise existing staff to retain expertise
- Even if the UK government intervenes to protect consumers from energy price rises, some hit to consumer spending is inevitable



Kingfisher

Kingfisher chief executive Thierry Garnier told Retail Week that the retailer has seen "some inflation on raw materials" in 2021. "It has been the case every month since January, especially in the UK against B&Q and Screwfix's peers.

"We have sourcing teams all over the world so we can see early signals of inflation and we actively engaged with suppliers many months ago. We decided to buy additional container capacity to deal with the volume and we are in a relatively good place."

Heinz

Kraft Heinz chief executive Miguel Patricio said in October that people "will have to get used to higher food prices".

He told the BBC that the international food giant was putting up prices in several countries owing to inflation "across the board".

The company has already increased prices on more than half its products in its domestic US market and Patricio pointed to specific problems in the UK with the lack of truck drivers and shortage of labour. However, he said that it was "up to the industry" and other companies to try to minimise the increases.



Consumer confidence returning, but fragile

Consumer confidence has returned more rapidly in the UK than in other countries, driven by the vaccine rollout.

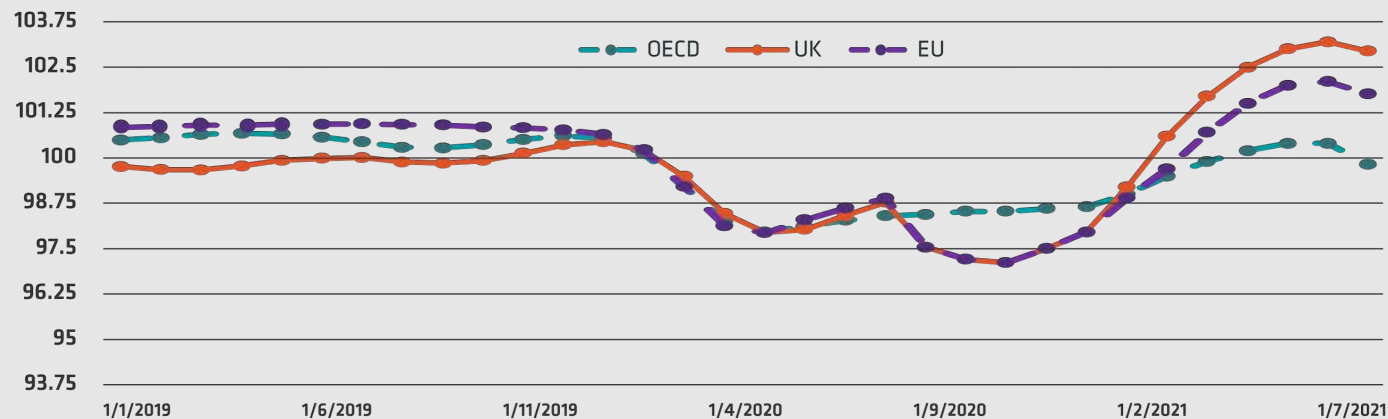
This is really positive news for retail, particularly in light of our 'nervous consumers' trend in last year's Retail Horizon report.

However, confidence remains fragile and could be impacted by any setbacks such as supply chain issues, shortages or the reintroduction of Covid restrictions.

Indeed, the run on fuel in autumn 2021 demonstrates the fragility of confidence that consumers have in retail supply chains as well as the UK government.

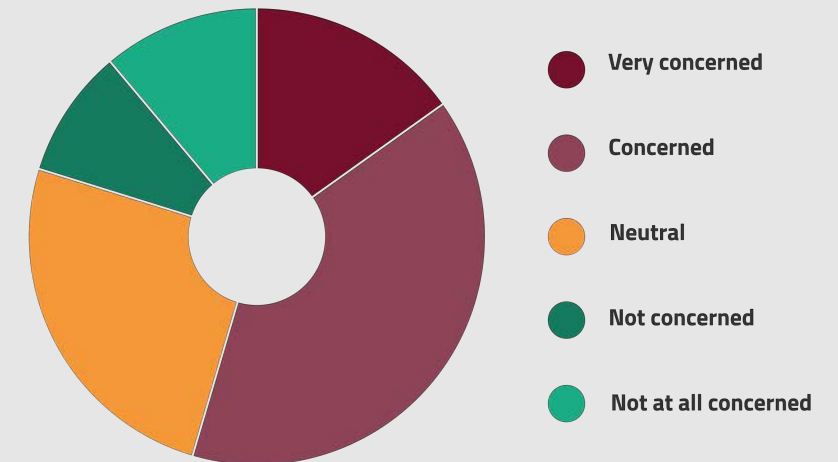
Consumers' concerns about supply chains, inflation and rising prices are all a risk to the progress that has been made. The dip in consumer confidence seen in August goes against the trends since last December and is worrying for the economy.

CONSUMER CONFIDENCE INDEX | JANUARY 2019-AUGUST 2021



Source: OECD

Currently, how concerned are you about rising inflation (e.g. rise in the general cost of living)?



Source: Retail Economics, consumer panel = 2,000 households, September 2021



Consumer confidence: Strategic implications for retail

- UK consumer confidence has overtaken EU and OECD averages since the beginning of 2021 and this can be seen as a huge positive
- Businesses can bolster consumer confidence with messaging and reassurances around price and availability
- Retailers should communicate publicly the measures they are taking to strengthen supply chains to allay any concerns
- Following an uncertain period, consumers will be keen to spend on food, gifts and socialising during the 2021 Christmas period and into 2022



John Lewis

In its interim report in September, John Lewis chair Dame Sharon White reassured customers and partners of the measures the company was taking to avoid Christmas disruption.

She said: "As we look ahead, there is significant uncertainty. Like the whole of retail, we are managing global supply chain challenges and labour shortages. We are seeing inflationary pressures, which we expect to persist.

We are taking a raft of measures to mitigate these risks and deliver Christmas for our customers. These include a successful campaign to recruit drivers, offering competitive salaries and benefits, recruiting 7,000 temporary seasonal roles and booking additional freight to make sure John Lewis Christmas products arrive on time."



Income divide widening

Our last Retail Horizon report looked at how income equality has led to the creation of a two-tier society and the erosion of the middle class.

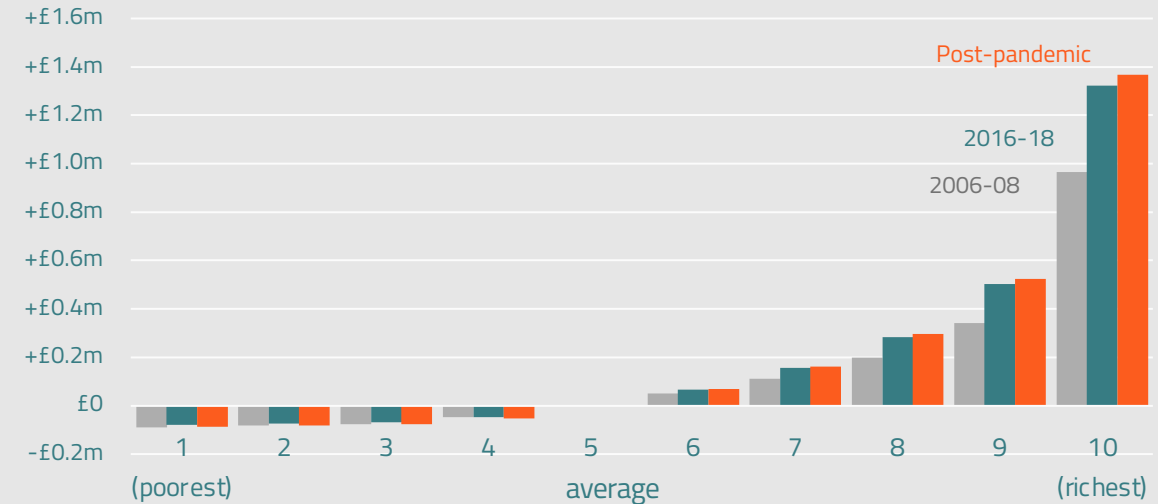
Covid-19 accelerated that change, with increased job losses for some, while others were able to save money and continue to work from home.

Uneven income gains can be expected to continue, leading to increased price sensitivity.

Consumers will also be anxious about changes to Universal Credit from October 2021, the 1.25% Health and Social Levy from April and the rising cost of energy and other bills.

Market polarisation will put even further pressure onto mid-market retailers, as growth comes from low prices at the bottom end of the market and luxury at the top.

ABSOLUTE GAP BETWEEN AVERAGE FAMILY WEALTH (FIFTH DECILE) AND OTHER GB HOUSEHOLDS



Source: Resolution Foundation

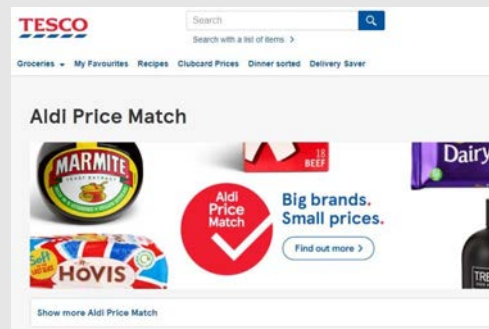
The Resolution Foundation published an annual Wealth Gap report showing the impact of the coronavirus crisis in widening the UK income divide.

A typical low-income family with children could see their income fall by over £20 a week by mid 2022 as households across the UK experience a cost of living crunch from rising prices and energy bills along with falling income support.



Income divide widening: Strategic implications for retail

- Growing income inequality requires sharper product and price positioning
- Customers will seek value for money, with lower-income shoppers particularly sensitive to price
- Brands and retailers must tailor products and assortments carefully to a wide range of income profiles
- At the top end there will be opportunities to sell premium items to wealthier shoppers, provided they do not prioritise saving
- Buy now, pay later payments will continue to accelerate
- Mid-market retail will continue to be squeezed



Amazon

In August 2021 Amazon partnered with Affirm in the US to introduce buy now, pay later options when making a purchase of more than \$50 online.

The Affirm payment is currently being tested among various groups of consumers and likely to be rolled out in the next few months.

If successful, it is likely that Amazon would introduce pay later options to other major international markets such as the UK.

Tesco

'Magnetic value for customers' is the first of four newly formulated strategic objectives at Tesco. The company says it sees value as "much broader than just price", and more the intersection of price, quality and sustainability.

In a bid to remove reasons for customers to shop elsewhere, Tesco is maintaining competitive pricing through its Aldi Price Match, Low Everyday Prices and Clubcard Prices initiatives.

At the same time it plans a renewed focus on premium products, leveraging the strength of Tesco Finest. Refining the supply chain and reducing its environmental impact are the final pillars of this objective.



Private equity snoop on retail

Private equity is awash with money, buoyed by low interest rates and hungry investors. Meanwhile, Brexit and the pandemic have depressed valuations of British companies.

These trends have prompted a snoop on retail companies by private investors.

There were a record 345 buyout bids for UK companies in the first six months of 2021, of which 13 are listed. Within the retail sector, 127 UK retailers were under private equity ownership in October, according to PitchBook.

Private equity companies claim to be efficient in turning around struggling companies away from the scrutiny of public markets and have the means to invest to grow businesses. However, in the short term job losses are common and some retailers end up saddled with debt or fall into administration.



Private equity : Strategic implications for retail

- Unsolicited private equity bids for retailers are likely to continue in the short to medium term
- This will lead to some uncertainty and insecurity within the sector
- Retailers should prepare ahead in the case of private equity interest and consider the terms that they would like to negotiate
- For smaller retailers, investment by private equity can accelerate growth strategies and enable the sharing of resource and ideas



Morrisons

In October 2021 Morrisons was acquired by private equity group Clayton, Dubilier & Rice (CD&R), in a 287p-per-share offer that values Morrisons at around £10bn, including more than £3bn of debt.

The deal was secured at auction, with CD&R pitted against rival bidder Fortress. Morrisons had rejected a first, unsolicited bid from CD&R in June, which undervalued the company at £5.5bn.



Hush

True acquired a majority interest in fashion brand Hush, which it described as “perfectly positioned” to take advantage of the shift online. The deal will help scale and support its expansion into new channels and markets.

Susanne Given was appointed to strengthen the board, bringing expertise from her former roles at TK Maxx, John Lewis and Superdry.

True’s growing private equity portfolio includes Sneak, Soulfresh, Zwift, Frugi, Ribble Cycles and The Cotswold Company.



Green economy

Sustainable finance is blossoming as [more retailers think green](#) and link ESG targets to future financing with banks and lenders.

In most cases ESG financing gives retailers better terms when they commit to making meaningful change, and more retailers are now holding themselves to account by linking sustainability or ethical targets to their financing agreements.

The ESG agenda is also taking on more importance among investors, as reactions to the controversy over Boohoo supplier factory conditions or response to Deliveroo's IPO showed.

Last year, Tesco renewed a £2.5bn financing arrangement, establishing links to sustainability targets for the first time. The revolving credit facility's interest is linked to achieving three sustainable targets set out by the retailer; emissions, renewable energy and food waste.

Other retailers are following Tesco's lead, getting serious about sustainability and committing to ESG-linked financing models.



Green economy: Strategic implications for retail

- Linking financing to sustainability targets is a positive way for businesses to demonstrate their commitment to ESG
- Retailers can save money on loans when they meet their targets, making it a win-win
- Companies should set appropriate, specific and measurable ESG targets
- KPIs should be ambitious but meaningful to the business and they need to be externally ratified
- Companies should take care to avoid greenwashing by making commitments that are not measurable or achievable



Joules

In May 2021, Joules' funding arrangement was converted into an ESG-linked financing model. The arrangement is made up of both a £25m revolving credit facility and £9m term loan. The linked targets include reducing its carbon emission intensity, delivering 100% more sustainable materials in the manufacturing process and increasing its employee engagement score.

Joules' chief executive Nick Jones described switching to an ESG-linked financing agreement as "a natural next step" for the retailer as part of its Responsibly Joules framework.

Natura

Brazil-based owner of Avon and The Body Shop, Natura, recently raised \$1bn in a sustainability linked bond.

Carefully aligned with its environmental credentials and outlook, the bond commits already carbon-neutral Natura & Co to reducing greenhouse gases by another 13% by 2026 and reaching 25% of post-consumer recycled plastic in its packaging.

The proposal for the bond links to 10-year targets for its four brands across 100 countries. An external measurement for its specific targets will be conducted and results disclosed annually on its investor relations webpage.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Prepare strategies for rising business costs to mitigate where possible
- Consumer confidence is fragile, communication must be clear and open
- Assess ways to incentivise and retain key workers
- Target retailing to consumers at both ends of the income divide
- Link ESG targets to performance and financing





POLICY

THE FACTORS SHAPING CHANGE

Post-Brexit reality

Although passed at the end of 2020, the ramifications of Brexit legislation remain an ongoing challenge for retailers. The culmination of Brexit, the pandemic and rising political tension have generated trade disruption including UK driver shortages and gaps on shelves.

Plans for checks on some goods entering Northern Ireland were indefinitely suspended by the UK in September, following extended grace periods and after negotiations with the EU reached a stalemate. But these concerns still hang over retailers, particularly the grocers which face the most red tape and highest expenses.

It is likely that retailers will need to continue to lobby the UK government for greater understanding of the challenges they face going forward.

The BRC, UK grocers and M&S chair Archie Norman all wrote open letters appealing to the Northern Ireland secretary Lord Frost.

JD Sports chairman Peter Cowgill cited “double-digit millions” in extra costs.

Meanwhile, retailers are working to future-proof supply chains by diversifying their supplier base to lessen the impact.



“It is not the overall purposes of the Customs Union that are the problem. It is the pointless and Byzantine way in which the regime is enforced that is so business destructive.”

Archie Norman, M&S chair in an [open letter](#) to Brexit minister Lord Frost



Post-Brexit reality: Strategic implications for retail

- Retailers should continue to lobby government to promote deeper understanding and seek resolutions to the ongoing Brexit challenges facing their businesses
- Contingency should be considered for inevitable delays at border crossings to and from the EU from early 2022
- The appointment of former Tesco CEO Dave Lewis to advise the government on supply chain can be seen as a positive step
- Retailers should diversify their supplier base and consider using more UK and non-EU suppliers
- Tariff and duty legislation should be regularly tracked
- Range rationalisation and changing delivery frequency is a likely consequence of Brexit regulations, as retailers adapt to mitigate the impact
- Ultimately, less choice and higher costs are likely to impact retailers and consumers
- UK businesses could potentially benefit from a new state aid regime replacing the former EU system in 2022.



M&S

In September 2021 M&S announced the closure of 11 of its franchise stores in France after post-Brexit trade rules “significantly” impacted supply of fresh and chilled food.

M&S criticised the “lengthy and complex export processes” that impacted product availability and the performance of its business.

Meanwhile, to address the HGV driver shortage M&S and logistics partner Gist began awarding HGV drivers a £2,000 sign-on bonus as part of an incentive package totalling up to £5,000.

Warehouse workers can also join Gist’s Warehouse to Wheels scheme and have the cost of training covered.



ESG at the heart of strategy

Environmental, social and governance (ESG) concerns have rocketed to the top of the priority list for consumers, retailers and policy makers.

In support of UK net zero carbon emission targets by 2050 and in line with retailers setting their own strategies, government is also enforcing change.

- From April 2022 producers of plastic packaging made with less than 30% recycled materials will be taxed at a rate of £200 per tonne
- From 2023 producers will be responsible for collecting product waste
- Modern Slavery legislation has received increased focus, with a new online registry and minimum supply chain standards. A workers' watchdog is expected to follow.
- Following an investigation that found 40% of green claims could be misleading, the CMA has published guidance to crack down on 'greenwashing'
- More than 18 major brands and retailers have already signed up to the voluntary Textiles 2030 commitment, which aims to design for circularity and reduce the impact to the environment from fashion



ESG: Strategic implications for retail

- Climate anxiety among consumers will pressure governments to increase focus on ESG
- As pressure grows, sustainability will become a hygiene factor and legislation will tighten
- Retailers should set their own measurable ESG targets, clearly communicate these and report on progress
- Renewable energy and electric delivery vehicles for goods will support the journey towards net-zero carbon
- Reusable packaging and packaging take-back schemes will continue to accelerate in support of ESG goals
- Retailers will also need to consider the impact of EVs on their fuel businesses and maximise opportunities to draw shoppers into stores by providing charging points outside
- Retailers must review supply chains and reporting processes ahead of a crackdown on modern slavery



Tesco

In partnership with global reusable packaging platform Loop, customers in 10 large Tesco stores in the East of England can now buy products in reusable packaging that can be returned to store when finished so it can be cleaned, refilled and used again.

The reusable range of 88 products includes Persil, Fever-Tree, Carex, Tetley Tea and BrewDog as well as 35 Tesco own-brand essentials.

A deposit is paid at checkout and refunded via an app when the packaging is returned to a collection point in the store.

Waitrose

Waitrose is partnering with Shell to install hundreds of electric vehicle charging points in its supermarket car parks.

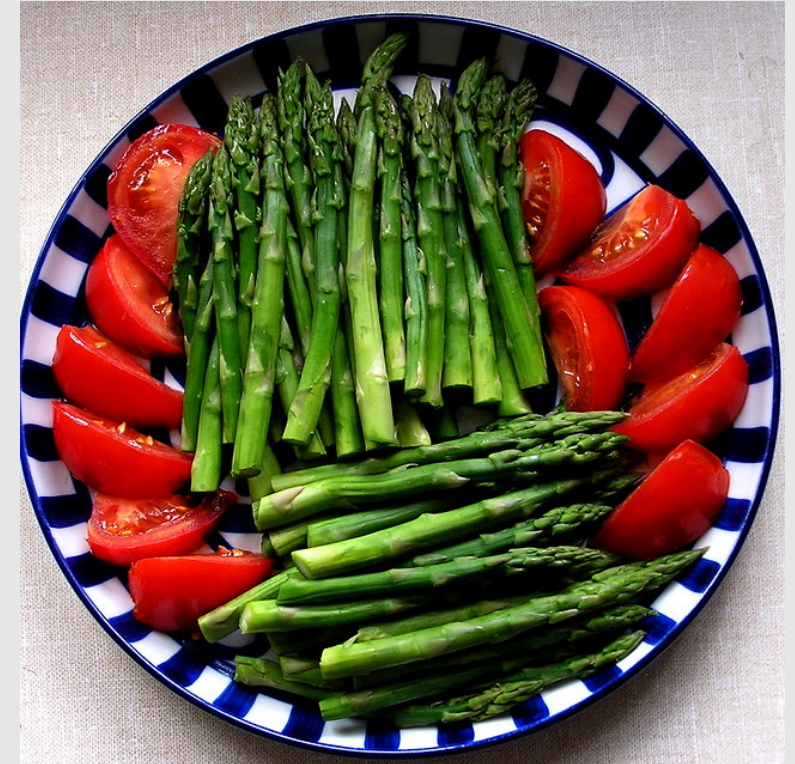
Each site is expected to have six 22kW and two 50kW rapid charging points so customers can charge their vehicles while they shop. By 2025, Waitrose aims to have the service in 100 locations.



Focus on health

The UK is among the leading countries in Europe for child and adult obesity. As health becomes a national crisis, legislation is increasing.

- From April 2022 out-of-home food businesses are required to display the calorie content of their food and drink products
- From 2023 [HFSS legislation](#) comes into effect, ending the promotion of foods high in saturated fat, sugar or salt. This legislation bans the display of products at front of store and on gondola ends. Product advertising before 9pm on TV will be prohibited and online restrictions introduced
- Healthier diets are coming to the fore and we can expect continued growth in plant-based products and other healthier foods
- Consumers will look to brands to help them live healthier and more sustainable lifestyles
- New product development should take into account changing regulations and attitudes to healthy living



Focus on health: Strategic implications for retail

- FMCG brands are already reformulating products to be HFSS compliant, but grocers will need to re-evaluate existing partnerships, own-brand ranges and the layout of supermarkets
- Businesses should also consider how the forthcoming restrictions might negatively impact advertising and commercial income from brands and how to mitigate against this
- The raft of new legislation could mark the end of impulse shopping as HFSS items are removed from the most visible locations
- Grocers will need to find new ways to promote value in-store
- There may be an opportunity for healthier brands and non-food manufacturers to take prime store space
- Retailers in all sectors should consider the impact of increasing regulations towards healthier lifestyles and maximise opportunities



Kellogg's

In preparation for HFSS legislation, Kellogg's has committed to removing 10% sugar and 20% salt from its cereals. By the end of 2022 all Kellogg's kids ranges will be HFSS compliant. Further changes to brands including Special K mean that four out of the top five selling Kellogg's cereals will be non HFSS.

At the same time the company will suck more air out of its cereal packs to reduce its carbon footprint.

Sainsbury's

Sainsbury's is promoting healthier lifestyles through its 'Eat Better' commitment.

The retailer has reduced the prices of fruit and vegetables, promoting less commonly purchased items to encourage customers to try them.

It has continued to develop Love Your Veg! main course vegetable and Plant Pioneers vegan ranges, with six new product launches during the summer of 2021.

Reformulating its own brands is an ongoing commitment, with 84% of own-brand items meeting the 2024 maximum PHE salt targets and 93% meeting the PHE maximum calorie per portion target.



Data privacy and protection

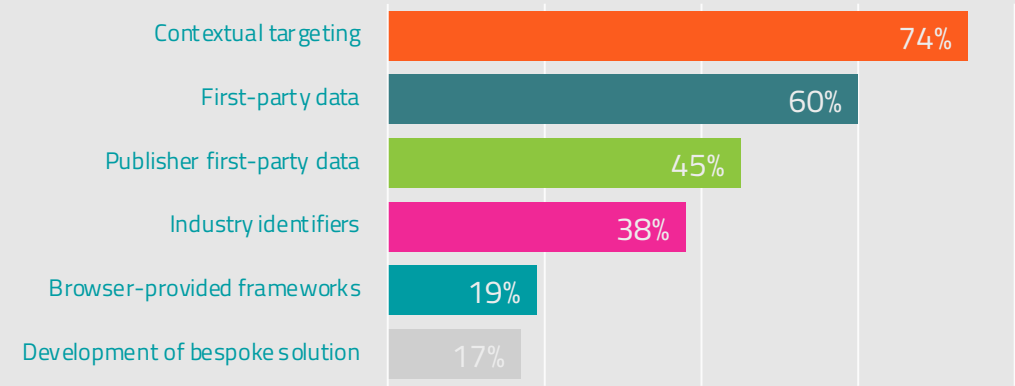
Data privacy is a growing concern for consumers and businesses. With an expanding patchwork of national and regional data privacy regulation, consumers are gaining greater control over their identity as data collection comes under scrutiny.

GDPR came into force in 2018 and customer data can now only be processed with consent. From 2023, Google and Apple plan to make cookies obsolete, which means that brands will no longer be able to use these to track individuals online, although cohort-based audiences will likely be permitted.

These changes will hamper data collection by ad tech companies, making it more difficult for brands to deliver personalised ads, and to manage campaign reach and frequency.

- Brands with access to authenticated first-party data are best placed to thrive in a post-cookie ecosystem
- Retailers will need to develop their own data insight capabilities through ecosystem extension and personalised interactions
- Brands will need to invest in new ways to access shopper insights, such as data-sharing with retailers and D2C activities
- Data partnerships with publishers will give access to authenticated audience data

TOP STRATEGIES CITED BY RESPONDENTS FOR UPCOMING LOSS OF THIRD-PARTY COOKIES AND DEVICE IDENTIFIERS



Source: IAB Europe/Xandr, WARC

WARC's Marketer's Toolkit 2021 survey reported that only 37% of respondents had plans in place to reach consumers in a post-cookie environment; 21% actively disagreed that any plans had been made.



Data privacy:

Strategic implications for retail

- Data sharing needs to be an equitable contract, with consumers understanding the returned value to them
- Customers are willing to share more data with trusted retailers, particularly when there is an incentive such as a loyalty scheme or discount
- Trusted first-party data from consumers is powerful and assists brands and retailers to build emotional connections with their most loyal customers
- By understanding customers and their preferences, brands can tailor marketing messages, leading to more customised experiences and better relationships
- Brands and retailers will benefit from building meaningful relationships with their most loyal customers, rather than chasing them around the internet



Boots

To create a more personalised shopping experience, Walgreens Boots Alliance (WBA) is using Microsoft technology to unify data across its loyalty scheme, ecommerce and store network.

By combining these previously disparate sets of data, including information from over 100m loyalty members, WBA can obtain a more singular, unified view of the customer.

Boots is using this to offer a bespoke beauty experience for customers in store and serve online offers to Advantage Card holders when they are due to run out of regular items.

Heineken

In the US, Heineken worked with customer data platform provider Blue Conic to organise its data into a single customer view, tiering profiles as 'bronze', 'silver' and 'gold'.

Heineken then began collecting first-party data through online interactions such as sweepstakes and virtual events. This was complemented with offline touchpoints such as sponsored events and music festivals.

Without this first-party data, Heineken would have no way of engaging customers through the lifecycle or building long-term relationships with them.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- **Place measuring, improving and communicating on ESG at the heart of business practices**
- **Prepare for ongoing Brexit disruption with supply chain excellence and contingency**
- **Consider ways to support healthier lifestyles and minimise impact of HFSS**
- **Plan for a first-party data strategy**
- **Take a long-term view to investment and innovation in these key areas**



The background features a dark, textured orange and black gradient. On the left, there is a large, stylized graphic of a gear with circuit-like lines extending from its center. On the right, there is a faint, high-angle photograph of an industrial facility with several workers visible. The overall aesthetic is industrial and technological.

INDUSTRY

THE FACTORS SHAPING CHANGE

Lean machines

The urgent demands of the pandemic, together with cost pressures and a competitive trading environment, have seen retailers focus on maximising resources and implementing new, more agile ways of working.

Operational efficiency will remain a focus for profitability and growth, even as we return to more 'normal' trading patterns.

- Agility remains a focus, with the democratisation of decision making helping retailers move more rapidly to meet changing consumer needs
- Ongoing portfolio reviews will aim to maximise value from property and other assets
- Range reviews will reduce costs and ease supply chain challenges
- Investment in automation will focus on micro-fulfilment, which repurposes store space to drive efficiency
- Costs will continue to come under pressure
- The traditional competition rules no longer apply as partnerships help companies to achieve more



Lean machines:

Strategic implications for retail

- Lean operational efficiency will remain a focus for retailers in a bid to control overheads
- Property portfolios and equipment investment will be maximised to improve profitability
- Duplication will be eliminated as retailers save to invest in growth and acquisitions
- Partnerships and negotiations such as turnover-based rent will be used to do more at lower cost
- Automated solutions will be used to reduce online fulfilment costs – but only where there is space and no duplication of effort
- Excess store space will be converted for concessions, services and fulfilment
- By keeping overheads low, retailers will avoid passing on rising costs to consumers as much as possible
- Brands and suppliers should expect to share some of the burden of these ongoing streamlining efforts



Frasers Group

Frasers Group takes a flexible approach to managing its store portfolio. The average lease expiry profile of all leasehold stores is just under five years, which enables it to react quickly to changing market conditions and supports its rationalisation programme.

Since 2019, the company has worked with landlords to demand fairer, turnover-based rents for its stores.

Tesco

Tesco is driving profitability into its business to reinvest in lower pricing. Property is a focus, with £28m of rental savings gained through the buyback of 12 stores and two DCs in 2020. It plans to buy back a further 11 stores in H2 2021/22.

Tesco is also maximising assets by selling 'air rights' to build above its stores and by converting excess space into urban fulfilment centres (UFCs). The second UFC opened in Lakeside with 25 planned in the medium term. UFCs give Tesco a scalable, efficient way to increase picking rates and fulfil rapidly-growing online demand.

The number of group employees has been on a downward trend over the past few years as Tesco disposed of non-core operations and reduced its head office and middle management staff.

'Save to invest' is a key part of Tesco's recently updated strategy and the company says the savings will allow it to 'consider inorganic growth opportunities' that may arise.



Big and small driving growth

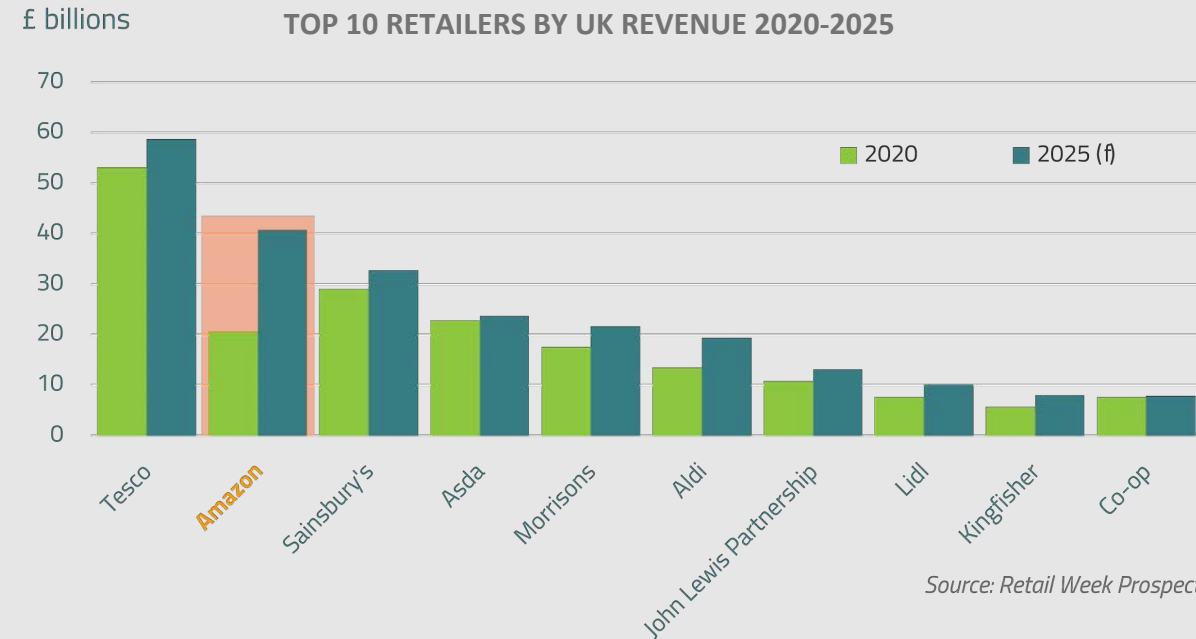
Those best positioned to meet the rapidly changing needs of consumers remain the super-brands and small, agile retailers.

On the one hand, retailers with deep pockets such as Amazon, JD Sports, Boohoo, The Hut Group and Frasers Group can take advantage of the acquisitive environment by investing in infrastructure and acquiring competitors.

On the other, there are opportunities for smaller, focused brands and independent retailers that can leverage their closeness to customers and adapt rapidly to accelerate growth.

The challenge is for cash-strapped retailers sitting in the middle, squeezed at the top by the super-brands and at the bottom by smaller, more agile competitors.

As retailers become ecosystems and brands leverage D2C to become retailers, there will be an uneven pace of growth and further consolidation.



By 2025, Amazon will be the second largest UK retailer, from fourth position in 2020.



Gymshark continues to enjoy rapid growth. Sales are forecast to soar from £176m in 2019 to £427m by 2025.

Source: Retail Week Prospect

Big and small driving growth: Strategic implications for retail

- Brands and retailers must become more agile to keep up with the pace of competition
- Acquisitions will lead to further consolidation in the market
- Small, agile brands will grow market share
- Organisational agility, innovation and partnerships are needed to avoid being left behind
- Retailers must invest to avoid treading water
- A larger share of retail growth will be diverted to D2C channels as brands leverage this opportunity



Boohoo

Boohoo's acquisition strategy has allowed the group to outperform the market, broadening its target audience through the widening of its product offer and price range.

This is reflected in its results, as group sales surged 41.3% to £1.7bn in the year to February 2021 and jumped 19.5% in H1 to August 2021.

The trend is set to continue with the pivot of Debenhams into a digital brand to sit alongside other acquisitions including Karen Millen, Coast, Wallis and Dorothy Perkins.

Chief executive John Lyttle said Boohoo was seeking to "disrupt the markets that it operates in" by capturing incremental online growth opportunities and building on its successful platform.

Boots

In a bid to become more agile and grow its brand presence across new channels, Walgreens Boots Alliance created a separate 'No7 Beauty Company' business for best-selling own brands such as No7, Liz Earle Beauty, Soap & Glory and Botanics.

This will allow it to form partnerships with other retailers globally and explore D2C and mobile app offerings. At the same time, it continues to benefit from the broader WBA ecosystem, including access to 100 million loyalty members worldwide.



Focused, strategic alliances

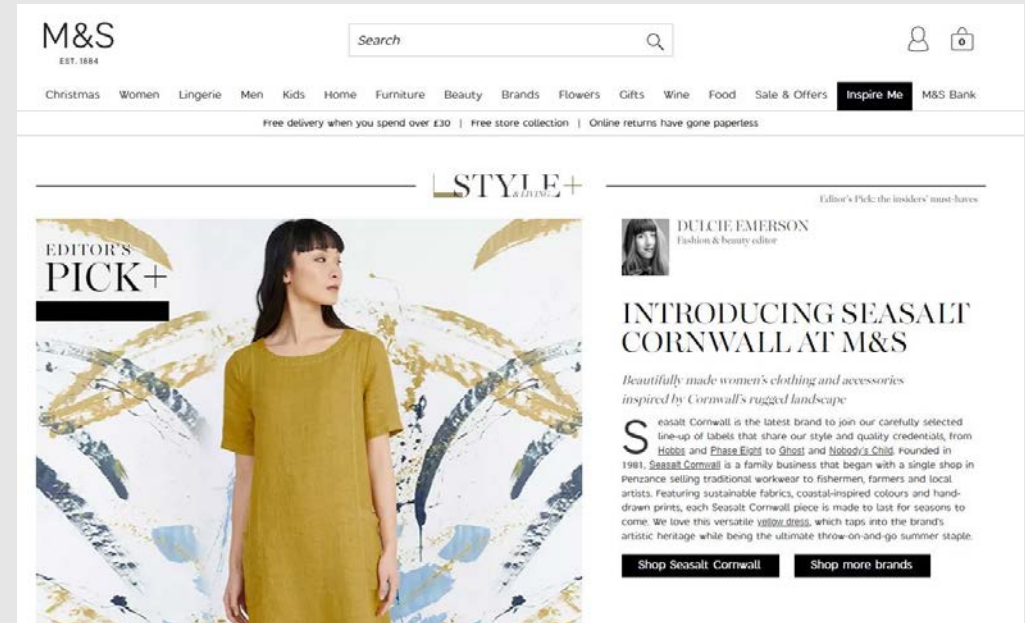
Partnerships have increasingly become part of the retail landscape as brands and retailers adapt to changing consumer needs. Partnerships are at the heart of retailer growth strategies and drive innovation, allowing companies to do more together than they can achieve alone.

As this trend evolves and matures, these alliances are becoming ever-more considered and strategic. The best partnerships allow both parties to learn from one other and they may or may not involve financial investment.

Whether it be delivery intermediaries, third-party marketplaces, technology, concessions or brand tie-ups, retailers are forming alliances to expand assortment, deliver faster and reach new customers.

Rising consumer adoption of intermediary apps such as Deliveroo is now also becoming an important touchpoint to attract new customers and rapid delivery demand is growing beyond food to sectors including health and beauty, pets, home and general merchandise.

As brands and retailers expand their partnerships and ecosystems, the lines between them will become increasingly blurred but the need to differentiate will be essential.



In a key growth initiative, M&S has opened its M&S.com website and large stores to complementary third-party home and clothing brands. This is allowing M&S to broaden its appeal and increase online growth.

The raft of new brands includes Hobbs, Phase Eight, Joules, Seasalt, Sosandar, White Stuff, Nobody's Child and Clarks.



Focused alliances: Strategic implications for retail

- Complementary partnerships will continue to help retailers and brands increase responsiveness and agility
- These will grow more strategic with parties looking to gain more shared benefits
- Rapid delivery partnerships will break into new categories
- Decision-making structures must be in place to support innovation and new ventures
- Delivery intermediaries will evolve to compete with retailers, establishing their own distribution centres and infrastructure
- Partnerships can enhance or damage reputations, so alliances should be chosen carefully
- Performance gaps will widen within the market as the pace of change accelerates



Deliveroo

With gross transaction value in the UK and Ireland reaching £3.38bn in H1 2020 (up 110%), Deliveroo now covers 72% of the UK population with 3.9 million monthly active users. It has an impressive array of partnerships with major retailers including Aldi, the Co-op, Marks & Spencer, Morrisons, Waitrose, Boots, Holland & Barrett and Booths.

In September 2021, it launched a 'Hop' grocery darkstore location supplied by Morrisons, bringing a range of 2,000 groceries in as little as 10 minutes to customers in central London. The concept mirrors its delivery-only 'dark' kitchens, which now number more than 120 across the UK.

Amazon was a lead investor in a funding round for Deliveroo, and from September 2021 Prime members were invited to link their accounts to receive free Deliveroo Plus membership for a year, as the two companies deepened their partnership.

Deliveroo's position in the market is constantly threatened by new entrants such as Getir, Gorillas, Dija, Weezy, Jiffy, Zapp and Fancy. This means it must stay one step ahead to delight partners and protect its retail alliances.



Stepping beyond channels

Retailers have made fundamental changes to their business models in a bid to be present where consumers are – now they must go beyond channel boundaries to present a joined-up and enriching customer experience.

Tech-savvy shoppers now see the store and online as interchangeable and customers are demanding a digitally led, unified experience when shopping with their favourite brands.

Brands and retailers are beginning to do this through digital activations in-store, such as adding QR codes for product information, designing loyalty apps that include 'store mode' and by rewarding customers for engagement with personalised offers and services.

The increased uptake of livestreaming, VR and virtual appointments is helping to blur boundaries and bring the store experience to customers at home.

At the same time, online platforms including Netflix, TikTok and Google are engaging with customers in the physical world with pop-ups and in-person experiences.

"The store and online are becoming one"

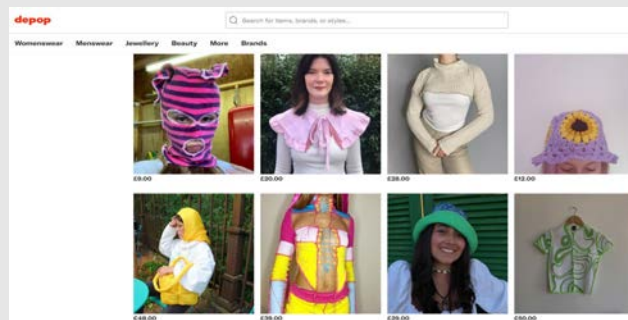
Pippa Wicks, executive director, John Lewis, Retail Week Live 2021



Online sales now account for almost 75% of John Lewis' total revenue. The retailer has adopted a digital-first strategy, reducing its store portfolio while introducing new online services including livestreaming and virtual personal shopper and beauty events.

Stepping beyond channels: Strategic implications for retail

- Customers will see brands, not channels
- Digital-led, personalised retail will inspire customers however they choose to shop
- Bringing digital into the store will create richer journeys and drive greater loyalty
- Pop-ups will provide ways for online brands and platforms to seek out physical engagement
- Portfolio adjustments will be an ongoing activity to adapt to rapidly changing needs
- Flexible, digitised supply chains will be needed to deliver more choice and diversity in fulfilment
- Livestreaming and virtual experiences will exist alongside and within stores and they will enhance one another
- Gathering high-quality data will allow for better decision-making as retailers step beyond channels



Depop

Depop is trialling live shopping for its UK audience with a selection of its sellers, livestreaming firm LiSA's chief executive Sophie Freres told Retail Week Live 2021.

Depop's trial enables a selection of its users to go live directly on the app and engage with their customers. Depop has put no limitation on how its sellers conduct their livestreams but it is monitoring what yields the best results and how customers engage with livestreaming.



Tiktok

In July 2021, the TikTok For You House opened in the Westfield London shopping centre for one month in a bid to generate shopper excitement, offering visitors a chance to develop their social media prowess and improve their TikTok presence.

In the living room, guests were able to enhance their editing skills, while the garden provided a space to learn new football tricks and practice dance routines. Cooking tutorials were available in the kitchen.

"The idea behind [the TikTok store] really came in terms of us wanting to be able to bring a bit of the online into the offline space"

Harita Shah, marketing director for UK, Unibail-Rodamco-Westfield



Physical space evolution

Channel shifts, innovation, technology and the demise of businesses including Debenhams and Arcadia are forcing changes to high streets and the ways that brands and retailers engage with customers.

Urgent efforts are underway to reinvigorate physical retail and to create connected, community-focused spaces where we can shop, work and live.

In urban areas, retail and social elements must be combined as a reason for shoppers to go 'into town'. This means experiential retail located close to other amenities such as complementary retailers, hospitality, entertainment, offices and green space.

As portfolios are overhauled, a range of new formats will emerge as retailers adapt physical spaces to the needs of the shoppers and communities that they serve.

Landlord flexibility and the support of the government and local authorities will also be required to help breathe essential life back into high streets.

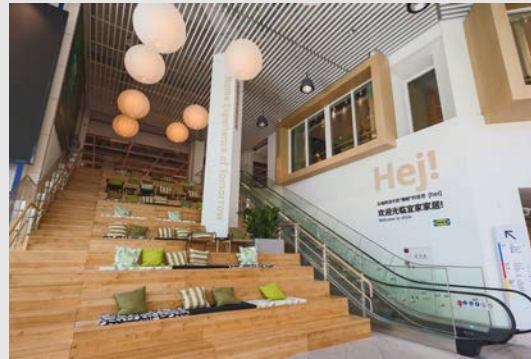


Source: New West End Company

[Oxford Street pedestrianisation plans](#) are still being considered, though more time is needed for the council to consult with all stakeholders.

Physical space evolution: Strategic implications for retail

- Customers will seek out retailers that offer tailored, experiential content to maximise the 360-degree experience
- The re-evaluation of business rates and taxes and rent flexibility from landlords will be needed to support retailer invigoration efforts
- Future spaces must consider shopper needs and the wider community ecosystem
- The overhaul of portfolios and the introduction of new formats will accelerate as retailers race to keep up with rapidly evolving shopper needs and expectations
- Store portfolios will increasingly consist of a few large flagships, complemented by smaller, locally tailored formats and a full online offering
- Big-box grocery stores will evolve into community hubs as they open more space for retailer and brand concessions
- Channel blending, pop-ups and partnerships present future innovation opportunities



Ikea

Ikea has been branching out from its traditional big-box formats with new innovative concepts to bring it closer to customers.

Ikea's urban formats offer a small, locally curated assortment complemented by a full omnichannel offering. A small-format, 27,000 sq ft store in Hammersmith, London, is opening before the end of 2021.

Following on from this, Ikea acquired the iconic former TopShop flagship at 214 Oxford St in London in late 2021 in a bold move to reach new shoppers. When it opens the store is expected to offer an urban format complemented by inspirational room sets, planning services, home delivery and food.

In Hong Kong, Ikea has operated small formats for some time and recently opened its smallest ever store as well as a new Close to You concept inside a Dairy Farm supermarket.

In Shanghai, a pilot concept opened in 2021 offering a more "intuitive" shopping journey, digital elements, and community hubs.

With a heavy focus on sustainability, Ikea launched a 'buy back' initiative this year, allowing customers to bring their old Ikea items back to the retailer in exchange for vouchers.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Find ways to maximise resources for lean operational efficiency
- Trial innovation and new partnerships
- Select partners strategically, ensuring both parties can benefit and learn
- Joined-up consistency is essential as channels 'no longer exist' for customers
- Drive loyalty by offering a rich, digital-led and personalised experience





CULTURE

THE FACTORS SHAPING CHANGE

Actions not words

Purpose-led strategies are becoming increasingly critical for businesses and a key indicator of a brand's success. When executed well, an organisation's culture becomes its USP, both for employees and customers.

The pandemic, environmental focus and movements such as Black Lives Matter forced businesses to re-evaluate their storytelling and marketing strategies. It is essential to demonstrate meaningful and responsible action, bridging the 'honesty gap' between what a retailer or brand says and what it does.

Businesses that engage meaningfully to drive change forwards can expect to achieve greater loyalty and keep both employees and customers motivated.

As consumers have higher expectations from brands, it is crucial for them to have the structures and framework in place to articulate clearly their policy, direction and who they align with.

WHAT IS IMPORTANT TO YOU WHEN CHOOSING WHICH RETAILER TO SHOP WITH?



Source: *The CX Factor*, Retail Week Connect, June 2021



Etsy-owned Depop launched a programme to provide tools and resources to charity shops, helping them to trade online and reach a new audience



Actions not words:

Strategic implications for retail

- Purpose gives retailers a competitive edge and it is rapidly becoming essential for all businesses
- Focus on actions, not just words, to articulate and deliver on promises
- Retailers should set targets on key ESG issues and publish progress against these goals
- Purpose strengthens emotional connection to customers
- Consider ways to differentiate on purpose, going further or doing something different to others
- Alliances with partners and brand ambassadors should be selected carefully, to avoid reflecting badly on the company
- Meaningful changes and actions can underpin marketing initiatives



Asos

Asos was the first big apparel retailer to publish ethnicity pay gap data, allowing it to track progress and accountability as it works towards a target of 15% ethnic minority representation within its combined leadership by 2023.

The figures were published alongside Asos' gender pay data and showed that ethnic minority Asos employees make up 19% of the overall workforce but only 7% of combined leadership.

Median pay for ethnic minority employees at Asos was 5.9% higher in 2021 than their white counterparts, a 21.2% improvement in its overall median ethnicity pay gap year on year.

However, there were still big gaps between different ethnic groups. There was a negative median pay gap of 13.4% for Black/Black British employees and 14.1% for mixed/multiple ethnic groups in comparison to their white counterparts.

At the time the data was revealed, then-Asos boss Nick Beighton conceded that the company has "a long way to go" but that it was using the data to "lay the foundations of a truly inclusive culture".



Frictionless sustainability

As consumer concern for the environment increases, businesses will need to support change and make it easy for environmentally conscious shoppers to buy from them.

Decision simplicity will come from retailers that can demonstrate their own ethics match those of consumers, by working to net-zero carbon targets, eliminating plastic packaging, recycling and taking back waste, introducing more sustainable manufacturing and lessening their environmental impact.

We expect to see acceleration in commitments from retailers, but the key will be making it easy for shoppers to access products, services and information to help them make responsible purchase decisions.

- Circular business models such as rentals, resale and multiple garment lifecycles will continue to accelerate in fashion
- In grocery and health and beauty, the focus will be on eliminating and upcycling waste as well as refillable packaging solutions

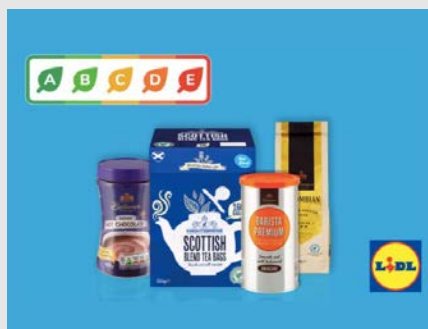


Carrie Johnson gained media attention when she rented designer outfits from MyWardrobeHQ to attend the G7 summit. *Photo credit: Number 10*



Frictionless sustainability: Strategic implications for retail

- By caring for the planet, retailers will align their values with those of consumers, making purchase decisions much simpler for shoppers
- Retailers that remove premiums for sustainable choices will win loyalty
- Retailers and brands will seek ways to extend customer lifetime values through circular business models such as rentals, repairs and multiple garment lifecycles
- Item resale will become a growing trend to promote longevity and brand value
- Partnerships with rental companies, repair experts and peer-to-peer platforms will help retailers understand the dynamics of the fast-growing circular economy
- On-demand production and data-driven forecasting will help make businesses more sustainable and reduce unsold stock



Asda

Asda opened its first 'sustainability store' in Middleton, Leeds, in 2020 with a pledge that customers "will not pay more for greener options". Asda will have four sustainability stores in operation by the end of 2021 in Leeds, Glasgow, York and Milton Keynes.

Asda worked with FMCG manufacturers including Unilever and Kellogg's to create refillable solutions, offering more than 70 branded and own-label items in standalone refill bays. There are also recycling facilities and a reverse vending machine.

Following a successful trial in Leeds, Asda rolled out a partnership with vintage clothing wholesaler Preloved to 50 stores.

Lidl

Lidl is introducing sustainability traffic light labelling to key categories as part of a UK trial in Scotland. First introduced in Berlin, Lidl will apply Eco-Score labelling to 50 own-label items including teas, coffees and hot chocolate.

Eco-Score uses open-source data to independently grade products on their sustainability credentials and assigns a colour code ranging from green 'A' (low impact) to red 'E' (high impact). The new labelling aims to give shoppers a better understanding of the environmental consequences, at a glance.



Farfetch

Luxury online platform Farfetch introduced a pre-order service, providing customers early access to the newest products throughout the season before they reach the shelves.

The service allows Farfetch to accurately forecast demand and minimise fashion waste. Meanwhile, for customers, it boosts customer experience and engagement.

The service initially launched with 10 brands: Nanushka, Balenciaga, Khaite, Off-White, Palm Angels, Dolce & Gabbana, Casablanca, Nicholas Kirkwood and Oscar de la Renta.

To reiterate the conscious efforts behind the service, the launch campaign was made carbon-neutral and no samples were shipped. Instead, influencers were given digital assets to 'wear' pre-ordered styles.

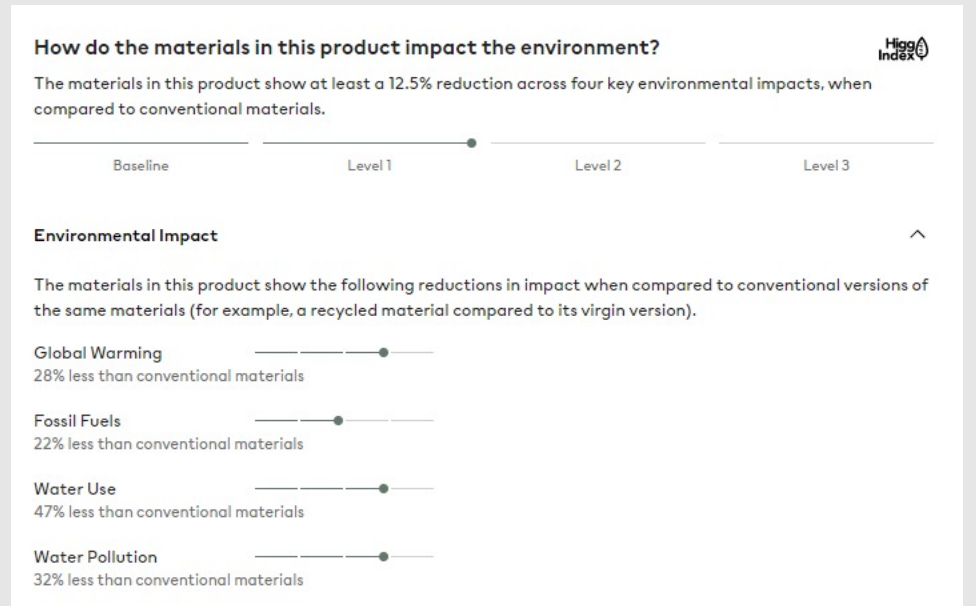
Pre-order is part of the wider Positively Farfetch initiative that includes a Conscious range and pre-loved items.



H&M

H&M is increasing its level of environmental transparency by launching a first version of the Higg Index Sustainability Profile, sharing environmental performance scores for materials on selected products across its online stores in Europe and the US.

H&M is one of the first brands to apply the new Higg Index Sustainability Profile that was released in May 2021 by the Sustainable Apparel Coalition (SAC) and its technology partner Higg. It aims to increase transparency and make decisions easier for consumers.



Progressing the D&I agenda

The retail industry falls far behind other sectors such as telecoms and health on diversity and inclusion. This impacts customer perception as well as its ability to attract talent.

As expectations accelerate from both staff and customers, retailers must now prioritise urgent change.

In June 2020, a mandate for change was signed by 29 UK business leaders including Sainsbury's, M&S, John Lewis and Tesco as a response to the BLM movement, promising inclusion and equal opportunities for everyone in society regardless of race, gender or sexual orientation.

Gender diversity and social mobility remain significant challenges and companies will be expected to report openly and publicly on their efforts and progress to end inequality.

Further to these key issues, pressure is also increasing to progress the agenda to support more groups such as transgender employees, those with disabilities, workers facing age discrimination or going through the menopause. This is particularly important as businesses aim to fill vacancies and retain valued staff.

Of the 200 leading UK retailers, only 5% of boards, 6% of executive committees and 6% of direct reports to boards are from an underrepresented background – compared with 13% of the British population

Source: British Retail Consortium, March 2021



100% of D&I strategies look at gender, 90% look at race and ethnicity and 68% look at LGBTQ+. Only half look at disability and less than a quarter cover social mobility (20%) or age (23%)

Source: *Diversity and inclusion in UK retail: where are we now and what comes next?*
BRC, MBS Group, PwC, March 2021



Progressing the D&I agenda: Strategic implications for retail

- Retailers must urgently prioritise becoming more inclusive places to work and shop
- Beyond gender, race and ethnicity companies must look at holistically supporting those facing other challenges such as disability, age-related concerns and health issues
- Partnering with external organisations can support retailers as they seek meaningful change
- Colleague-led networks can help to progress company culture
- Data is an important tool to assess organisational health and progress



Asda

Asda set a great example of ways to start conversations around topics that may feel uncomfortable during its Inclusion Month. To help build knowledge and confidence of D&I among its staff, Asda filmed and circulated 60-second videos of colleagues sharing their stories.

These videos included Ellie, a transgender colleague, who shared how it felt being 'deadnamed' and misgendered, and Feroz, who explained that his primary language is Gujarati and therefore he may sometimes pause when speaking in English as he is translating what he wants to say.

Asos

Asos introduced a policy of granting its employees paid leave for reasons including menopause and fertility treatments.

Its staff of all genders are now supported on several health-related issues, such as pregnancy loss and gender reassignment surgery.

Asos referred to the emotional impact of situations on families, including leave for partners. Six weeks of paid leave is offered to workers with health-related concerns, as well as flexible working for those going through menopause, who may request short-term leave or working from home to ease their symptoms.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- **Make purpose a unique and intrinsic part of the organisation**
- **Set measurable targets and publish results – focus on actions, not words**
- **Make ethical buying decisions simpler for shoppers through frictionless sustainability**
- **Continue to progress the D&I agenda to make everyone feel cared for and valued**



